

Building Blocks

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Chairman Views Underserved Markets, Smaller Institutions As Future Challenges

By Bruce A. Morrison
Finance Board Chairman

Over the past few months, I have written and spoken many times on the direction I believe the FHLBanks need to go to meet the challenges of the new millennium.

In my view, there are three primary roles for the FHLBanks to play now and in the future.

- First, the FHLBanks can maintain the viability of small institutions. Banks of all sizes continue to consolidate at a dizzying pace and smaller institutions face “deposit drought.” Local borrowers and family-owned businesses in small communities rely heavily on their local banks, and without them the community may wither and die. They need the access to capital markets on a noncompetitive basis that the FHLBanks provide.

- Second, the FHLBanks can empower member institutions to compete effectively in housing finance by funding residential mortgages through those members. The secondary-market institutions are successful and efficient, but they also represent an enormous concentration of market power and credit risk, an estimated \$1.5 trillion in outstanding mortgages held or

guaranteed. The FHLBanks comprise a Triple-A-rated cooperative system that can offer healthy competition to the secondary-market giants through their members. While continuing to provide balance-sheet support through advances, the FHLBanks can develop alternative ways of allocating market risks and provide mortgage lenders with a new choice, and that can lead to lower costs and greater mortgage access for homebuyers. This is the thinking behind the FHLBank of Chicago pilot program, and it is a line of thinking the FHLBanks need to explore in greater depth and in connection with not only housing but also economic development.

- Third, the FHLBanks can target underserved markets. As government-sponsored enterprises, the FHLBanks have a borrowing advantage that is intended to serve public purposes. That advantage can be used to fund nonconforming

loans and multifamily mortgages that cannot be sold easily into the secondary market. Additionally, the FHLBanks can provide both technical assistance and funding to permit members to finance difficult community investment projects that might otherwise be impossible.

The FHLBank System’s place in the financial universe of the next century will be defined by creating new ways of allocating risk, providing liquidity, and funding otherwise underserved populations. The needs and the opportunities are there. All that is required is the decision to chart a course to get there. □

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Nine FHLBanks Join

Private Sector FHLBank Council Formed; Focuses on Congress, Public Relations

The board of directors of the newly created Council of Federal Home Loan Banks recently named John L. von Seggern as the group's executive vice president.

The council was formally created in August 1997 when 9 of the 12 FHLBanks banded together

to create a private-sector group to represent the FHLBanks before legislative bodies, the news media, and the general public. The council operates with a 27-member board of directors, with each FHLBank having three representatives on the board, and has a paid staff of three.

The council's primary focus will be on government and public relations, according to von Seggern.

"Our role is to augment existing information sources, such as those of the FHLBanks' regulator, the Federal Housing Finance Board, which cannot promote the FHLBanks or their activities.

However a private sector group has no such restrictions," von Seggern explained.

"There simply is no organization out there that communicates to Congress and the public all of the good things flowing from the FHLBanks. The FHLBanks play an important role in the overall mortgage industry in this country and are vital players in affordable housing, and those are the messages we need to deliver," von Seggern said.

"We will be sharing the 'best practices' of the FHLBanks with the public, showing what really works. We'll be working with state and local lenders and leaders," he added.

Consensus for the council emerged over the past 2-3 years during several "roundtable" discussions among the staffs of the FHLBanks. The staffs realized that the FHLBanks needed a presence in Washington and a vehicle to work out issues they faced.

The 9 FHLBanks participating in the council are in Atlanta, Boston, Cincinnati, Des Moines, Indianapolis, Pittsburgh, Topeka, San Francisco, and Seattle. The board of directors of the FHLBank of Dallas has voted to join the

(see **COUNCIL**, page 6)

New FHLBank Directors Attend Orientation Session

The Federal Housing Finance Board hosted an orientation session January 26 and 27 for 52 recently elected and appointed FHLBank board directors to familiarize them with their new responsibilities as members of the FHLBanks' boards of directors.

The two-day orientation, held in Washington, featured eight sessions explaining the operations, mission, and roles of the FHLBanks and their regulator, the Federal Housing Finance Board. Panelists and moderators of the sessions were Finance Board directors and senior staff, FHLBank directors and industry executives.

Finance Board Chairman Bruce A. Morrison, lead a discussion on "Maximizing Mission Achievement" and gave the keynote address. "The Challenge of Change." Board member J. Timothy O'Neill moderated a

panel on the "Duties and Responsibilities of FHLBank Directors" while board member Lawrence U. Costiglio lead a discussion on the "Shareholder's Outlook on FHLBank System Issues."

The remaining sessions dealt with looking at "The FHLBanks as Government-Sponsored Enterprises" and the "Role of the Federal Housing Finance Board."

Senator Chuck Hegel (R., NE) was the featured luncheon speaker and provided the new directors with insights into his legislation to modernize the FHLBank System. Attendees also received an update from the congressional staff of the Senate and House Banking Committees on other legislative actions affecting the FHLBank System. The session's final panel was a discussion on "End Users Perspective of FHLBank Products and Services." □

Technically Speaking . . .

The new AHP regulation that took effect January 1, 1998, has forced affordable-housing practitioners to learn new definitions, procedures, and other technicalities for processing AHP applications. Beginning with this edition of Building Blocks we are initiating a new feature, "Technically Speaking, --to help AHP users make the transition to the new regulations. These questions and answers have been provided by the Finance Board's Compliance Assistance Division, which can be reached at (202) 408-2848.

1. HOMEOWNERSHIP SET-ASIDE INCENTIVES (Section 960.5(A)(6))

Q. What are financial or other incentives to a household that are required of a member that provides mortgage financing?

A. A Bank may determine what it considers to be financial or other incentives. For example, financial incentives could include lower (or foregone) origination fees, other discounted fees, reduced interest rates, lower downpayment requirements, or reductions in other closing costs. Two examples of other non-financial incentives are using underwriting standards that are more flexible than the member's usual practice, and making loans with longer terms than the member usually makes.

2. COUNSELING COSTS (Section 960.5(A)(7))

Q. Under what circumstances can counseling costs be paid by AHP subsidies?

A. For the competitive application program, counseling costs may be paid with AHP subsidies if the costs are incurred in connection with counseling of homebuyers who actually purchase an AHP-assisted unit and the cost of the counseling has not been covered by another funding source, including the member.

For the homeownership set-aside program, counseling costs may be paid with AHP subsidies if the costs are incurred in connection with counseling of homebuyers who actually purchase an AHP-assisted unit; the cost of the counseling has not been covered by another funding source, including the member: and the AHP subsidies are used to pay only for the amount of such reasonable and customary costs that exceed the highest amount the member has spent annually on homebuyer counseling costs within the preceding three years. A member may certify to the amount it spent, including in-house costs, over the preceding three years. If a member is not covering the cost of counseling and has not paid for counseling costs in the previous three years, AHP subsidies may be used to pay for reasonable and customary counseling costs incurred in connection with counseling of homebuyers who actually purchase an AHP-assisted unit.

3. SUBSIDY-PER-UNIT (Section 960.6(B)(4)(IV)(H))

Q. Is subsidy-per-unit based on AHP-targeted units only?

A. Yes. The project is scored based on the extent to which the

project proposes to use the least amount of AHP subsidy per AHP-targeted unit. AHP-targeted units are any units that will be purchased by, or reserved for occupancy by and affordable for, households with incomes of 80 percent or less of area median income.

4. MODIFICATIONS-- FINANCIAL DISTRESS (Section 960.9(A))

Q. May a completed project qualify for a modification if it is at risk of falling into financial distress?

A. Yes. A project must provide sufficient information for the Bank to determine that it either is in financial distress or is at substantial risk of falling into financial distress. This section is intended to provide flexibility to modify the commitments made in the approved AHP application if those modifications will help to avert the potential financial distress. However, if a completed project needs additional AHP funds, it must compete for those additional funds.

5. VERIFICATION OF REASONABLE AND CUSTOMARY COSTS (Section 960.10(C)(1)(II) AND (C)(2)(II))

Q. What types of documentation may a Bank rely on in order to establish that a project's actual costs were reasonable and customary in accordance with the FHLBank's project feasibility guidelines?

A. If a project is funded by other funding sources (such as Federal
(See Q&A, page 6)

Former Seattle Mayor to Assume Top Job at FHLBank of Seattle in 1999

The Finance Board approved on February 24 the recommendation of the Board of Directors of the FHLBank Seattle to appointment Mr. Norman B. Rice, former mayor of Seattle, as executive vice president of the institution. The FHLBank board also recommended that Mr. Rice succeed Mr. James Faulstich as president and chief executive officer when Mr. Faulstich retires in 1999.

Mr. Rice served as mayor of Seattle from 1990-97 and was previously a member of the Seattle City Council for 10 years. While mayor, he served as president of the U.S. Conference of Mayors. He has also held positions with Rainier National Bank (now part of Bank of America), the Puget Sound Council of Governments, and the Seattle Urban League. He has a bachelor or arts degree in communications and a master's degree in public administration from the University of Washington.

Mr. Rice reputation of fostering partnerships among diverse interests has earned him national recognition for his leadership skills. The FHLBank's board of directors also cited his in-depth knowledge of local housing and community development needs and ties to the business community as key components in the revitalization of downtown Seattle and an increase in affordable housing development.

"Norm's exceptional leadership skills, management experience and national reputation will further our organization's success as we move into the next decade," Mr. Faulstich

said in a January 27 letter to the bank's employees and members. "The board of directors is confident that under his leadership, the Seattle FHLBank will build on our strong record of performance in service to

our financial institutions customer/stockholders, and through them, benefit the region's communities."

Mr. Rice's appointment as EVP was effective March 2.

Dates to Remember

May 5: Fourth annual **Community Partnership Awards** workshops and awards ceremony in Washington, D.C.. Awards are presented to nonprofits and their partners for outstanding housing and economic development projects in each of the FHLBank System's 12 districts. For more information contact William J. Carey at (202) 408-2986.

May 11: Open hearing in Washington, D.C. conducted by the **Federal Housing Finance Board** on the investment strategies of the 12 FHLBanks. For more information contact Kerrie A. Sullivan at (202) 408-2515.

June 1-2: **Annual All-Directors Conference** in Washington, D.C. for individuals serving as members of the board of directors of the 12 FHLBanks. The two-day session will present the directors with the most recent data regarding responsibilities of directors and updates on administrative and legislative activities of the FHLBanks' regulator, the Federal Housing Finance Board.

Resources

"Out of Reach: Rental Housing at Any Cost?" is the 1997 edition of an annual study by the **National Low Income Housing Coalition** on rental housing costs. The publication documents how shortages of affordable housing and living-wage jobs could negate the intent of recent welfare reform legislation. Copies are available by calling (202) 662-1530.

"The State of the Nation's Housing: 1997" documents the increase in the nation's homeownership rate over the past several years. The publication is from **Harvard University's Joint Center for Housing Studies**, and can be ordered by calling (617) 495-7908.

"Community Impact Through Neighborhood Partnerships" is a guide to seven model housing and community development programs around the country. Each profile explains the development of these successful partnerships. A free copy is available from **United Way of America** by calling (703) 836-7112, x-538.

"Community Building: Coming of Age," is a free 74-page book that discusses successes in local community development and how to apply them on a broader scale. The publication is from the **Development Training Institute** and can be ordered by calling (410) 338-2512, x-130.

"Saving Affordable Housing: What Community Groups Can do and What Government Should Do," is a new publication from the **National Housing Institute**. It

examines six affordable housing developments, describes the key elements that lead to success, and offers policy goals and recommendations. To order, call NHI at (202) 678-3110.

"Building Sustainable Communities," a new publication from the **National Association of Affordable Housing Lenders**, examines 12 cases of best-practices in community development lending in underserved large and small cities. The publication is available for \$15 from NAAHL, Suite 300, 1200 19th Street NW, Washington, D.C. 20036.

"Bank-Ability: A practical guide to real estate financing for nonprofit developers," a new publication from the **New School for Social Research's Community Development Research Center**, seeks to demystify the process of applying for private financing for real estate projects undertaken by nonprofit developers, including types of financial institutions, types of products, community development initiatives, regulatory pressures, and loan request processes and reviews. The \$10 publication is available by calling (212) 229-5415.

The Housing Trust Fund Project of the Center for Community Change has published "A Status Report on Housing Trust Funds in the United States." The report is based on a survey of most of the nation's 110 housing trust funds and documents the funds' innovation and growth over the past 15 years. The \$20 publication is available by contacting Mary

Brooks, Housing Trust Fund Project, 1113 Cougar Court, Frazier Park, CA 93225, or by calling (805) 245-0318.

The **Charles Stewart Mott Foundation** has started two new publications. "InFocus," a periodic magazine, and "@mott.now," a newsletter. For more information, contact the foundation's communications office at (810) 238-5651.

"Building Community: Exploring New Relationships Among Service Systems Reform, Community Organizing, and Community Economic Development" is a \$7, 43-page publication by **Together We Can** and is available from the **Education Leadership** at Suite 310, 1001 Connecticut Ave NW, Washington DC, 20036 or by calling (202) 822-8405.

"Native American Housing" is a new **Government Accounting Office** report mandated by Congress. It is free from the GAO by calling (202) 512-6000 and asking for GAO-RCED-97-64.

"At Your fingertips: An annotated Bibliography for CED Practitioners," is a summary of literature and other resources published in the last 10 years in the community economic development field. The \$20 book is available from the **National Congress for Community Economic Development** at 11 DuPont Circle, Suite 325, Washington, D.C. 20036, or by calling (202) 234-5009. □

(Q&A from page 3)

Low-Income Housing Tax Credits, FHA) that require a cost certification upon completion of construction or rehabilitation, the Bank may rely upon that cost certification to make its own determination whether the costs are reasonable and customary. If a cost certification is unavailable, the Bank shall review the final statement of sources and uses of funds to make that determination.

6. REASONABLE COLLECTION EFFORTS (Section 960.12(A)(2)(II))

Q. What are reasonable collection efforts in the recovery of

AHP subsidy by a member from the project sponsor or owner?

A. Reasonable collection efforts will depend on the facts and circumstances of a given situation, including, but not limited to, the expected cost of recovery of the AHP subsidy and the amount of subsidy to be recovered.

Reasonable collection efforts may involve negotiation and pursuit of legal remedies against a project sponsor or owner, in addition to the enforcement of a member's rights under a mortgage or other lien on the project.

7. RETENTION AND MONITORING REQUIREMENTS APPLICABLE TO PROJECTS APPROVED PRIOR TO JANUARY 1, 1998 (Sections 960.1, 960.11, AND 960.16)

Q. What are the retention and monitoring periods for projects approved prior to January 1, 1998?

A. The retention and monitoring periods for projects approved prior to January 1, 1998, are 5 years from project completion for owner-occupied housing and 15 years from project completion for rental housing.

Finance Board Changes Composition

HUD Assistant Secretary for Housing and Federal Housing Commissioner Nicolas Retsinas,

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council soon, and the FHLBanks of Chicago and New York may join later.

Von Seggern was named the council's executive vice president on January 12. Prior to that he was the executive director for external affairs at the Office of Thrift Supervision where he managed the oversight and formulation of OTS' public and congressional affairs. Before joining OTS, von Seggern served in the U.S. Air Force. The council's address is Suite 850, 1255 23rd Street, NW, Washington D.C. 20037. The organization can be called at (202) 955-0002 or faxed at (202) 833-3636.

The e-mail address is johnvon@hauck.com.

who serves as the HUD Secretary's Designee on the Finance Board, resigned his HUD position effective February 27 to accept an appointment as director of Harvard University's Joint Center for Housing Studies.

HUD Secretary Andrew Cuomo has named Art Agnos as his designee to the Finance Board.

Agnos is a former mayor of San Francisco, where he serves as representative for HUD's Pacific Region. He will be in Washington over the next several months on temporary assignment at FHA.

In early March, the White House notified Finance Board Director Lawrence U. Costiglio that his service as a member of the board of directors would end March 23.

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