



table of contents

- page 3 FHLBank of Cincinnati creates partnerships
page 3 FHLBank of Des Moines joins clean-up effort
page 4 resources

Volume 9 No. 1

Autumn 2000

Comments Accepted Until Nov. 20

Comment Period Extended For Capital Structure Rule

The Federal Housing Finance Board on September 19 voted to extend by 40 days the public comment period for its proposed rule on the new capital structure for the FHLBanks. The extension is in response to numerous requests by banking trade associations, the Council of the Federal Home Loan Banks, members of the FHLBank System, and others.

The proposed rule, published July 13 with a 90-day public comment period, called for comments to be accepted through October 11. The Finance Board will now accept comments through November 20, 2000.

William C. Apgar, the HUD Secretary's Designee to the Board, commented: "After discussion of prototype plans at today's board meeting, we felt that an extension of the comment period was in order to allow more concrete exchange of ideas between the FHLBanks and their members and to be sure that nothing in the rule constrains the FHLBanks' flexibility. At the same time, we are moving the ball for-

ward so that we can come close to meeting statutory requirements as possible."

Prior to the vote, the Finance Board staff presented to the board three composite prototypes for a new capital structure for the 12

FHLBanks. The prototypes were derived from six examples submitted by five FHLBanks. The staff emphasized that the six examples were essentially first drafts by the FHLBanks and may no longer represent the current thinking of those FHLBanks.

Additionally, some provisions of the prototypes do not comply with the proposed rule and some areas were simply not addressed, according to a staff report distributed to the board members.

PROTOTYPE 1

The first prototype is a stock structure that includes both Class A and B stock.

The stock price par value is set at \$100 and the price at which the FHLBank would purchase the stock back from members is equal

(See **RULES**, page 2)

MPF Program Gains Popularity

Since the FHLBank System's Mortgage Partnership Finance (MPF) program was approved for FHLBank Systemwide use 24 months ago, six FHLBanks have outstanding MPF loans totaling \$13.5 billion, as of August 31. This total is an increase of \$2.5 billion from the pre-

vious month, and July-to-August increase represents an annualized growth rate of 767 percent from year-end 1999.

"The MPF program is rapidly becoming an immensely successful tool in the arena of home-finance," said William C.

(See **MPF**, page 2)

(RULES, from page 1)

to par. In other words, both A and B stock would have a price fixed at par for all trades.

However, the proposed rule would have to be changed to allow a FHLBank to purchase (excess) stock from members at other than a negotiated price as required by the proposed rule. Also, at least one prototype would not permit stock transfers among members—again, however, this provision is not in compliance with the proposed rule.

For issuance, this prototype suggests a fixed-dollar amount as a floor membership investment, but more likely that requirement would be set according to a percentage of the members assets. The prototype also has activity-based stock purchase requirements for both advances and Acquired Member Assets (AMA) in recognition of the fact that the risk associated with advances will be less than that for AMA. Also, there are similar issuance requirements for Class B stock but always in lesser proportion to the Class A stock requirements in recognition of the 1.5 weight assigned to Class B stock in measuring total capital.

The proposed rule allows the FHLBanks the option of allowing members to pay a membership fee in lieu of a mandatory membership investment.

Only one prototype addressed this

issue, indicating that a fee would not be allowed.

This prototype would only assign voting rights to Class A stock in the event that Class A shares did not receive sufficient dividends over a period of time.

For dividends, Class A stock would be stated or determined by the FHLBank's board of directors, though the latter is not permitted in the proposed rule. Class B dividends would be determined by the FHLBank's board of directors.

PROTOTYPE 2

This prototype is also a Class A and Class B stock structure, but differs significantly from prototype 1 in three areas.

First, Class B stock is to trade at Book Value, a value that incorporates Class B ownership interest in retained earnings and paid in surplus. Compared to the par pricing approach, this structure may make it easier for a FHLBank to accumulate retained earnings, rather than pay out all retained earnings as dividends.

Second, there is no activity-based stock purchase requirement for AMA, leaving the FHLBank to issue stock to willing members as needed to capitalize that activity.

Lastly, this prototype includes more restrictive voting and ownership caps for Class B than are contained in the proposed rule.

PROTOTYPE 3

The third prototype is an All Class B structure, which is currently being considered by a number of FHLBanks.

The combination of a single-class of stock, stock price fixed at par, and an activity-based requirement, creates a structure very similar to what now exists.

According to the staff report, FHLBank members expressed a strong desire to allow a capital structure very similar to what exists now.

Both FHLBanks and members also voiced concern that finalizing the capital rule would trigger tax and accounting consequences. The staff explained that finalizing the rule only begins the process for the FHLBanks to develop their capital structure plans. Tax and accounting consequences would apply only after the capital structure plans are approved and the new Class A and Class B stock is issued.

Approximately 40 people attended the meeting, with the board hearing testimony from the presidents of three FHLBanks and representatives from an accounting firm. **BB**

(MPF, from page 1)

Apgar who serves as the HUD secretary's designee on the Federal Housing Finance Board.

"Every dollar that flows to our communities through the MPF, represents an increased opportunity to live the American dream," Apgar said.

The MPF program was created by the FHLBank of Chicago in 1996 and approved by the Finance Board as a pilot program in January 1997. In September 1998 the Finance Board approved the MPF for use by all

FHLBanks. Since then, the FHLBanks in Atlanta, Boston, Dallas, Des Moines, New York, Pittsburgh, and Topeka have created MPF programs to serve their members.

In June, the Finance Board removed the MPF's pilot status and a \$9 billion cap on the program.

Under the pilot MPF program, a FHLBank funds through or purchases from its member institutions single-family mortgages originated by its members. The program has proven

popular because it compensates members for assuming credit risk while the FHLBank manages interest-rate risk..

Members may also benefit from a favorable capital treatment since the FHLBank holds the loan in portfolio.

According to the August 31 data, the FHLBank of Chicago reports total outstanding loans exceeding \$7.1 billion, more than double the second-place FHLBank of Des Moines, which reports total outstanding loans approaching \$3.3 billion. **BB**

1,300 Jobs Possible in 5 years

FHLBank of Cincinnati "Sets a Standard for FHLBank Partnerships"

The FHLBank of Cincinnati announced on September 18 new partnership agreements with the Appalachian Regional Commission and three development corporations to create jobs and encourage the growth of more home-grown business in Appalachia. The FHLBank has 770 members serving Kentucky, Ohio, and Tennessee.

To help Appalachian communities meet economic needs in three states, the FHLBank of Cincinnati will work closely with ARC and three development corporations to provide technical assistance and funds from the FHLBank and its member institutions, which have combined assets exceeding \$350 billion.

The FHLBank's formal agreements are with the ARC, the Appalachian Ohio Development Fund, the Kentucky Highlands Investment Corporation and Technology 2020 in Tennessee.

"Experience has taught us that the partnership approach of combining public and private dollars and technical assistance to create housing and economic development opportunities is the best, and in some cases, the only way to get the job done," said FHLBank of Cincinnati President Charles L. Thiemann.

William C. Apgar, HUD Secretary's Designee to the Federal Housing Finance Board, which regulates the 12 FHLBanks, offered his support to the partnership.

"The groundbreaking relationship exemplified by the very comprehensive resolution between the FHLBank of Cincinnati and the Appalachian Regional Commission sets a standard for FHLBank partnerships," Apgar said in a letter to ARC Federal Co-Chairman Jesse L. White Jr..

ARC officials estimate that six to seven ARC-supported funds, capitalized at \$10 million each, will result in the creation of 75 new firms and 1,300

jobs in Appalachia over 5 years, with special focus on the most distressed communities in the 13-state Appalachian region. **BB**

FHLBank of Des Moines Invests in Local Brownfields Cleanup Project

The FHLBank of Des Moines has joined a unique partnership of federal, state, and local governments and businesses in Des Moines to help restore and redevelop an abandoned manufacturing site -- a "brownfield" -- in the city.

The FHLBank of Des Moines in August committed to investing \$2 million in equity, which would be the first of its kind for a FHLBank, to help clean-up and develop for both residential and commercial development the Riverpoint West area of Des Moines.

"What we're talking about here is not just business as usual. We're talking about an equity investment to turn an area of economic distress into a vital part of the community," FHLBank President Pat Conway said. He added there also is the potential of lending a FHLBank of Des Moines member financial institution or an associate member up to \$25 million to develop the site.

Development plans for the project call for 1,000 homes, retail shops, commercial offices, as well as trails and parks on the downtown site

Joining the FHLBank in the an-

nouncement ceremony in Des Moines August 8 was Sen. Tom Harkin (D-IA) and representatives from the City of Des Moines, the Greater Des Moines Partnership, and the Polk County Supervisors. Brownfields is an EPA designation for abandoned, idled or underused industrial and commercial properties that have the potential for redevelopment following cleanup.

"Restoring the viability of brownfield properties has been an area of interest for the Federal Home Loan Bank and its members," said Linda Cottingham, vice chair of the FHLBank of Des Moines and member of the Greater Des Moines Partnership's board of directors. "We look forward to working with the city and others in making this project a reality

In addition to the current commitments from business and government, local officials are seeking the Environmental Protection Agency's (EPA) "Brownfields Showcase Community" designation for the Riverside West project that would provide special technical and financial assistance and improve its chances of receiving a wide

(See **DES MOINES**, page 4)

RESOURCES

"*Models that Work*," published by **America's Community Bankers** and available for \$10, tells the stories of 50 partnerships across the nation that are working to make the dream of homeownership a reality for American families. For more information on the report contact ACB at 202-857-3119.

0 0 0

"*2000 Religious Funding Resource Guide*," published by **Resource-Women**, provides current application forms, guidelines, and grant lists for 38 faith-based funders that support non-profit community-based organizations. The cost is \$9.50. Contact Resource-Women at 4527 S. Dakota Ave. NE, Washington D.C. 20017, or call 202-832-8078.

"*The Social Benefits and Costs of Homeownership: A Critical Assessment of the Research*," is a free publication from the **Research Institute for Housing America**. Homeownership has social benefits but they may be overstated because existing research does not separate ownership's effects from the impact of earning more or having more education, according to the report. There are potential social costs as well, particularly for lower-income households, due to decreased mobility and possible trauma if financial problems lead to mortgage default. Contact the RIHA at 202-557-2876, or visit its website at rihainfo@housingamerica.com.

0 0 0

The June 2000 edition of the

"*Catalog of Federal Domestic Assistance*," which contains brief descriptions of all 1,400-plus federal programs, is free from the **Government Printing Office** at <http://aspe.hhs.gov/cfda> or <http://www.cfda.gov> or for \$87 by calling the GPO at 202-708-5126.

0 0 0

"*Collaboration and Partnerships in Funding Rural Communities*," is a public policy paper from the **Neighborhood Funders Group** that examines the opportunities for policymakers and funders to expand the resource base in underserved rural areas. The paper is available online at www.nfg.org or in hard copy by calling 703-448-1777.

0 0 0

"*Housing America's Working Families*," is a study from the **Center for Housing Policy** that examines the critical housing problems of the nation's working families and recommends housing policy initiatives to meet this crisis. For information, call 202-393-5772 or visit the website at www.chp@nhc.org. **BB**

(DES MOINES, from page 3) variety of discretionary federal funds. Ten new Brownfield Showcase Community designations will be announced in October.

The Federal Housing Finance Board, regulator of the 12 FHLBanks, has been a member of the EPA-sponsored Brownfields National Part-

nership since its inception in 1996. The Brownfields Showcase Communities approach provides sustainable local solutions to local problems that can be replicated throughout the nation. The selected communities serve as models for broad based cooperative efforts to support locally based initiatives. **BB**

Visit our new
web site
at
fhfb.gov

Building Blocks is published quarterly by the Federal Housing Finance Board, Office of Public Affairs, 1777 F Street, Washington, DC 20006. The telephone number is (202) 408-2810 and the email address is mcgeed@fhfb.gov.

Managing Director
James L. Bothwell

Editor/Writer
Dennis O. McGee