
Building Blocks

A Publication of the Federal Housing Finance Board



Volume 3, Number 1

June 1994

Last of Five Mandated Reports

HUD Releases Study on FHLBank System

A Congressionally mandated study on the \$170 billion Federal Home Loan Bank System calls for additional support of community development and affordable housing for low- and moderate-income families. The report was prepared by the Department of Housing and Urban Development and released April 25 by HUD Secretary Henry Cisneros.

"The HUD study will define the debate over the future of the Federal Home Loan Bank System," observed Secretary Cisneros. "The changes are needed to enhance the [Bank] System's ability to provide needed financing for housing and community development for all Americans, to strengthen its finances, and improve its operating structure."

The 1992 Housing and Community Development Act (HCDA) required HUD, the FHFB, the General Accounting Office, the Congressional Budget Office, and a committee of Bank System stockholders to respond

(See STUDY, page 2)

Community Support Action Plans Used To Boost Banks' Performance

Security Federal Savings Bank of South Carolina received an "Outstanding" rating on its CRA examination in June 1993, only nine months after implementing a Community Support Action Plan to correct an earlier "Needs to Improve" CRA rating.

In June 1991, Security Federal received a "Needs to Improve" CRA rating from its examiner. Later, in May 1992 under a normal rotation system, the bank was selected by the Finance Board for a Community Support Review. Regulations for the

Community Support Program state that for a Federal Home Loan Bank System member to maintain access to long-term advances, it must meet certain standards

(See PLANS, page 14)

New Hampshire

Mobile Home Parks Use CIP; Limited-Equity Co-ops Created

Affordable housing through public or nonprofit sponsorship comes in many forms: A small bungalow or townhouse, a rehabilitated apartment complex, or a former school, hospital, or factory converted to residential use are but a few examples. But only rarely does it take the form of a mobile home, in fact, because of the reluctance of traditional real

(See PARKS, page 12)

(STUDY, from page 1)

separately to 14 specific topics related to the safety and soundness and the public purposes of the FHLBank System. The HUD study was the last of five studies of the FHLBank System required, and did not differ greatly in its overall observations from the earlier studies developed by the other agencies and shareholders group.

The HUD study emphasizes that portfolio lending in support of residential mortgage financing is critically important, and support for mortgage portfolio lenders should remain the core function of the FHLBanks.

"This document provides the foundation for legislative and regulatory changes that will enable the [Bank] System to fulfill its

housing mandate into the next century," said Nicolas P. Retsinas, HUD's Assistant Secretary for Housing - Federal Housing Commissioner. Retsinas also serves as the HUD secretary's designee on the FHFB.

The report offers 3 basic recommendations, and addresses the 14 specific questions mandated in the 1992 HCDA legislation.

Statement of Purpose

A statement of purpose for the Bank System affirms its unique role as a provider of collateralized loans to primary lenders. The FHLBanks should remain housing-oriented

government-sponsored enterprises whose support for mortgage lending is distinct from that of Fannie Mae and Freddie Mac.

The structure of advances enables the FHLBanks to support the public-policy objective of improving housing affordability by enhancing the interest-rate risk management of members and enabling members to make their own credit underwriting decisions. This is most evident in situations where particular borrower or property characteristics may disqualify the loan for Fannie Mae's or Freddie Mac's programs, but where locally based institutions determine loans to be prudent investments for their own portfolios.

The current specialization of the FHLBanks is maintained by restrictions on allowable collateral for advances, on the use of advances, and on minimum requirements for membership. The report states, "This structure serves the public interest and should be retained."

In addressing the statement of purpose, the report added, "Support for mortgage lending for housing to be owned or occupied by low- and moderate-income families and support for community development lending . . . should be extended more generally to the overall advances program." The report offered a two-part definition of community development lending: investment areas that meet objective distress criteria or are located in

"The FHLBanks are already performing a useful role in the field of community lending, where they are contributing to the supply of mortgage credit for housing owned or occupied by low- and moderate-income families and loans for commercial and economic development activities in certain situations. Advances make it more feasible for lenders to originate and hold loans that do not conform to secondary market underwriting standards but are nonetheless responsive to local needs and conditions. However, more can be done. In particular, the public interest could benefit from expanding FHLBank support for multifamily lending, easing access to advances to support nonresidential lending in a community development context, and promoting affordable housing and homeownership for low- and moderate-income families. Much can be accomplished through continued vigorous outreach efforts to acquaint lenders with the assistance available through the FHLBanks, but expanded statutory and regulatory authority is needed as well. --

(HUD report, page 4.)

designated empowerment zones or enterprise communities, or targeted populations identified as being underserved by existing financial institutions. Under that definition, community development lending would support:

- commercial facilities that enhance revitalization, community stability, or job creation and retention efforts in targeted

areas;

- business creation and expansion efforts that create or retain jobs for low-income people, enhance the availability of products and services to low-income people, or create or retain businesses

owned by low-income people or residents of a targeted area;

- community facilities that provide benefits to low-income people or enhance community stability;
- home ownership opportunities that are affordable to low-income households;
- rental housing that is principally affordable to low-income households; and
- activities of community development loan funds that support any of the above purposes.

This definition would include construction loans supporting community development objectives. As such, real estate loans and mortgage loans would remain eligible to be pledged as collateral for advances.

The study pointed out that the Bank System has been authorized to participate in a new multifamily mortgage credit demonstration program that involves risk-sharing between the Federal Housing Administration and other financial institutions.

"In view of the importance of such lending in Federal housing policy, it is

important that the FHLBanks engage in such programs and seek out avenues to expand their involvement, consistent with the need to maintain adequate capital and price advances competitively," the report said.

The study stresses the importance of the FHLBanks engaging in new multifamily housing initiatives and seeking avenues to expand their involvement. These activities must be consistent with the need to maintain adequate capital and price advances competitively.

Specifically, the HUD report points out that advances, in general, can be useful to the extent that their

maturity/payoff characteristics match those of multifamily loans.

"In addition," the report continued, "the FHLBanks could build on the existing expertise within the [Bank] System by initiating a clearinghouse service for sales of multifamily mortgages among their members."

An example of this added support for multifamily lending could be the issuance of bonds by a member or consortium of members, and an FHLBank collateralized letter of credit could cover a portion of losses in the event of default on the high-risk bonds. Properly structured, such a program would insulate the FHLBank from credit risk, and would not engage the FHLBank directly in mortgage securitization.

Other potential multifamily financing efforts could revolve around partnerships, re-insurance, and risk-sharing agreements with the Housing Finance Board and FHLBanks providing a coordinating function.

"The Federal Home Loan Bank System is a profit-making enterprise whose purpose is to support residential mortgage lending (including mortgages on housing for low- and moderate-income families), as well as community development lending, throughout the Nation, safely and soundly, primarily through a program of collateralized advances to System members. The System facilitates such lending by increasing the liquidity and improving the distribution of investment capital available through its member institutions. --

(HUD report, page 21)

Membership and Capital Standards

The study recommends that membership in the FHLBanks be voluntary for all institutions, but only if there are changes establishing permanent capital for the Bank System in the context of an appropriate risk-based capital structure.

The FHLBank System is cooperative in nature. Current capital stock purchase requirements are dependent on a member's mortgage-related assets and sometimes on advances outstanding. When members depart, they can redeem the par value of their capital stock. In the capital structure of the FHLBank System, retained earnings are dwarfed by the amount of member capital stock. As a result, the FHLBank System's capital is not necessarily permanent, nor would it be sufficient to absorb large losses without impairing members' capital stock investments. In practice, the nonpermanent nature of required capital stock purchases has not been a problem, and the very low-risk profile of the System makes losses of the magnitude that would impair capital most unlikely.

Qualified Thrift Lender

The study recommends the removal of the Qualified Thrift Lender test as a condition for access to advances for savings associations, and equalizing stock purchase rules for all Bank System members. The current requirement that institutions have 10 percent of their assets in residential mortgage loans to be eligible for FHLBank membership should be

retained. However, the HUD study stipulates that only whole loans and not mortgage-backed securities be counted toward the requirement. The report further recommends that the 10 percent minimum mortgage holdings be a continuing requirement of membership.

In addition to the recommendations and mandated topics, HUD also suggested a separation of the FHF's roles as Bank System coordinator/manager, financial safety and soundness regulator, and program regulator.

HUD also recommended that the program regulator of the FHLBank System

should administer community support regulations to ensure that recipients of advances carry out their obligations under the Community Reinvestment Act. If necessary, an additional mechanism could be established to ensure that members use at least a portion of their advances for mortgage lending for housing to be owned or occupied by low- and moderate-income families and/or for community development lending. Volume of advances or volume of underlying collateral might be used as possible measures.

The Subcommittee on General Oversight, Investigation, and Resolution of Failed Financial Institutions of the House Banking, Finance, and Urban Affairs Committee held hearings on the report on May 24.

Copies of the two-volume report and appendices, or a 23-page executive summary, are available by contacting Angelina M. Ornelas, Office of Public Affairs, Department of Housing and Urban Development, (202)708-0685, extension 112.

"The programs of the FHLBanks are currently structured to emphasize support for residential mortgage lending. Some broadening of this role would be desirable to help refocus the mission of the FHLBank System around a concept of community lending. Support of community development lending should become a part of the stated purpose of the FHLB System. Community development lending should become an authorized use of advances, defined in a manner that complements the definition in emerging legislation on community development financial institutions."

(HUD report, page 51-52)

Bank System Aids Earthquake Relief Efforts

Following the January 17 earthquake in Los Angeles, it was only a matter of minutes before Federal, State, and local officials began receiving reports of the physical damage to the city. What they saw and heard was staggering: Highways buckled and destroyed; apartment buildings collapsed; communications systems in disarray; water, gas, and electrical service disrupted; and tens of thousands of residents afraid to re-enter their damaged homes.

The magnitude of the disaster was

soon apparent, as officials tallied up to \$20 billion in damage to public and private property. What impressed officials the most, however, was the breadth and scope of damage to the city's residential dwellings. By February 4, area officials had identified more than 252,500 damaged or destroyed housing units, 88 percent of which were in 11,000 apartment buildings. The remainder, 31,100 housing units, were single-family dwellings.

On February 25 the California State Treasurer's Office and the Federal Home Loan

Bank of San Francisco announced the direct placement of a \$145 million bond to help in the rebuilding process (see related story on page 6). Proceeds from the bond were advanced under the Bank's Community Investment Program to five FHLBank of San Francisco members for use in rebuilding damaged or destroyed homes and businesses in Los Angeles and Ventura County areas.

FHLBank members participating in the program are American Savings Bank, F.A., Stockton; Coast Federal Bank, FSB, Los Angeles; First Republic Thrift and Loan, San Francisco; Glendale Federal Bank, FSB, Glendale; and Home Savings of American, FSB, Irwindale.

"This creative financing is the result of a working partnership crafted to meet the housing needs of people displaced by the Los Angeles earthquake," Nicolas P. Retsinas, the HUD secretary's designee on the Federal Housing

CIP Activity Tops \$5.1 Billion

Over the past four and one-quarter years, more than \$5.1 billion has been made available nationwide through the Community Investment Program (CIP) for local housing and economic development projects, according to data released in January by the Federal Housing Finance Board.

Since January 1, 1990, 1,675 cumulative CIP advances (loans) financed 137,200 housing units, of which 72 percent were owner-occupied and the rest were rentals.

The CIP finances owner-occupied and rental housing for households whose income does not exceed 115 percent of the area median income. The program also finances commercial and economic development activities that are either located in low- and moderate-income neighborhoods or benefit low- and moderate-income families.

The CIP lending provided more than 3,000 housing units for the elderly, and assisted 173 rural projects.

A total of 158 CIP advances of \$170.7 million were made for local economic development purposes.

The CIP-financed projects had various sources of other funding, for example: Low-Income Housing Tax Credits were used in 108 projects, a State housing finance agency was involved in 52 projects, State or local government funding was used in 158 projects, Department of Housing and Urban Development funds were used in 109 projects, and foundation support and/or other grants were used in 83 projects.

Finance Board, stated. "By lowering long-term housing finance costs, [this] \$145 million package will contribute to a speedy recovery."

By the end of February, all five members had received the money and begun taking applications for loans as insurance and disaster relief claims were resolved. The participating lenders indicate activity in the following areas:

- New mortgage originations for both single-family and multifamily housing. As a further incentive for rebuilding, some members are discounting fees and reducing rates to eligible households.

- Rehabilitation loans for both single-family and multifamily dwellings.

- Refinancing of existing loans for rehabilitation and/or the restructuring of debt (loan splitting, recasting, reamortizing, or otherwise modifying) for single-family and multifamily dwellings.

- Refinancing and rehabilitation of primarily minority-owned commercial/business properties.

- Lending in conjunction with other relief assistance, including that from the Federal Emergency Management Agency, the Small Business Administration, the State of California, the City of Los Angeles, and other city and county funds.

While CIP funding from the FHLBank of San Francisco is important to the long-term recovery of the region, other FHLBank

members are moving to help in other ways. Specifically, members not participating in the special CIP advance are working with the City of Los Angeles Housing Department and other governmental entities to help design and maximize the use of government resources. These include direct subsidies and deferred loans, risk-sharing insurance, tax-exempt bond issues, and a possible loan guaranty pool.

Of 94 applications the FHLBank of San Francisco has received from members for the Affordable Housing Program, 31 projects address the Bank's district priority of targeting housing in earthquake-affected areas.

In addition to the work being done by Bank System members, the private sector has also joined the recovery effort by forming partnerships with the Bank.

The Community Investment Department of the FHLBank of San Francisco and the Southern California Association of Non-Profit Housing are planning a workshop for lenders on the sale of lender REO or earthquake-distressed properties to nonprofit developers. The City of Los Angeles has created an acquisition fund, pending budgetary approval by the city council, to assist any transactions.

The Bank also reports that the SAMCO, a private, member-owned, nonprofit lender, is restructuring several multifamily project portfolio loans.

California, Illinois Buy Bonds

San Francisco, Chicago Banks Make First 'Direct Placements'

The Federal Home Loan Banks (FHLBank) of Chicago and San Francisco are the first in the FHLBank System to sell bonds directly to State governments where the bond proceeds are earmarked for community investment projects within the bond-buyer's jurisdiction.

To date, the FHLBank of San Fran-

cisco has made direct placements of \$50 million and \$145 million with the California State Treasurer's Office, and the FHLBank of Chicago sold a bond of \$20 million to the Illinois Treasurer's Office. Funds from all three direct placements will be used as Community Investment Program (CIP) advances (loans) by the FHLBanks to member banks and savings and

loans to fund qualifying mortgage loans.

"Direct placement is a win-win situation," said Nicolas P. Retsinas, who serves as the designee of the secretary of HUD on the Housing Finance Board, which regulates the Federal Home Loan Bank System.

"It allows the FHLBanks to avoid normal dealers' costs associated with bond sales, and it allows the State to be a socially responsible investor," he added.

The direct placement concept emerged from the Federal Home Loan Bank System's Office of Finance, which spent several months marketing the idea to State and municipal governments before California and the FHLBank of San Francisco announced the first \$50 million bond sale in November 1993.

The \$50 million direct placement with California was the first of its kind by any FHLBank and was part of California's ongoing effort to target State investment dollars in California's 2-year-old Cal-Vest Program. This program, administered by the State Treasurer's Office, has committed more than \$700 million to the State's small business, agriculture, and housing industries.

"By targeting State investment funds where our needs are . . . we are making loans available so people can buy homes or build projects that produce economic benefits for communities up and down the State," California State Treasurer Kathleen Brown stated.

"This program is about helping Californians turn the dream of owning a home or finding decent housing into reality -- while at the same time improving some of our less advantaged neighborhoods," she added.

Proceeds from the 5-year bond, which was sold at an adjustable rate tied to the 3-month LIBOR index, will be shared among eight California members of the FHLBank of San Francisco. The \$50 million will finance homes for 325 homeowners and provide nearly 800 affordable rental units.

Bank officials estimate the direct

placement saved \$125,000 in financing costs. The financial institutions borrowing the funds from the FHLBank will receive the full cost savings associated with the transaction, together with the usual pricing discount inherent in CIP loans.

Dean Schultz, president of the FHLBank of San Francisco, said, "This transaction highlights the effectiveness of public-private partnerships in promoting housing accessibility and community development."

Encouraged by its first experience with direct placements, the FHLBank of San Francisco again turned to the State to place a larger bond issue of \$145 million to assist in disaster relief following the earthquake in Los Angeles (see related story on page 5).

The 4-year \$145 million bond is tied to the 3-month LIBOR index. By purchasing the bond directly, the State reduced the 4-year financing costs by \$250,000, producing savings which will be passed on to the bond's subscribers. San Francisco FHLBank officials estimate the funds will help finance approximately 2,300 homeowners and 1,500 rental units.

In Illinois, the Office of the Treasurer uses approximately 10 percent of its \$6 billion in assets for linked deposits, which are deposits dedicated to specific projects. By buying a \$20 million bond from the FHLBank of Chicago, the State expects the funds to finance approximately 300 new mortgages for low- and moderate-income households in Illinois.

"Home ownership is a solid way to get families into the middle class," said Illinois State Treasurer, Pat Quinn. "The State has a vital interest in helping communities grow through increased home ownership."

The bond has a 3-year maturity at 4.80 percent, according to Charles Hill, executive vice president and Community Investment Officer at the FHLBank of Chicago. By doing a direct placement, the FHLBank saved costs equal to about five basis points, savings which will be passed on to the three savings

associations and six banks that have subscribed to the bond, Hill said.

Illinois Treasurer's Office spokesperson Kim Braxton said the bond sale was not the first direct placement the office had done, but is the first done for home mortgages. Funds for the bond came from a short-term account used for overnight investments.

The treasurer's office was attracted to the bond because the FHLBank of Chicago structured it to meet the State's needs, and it was priced "significantly better" than the 3.25 percent the State would have received from a more conventional overnight placement, Braxton stated.

Hill believes the CIP has always been a good investment, and doing a direct placement makes a good deal even better.

The direct placement process has been a learning experience for both the FHLBanks and the State governments they worked with, according to Gary Curley, senior vice president of the FHLBank of San Francisco.

"I believe the State [of California] now has a better regard for portfolio lenders [such as the members of FHLBank of San Francisco] and the State came away with a good feeling on how easy it is to work with the FHLBanks," Curley said.

Earthquake, Hurricanes, Riot, Floods

Major Disasters Spur Bank System Members to Action

In 1992, 1993, and 1994 five major disasters -- an earthquake and riot in Los Angeles, Hurricanes Andrew and Iniki, and the Great Midwest Floods -- caused billions of dollars in damage, destroying or rendering uninhabitable nearly 245,000 homes and businesses. Tens of thousands of people were left without shelter or a job.

Within days, massive public and private relief efforts in the form of insurance payments, grants, and other programs were mobilized to ease the suffering and begin the rebuilding process.

While much of the initial aid centered on traditional Federal relief efforts using hundreds of millions of dollars, the need for private financing was also important as some members of the Federal Home Loan Bank System responded with flexible direct lending, and served as conduits for Federal credit programs.

In addition to a timely response to the Los Angeles earthquake (see related story on

page 5), the FHLBanks have responded to other natural disasters.

HURRICANES ANDREW AND INIKI

After Hurricane Andrew slammed into Homestead, Florida, on August 24, 1992, the First National Bank of Homestead served as a conduit for four nonhousing disaster-recovery programs. These included a \$1.5 million agricultural credit program in conjunction with the State of Florida, and a \$10 million program with the State and the Beacon Council, a local nonprofit business group, to provide operating-capital loans of up to \$25,000. The bank also served as a conduit for guaranteed loans of \$8 million from the Rural Development Administration and \$3 million from the Farmers Home Administration. Lastly, the bank made small personal loans to its customers without all the usual required documentation.

"Whatever this community needed, we did it," First National President William H. Losner said. This included taking deposits, cashing checks, and making withdrawals within 60 hours after Hurricane Andrew passed through, despite severe damage to the bank's building,

Losner was quick in praising his staff, which often had to deal with their own personal tragedies, for the rapid return to operational status. When asked for ten tips on how to function in the face of a disaster, Losner unhesitatingly answered, "One through ten would be to stabilize your staff. Help them solve their problems so they can be in a proper frame of mind to work."

A second local bank, Community Bank of Homestead, also participated in the Beacon Council project. It also made available to local businesses between \$20 million and \$25 million in loans guaranteed by the Farmers Home Administration and the Rural Development Administration.

American Savings of Florida, FSB, joined with a local nonprofit housing developer, Homes for South Florida, to provide a \$4.8 million permanent loan to rebuild a local apartment complex, Seagrape Village. The 112-unit affordable multifamily complex was heavily damaged by the hurricane, which left only the existing floors, walls, second story roof trusses, and electrical meters, after it passed through. American Savings accessed the FHLBank of Atlanta's special at-cost Hurricane Andrew Program to provide the financing. The project is fully occupied and was one of the first to be rebuilt following the hurricane.

Similarly, when Hurricane Iniki carved off the Hawaiian Islands in the summer of 1992, among the devastation was the loss of about 50 percent of the rental units in the Kalapaki Bay Townhomes complex on the island of Kauai.

Working with a local sponsor, the Hawaii Mutual Housing Association, American Savings Bank in Honolulu will use \$500,000 in Affordable Housing Program (AHP) funding from the Federal Home Loan Bank of Seattle to help Mutual acquire and rehabilitate the 179-unit townhouse complex. Total development costs for the project are estimated at \$11.6 million, and the rehabilitated units will be targeted to families earning between 40 and 80 percent of the area median income.

LOS ANGELES RIOTS

Whereas natural forces hammered Hawaii and Florida, humans wreaked havoc on their own environment in Los Angeles in April, 1992. Within days of the South Central Los Angeles riots, local building inspectors counted more than 1,200 commercial and residential structures damaged or destroyed by fire, looting, and vandalism.

To help rebuild the lost housing stock, Citibank Savings was awarded an AHP direct subsidy of \$218,394 to help finance the construction of a 40-unit multifamily rental complex on Franklin Avenue in South Central.

The Hollywood Community Housing Corporation, a community-based nonprofit housing corporation, has targeted 43 percent of the units to very-low-income households. The project is being funded also by the Community Development Agency of the City of Los Angeles. The project will include two landscaped community plaza areas, a recreation area and playground, and a community room. Citibank will also provide a \$914,000, 30-year loan to the project. The project's total development cost is \$6.2 million.

This is but one of the 37 AHP projects in South Central Los Angeles. Totaled, \$8.6 million in AHP subsidies will be used in AHP projects in South Central, creating 1,480 units of housing, of which 74 percent will be for very-low-income households.

MIDWEST FLOODING

When the Mississippi and Missouri Rivers inundated thousands of acres of prime agricultural land in the summer of 1993, they also caused extensive damage to hundreds of small communities lining the banks of the rivers and their tributaries. Many bankers took it upon themselves to initiate some of the clean-up efforts.

Mark Twain Bank, a large commercial bank in St. Louis, Missouri, allowed customers to use buildings it owned for storage. Other actions included increased lines of credit for commercial customers, loan payment moratoria, and new rehabilitation credits -- in effect, viewing flood-related lending as an extension

of its regular commercial business.

The natural disasters of 1993 brought to the attention of several FHLBanks that disaster recovery outreach should focus on local governments as well as members. Hannibal, Missouri, is a good case in point. Before the floods inundated the town, Mayor Richard Schwartz said Hannibal had several multifamily housing developments languishing for lack of financing. Due partially to new outreach by the Des Moines Bank, an Affordable Housing Program project to finance low-income housing in the Hannibal area was approved in June 1994. In the previous 4-year operation of the program, there have been no AHP projects in northeastern Missouri.

Nonmember Mortgagees

14 HFAs Approved to Borrow From Bank System

It is no secret that, as a percentage of expenditures, State budgets for affordable housing are shrinking. Add to that, restrictions placed on mortgage revenue bonds -- a traditional source of single-family mortgage funds for State housing finance agencies (HFAs), -- and it is clear HFAs must start looking for additional sources of money.

One source, which has been available since 1932, is the Federal Home Loan Bank System. The Federal Home Loan Banks are authorized to make advances to nonmembers that are HUD-approved mortgagees under the terms of Section 10b of the Federal Home Loan Bank Act. The nonmember mortgagee must be chartered under law, must be subject to the supervision of a government agency, and must lend its own funds as its principal activity in the mortgage field. (For additional program details see Program Parameters, page 11.)

The New Mexico Mortgage Finance

Authority (NMMFA) was the first approved nonmember mortgagee in February 1992 as part of a pilot program of the Federal Home Loan Bank (FHLBank) of Dallas.

Also in 1992, the Rhode Island Housing and Mortgage Finance Corporation (RIHMFC) became the second HFA to be approved as a nonmember mortgagee. At that time, the Housing Finance Board approved a proposal from the FHLBank of Boston to establish a \$500,000 line of credit for the RMMFC's reverse-annuity mortgage program for the very-low-income elderly. An additional \$10 million line of credit was later approved for the RIHMFC by the FHLBank of Boston, and soon thereafter the RIHMFC became the first HFA to borrow from the Federal Home Loan Bank System.

Since then, 12 other HFAs have requested and received nonmember mortgagee status from the FHLB. Of the 14 HFAs approved, 3 have now borrowed.

PROGRAM PARAMETERS FOR NONMEMBER MORTGAGEES

ELIGIBILITY

1. Must be chartered under law and have succession.
2. Must be subject to inspection and supervision by some government agency.
3. Must lend its own money as its principal activity in the mortgage field.
4. Must be a HUD-approved mortgagee pursuant to Title II of the National Housing Act.

QUALIFYING PROCEDURES

1. Submit documentation to the FHLBank whose district includes the State in which the HFA is located, demonstrating that the HFA meets all the eligibility requirements. Required documentation includes:
 - a copy of the State law showing that the HFA is chartered and subject to inspection by a government agency,
 - a copy of the HFA's most recent annual report,
 - certification from HUD that the HFA is a HUD-approved mortgagee, and
 - documentation demonstrating the entity meets the definition of a State HFA.
2. The FHLBank submits to the FHFB an evaluation of the applicant's financial condition, and certification that it can safely lend to the HFA.

ADVANCE LIMITS

None (see "Collateral")

COLLATERAL

1. In general, advances shall be collateralized by FHA-insured mortgages. By law, the principal amount of an advance secured by FHA mortgages may not exceed 90 percent of the unpaid principal of the collateral pledged as security.
2. However, Section 10b(b) of the Act provides that advances to State HFAs made for the purpose of facilitating mortgage lending that benefits individuals or families meeting the income requirements in Sections 142 (d) or 143 (f) of the Internal Revenue Code (IRC) may be secured by certain collateral other than FHA-insured mortgages. Under this provision, an FHLBank must obtain certification from the State HFA that the proceeds of the advance will be used to benefit individuals specified in the relevant sections of the IRC.
3. Furthermore, collateral pledged by State HFAs under this Section must otherwise meet the requirements of Section 10(a) of the Act (which contains collateral requirements for advances to members). Any real estate-related assets pledged as collateral under this section must be comprised of single-family or multifamily residential mortgages.
4. For more complete details of collateral requirements, contact the FHLBank Community Investment Officer.

PRICING

1. At a rate which covers a Bank's funding, operating, and administrative costs associated with making the advance.
2. Must compensate the FHLBank for the absence of a State HFA's capital stock investment in the Bank.
3. For a specific pricing structure, contact the FHLBank Community Investment Officer.

State HFAs which have been approved as nonmember mortgagees are California, Colorado, Massachusetts, Minnesota, Missouri, New Jersey, New Mexico, New York, Rhode Island, Tennessee, and Vermont, and the Territory of Guam. In addition, the Housing Finance Board determined that the New York City Housing Development Corporation is an HFA, and it was subsequently approved as a nonmember mortgagee. The Bank of North Dakota, a state-owned enterprise created to fund agricultural, housing, and economic development projects, has also been approved as a nonmember mortgagee.

Michael A. Rylant, chief financial officer for the RIHMFC, said access to Bank

System advances is simply one more way his HFA can help Rhode Islanders.

"We can reach lower-income borrowers and make housing more affordable," Rylant predicted.

The Housing Finance Board is responsible for determining the eligibility of nonmember mortgagees to borrow from an FHLBank. A nonmember seeking advances is required to submit an application to its FHLBank, which reviews the documentation and submits it, with an evaluation of the applicant's financial condition, to the Housing Finance Board. The Housing Finance Board determines the applicant's eligibility and then notifies the FHLBank of its decision.

(PARKS, from page 1)

estate lenders to finance mobile homes or mobile home parks.

Yet economic conditions in many parts of the nation dictate that mobile homes be added to the list of affordable housing alternatives with nonprofit and governmental sponsorship. In some cases, it is the only alternative.

The Federal Home Loan Bank of Boston is actively participating in efforts to help mobile home park residents purchase their parks. And this effort has led to one of the more unique and complicated affordable housing projects in the FHLBank System. By the time the deal was completed on March 31, it involved creating two limited-equity cooperatives financed by two lenders providing mortgages to each co-op, a grant and a loan from the City of Concord, New Hampshire, a loan from a local nonprofit housing group, and equity from the mobile home parks' residents.

In New Hampshire, there are 463 mobile home parks providing shelter for more than 70,000 people. George Maskiell of the New Hampshire Community Loan Fund (NHCLF) said the slumping local economy

created a need for inexpensive housing. Mobile homes are attractive to low-income families because they are substantially less expensive than conventional housing.

Because most park residents own their mobile home but lease the land, an increase in the ground rent could result in the displacement of low-income families. According to Maskiell, residents live in fear the park will be sold, either to another owner who may boost rents, or to a developer who would build a commercial or residential development on the property, forcing residents to find another park, which is often difficult for residents to find. This temporary displacement can add more stress to an already difficult situation. The opportunity to buy their park is seldom an option for residents, simply because they do not have the money.

Many of New Hampshire's mobile home parks are owned by absentee landlords, according to Maskiell. Though the businesses are lucrative, infrastructure repair or maintenance is usually minimal, he said.

The New Hampshire Community Loan Fund, a private nonprofit organization

dedicated to finding housing and jobs for low-income people, has been working for the past several years to help mobile home park residents create limited-equity Co-operatives to buy parks from their present owners. NHCLF is a national leader in the field of limited-equity Co-operatives. The organization has helped 21 mobile home parks convert to limited-equity co-ops over the years, and "no co-op has ever failed," Maskiell said.

So when residents of the 78-lot Alosa Mobile Home Park in Concord approached NHCLF in 1992 about buying their park, Maskiell knew precisely what needed to be done.

First, two limited-equity co-ops were immediately formed, one with 56 residents and the other with 22 residents. In January 1993, the NHCLF committed to a loan of \$222,817 for the project. But it took until March 1993, before the parks' residents and owners settled on a purchase price of \$1.15 million, \$100,000 less than the original asking price.

In May 1993, the City of Concord approved CDBG funding for the parks in the form of a zero-percent \$385,000 loan, \$25,000 of which was a grant.

With the signed purchase agreement, the NHCLF loan, the CDBG funds, and \$11,500 equity from the parks' residents, Maskiell was ready to approach a local lender for the remaining \$800,000 to finish the deal.

But when Tom Potter of Concord Savings Bank saw the deal he was reluctant to recommend a loan. As assistant vice president for community lending, Potter was familiar with lending for mobile homes and mobile home parks. He knew what numbers to look for, and in this deal they just did not add up.

"We looked real hard at this," Potter said, "It wasn't the most attractive park . . . there was a lot of deferred maintenance that needed to be done."

But Maskiell knew the numbers would work, and the money would be available under

the FHLBank of Boston's Community Investment Program. The CIP offers member institutions advances discounted up to 25 basis points for community-oriented mortgage lending to families with incomes not exceeding 115 percent of the area median income.

Maskiell knew Concord Savings was a member of the FHLBank of Boston, and that about 80 percent of the mobile home parks' residents earned less than Concord's area median income of \$34,950 for a family of four.

"It took a lot of talk from George and the residents to get us comfortable . . . George crunched a lot of numbers to prove to us it would work," Potter commented.

And it did. Concord Savings provided one-third of the financing for the parks with New Dartmouth Bank, also of Concord and a FHLBank of Boston member, provided the remaining two-thirds.

Maskiell said CIP financing for mobile home parks is a good deal, but that there is an education process needed before banks are comfortable with a loan.

"We have to educate the banks and [park] owners . . . the banks need to look not at the individual credit of each co-op member, but the credit of the group," Maskiell emphasized.

"This [deal] is profitable," he added.

Potter, whose bank has \$400 million in assets, agreed, adding, "This is a good loan for us . . . it's good lending."

The success of the NHCLF program, Maskiell believes, is attributable to the co-ops' spirit of community and responsibility.

"A whole new psychology kicks in when [the residents] are owners . . . there is the pride of ownership. Every resident is a 'watch dog' to keep the organization paying the mortgage," Maskiell said.

These same sentiments were echoed by Juanita Bruillard, treasurer of the smaller 22-lot co-op, which has been renamed "Neighboring Pines Mobile Home Park."

"Before we felt like transients because the land was owned by someone else and could be sold from under us," Bruillard, a 22-year veteran of mobile home living, said. "Now we have only ourselves; we have to be totally responsible. It feels good," she added.

While Bruillard and her neighbors are basking in the glow of ownership, they are taking the next steps to brighten up the park. The

community has planned several clean-up campaigns to remove debris, dead trees, and foliage. They have also planned picnics, cookouts, yard sales, and fund-raising activities to help keep their homes looking nice.

"There is a new feeling of neighborliness, we're all pulling together," Bruillard said.

"And this is where we can stay, now we have a sense of security," she added.

(PLANS, from page 1)

of community investment or service. As a result of the Community Support Review, Security Federal was asked in September 1992 to develop a 1-year Community Support Action Plan to improve its community support performance.

Security Federal's president Tim Simmons said he and his management team saw the preparation of an Action Plan as an opportunity to improve their work with the community. He also agreed that being asked to prepare the Action Plan was actually a blessing in disguise because it helped management focus on setting goals and better serving the community.

"It made us sit down and address the issues, so we dove in head first," Simmons said.

"We wanted to use this opportunity to improve our relations in the community and generate new business. We were determined not to just 'go through the process,'" he added.

Within days after receiving the Action Plan request, a draft plan was prepared and implemented, and the bank moved swiftly on many fronts.

First, the bank canvassed the community by sending 13,000 questionnaires to residents asking for comments on how to provide better service, and the bank staff met with local African-American leaders to help build bridges to minority groups. Then, working

through local churches, the bank scheduled a series of financial seminars to reach low-income and minority residents and to explain the bank's low-income housing programs and offer financial assistance. Added to that were meetings with county and regional governments to solicit more ideas and help publicize the seminars.

Internal suggestions were also sought. Branch managers recommended lowering, or eliminating if possible, some up-front closing costs. Hiring an African-American loan officer would make potential customers feel more at ease, one manager suggested.

The bank continued its local outreach by advertising the financial seminars in the local media, offering free day care for attendees, and having national experts on housing and credit make presentations.

Security Federal, which has \$200 million in assets, also emphasized products aimed at low-income borrowers and streamlined its consumer loan programs.

The net effect of all this, according to Simmons, is that the bank has doubled its loans to low-income households in nine months, and improved its image in the community.

"[Developing the Action Plan] helped open lines of communications in the community, it broke down the barriers separating us -- our employees became more sensitive in

dealing with the needs of our customers," Simmons stated.

"It brought the bank closer to the people," he added.

Another bank to move from a "Needs to Improve" rating to an "Outstanding," was United Bank, a \$40 million institution in Springfield, Illinois. Bank president Clarke Woodruff echoed many of Simmons' feelings, saying, "It was the best thing to ever happen to us in the long run."

Woodruff and his staff worked with the FHLBank of Chicago's Community Investment Office to develop their Action Plan. The plan included a community credit-needs survey, increased advertising in local minority publications, an aggressive outreach program, hiring minority employees, and participating in the State and local governments' low-income housing programs, some of which offered downpayments as low as three percent for first-time home buyers.

"The whole process changed our outlook on the community," Woodruff said.

Though both presidents say their banks have reaped immediate benefits of increased business and better community relations from implementing their Action Plans, Simmons of Security Federal believes the real pay off is 2 or 3 years away.

He explained that the bank will stay in touch with everyone that has contacted them, whether through the seminars or applying for a loan. These, he believes, are his customers of the future.

Simmons also implemented a program of after-application counseling for those whose loans have been turned down. A loan officer will explain to the applicant the reasons the loan was refused and will offer suggestions to improve the customer's credit rating.

"These, too, are future customers," Simmons stated, "When they get their credit

situation straightened out then I can help them buy that new car."

Woodruff believes his outreach program has also created many potential future customers, but his staff must continue to work with those people if the bank is going to get their business.

"There are a bunch of eager beavers out there trying to get the same customers [to meet CRA requirements]," Woodruff explained. "We'll have to work harder."

Simmons admits that initially he was skeptical of the process of having to prepare an Action Plan, but he is now a true believer -- especially since receiving the "Outstanding" CRA rating.

"This has been very positive for us. It opened our eyes to a lot of things and enabled

**Allocation of the
FHLBank System's
\$75 Million in AHP Subsidies
To Be Committed in 1994**

Boston	\$5.1	Chicago	\$4.3
New York	\$9.9	Des Moines	\$4.4
Pittsburgh	\$5.4	Dallas	\$2.9
Atlanta	\$10.3	Topeka	\$2.8
Cincinnati	\$2.8	San Francisco	\$12.1
Indianapolis	\$4.2	Seattle	\$10.7

us to do more things with the community," Simmons said.

"We're so with the results we plan to do it every year and incorporate our experience from earlier years," he added.

While the "Outstanding" CRA rating created a lot of excitement and pride within

both banks and was "icing on the cake" at Security Federal, both presidents agree that it now serves as the standard the banks aim for each year.

"Now that we have achieved it, we want to do it every year. We don't want to settle for less," Simmons stated.

RESOURCES

- **Lessons From State CHASes: The First Year** (\$20) includes highlights and summary information on key issues affecting low-income housing included in the first five-year Comprehensive Housing Affordability Strategies (CHAS) prepared for FY92. For more information contact **The Enterprise Foundation**, 10227 Wincopin Circle, Suite 500, American City Building, Columbia, MD 21044, or call (410)715-2250.

- The Seventh Edition of *Tax Credits for Low-Income Housing: New Opportunities for Developers, Nonprofits, and Communities Under the 1986 and Subsequent Tax Acts* by Joseph Guggenheim is available from Simon Publications. In softcover the book is \$58, and in the loose-leaf binder format, with three supplements, it is \$115. For more information contact **Simon Publications**, Box 229, Glen Echo, MD 20812, or call (301)320-5771.

- **Case Studies in Successful Home Ownership for Low- and Moderate-Income First-Time Buyers** (\$6) presents 25 case studies illustrating strategies and financing mechanisms used by community-based organizations and others. For more information contact the **Community Information Exchange**, Suite

710, 1029 Vermont Avenue NW, Washington, D.C. 20005-3517.

- **HUD's HOME Information Center of the Office of Affordable Housing** will send by fax each Friday a current list of new publications available through the Office of Community Planning and Development. For more information contact HOME Information Center, Box 7189, Gaithersburg, MD 20898-7189, or call 1-800-998-9999.

- **The Office of Thrift Supervision (OTS)** is now making available, on a national basis, *Community Reinvestment Act Performance Evaluation Ratings of Savings Associations*. Heretofore, the ratings were available through OTS' regional offices. For more information contact Gwendolyn Gregg-Cauthen, OTS, 1700 G Street NW, Washington, D.C. 20552, or call (202)906-7084.

- **Washington Intercity Self Help (WISH)** has developed a 23-page *Cooperative Handbook* in English and Spanish for new cooperative members. The handbook addresses the definition of cooperatives, repairs, meetings, member duties, and the role of the board of directors. The \$4 book can be ordered by calling (202)332-8800.

Building Blocks is published quarterly by the Federal Housing Finance Board, Housing Finance Directorate, 5th Floor, 1777 F Street, N.W., Washington, D.C. 20006. The telephone number is (202)408-2810.