

# Building Blocks

A Publication of the Federal Housing Finance Board



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## Limited to \$750 Million

# FHLBank of Chicago Gets Finance Board Approval For New Home Mortgage Pilot

The Federal Housing Finance Board approved in January a proposal by the FHLBank of Chicago to conduct a pilot program with its members that offers a new alternative for financing home mortgages.

Under the Mortgage Partnership Finance program (MPF), FHLBank of Chicago members will market and originate one-to-four-family home mortgage loans and be responsible for all functions involving the customer relationship. The FHLBank of Chicago will fund and retain in portfolio the home mortgage loans originated, serviced, and credit-enhanced by members.

"MPF channels funds into residential housing in a more sophisticated and targeted manner than regular advances. It's a new means of realizing the traditional housing finance mission of the FHLBanks," said FHFB Chairman Bruce A. Morrison.

"As an alternative to holding

loans in portfolio or selling them in the secondary market, it offers FHLBank members a new competitive tool which should lower costs to homebuyers," he added.

The program is limited initially to \$750 million.

Morrison listed several benefits of the program for consumers and members of the FHLBank of Chicago, including:

1 Increased competition, efficiency and flexibility in the

home mortgage loan market that should lower costs to homebuyers.

- Participating members will be able to provide home mortgage loans to more customers on more flexible terms, while realizing fees for mortgage

origination, credit enhancement and servicing.

- The program uses the unique cooperative characteristics of the FHLBank System to offer a housing-finance alternative that maximizes the strengths of each participant at the local level, where access to "customized" credit can be delivered, and where members have specialized knowledge about the credit quality of their borrowers.

Funding assistance will be (See PILOT, page 2)

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available for mortgages which do not meet all secondary market requirements (except for the maximum loan limit).

- Member institutions, particularly community banks, will have a tool to make them more competitive in the marketplace.

- The FHLBank will continue to provide the capital-market access that allows members to offer long-term housing finance in their communities, but in a more targeted manner.

The Chicago pilot offers a third alternative to a financial institution

making a single-family home mortgage loan in today's market, where there are currently only two choices: 1) hold the loan in portfolio; or 2) sell the loan in the secondary market.

Holding the loan in portfolio requires that the institution manage all of the risks involved in mortgage lending: on the customer relationship side, there are marketing, servicing and credit risks; on the funding side, there are liquidity, interest rate and option risks.

Financial institutions tend to

pool loans they originate for sale into the secondary market. The originator in this case relinquishes control over what it does best (underwriting and managing credit risk) and pays a fee to the securitizer for performing these functions: at the same time, the originator retains risks it is less well-equipped to manage, such as the liquidity interest rate and options risks associated with funding mortgage-backed securities.

As a result of this allocation of risks, capital requirements for a

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## Finance Board's Managing Director Retires; New Duties Await at FHLBank of Atlanta

Rita I Fair, Managing Director of the Federal Housing Finance Board, announced in January she will retire from her current position April 1, ending more than 20 years of Federal government service. She will assume the position of chairman of the board of directors of the FHLBank of Atlanta on July 1,

Ms. Fair joined the Finance Board in September 1993 as an assistant to former HUD Secretary Henry G. Cisneros, when he served as a Finance Board director. In November 1994, Ms. Fair was named managing director of the Finance Board after serving in an acting capacity for 7 months. During her tenure at the Finance Board, Ms. Fair guided the agency through a period when it was without a quorum and helped institute a number of measures the Finance Board took to devolve

administrative functions to the FHLBanks.

"We congratulate Rita on her retirement and thank her for all the contributions she has made, not just at the Finance Board but throughout her career in public service," said Finance Board Chairman Bruce A. Morrison. "We will miss Rita's leadership, her experience, her administrative expertise and her people skills."

Prior to joining the Finance Board, which is the safety and soundness regulator for the 12 FHLBanks, Ms. Fair served as managing director of the Secura Group, a financial institution consulting firm. Before joining Secura, she held a similar position with MCS Associates, a thrift consulting firm.

Previously, Ms. Fair was with the U.S. League of Savings Institutions (now the America's Community Bankers) as Senior

Vice President for Regulatory Operations in charge of development of regulatory policy and coordination of the League's relations with Federal agencies.

Prior to her tenure at the U.S. League, Ms. Fair was chief of staff of the Federal Home Loan Bank Board, responsible for the management of the Bank Board and coordination of activities of the FHLBanks and the Federal Home Loan Mortgage Corporation (Freddie Mac).

Ms. Fair held a number of positions at the Department of Housing and Urban Development, including executive assistant to the secretary and under secretary. She is also a former member of the Advisory Board of Fannie Mae.

A native of Wilkes-Barre, Pa., Ms. Fair resides in Washington, D.C. with her husband, John. They have two sons, Ken and Tony.

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## First in the FHLBank System

# Seattle FHLBank Begins Homeownership Program For Public Housing, Section 8 Residents

As part of an on-going FHLBank System effort to create new and unique solutions to the nation's housing-finance issues, the FHLBank of Seattle received approval in February to implement the FHLBank System's first set-aside program exclusively to help families living in public housing or receiving Section 8 vouchers or certificates purchase their first homes.

Called Home\$tart Plus, the program uses \$250,000 in Affordable Housing Program funding to provide up to \$10,000 in downpayment and closing costs to help Seattle-area families with incomes at or below 80 percent of the area median income. Funding for Home\$tart Plus is in addition to \$1 million set aside previously by the FHLBank to assist low-income households become homeowners.

"Home\$tart Plus catches the spirit of the FHLBank System's Affordable Housing Program by providing housing-finance assistance to the nation's most needy citizens," stated Bruce A. Morrison, chairman of the Federal Housing Finance Board, regulator of the FHLBanks. "Under this program families truly can move from dependence to independence."

While the new Seattle program specifically targets residents of public housing using a special subsidy, Morrison emphasized that the FHLBank System's regular competitive AHP can also be used to help public housing residents attain homeownership.

Eligibility criteria for Home\$tart Plus are similar to those

of the FHLBanks existing homeowner set-aside effort, but with several important differences:

- initial enrollment will be limited to families participating in a family Self-Sufficiency (FSS) program (see sidebar, below) at
- one of the public housing authorities (PHA) in the Seattle area:
  - initially limited to five Seattle-area FHLBank members, the program may be (See SEATTLE, page 4)

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## FSS Program: Learning New Lessons

The Family Self-Sufficiency program was created in 1990 to promote the development of local strategies that help families receiving federal housing assistance to achieve economic independence and self-sufficiency.

Public housing authorities (PHAs) are required to enter with participating families into a contract that identifies the services available to the family and the family's responsibilities. Available services include child care, remedial education, job training, substance abuse treatment, parenting skills, money management, and other services appropriate to modern living.

A participating family has 5 years to fulfill its contract, which requires the head of the household to seek employment. While under contract, the participant's rent is not increased on the basis of income as long as income does not exceed 50 percent of the area median. (Families with incomes between 50-80 percent of the area median do have a slight rent increase.)

An escrow account is established by the housing authority and contributions are made by the family as its income increases. The contributions are the difference between what a family would have paid if its rent had been set at 30 percent of its new income, and the rent it actually pays.

When participants successfully complete the program and leave assisted housing, they may withdraw the escrow funds as long as they certify that no member of the family is receiving welfare assistance. The funds may be used only in accordance with the FSS contract, which includes the purchase of a home.

If a PHA determines that a family has fulfilled its obligation under the contract before the end of the 5-year term, the family may also receive its escrow funds.

For more information on the FSS program, contact Pat Arnaudo at (202) 619-8201, ext. 4250, or Jerry Benoit at (202) 708-0477, ext. 4069, both of whom are at the Department of Housing and Urban Development. □

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- expanded to additional members in subsequent years;
- funds will be used for downpayment and closing costs, and a family's savings may also be used to fund a dedicated account of up to 2 months' housing expenses for emergency use;
- an escrow account maintained by the PHA for participating families, and in some cases, escrow savings accounts maintained by families with FHLBank members, will be matched with AHP funds on a

- two-to-one basis, up to \$10,000 per family :
  - to receive matching funds, a family must maintain an escrow account with the PHA for at least 10 months and must have a 3-year history of participating in the FSS;
  - pre- and post-purchase counseling will be provided by a nonprofit agency following standards established by the Washington State Finance Commission.
- The FHLBank of Seattle chose a HomeStart Plus maximum subsidy

of \$10,000 per family because the gap between the median home price in Seattle (\$160,000) and the average income of families receiving public assistance cannot be bridged without significant assistance. A lesser subsidy would mean eligible families would be unable to purchase homes in neighborhoods that are close to their jobs and social support agencies.

The HomeStart Plus program meets at least seven Actions Items in the National Homeownership Strategy, a national effort to boost the nation's homeownership rate to 68 percent from 64 percent by 2000.

For more information on HomeStart, contact Judith Dalley, community investment officer at the FHLBank of Seattle, at (206) 340-8708.

## San Francisco, Seattle FHLBanks' AHP Projects Win National Awards

Three affordable housing projects financed in-part by AHP funds from two FHLBanks are among the 18 winners of the 1996 National Association of Housing Redevelopment Officials (NAHRO) Awards of Excellence.

The awards were presented during the association's national conference in Orlando, Florida in October.

The AHP-supported winners are:

- Bracher Gardens in Santa Clara, California, which won an award in the "Project Design: New Project" category, used \$126,000 in AHP subsidy from the FHLBank of San Francisco to build the 72-unit complex. The \$7.5 million project was sponsored by the Housing Authority of the County of Santa Clara.
- The Sedona Project in Salt Lake city, Utah, also received an award in the "Project Design: New Project" category. This

project, which received AHP funding from the FHLBank of Seattle, provides permanent housing for 16 previously homeless single women in a single-room occupancy setting. The project sponsor combined \$147,200 in AHP subsidy with more than \$1.1 million from other Federal, state and local sources to complete the project.

- Columbia Theatre Apartments in Longview, Washington, is a mixed-use building listed on the National Register of Historic Places that was converted into 35 apartments for low-income elderly residents. The project was sponsored by the Longview Housing Authority and used a \$165,600 AHP subsidy from the FHLBank of Seattle to complete the apartments. The project won an award in the "Program Innovation: Economic Impact" category.

## FHLBank System Awards Program Set

The 1996 Community Partnership Awards honoring FHLBank System members and nonprofit organizations for their leadership in creating partnerships for affordable housing and community and economic development initiatives will be held in June in Washington, D.C.

Details for the 3rd annual awards ceremony and luncheon were not available at press time, but the event is expected to draw approximately 250 executives representing public and private sector housing finance and community development organizations from around the nation.

For additional information on the ceremony, call William J. Carel at (202) 408-2986.

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## **No Changes at Top Level**

# FHLBank Board Chairs Appointed for 1997

The Federal Housing Finance Board, regulator of the 12 FHLBanks, recently announced the re-appointment of each FHLBank's chairman of the board. The board chairs are:

### **FHLBank of Boston**

Elizabeth H. Mitchell: The Honorable Elizabeth H. Mitchell has been a Community interest director and chair of the board of the FHLBank of Boston for 3 years. She currently serves as the Speaker of the House of Representatives in the 118th Maine State Legislature. She is from Augusta, Maine.

### **FHLBank of New York**

Guy V. Molinari: Guy V. Molinari has been a director and chairman of the board of the FHLBank of New York for 2 years. Mr. Molinari is currently serving his second term as Borough President of Staten Island, New York, and is a former U.S. Congressman. He is from Staten Island, New York.

### **FHLBank of Pittsburgh**

Raymond R. Christman: Raymond R. Christman has been a community interest director and chair of the board of the FHLBank of Pittsburgh for 3 years. Mr. Christman is president of the Southwestern Pennsylvania Industrial Resource Center and vice president on the board of directors for the National Council for Urban Economic Development. Mr. Christman is from Pittsburgh, Pennsylvania.

### **FHLBank of Atlanta**

Stanley Waranch: Stanley Waranch has been a director on the board of the FHLBank of Atlanta for 24 years and chair for 15 years. and will serve as chair through June 30, 1997. Mr. Waranch is president of Buxbaum and Waranch, and is from Virginia Beach, Virginia. (Rita I Fair, former Managing Director of the Federal Housing Finance Board, will assume the position of chair of the FHLBank of Atlanta on July 1. See related story on p.2)

### **FHLBank of Cincinnati**

Nancy C. Miller-Herron: Nancy C. Miller-Herron has been a community interest director and chair of the board of the FHLBank of Cincinnati for 3 years. She is a partner with the law firm of Herron & Miller-Herron, and is chair of the local affiliate of Habitat for Humanity. She is from Dresden, Tennessee and, while presently on leave from the Tennessee Conference of the United Methodist Church, continues to serve occasionally as a minister.

### **FHLBank of Indianapolis**

M. Margaret DeSantis: Margaret DeSantis has been a community interest director and chair of the board of the FHLBank of Indianapolis for 3 years. She is the executive director of the Warren Conner Development Coalition in Detroit, and serves on the boards of directors of the East Detroit Area Non-Profit Housing

Corporation, Detroit Eastside Community Collaborative, and New Detroit, Inc. Ms. DeSantis is from Detroit, Michigan.

### **FHLBank of Chicago**

Jennifer A. Miller: Jennifer A. Miller has been a community interest director and chair of the board of the FHLBank of Chicago for 3 years. Ms. Miller is a former manager of Community development for the Illinois Housing Development Authority. Prior to this position, she was manager of the Department of Housing for the City of Chicago, and director for new strategies in the Neighborhood Reinvestment Corporation. Ms. Miller is from Chicago, Illinois.

### **FHLBank of Des Moines**

Anthony J. Scallon: Anthony J. Scallon has been a Community interest director and chair of the board of the FHLBank of Des Moines for 3 years. Mr. Scallon is currently the vocational coordinator for West St. Paul Schools, and formerly served on the Minneapolis City Council and was commissioner of the Minneapolis Community Development Agency. Mr. Scallon is an active member of the Longfellow Community Council focusing on loans for housing rehabilitation and neighborhood improvement. Mr. Scallon is from Minneapolis, Minnesota.

### **FHLBank of Dallas**

Enrique (Henry) Flores: Henry (See **DIRECTORS**, page 6)

(DIRECTORS. from page 5)

Flores has been a community interest director on the board of the FHLBank of Dallas for 3 years and chair for 2 years. Mr. Flores currently serves as the chairman of the board and chief executive officer of Flores Elizondo and Associates. He also serves as the president of the National Hispanic Housing Council and the executive director of the Council of State Community Development Associations. He is from Austin, Texas.

**FHLBank of Topeka**

**Paul S. Barru:** Paul S. Barru has been a director and chairman of the FHLBank of Topeka for 1 year. He is president of BHI, Inc and serves on the board of directors of the

National Association of Home Builders (NAHB) and that board's executive committee. For his contributions to the housing industry. Mr. Barru has been elected to NAHB's Housing Hall of Fame. Mr. Barru is from Littleton, Colorado.

**FHLBank of San Francisco**

**Mary Lee Widener:** Mary Lee Widener has been a community interest director and chair of the board of the FHLBank of San Francisco for 3 years. Ms. Widener is the president and chief executive officer of Neighborhood Housing Services of America in Oakland. Earlier, she served on Fannie Mae's

advisory council and for 2 years chaired the Affordable Housing Advisory Council of the FHLBank of San Francisco. Ms. Widener is from Oakland, California.

**FHLBank of Seattle**

**Harry C. Thomas:** Harry C. Thomas has been a community interest director on the board of the FHLBank of Seattle for 6 years and chair for 2 years. Mr. Thomas is the executive director of the Seattle Housing Authority and an active member of Neighborhood House, an agency that has earned a distinguished record as an advocate for low-income and homeless persons and families. Mr. Thomas is from Seattle, Washington.

**Pricing; Issue Resolved**

**FHLBanks to Approve Nonmember Mortgages**

As part of its on-going devolution of governance responsibilities to the FHLBanks, the Finance Board in February approved a regulation allowing each FHLBank to certify eligible nonmember mortgagees for FHLBank advances.

The rule establishes uniform eligibility requirements and review criteria for determining whether an entity may be certified as a nonmember mortgagee, and devolves the responsibility for making that determination from the Finance Board to the FHLBanks.

Under existing law, nonmember mortgagees must: a) be approved by the Department of Housing and Urban Development as a "mortgagee" under Title II of the National Housing Act. b) be chartered under law and have

succession. c) be subject to the inspection and supervision of a governmental agency, and d) lend its own funds as its principal activity in the mortgage field

The Finance Board's action also expands the definition of "state housing finance agency" to include all American Indian housing authorities

Further, the regulation eliminates a pricing provision that required the FHLBanks to charge higher interest rates for advances to nonmember mortgagees than are charged to member institutions

Some of the FHLBanks had requested they be allowed to continue to charge nonmember mortgagees higher rates because, unlike other members, they do not purchase capital stock in the FHLBanks. The board's ruling,

however, noted there are no "compelling economic circumstances to justify an additional compensation mark-up."

Finance Board Chairman Bruce A. Morrison said equal treatment of member and nonmember borrowers would strengthen the mission of the FHLBank System and increase business for the 12 FHLBanks.

"Eliminating the mark-up should enhance the FHLBanks' statutory housing finance mission by providing more attractively priced funds to entities that specialize in affordable housing finance," Morrison stated.

Presently 31 HFAs are certified as nonmember mortgagees of the FHLBank System, and 10 have received advances totaling \$46 million.

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holder of loans in portfolio are higher than for a holder of mortgage-backed securities.

The Chicago pilot unbundles the risks associated with home mortgage lending and allocates them between the FHLBank of Chicago and its members in a manner that uses the cooperative structure of the FHLBank System to maximize their respective core competencies.

Under MPF:

- FHLBank of Chicago members will market and originate one-to-four family home mortgage loans, subject to guidelines agreed upon by the FHLBank and its members;

- All loans originated will be within the conforming loan limit applicable to the secondary market government sponsored enterprises (GSEs);

- Members would continue to be responsible for functions involving the customer relationship, including all aspects of mortgage marketing and origination.

- The FHLBank of Chicago would fund and retain in portfolio the home mortgage loans originated, serviced and credit-enhanced by its members.

Thus, rather than paying a guarantee fee to a secondary market securitizer, members would be compensated for managing the customer relationship and the credit risk, while the FHLBank would retain and be compensated for its expertise in managing the other risks of the loan -- liquidity, interest rate and options risks. In this way, the component risks involved in home mortgage lending would be optimally allocated.

MPF is designed to insulate the FHLBank from virtually all the credit risk associated with investing in home mortgage loans. First loss credit protection will be provided by a reserve established by the FHLBank of Chicago, to be funded by a share of the interest payments on MPF loans. The reserve will be established in an amount at least equal to the historical loss experience on the types of MPF loans originated by the members. (Based on historical data over the past five years, this first loss coverage is likely to range from two to five basis points of mortgage loan principal.)

In return for a fee, participating members will provide second loss

credit enhancement at least equal to the level of subordination afforded double-A rated mortgage-backed securities, which will require them to hold risk-based capital equal to four percent of the amount of the credit enhancement. The FHLBank of Chicago will determine the amount of the required credit enhancement based on the characteristics of the mortgage loans and rating agency modeling methodology. A recent analysis has shown that over an eight year period, investors in mortgage loan pools rated double-A have had zero losses.

Prior to program implementation, the Finance Board will undertake a supervisory review to ensure that appropriate monitoring and control policies and procedures are in place. On March 10, the Finance Board conducted a public hearing on the pilot to gain input from community and industry groups.

For more information on the MPF, contact Chuck Hill, community investment officer, FHLBank of Chicago, (312) 565-5705. □

## Interest Rates and More Now On-Line

# FHLBank of Dallas Cruises Into Cyberspace

The FHLBank of Dallas is the first FHLBank to invade cyberspace with its December announcement that the institution has opened a homepage on the World Wide Web.

The homepage features a brief overview of the FHLBank's mission and purpose, an explanation of the advantages and criteria for membership, and provides descriptions of the FHLBank's products. Additionally, the site displays daily interest rates and explains the FHLBank System's affordable housing and community investment programs.

The FHLBank is currently developing a members-only secured web site using state-of-the-art encryption and authentication technology to provide access to all of its products and services.

Future services for the homepage include executive advances transactions, wire transfers, complete AHP and CIP applications, and on-line forums with other members.

The Dallas FHLBank homepage is at <http://www.fhln.com>

Data can also be obtained by calling the FHLBank's community investment officer, Sonia Armstrong Brown, at (214) 714-8647. □

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## Mark Your Calendar!

May 29-30: National Homeownership Summit  
Washington, D.C.

June 7-14: National Homeownership Week

For more information, call  
The National Partners in Homeownership at  
1-800-297-4183

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# RESOURCES

The National Association of Community Development Loan Funds has released its "Operations Guide for Community Development Loan Funds." Topics covered include basic principles, specific details, and real life examples of operating a local loan fund. For more information, contact Daphne Smith at (215) 923-4754.

The National Association of Community Development Loan Funds also has released a paper titled "Parallel Banking System and Community Reinvestment," which explores the structural shift in the banking industry, the government's role in that shift, and the implications for low-to-moderate income communities. For more information on this 20-page, photo-copied publication, contact Valarie Threfall at (215) 923-4754.

"Can This Business Succeed? Nonprofits and Community Economic Development" has been released by the Community Information Exchange (CIE). The \$7, 16-page report analyzes examples of community-based

organizations that operate for-profit businesses, provide business development assistance, or engage in commercial and industrial real estate development. For more information contact CIE at Suite 710, 1029 Vermont Ave. NW, Washington, D.C. 20005, or call (202) 628-2981.

"The State of the Nation's Rural Housing in 1996" is a December 1996 publication from the Housing Assistance Council (HAC) presenting facts and figures on rural housing problems in the country. The \$7, 40-page publication is available from the HAC, Suite 606, 1025 Vermont Ave. NW, Washington, D.C. 20005, or by calling (202) 842-8600.

"Tools for Promoting Community Reinvestment: Using Data to Analyze Lending Patterns in Your Community." is available from the Woodstock Institute. This publication uses five case studies to demonstrate ways communities can use the Community Reinvestment Act to analyze lending patterns. The publication is \$12 for nonprofits and

\$25 for for-profits by contacting the Woodstock Institute, Suite 550, 407 South Dearborn, Chicago, IL 60605, or by calling (312) 427-8070.

The Rocky Mountain Institute is offering an updated edition of its "Economic Renewal Guide," which is designed for small-town community planners as a comprehensive guide on how to create sustainable community development. The \$17.95 publication is available by calling the institute at (970) 927-3851.

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