Federal Home Loan
Bank Seattle

2006 COMMUNITY LENDING PLAN

BACKGROUND

In November 1998, the Federal Housing Finance Board approved a regulation (12 CFR 952.1) establishing Community Investment Cash Advance (CICA) programs. This regulation obligates each Federal Home Loan Bank in the system to develop an annual Community Lending Plan for approval by the Board of Directors. In order to successfully develop this plan consistent with the regulation, the Seattle Bank's practice has been to:

- Conduct market research in the bank's district periodically;
- Describe how the bank will address identified community lending credit needs and market opportunities in the bank's district;
- Consult with its Advisory Council, Board of Directors, members, and public and private economic development organizations in the bank's district in developing and implementing its Community Lending Plan; and
- Establish quantitative and qualitative community lending performance goals.

THE FEDERAL HOME LOAN BANK OF SEATTLE

- As of November 3, 2005, the Seattle Bank had $52 billion in assets, 376 stockholder customers and six approved housing affiliates. The bank's market includes eight states (Alaska, Hawaii, Idaho, Montana, Oregon, Utah, Washington and Wyoming), the Mariana Islands and the Territories of Guam and American Samoa. This region is home to one-third of the Native American reservations in the United States, as well as encompassing Alaska Natives, Native Hawaiians, and the native peoples of the western Pacific Islands.
- The Seattle Bank offers a variety of community-investment products in addition to advances, letters of credit, and other financial products and services for community lenders serving this diverse region. The community investment products available to the bank's financial institution customers include:

GRANT PROGRAMS

- The Affordable Housing Program (AHP) is a competitive grant program that provides funding for the capital costs associated with affordable housing development. As of November 3, 2005, AHP had committed $133 million in grants to assist 25,993 low-income households. Home$tart and Home$tart Plus (H$P) are a 35% set aside from the AHP that provide non-competitive grants for low- and moderate-income, first-time homebuyers. As of November 3, 2005, H$P had provided $31 million to help 6,320 families.

The Affordable Housing Program Implementation Plan details how the AHP and H$P are administered. The plan is reviewed by the bank's Affordable Housing Advisory Council and approved by the Board of Directors every year.

RECOVERABLE GRANT PROGRAMS

- The Challenge Fund is a $1.3 million recoverable competitive grant program for predevelopment costs associated with affordable housing development. A total of $2.37 million in Challenge Fund commitments have been made as of November 3, 2005, helping more than 5,208 families. As of November 3, 2005, 74 percent of all awarded Challenge Fund grants have been repaid and made available to the general Challenge Fund pool. Due to pressure on earnings, the Challenge Fund will be suspended for 2006.
- ACCESS is a recoverable grant program for predevelopment costs associated with community-based economic development and was created by the board in 2000. Since then, the board has set-aside $200,000 each year. As of November 3, 2005, 24 projects have been funded in each of the 12th District's eight states. Of the $1.08 million committed to date, approximately $219,000 has been returned, predominantly from loan loss reserve returns, and approximately $56,000 has been forgiven because during predevelopment, it was determined that the proposed project was not feasible. Due to pressure on earnings, ACCESS will be suspended for 2006.

ADVANCE PROGRAMS

The Community Investment Program and the Economic Development Fund (CIP/EDF) comprise a $1.0 billion revolving advance pool for affordable housing and economic development that benefits low- and moderate-income individuals and neighborhoods. As of November 3, 2005, the Seattle Bank had made $3.175 billion in discounted CIP/EDF advances to fund 43,568 units of affordable housing for low and moderate income households and 237 economic development projects. All of these advances have been made at the bank's cost of funds. Through the CIP/EDF, the Seattle Bank also offers discounted prices on its letters of credit and forward rate locks for qualifying projects.

SPECIAL INITIATIVES

The Seattle Bank strives to develop partnerships with local and national community developers and implement initiatives that seek to increase homeownership for low- and moderate-income families. The following is an example of an initiative the Seattle Bank is currently implementing:

- The Smart Growth Fund is a $10 million pool of CIP/EDF advances priced at rates below the bank's cost of funds to support specific community development activities in partnership with The Enterprise Foundation and Seattle Bank members. The criteria for selecting partnerships that may access the Smart Growth Fund include: a) the projects must have a demonstrated community impact on affordable housing and/or economic development; b) the partnership must create viable, low-risk, CRA lending opportunities for members; and c) the partnership must support the bank's outreach to national or regional foundations or other agencies.

MARKET RESEARCH

During 2004, the Seattle Bank distributed a survey to approximately 1,200 members and community partners to determine the unmet credit needs for affordable housing in our market. 78

members and 106 community partners responded to the survey. The urban/rural profile of the respondents was very balanced with slightly higher responses from bank members and community partners serving rural communities.

General results of the survey are as follows:

- 23% of respondents primarily serve rural communities, 16% primarily serve urban and 60% serve both.
- 30% primarily serve populations below 50% AMI, 24% primarily serve the populations at 50% - 59% AMI, 29% serve populations at 60% - 80% AMI and 17% serve populations above 80% AMI.
- The top three community investment programs used by survey respondents were the Affordable Housing Program (38%), Home$tart Program (31%), and Challenge Fund (11%).
- 35% of respondents indicated that their organization had used regularly priced advances.
- 73% of respondents stated that the Affordable Housing Program scoring priorities aligned well with the needs in their communities.
- The top two highest ranked unmet housing credit needs in the 12th District include the following:
    - Affordable homes for first-time homebuyers.
    - Affordable rental housing for households at or below 60% AMI.
- Almost 90% of respondents had never used the CIP/EDF to fund a loan for an economic development project, and provided the top three following explanations:
    - Economic development lending was not the respondent's business (33.5%).
    - They didn't know about it (22%).
    - Members were able to fund these loans from other sources (12%) such as their own excess liquidity.

COMMUNITY GOALS 2005

The goals for 2005 are listed below and the results as of November 3, 2005 are written in italics.

QUANTITATIVE GOALS 2005

The quantitative community investment goals for the Federal Home Loan Bank of Seattle in 2005 were:

- Fund at least 5 community-based economic development projects with the Economic Development Fund. *11 community-based economic development projects were funded with the Economic Development Fund, totaling $30.03 million in discounted advances.*
- Provide at least $25 million in new CIP advances to support affordable multifamily rental projects. *$35,437,556 was provided in new CIP advances to support affordable rental projects.*
- Increase the dollars invested in the ACCESS program by $200,000 and commit all of the funds to qualified economic development projects. *As a result of pressure on Seattle Bank earnings, $68,060 was awarded to two projects in Montana and Washington states.*

- Increase the dollars invested in the Challenge Fund by $100,000. $100,000 allocation will be drawn from existing returned funds which have revolved back to the program, but which had not been reflected as available to the general pool due to a database recording error. *This goal was met. A total of $195,000 was awarded to finance the development of 413 units of rental housing and 48 units of owner-occupied housing.*
- The $10 million CIP Smart Growth Fund will be fully allocated. *This goal has been met.*
- Execute one Title VI Loan Purchase Agreement. *With the elimination of the Mortgage Purchase Program, this goal was no longer applicable.*
- Lend $5 million in advances to finance investment in NMTC initiative. *$1.6 million in advances was provided to support NMTCs. Several letters of support were written for nonprofit and public organizations applying for a NMTC allocation. Additionally, the Seattle Bank co-hosted an event with the National Development Council to promote NMTCs with member financial institutions serving Everett, Washington.*

QUALITATIVE GOALS 2005

The qualitative community investment goals for the Federal Home Loan Bank of Seattle in 2005 were:

- Align AHP scoring criteria with unmet credit needs. *AHP scoring criteria was revised to promote investments in the Seattle Bank's district.*
- Implement a new community investment database. *A detailed requirements definition for a new database is scheduled to be complete by December 31, 2005 with a new database implemented in 2006.*
- Work with Corporate Relations to enhance member communications. *The annual Report of Affordable Housing and Community Investment Initiatives was our main communication vehicle in 2005, and was featured in the "Communication Arts Design Annual 46" report, one of the most prestigious design publications in the nation. Additionally, Community Investments hosted the Community Spirit Award at the 2005 Annual Management Conference and Web site communication to members and sponsors was enhanced.*
- Continue to implement Welcome Home and HOYO. *Welcome Home and HOYO were special initiatives that continued throughout 2005 and sunset on December 31, 2005.*
- Conduct web-based AHP seminars. *11 Web-based seminars were held, five of which were to provide technical assistance to members and sponsors applying for AHP funds and six were compliance seminars required for sponsors and optional for members who received AHP awards.*
- Coordinate implementation of the Bank Presidents Conference system wide comprehensive financial literacy initiative and AHP/CIP research project. *A change in leadership at the Seattle Bank resulted in this goal no longer being applicable.*

COMMUNITY GOALS 2006

QUANTITATIVE GOALS 2006

The quantitative community investment goals for the Seattle Bank in 2006 are:

- Fund at least 13 community-based economic development projects with the Economic Development Fund.
- Provide at least $40 million in new CIP advances.
- Lend $2 million in advances to finance investment in NMTCs.

QUALITATIVE GOALS 2006

The qualitative community investment goals for the Seattle Bank in 2006 are:

- Implement a new community investment database.
- Implement the Advisory Council's 2006 work plan including, but not limited to:
    - Provide a clear and transparent message about the effect that earnings pressure has had on grant resources.
    - Research the availability of alternative or temporary resources.
    - Increase marketing efforts for CIP/EDF.
    - Affect system change, such as but not limited to recommending revisions to the AHP regulation that limit the Banks' ability to respond to local needs and impose undue compliance burdens on Banks, members and community groups, finding ways to meet the needs of underserved areas, and finding ways to distribute AHP equitably throughout the Seattle Bank's district.