2006 Community Lending Plan

Market Analysis

Affordable Housing and Community Development Needs in New England: The affordable-housing and community-development needs of the region remain at a critical level throughout most of New England. This finding is based on data recorded in the Bank's new *Tracking Report for the New England States' Consolidated Plans*, its new *Tracking Report for Emerging Initiatives* in the region, market conditions as reported in applications made to the Bank and discussions with members of the Bank's Advisory Council. It is also based on discussions with a number of organizations and research conducted by representatives of New England's other housing and community-development agencies and stakeholders. While some softening of housing prices and rental rates is appearing in the region, accessing affordable apartments and homes this past year has become even more difficult for an even greater number of New England families and individuals in most of the region.

Several states this past year increased resources for affordable housing and community development. However, overall housing producers and funding resources across the region are unable to keep pace with the increasing need for affordable housing.

Reports published by the Federal Reserve Bank of Boston and others in 2005 indicate that many businesses in all six states are unable to expand because affordable housing resources are not available. Similarly, those reports indicate that new companies are increasingly unwilling to locate in key areas of New England because those areas lack the housing resources needed for their employees. Workers are leaving several of the states due to the lack of proximate affordable housing. New Hampshire reports losing 2,800 new jobs a year due to the lack of affordable housing resources. Massachusetts was the only state in the nation to lose population, including many young workers. The inventory of affordable housing stock continues to decline and the cost of producing new units continues to increase.

The States' Consolidated Plans

The states' Consolidated Plans are updated annually and written as rolling five-year needs assessments and plans. Each state has identified its needs in its respective *Consolidated Plan.* The following brief summaries of those needs are drawn from each of the six New England state's Consolidated Plans:

Connecticut: The state of Connecticut generally has high median income household incomes and rising housing prices, but also has a considerable difference between its rural and urban areas. Suburban and rural areas need affordable homeownership for moderate to low-income persons and affordable rental units are needed in the state's larger cities. Young, career-seeking, people are leaving the state. The urban areas contain the highest unemployment rates but over the next ten years service industry jobs are expected to grow in the urban areas and create a demand for new housing. The homeless population is double the number of available beds. Special needs

individuals and low-income elderly people are identified as needing additional housing resources. (See *State of Connecticut, Consolidated Plan For Housing and Community Development 2005-2010, Department of Economic and Community Development.)*

Maine: Maine's population is growing slowly, with younger age groups experiencing a negative growth rate and the number of elderly is increasing rapidly. In many areas the cost of housing is outpacing the working wage. The lack of affordable housing in Maine's larger cities is driving away the workforce and hindering economic growth. The coastal areas attract wealthy seasonal residents who drive up the cost of housing and make it difficult for the average resident to live in those areas. The southern area of the state has experienced a significant increase in residents further increasing the cost of the housing stock. More than 15,000 senior citizens are under the poverty line. The number of homeless has increased. The state has sufficient emergency shelters but needs additional transitional and permanent housing. Older homes need renovation and code improvements. The state reports that it needs 22,317 family rental housing units. (See *Maine Consolidated Plan: Five Year Plan 2005-2009, 2005 Action Plan, Maine Department of Economic and Community Development and the Maine State Housing Authority.)*

Massachusetts: The Bay State has the most expensive housing market in the nation and has numerous barriers for producing additional affordable housing including slow rising income levels, older housing stock, high land and construction costs, scarcity of available land, and local zoning impediments. The state is also a leader in affordable housing and community development. Over the past 15 years, the state has observed a decline in younger and educated residents, many who are being driven to live in other states by this state's high cost of living. There are not enough shelters or transitional/permanent housing units to meet the homeless population's needs. As the number of elderly increase, the amount of supportive services will need to grow with the population. Residential opportunities for people with special needs meet less than half of the demand. Lead paint testing for existing units remains a high need. (See *Consolidated Plan (Includes FY 2005 Action Plan) For CDBG, HOME, HOPWA, and ESG) FY 2005-2009, Commonwealth of Massachusetts and Department of Housing and Community Development).*

New Hampshire: Over the past 15 years, New Hampshire's housing has become less affordable for median income families with many unable to afford the new homes that are being built. Many moderate and low-income families are even less able to afford the new homes that are being built and cannot find affordable options. One third of the population is earning less than 50 percent of the median income and is unable to afford 85 percent of the state's market rate units. There is a need for over 4,000 rental units. As the need for rental units grows, vacancy rates drop, rents increase and finding affordable housing becomes more difficult. Although the state's Consolidated Plan was not updated in the last cycle, it is expected to be by year-end. Another 1,600 units are needed to meet the shelter, transitional and permanent housing needs of people with special needs and over 1,700 units are needed for homeless families with children. *(See State of New Hampshire Consolidated Plan, 2001-2005, Distributed by New Hampshire Housing Finance Authority, Planning & Development Division).* The problems, based on other sources, are growing considerably in the lower half of the state, in the Upper Valley and especially throughout the Seacoast region (*See Housing for Everybody: What Business Leaders Can Do, Kravitz & Co. and the Greater Portsmouth Chamber of Commerce, September 2005.*)

Rhode Island: Rhode Island's housing prices are rising rapidly, incomes are not increasing at the same rate and the population is moving away from the city and towards the suburbs, leading to urban decay and increased poverty in urban areas. Over the next ten years health care and social assistance jobs are expected to increase but there is a lack of residential growth for the new jobs being created. About 14 percent of Rhode Island's residents work in other states where median income and housing costs are higher. The median price of a house in Rhode Island has risen 112 percent since 1998. There is a significant need for affordable housing. Affordable units are needed for individuals with special needs. The existing housing stock is older with an estimated 249,356 houses contaminated with lead paint. (See *State of Rhode Island Five-Year Consolidated Plan, Program Years 2005-2009.)*

Vermont: Vermont has low unemployment rates and high residential construction rates compared to the national average. Home prices are rising quickly. Residents that have benefited from the increase in high quality technical jobs are reported as able to afford the increased housing costs. Those who work for the state's low-end service positions find their income insufficient against rising home prices. Needs vary by county. There is a statewide demand for 20,891 affordable apartments with 54 percent of all low-income renter households experiencing high cost burdens and 56 percent of homeowners experiencing cost burdens. The need for elderly-housing options is growing as well as affordable housing for homeless and special needs populations. (See *State of Vermont HUD Consolidated Plan for Housing and Community Development Programs, Volume 3 of 3, Strategy and Action Plan for Program Years 2005-2010, Department of Housing and Community Affairs, Agency of Commerce and Community Development.*)

Tracking Report for Emerging Initiatives

The Bank's new *Tracking Report of Emerging Initiatives*, established as part of the 2005 Community Lending Plan, encompasses a number of emerging planning and development efforts underway in New England.

They include CDA-disaster recovery funding initiatives in all six states along with efforts to address military base realignment and closure activities, New Market Tax Credit opportunities, the development of Affordability Indexes for all of the region's communities and specific affordable housing initiatives across the region. The specific initiatives include one in Connecticut, two in Maine, four in Massachusetts, six in New Hampshire, four in Rhode Island, and one in Vermont.

These initiatives are addressing locally-based needs identified by the Bank's members and the community-based organizations with whom they work. Generally, the needs being addressed include creating new affordable housing resources and developing strategies to accomplish the development of the housing needed in those particular areas.

Several initiatives involve responding to a natural disaster or the announcement of the closing of a significant economic driver like a military base. Several initiatives have been started by local businesses that are stymied in their growth because there is no place nearby for new workers to live affordably. In other initiatives, communities are planning what to do with historic or older properties that may already have been abandoned or require an effective alternative use.

In summary, the following needs remain the most critical:

- *An increased supply of affordable-housing units, particularly for certain population groups in specific markets.* The lack of affordable housing is consistently noted as a community-development need. Although the declining supply of affordable housing is being felt particularly in the region's coastal regions, it is also a problem in all of New England's stronger housing markets. The increasing amount of subsidy funds needed to fill the gap between the cost of housing and what low-and moderate-income families can afford is frequently cited as one of the biggest barriers to providing affordable housing. In some communities, the "all-in-cost" of building and rehabilitating housing significantly exceeds the appraisal value of the resulting units. It is now broadly recognized that the lack of affordable housing, combined with a tight labor market, is negatively impacting most of the region's business development.

- *Rehabilitation of existing housing units, particularly in lower-income urban and rural areas.* Although the supply of adequate, safe, and affordable-housing units is a critical issue, in many communities the primary need is often for the rehabilitation of existing units. New England is characterized by an older housing stock often in mixed-use buildings, a significant portion of which is in need of repair.

- *Increased homeownership opportunities.* Increasingly, homeownership is seen as a key to community improvement and stability, with a variety of studies documenting the benefits of homeownership for families and children. A number of cities with high levels of existing state and federally-assisted rental units propose that any new development should be focused on providing homeownership opportunities for residents and workers. Although there has been a significant increase in New England's homeownership rates over the last decade, many areas and populations continue to lag behind the 68.6 percent national homeownership level. Barriers to homeownership include the high cost of available units, high housing production costs and insufficient savings by potential homebuyers to make a down payment and cover the closing costs. In addition, the perceived inaccessibility of the mortgage process by potential minority homeowners contributes to the persistent disparity between majority and minority homeownership rates.

- *Funds to support affordable housing development and preservation.* The availability of federal subsidy funds to support affordable housing development and preservation continues to decline, except for certain increases directed toward those impacted by 2005's hurricanes or the reallocation of several existing pools of resources for that purpose that result in shrinking those resources for others. State budget allocations have been reduced in most of the six New England states and local communities are facing increased tax burdens. However in 2005, both Connecticut and Massachusetts increased state resources for affordable housing and community development activities. The federal New Markets Tax Credit Program (NMTC) continues to offer new resources for some affordable ownership housing development, community economic development and preservation activities.

- *Funds to support economic development and job creation.* There is a perceived lack of loans, grants and equity funds available to smaller businesses, as well as start-up ventures. Access to the funds that are available is seen as overly complex. Although unemployment

remains relatively low throughout much of the region, low wages and a high cost of living mean that many residents of the region have difficulty in securing adequate housing and other necessities. The federal NMTC brings additional equity and debt resources to businesses located in census tracts at or below 80 percent of area median income, but most of the available tax credits have already been allocated to eligible activities.

- *An active secondary market for affordable-housing and community-development loans.* During the last decade, financial institutions and a variety of community-development corporations have been active in providing loans for affordable housing and community development. While, in many cases, these loans have performed quite well, they often include features that preclude their sale into secondary markets. The absence of a market for such loans limits the future availability of affordable-housing and community-development resources.

- *Expanded capacity for community-development corporations*— New England benefits from what is probably the largest concentration of sophisticated community-development corporations in the country. Often, community-development corporations play a key role in merging private and public resources to support housing and economic development. However, tight budgets and increasing demands for available resources make it difficult for these organizations to respond to current or newly identified opportunities. Recent federal implementation of the Community Development Financial Institutions and New Market Tax Credit programs by the US Department of the Treasury have the potential to expand capacity as more financial institutions, developers, businesses, and others learn how to make effective use of these resources.

- *Improved infrastructure*— New England's aging infrastructure is seen as an impediment to development. Representatives of rural areas note the absence of public transportation, aging or inadequate water and sewer systems, and outdated public facilities as significant barriers. During the fall of 2005, repeated and heavy flooding in several parts of New England caused extensive damage to riverfront communities, their infrastructure, local businesses and housing stock. According to state agencies, the breeching or inadequacy of aging dams (many privately owned) throughout the region were identified in the fall of 2005 as an increasingly potential cause of future danger and damage to the communities around and below those structures. The states' inspectors have commenced a new inspection regime to identify the repairs and replacements needed, and the costs involved.

- *Improved coordination of available resources* — A frequent complaint is that the cost of housing development is more than it should be because local, state, and federal governments erect obstacles and add costs that many consider unnecessary and without significant benefit. Many costs are driven higher by delays, lengthy processing procedures, and extended timeframes at the municipal level. Local policy barriers to affordable housing include restrictions on multifamily housing, large-lot zoning, density caps and restrictions, high impact fees, building moratoria and residential growth caps, among others. These issues make the coordinated use of available community-development resources extremely difficult. Over the years, a variety of specific programs have been developed to deal with problems associated with affordable housing and community development. However, as developers have moved to a more comprehensive approach to housing and community development, the

requirements of these specific programs are often in conflict, leading to an inefficient use of resources.

- *Improved growth management* — Unmanaged growth has put the region in danger of losing the very qualities that have come to help define its distinctive character and attractiveness. Diminishing open space and muddled development patterns threaten the region's competitiveness and potential for sustained economic development.

- *Improved education and training resources* — Perhaps the greatest barrier to community development is the sheer complexity of the task. Even the most sophisticated financial institutions and community-development corporations find it nearly impossible to keep abreast of available resources and changes in the field. Mergers and consolidations among financial institutions and local organizations, changes in staff and accelerating technological change are among the numerous factors that contribute to the difficulties. There is a broad recognition of the need for improved information and education regarding these changes and for training in how to address them and use these resources effectively.

- *Lack of pubic and political awareness of the need for affordable housing* — In general, there is still a lack of public awareness of the need for additional affordable housing and the social and economic implications of the shortage.

Status of Community Lending Plan Initiatives added in 2005

In 2005, the Bank continued strong support for its long-standing and ongoing elements of this plan, including effective administration of the AHP, conducting the Fifth Annual Housing Development Competition, expanding the use of the Internet and technological resources in the use and management of the Bank's targeted programs.

Additionally, the Bank has continued its leadership role in quality design and regional "smart growth" issues, organizing two major regional symposiums. Web-based profiles, stories, two issues of *Tools*, ground breakings, dedications, press stories, numerous presentations, speeches and discussions have continued throughout the year to focus the Bank's promotion of the need for the preservation and development of affordable housing.

Specifically the Bank proposed to undertake several new initiatives in 2005. The status of those activities at the end of October is as follows:

- *Use the CD Consults to promote the Community Development Advance* — In 2005, the Bank continued to work with members using the Community Development Advance by focusing its discussions with them through the Bank's two-year old Community Development Consultation (CD Consult) program. CD Consults, provided through the Bank's Relationship Managers and Community Investment Managers, assist members in the use of the Bank's products for housing, small business, infrastructure and community development lending. The Bank will continue to build upon the success of the consultation program with individual members and development agencies on specific proposals to be funded with Bank advances generally and targeted programs.

- *Expand the housing and community investment research goals of the Bank* — The Bank monitors and analyzes trends and issues in the fields of affordable housing and community development lending. One of the tools used is the periodic review of the Consolidated Housing Plans of the New England states. Much has changed in these plans over the last two years. In 2005, the Bank developed a tracking report to summarize the housing needs of each New England state and their plans to address those needs. In addition in 2005, the Bank developed a *Tracking Report for Emerging Initiatives* in the region. The Bank and the Advisory Council will begin the use of these two new tracking reports in the development of 2006 program priorities, training initiatives and planning activities.

- *Further expand the Bank's housing and community investment research goals in 2005 by creating a Beta Model for Affordability Indices for New England's communities* — Prior research has identified the need for a well-constructed, effective, locally-focused affordability index that will identify the housing affordability gap for communities within the region. Existing indices are usually limited to a few large population centers or are nationally focused. Most are poorly constructed and have constricted data fields that diminish the usefulness of the index. Little work has been done at the local or regional levels, where the affordability problem is most directly experienced. Good indexes, regularly updated, can provide local residents, municipal leaders, lenders, media, and other stakeholders with an understanding of affordability issues and changes over time. In 2004, the Bank and MassHousing initiated work with MIT's Center for Real Estate (MIT-CRE) and the MIT Urban Studies and Planning Department on such an index. In May 2005, MIT presented the Beta model for review by 200 peers at its first annual housing conference. The Beta model addresses rental developments in the Interstate Route 495-area of Massachusetts. Over the summer, MIT staff refined the Beta model, will complete the model in the spring of 2006 and commence work, subject to full funding, on developing the family of indexes for the region's other areas and larger communities.

  The family of indexes is expected to include among its assessment measures incomes, housing costs, housing availability, employment/housing interactions among jurisdictions, maintenance of existing housing stock, patterns of new construction, housing preferences, school choice, and transportation patterns. These indexes are expected to become a highly reliable, well-constructed, transparent tool for heightening local and regional awareness of issues related to housing affordability and provide a rating for municipalities' affordability and their need for additional affordable units.

- *Develop a pilot program to facilitate the use of the New Markets Tax Credit program as a financing tool for affordable housing and community economic development* — The New Markets Tax Credit (NMTC) was approved as part of the national Community Renewal Tax Relief Act of 2000. It is emerging as a valuable financing tool for affordable ownership housing and community economic development. The Bank has worked with the Massachusetts Housing Investment Corporation, Coastal Enterprises, Inc (CEI) and members to participate in the NMTC program by utilizing the Bank's Community Development Advance program as an integral part of NMTC transactions.

In 2004, the Bank with CEI submitted an initial proposal to the US Treasury Department to utilize $25 million in CDA advances to facilitate NMTC support for smaller rural businesses. That application was not successful. A new application was submitted in September 2005.

Additionally, in September 2005, the Bank hosted a regional forum on the NMTC and worked with the US Treasury Departments' Community Development Financial Institutions Fund leadership, numerous regional allocatees, members and intermediaries to explore the use of the program and the use of the Bank's CDA program with the program. In 2006, the Bank will follow up on the success of the forum by developing a network of members and NMTC allocatees interested in combining the NMTC, member and FHLBank resources to further expand the leverage and application of these programs throughout the region.

New Community lending Plan Initiatives in 2006

In 2006, the Bank plans to expand specific previous initiatives and undertake several new initiatives as follows:

1) *Phase two of the MIT/CRE Affordability Index Initiative*: Based on the initial success of the Beta Model, the next step is to continue the Bank's support to MIT/CRE to bring the entire family of affordability indexes to life over the next 18 months. When complete, the indexes will replace largely anecdotal ways of determining whether a community is becoming more or less affordable, will sharpen needs assessments and help focus scarce resources. The response to the Beta Model was very positive with high praise for the Bank's leadership with MassHousing and MIT on this initiative. Additionally, the indexes will better position the Bank (at far less cost) to comply with the expected new AHP regulation's requirement that the Banks extensively expand their respective methodologies for determining regional housing needs and undertake otherwise very expensive new assessments.

2) *Involve a new sponsor for the Design Competition*: The Bank and CHAPA founded this event five years ago. The Boston Foundation helped sponsor it over the past three years, but has concluded its cycle of support. The Bank has met with the Boston Chamber of Commerce, which has agreed to become a new sponsor beginning in 2006.

3) *Build on the NMTC Forum of 2005*: Create from the 2005 NMTC forum a New England lenders' network to facilitate members' participation with the NMTC allocatees and facilitate opportunities for members to participate with the NMTC using the Bank's CDA program as a key wholesale funding source.

4) *Successfully implement a new AHP Regulation*: The Bank expects that the Federal Housing Finance Board will promulgate a new AHP regulation in 2006. When it does, the Bank will initiate the internal changes needed, including amendments to the Implementation Plan, systems and new reporting requirements. The Bank also will provide the education and technical assistance for members and sponsors necessary to achieve a successful implement of the new regulation.

5) *Create a special recognition process to celebrate 15 years of the AHP*. Develop with the board, Advisory Council and staff an effective series of ways to "officially" recognize the successful completion of 15 years of the AHP and celebrate its positive impact on communities throughout New England.

6) *Build on the Bank's reputation for effective forums*: Conduct up to three specialized forums at the Bank in 2006:

    - A lenders' forum on current trends and issues including emerging standards and investment opportunities in green building and development opportunities emerging from state initiatives like Connecticut's new housing trust fund and Massachusetts's Chapter 40R, the Smart Growth and Development Act, as supplemented by the school cost funding provisions of Chapter 40S.
    - A forum on the "Year-15" issues with the Low Income Housing Tax Credit Program, and
    - A forum on the impact of local and state property tax policy on housing affordability.

In 2006, the Bank also intends to continue to encourage discussion and implementation of "smart growth" principles in New England communities. Additionally, the Bank will continue to sponsor its regular series of pre AHP application educational and technical assistance forums for members and sponsors, but will provide more web-based training venues and hold its training sessions as practicable in concert with other programs' training activities. The Bank also will continue to work to sponsor the activities of the New England Network's 2006 initiatives.

Continued Support of the Bank's Ongoing Current Strategies and Initiatives

- *Continue to effectively administer the AHP*
  The AHP continues to be an important source of affordable housing funding across New England. Applications for funding in current rounds still significantly exceed available fund by a factor of at least two. While available AHP funding is expected to be somewhat higher over the next few years, projected future increases will result in increased administrative demands on the Bank. The Bank will continue to pursue increased efficiency through administrative and technological improvements in order to ensure that the AHP continues as a valuable resource for affordable-housing development. The Bank will continually review its database of developments in order to provide models of successful affordable housing development to members and community-development organizations throughout New England. The Bank also intends to continue to build upon the success of the Homeownership Set-aside Program (the Equity Builder Program — EBP), also a component of the AHP, introduced in 2003.

- *Administer a regional affordable housing development competition*
  Students at the region's colleges and universities are a potentially significant resource for the development of affordable housing and ensuring that the next generation continues this work. A key to meeting the region's affordable housing needs is a pool of individuals skilled in the development of attractive, financially feasible and affordable housing. In

2001, the Bank in cooperation with Boston area colleges and universities and Citizens' Housing and Planning Association (CHAPA) introduced the Greater Boston Affordable Housing Development Competition.

The competition has been very successful and provides participating students with valuable experience in planning and proposing affordable housing developments. The Boston Foundation became an additional sponsor in 2002, but concluded its cycle of support in 2005. The Boston Chamber of Commerce will become a new additional sponsor in 2006 and the Bank will continue to encourage similar competitions. The Bank expects to remain as the primary sponsor of the competition in 2006, subject to the availability of funding and approval by the Bank's board of directors.

- *Expand the use of the Internet as a training tool and as a way to make the use of Bank resources more efficient*
  During 2006, the Bank will continue to expand the use of descriptive articles, case studies, and profiles to illustrate the use of Bank resources in the provision of affordable housing and community economic development. In 2006, the Bank plans, with the assistance of members and sponsors, to identify through a web-based tool, the most successful characteristics of funded initiatives, an intended task for 2005 that was postponed due to workload. The findings will be published and incorporated into future program refinements. The Bank will continue to increase the ease and efficiency of its dealings with members and others by providing additional electronic access to forms, applications and reports. In 2006, the Bank expects to complete moving all of its targeted program activity and filing of reports online.

- *Maintain a leadership role in quality design and regional "smart growth"*
  The economic growth of New England is critical to the success of the Bank and its member institutions. A key to sustainable economic growth is quality design and a balanced approach to development that preserves the physical character of New England while encouraging a growth in jobs and needed infrastructure.

  During 2005 the Bank, along with its partners, MassHousing, the Boston Society of Architects, the AIA Center for Communities by Design and Northeastern University, sponsored a national conference, *Recreating the Urban Village*, focused on the financial and social and ecological benefits of developing communities at higher densities. The Bank, in cooperation with the Lincoln Institute of Land Policy, the US Environmental Protection Agency and the New England Initiative at the Center for Industrial Competitiveness at UMass Lowell, sponsored the fifth annual meeting of the New England Smart Growth Leadership Forum, a daylong consideration of the positive relationship between land conservation and housing and economic development opportunities.

  The Bank also initiated a pilot program under its Grants for New England Partnership (GNP) program with the Nonprofit Finance Fund to provide financial reviews of the assets and operations of New England nonprofit housing and development organizations.

In 2006, the Bank intends to continue to encourage discussion and implementation of "smart growth" principles in New England communities and continue its specialized forums and regular training activities (see above).

- *Promote the need for the preservation and development of affordable housing*
  During 2006, the Bank will continue to cooperate with other New England housing and development agencies to promote an understanding of the social and economic benefits of affordable housing.

- *Complete the assessment of the Project Listing Service*
  In 2004, the Bank implemented an internet-based project listing service to facilitate the financing of New England development projects by member financial institutions. After a limited initial enrollment, its use has not been expandable without major efforts. In 2005, a specialized outreach effort was undertaken with the Rhode Island Homebuilders Association and developers that ramped up the use of the PLS somewhat for a short period. A survey of 104 participants and non-participants was undertaken in late October 2005 to assess the long-term usefulness of the PLS. The survey results will determine the next steps for the PLS.

10/27/2005