

**FEDERAL HOME LOAN BANK  
OF PITTSBURGH**

**COMMUNITY LENDING PLAN  
2010**

## **I. BACKGROUND / RATIONALE**

The Federal Home Loan Bank of Pittsburgh (Bank) is pleased to provide its Year 2010 Community Lending Plan (hereinafter "Plan"). The Plan describes the Bank's efforts to assist its members in reaching their housing and economic development goals for the communities they serve. Within this Plan, the Bank provides a summary of the unmet credit needs and market opportunities identified by the Bank for its district, which includes Delaware, Pennsylvania and West Virginia. These findings were derived from a variety of sources, including meetings with members and community stakeholders and research conducted during the preparation of the Bank's 2009-11 Strategic Plan.

On December 28, 1998, the Bank's regulator, now the Federal Housing Finance Agency (FHFA) passed the Community Investment Cash Advance (CICA) regulation, affecting each of the twelve Federal Home Loan Banks. Under CICA, each Home Loan Bank is required to complete an initial assessment of the credit needs and market opportunities for community lending in its district. The regulation also required each Bank to develop an annual Community Lending Plan on or before January 31<sup>st</sup>. The Plan must be approved by the Bank's Board of Directors and submitted to the FHFA. While encouraging the Bank to develop new programs and initiatives, the regulation ultimately promotes renewed participation of member financial institutions in the housing and economic development of their communities. Requirements of the Plan are provided below:

### **A. Development of the plan requires that each Bank:**

- ◆ Conduct market research in the Bank's district.
- ◆ Describe how the Bank will address the identified unmet credit needs and market opportunities in the Bank's district for community lending.
- ◆ Consult with its Affordable Housing Advisory Council, member institutions, housing associates and public and private economic development organizations in the district in developing and implementing its Plan.
- ◆ Establish quantitative community lending performance goals.

### **B. Each Bank must provide its member institutions with an annual notice containing:**

- ◆ The identification of CICA programs and other Bank activities that may provide opportunities for a member to meet the community support requirements and to engage in community lending.
- ◆ Summaries of affordable housing and community lending activities undertaken by member institutions, housing associates, nonprofit housing developers, community groups, or other entities in the Bank's district, that may provide opportunities for a member to meet the community support requirements and to engage in community lending.

In response to the requirements set forth within the CICA regulation, the Federal Home Loan Bank of Pittsburgh has implemented four specific initiatives. This report discusses and summarizes these initiatives in the three sections:

1. Market research
2. Credit needs and market opportunities
3. 2009 Performance and 2010 Plan

## **1. MARKET RESEARCH**

The Bank annually conducts research in the Bank's district to identify opportunities for stakeholders to increase the availability of affordable housing finance, community development finance, and financial and credit services in underserved neighborhoods and communities. In conducting research and identifying opportunities, the Bank consults with stakeholders, housing associates, the Advisory Council and public and private housing and economic development organizations within the district.

- Market research was conducted in 2009 through the use of both primary and secondary sources. Primary sources include interviews, focus groups, surveys and direct observations. Secondary sources involve reviewing research and analysis prepared by other entities. Much of the research was conducted in connection with the creation of the Bank's 2009-2011 Strategic Plan, which includes a detailed analysis of market conditions and credit gaps. The Bank continuously augments its Strategic Plan through research, focus group discussions and consultations. Management explored the potential for new products that could support our members' needs in the area of community and economic development.
- In addition to the 2009-11 Strategic Plan, the Bank commissioned a more targeted research study by The Reinvestment Fund (TRF) in 2009 analyzing the impact of Changes in the Home Mortgage Market on Hispanic Homeowners in Pennsylvania and Delaware. The research paper was designed to provide the Bank with current market data derived from a variety of reliable governmental and non-governmental sources.
- The Consolidated Plans for Delaware, Pennsylvania and West Virginia were also reviewed and analyzed. The Consolidated Plans address the critical housing and community development needs faced by each state, provide housing market analysis and summarize the State's methods of distributing funds to local governments and organizations using U.S. department of Housing & Urban Development's (HUD's) four main formula programs:

Community Development Block Grant (CDBG)

HOME Investment Partnerships Program (HOME)

Emergency Shelter Grants (ESG)

Housing Opportunities for Persons with Aids (HOPWA)

In addition to the main formula programs, the state Housing Finance Agencies are also distributing Neighborhood Stabilization Program (NSP) grants as authorized under

Division B, Title III of the Housing and Economic Recovery Act (HERA) of 2008. This HUD program provides grants to all states and selected local governments on a formula basis. The program was designed to stabilize communities across America hardest hit by foreclosures. NSP is a component of the Community Development Block Grant (CDBG) program. The CDBG regulatory structure is the platform used to implement NSP and the HOME program provides a safe harbor for NSP affordability requirements.

## **2. CREDIT NEEDS AND MARKET OPPORTUNITIES**

In researching and determining the credit needs and market opportunities in our district, it is important to understand present economic conditions and forecast.

Excerpt from the Bank's 2009-11 Strategic Plan:

### **ECONOMIC FORECAST**

Sparked by record mortgage failures in the subprime market during since 2007, the U.S. economy continues to face a credit and liquidity crunch of unprecedented magnitude. Many lenders have been reluctant to provide credit to counterparties and have increased the amount of collateral required to back short-term loans. To meet these demands, investors have been liquidating holdings of securities and reducing leverage, having the effect of forcing down security prices. At the same time, some large financial institutions (including GSEs) have reported substantial losses and writedowns, reducing both their available capital and their ability to extend new credit.

The continued turmoil in the markets leaves forecasting at this time with a high level of uncertainty, and the risk of negative growth remains considerable. The most pressing factor in markets today is liquidity/credit risk, a feature that could persist for the entire term of this strategic plan period.

### **HOUSING**

The national real estate market is in turmoil due to a multitude of factors, resulting in an increase in foreclosures and rising delinquency rates. As the housing market meltdown and credit crunch continue to impact the nation's economy, at-risk homeowners face the daunting prospect of mortgage rate resets, delinquency, or outright foreclosure.

While the Bank's district of Delaware, Pennsylvania, and West Virginia has not been affected as severely as other parts of the country, the district's housing market remains vulnerable. The problem is greater for lower-income and subprime borrowers, but extends to homeowners at all income levels.

**The current economic situation has reinforced and amplified the following needs and market opportunities identified through our research:**

- ◆ The Bank should seek to address the critical housing needs in its district:
  - Populations in need of service supported housing

- Relief for severely cost-burdened, especially rental housing (households earning less than 50% of median and paying more than 50% of income for housing.) Two-thirds of these households are renters.
- Focus on homeownership for minorities and in urban areas.
- Rehab of old housing stock.
  
- ◆ Many community banks do not have the resources and/or capacity to capitalize on community lending and investment opportunities. The Bank could offer new products and/or education and training to assist member banks to more fully participate in community development.
  
- ◆ The housing market meltdown has resulted in increased property foreclosures in many markets in the district and communities lack the capacity and resources to develop strategies to address this worsening situation.
  
- ◆ Communities do not approach revitalization in a holistic manner. Community Planning is either not done or is inadequate. Leadership, planning, training and capacity-building are critical needs relative to promoting sustainable community development.
  
- ◆ Funding for predevelopment is limited.
  
- ◆ The lack of modern sewage, water, roads and other infrastructure necessities is still a significant problem in many rural communities. In most cases, the problem is better defined as having very old and underdeveloped systems that can no longer handle the needs of more modern communities.
  
- ◆ Small businesses are clearly the major provider of employment opportunities within the district. Assistance for start-up and expansion of small businesses is a significant need within the district.
  
- ◆ There is a clear need to address the lack of available credit for firms located within low-income areas and for minority-owned and women-owned firms regardless of their locations.
  
- ◆ There are certain transactions that local banks cannot fund. Local nonprofits, Small Business Investment Companies (SBICs) and Community Development Financial Institutions (CDFIs) could serve as conduits for financing of small businesses without sacrificing the importance of proper credit worthiness analysis.
  
- ◆ Rural businesses show disparities in available credit sources and a lack of local organizations to serve as financing conduits and technical assistance providers.
  
- ◆ The need for equity, capital, collateral enhancements and lower interest rates are the most common barriers to small businesses.
  
- ◆ Comprehensive and sustainable community development, including site preparation and redevelopment and neighborhood revitalization, are high priorities. However, most comprehensive strategies, such as brownfield redevelopment, require substantial public subsidies.

- ◆ Poor financial literacy, especially in low/moderate income households, is a significant issue throughout the district.

### 3. 2009 PERFORMANCE AND 2010 PLAN

The information below, and on the attached table, highlight the Bank's 2009 performance.

**Minority Homeownership Initiative** - In November 2004, the Bank kicked off its Minority Homeownership Initiative with a financial literacy program designed to counsel at least one thousand low-income young adults by 2009. In January 2005, the Bank, along with nine banks serving Allegheny County, launched My Money, My Life: Financial Fitness for Young Adults in Allegheny County. My Money, My Life (MMML) is a free, five-year program aimed at educating young adults, ages 16-19, in low- to moderate-income neighborhoods about financial issues important to them throughout their lives. Program goals include increased financial literacy by at least 1,000 young adults by 2009 and enrollment of several hundred parents, guardians or caregivers in similar financial literacy programs over the same period. As of November 30, 2009, the goal has been met and 1,000 young adults have participated in the program.

**Blueprint Communities** – In 2005, the Bank and its partners developed Blueprint Communities (BC), a revitalization and leadership initiative that serves as a catalyst for creating sustainable communities in our region. In 2005, the initiative was focused on Pennsylvania, successfully helping 22 communities to move forward in their quest for sustainability. Communities targeted for selection are those that had *not* completed a detailed community plan but possessed a strong foundation of local leadership and some development capacity.

In 2006, FHLBank Pittsburgh expanded the initiative into West Virginia by working and partnering with 12 leaders in the WV community development movement and aligning financial and support initiatives. Ten communities were then selected and attended the Blueprint training in 2007.

In October 2007, the Bank initiated Blueprint Communities in Delaware. Nine DE communities completed BC training in January of 2009. Of those communities, eight completed a community plan. DE participants showed a statistically significant increase in their knowledge of and skills in comprehensive planning and development.

In 2009, the Bank conducted an evaluation of the impact of BC in DE, PA, and WV. Team leaders were surveyed for program satisfaction, current implementation of plan activities, and dollars leveraged.

- A total of 41 communities and neighborhoods participated in BC since its launch in 2005.
- The Bank's investment of approximately \$1 million in the BC initiative (2005-08) has leveraged at least \$121.2 million of public and private investment in a variety of community development activities.
- With 23 of 32 PA and WV communities reporting, the teams collectively produced 34 housing projects, have 33 business development projects and 52 infrastructure projects.

- The PA and WV communities reported that they have acquired nearly \$67.5 million in investments for their work, not including housing projects funded through the Affordable Housing Program (AHP).
- Of those 23 PA and WV communities reporting, 21 have active teams following the progress of the community plans, and 18 have active subcommittees pursuing the completion of specific initiatives and projects.
- For PA and WV communities, 22 designations (Elm Street, Main Street, etc.) have been received.
- The majority of communities in PA (17 of 18 reporting) and DE (8 of 9) completed community plans. All 10 communities in WV completed community plans.
- Members were able to introduce Bank products to their communities, resulting in \$4.3 million of Bank funds in affordable housing and small business transactions with total development costs of \$50.4 million. Included in these transactions are \$23.2 million in member generated mortgages and housing and business development loans.

**Foreclosure Mitigation** – In 2008, the Bank implemented a foreclosure mitigation strategy including short term and long term activities. The recommendations were based on the Bank's white paper FHLBank Pittsburgh's Response to the Housing Crisis.

Long term activities and results for 2009 included:

- The Bank's Board authorized \$500,000 to the Housing Finance Agencies (HFAs) to fund assistance for refinancing for homeowners at risk of foreclosure
- The Bank allocated 3 to 7 points for community stability in the Affordable Housing Program's competitive scoring process for projects in areas with a high concentration of foreclosures and/or for projects using Neighborhood Stabilization Program funds.

**Member Education** – In 2009, the Bank successfully partnered with experts to facilitate high quality training on community investment topics valuable to members in this economic climate.

#### **Other Community Investment Activities in 2009:**

**Letters of Credit (LOC)**– Using the Bank's new authority to issue LOCs for tax-exempt bond transactions, as of November 30, 2009, the Bank has closed \$393 million involving 8 member banks.

**Community Lending Program** – As of November 30, 2009 the Bank funded \$28 million for specific projects.

**Affordable Housing Program** – Completed one funding round, approving \$3.4 million in AHP subsidy.

**Banking On Business (BOB)** – Approved approximately \$3.5 million for small businesses in 2009. Since 2000, the BOB program has achieved the following:

Businesses funded:	449
BOB dollars funded:	\$40.5 million
Member financing:	\$147.3 million

Total financing:	\$240.7 million
Total jobs created/retained:	5,096

**First Front Door** – As of November 30, 2009 - Funded more than \$1.8 million supporting 406 new homebuyers.

**Housing Event Sponsorships** - The Bank sponsored various housing conferences in 2009, including the Pennsylvania Housing Alliance and Mortgage Bankers Conference.

**Other Events** - Completed several successful AHP/Congressional events. Conducted multiple AHP consultations/training sessions and Bank representatives attended groundbreaking, ribbon cutting, and special events.

**2009 Performance**

The following summarizes the Bank's performance in 2009:

<u>2009 Goals</u>	<u>2009 Performance</u>
<p><b>Expand use of Bank's Community Investment Products</b></p> <ul style="list-style-type: none"> <li>• Community Lending Program- \$45 million funded to specific projects</li> <li>• Banking on Business- commit \$3.5 million to small businesses</li> <li>• Taxable Bond Purchases-\$100 million</li> <li>• Increase the use of Letters of Credit on bond issues - \$400 million</li> <li>• Expand relationships with the Bank's partners and provide technical assistance to stakeholders</li> <li>• Commit funding allocated by the board to homeowners at-risk of foreclosure</li> </ul>	<ul style="list-style-type: none"> <li>• \$28 million funded for specific projects as of 11-30-09</li> <li>• \$3.5 million committed</li> <li>• None purchased</li> <li>• \$393 million as of 11-30-09</li> <li>▪ Conducted various technical assistance and training sessions throughout the district including 6 AHP webinars and technical assistance to 78 AHP projects</li> <li>• Board authorized \$500,000 for assistance to homeowners at risk of foreclosure</li> </ul>

<u>2009 Goals</u>	<u>2009 Performance</u>
<p><b>Create new products and delivery capacities</b></p> <ul style="list-style-type: none"> <li>• Re-examine the opportunity to implement the CRA Mutual Fund</li> <li>• Increase capacity in underserved areas by supporting workshops and training</li> <li>• Present Blueprint Evaluation report in 2009. Align the Bank's Community Investment resources to invest in Blueprint Communities and other emerging communities</li> <li>• Enhance relationships with intermediary lenders</li> </ul>	<ul style="list-style-type: none"> <li>• Initiative is on hold</li> <li>• Conducted LIHTC training sessions in Philadelphia and Pittsburgh, 2 NAP training webinars and sponsored/ participated in 5 USDA/SBA/FHLB training workshops in PA.</li> <li>• Blueprint Evaluation report completed and aligned community investment resources via AHP points priority and BOB set aside</li> <li>• Continued to fund investment in Mountaineer Capital, an SBIC in WV and researched membership opportunities for Community Development Financial Institutions (CDFI)</li> </ul>
<ul style="list-style-type: none"> <li>• Co-sponsoring events and implementing the Bank's public relations and government relations plans and present Pillars and Council awards</li> <li>• Continue My Money, My Life and explore additional opportunities to support financial literacy</li> </ul>	<ul style="list-style-type: none"> <li>• Co-sponsored various housing conferences and workshops. Attended 48 various groundbreaking/ ribbon cutting/GR events and presented 4 Pillars awards and 1 Council award</li> <li>• As of 11-30-09, 1,000 young adults participated in the program</li> </ul>

4. **2010 Goals – Summary**

**2010 Goals**

**1. Expand use of the Bank's existing community lending products and services:**

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| A. Community Lending Program<br>Commitments to specific projects               | Commit funds for 40 specific projects  |
| B. Letters of Credit - Increase the use of<br>Letters of Credit on bond issues | 10 members use LOC product for bond issues   |
| C. Technical Assistance  | Expand relationships with the Bank's partners<br>and provide technical training to members                         |
| D. Banking On Business   | Commit \$3.5 million to small businesses; and<br>evaluate alternative parameters for the funds<br>allocated to BOB |
| E. Refinancing for Homeowners Program  | Distribute funding authorized by the Board to<br>homeowners at-risk of foreclosure                                 |

**2. Create new products and delivery capacities.**

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| A. Increase Capacity in Underserved<br>Areas | Support workshops and training activities for<br>partners and members throughout the Bank's<br>district  |
| B. Blueprint Communities                     | Follow-up on the recommendations from the<br>2009 Blueprint Evaluation Report and implement<br>a technical assistance strategy for existing<br>Blueprint Communities |
| C. Expand access of intermediary<br>lenders  | Enhance relationships with intermediaries;<br>continue to proactively explore membership<br>opportunities with CDFIs in the district                                 |
| D. Maintain and Expand Partnerships          | Co-sponsor events, implement the Bank's Public<br>Relations and Government Relations plans;<br>Present Pillars and Council awards                                    |

## 2010 Goals Descriptions

### 1. Expand the use of the Bank's existing tools for targeted community lending through the following:

#### 1(A). Loans

The Bank has created a loan product that incorporates the broader eligibility criteria permitted in the CICA regulation. The loan product, called the Community Lending Program (CLP), is priced at the Bank's cost of funds.

Creative partnerships with federal, state and local economic development funders will be cultivated to produce leverage opportunities. Combining loans with loan guarantees, Banking On Business funds, or creative equity investments from third parties could be incorporated to achieve greater value and impact.

The Bank will continue to emphasize specific project financing; member banks using CLP to match-fund loans to specific deals.

**2010 Goal:** *The Bank will commit funds to 40 specific projects*

#### 1(B). Letters of Credit

The Bank's LOC may be used for a variety of purposes, including assisting members to participate in municipal or state bond issues to fund projects such as hospital expansions, independent living facilities for seniors or other economic development initiatives. All three states in the Bank's district permit LOCs to secure public unit deposits.

In 2004, the Bank's Business Research and Development Department developed the Public Deposit Access (PDA) product. PDA offers the Bank's Pennsylvania members the opportunity to use our Letter of Credit (LOC) to secure additional investments from public entities, such as local governments, authorities and school districts. PDA involved a collaboration between the Bank, member banks and the Pennsylvania Local Government Investment Trust (PLGIT), a mutual fund for public institutions. The Bank's AAA-rated LOC provides members the credit support required to secure public deposits through PLGIT. As the PDA matures it will enhance the value of the LOC product.

In 2008, the Housing and Economic Recovery Act (HERA) was passed providing the Bank the ability to issue LOCs to enhance bond issues, both tax-exempt and taxable – The Bank continues to conduct marketing and educational outreach to members and issuers in order promote this new product opportunity that will allow them to better serve their communities and for the Bank to assist a new group of constituents.

**2010 Goal:** *10 members use the Letter of Credit product for bond issues*

### **1(C). Technical Assistance**

The Bank's Community Investment Department staff meets with members and partners providing technical assistance to these groups on the use of our housing and community investment products. This practice will continue to be provided as a component of the Bank's 2010 Plan. In addition, the Bank will provide other training/education opportunities to members by partnering with other community and economic development entities.

**2010 Goal:** *Continue to expand relationships with the Bank's partners and provide technical training to members*

### **1(D). Banking On Business Program**

In 2000, the Bank successfully launched the Banking on Business (BOB) program, which is designed to assist member-financed small business start-ups and expansion. An evaluation of the program was conducted in 2009. The evaluation summarizes the successful impact of the program and identifies certain challenges.

**2010 Goal:** *Commit all available funds (\$3.5 million) to eligible small businesses*

### **1(E). Refinance for Homeowners Program**

In October, 2009 the Bank's Board of Directors authorized \$500,000 to assist homeowners at risk of foreclosure. These funds will be used in partnership with the HFAs in the Bank's district with qualified programs.

**2010 Goal:** *Commit funding authorized by the Board to homeowners at-risk of foreclosure*

## **2. Create new products and delivery capacities to meet economic development needs.**

### **2(A). Increase Capacity in Underserved Areas**

The Bank will pursue opportunities to enhance the capacity of existing Community Based Organizations (CBOs) and developers to undertake affordable housing and economic development projects. The Bank recognizes that effective CBOs are a key element in encouraging members to participate in non-traditional partnerships for affordable housing and community development. In studying this issue, Bank staff found that CBOs require additional training in developing business plans, budgets, marketing and technology. The effective use of these tools by CBOs will assist members in understanding the complexities of these organizations, which will enable members to more effectively assist CBOs in improving local communities.

**2010 Goal:** *The Bank will support and sponsor training/education in workshops conducted by other organizations*

## **2(B). Blueprint Communities (BC)**

In 2010 the Bank and partners will give technical assistance and training to those communities who continue to have active BC teams and meet certain benchmarks. The Bank will engage other significant funders to identify and recognize the components of a sustainable community plan and providing some measure of priority for projects that are consistent with such plans. Lastly, the Bank will work with partners to enhance/improve the program in anticipation of offering it to additional communities in the future.

**2010 Goal:** *Follow up on the recommendations from the 2009 BC Evaluation Report and implement a technical assistance strategy for existing Blueprint Communities*

## **2(C). Expand Access of Intermediary Lenders**

For some economic development activities, other organizations may offer the best opportunity to meet credit needs in underserved markets. For example, CDFIs, SBA 504 Corporations, Community Development Entities under the New Market Tax Credits (NMTC), or local economic development intermediaries may be appropriate Bank partners for deals that require a higher degree of risk or technical assistance. Incorporating member participation in these partnerships will be explored.

**2010 Goal:** *Continue to proactively explore opportunities for CDFIs to become members of the Bank, which is permitted under HERA*

## **2(D). Facilitate the creation of partnerships with state agencies, member banks, and other bank constituents.**

- ◆ **Conference Sponsorship:** The Bank will seek opportunities to co-sponsor community development events.
- ◆ **Targeted Marketing Strategy:** The Bank's Government Relations, Communications and Community Investment Departments have developed a targeted marketing and public relations strategy that includes increased contact with community and economic development organizations. The Bank will monitor the effectiveness of the strategy in 2010.
- ◆ **Pillars of the Community Awards:** At regional stockholders' meetings, the Bank honors member financial institutions as partners who have completed exemplary housing or community investment projects. By promoting these awards at the regional meetings, members see firsthand innovative approaches to meeting credit needs within local communities. In addition, the Bank promotes the award recipients via national and local media, as a means to highlight innovative approaches to creating affordable housing and community investment.

## **ADDITIONAL MARKET OPPORTUNITIES RESEARCH**

The 2010 Plan requires the Bank to continue conducting research on credit needs and market opportunities. At the onset of its research phase, the Bank sought to receive comprehensive feedback regarding the needs of underserved communities and populations. This research was designed to provide the foundation for many of the Bank's future lending plans and community investment programs.

The Bank's commitment to accurately assess the current and future needs of its District will continue. As a supplement to our current research findings, the Bank will have ongoing dialogue with the many agencies, housing developers and member banking institutions that participate in affordable housing and community investment initiatives. Our goal will be to supplement our current information with new resources, which may better equip the Bank to address the goals of its Plan. Such information is expected to be derived from the many partnerships currently existing between the Bank and its various constituents district-wide.