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FEDERAL HOUSING FINANCE BOARD

Community Investment Program Policy Statement

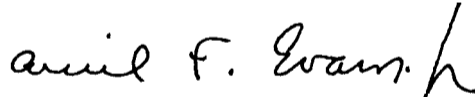
WHEREAS, Section 10(i) of the Federal Home Loan Bank Act, as amended by FIRREA, directs the Federal Housing Finance Board ("Board") and the Federal Home Loan Banks ("FHLBanks") to establish a Community Investment Program that will provide funding for members of the FHLBanks to undertake community-oriented lending to finance residential rental or homeownership projects for households under 115 percent of the area median income, or commercial and economic activities that benefit low- and moderate-income families or are located in low- and moderate-income neighborhoods; and

WHEREAS, the FHLBanks' Community Investment Program ("CIP") made \$497.5 million in CIP advances in 1990 and \$948.2 million in CIP advances in 1991; and

WHEREAS, the Board seeks to foster the use of CIP for community economic development;

NOW, THEREFORE, IT IS RESOLVED, that the Board hereby adopts the attached Community Investment Program Policy Statement to further promote the use of the program by FHLBank members in community-oriented lending.

By the Federal Housing Finance Board



Daniel F. Evans, Jr., Chairman

COMMUNITY INVESTMENT PROGRAM

POLICY STATEMENT

SUMMARY: The Federal Housing Finance Board ("Finance Board") is adopting this policy statement on the Federal Home Loan Banks' ("FHLBanks") Community Investment Programs ("CIP") in order to reemphasize its commitment to the CIP and to clarify certain policy and regulatory issues that have been raised in the recent operations of the program. In so doing, the Finance Board seeks to immediately increase the effectiveness of the CIP particularly in responding to the commercial and economic development lending needs of our nation.

STATUTORY AND REGULATORY BACKGROUND: Section 721 of the Financial Institutions Reform, Recovery and Enforcement Act of 1989, Pub. L. No. 101-73, 103 Stat. 183 ("FIRREA") added a new section 10(i) to the Federal Home Loan Bank Act of 1932 ("Bank Act"), 12 U.S.C.A. 1430(i), as follows:

(i) Community Investment Program.-

(1) In General. - Each Bank shall establish a program to provide funding for members to undertake community-oriented mortgage lending. Each Bank shall designate a community investment officer to implement community lending and affordable housing advance programs of the Banks under this subsection and subsection (j) and provide technical assistance and outreach to promote such programs. Advances under this program shall be priced at the cost of consolidated Federal Home Loan Bank obligations of comparable maturities, taking into account reasonable administrative costs.

(2) Community-oriented mortgage lending. - For purposes of this subsection, the term "community-oriented mortgage lending" means providing loans -

(A) to finance home purchases by families whose income does not exceed 115 percent of the median income for the area,

(B) to finance purchase or rehabilitation of housing for occupancy by families whose income does not exceed 115 percent of median income for the area,

(C) to finance commercial and economic development activities that benefit low- and moderate-income families or activities that are located in low- and moderate-income neighborhoods, and

(D) to finance projects that further a combination of the purposes described in subparagraphs (A) through (C).

This policy statement relates primarily to the CIP and is not to be confused with the other key program created in section 721 of FIRREA - the Affordable Housing Program ("AHP") - a separate program to subsidize lending for long-term, low- and moderate- income (at or below 80% of median income), owner-occupied and affordable rental housing, but not commercial and economic development lending or activities.

Since the passage of FIRREA, the Finance Board and the FHLBanks have implemented each of the specific CIP provisions in the law, so that

- a) Each FHLBank has an established CIP plan and lending goals under the supervision of the Finance Board;
- b) Each FHLBank has a designated Community Investment Officer and staff to provide the technical assistance and outreach to members in AHP and CIP lending; and
- c) Each FHLBank is properly pricing its CIP advances.

The Finance Board has also announced its intent to promulgate CIP regulations in recent regulatory agenda published in the Federal Register.

RECENT CIP ACTIVITIES: In 1990, the Finance Board established CIP lending targets for 1991 for some of the Federal Home Loan Banks and ratified the targets set by the other Banks. The 1991 FHLBank System-wide target was \$678.8 million. While all the Banks did not meet their individual targets, the aggregate target was exceeded by 40 percent. CIP advances in 1991 were \$948.2 million - a 91 percent increase over the 1990 CIP lending of \$497.5 million. The number of members obtaining CIP advances increased from 52 in 1990 to 128 in 1991. The 1991 CIP lending will finance 29,576 units of housing, two-thirds of which are ownership units and one-third are rental units.

To date, the vast majority of CIP lending has been for residential projects. CIP lending for community economic development has been meager. Only 10 of the 52 projects in 1990 and 10 of the 128 projects in 1991 were for such purposes. This may reflect the relative inexperience of most members in originating commercial or economic development loans. The limited economic development lending to date has involved such projects as the renovation of a school in a minority neighborhood, financing a poultry processing plant, financing the acquisition of commercial space for a social service agency,

financing the construction of several industrial facilities in rural areas, and financing the acquisition and rehabilitation of various commercial and retail developments.

CIP POLICIES OF THE FINANCE BOARD AND THE FHLBANKS: The FHLBanks and the Finance Board fully support the goals and purposes of the CIP. This support is a continuation of the sensitivity of the FHLBank System to the community credit needs to finance affordable housing and economic development. As the summary of recent CIP activities provided above indicates, the Finance Board and the FHLBanks have implemented an aggressive and expanding program.

FIRREA provides a clear mandate that the CIP be used for commercial and economic development as well as residential housing purposes. See 12 U.S.C.A 1430(i)(2)(c) set forth above. The FIRREA Conference Report emphasizes that the CIP should be used to assist non-standard and innovative lending for projects and properties, residential, commercial, and economic development, that lack an established secondary market. The Conference Report explains the intent of the conferees as follows:

The conferees wish to make clear that among the purposes specified in this provision, the loans should be used for the purpose of providing mortgage financing for qualified projects that would not necessarily meet the customary secondary market standards or for which there is no secondary market. Such financing might involve loans having longer terms than are customary for the secondary market, long-term mortgage loans for small multifamily projects, rehabilitation loans for one to four-family buildings, mortgage loans for mixed use buildings, for buildings that cannot obtain mortgage insurance and loans for community and economic development activities in low- and moderate-income neighborhoods, especially those activities that will result in employment for low-income persons.

H.R. Conf. Rep. No. 222, 101st Cong., 1st Sess. 430 (1989) (emphasis added).

The Finance Board has determined that CIP commercial and economic development advances constitute "residential housing finance" for purposes of the requirement in subsection 10(c) of the Bank Act that "All long-term advances shall only be made for the purpose of providing Funds for residential housing finance." The Finance Board has also determined that CIP commercial and economic development advances constitute "housing finance" for purposes of the requirement in subparagraph 10(e)(1)(B) of the Bank Act that non-QTL members "may only apply for advances under

this section for the purpose of obtaining funds for housing finance."

The Finance Board, in adopting this policy statement, reiterates its strong support for the use of the CIP for all of its intended purposes, including commercial and economic development lending. The Finance Board encourages the FHLBanks and their members to find innovative ways to use the CIP in funding commercial and economic development ventures that will benefit low- and moderate-income neighborhoods and their residents.