

No.: July 3, 1996
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FEDERAL HOUSING FINANCE BOARD

Community Mortgage Asset Activities Pilot Program for the
Federal Home Loan Bank of New York

WHEREAS, the Federal Home Loan Bank of New York (FHLBank) has requested Federal Housing Finance Board (Finance Board) approval of a pilot program that would permit the FHLBank to acquire financial interests in housing and community development assets from members and eligible nonmember mortgagees; and

WHEREAS, the FHLBank proposes purchasing participation interests in one-to-four family, multi-family, construction and community development mortgage loans that would benefit families and neighborhoods meeting the income targets established for the Community Investment Program; and

WHEREAS, the Community Investment Program established under section 10(i) of the Federal Home Loan Bank Act is strictly an advances program;

WHEREAS, the Bank has the authority to invest in these assets under sections 11(h) and 16(a) of the Federal Home Loan Bank Act, which authorizes the FHLBank to invest funds not required for advances in "such securities as fiduciary and trust funds may be invested in under the laws of the State"; and

WHEREAS, the Finance Board believes the proposed pilot program satisfies the three criteria established by the Finance Board for considering and approving new mission-related investment activities: 1) the program's targeting, and the positive impact the program would have on the loans-to-one-borrower limits of members specializing in such targeted lending, would facilitate the provision of credit in areas of the community where funding might not, without FHLBank involvement, otherwise be available; 2) in facilitating such targeted originations by certain members, and in offering shares of its participation to other members who might not otherwise be able to engage in such lending, the program acts to promote the cooperative nature of the FHLBank System; and 3) the Bank's in-house expertise, the involvement of its board and senior management in the development of the program's business plan, policies, underwriting guidelines, and monitoring and reporting requirements, the intended establishment of reserves appropriate to risk, and the level of program oversight contemplated, should ensure preservation of the triple-A rating of the FHLBank and the System.

NOW THEREFORE BE IT RESOLVED THAT, the Finance Board hereby approves the FHLBank of New York's request to establish a pilot program under which it may acquire up to \$250 million in participation interests in housing and community development loans originated by

members and eligible nonmember mortgagees with access to FHLBank of New York advances, subject to the following conditions:

- 1) The subject loans shall meet the income targets established for Community Investment Program advances;
- 2) The purchase of such loans shall not count toward satisfaction of the Bank's Community Investment Program requirements;
- 3) The Bank shall ensure that the originator of the loan maintains at least a 20 percent interest in the loan participated, with higher minimum retention levels required where appropriate;
- 4) The Bank shall limit participations in construction loans to an amount no greater than 10 percent of the pilot program authorization;
- 5) The Bank shall make an effort to share its participation interests in such loans with FHLBank members, ensuring that such members understand their responsibility to undertake due diligence separate and apart from that performed by the FHLBank;
- 6) The board of the Bank shall ensure, and certify to, the existence of appropriate expertise, policies, procedures, and controls prior to program implementation;
- 7) The board of the Bank shall establish, prior to program implementation and on an ongoing basis, adequate reserves;
- 8) The board of the Bank shall take appropriate precautions, in structuring its program oversight, to avoid the appearance of a conflict of interest for board directors with direct responsibility for approving transactions under the program;
- 9) The board of the Bank shall require monthly program progress reports from management during the first year of the program (and at least quarterly reports thereafter), shall file written evaluations of such reports, and shall provide copies of its evaluations and the management reports to the Finance Board.

FURTHER RESOLVED THAT, program implementation will be contingent upon confirmation by the Finance Board's Office of Supervision that appropriate program policies, procedures, controls and reserves have been established by the FHLBank.

By the Board of Directors of the
Federal Housing Finance Board



Bruce A. Morrison, Chairman