



REGULATORY INTERPRETATION 1999-RI-21

Date: December 17, 1999

Subject: Equity Investment in Brownfields Site Redevelopment Project

Request Summary:

A Federal Home Loan Bank (FHLBank) has requested Federal Housing Finance Board (Finance Board) approval to make an equity investment of up to \$2 million in a local Brownfields site redevelopment project under Section II.B.12 of the Finance Board's Financial Management Policy (FMP). Section II.B.12 allows the FHLBanks to make investments that support housing and community development if the FHLBank meets the listed conditions.

Background:

As described in the FHLBank's proposal, the Brownfields site redevelopment project is in a downtown area designated for cleanup by the city government. Following cleanup, the 350-acre area will be redeveloped as a mixed-use park, which will include housing, office, retail, and recreational areas. In 2003, a highway interchange will be completed, providing high quality transportation access to the area. Because of these factors, the FHLBank believes that the site offers an excellent development opportunity.

The FHLBank board of directors has authorized an equity investment in the Brownfields site redevelopment project of up to \$2 million. According to the FHLBank, its board of directors views the equity investment as a way in which to fulfill its goals for community leadership, while offering the FHLBank the opportunity of a financial return.

Analysis or Discussion:

Section II.B.12 of the FMP permits the FHLBanks to enter into investments that support housing and community development provided that prior to entering into such investments the FHLBank meets three specific standards. Following is a discussion of how, in the judgment of Finance Board staff, the FHLBank's proposed equity investment in a Brownfields site redevelopment project meets each of the three criteria.

- (1) The FHLBank ensures the appropriate levels of expertise, establishes policies, procedures, and controls, and provides for any reserves required to effectively limit and manage risk exposure and preserve the FHLBank's and FHLBank System's triple-A rating.

The proposed equity investment is very small relative the FHLBank's retained earnings. Such a *de minimis* investment does not raise safety and soundness issues with regard to the FHLBank's credit risk. Even in the event of a total loss on the investment, neither the FHLBank's nor the FHLBank System's financial condition would be impaired. The FHLBank has indicated that it will make the investment only in a structure in which it can limit its legal risk to the amount of the investment, e.g., a limited partnership interest. The FHLBank will account for the investment as required by generally accepted accounting principles (GAAP) and will report regularly to its board of directors on the status of the investment.

- (2) The FHLBank ensures that its involvement in such investment activity assists in providing housing and community development financing that is not generally available, or that is available at lower levels or under less attractive terms.

Although the equity investment is considered *de minimis* relative to the FHLBank's retained earnings, it will provide the Brownfields site redevelopment project with start-up capital. Such funds are often difficult to obtain and without the necessary start-up capital, the redevelopment project may not be undertaken.

- (3) The FHLBank ensures that such investment activity promotes (or at least does not detract from) the cooperative nature of the FHLBank System.

The FHLBank will gain community development experience that can be shared with members as well as used as a model for other such community redevelopment projects that may be undertaken by the FHLBank or its members. The FHLBank's investment does not detract from the cooperative nature of the FHLBank System since the FHLBank's equity investment will not displace any member investors in the project.

Interpretation:

It is the opinion of the staff that the *de minimis* equity investment in a local Brownfields site redevelopment project as described in the FHLBank's proposal is authorized under the FMP. Should the FHLBank decide to make any further equity investment in this project or other projects, Finance Board approval of such a proposal would be required.

A <u>Regulatory Interpretation</u> applies only to the particular transaction or activity proposed by the requestor, may be relied upon only by the requestor, and is subject to modification or rescission by action of the Board of Directors of the Finance Board. 64 Fed. Reg. 30880 (June 9, 1999) (<i>to be codified at</i> 12 C.F.R. part 903).
