

**FEDERAL HOME LOAN BANK  
OF PITTSBURGH**

**COMMUNITY LENDING PLAN  
2008**

## **I. BACKGROUND / RATIONALE**

The Federal Home Loan Bank of Pittsburgh (Bank) is pleased to provide its Year 2008 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, we provide 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 2006-08 Strategic Plan.

On December 28, 1998, the Federal Housing Finance Board (FHFB) 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 FHFB. 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 community lending and housing 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 implemented the following initiatives:

1. **Market Research** – The Bank’s 2006-08 Strategic Plan included a detailed analysis of market conditions and credit gaps. The Bank continuously augments its Strategic Plan through research, focus group discussions and consultations.
  - In 2006 and 2007, the Bank’s Blueprint Communities initiative continued research on general community investment topics as well as research and focus group discussions on minority homeownership.
  - In March 2006, the Bank commissioned a housing needs assessment of West Virginia, Pennsylvania and Delaware. The research and findings of this assessment has assisted the FHLBank’s Board of Directors (Board) and Affordable Housing Advisory Council (Council) to better understand the regional characteristics and needs within the three-state district. This document is meant to provide a factual resource for the Board and Council in planning for the allocation of funds through the Affordable Housing Program (AHP). It is also intended to give the Board and Council a foundation of information of which further research can be built upon.

The Needs Assessment was prepared by the FHLBank’s Community Investment Department. Mullin & Lonergan Associates, Inc. provided consulting advice for the FHLBank at various points during the study.
  - In 2007, as part of the FHLBank Pittsburgh’s Strategic Plan, Management explored the potential for new products that could support our members’ needs in the area of community and economic development. Management has undertaken market research in this area by meeting with members, developers, local governments, community development corporations, economic development funds, community development financial institutions, small business investment corporations and other experts to assess what role the FHLBank could play.
2. **Action Plan** – In this Plan, the Bank provides an action strategy describing its intentions to address the credit needs and market opportunities identified during the market research.
3. **Consultations with Bank Stakeholders** – In the development of this Plan and during the preparation of the Strategic Plan, the Bank consulted with the following organizations:
  - ◆ Affordable Housing Advisory Council (AHAC)
  - ◆ Member financial institutions and housing associates
  - ◆ Public and private economic development organizations
4. **Performance Goals** – In this Plan, the Bank has established quantitative community lending performance goals.

## II. CREDIT NEEDS AND MARKET OPPORTUNITIES SUMMARY

### A. MARKET RESEARCH PROCESS

The Bank annually conducts research in the Bank's district to identify opportunities for stockholders 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 stockholders, housing associates, the Advisory Council and public and private housing and economic development organizations within the district.

Market research was conducted in 2007 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.

The FHLB of Pittsburgh conducted market research to identify potential credit needs and market opportunities. The primary source of the market research was conducted during the preparation of the Bank's 2006-08 Strategic Plan. The objectives of this research included:

- Determining the community lending gaps within the 3<sup>rd</sup> District;
- Identifying the District's most critical credit needs;
- Evaluating opportunities to target the Bank's financial and technical resources, within the Bank's Key Mission Principles<sup>1</sup>, to assist member financial institutions to address identified credit gaps.

The research included an examination of the credit needs within the Bank's District through the following process:

- Analysis of the CICA regulation and the implications of the Community Reinvestment Act on community lending;
- Evaluation of the Bank's existing tools for community and economic development;
- Review of relevant existing reports and studies, including statewide consolidated plans;
- Outreach efforts to key economic development stakeholders including:
  - Member financial institutions
  - Public/private economic development organizations
  - Community financial intermediaries and technical assistance organizations
  - The Bank's Board of Directors and Affordable Housing Advisory Council

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<sup>1</sup> Key Mission Principles:

- *The Bank should not compete with members.*
- *Housing is still the principal focus of the FHLB.*
- *The Bank should focus on support of community banks.*
- *The Bank has a special mission to facilitate projects that are "bankable" but need extra assistance in technical or financial engineering.*

The report draws on all of these resources to provide an understanding of the district's credit needs and market opportunities.

In addition to the 2006-08 Strategic Plan, the Bank commissioned a Housing Needs Assessment in March of 2006. The study was commissioned in order to give the Bank a generalization of housing conditions in the district. The study was conducted by:

1. Gathering and analyzing census data.
2. Gathering and analyzing housing studies recently completed in the three states.
3. Conducting a needs assessment survey of housing practitioners within the three-state district.
4. Obtaining feedback on the results from the three state housing agencies.

The highlights of this study are found in the following Summary of Credit Needs and Market Opportunities.

In 2007 the Bank began researching opportunities in the community and public finance markets to identify ideas that could be developed and implemented as a new community investment or public finance product in 2008.

The following process was developed in 2007 as a result of this effort:

- Formed an internal working team consisting of six Bank departments
- Reached consensus on three primary new product objectives – it must:
  - Finance a community related asset – i.e. CRA qualified
  - Have a member nexus
  - Generate revenue to the Bank
- Developed new product filters:
  - Market needs and interest
  - Risk
  - Competition
  - Public policy issues
  - Development potential
  - Internal capabilities and needs
  - Potential return on Investment
- Conducted 30 plus meetings with banks, Consultants/Advisors, Community Development Financial Institutions (CDFI), Municipalities/Government Agencies, Small Business Investment Companies (SBIC), housing developers, a housing authority, and a venture capital company.

## **Observations**

### **Member bank needs**

- Community Reinvestment Act qualified loans and investments at market, or near-market return
- Credit risk management
- Community banks:

- Increased capacity and understanding of affordable housing /community development markets and specialized programs available
- Access to deals

#### Community finance needs

- Gap subsidy, below market loans for housing and community development
- Support for education, counseling and technical assistance
- Consumer protection
- Predevelopment funding
- Mortgage products – near prime and reverse
- Venture capital or patient funding for economic development and project development
- Permanent financing for affordable/workforce housing and community facilities

#### Macro finance needs

- Facilitator/Broker
- Aggregator
- Competition in certain market segments

#### Opportunities

- CRA Investment Fund
- Credit Enhancement – Letter of Credit or credit derivatives
- Municipal Investment Contracts
- Multi-bank Community Development Corporation

As a result of this extensive research process, the Bank has concluded that it could serve a role as an aggregator of funds, and support its members' needs in meeting its Community Reinvestment Act (CRA) obligations.

## **B. SUMMARY OF CREDIT NEEDS AND MARKET OPPORTUNITIES**

Excerpt from the Bank's 2006-08 Strategic Plan:

### **Economic Outlook**

The U.S. economy should grow at or slightly below its long-run potential through the first half of the strategic plan period. Growth of about 3.5% per annum is likely. Growth in the past few years has benefited from strong underlying fundamentals: low interest rates, low inflation, healthy productivity growth and strong business balance sheets. As we enter the second half of the period, growth should slip toward the 3% level, which is close to the average level of growth in the past three decades. This downshifting should be expected, given the loss of both monetary and fiscal stimulus. Additional headwinds will be presented by high and rising energy prices, which reduce consumer discretionary spending, and a weakening U.S. dollar. A growing, but slower economy suggests that demand for FHLB advances may be steady, if not dramatic.

### **Capital Spending & Consumer Spending**

The outlook for capital spending is bright. Corporate investment will be the primary driver of growth through the plan period. Investment will pick up first as inventories are worked down. Investments will be mostly geared towards productivity-enhancing equipment and software. With higher fuel and energy prices, companies will realize economic benefit from increasing expenditures in more energy-efficient buildings and machinery. Also, as distractions such as Sarbanes-Oxley fade, businesses will return their attention to business investment.

Consumer spending, which accounts for 70% of the total economy, has been upheld by the “wealth” effect occasioned by rising home prices, but this should be a factor only during the first quarter of the plan period. Wages and salaries will grow, but the impacts of the 2001 and 2003 round of tax cuts, as well as the period of historically low interest rates, are fading. Consumer spending growth should begin to recede beginning in 2006 and trend lower through the plan period. Consumer spending should pull back to slightly lower than its longer-term historical average of 3.2% as the plan period progresses.

Consumer spending will contend with the loss of mortgage refinancing opportunities and higher home equity borrowing costs as interest rates rise. Cash-out refinancings are expected to fall by 60% in 2006 by FHLMC. Additional slippage should be expected in 2007. To the extent that cash-out refinancings and Home Equity Loans (HELs) and Home Equity Lines of Credit (HELOCs) have been used to pay down or replace debt, consumer balance sheets should be in better position to weather the loss of future opportunities to bolster spending capability. The lack of personal savings will continue to be a problem. That is, deposit growth in our members is not likely to improve.

## **Housing**

Housing activity should maintain its vibrant pace before turning lower in mid-2006. The year 2005 will mark the fifth consecutive year of record home sales. In 2006, full-year activity should turn lower as mortgage rates follow Treasury rates higher and as speculative activity wanes.

Housing prices will back off their recent torrid pace. A slow deflation of the housing price “bubble” is seen, but not an outright collapse. Average U.S. home prices rose 12.5% in the first quarter of 2005 over the same period in 2004, the fourth consecutive quarter of double-digit price appreciation with median prices rising above the \$200k level for existing homes for the first time ever. This plan projects this as a peak.

Affordability, which reached a 14-year low in this year’s second quarter, will remain a long-term problem. The last time affordability was this low was in 1991 when 30-year mortgage rates were 8.90%. Affordability issues have spawned non-standard mortgage products, such as interest-only or option mortgages, that carry varying levels of risk and which could include negative amortization. These may leave some households, and consumer spending in general, vulnerable to unforeseen shocks.

Additional research identified credit needs and market opportunities for community lending. These were as follows:

- ◆ Oftentimes 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 services to assist member banks to more fully participate in community development.
- ◆ Communities do not approach revitalization in a comprehensive manner. Comprehensive Neighborhood Development (CND) is either not done or is inadequate. Leadership, planning training and capacity-building are critical needs relative to promoting CND.

- ◆ In many non-profit organizations there continued to be a “brain drain” caused by the loss of skilled, experienced personnel to private sector jobs in other states or regions. This creates the need to continually train new personnel and develop renewed relationships with funders (like the Bank) and government agencies. Throughout the district (particularly in West Virginia and in rural areas), there is a lack of experienced development organizations who fully understand the pre-requisites to become a competitive applicant for Bank, Department of Housing & Urban Development (HUD) and other national/regional funding sources.
- ◆ 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.
- ◆ Funding programs locally, statewide and nationally do not complement each other in their targeted goals and application process. This creates a zero-sum situation where developers must often choose to mold a project to meet the needs of one funding source, at the expense of meeting the preferences for a second (although needed) funding source. For this reason, many projects are not fully funded and are therefore never implemented.
- ◆ 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 or lower interest rates are the most common barriers to small businesses.
- ◆ The Bank’s Community Investment products should be continually enhanced to streamline processing.
- ◆ Economic development programs should be linked to technical assistance through entities such as Service Corps of Retired Executives (SCORE) or Small Business Development Centers.
- ◆ 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.



In addition to the housing analysis mentioned in the above excerpt from the Strategic Plan of 2006-2008, the Housing Needs Assessment conducted in March, 2006 identified seven specific district-wide housing needs. The following list of these seven needs is in the order of importance according to the response from the needs assessment survey.

1. Housing for extremely low income households (<30% AMI)
2. Rehabilitation/Demolition of existing housing stock
3. Housing for special needs populations
4. Homeless individuals and families
5. Housing for elderly persons (ages 55+)
6. Rural area concerns
7. Uneven growth and out migration from older communities

Some critical housing needs impact certain regions within the district, but do not rise to the level of district-wide housing needs. For example, minority homeownership issues are more prevalent in areas with considerable minority populations and workforce housing needs are most critical in areas with rapid growth rates. The need to address these issues depends on the needs of demographics and housing markets in each region.

### **III. 2007 Performance and 2008 ACTION PLAN**

The Bank had a very active and exciting year. The information below, and on the attached table, highlight the Bank's 2007 performance.

**Minority Homeownership Initiative** - In November 2004, the Bank kicked off its new 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 and avoidance of credit abuse 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.**

MMML original Bank Partners include the Federal Home Loan Bank of Pittsburgh, the developer of the program, and nine area banks including Dwellinghouse Savings and Loan, ESB Bank, Iron & Glass Bank, Laurel Savings Bank, National City Bank, Northwest Savings Bank, PNC Bank, Sewickley Savings Bank and Sky Bank.

My Money, My Life teaches teenage participants the importance of maintaining good financial habits and gives them the information they need to capably navigate many financial systems. However, it takes time and practice to turn learned information into good money management habits. In addition, the financial decisions these teens will face in the near future will affect their lives for years to come and many of them require more information than can be covered in the 15-hour financial literacy club.

In order to respond to these challenges, the MMML program has expanded to include an advanced financial literacy course. This course reviews and builds upon material taught in the initial financial literacy club. Additionally, continued contact with MMML instructors (Neighborhood Housing Services and MMML partner bank staff) during the advanced course strengthens the existing relationships between the teen participants and area financial institutions. The advanced curriculum covers conventional personal finance topics as well as subjects that have a great affect on ones financial situation, such as career exploration and job readiness.

Students will be asked to complete program evaluation forms before and after taking the advanced course in order to gauge their learning and enjoyment during the classes. Neighborhood Housing Services will use these to evaluate the program and ensure continued success.

	<b>Beginner MMML Students Graduated</b>	<b>Advanced MMML Students Graduated</b>
<b>2005</b>	188	<i>NA</i>
<b>2006</b>	194	55
<b>2007</b>	212	55
<b>TOTAL</b>	<b>594</b>	<b>110</b>

“The success of My Money, My Life stems from tremendous cooperation and rapport among NHS, FHLBank Pittsburgh and our nine participating banks as well as the youth, parents and community centers that enable the program to conduct classes all year long,” said Emily Keebler, program administrator.

**Blueprint Communities** – In 2005, the FHLBank 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.

In 2006, FHLBank began the expansion of the initiative into West Virginia by working and partnering with 12 leaders in the WV community development movement and aligning financial and support initiatives. Through these partnerships, 26 referrals were received for potential BC Communities. Ten communities were then selected to attend the Blueprint training in 2007.

Beyond the training, coaching, evaluation of results and other support, the Blueprint Initiative produced seven unique plans by the end of a brief, one year initiative. Those plans offer opportunities to leverage their internal resources, FHLBank Community Investment resources, partner resources and local human resources to move each of those communities closer to the visions created by their citizens.

The FHLBank will be capitalizing on the groundwork laid by these community plans in 2007 by encouraging Community Investment product use in these communities, in 2008, through three methods. First, the FHLBank will build on the communities where housing is a critical component in their community plans. Blueprint leaders are already familiar with AHP through communication in training sessions. The FHLBank will offer developers and member banks opportunities to access technical assistance for projects included in their community plans. Second, Banking on Business will be marketed as a resource for small business development goals. Lastly, all member banks that serve West Virginia Blueprint Communities will be invited to one of four “Breakfast with the Bank” workshops, highlighting FHLBank products as one strategy that can bring communities closer to their vision.

Ongoing evaluation measures will examine team and community outcomes. Evaluation will be used for program enhancements, program review, and communicating results to stakeholders.

In October of 2007, the Bank initiated Blueprint Communities in Delaware, with the kickoff celebration planned for up to ten communities in March of 2008. The Bank is partnering with University of Delaware Center for Community Research and Service to offer training, technical assistance, community profiles, and community development grants. An advisory committee, comprised of critical stakeholders, is defining how Blueprint Communities is carried out in Delaware.

Blueprint Delaware continues many of the same themes and strategies presented in Pennsylvania and West Virginia, but continues to evolve as lessons are learned. Modifications are made in each state in order to maximize the return on our community investment.

*Modifications from Blueprint West Virginia to Blueprint Delaware*

- Clarified expected outputs and outcomes (Logic Model)
- Added a day of training
- Conduct FHLBank community investment workshop(s)
- Designate a lead organization for each team
- Modify youth involvement requirement
- Consider critical skills technical assistance – facilitation, grant writing
- Align with needs in DE/seek input from Advisory Committee

**New Products**

In 2007, the Bank introduced a new community investment program known as HRP, Housing Rehabilitation Program. This pilot program was developed as a result of our 2006 Housing Assessment identifying rehabilitation and deteriorating housing stock as the second largest housing issue in the district.

HRP provides housing repair and rehabilitation assistance to homeowners with income below 80% of the area median income for their area. Funding was made available on a first-come, first-served basis to member financial institutions of the FHLBank Pittsburgh in partnership with qualified sponsor organizations who provide rehabilitation housing services to existing homeowners.

Eight (8) proposals reviewed by the Community Investment Department were approved for funding, including one (1) project from Delaware, four (4) projects from Pennsylvania, and three (3) projects from West Virginia. The amount of funding approved for these projects totaled \$1 million.

The following provides a breakout of proposals by state:

State	Submitted Proposals	Dollar Amount Requested	Approved Proposals	Dollar Amount Awarded	%Proposals Approved
Delaware	1	\$200,000	1	\$150,000	100%
Pennsylvania	17	\$2,937,758	4	\$440,000	24%
West Virginia	10	\$1,455,000	3	\$410,000	30%
<b>TOTAL</b>	<b>28</b>	<b>\$4,592,758</b>	<b>8</b>	<b>\$1,000,000</b>	

**Other Community Investment Activities in 2007:**

**Community lending Program** – The Bank funded \$308 million, \$19 million for specific projects.

**Affordable Housing Program** – Completed two funding rounds, approving \$17.8 million in AHP subsidy to projects – creating 2,112 affordable housing units – having a total development cost of approximately \$302 million.

**Banking On Business** – Approved approximately \$7 million for small businesses in 2007.

**First Front Door** – Funded \$6.6 million representing nearly 1,500 new homebuyers in 2007.

**Housing Event Sponsorships** - The Bank sponsored various housing conferences in 2007, including the 2007 Appalachian Summit, PAHRA Annual Conference and PA Housing Alliance Conference.

**Homework 2007** - 10 Bank employees and family members joined Habitat for Humanity in the 2007 HomeWork project during the week of October 27th. The project consisted of the rehabilitation of a home in Arnold, Pa.

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

The following summarizes the Bank's performance in 2007:

<u>2007 Goals</u>	<u>2007 Performance</u>
<p><b>Expand use of Bank's Community Investment Products</b></p> <ul style="list-style-type: none"> <li>• Community Lending Program- \$42 million to specific projects</li> <li>• Banking on Business- commit \$7 million to small businesses</li> <li>• Taxable Bond Purchases-\$10 million</li> <li>• Letters of Credit-\$1 billion</li> <li>• Increase the number of community banks that have enrolled in or applied for community investment products or initiatives by 34</li> <li>• Expand relationships with the Bank's partners and provide technical assistance to stakeholders</li> </ul>	<ul style="list-style-type: none"> <li>• \$308 million total w/ \$19 million for specific projects</li> <li>• \$7 million committed</li> <li>• \$0- No viable opportunities with the Housing Finance Agencies were available in 2007</li> <li>• \$ 4.61 billion total; \$3.92 billion standard and \$692 million PDA</li> <li>• 44 new community banks enrolled or participated in CID products</li> <li>• Conducted 59 AHP technical assistance meetings in 2007</li> </ul>
<p><b>Create new products and delivery capacities</b></p> <ul style="list-style-type: none"> <li>• Implement the new Pilot Housing Rehabilitation Program</li> <li>• Research opportunities in the community and public finance markets, identify ideas that can be developed and implemented as a "for profit" product in 2008</li> <li>• Increase capacity in underserved areas by supporting workshops and training</li> <li>• Expand Blueprint Communities into WV and Delaware</li> <li>• Enhance relationships with intermediary lenders</li> </ul>	<ul style="list-style-type: none"> <li>• Program rolled out with 8 approved proposals in 2007</li> <li>• CRA Mutual Fund product researched and presented to board in 2007</li> <li>• Participated in /sponsored various workshops and conducted CID product training</li> <li>• 10 communities selected and received training in WV – Began Delaware BC initiative with selection process and establishing 2008 schedule</li> <li>• Continued to fund investment in Mountaineer Capital, an SBIC in WV and continued research on investment in multi-bank CDC</li> </ul>

<p><b>Establish presence as a community/economic development leader</b></p> <ul style="list-style-type: none"> <li>• Co-sponsoring events and implementing the Bank’s public relations and government relations plans.</li> <li>• Present Pillars and Council awards</li> </ul> <p><b>Promote minority homeownership</b></p> <ul style="list-style-type: none"> <li>• Replicate My Money, My Life.</li> <li>• Implement changes to Community Stability area of AHP application</li> </ul>	<ul style="list-style-type: none"> <li>• Co-sponsored various housing conferences and workshops. Attended various groundbreaking and ribbon cutting events.</li> <li>• Presented 4 Pillars awards and 1 Council award</li> </ul> <ul style="list-style-type: none"> <li>• 267 participants completed the program in 2007</li> <li>• Changes implemented – increased allocation to 25 points for the Community Stability Category</li> </ul>
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**2008-Goals – Summary**

**2008 Goals**

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|---|--|
| 1. Expand use of the Bank’s existing community lending products and services:   |  |
| A. Community Lending Program  | \$42 million to specific projects  |
| B. Letters of Credit  | \$ 4 billion   |
| C. Taxable Bond Purchases   | \$10 million   |
| D. Technical Assistance   | Expand relationships with the Bank’s partners and provide technical training to stakeholders |
| E. Banking On Business  | Commit \$7 million to small businesses   |
| F. Increase the number of community banks that have enrolled in or applied for community investment products or initiatives | 20 banks   |
| G. Increase use of the Bank’s Community Investment products in Blueprint Communities in PA, WV, and DE                      | 12 AHP, BOB, CLP, or FFD applications submitted in Blueprint Communities                     |
| 2. Create new products and delivery capacities.   |  |
| A. New Products   | Evaluate possible new business activity submissions  |

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|--|---|
| B. Increase Capacity in Underserved Areas  | Support workshops and training activities through the Bank's district   |
| C. Blueprint Communities   | Expand Blueprint Communities into Delaware  |
| D. Expand access of intermediary lenders   | Enhance relationships with intermediaries   |
| 3. Establish presence as a community development leader:   |   |
| A. Partnerships  | Co-sponsor events, implement the Bank's Public Relations and Government Relations plans.<br><br>Present Pillars and Council awards  |
| B. Minority Homeownership  | Continue My Money, My Life  |
| C. Develop initiatives to address housing and community development needs and support infrastructure finance opportunities | Implement or participate in initiative that addresses the foreclosure issue<br><br>Complete a new public finance-negotiated transaction<br><br>Research and present opportunities for community/economic development or infrastructure finance to be developed as a "for profit" product in 2009. |

### 2008 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.

**2008 Goal:** *The Bank will loan \$42 million in CLP funds to qualified specific projects.*

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

The Bank's LOC may be used for a variety of purposes, including to assist 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.

**2008 Goal:** *The Bank will issue \$1 billion in LOCs.*

### **1(C). Community Development Investing**

The Community Development Investing tool offers great potential for meaningful housing and community development. The Bank has shown a strong commitment to this area by developing strong relationships with the state housing finance agencies.

- ◆ **Purchase of state and local governmental unit bonds:** State and local governmental units within the district have difficulty meeting the collateral requirements for housing associates. Therefore, in an effort to meet their credit needs, the Bank directly purchases these agencies' debt obligations.

The majority of the Bank's investments have been through the Pennsylvania Housing Finance Agency (PHFA). However, due to the current credit policy limits, the Bank has almost reached the maximum limit relative to PHFA bonds.

The West Virginia Housing Development Fund may issue taxable bonds in 2008.

Bank investments in Small Business Investment Companies (SBICs), Tax Increment Financing projects or Section 108 bonds, for instance, offer the potential for innovative



financing solutions in meeting credit needs. The Bank will continue to explore these opportunities.

**2008 Goal:** *\$10 million in taxable bond purchases. Increases in tax exempt bond caps and credit policy limits will depress the volume of taxable bond purchases. The Bank will explore options to increase activity with PHFA.*

**1(D). Technical Assistance**

◆ **Community Support Statement Preparation:**

**2008 Goal:** *Continue to expand relationships with the Bank's partners and provide technical training to stakeholders.*

**1(E). 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 additional \$7 million will be allocated to BOB in 2008.

**2008 Goal:** *Continue the BOB program and commit all available funds to eligible small businesses.*

**1(F). Increase the number of community banks that have enrolled in or applied for community investment products or initiatives**

**2008 Goal:** Increase by 20 banks

**1(G). Increase the use of the Bank's community investment products in Blueprint Communities in PA, WV and DE**

**2008 Goal:** Minimum: 8 AHP, BOB, CLP or FFD project applications submitted  
Target: 10 AHP, BOB, CLP or FFD project applications submitted  
Maximum: 12 AHP, BOB, CLP or FFD project applications submitted

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

**2(A). New Product Creation**

The Bank will analyze the feasibility of creating new products to advance the Bank's mission and vision.

**2008 Goal:**

- *Evaluate the possibility of a new business activity submission in 2008.*

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

The Bank will pursue opportunities to enhance the capacity of existing organizations to undertake economic development projects. In some cases, where the structures do not exist, the Bank may serve as the catalyst to create new economic development institutions. For instance, the creation of an SBIC in an underserved area may be an appropriate activity for the Bank. The need for capacity enhancement is especially acute in rural areas.

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.

**2008 Goal:** *The Bank will support and sponsor training/education in workshops conducted by other organizations.*

## **2(C). Blueprint Communities**

The Bank has identified Blueprint Communities (BC) as one of its strategic goals. The ultimate goal of BC is to create self-sustaining, thriving communities. In places that have strong markets, private demand sustains a community or local economy. Unfortunately, in many places in the Bank's district the conventional markets have broken down or do not exist at all. Strategic interventions are necessary to fill the gaps in the market.

A strong neighborhood plan includes a clearly articulated vision, with clearly identifiable goals and a process for implementation. It should seek to change not only the physical environment, but also the perception of the community among residents and those outside the community. It is apparent that many places recognize the need to approach neighborhood change in a comprehensive manner. However, all too often, the necessary planning and consensus building either is not done or is inadequate.

The Bank and its partners developed the BC to serve as a catalyst for creating sustainable neighborhoods in Pennsylvania, West Virginia and Delaware. This initiative builds on the recommendations contained in the *Back to Prosperity* report (for Pennsylvania) published by The Brookings Institution Center on Urban and Metropolitan Policy and is supported by research completed independently by the Bank. The Bank's research examined strategies designed to encourage communities to approach revitalization holistically, taking into account physical, economic and social needs.

### **2008 Goal:**

- *The bank will expand Blueprint Communities into Delaware. The primary component of the BC in DE will involve community revitalization training to core teams, which will include a group of eight local leaders. Six days of training is planned for the BCI spanning at least*

*a six-month period. The training will require substantial time commitment by the core team members.*

**2(D). 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.

**2008 Goal:**

- *Continue to enhance relationships with the Bank's Housing Associates*
- *Continue to explore investment in a multi-bank CDC.*

**3. Establish the Bank's presence as a community and economic development leader.**

The Bank has a unique opportunity to become a leader in community and economic development finance. Our structure as a large wholesale institution, combined with our financial engineering expertise and our strong relationship with a network of approximately 330 financial institutions, are key assets as the Bank enters the community and economic development arena. The Bank's ability to build on these strengths is a strategic advantage.

Unlike the housing finance system, the community and economic development system is much more fragmented. It is important for the Bank to seek opportunities to improve the financing system by expanding our expertise and by forging strategic partnerships with community and economic development stakeholders. As the Bank expands its expertise and presence in community and economic development finance, additional opportunities will become apparent. In light of these findings, the Bank will implement the following initiatives:

**3(A). 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 2008.
- ◆ **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.

**3(B). Expand a minority/urban homeownership initiative.**

The My Money, My life financial literacy program has been extremely successful. The program goal is to reach 1000 young adults by 2009 and enroll several hundred parents, guardians or caregivers in similar financial literacy programs over the same period.

**2008 Goal:** *The Bank will continue the My Money, My Life program.*

**3 (c) Develop initiatives to address housing and community development needs and support infrastructure finance opportunities.**

**2008 Goal:**

1. Implement or participate in an initiative that addresses the foreclosure issue in the Bank's district.
2. Complete a new public finance negotiated transaction. Transactions are considered "new" if they involve an issuer the Bank has not worked with previously; purpose (use of proceeds) of transaction has not been financed by Bank previously; or transaction involves cash flow, credit or collateral structure that has not been used previously.
3. Research and present opportunities to Board in: (i)community, economic development finance, and/or(ii) infrastructure finance that can be developed and implemented as a "for profit" product in 2009.

## **V. ADDITIONAL MARKET OPPORTUNITIES RESEARCH**

The 2008 Plan requires the Bank to continue conducting research on credit needs and market opportunities. At the onset of its research phase, the Bank aggressively 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 assessing 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 database 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.