

## 2007 COMMUNITY LENDING PLAN

### BACKGROUND

The Community Investment Cash Advance (CICA) regulation (12 CFR 952) obligates each Federal Home Loan Bank to develop an annual Community Lending Plan for approval by the Board of Directors. In order to successfully develop this plan consistent with the regulation, the Seattle Bank's practice has been to:

- Periodically conduct market research in the Seattle Bank's district
- Describe how the Seattle Bank will address identified community lending credit needs and market opportunities in its district
- Consult with its Advisory Council, Board of Directors, members, and public and private economic development organizations in developing and implementing its Community Lending Plan
- Establish quantitative and qualitative community lending performance goals

### THE FEDERAL HOME LOAN BANK OF SEATTLE

- As of November 1, 2006, the Seattle Bank had \$53 billion in assets, 378 stockholder members and six approved housing affiliates. The Seattle Bank's market includes eight states (Alaska, Hawaii, Idaho, Montana, Oregon, Utah, Washington and Wyoming), the Northern Mariana Islands and the Territories of Guam and American Samoa. This region is home to one-third of the Native American reservations in the United States, as well as encompassing Alaska Natives, Native Hawaiians, and the Native Peoples of the western Pacific Islands.
- The Seattle Bank offers a variety of community investment products in addition to advances, letters of credit, and other financial products and services for community lenders serving this diverse region. The community investment products available to our members include:

### SUBSIDY PROGRAMS

- The Affordable Housing Program (AHP) is a competitive program that provides funding for the capital costs associated with affordable housing. As of November 1, 2006, AHP had committed \$133 million in grants to assist 26,200 low-income households. Home\$tart and Home\$tart Plus (H\$P) are a 35% set aside from the AHP that provide non-competitive grants for low- and moderate-income, first-time homebuyers. As of November 1, 2006, H\$P had provided \$32 million to help 6,518 families.
- The Affordable Housing Program Implementation Plan details how the AHP and H\$P are administered. The plan is reviewed by the Seattle Bank's Affordable Housing Advisory Council, approved by the Financial Operations and Affordable Housing Committee and ratified by the Board of Directors every year.

### **RECOVERABLE GRANT PROGRAMS**

- The Challenge Fund is a \$1.3 million recoverable competitive grant program for predevelopment costs associated with affordable housing development. A total of \$2.36 million in Challenge Fund commitments have been made as of November 1, 2006, helping more than 5,012 families. As of November 1, 2006, 72 percent of all awarded Challenge Fund grants have been repaid and made available to the general Challenge Fund pool. Due to pressure on earnings, the Challenge Fund will continue to be suspended for 2007.
- ACCESS is a recoverable grant program for predevelopment costs associated with community-based economic development and was created by the board in 2000. Until 2006, the board set-aside an additional \$200,000 each year. As of November 1, 2006, 21 projects have been funded. Of the \$953,000 committed to date, approximately \$195,000 has been returned, predominantly from loan loss reserve returns, and approximately \$56,000 has been forgiven because during predevelopment, it was determined that the proposed project was not feasible. Due to pressure on earnings, ACCESS will continue to be suspended for 2007.

### **ADVANCE PROGRAMS**

The Community Investment Program and the Economic Development Fund (CIP/EDF) comprise a \$1 billion revolving advance pool for affordable housing and economic development that benefits low- and moderate-income individuals and neighborhoods. As of November 1, 2006, the Seattle Bank had made \$3.214 billion in discounted CIP/EDF advances to fund 44,011 units of affordable housing for low and moderate income households and 240 economic development projects. All of these advances have been made at the Seattle Bank's cost of funds. Through the CIP/EDF, the Seattle Bank also offers discounted prices on its letters of credit and forward rate locks for qualifying projects.

### **SPECIAL INITIATIVES**

The Seattle Bank strives to develop partnerships with local and national community developers and implement initiatives that seek to increase homeownership for low- and moderate-income families. The following is an example of an initiative the Seattle Bank is currently administering:

The Smart Growth Fund is a \$10 million pool of CIP/EDF advances priced at rates below the Seattle Bank's cost of funds to support specific community development activities in partnership with The Enterprise Foundation and Seattle Bank members. The criteria for selecting partnerships that may access the Smart Growth Fund include: a) the projects must have a demonstrated community impact on affordable housing and/or economic development; b) the partnership must create viable, low-risk, CRA lending opportunities for members; and c) the partnership must support the bank's outreach to national or regional foundations or other agencies.

### **MARKET RESEARCH**

During 2004, the Seattle Bank distributed a survey to approximately 1,200 members and community partners to determine the unmet credit needs for affordable housing in our market. 78 members and 106 community partners responded to the survey. The urban/rural profile of the

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respondents was balanced with slightly higher responses from bank members and community partners serving rural communities.

General results of the survey are as follows:

- 23% of respondents primarily serve rural communities, 16% primarily serve urban and 60% serve both.
- 30% primarily serve populations below 50% AMI, 24% primarily serve the populations at 50% - 59% AMI, 29% serve populations at 60% - 80% AMI and 17% serve populations above 80% AMI.
- The top three community investment programs used by survey respondents were the Affordable Housing Program (38%), Home\$tart Program (31%), and Challenge Fund (11%).
- 35% of respondents indicated that their organization had used regularly priced advances.
- 73% of respondents stated that the Affordable Housing Program scoring priorities aligned well with the needs in their communities.
- The top two highest ranked unmet housing credit needs in the 12<sup>th</sup> District include the following:
  - Affordable homes for first-time homebuyers.
  - Affordable rental housing for households at or below 60% AMI.
- Almost 90% of respondents had never used the CIP/EDF to fund a loan for an economic development project, and provided the top three following explanations:
  - Economic development lending was not the respondent's business (33.5%).
  - They didn't know about it (22%).
  - Members were able to fund these loans from other sources (12%) such as their own excess liquidity.

### **COMMUNITY GOALS 2006**

The goals for 2006 are listed below and the results as of November 1, 2006 are written in italics.

#### **QUANTITATIVE GOALS 2006**

- Fund at least 13 community-based economic development projects with the Economic Development Fund. *12 community-based economic development projects were approved through CIP/EDF.*
- Provide at least \$40 million in new CIP advances. *\$39 million in new CIP advances have been provided.*
- Lend \$2 million in CIP/EDF advances to finance investment in NMTCs. *\$4.15 million in CIP/EDF advances have been provided to finance investment in NMTCs.*

#### **QUALITATIVE GOALS 2006**

- Implement a new community investment database. *This goal continues to be pursued as the Seattle Bank reviews partnership opportunities with other Federal Home Loan Banks.*
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- Implement the Advisory Council's 2006 work plan including, but not limited to:
    - Provide a clear and transparent message about the effect that earnings pressure has had on grant resources. *When the work plan was adopted in 2005, funding levels for AHP and Home\$start were projected to be negligible. However, in 2006, AHP and Home\$start were able to provide at least \$3 million each, primarily from funds that were returned from projects that did not go forward. Although funding levels had been reduced, they were not impacted as severely as originally predicted. Thus, while communications were consistent with the work plan's objective, they also stressed member participation in ensuring that scarce resources would be awarded to the most deserving projects such as by member underwriting of AHP applications and member calculation of homebuyer income to determine Home\$start applicants' income eligibility (using Seattle Bank guidelines). This was communicated via several mailings to members and sponsors and continues to be articulated on the Seattle Bank's Web site.*
    - Research the availability of alternative or temporary resources. *An analysis of opportunities for engaging non-member borrowers in CIP/EDF lending was provided at the November 2005 and February 2006 Advisory Council meetings.*
    - Increase marketing efforts for CIP/EDF. *In October 2006, the Community Investment Department hosted a Web-based seminar that focused on the member benefits for participating in CIP/EDF, and provided information about the member benefits for participating in Home\$start and AHP. This seminar was attended by 27 members, a record attendance for any Seattle Bank Web-based seminar. Moreover, the September issue of What Counts featured case studies and basic program information about CIP/EDF. Additionally, the annual Community Spirit Award was presented to Rainier Pacific Bank for its extensive use of CIP/EDF. The award was presented at the annual Management Conference attended by over 81 members. Furthermore, CIP/EDF was highlighted in the Affordable Housing Annual Report, a key marketing material for Community Investments.*
    - Affect system change, such as but not limited to recommending revisions to the AHP regulation that limit the Banks' ability to respond to local needs and impose undue compliance burdens on Banks, members and community groups, finding ways to meet the needs of underserved areas, and finding ways to distribute AHP equitably throughout the Seattle Bank's district. *The Advisory Council provided a comment letter to the Federal Housing Finance Board outlining areas where the AHP proposed rule would positively and negatively impact community investment in local communities and where it would impose undue compliance burdens. This letter also encouraged the Finance Board to publish a new proposed rule that would provide Banks greater flexibility to tailor AHP scoring criteria to meet local needs. The final rule adopted several of the Advisory Council's comments, such as but not limited to maintaining a provision allowing for AHP scoring points to be awarded to in-district projects and allowing Banks to define in their Implementation Plans the timing for when homebuyers are enrolled in the homeownership set-aside program.*
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*Additionally, some council members provided comment to the Finance Board about a proposed rule affecting Banks' retained earnings.*

**QUANTITATIVE GOALS FOR 2007**

- Increase the number of members with enrolled Home\$start buyers by 25
- Increase the number of members using CIP/EDF by 50%
- Seattle Bank Relationship Managers meet with Advisory Council members twice a year in the state represented by that council member
- Conduct two educational meetings to inform members of AHP monitoring and compliance responsibilities
- Conduct two educational meetings to inform members of Home\$start requirements

**QUALITATIVE GOALS FOR 2007**

- Pursue partnership opportunities for a financial literacy initiative
  - Produce marketing materials for community investment products
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