

DECISION MEMORANDUM OF THE BOARD OF DIRECTORS ACTING
WITHOUT A QUORUM

Date: March 14, 1994
No. 94-DM -07

ISSUE:

The Federal Home Loan Bank of San Francisco ("San Francisco Bank") has requested the Federal Housing Finance Board ("Finance Board") to approve an increase in Affordable Housing Program ("AHP") funds awarded to Citibank F.S.B. ("Citibank") on behalf of the North County Housing Foundation ("North County") in order to pay a fee for the cancellation of a part of a subsidized advance and to lower the interest rate on the remaining portion of the advance.

FACTORS CONSIDERED;

Subsection 10(j) of the Federal Home Loan Bank Act (12 U.S.C. §1430(j))("Bank Act") requires that each Federal Home Loan Bank ("Bank") establish an AHP.

The Finance Board has adopted regulations for the operation of the AHP ("AHP regulations") by each Bank, codified at 12 C.F.R. Part 960. The AHP regulations require that the Finance Board determine which applications for AHP awards are to be funded (12 C.F.R. § 960.5(f)) and that AHP funds may only be used for direct costs required to produce and/or finance affordable housing units (12 C.F.R. § 960.3(c)).

On December 17, 1991, the Finance Board approved an AHP application forwarded by the San Francisco Bank from Citibank for an AHP subsidy of \$18,153 to be used to reduce to 7 percent the interest rate on a \$340,000 subsidized advance which amount would be lent by Citibank at an interest rate of 8.5 percent to the Daybreak Grove/ Sunrise Place project ("Daybreak Grove project") sponsored by North County for the construction of twenty-one rental housing units.

Subsequent to the approval of the AHP award, changes in the sources of financing available to the Daybreak Grove project, increases in project operating costs, decreases in project income and an increased debt service coverage required by Citibank resulted in the Daybreak Grove project only being able to support a loan from Citibank of \$210,000 at an interest rate of 5 percent.

The San Francisco Bank and Citibank have requested a modification in the AHP award to increase the amount of AHP subsidy by \$15,500 to cover the cancellation fee that the San Francisco Bank would charge for cancelling \$130,000 of the \$340,000 subsidized advance. In addition, the San Francisco Bank has requested an increase to \$64,000 in the amount of AHP funds that would be available to lower the interest rate on the remaining \$210,000 portion of the subsidized advance to 3.5 percent, so that Citibank could provide a loan to the Daybreak Grove project at a 5 percent rate.

The Finance Board has never taken an affirmative position that permits AHP funds to be used to pay a cancellation fee charged by a Bank when a member cancels part of a subsidized advance. Consequently, affirmative action on this request to use AHP funds to cover the cancellation fee that the San Francisco Bank would charge for cancelling \$130,000 of the \$340,000 subsidized advance would establish new policy, which requires a quorum of the Finance Board.

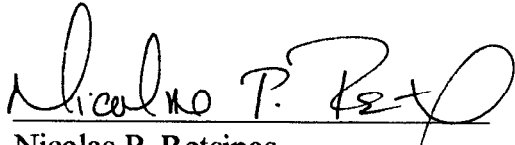
The change in the application's score due to the increase in AHP subsidy necessary to reduce the interest rate on the subsidized advance would have qualified the application for funding in the 1991 application round when it was originally approved by the Finance Board.

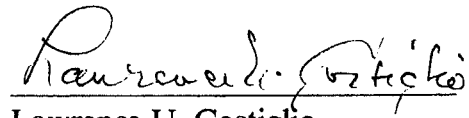
The HFD staff recommends approval of the increase in subsidy up to a total AHP subsidy of \$64,000 in order to reduce the interest rate on the subsidized advance to 3.5 percent.

The Finance Board reviewed the request to increase the AHP award to determine whether it was in accordance with the Bank Act, the AHP regulations, and existing policy.

DECISION

Based on the factors set forth above and the authority provided in 12 C.F.R. §960.5(f), an increase in AHP funds up to a total of \$64,000 in order to reduce the interest rate on the subsidized advance from the San Francisco Bank to Citibank to 3.5 percent for the Daybreak Grove project sponsored by North County is approved.


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