



***Federal Housing Finance Board
Office of Supervision***

Date: May 1, 2001

To: Federal Home Loan Bank Presidents, Chief Credit Officers, and Directors of Internal Audit

From: Mitchell Berns, Director
Office of Supervision

Subject: Housing Associates (HA)
Credit Underwriting and Regulatory Compliance

Background: It is important to ensure that prudent credit and collateral standards are in place and the regulatory requirements are met. Section 10b(b) of the Federal Home Loan Bank Act and 950.17(b)(2)(i) of the Federal Housing Finance Board regulations state, in part, that a Federal Home Loan Bank (Bank) may make an advance to a HA on the security of non-FHA-insured mortgage loans for the purpose of facilitating residential or commercial mortgage lending that benefits individuals or families meeting the income requirements in Section 142(d) or 143(f) of the Internal Revenue Service regulations. The established income limit is 115% of the area's median income. Section 950.17(b)(2)(ii) of the regulation states that prior to making an advance pursuant to the above paragraph, a Bank shall obtain a written certification from the HA that it shall use the proceeds of the advance for the purposes described in 950.17(b)(2)(i) of the regulation.

Guidance: Credit and collateral standards regarding HAs should be reviewed to assure that credit underwriting practices and collateral coverage adequately address any differences in risks that arise from extending credit to HAs as opposed to member institutions. Establishing and enforcing periodic collateral and financial reporting requirements for HAs is essential, as reports of examination and quarterly call reports are not available for these institutions. Banks should ensure that they can identify deteriorating financial trends or collateral quality, and that they are prepared to take timely action to mitigate any possible losses. Finally, Banks should maintain a system of internal control over the execution of credit extensions to HAs that ensures compliance with applicable statutory and regulatory requirements.