Federal Home Loan Bank System

Economic Development Forum:
Targeting Economic Development

June 4, 2002
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PRODUCED FOR:
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INTERNATIONAL
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A Message from
John T. Korsmo, Chairman
Federal Housing Finance Board
June 4, 2002

When the Federal Housing Finance Board invited representatives of the nation's twelve Federal Home Loan Banks to attend a forum on "best practices" in economic development, I started the day with remarks about safety and soundness.

It's a message I stress at every opportunity. The 1999 Gramm-Leach-Bliley legislation made it clear that the Finance Board's primary function is that of a "safety and soundness" regulator for the Bank System.

In my view, the Finance Board, as a regulator, must maintain a "bright line" between itself and the Bank System.

These opening comments were not intended to diminish the importance of the community development role of the Federal Home Loan Banks in any way. On the contrary. My goal was to reinforce the underlying strengths of the Federal Home Loan Bank System and all its solid attributes that make it possible for Banks to help build local businesses and communities.

If the Finance Board succeeds in its fundamental safety and soundness mission, then the System will have the resources to perform its important statutory duties in affordable housing and community investment.

I receive material from the Banks every day – brochures, discussion papers, memos – full of information about innovative projects and good ideas. These projects and ideas originate with the Banks, not the Federal Housing Finance Board, and my goal in sponsoring the conference was to help the Banks communicate better among themselves these "best practices." This final report provides a useful summary of the strategies, initiatives, and projects highlighted that day.

The history of the Banks' role in community investment is long, of course, as long as their 70 years of existence. Beginning with their inception in 1932, the Federal Home Loan Banks have supported America's community investment through the Banks' traditional advance business.

Since 1989, this mainstream advance business increasingly serves the needs of the System's expanding commercial bank membership and their business customers. As of the end of June 2002, there were 7,943 members of the System – approximately 73 percent of which are commercial banks.

In addition, with passage of the Financial Institutions Reform, Recovery and Enforcement Act (FIRREA) legislation in 1989, Congress established the Community Investment Program for offering advances at the cost of funds for affordable housing and targeted economic development lending. The Banks have made more than $3.5 billion in targeted economic and community development loans in the years since.

In fact, the Banks funded $2 billion in targeted economic development advances in just the past two years, compared to $1.5 billion in the previous 10 years combined.

Congress, back in 1996, also authorized the Banks to make investments in Small Business Investment Companies. As we learned at the conference, several of the Banks have already made or are pursuing such equity investments.

Following the 1998 expansion of the targeted beneficiaries for which the Banks could make advances for non-housing purposes, the Banks launched more targeted community-renewal funding initiatives, featuring names like Economic Development Growth and Enhancement Advances, Banking on Business, and the Living Wage Advance.

These economic development activities – and the housing and homeownership opportunities they reinforce – present another visible demonstration of the Banks' positive impact in their communities. It's clear that directors and executives have determined that community renewal and targeted economic investments can be sound business for the Banks, their members, and their communities.

The Banks' directors and executives also have determined that these initiatives can be a powerful marketing tool. Banks find it difficult to explain much of what they do. After all, how many people will spend time to research the business of making advances?

But financing the renovation of a building for a growing business or helping pay for a new sewer line to a development are concrete projects that are easy to talk about and serve as a good introduction to the Federal Home Loan Banks' operations.

All these issues are addressed in the final report of the "Targeting Economic Development Forum," a daylong event that, I believe, encouraged attendees to learn new things, share ideas, and move forward together to make the Banks successful in their development roles as they continue to strengthen communities across this nation.

EXECUTIVE SUMMARY

Economic Development Forum

Over the past few years, the Federal Home Loan Bank System (System) has broadened its focus from supporting home loan lending and the Affordable Housing Program (AHP) to include a broader range of economic development purposes. Today, System Banks are providing a wide range of business-based economic development programs that help communities. By expanding its membership to commercial lenders, the System has been able to spread its funds out to a wider range of economic areas to help support growth. While these programs are only one part of a complex network of programs that support economic development, they provide a critical function in helping secure financing for a variety of activities.

While the role of the System in economic development is limited in scale and defined in scope by statutes, its role is important. These economic development programs fill a unique role in the financing of many critical problems. The System has been effective in playing this role in an efficient manner.

The Economic Development Forum was designed to provide a network for sharing information about Federal Home Loan Bank involvement in providing support for economic development in their respective communities. By sharing information between Banks, the entire System can enhance its ability to provide programs that support economic development and communities.

This paper was developed by the International Economic Development Council (IEDC) in conjunction with the Economic Development Forum sponsored by the Federal Housing Finance Board (Finance Board) and held on June 4, 2002. This paper does not represent the views of the Finance Board.

This paper looks at “what” is happening around the country and through the forum discussions, explores the broader issues of “how” and “why” Banks become involved in specific economic development activities.

This look at the System’s economic development programs focuses on several key issues:

- What are the factors in creating and implementing programs to support community economic development that manage potential risk and support returns?
- How do you deploy resources of the Banks to effectively support community economic development?
- What are successful models of partnership that support and enhance efforts?
- How do you affect change, meet challenges and seize opportunities?

Economic Development as an Opportunity

A majority of the Federal Home Loan Banks have modest and healthy economic development programs. These vary from Bank to Bank in approach, operation, funding, and staffing. The support for some level of economic development programming from the customer base of the Banks seems strong. As a result of strong ties to their customers and communities, the Banks are able to be creative with programs that respond to local market needs and conditions. Even in areas where the Banks represent both rural and urban areas, their programs are able to adapt appropriately to the needs of their customers. Based on our review of the programs for this forum, deal by deal, these programs have shown a modest rate of success.

The programs profiled in this forum seem to be mainly focused on supporting small businesses and entrepreneurial development. Though these programs have been largely successful, this represents only a narrow segment of support needed for communities. However, several Bank programs are creating a new trend -- supporting development on a different scale, such as funding for supermarkets, retail centers, and other community development incubators. These programs should be held up as examples of good, innovative development.

The System has taken great strides in making its funds easily accessible to its customers and the communities it serves by requiring minimal paperwork. Bank programs also have shown creativity by utilizing partnerships with state and local economic development groups, commercial lenders, and even federal agencies, allowing for a broad distribution of funds and programs. These partnerships have been especially helpful in marketing programs to communities throughout the regions represented by each Bank.

In many of these programs no benchmark has been defined as most are still in their early years. As they progress over the next few years, System Banks should work to analyze the performance of programs and share information to determine overall best practices. This effort may involve expanding the terms by which success is defined. Currently, the only measurement is jobs created or retained.

The forum raised some important issues for the Federal Home Loan Bank System and its members. Thinking ahead, there are some questions that need to be asked. How well known are these programs? How are marketing efforts initiated and measured? Can the System do a better job in this department? In order to have successful development programs, the products available should be advertised to as wide a market as possible.

As many of these programs are still in nascent stages, it also must be asked how much they can be expanded. Are they too small to get a reliable measure of success? How can these programs be ramped up in order to reach as many communities as possible?

The System's existing efforts to target economic development are a good start. Though these programs are very young, they have all managed a modest rate of success over the first few years. It is now the responsibility of the System to continue on this path, providing low-cost funds to help with housing, community, and economic development.

BACKGROUND

The Federal Home Loan Bank System was created in 1932 as a government-sponsored enterprise (GSE). Regulated by the Federal Housing Finance Board, the purpose of the System is to facilitate residential mortgage lending and to support community and economic development activity in partnership with local lending institutions.

The System is comprised of twelve regional Banks, each of which operates independently and is profit-driven. Each Bank is owned cooperatively by its shareholders, which consist primarily of thrifts, commercial banks, credit unions and insurance companies. Nationally, approximately 8,000 lending institutions participate as shareholders and customers, all of which are members of their regional Banks.

The Banks are wholesale banks. The core business of the System is borrowing money through the worldwide capital markets and lending money to customers and shareholders in the form of "advances." Due to the AAA rating of the Banks, they are able to raise funds quickly and inexpensively. No Bank in the System has ever suffered a credit loss. As of June 30, 2002, assets of the Banks were $725.6 billion and the twelve Banks had about $470.4 billion in advances outstanding to their customers. Access to advances assures that local lenders have adequate liquidity to meet local demand for loans, manage their interest rate risk effectively, and offer competitive financing terms to homebuyers and businesses.

While the primary focus of the Banks has been providing advances to support the residential mortgage finance activities of their members, the Banks' members have always, to some extent, supported the economic development activities because money is fungible.

Early Developments

In 1978, the Federal Home Loan Bank Board, then regulator of the Banks, directed the Banks to offer specially priced advances through a Community Investment Fund (CIF) to members to preserve or revitalize mature communities. This was to be a five-year program - advances were to be offered at 50-100 basis points below the estimated cost of a newly issued consolidated obligation of comparable maturity to lenders with strong community investment performance records. Between 1978 and 1983, the Banks advanced a cumulative total of $7.9 billion in CIF funds. The original program involved $2 billion in discounted advances per year but over time, some of the Banks dropped the program while others continued it even after five years, but without the below-market discount. By 1989, the Banks had issued $10 billion in CIF advances.

In 1979, Congress gave Banks the authority to invest in Specialized Small Business Investment Companies (SSBICs), which are generally SBICs that invest in minority-owned businesses. In 1996, the Small Business Programs Improvement Act permitted Banks to invest in any SBIC for the purpose of aiding Bank members.

The provision was added to enhance the Banks' ability to support economic and community development through promoting small business investment and growth. The action also was intended to increase the capacity of SBICs as a small business funding resource by increasing the pool of potential investors. The expectation was that the opportunity for Bank investment would increase member interest in forming or investing in SBICs. The Finance Board provided regulatory guidance in the Federal Home Loan Bank Acquired Member Assets, Core Mission Activities, and Investments and Advances regulation.

FIRREA Legislation

The Financial Institutions Reform, Recovery, and Enforcement Act of 1989 (FIRREA), prescribed a more proactive community investment role for the Banks. Congress opened up the System to commercial banks and as of June 30, 2002 approximately 73 percent of all members are commercial banks. FIRREA required Banks to establish Community Investment Programs (CIP) for both housing and economic development purposes. Specifically, the statute required each Bank to establish a program to provide funding for members to undertake "community-oriented mortgage lending." Banks were directed to designate a community investment officer to implement community lending and to provide technical assistance and outreach to promote such programs.

"Community-oriented mortgage lending" was defined as providing loans to finance: the purchase or rehabilitation of housing by or occupied by families whose income does not exceed 115 percent of the area median; and commercial and economic development activities that benefit low- and moderate-income families or activities that are located in low- and moderate-income neighborhoods (defined as neighborhoods in which 51 percent or more of the households have incomes at 73 percent of the area median income or less). In this same legislation, Congress also mandated a new tool for the regional Banks to more effectively address the housing needs of lower-income families – the Affordable Housing Program (AHP).

It is the position of the Finance Board that, when Congress amended the Bank Act in 1989 to require the Banks to offer AHP and CIP programs and authorized the Banks to offer other advances, the Banks' "housing finance mission" as referenced in section 2(A)(3)(B)(ii) of the Bank Act came to include support not only for the financing of traditional housing-related activities, but also for those types of community lending that the Banks are authorized to support and that indirectly enhance traditional housing finance by helping to create and sustain thriving and livable communities.

Regulatory Efforts

In keeping with guidance from Congress that the Banks offer other advances, to support the housing finance mission, the Finance Board promulgated the Community Investment Cash Advance (CICA) regulation, in late 1998, which among other features, eased the way for the Banks to issue long term advances for targeted economic development. The CICA programs offer funding, including low-cost, long-term funds for member institutions to use to provide financing for projects that are targeted to certain economic development and housing activities. Economic development projects include commercial, industrial, manufacturing, social service, infrastructure, and public facility projects and activities.

Specifically, CICA programs in rural areas must benefit families with incomes at or below 115 percent of the area median income, and in urban areas at or below 100 percent of the area median. CICA advances may be targeted: to geographic areas (such as those located in Empowerment Zones, involving properties eligible for a federal Brownfield tax credit, Indian areas, or in communities which have experienced NAFTA-related job losses or communities affected by base closings); by individuals served (through jobs or services); or by activity (small businesses as defined by the Small Business Administration). Banks may also create CICA programs to meet other needs. Banks were required to submit an initial needs assessment of their credit needs and market opportunities to the Finance Board by July 1, 1999. Thereafter, on an annual basis, Banks are required to develop annual Community Lending Plans and to consult with their Advisory Councils, members, the public, and private economic development organizations in their districts in so doing.

Also in late 1998, the Finance Board published a final rule to increase flexibility in the use of standby letters of credit (LOCs) issued by Bank members. An LOC is an undertaking by a financial institution on behalf of its customer that obligates the financial institution to honor drafts or other demands for payment made by a third party. Since Bank LOCs are AAA-rated they are considered very high quality credit enhancements that can be used to collateralize deposits placed in financial institutions by state or local governments and used for targeted loan programs, to credit enhance housing bonds issued by state or local governments, to make principal and interest payments on commercial paper issuances or to serve as performance bonds that local governments require of project developers. The regulation permits LOCs to be issued for housing, community lending (using the CICA definition), liquidity, or asset/liability management purposes and expands the type of collateral that Bank members may use to secure LOCs used for housing and community lending purposes.

In May 2000, the Finance Board published a final regulation on The Powers and Responsibilities of Bank Boards of Directors and Senior Management. The regulation at 12 C.F.R. Section 940.2 states: “The mission of the Banks is to provide to their members and associates financial products and services, including but not limited to advances, that assist and enhance such members’ and associates’ financing of: (1) housing, including single-family and multifamily-housing serving consumers of all income levels; and (2) community lending.

The following are examples of core mission activities that must be addressed in the Banks’ strategic business plans, many of which the Banks have been participating in/offering for years such as: advances or loans made to members; acquired member assets; and standby letters of credit. Also included are debt or equity investments that primarily benefit households having a targeted income level, a significant portion of which must benefit households with incomes of 80 percent of area median income, or areas targeted for redevelopment by local, state, tribal or the Federal government. Investment or debt financing may be made in or for: housing, economic development, community services, permanent jobs, or area revitalization or stabilization. The targeting specified in this regulation is similar to that specified in the Finance Board's CICA regulation - 115 percent of area median income in rural areas and 110 percent of area median in urban areas.

The following activities also are listed in the regulation: investment in Small Business Investment Companies (SBICs) and SBIC debentures; Section 108 Interim Notes and Participation Certificates guaranteed by the Department of Housing and Urban Development; and investments and obligations issued or guaranteed under the Native American Housing and Assistance and Self-Determination Act of 1996.

Gramm-Leach-Bliley Legislation

Congress recently has made several additional modifications to the Bank Act, which will make it easier to begin commercial and economic development activities. The Gramm-Leach-Bliley legislation, signed into law on November 12, 1999, made all membership in the System voluntary, made it easier for small banks to join the System and expanded the type of collateral that such members can use to obtain advances.

Previous law required all insured depository institutions to have at least ten percent of their total assets in residential mortgage loans in order to be eligible to join the System. The new law eliminated that requirement for any "community financial institution" (CFI), which is defined as a member of the System, the deposits of which are insured by the FDIC and that has average total assets of less than $500 million. The $500 million cap is adjusted annually by the Finance Board to reflect any percentage increase in the preceding year's Consumer Price Index. Currently the limit is $527 million.

The new law also allows CFIs to obtain long-term advances for the additional purposes of funding loans for small businesses, small farms and small agribusinesses and to post as collateral for its advances any secured loans for small business, agriculture or securities representing a whole interest in such loans.

ECONOMIC DEVELOPMENT FORUM SUMMARY

(Full copies of presentations from the forum are available at the following URL: www.fhfb.gov)

The following proceedings offer summaries and highlights of the day-long program. We also have included supplemental appendices to add to the presentations given by some of the panelists.

The conference was divided into three separate panels. Panel One focused mainly on programs involving grants, special incentives, and technical assistance. Programs covered by this panel included pre-development funds, growth enhancement funds, and leadership training and technical assistance programs.

Panel Two highlighted special partnerships designed to achieve government purposes, including programs affiliated with federal agencies and special tax-break programs.

Panel Three addressed Bank loan programs involving advances and letters of credit.

The conference also was marked by keynote speeches by Congressman Paul Kanjorski (D-PA), Ranking Member of the House Subcommittee on Capital Markets, Insurance and Government Sponsored Enterprises and Raymond R. Christman, Chairman of the Bank President's Conference. Each of these speakers outlined their goals and ideals for the System as they related to economic development. Also speaking were John T. Korsmo, Chairman of the Federal Home Finance Board and Jeffrey A. Finkle, President and CEO of the International Economic Development Council.

Economic Development and the Role of the Federal Home Loan Bank System

Presented by: John T. Korsmo, Chairman, Federal Home Finance Board

The goal of "Targeting Economic Development" was for the representatives from each of the Banks to share their ideas and programs and help to establish a system-wide set of best practices for the Banks to follow. One of the major roles that the Banks play is in community investment. As each of these Banks are centralized in specific regions, they have managed to forge relationships with the commercial lenders with which they work, and as a result, they form ties to the communities that these lenders serve.

Since 1989, the Federal Home Loan Bank System has been providing commercial lenders with low-cost, low-risk funds for home loans to their customers. In more recent years, the System has expanded into small business loan programs, training and education programs, and other economic development programs in order to encourage and expand community development outside of major metropolitan areas. Though some of the Banks are located in major cities such as New York, Atlanta and Boston, their programs focus mainly on fostering small business expansion and creation.

The System has close to 8,000 members, 73% of which are commercial banks and lenders. This has enabled it to reach into almost every possible market in the United States in order to spread the wealth.

There are many good ideas in the area of community investment, and many of these have started in Banks with loan, advance, and credit programs. The System is able to test these programs on a large scale, and in doing so, hopes to develop a standard of best practices for other lenders to follow.

An Overview Of Economic Development Today

Presented By: Jeffrey A. Finkle, CEcD, President & CEO, International Economic Development Council: Washington, DC

Economic development has changed along with the role of business in the current economy. Economic development is now more important than ever in the ever-expanding global financial system. With small businesses being the largest employers as well as the fastest growing, it is important that the workforce be as educated as possible. Because the centers of wealth in the United States also are expanding, it is important for the new markets to be able to support these businesses as they grow. Currently, there is a lack of skilled workers in the smaller, more rural parts of the U.S., especially in places with high unemployment rates. Traditionally, businesses have looked to expand into areas like these, where the unemployment rate is high due to the abundance of available labor. However, this has become more difficult as the economy has become increasingly technology-based. More and more, unskilled labor is on its way out, and more businesses need employees who possess computer and other technical skills.

Whereas economic development once meant opening a factory and staffing it with unskilled labor, businesses now are forced to implement workforce training and development programs to bring their new employees up to speed on their industry and the technological aspects. While there is a younger generation of workers on its way out of college every year, new and old businesses alike must also retrain their current workforce to adapt to the rapidly changing work environment.

As small businesses grow and expand, they are quickly becoming the largest class of employers in the country. This is where the role of the Federal Home Loan Bank System comes into play. By encouraging smart growth and helping small businesses to get their feet on the ground along with local commercial lenders, the System can serve as an engine for economic development with a defined mission of what the Banks should do towards community and economic development.

Panel I – Grants, Special Incentives, Technical Assistance

Director Franz S. Leichter introduced the first panel by saying, among other things:

“We often focus our public comments on the housing part of the Federal Home Loan Bank System’s mission but we also are charged with supporting economic development. It is vital to the development of our communities that the two go hand in hand. It is difficult for an area to thrive without both housing and the myriad of development to support it, including small businesses, job development and childcare.”

ATLANTA

Presented By: Lynn M. Brazen, VP, Community Investment Services

Program: Economic Development and Growth Enhancement Advances – The flagship program of the Atlanta Bank is the Economic Development and Growth Enhancement (EDGE) advances. EDGE advances are subsidized advances at a low-market rate, used mainly for supermarkets and retail establishments and small business microloan funds. The Atlanta Bank runs a very selective process, looking for projects that will bring a variety of investment and jobs to a given area. In 1999, its first year, this program approved $3 million in advances. By 2000, that number had increased to $17 million, and had helped to fund 20 projects. In 2001, this program was expanded to an opportunity fund for random projects, and also helped to establish a predevelopment fund for projects still in planning stages.

CINCINNATI

Presented By: Carol M. Peterson, Sr. VP, Housing and Community Development

Program: Zero Interest Fund – Completely recreated in 2001, the Zero Interest Fund was established to promote economic development, job creation, and business retention and expansion through zero-interest loans to member banks. A revolving loan fund, the monies distributed through this program are eligible for "early-in" costs of mixed-use residential, commercial and industrial projects. In one year, this program has helped to create or retain 350 jobs in various and diverse projects throughout the Bank's area.

DALLAS

Presented By: Criss D. Murdoch, Sr. VP, Director, Community Investment

Program: EDP Plus – EDP Plus, a grant program for small business development administered by the Dallas Bank, is intended to spur business retention and expansion, this program is a supplement to a member bank loan and equity from the small business owner. It is designed to help member banks make potentially risky loans they would not normally make. Begun this year, EDP Plus has been used to fund two projects so far, and is currently looking into others.

DES MOINES

Presented By: Curt Heidt, VP, Community Investment Services

Program: Leadership Training Institute – A two-day intensive program, the Leadership Training Institute is designed to help individuals from rural communities (populations of less than 5,000) work towards economic development and develop their leadership skills. Working in teams, one representative from a member bank and one or two community representatives attend this seminar, where they cover basic economic development principles in addition to teaching the attendees principles of leading change, visioning, plan development and other leadership skills. So far, 100% of the attendees have found the training to be useful and helpful, and even went so far as to request follow-up sessions, which are currently in the works. This program is run as a partnership with the Heartland Center for Leadership Development in Lincoln, Nebraska.

PITTSBURGH

Presented By: John J. Bendel, Sr. VP, Director, Community Investment

Program: Banking on Business (BOB) – Though the traditional mission of the Bank is to provide affordable housing for all, the Pittsburgh Bank has taken on the challenge of providing jobs before housing. Begun in 2000, BOB is recoverable financing for small businesses. Member banks must have their own money at risk, as must the businesses themselves. BOB will provide less than or equal to 50% of the project up to $250,000. As of May 2002, 131 businesses had been funded through this program with a total value of $8.2 million and 1800 jobs created or retained, with an average of 14 jobs per deal.

TOPEKA

Presented By: Christopher J. Imming, First VP, Housing Community Development

Program: Rural Technical Assistance Program (RTAP) – In an assessment of community and economic development groups done in 1998, the Topeka Bank discovered that there was a distinct need for technical assistance and training in most of its region. The most significant barrier to economic development and job creation was a lack of affordable housing. The RTAP program was designed to provide strategic planning to identify specific needs in communities, and subsequently help to increase their capacity for affordable housing and job creation. Marketed by member institutions, the process involves five to seven meetings in a community to identify its needs and form a basis for a plan over a six-month period. From the needs assessment, those needs are prioritized and become a part of a working master plan, usually including a plan for business retention and expansion and job creation. This helps the community to develop its capacity to identify its own needs and adjust its plan to suit the progress that it makes. The end result is to make the program ongoing in every community it services. Currently, 20 communities, all of which are being evaluated to determine their success and the overall worth of the RTAP, have used this program. The Bank plans to expand this program into economic development activities.

SEATTLE

Presented By: David A. Bley, Exec. VP, Director of Corporate and Community Development & John Moon, Public Interest Investment Banker

Program: ACCESS Program – Intended to develop strong relationships between member banks, communities, and the Bank, the Seattle Bank has developed the ACCESS program. This program provides recoverable grants for predevelopment costs to economic development programs. Awards range from $1,000 to $100,000, suited to the needs of the projects. Funded at $200,000 per year plus any funds recovered, the goal of this program is to create new relationships and lending opportunities by giving these economic development programs a head start. To be eligible for these funds, a project must have measurable impact, it must be involved in community development and economic development, there must be involvement from a member bank. There also must be a demonstrated need for economic development in the community, and the developer must demonstrate need and capacity for the grant and the project. Over the next few years, the Seattle Bank plans to advance and expand this program.

Panel II – Partnerships to Achieve Government Purposes

Director Allan I. Mendelowitz introduced the panel by saying, among other things:

“The System is justified only by its mission, and the most important goal is to constantly work on improving the method by which that mission is carried out.”

CHICAGO

Presented By: Eldridge Edgecomb, Sr. VP, Community Investment Services

Program: Just In Time Paper – Begun in 1997, this program is intended to provide interim financing for small business investment centers. A peculiar type of venture capital, small business investment centers are formed to serve small businesses, and to stimulate the flow of venture capital to support their need for growth, modernization and expansion. SBICs must have private capital of at least $5 million, but can leverage that capital up to 300% from the Small Business Administration. Approximately 44% of that money goes to startup companies, defined as those that have been in business for less than two years. In the United States, 49 states have SBICs, as do Puerto Rico, the Virgin Islands and the District of Columbia. There are 24 million small businesses in the U.S., employing 52% of the workforce and accounting for 51% of the gross domestic product. Small businesses also are the number one source of new jobs in the U.S. Since capital is constantly needed, the Chicago Bank has established this program to provide short-term funding for SBICs until SBA financing is final.

SAN FRANCISCO

Presented By: James Yacenda, VP, Community Investment Services

Program: Business and Industry Program MOU – This program was created as a partnership between the 12 Banks and the U.S. Department of Agriculture in 1998 to provide loan guarantees in distressed rural areas. The Bank discovered that a lack of affordable housing was an inhibitor to economic development growth for service sector workers, and that it was most pronounced in rural areas where farming and agribusiness had once been the main sources of jobs. The MOU was created to help rural communities develop small businesses in partnership with the USDA and local commercial lenders. The San Francisco Bank created the Advances for Community Enterprise to go in hand with the Business and Industry program MOU to provide funding to increase economic development capacity in faith-based groups.

DES MOINES

Presented By: Curt Heidt, VP, Community Investment Services

Program: SBIC Investment – This program is designed to provide financing for growth, modernization and expansion of small businesses. The Des Moines Bank has invested $1.4 million into this program to provide loans and capital for expansion and growth into low-income, neglected, and underdeveloped neighborhoods. This program is designed to act as a regional SBIC, supplemented by member bank and customer involvement. Though the Bank expects to lose money in the first two years, return on these loans should supply the fund with more than enough capital to continue.

CINCINNATI

Presented By: Carol M. Peterson, Sr. VP, Housing and Community Investment

Program: Economic Development Partnership Program – Formed with the intent of creating partnerships with economic development organizations, small business investment companies, and other entities to assist economic development, job creation, and business expansion and retention. As of 2002, the Cincinnati Bank had partnered with the Appalachian Regional Commission, the Kentucky Housing Corporation, the Ohio Community Development Finance Fund, Renaissance Kentucky, the Tennessee Department of Mental Health and Development Disabilities, and the USDA Ohio Office of Rural Development. This partnership has created joint agreements to promote one another's initiatives, and will eventually lead to joint economic development programs. Through the benefits of networking, the partners have been able to learn from each other's ideas, successes and failures. The Bank is currently looking to expand its program and develop more partnerships.

ATLANTA

Presented By: Arthur C. Campbell, VP, Community Investment Services

Program: New Markets Tax Credit Initiative – The Federal Home Loan Bank of Atlanta has approved a demonstration New Markets Tax Credit Fund whereby an amount not to exceed $100,000 matching funds in the form of recoverable grants will be offered to members who agree to invest at least the recoverable grant plus a like amount into funds qualifying for New Markets Tax Credits. The Bank's grant funds will be recovered in full after seven years, but not later than ten years after the date the recoverable grant is awarded. Generally New Markets Tax Credits are targeted to geographic areas with the same type demographic profile as areas targeted by the Bank's Economic Development and Growth Enhancement (EDGE) program which was established under CICA regulations.

Panel III – Advances/Letters of Credit

Director J. Timothy O'Neill introduced the panel by saying, among other things:

"You all know that I always proclaim that the AHP is the "Crown Jewel" of the System. From what I have been hearing today, it seems that some of these Bank activities in economic development may soon be giving my beloved AHP a run for its money. When used creatively, the System's core product -- advances -- can be a powerful tool to better communities when applied as part of a comprehensive approach."

BOSTON

Presented By: M. Susan Elliott, Executive Vice President

Program: Community Development Advances (CDA) – Community Development Advances were created to develop more business from existing core customers. In-house expertise was developed to create programs and products that fit the marketplace in the region. Since Bank-wide goals include community development, the Boston Bank realized that its products for member institutions needed to focus on more than just price and features. Boston also created a subsidy program called the "Pot of Gold" with $20 million, leveraged to $58 million. Technical assistance programs and funding strategists help to create strategies to minimize risk and maximize potential.

TOPEKA

Presented By: Christopher J. Imming, First VP, Housing Community Development

Program: Project Specific Advances – Priced at the cost of funds plus a reasonable administrative cost, these advances are designed to help small businesses develop and expand. Eligibility requirements are fairly simple, and the targeting requirements are very flexible. These advances can be used for member financing of loans, purchase of bonds, and secondary market activities. Any project that is non-housing related is eligible, so long as it meets SBA size standards and is in a CIP qualified area or a federally designated area, and if at least 50% of the jobs are at or below the targeted income level (80% of the median income).

NEW YORK

Presented By: Donald J. Wolff, Sr. VP, Community Investment Administration

Program: Childcare Advances – The New York Bank has built on existing programs in the area. One of these is targeting childcare centers as economic development. By partnering with the New York State Banking Department, the Bank was able to provide low-cost funding to bring childcare advances to low-income families. Since the long-term maturity aspect is important to their advances, the Bank has looked for outside partnerships. In addition to the New York State Banking Department, it also has partnered with the New Jersey Economic Development Administration and garnered commitments of various amounts for a diverse range of development and expansion projects, such as day care centers, charter schools and affordable housing. The Bank also has created workforce development programs in conjunction with the New Jersey Economic Development Authority.

INDIANAPOLIS
Presented By: Patricia Gamble-Moore, VP, Community Investment Officer

Program: Letters of Credit – Letters of credit are an irrevocable commitment by the Bank to pay regardless of what happens with the underlying transaction. If drawn, payment is made to the trustee as a letter of credit beneficiary. Letters of credit can be used for housing finance or commercial economic development that benefit low- or moderate-income families or that are located in low- or moderate-income neighborhoods; purchase of mortgage loans or servicing rights with the letter of credit as a performance bond; or the collateralization of public unit deposits. Housing finance authorities also may use letters of credit. There are two types of letters of credit: the standby letter of credit, which is drawn upon only if the underlying transaction does not perform; and the direct pay letter of credit, with which the bond trustee draws directly on the Indianapolis Bank for principal and interest payments. The Bank has seen this program develop as an inexpensive way to fund housing and economic development at AAA credit rates.

Economic Development Forum: Observations

Presented By: Jeffrey A. Finkle, President and CEO, International Economic Development Council, Washington, DC

Many of the Federal Home Loan Banks have modest economic development programs that vary from Bank to Bank in approach, operative, funding, and staffing. The customer base of these Banks seems to desire some level of economic development programming. As a result of strong ties to their customers and communities, the Banks are able to be creative and respond to local market needs and conditions. Even in areas where the Banks represent both rural and urban areas, their programs are able to adapt appropriately to the needs of their customers. Deal by deal, these programs have shown a modest rate of success.

The System has taken great strides in making its funds easily accessible to its customers and the communities it serves by requiring minimal paperwork. Bank programs also have shown creativity by utilizing partnerships with state and local economic development groups, commercial lenders, and even federal agencies, allowing for a broad distribution of funds and programs. These partnerships have been especially helpful in marketing programs to communities throughout the regions represented by each Bank.

In many of these programs, no benchmark has been defined, as they are very young. As they progress over the next few years, the people running these programs can determine better results. It also may be necessary to expand the terms by which success is defined. Currently, the only measurement is jobs created or retained. If the role of the System is to be expanded further into economic development, the Banks themselves may need to expand by hiring dedicated economic development professionals, who have experience in the field and are able to craft even better programs than those that currently exist.

The programs profiled in this forum seem to be mainly focused on supporting small businesses and entrepreneurial development. Though these programs have been largely successful, that can be a narrow view of economic and community development. There seem to be a few trends toward development on a different scale, such as funding for supermarkets, retail centers, and other community development incubators, and these programs should be held up as examples of good, innovative development.

Thinking ahead, there are some questions that need to be asked. How well known are these programs? How are marketing efforts initiated and measured? Can the System do a better job in this department? In order to have successful development programs, the products available should be advertised to as wide a market as possible.

The Banks also must question whether they are subsidizing competitors for existing businesses, rather than helping existing businesses to expand and thrive in their communities. In any business retention, expansion, or attraction program, this can be a major hurdle at the start. The Banks must decide what is more important to the economic viability of a community – existing business or new business.

As many of these programs are still in nascent stages, it also must be asked how much they can be expanded. Are they too small to get a reliable measure of success? How can these programs be ramped up in order to reach as many communities as possible?

What we have seen is a very good start. Although these programs are very young, all have managed a modest rate of success over the first few years. It is now the responsibility of the System to continue on this path, providing low-cost funds to help with housing, community, and economic development.

APPENDIX A

Keynote Remarks

Remarks of Congressman Paul Kanjorski (D-PA)

The Federal Home Loan Bank System is a jewel waiting to be polished. The System has grown significantly since its creation and today focuses not only on promoting homeownership but also expanding economic development. This latter mission has the potential to become the System's most important undertaking.

Congressional hearings in the 1990s determined that venture capital generally did not extend beyond a 60- to 100-mile radius of large cities, traditionally the centers of wealth in the U.S. There were, as a result, many areas of the country left untouched by any development. No start-up money was being handed out to smaller businesses in these rural and small-town areas. In addition, no new technology was being brought in. Any development that did occur in these areas was often centered on secondary and tertiary offices and production centers.

Around the same time, Congress also determined that although many of the economic development programs currently in place were doing well, they simply were not doing enough. The wealth of the country needed to be spread to an even broader section of the country, and outreach programs needed to be expanded and created to give distressed communities a helping hand.

As a result of these hearings and these findings, Congressman Kanjorski concluded that the FHLB System -- with its private sector filtering system -- should serve as the economic development arm of the government. The federal government working through the FHLBanks could create new capital for these underdeveloped areas. Accordingly, Congress implemented these reforms in the Gramm-Leach-Bliley Act. This law expanded the ability of the FHLB System to provide funds to any community financial institution for small businesses, small farms, and small agri-business purposes.

In 1999, President Clinton proposed the New Markets Initiative. As part of this effort, he took a group of congressmen and business leaders around the country to look at distressed and underdeveloped communities. During these trips, they studied what could be done to help prop up these communities and help them get on the road to sustainable economic growth. A common thread apparent from these trips was how lack of an educated workforce contributed to economic hardship. The economic deterioration that had been ongoing for years was allowed to perpetuate because of a lack of direction, hope, and drive.

Elements of the New Markets Initiative were combined with the Community Renewal program and became law in 2000. Some FHLBanks already have embraced this new law and have created programs to augment it and help underserved communities. The members of a FHLBank can gain access to low-cost funds, and these banks already have a connection to many low-income communities through their dealings with the Affordable Housing Program. The idea was planted for these banks to serve as economic development forces to help with the expansion of business into these underdeveloped areas.

Another way to help underserved communities is to expand research universities and national laboratories. Technology developed at these facilities should be directed to underserved communities with new sources of capital, and the FHLB System should encourage this through government funds and the use of public-private partnerships.

Though the Affordable Housing Program has done wonders for low- and moderate-income families in their search for places to live, the FHLB System should also help to provide these people with good jobs and steady incomes. It is easy to put a person with a job into a home. It is far more difficult to do the reverse. Jobs should come before homes in order to create new wealth. This should be the ever-expanding goal of the FHLB System in the years to come.

Raymond R. Christman, Chairman of the Bank Presidents' Conference

Good afternoon. I'd like first to congratulate Chairman Korsmo and the other members of the Finance Board for their leadership and initiative in holding this conference on an important and timely subject. I'd also like to acknowledge my old friend and colleague, Jeff Finkle of IEDC, for his role in helping to organize and facilitate this event. I served on Jeff's board for many years and he has done a great job in building IEDC into the preeminent economic development organization it is.

I want today to make some comments on the role that the FHLBanks can play in community economic development, the rationale that I believe exists to support this activity, and the challenges that we must address in order to be successful in this regard.

But first, I want to put these comments in some context because I believe that one's view about the system's involvement in economic development depends basically on one's vision of the mission and purpose of the FHLBanks.

Obviously, our core purpose is to support housing in this country. That is our historic role and should remain our central mission in the decades ahead. But some would argue that our mission must begin and end with housing finance. I think that ignores some realities of the marketplace and the way that our traditional mission has already changed in fundamental ways over the past 10-15 years.

First, we have evolved from being a provider of housing-related credit to being a general provider of liquidity to the financial services industry. The expansion of our membership to commercial banks, (as granted by FIRREA), the movement of many commercial banks away from portfolio residential lending and into commercial lending, and, finally, the granting of commercial real estate collateral authority by GLB, has fundamentally expanded the purposes for which we lend money. While we can argue about the pace at which these trends are likely to move forward, it is certain they will continue, and I believe the FHLBank system will increasingly be a provider of credit for general purposes, not just housing.

Second, also as a result of FIRREA, the FHLBank system has become one of the major players in the field of affordable housing, primarily through AHP. In barely more than a decade, we have become an integral part of the world of housing non-profits, HFA's, local and state governments, and member institutions that support housing for low- and moderate-income families. We should remember that this involvement is not just a philanthropic activity. Through AHP, CIP, First-Time Homebuyer Program, and other initiatives we offer a way for members to realize their objectives to serve low- and moderate-income families. It seems reasonable, therefore, as the system's advance activities become more and more associated with commercial as well as housing purposes that there will be a growing interest in having our "public purpose" arm serve community economic development as well as affordable housing purposes.

In short, I believe in the future that the membership of the system will be comprised more and more of commercial banks, engaged more and more in lending other than residential. If we plan to continue to follow the market, we will need to find ways to support the needs of these members, both in providing credit and in working with them to creatively meet the commercial and economic development needs of the communities they and we serve.

Interestingly, these developments and trends were foreshadowed in the FIRREA legislation, which gave broad authority to the FHLBanks to engage in commercial and economic activities that benefit low- and moderate-income families and neighborhoods. These provisions, of course, led to the CICA regulation, which in turn led to the various FHLBank initiatives that are being discussed today.

So, we have a clear public policy rationale for action in this area, a clear indication that our market is moving in the direction of requiring more assistance from the FHLBanks in commercial and economic lending, and the beginnings of some modest but interesting initiatives by the Banks in this regard. What then are the challenges for the future?

The first I believe is securing consistent leadership and commitment to this business direction by management and boards of all the FHLBanks. At this point, it is clearly mixed at best. One problem, I believe, is that some within the system fear that any movement toward commercial and economic lending will mean a proportionate decline in our attention to housing. I don't think that has to be the case. As I stated earlier, I believe strongly that housing should remain our core purpose and objective. But if we can successfully build on this base by utilizing both our credit and community investment products for commercial and economic development objectives as well, we can become a better diversified, better balanced system, as well as one appealing to a broader public service and non-profit constituency.

The second challenge is money. Unlike the affordable housing arena, where AHP provides a steady, growing funding stream, there is no dedicated funding available for economic development. And given these REFCORP and AHP requirements, it is unlikely that a major new funding requirement can be created with support from the Banks. Given this, what can we do to operationalize our involvement in this area? For one thing, we can continue what already has begun: small, modest, voluntary efforts by banks to start promising programs and initiatives such as those being discussed today. It doesn't necessarily take a lot of money to make a beginning in this field, as many of us have shown with the programs already underway. As an example, the FHLB of Atlanta's EDGE program provided \$4.9 million in subsidy last year, in the process leveraging another \$13 million in member bank funds, and leading to projects with a total development cost of \$56 million.

Longer term, however, a dedicated funding stream is needed. My best candidate to provide this continues to be the REFCORP program. On the assumption that this so-called "tax" will never go away (even when the REFCORP bonds are fully paid), I would rather have at least some portion of this ongoing payment go to supporting our members' community economic development efforts – in a manner analogous to AHP – then entering the general coffers of the U.S. Treasury. This is an argument for another day – perhaps some years from now – but it is something to begin thinking about now.

A third challenge for us to keep in mind is capacity. And here I am not referring to the capacity of the FHLBanks but of the non-profit corporations that we must work with to carry out our work. My own professional experience is that the CDC world is much stronger in the housing arena than in community economic development.

There is a limited supply of experienced public entrepreneurs and organizations with a proven track record in this regard. One additional role the FHLBanks can play in the short term, as well as over the longer run, is to provide education, training, and other kinds of capacity building assistance to targeted organizations in our districts who are or who can be key entities in implementing economic development projects. Building this base of capacity and professionalism is something we can contribute to regardless of the existence of a major, well-funded program of subsidy and support.

A fourth and final challenge is innovation. We have barely begun to scratch the surface of involvement in community economic development within the Bank system. Yet there is a refreshing diversity of approaches and initiatives that have been taken. That entrepreneurial, innovative spirit needs to be reinforced and encouraged – by Bank Boards of Directors and by the Finance Board in its regulatory and approval processes. And we need to keep in mind that the only way for the FHLBanks to support economic development is not just through subsidy and grant making activities. There are opportunities through the investment side of our operations to support worthy economic development initiatives while earning an attractive return. The New Markets Tax Credit Program is one such example of where such opportunities may exist.

In closing, let me restate again my major themes. The core business of the FHLBanks remains housing finance. But the FHLBanks are in the business of supporting commercial and economic lending whether we want to be or not, because our advances are fungible and our customers are moving in this direction in their own lending. Further, advocates who support and desire the FHLBanks to play a greater role in assisting low- and moderate-income families and neighborhoods recognize that housing doesn't happen in a vacuum. It occurs in a community, and housing and community economic development are inter-connected concerns. Thus, pressure will continue to grow over time for the FHLBanks to be engaged in commercial lending both from the advance side and our business as well as in our public mission work.

The FHLBanks are just beginning to adjust to these new realities – both economic and political. I hope we can be successful in proactively embracing these opportunities and adding them to our long-standing, core purpose in housing finance. Thank you.

APPENDIX B

Supplemental Program Information

BOSTON

Program: Community Development Advances (CDA)

Community Development Advances support loans for the acquisition, refinancing, construction or rehabilitation of economic development projects including loans for small businesses, social-service or public-facility initiatives, infrastructure improvements, and retail, commercial, industrial or manufacturing spaces. The advances also are available for mixed-use initiatives involving a combination of housing and eligible economic development.

All projects must create or retain jobs for workers with annual salaries up to 100 percent of the area median income, that benefits households or neighborhoods with incomes up to 100 percent of the area median family income, or that is located in an Indian area, a Champion or Enterprise Community, an Empowerment Zone, a brownfield, an area affected by the closing of a military base, or a state-declared or federally declared disaster area.

In 2000, members submitted 78 applications totaling more than $281 million in CDA funds committed to housing or urban or rural community economic initiatives. Total advances outstanding at year-end 2000 were $911.8 million. In 2001, member received approval for $1.27 billion in Community Development Advances to help finance 10,837 units of housing and 45 economic development or mixed-use initiatives. In 2002, members so far have submitted 52 applications representing more than $206 million committed to CDA initiatives. Total outstanding CDA funds as of April 30 were nearly $1.43 million.

Program: New England Fund (NEF)

This program provides member financial institutions with advances to support housing and community development initiatives that serve moderate-income households and neighborhoods. The NEF serves a broader range of moderate-income households than the Bank's Community Development Advance and provides special flexibility for mixed-income residential development. The fund supports loans for the acquisition, refinancing, construction or rehabilitation of the same types of projects as the CDA with different guidelines. The project must benefit households or neighborhoods with incomes up to 140 percent of the area median family income. NEF can be used to fund community and economic development that benefits low- and moderate-income (up to 80 percent of area median) individuals, households, or neighborhoods.

In 2001, the NEF provided more than $8 million in funding to six projects that will create a total of 188 units. Since 1990, the NEF has contributed nearly $196 million toward the construction or rehabilitation of more than 1,318 housing units and has funded two economic development initiatives.

NEW YORK

Program: Community Investment Program (CIP)

Provides below-market lending programs to stockholder institutions of the Home Loan Bank of New York. The Bank offers CIP Funds as an incentive to its applicants for originating community investment financing. CIP Funds may benefit applicants by providing a continuous source of low-priced funds, enhancing CRA performance, enhancing profitability, and improving community public relations.

The CIP also offers a CIP Letter of Credit (CIP LOC) in which any payment made by the Bank pursuant to the CIP LOC will constitute a CIP Advance. The CIP LOC may be used to facilitate transactions that promote home financing, housing activity, or financing of commercial and economic development activities that benefit low- and moderate-income families or activities that are located in low- and moderate- income neighborhoods.

The pricing of a CIP LOC is 3/8 of one percent of the amount of the Letter of Credit per year. If the Bank is required to make a payment on the CIP LOC, the payment will constitute a CIP Advance with a maturity of one to 360 days. The pricing of the advance will be a function of the maturity of the advance and the income of the households benefiting from the CIP Funds as described above.

For example, the Bank provided a 25-year CIP advance of $340,000 for a workforce development center in Newark, New Jersey. The three-story, 25,000 square foot, state-of-the- art center will serve 2,000 people annually with welfare-to-work training programs in its classrooms and a distance learning center lab in a multi-purpose hub. In addition, based on its previous experience of serving 1,000 persons annually with employment placement and services, the organization estimates that the number of walk-in clients easily will double as people come to use the modern center. The project qualified for CIP funding based on the project's location in a low-to-moderate income neighborhood.

The Bank provided a 20 year CIP advance of $280,000 for a 10,385 square foot manufacturing facility also in New Jersey. The CIP advance will support the stabilization of the operation through the purchase of their current location and provide job retention and expansion for their employees. The company has been in operation since 1970. The company's primary business is custom reaction injection molding, which includes mold design and fabrication, parts molding, and finishing. The project qualified for CIP financing based on the incomes of the employees.

Program: Childcare Advances

Provides low-cost, 30-year amortizing advances to support childcare expansion in the state of New York. Fixed rate advances will be made at the Bank's own cost of funds.

The program requires project-specific financing for facilities throughout New York state and eligible centers must primarily benefit low- or moderate-income families. There is no set limit on the size or number of advances.

PITTSBURGH

Program: Community Lending Program (CLP)

Offers loans to member financial institutions for community and economic development projects that create housing, improve business districts and strengthen neighborhoods. CLP is designed to help members meet their community investment goals while maintaining and enhancing their own profitability. It is a noncompetitive revolving loan pool. When loans are repaid, that money is available to be loaned to other projects. Loans are available to members with no markup over the FHLB's cost of funds, and are typically 20 to 40 basis points below the Bank's regular loan rates. Recent regulatory changes have enabled the Bank to broaden eligibility requirements and allow it to offer attractive loans to a more diverse range of projects.

CLP funds can be used to:

- Acquire real estate or equipment for a business in a qualified income census tract
- Construct a community facility, such as a theater or park, that serves a qualified rural county
- Improve infrastructure or a site in a lower-income municipality to support a business park
- Renovate a manufacturing facility to create jobs for low- to moderate-income persons
- Provide permanent financing for apartments for moderate-income households
- Provide equity bridge financing for a Low Income Housing Tax Credit project
- Construct office space for a nonprofit agency serving the mentally handicapped
- Refinance the debt of a day care facility serving predominantly lower-income families

Program: Banking on Business Initiative (BOB)

A recoverable assistance program designed to help in the growth and development of start-up and expansion small businesses. Members are the primary funders, and BOB money flows through members and is subordinate to members' primary loans. Eligible uses include real estate, expansion of facility, capital equipment, leasehold improvements, permanent working capital and closing costs.

Terms provide for principal recovery deferment up to one year, with unsecured recoverable assistance and no additional points or fees. There are also no prepayment penalties, no partial payments, and P&I is recovered on an annual basis.

ATLANTA

Program: Predevelopment Fund

Provides funding for certain predevelopment expenses associated with eligible affordable housing and real estate-based community economic development projects. Designed to encourage member financial institutions to increase their participation in, and support of, eligible projects, the Fund targets the types of initiatives that would qualify for the Bank's Affordable Housing Program or its Economic Development and Growth Enhancement Program. Funds are provided as a recoverable grant to member financial institutions. In turn, the member structures the disbursement of funds to the nonprofit project sponsor as a recoverable grant. The maximum grant amount is $100,000 per project, not to exceed 75 percent of the total eligible predevelopment expenses. Grant funds are to be repaid from construction and/or permanent financing.

The fund, capitalized at $1 million, began operating in July 2001 and has to date approved three projects for funding with at least two more in the approval process. So far, $293,400 has been disbursed.

Program: New Markets Fund

A small pilot program designed to facilitate its members' participation in the New Markets Tax Credit (NMTC) Program. Under this pilot, the New Markets Fund, members are expected to receive the following benefits: 1) a substantial financial return through the combination of the tax credit and the return on investment; 2) potential credit for community reinvestment; 3) the opportunity to be a partner with these new economic development efforts in the members' market areas, thereby developing relationships and expanding their service of these largely under served markets; 4) association with experienced economic development practitioners through a program of structured managerial and technical assistance to the underlying ventures supported with the invested capital.

The Bank has approved a demonstration whereby an amount not to exceed $100,000 matching funds in the form of recoverable grants will be offered to members who agree to invest at least the recoverable grant plus a like amount into funds qualifying for New Market Tax Credits. The Bank's grant funds will be recovered in full after seven years, but not later than ten years after the date the recoverable grant is awarded. One million dollars will be available for this program.

The economic development activities eligible for the Economic Development Growth Enhancement (EDGE) awards generally will be eligible for investments from funds generated by NMTCs. The Bank's funds used in this way should have significant front-end leverage, have leverage ratios in the project financing similar to EDGE, benefit from enhanced technical assistance, and should provide members with reasonable financial returns. In addition to obtaining the same EDGE-like results this program will retain future use of the funds for similar purposes thereby starting a CICA endowment for assisting community economic development in the Bank's district.

Program: Economic Development & Growth Enhancement (EDGE) Advances

A selective, below-market-rate advance program providing a limited amount of funds to subsidize advances for community economic development projects that meet certain eligibility requirements.

The member may loan the EDGE funds to organizations involved in specified community activities, or directly to a qualified project. Projects must meet the following EDGE funding goals:

- Geographic dispersion across the district;
- A mix of urban and rural projects;
- A mix of project types;
- Sponsorship by members of various asset sizes; and
- One project per member per offering (unless the FHLBA determines that eligible projects submitted by other members are insufficient to use the available EDGE funding).

Since 1999, 43 projects have been approved for funding totaling $33 million.

CINCINNATI

Program: Community Investment Program (CIP)

Designed to encourage member financial institutions throughout Kentucky, Ohio and Tennessee to increase their involvement in housing and community-based economic development and revitalization activities in the communities they serve. The CIP provides a discount off regular advance programs to encourage and assist member financial institutions in providing favorable financing terms for eligible community investment activities.

All fixed-rate, mortgage-related advances with a term of one year or greater are eligible. Convertible Fixed Rate and Repo advances are not eligible for the CIP. Member institutions may borrow CIP funds in an amount equal to 25 percent of total advances outstanding with the FHLBank at time of drawdown of funds. Member institutions may borrow the lesser of two percent of assets or $50 million in CIP advances on an annual basis.

Program: Zero Interest Fund

Provides early-in resources for mixed-use residential, commercial and industrial real estate-related projects. Funds are available through member institutions. Non-profits, local governments, community development corporations, individuals, and other sponsors seeking funding must submit an application through a financial institution that is a member of a Federal Home Loan Bank. The FHLB serves more than 750 members including Kentucky, Ohio, and Tennessee.

Funds are awarded for projects that create and/or retain jobs or provide benefits to individuals at or below 100 percent of area median income in urban communities or at or below 115 percent of area median income in rural communities.

Eligible uses include early-in project costs such as application(s) packaging services, appraisals, architectural drawings, consulting fees, engineering fees, environmental testing, feasibility analyses, legal costs, licensing and permit fees, market studies, or other expenditures associated with mixed-use residential, commercial, or industrial real estate-related projects. Members may request up to $35,000 per project. Funds will be disbursed on a first-come, first-serve basis until the entire $250,000 annual allocation is expended.

Program: Economic Development Advance (EDA) Program

This program provides a discount off regular advance programs to encourage and assist member financial institutions in providing favorable financing terms for eligible economic development activities. The following activities qualify for EDA funding: job creation and retention or other economic development projects described as commercial, industrial manufacturing, agricultural, social service, public facility projects and activities, and public or private infrastructure projects (roads, utilities, and sewers). Projects can be qualified on the basis of the activity, geographical or individual benefits provided. Commercial, industrial or manufacturing projects may qualify if the annual salaries of 51 percent of jobs created or retained are at or below income target (see income definitions under Geographical Beneficiaries); or, at least 51 percent of families who benefit or are provided services by the activity have incomes at or below the target.

Program: Community Lending Partners Program

Provides a discount off regular advance programs to encourage and assist member financial institutions in providing favorable financing terms for eligible community investment activities under the CIP definitions.

To qualify, the project must be located in a Champion Community, or an Empowerment Zone or Enterprise Community, as designated by USDA or HUD; or, the project must be located in an Indian area, as defined by the Native American Housing Assistance and Self-Determination Act of 1996, Alaskan Native Village, or Native Hawaiian Home Land.

Program: Appalachian Regional Commission Partnership Agreement

The FHLB Cincinnati signed a formal partnership resolution with the Appalachian Regional Commission, a federal-state partnership providing support for human and economic development in a 13-state region stretching along the Appalachian Mountains from southern New York to northern Mississippi. ARC has worked to bring Appalachia's 22 million people into America's economic mainstream.

The Bank has partnered with the commission on a number of housing ventures. FHLB Cincinnati has also partnered with four other groups that serve the Appalachian counties in the Bank's three-state service area. Three are venture capital organizations that offer funding and technical/entrepreneurial assistance with existing and start-up businesses. These are Kentucky Highlands Investment Corp., Southeast Community Capital Corp. and Adena Ventures. The Bank has not invested in the organizations' funds, but offers to assist by linking them with member stockholders with the potential of using the Bank's community lending programs to finance projects.

INDIANAPOLIS

Program: Community Investment Program (CIP)

Provides a favorably priced source of wholesale funds for any member involved in lending for community and economic development. The funds can be used for development of commercial projects, infrastructure improvements or businesses that create jobs. These below-market rate advances are priced at the FHLB's cost of funds for similar maturities plus an administrative fee.

CIP advances, available in maturities up to 20 years, are made on a secured basis only with collateral requirements consistent with those on all FHLB credit programs. Prepayment fees may also apply.

Program: Letters of Credit

Provides assistance to members in the facilitation of residential housing finance activities; assists members in community lending that is eligible for any of the Bank's Community Investment Programs; assists members in the management of asset/liability activities; and provides members with liquidity or other funding.

Program: Michigan Renaissance Zones

Renaissance Zones work by granting virtually tax-free status to any business or resident presently in a zone or moving into a zone. The zones are designed to provide selected communities with the most powerful market-based incentive, virtually no state or local taxes, to spur new jobs and investment. Citizens Bank utilized a $7.5 million CICA advance through the Indianapolis Bank to fund a medical office building in Saginaw.

CHICAGO

Program: Just-in-Time Paper

Provides long-term funding for Small Business Investment Companies (SBICs) financing small businesses located in low- and moderate-income (LMI) areas. LMI debentures are privately placed with the FHLB of Chicago, which eliminates the concession costs that would be incurred with a public offering. They are offered in five- and ten-year maturities. The SBIC makes no principal or interest payments until maturity on a five-year LMI debenture, and makes no principal or interest payments for the first five years on a ten-year LMI debenture. LMI debentures are pre-payable without penalty after the first year.

FHLB Chicago is also working with the SBA on the New Markets Venture Capital (NMVC) Program, a new initiative approved by Congress last year. The NMVC Program is designed to promote the investment of private capital in, and the provision of technical assistance to, economic development projects in low-income geographic areas. The NMVC Program is modeled on, and will optimize the unique structural elements of the LMI Program.

Program: Economic Development Advances

A subsidized advance to encourage members to provide financing for community economic development lending. The fund is capitalized at $25 million. Eligible projects include all activities permitted by the CICA regulations, including but not limited to brownfields development, commercial, industrial, manufacturing, small business, micro-enterprises, mixed use residential/commercial and private and public infrastructure.

Program: Community Investment Program (CIP)

Offers below market rate advances to finance qualifying community-lending projects. CIP advances are continuously available as a source of funds to financial institutions holding stock in the Chicago Bank. The member can, in turn, lend CIP funds to homebuyers, for-profit, not-for-profit, or public developers of housing, economic development projects, community facilities, and infrastructure. CIP advances may be available in terms ranging from one month to 30 years.

DES MOINES

Program: Community Investment Advances

The Community Investment Advance for commercial lending provides discounted financing for commercial lending, public works improvements or infrastructure projects and small business loans.

The benefits of the Community Investment Advance include lower interest rates, longer maturities for the bank and customers, use in certain geographic areas regardless of income, and as a tool for community development lending.

It is available to any business that meets one of the following criteria: any business that meets one of the Small Business Administration's definitions of small business; the commercial lending program must create or retain jobs benefiting low and moderate income workers. The Community Investment Department can assist with this qualification.

A Community Investment Advance can be tailored by the Bank to approximate the terms of the loans that member banks are originating. Loans that meet the program criteria can be used to qualify for advances for up to 90 days from the date originally funded by the member. Minimum advance amount is $100,000, and a member's outstanding Community Investment Advances may not exceed 15 percent of the member's non-Community Investment Advances or $5 million, whichever is greater. The maximum limit available for the fund is $1.25 billion. In 2001, more than 140 communities received $215 million in discounted advances to provide for the homeownership or rental needs of more than 4,000 families. Also, more than 150 communities borrowed $175 million to finance their economic development efforts.

Program: SBIC Investment Program

FHLB Des Moines invested in 1999 in a Small Business Investment Company, a privately organized and privately managed investment firm licensed by the U.S. Small Business Administration. SBICs were created specifically to address a shortage of venture capital and the longer term financing necessary to start-up or expand a small business. The SBIC is not in competition with Bank members, but provides another source of funding for a member's customer that wants to borrow under terms and conditions not available from the member.

The board of directors at FHLB Des Moines has adopted policies and procedures that govern the Bank's investment and ensure that the Bank has the necessary controls in place to regularly assess the status of the investment. The investment in the SBIC has provided direct benefit to the Bank's financial institution members and their customers. To date, the Bank and its members have committed to invest a total of $8 million as limited partners in the SBIC. To date, the SBIC has invested roughly $18 million, some of which has been repaid so the total outstanding is currently $14 million.

Program: Leadership Training Institute

The Leadership Training Institute is a training course sponsored by the FHLB for community leaders to learn necessary skills and resources to help plan for sustainable futures. The focus of the FHLB program provides bankers with the tools and resources to build upon the leadership roles they already play in their community. The Heartland Center for Leadership Development is an independent, nonprofit organization that provides leadership training

Program: Downtown Revitalization Advances/Mainstreet Advances

This program focuses on downtown and Main Street revitalization programs. If qualifications are met for a Community Investment Commercial Lending or Residential Lending Advance and funding is for a downtown, Main Street or commercial revitalization project, a business may also qualify for the Mainstreet Advance at an interest rate two basis points above the Bank's cost of funds.

Program: Living Wage Advance

The Living Wage Advance program strengthens economic growth in communities and surrounding areas, encourages companies that bring living wage jobs to their communities, and promotes businesses that reward their employees with a living wage. Eligible businesses must have 51 percent of their employees earning a living wage. Currently, the qualifying minimum living wage in a rural area is $11.31 per hour. In an urban area, the qualifying minimum living wage is $12.18 per hour. The maximum eligible income levels for Community Investment Advances also apply to the Wage Advance. For an urban area, the maximum eligible income level for an individual is 100 percent of the area median income. For a rural area, it is 115 percent of the area median income for an individual.

DALLAS

Program: EDP Plus

Description: A $1 million first-come, first-served, non-competitive small business grant program designed to promote and enhance small business development, foster business relationships between member institutions, small businesses and small business development organizations and to create and retain jobs. Funds may be used to assist small businesses in accessing needed working capital for startup or expansion for the purpose of:

- Purchasing buildings
- Constructing buildings
- Expanding facilities
- Purchasing machinery and equipment
- Closing costs

EDP Plus funds are not available for the refinancing of existing small business loans.

Program: Economic Development Program

The EDP provides favorably priced advance programs to finance economic development or commercial revitalization projects at below normal pricing for projects or activities in targeted income communities. These advances can be used for construction, capital improvement, small business, public works and other various projects.

The advances are available to projects in an urban area in which the average family income is at or below 100 percent of the area median income, located in a rural area in which the average family income is at or below 115 percent of the area median income; located in neighborhoods in which the majority of households have incomes at or below the qualifying percent of the area median income; provide services from the finished project that will benefit households with incomes at or below the qualifying percent of the area median income; benefits communities, business or individuals by creating/retaining jobs, providing services or qualifying as a small business as defined by SBA; or purchasing state finance agency bonds.

Program: Special CICA for Water/Wastewater

A $25 million reduced-rate advance program to finance water/wastewater infrastructure projects at 200 basis points below the standard Economic Development Program (EDP) advance rate for the first five years, with a floor of one percent, then 150 basis points below the standard EDP advance rate for the second five years, with a floor of 1.5 percent, then at the standard EDP advance rate for terms in excess of ten years. Terms are available for up to 30 years. Members may borrow up to $5 million per project, and total outstanding program advances are limited to $5 million per institution. Members may borrow up to ten percent of their total assets and must meet the Bank's standard collateral requirements. Members must use their own underwriting criteria. Members must limit their rate mark up to 200 basis points and must show that the subsidy benefit is passed through. A transaction verification form (TVF) must be submitted by the member 30 days after funding. Since 2000, $7 million in projects have been funded and another $11.9 million in projects are in the pipeline. Three additional projects pending would require another $19 million, and therefore an additional allocation of CICA funds.

TOPEKA

Program: Rural Technical Assistance Program

The Rural Technical Assistance Program (RTAP) was created in 1999 to help stockholders address the shortage of decent, affordable housing -- a situation prevalent in many small towns in the Bank's four-state district.

To establish the program in a particular community, the Bank requires a commitment to the process from local government officials and at least one local Bank member financial institution. Individuals and organizations representing all segments of the community are invited to participate in the formation of a Rural Housing Partnership. FHLBank staff work with the partnership to evaluate and improve the community's housing needs and its capacity to respond to those issues. The RTAP process is provided at no cost to the community. During the RTAP process, which consists of approximately five meetings conducted over six months, the partnership conducts strategic planning, including the completion of an extensive housing needs assessment. Goals and objectives are developed to address the housing needs identified in the assessment. With help from FHLBank staff, the partnership customizes a formal strategic plan that meets the needs and goals of the community and includes specific actions to be taken during a three-to five-year period.

Program: Community Development Program (CDP)

This program was designed to increase stockholder involvement in their communities through the financing of commercial, small business and other community and economic development loans. Wholesale funds available in terms of four months to 30 years are provided at rates below the FHLB's regular rates to lenders who finance qualifying commercial loans, farm loans and community and economic development initiatives in the areas they serve.

Eligible economic development projects include commercial, agricultural, manufacturing, social service and public facility projects and services; private/public infrastructure; and small business loans.

CDP advances can be used in conjunction with SBA, USDA, HUD and FHA loans, state and local government assistance and secondary market agency programs. CDP advances also can be used to purchase bonds or securities representing pools of loans that could be funded directly with CDP advances.

CDP advances can be used to fund stockholder investment in lender consortia as long as the underlying mortgages can be funded directly with CDP advances. However, CDP advances can only be used for loans funded 90 days before the effective date of the CDP advance approval. Between 1990 and 2001, the Bank has made 337 CDP/CIP and CHP advances totaling $1.38 billion.

SAN FRANCISCO

Program: Advances for Community Enterprise

ACE-funded projects must result in the creation or retention of jobs for low- and moderate-income people or provide services or other benefits for low- and moderate-income households and communities. Interest rates and fees are generally lower than the rates and fees available to members on regular Bank advances and letters of credit. ACE credit is available in all maturities for a wide array of credit programs. Members may submit ACE applications at any time, and ACE advances and letters of credit can help Bank members meet their CRA goals. Eligible uses include the financing of commercial, industrial, and manufacturing activities, including small business and micro-enterprise lending; social service, community, and public facility projects; and public or private infrastructure projects, such as roads, utilities and sewers.

Program: Community Investment Program

Provides members with lower-cost funding for a variety of uses, including first-time homebuyer programs, small business loans, community and economic development loans, and affordable housing. These credit programs are designed to support member efforts to undertake community-oriented mortgage lending and economic development in their neighborhoods.

Community Investment Program advances may be used to:

- Finance specific home purchase or rehabilitation projects by or for individuals or families earning up to 115 percent of the HUD Area Median Income (AMI).
- Finance specific commercial and economic development lending activities, including non-residential mortgage loans and business loans, that benefit individuals or families earning up to 80 percent of the HUD AMI or that are located in neighborhoods in which 51 percent or more of the households earn no more than 80 percent of the HUD AMI.

Since 1979, the Bank has loaned over $3 billion in low-cost Community Investment Program funds to support the targeted mortgage lending programs and community economic development activities of our member financial institutions

Program: Business & Industry Guaranteed Loan Program

A partnership that links CICA funds with the United States Department of Agriculture's business and industry guarantees for job creation prospects in Federal Empowerment Zones, Enterprise Communities, and Champion Communities; Rural Economic Area Partnerships (REAPs); non-metropolitan persistent poverty counties; non-metropolitan counties with the greatest declining populations; and areas impacted by natural disasters or federal actions that result in a decline in economic conditions; or projects that add value to agricultural commodities in support of small farmers. Since 1998, the USDA has set aside $20 million annually for the initiative, and the FHLBs have made available $80 million in targeted advances. In 2000, all but $500,000 was used, resulting in the creation or retention of 1,117 jobs. Projects included the development of a ten-screen movie theater, the acquisition and rehabilitation of two motels, the development of an industrial building, and an expansion of a mattress manufacturing plant.

SEATTLE

Program: Community Investment Program/Economic Development Fund

The program provides reduced-rate advances and letters of credit to fund affordable housing and economic development projects. The loans are extended at the bank's cost of funds, about 15-25 basis points below regular price. Terms are available from 5-30 years with a rate lock up to 24 months. Not only do members get access to lower-cost capital and receive longer terms, they receive fast approval - within 48 hours. This program is designed to be a catalyst for economic development because it supports projects that create and preserve jobs and help build infrastructure to support growth. Lenders have used CIP/EDF to construct roads, bridges, retail stores, sewage treatment plants and provide small business loans. The program is especially appreciated in rural areas where resources are limited. CIP/EDF loans support housing projects that benefit households that earn up to 115 percent of the median income. EDF supports business or commercial projects that benefit households earning up to 80 percent of the median income.

Between 1990 and 1999, the Seattle Bank funded 481 projects, providing almost $150 million in economic development advances and nearly $1.43 billion in total advances.

Program: ACCESS Predevelopment Fund

A revolving grant program that covers predevelopment costs associated with community-based economic development projects. Grants can be used for professional fees, staff time associated with the project, short-term interest-rate write downs, and other out-of-pocket costs that stem from feasibility analysis.

If the project is successful in obtaining permanent financing from any source, the project repays the Access grant to the Seattle Bank, which will recycle the funds for other economic development initiatives in the region. Seattle sets aside $200,000 each year to fund ACCESS.

About IEDC

In 2001, the Council for Urban Economic Development (CUED) and the American Economic Development Council (AEDC) joined forces to become one...the International Economic Development Council.

The IEDC membership base consists of thousands of economic development professionals from around the world with unparalleled expertise and collective influence. Members include:

- Public agency professionals
- Utilities
- Non-profits
- Consultants
- Corporate development professionals
- Educational institutions

United, we work to advance the current and future needs of both our members and the profession, providing One Source for information and professional development, One Voice for the profession, and One Force for advocacy.

Learn more at www.iedconline.org

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