

## Federal Home Loan Bank of New York's role in affordable housing

By Brian D. Ditterhafer

**A**LTHOUGH the 12 district Federal Home Loan Bank System has, during the 1980s, focused much of its attention on helping thrifts weather the storms of high interest rates and asset value deterioration, it has maintained continuity with the purpose for which it was chartered — to promote thrift and provide for housing finance.

### *Commitment to housing*

The Federal Home Loan Bank of New York (FHLBank of New York) has been involved on several fronts in maintaining the Bank's commitment to housing. Within the district, the FHLBank of New York helps its members identify opportunities for projects that stimulate revitalisation in communities or address the need for affordable housing. The Bank has specially priced loan funds for well-designed, economically feasible projects which provide low and moderate income housing.

On a national level, the Federal Home Loan Bank of New York annually sponsors a forum, the Bryce Curry Seminar, which brings together leaders of the thrift and housing finance industry and influential policy makers to stimulate discussion on the issues facing housing finance institutions. Bryce Curry, my predecessor as president, was known both nationally and internationally for his commitment and efforts for housing. This year, the Seminar dis-



cussions will centre on the question of who will finance housing in the United States in the future.

### *Sister institutions*

The mission of the Federal Home Loan Bank of New York is to provide services for institutions which finance housing. With the sister institutions programme initiated last year, this mission has expanded internationally on a person-to-person basis with our sister institutions in the Caribbean Basin.

The Federal Home Loan Bank of New York has joined the Caribbean Association of Building Societies & Housing Finance Institutions in sponsoring such a programme. It pairs member institutions of the Federal Home Loan Bank of New York with institutions in the Caribbean Basin.

Relationships developed between institutions should prove mutually beneficial to the participants and further the understanding of the housing needs of individuals at different income levels.

The Caribbean Association of Building Societies & Housing Finance Institutions (CABSHFI) counts among its members 48 institutions from 14 countries in the Caribbean. An association formed a few years ago, its institutions are providing thrift and home financing services to people living in the Caribbean Basin. Unlike thrift institutions in Puerto Rico, which are members of the FHLBank of New York, most of the other institutions in the Caribbean have no reserve credit bank to turn to for their banking needs.

The Bank's purpose in developing the sister institutions programme is to promote the international development of the concepts of thrift and economical home finance. We seek to accomplish this goal by responding substantively with real efforts that will implant these concepts and take hold to the benefit of residents in the Caribbean. One way identified is through the provision of opportunities for training individuals in specific skills necessary for managing thrift institutions. Another way is through provision of classes in technical areas unique to thrift and home financing institutions.

The idea for the programme origin-

→ 42

# AFFORDABLE HOUSING

← 41

ated during discussions between myself and Bill Yaeger while we were attending a meeting of CABSHFI in Port-au-Prince, Haiti. William H. Yaeger was then with the United States Agency for International Development in the Regional Housing and Urban Development Office in Jamaica. Juan J. Bermudez, director consultant, Federal Savings Bank of Puerto Rico, who was instrumental in the formation of CABSHFI and who has served on the Board of Directors of the FHLBank of New York, have invited me to attend the meeting in Haiti, in order to draw a closer connection between the FHLBank of New York and CABSHFI.

At that meeting a need was expressed on the part of Caribbean Basin institutions and the people managing them for a mechanism to train staff in the day-to-day running of a financial institution. Even though the necessary outside training is obtainable, it is the wider exposure to the practical application of management skills that would most benefit these institutions. It was speedily agreed that members of the FHLBank of New York could provide on-the-job training for individuals from the Caribbean basin in middle management positions.

The programme is simple in concept. An interested savings association in the States is paired with an interested building society in the Caribbean. The institutions make a commitment to assist each other, and the specifics of the particular mutual assistance between a given set of sister institutions is left to the imagination and ingenuity of the institutions themselves. Generally it revolves around personal interactions between executives and technical personnel realised through personal visits, formal and informal training, internships, and so forth.

Exchange participants would spend time on-the-job in their sister institutions so as to be able to achieve a higher level of proficiency in the skills necessary to manage a thrift institution. Similar exchanges flow south to the Caribbean from

Second District institutions in the north would allow US citizens to experience the problems encountered in providing housing to people of modest means.

The idea was presented formally to Dr Freddy Reyes Perez, chairman and member of the executive committee of CABSHFI, and the directors of the FHLBank of New York. The Bank's board of directors approved the programme at its February, 1987 meeting held in Puerto Rico, supporting what holds promise of being a productive programme that reaches the essence of the thrift industry — providing economical home financing and promoting thrift.

Members of the Caribbean Association of Building Societies & Housing Finance Institutions and members of the FHLBank of New York have been exchanging personnel since August of 1987 at the rate of about one exchange per month. Sister institutions exchange a limited number of personnel for one to three week periods. Arrangements have been coordinated through Donald Wolff, senior vice president of the FHLBank of New York with Joseph Bailey, the secretary general of CABSHFI, located in Jamaica. Where specific training needs have been identified that would be more effectively satisfied in a classroom situation, individuals attend courses from a curriculum developed through the Federal Home Loan Bank System's Office of Education. The exchange participants work with counterparts in the sister institution to learn about problems which are common to thrift institutions and study solutions which may be unique to particular institutions.

One of the most important new efforts is to start the return flow of participants from the mainland institutions in exchanges to the Caribbean area. In addition, our Puerto Rico member institutions plan to become more involved in exchanges of Caribbean institutions participants

who are predominately Spanish speaking. As members of CABSHFI themselves, the Puerto Rican membership has been in contact for some time with other Caribbean Basin institutions.

In order to broaden Second District participation in the programme, three individuals were asked to serve as local liaison officers. They are Mr Edward Mallaney for New Jersey, Mr Kenneth Abt for New York and Mr Juan J. Bermudez for Puerto Rico. These individuals are familiar with the leagues and institutions within their state of territory and will contact our members in order to stimulate sister institution participation. They will help to publicise and expand the understanding of the programme.

The FHLBank of New York has provided the impetus to start up this programme and encouragement for its continuation. The expectation is that institutions will voluntarily relate as sister institutions. As these exchanges develop momentum, the ties between the sister institutions will be maintained by the participants in ongoing relationships with one another without any need for further outside coordination or intervention.

## *FHLBank's role in housing*

The sister institutions programme evolves from the Bank's experience with other efforts that have a commitment to housing as the underlying motivating element. The FHLBank of New York carries a long-standing and continuing commitment to housing. The expression of this commitment takes the form of efforts that are devised within the institutional parameters of the mandate given to the Federal Home Loan Banks.

The Federal Home Loan Bank system plays a unique role in the United States both as regulator of thrift institutions and as a provider of a stable supply of funds to those institutions that finance housing. Specifically, the Federal Home Loan Banks encourage long-term installment credit for financing homes and assure a more stable supply of such credit. For the most part, this

# AFFORDABLE HOUSING

encouragement of home financing takes the form of the banking function making loans to member thrift institutions that support housing.

## *Indirect role in financing housing*

The Federal Home Loan Banks' primary mission is to provide funds for the housing finance industry by making loans to individual thrift institutions, which in turn make loans available to home buyers. The Banks do not provide direct loans for housing; rather, their impact on housing is indirect through their member home financing institutions. These loans to members are called advances and are used for any of several purposes, such as for deposit withdrawals, specific funding requirements and mortgage expansion.

Because of the variety of maturities offered, the advances can be helpful to the institutions in managing their interest rate risk. The advances mechanism is the principal activity relating to the primary reasons for the establishment of the Bank System — the provision of long-term instalment credit and the more stable supply of such credit.

The 12 district Bank System is a cooperative system the members of which have traditionally provided approximately one-half the home mortgages originated in the United States each year. Institutions identify with the Federal Home Loan Banks through their membership and ownership of stock in the Federal Home Loan Bank in the district in which the institution's principal place of business is located.

The regional Banks are designed to be profitable financial intermediaries, which generate earnings that return dividends to the owners of the capital stock — the thrift institutions that belong to the Federal Home Loan Bank System.

## *Support of Federal Savings & Loan Insurance Corp*

Savings associations with deposits insured by the Federal Savings and Loan Insurance Corporation are required to belong to the Bank Sys-

tem as a condition of their insurance. Savings banks with deposits insured by the Federal Deposit Insurance Corporation are eligible to belong, and many do so voluntarily. Because of the difficulties thrifts experienced during the period of high interest rates earlier in this decade and the financial impact of deteriorating asset values of thrifts located in areas of the United States experiencing economic difficulties, the Federal Savings & Loan Insurance Corporation lacked sufficient resources in its insurance fund to solve the problems of insolvent institutions. Since late 1987, the Banks have been providing the capital contribution that supports the recapitalisation of the FSLIC. That the Federal Home Loan Banks possess the financial strength to make this contribution testifies to the Banks' own successful efforts in managing financial risks.

## *Encouraging efforts for housing*

The Federal Home Loan Bank of New York has adopted a goal of educating people regarding the role of the thrift industry in the promotion of economical home financing. Since our part in financing housing is indirect, our efforts are restrained to being catalytic and supportive of the direct efforts of others.

The FHLBank of New York actively encourages and provides support to volunteer groups in the region seeking to preserve housing in urban areas for the residents. The Bank sponsors annual meetings of a regional interagency committee of financial regulators from New York and New Jersey that are held with financial institution representatives. Among the purposes of this gathering are to inform the financial community of housing and neighbourhood stabilisation activities of Neighbourhood Housing Services and other groups in their local areas and to encourage financial institutions to search out ways of supporting these activities in the area.

The Neighbourhood Housing Services (NHS) are local partnership efforts developed through the administrative efforts of the Neighbourhood Reinvestment Corporation, for which the Bank System provided initial financial support. The goal of the Corporation is to stimulate local NHS partnership efforts, which can successfully reverse the process of neighbourhood decline for the benefit of current residents.

Each NHS is a private, locally controlled, non-profit corporation based on working partnerships of community residents and representatives of local government and the business and financial sectors. The partnership offers comprehensive housing rehabilitation counselling, construction monitoring, financial advice and loan referrals to neighbourhood residents. A key element in the success of the NHS programme is the use of a revolving loan fund to make loans to neighbourhood residents who cannot meet normal credit requirements.

The Bank's support in facilitating efforts such as these discussed, in addition to its primary function of providing reasonable cost funds to its member institutions that support housing, exemplifies its role as a link in the chain of affordable housing.

The Federal Home Loan Banks are more closely involved with housing now than ever before. This involvement is taking place on several levels: by encouraging local action to build or rehabilitate affordable housing and encouraging member institutions to do the same; by supporting the Federal Savings and Loan Insurance Corporation to strengthen the institutions which hold nearly half the mortgages in the United States; and by encouraging the development of international institutions which will spread the idea and ideals of thrift and home ownership.

We welcome suggestions, dialogue and action which will help accomplish our goal. ■

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