Affordable Housing, the Federal Home Loan Bank System and the Federal Home Loan Bank of Cincinnati

by Charles L. Thiemann

INTRODUCTION

The banks of the Federal Home Loan Bank System ("FHLBanks") are wholesale lenders to insured US depository institutions with a commitment to housing finance. The FHL-Banks make available a variety of loans and other credit products to over 5,500 member institutions, secured principally by the mortgage loans and mortgage-related securities held by the member institution. The advances offered by the FHLBanks provide a ready source of liquidity and a dependable, low-cost funding source for mortgages held in portfolio. Like most firms competing in today's markets, the FHLBanks have found that success is dependent upon offering products which meet customer needs. Within the limits of the legislation authorizing a FHLBank's activity, the widest possible set of credit products is offered. The FHLBanks of the System currently have $120 billion in loans extended to members.

The Federal Home Loan Banks are not only specialized lenders with a mission to increase the availability of housing finance through support of portfolio lending, the FHLBanks also have a responsibility to expand home-ownership and housing opportunities to families of all economic levels. In addition to their support of mortgage market lending through use of their access to capital markets on a worldwide basis, the Banks are very active participants in housing programs for low- and moderate-income families. Perhaps what is most unique about the housing programs of the Bank System is that they attempt to bring the market flexibility practiced in the design of credit products to their housing programs. Each FHLBank has specific programs which it offers, but each attempts to encourage those seeking funding to design programs based upon perceived local needs. The FHLBanks generally stand ready to consider any proposal meeting fair housing criteria. Not every project can be a success, but the recent experience of the Cincinnati Bank with its housing programs has shown that programs designed and administered by local people have the greatest chance of success. In this article are reported some examples of projects which have been successful and some reasons why they work.

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A LITTLE BACKGROUND ON THE BANK SYSTEM AND ITS HOUSING PROGRAMS

The Federal Home Loan Bank System was one of the agencies created in the response to the unprecedented economic events of the Depression era. Legislation signed by Herbert Hoover in 1932 created the Federal Home Loan Bank System to provide liquidity to thrift institutions which specialized in mortgage lending and to help stabilize home mortgage markets. The 12 FHLBanks which have existed almost continuously since the legislation was signed were supervised and regulated by the Federal Home Loan Bank Board until 1989. The Bank Board had responsibility not only for regulation and supervision of the Bank System, it also served as the chartering authority for federal savings and loans, and regulated the deposit insurance fund for savings and loans.

In 1989, the Financial Institutions Reform, Recovery and Enforcement Act placed the Bank System under the supervision of the Federal Housing Finance Board. That act also permitted commercial banks and credit unions to become members of the Federal Home Loan Bank System. The requirement for membership of an eligible institution is financial stability and a commitment to housing finance. Members are required to hold stock based upon its mortgage related assets in the regional FHLBank of which it is a member.[1] Since 1989, the number of thrift members of the Bank System has decreased from 3,217 to 2,020.[2] Commercial banks, credit unions and insurance companies now make up the majority of the membership, although thrift-chartered members continue to hold a majority of outstanding advance balances.

The Federal Home Loan Banks have a long history of supporting housing initiatives. One of its first activities was with the Neighborhood Housing Services, a network of locally based housing development and rehabilitation organizations. It later became the Neighborhood Reinvestment Corporation. For several years before the NRC became a federally supported agency, the Cincinnati Bank and other Federal Home Loan Banks provided financial and technical support to local NHS chapters and worked through member institutions to assist local initiatives. In 1978, each Bank established a community investment officer position to manage FHLBank programs and assist its members with their housing programs. This officer also provided outreach to non-profit organizations, community groups, and local, regional, and state government units and other state and federal agencies interested in housing and community development. The Cincinnati Bank has had a community investment officer on staff since 1974.

THE COMMUNITY INVESTMENT PROGRAM

FIRREA not only changed the composition of institutions eligible for membership, it also created two programs designed to assist low- and moderate-income families in obtaining housing. Under one of these programs, every FHLBank offers to member institutions moderately subsidized loans secured by loans for low- and moderate-income mortgages, or which support housing or economic and community development projects benefiting low- and moderate-income families or areas. The program is referred to as the Community Investment Program ("CIP"). Each FHLBank has adopted a set of conditions under which these loans may be obtained, depending largely upon regional needs and conditions; but the loans are open to member institutions for almost any purpose which meets the basic criteria. The loans are made in the form of advances to members at rates which approximate the cost of funding to the Bank plus its administrative costs. Generally, this results in an advance rate to the member of approximately 25 basis points less than its usual rate. Under the market conditions prevailing over the past few years, members have been able to borrow at rates very close to those available to the US Treasury. Although there is no requirement for the member to pass through the cost reduction, it is a common practice.

The CIP program offers below-market-rate advances to member institutions engaged in low- and moderate-income housing and community development. CIP advances may be secured from a district FHLBank to finance:

1. housing for households whose income does not exceed 115% of area median income,
2. projects for commercial and economic development located in low- and moderate-income areas, or which benefit low- and moderate-income families, or
3. projects that combine commercial, economic development and housing under these criteria.

CIP advances are requested for both urban and rural areas and have been applied to a wide variety of projects.

Perhaps the most important advantage of the CIP program is flexibility. The enabling legislation specifies only the purposes for which the program will be made available and the cost guidelines for the rates charged. CIP advances allow FHLBank System members to match long-term or fixed-rate funding sources with a qualifying loan of similar properties. This can be especially important to portfolio lenders. The CIP advances provide the opportunity for FHLBank members to originate and hold non-conforming loans, or loans without established secondary markets, such as commercial and economic development loans, without significant interest rate risk. The FHLBanks also offer letters of credit under the CIP program for CIP-eligible activities. (The FHLBanks are AAA-rated institutions.) A letter of credit can be used as a performance bond, to collateralize government linked deposits or to enhance the rating on a bond issued for economic development.

During the five-year history of the CIP, the dollar volume of CIP advances issued and the dollar value of loans outstanding has increased each year. At the end of 1994, CIP loans outstanding exceeded $5 billion. The $7 billion of CIP advances issued during the program's history is estimated to have supported 190,200 housing units and provided $311 million in commercial and economic development funding. Of the housing units funded, nearly three-fourths are owner-occupied.

The growth in the program is attributable in large measure to the flexibility available for the types of loans which can be financed and the innovation which member institutions and their public and private partners have brought to the design of projects. The moderate subsidy available under the CIP is not economically compelling or decisive for many projects which are not economically sufficient on their own. The potential of CIP advances is often the starting point around which potential partners convene. The CIP subsidy can provide a vehicle for member institutions to prudently and profitably participate in the support of low- and moderate-income housing, and commercial and economic development benefiting low- and moderate-income areas and households, without exposing themselves to additional interest rate or liquidity risks.

SOME RECENT EXAMPLES

The most common use of CIP advances is to fund mortgages originated to low- and moderate-income families. Typically, a loan commitment is made to support mortgage loan originations completed during a specific period. CIP advance commitments can be obtained to support a planned program of mortgage originations, or to fund a portfolio of loans previously originated to income eligible households. The Cincinnati Bank provides a 25-basis-point interest discount for CIP advances collateralized by mortgage loans issued to households at 80% or less of area median income; and 15 basis points for mortgages of households above 80% and less than 115% of area median income. Typical advances under the FHLBank CIP will target first-time home buyers or will fund origination of mortgages to households of specific income levels under the 115% area median income cap.

Multi-family uses of CIP advances most frequently occur in conjunction with other sources of funding. Low-income housing tax credits are a very common source of funding. A recent project in the Boston area used a CIP advance to fund a permanent mortgage for the purchase and rehabilitation of fire-damaged rental housing. A portion of the units will house very low-income families funded by project-based Section 8 certificates with the remainder taken by low-income families. [Section 8 certificates are a form of housing allowance program.] This project utilizes Low-Income Housing Tax credits. Another project, also in the eastern US, will help fund tenant acquisition of a rental complex. After rehabilitation of the building, the tenants, all of whom have incomes at or less than 80% of the area median, will form a residents' cooperative. The principal funding for this project comes from a HUD Hope-2 program grant. [Hope-2 provides funds for the purchase of units by lower income households.] CIP advances also have been combined successfully with the Bank System's principal lower income housing program, the Affordable Housing Program.

A recent innovative use of letters of credit occurred in the Chicago FHLBank District. Two thousand low-income households will be able to secure first mortgages of up to 97% of the purchase price of homes. A second mortgage may be obtained through the Wisconsin housing authority; this will result in a combined loan-to-value ratio of the first and second mortgage of up to 104%. A standby letter of credit will be issued by the FHLBank to provide credit enhancement for the second mortgage. The first and second mortgages will be sold to a secondary market government-sponsored enterprise (i.e., either Fannie Mae or Freddie Mac).

Examples of community and economic development uses of CIP advances are numerous. In the Cincinnati district, a Tennessee member in a rural area has borrowed $1 million to finance several projects. A portion of the funds will be used to purchase and develop a tract of land in an under-developed and economically depressed area into a vacation resort. Additional jobs and enhanced retail opportunities will result. A vacant building owned by the FDIC will be purchased and renovated, adding employment through expansion of the retail base. A church in a minority area providing community services to residents will also be a recipient. A southern Ohio community will benefit from a CIP advance issued to a member for construction of a five-story office building and the renovation of a related building in a section of the downtown area. The new building will offer space for com-

Table 1. CIP Advances Issued and Outstanding by FHLBank (000's of $)

FHLBank	*1990*	*1991*	*1992*	*1993*	*1994*	*Outstanding 12/94*
Boston	26,190	137,203	98,142	109,844	180,970	337,372,364
New York	0	45,548	97,382	157,349	141,717	469,000,000
Pittsburgh	3,865	252	11,586	102,308	149,540	265,800,265
Atlanta	39,683	158,546	158,894	170,128	353,608	631,596,643
Cincinnati	27,286	189,477	298,808	70,936	133,141	421,784,749
Indianapolis	200	40,123	57,065	113,033	170,156	286,737,602
Chicago	5,833	137,792	59,890	210,697	268,501	325,700,000
Des Moines	44,600	29,536	81,797	179,488	118,972	369,793,307
Dallas	2,000	7,795	6,855	50,301	18,818	69,300,000
Topeka	132,000	92,395	77,877	116,135	232,214	306,000,000
San Francisco	173,351	81,390	209,008	392,047	608,590	1,410,000,000
Seattle	41,396	28,182	132,812	135,034	161,750	156,748,876
Total	496,404	948,239	1,290,116	1,807,300	2,537,977	5,049,833,806

munity services including a cultural arts program providing exhibition opportunities to local artists.

Innovative uses of CIP advances have been made for the improvement of health services, education, expansion of manufacturing capacity, expansion of utilities, all types of community services and retail expansion. To accomplish a prudent and profitable venture, CIP funds have been combined not only with low-income housing tax credits and HUD programs, but Community Development Block Grants, Small Business Administration loan guarantees, Environmental Protection Agency loans and Farmers Home Administration loan guarantees. The Cincinnati Bank and several other FHLBanks have been able to link placement of securities with special housing programs funded through CIP advances. Other FHLBanks have used letters of credit to collateralize linked deposit programs benefiting housing and economic development loans.

THE AFFORDABLE HOUSING PROGRAM

The other program created by FIRREA, the Affordable Housing Program ("AHP"), has become the centerpiece of the Federal Home Loan Banks' housing programs. Each FHLBank annually places 10% of its net earnings into an Affordable Housing Fund to be utilized in subsidizing housing costs.[3] Funding provided under this program is awarded on a competitive basis to sponsoring member institutions. The FHLBanks offer funding for housing programs which directly benefit very low- and low-income families. This program utilizes subsidies to achieve housing affordable to families with incomes at or less than 80% of area median incomes. In the majority of cases—about 65% on a System-wide basis—housing is made available to households with 50% or less than the area median income. The subsidies are offered either as a discount on the interest cost of advances made to a member institution to support a project, or in the form of a direct grant. The prime requisite of the program is that the sole recipient of the housing subsidy be a low-income household.

The AHP differs in purpose and structure from the CIP in several important elements, but it shares one significant characteristic: broad flexibility in the approaches acceptable to achieving the goal of increased affordable housing. Three important differences between the two programs have already been mentioned: the AHP is a program with potentially very deep subsidies, the subsidy must be received in its entirety by an eligible household, and the subsidy may be received either as a grant or reduced interest charges or rental expense. Most FHLBanks grant their AHP support in the form of either reduced interest charges for advances received by members or in a form of cash grants. Under either form, the award must be passed to the beneficiary household in the form of a reduced interest charge on a mortgage, a reduced rental expense or as a cash grant which may take a variety of forms.

The AHP is a competitive program. Under current regulations, each FHLBank twice annually accepts applications from member institutions for the funds available. While the FHLBanks individually place limits on the borrowings per member or limit their total CIP outstanding advances, the funds available for the AHP are limited to the earnings set aside. The CIP is not inherently competitive: applications which meet the criteria are usually funded if the member institution meets the other District criteria. The AHP is competitive. Applications are scored according to criteria and selected on a competitive basis. Based upon the number of applications received and amount of funds requested relative to the amounts available, the competition for AHP funds is growing.

The criteria for selection of applications is based upon a general set of thresholds and prorates. Four requirements for AHP-funded projects apply in all FHLBanks: compliance with Fair Housing Standards [Fair Housing Standards refer to the standards of review applied to most depository institutions by their regulator pursuant to the Fair Housing Law.]; the project must be judged feasible and there must be a demand for the housing; the member institution must be credit worthy to receive FHLBank funding; and the project must be able to commence within 12 months of the award. There is also a pair of 20% requirements: the subsidy may not reducè the monthly housing costs of the recipient below 20% of income and rental projects must have at least 20% of the units affordable for and occupied by very low-income households.

Individual FHLBanks establish priorities for AHP awards and weight their importance based upon the perceived requirements within their region. Each FHLBank may choose a priority specific to the needs of its region. The Cincinnati Bank places a specific district priority on rural housing or urban infill or rehabilitation. The FHLBanks all share an emphasis in their priorities for home ownership and rental opportunities for very low-income families; sponsorship by non-profits, governments, and state housing agencies and authorities; empowerment opportunities for recipient households; salvaging agency projects in eminent likelihood of reverting to

Table 2. FHL Bank System AHP Application Requests and Funding 1990–1994

Year Committed	*AHP Applications Received*	*Projects Approved*	*Amount (000's $)*
1990	875	393	$78,783
1991	807	419	59,515
1992	923	418	50,000
1993	1,209	577	50,000
1994	1,709	644	75,002

public ownership; homelessness assistance; and retention of housing for the income levels targeted in the original project. Objectives on which the FHLBanks place a particular emphasis besides expanding housing opportunities for the lowest income households are the effectiveness of the AHP subsidy as determined by the AHP subsidy required per unit, the level of community involvement in the proposed project, the effect which the project will have on community stability and whether the proposal is judged to be innovative.

Proposals must meet the four threshold criteria to be considered. In general, the likelihood of receiving an AHP award increases as the level of household income served and the level of AHP subsidy required per unit decreases; and the level of cooperation between the member, the community and non-profit partners increases. The typical AHP award for the Cincinnati Bank in the most recent announcement involved a mean subsidy per unit of $4,096 on an average cost per unit of $59,084; 71% of the units were designated for very low-income households; 46% of the units will be owner-occupied; and 49% of the amount awarded will be made in the form of direct grants. The ratio of AHP subsidy to development cost of over 14 is typical for the Cincinnati Bank. The AHP subsidy is often a critical element in completing the funding structure of a project, but it is seldom the driving factor. Of the projects receiving awards in the most recent cycle, 97% satisfied the specific District priority of emphasizing urban infill or rehabilitation or rural housing. Innovation is a subjective but frequently crucial element in determining awards. One of the goals of the Cincinnati Bank AHP is to explore new methods of bringing resources to bear and developing community-based support systems which can expand housing opportunities in the absence of the AHP subsidy. The Bank will often support programs which are experimental or involve new partners when one result is likely to be a sustained support system for affordable housing.

SOME EXAMPLES OF AHP PROJECTS

Low-income housing tax credits ("LIHTC") are a common component in funding for rental projects supported under the AHP. [The low-income housing tax credit is the main housing production program of the federal government. It provides tax credits for a 10-year period for the development or rehabilitation of low-income housing. The tax credits are sold to private investors to generate the project equity. See article by Barton Harvey in this issue of HFI.] The typical program involves the sale of equity shares, usually an amount in excess of 50% of the development cost, to corporate investors. This model works well in urban areas, but that is not the only application. The Cincinnati Bank participated in a project in which 46 units of duplex housing were constructed at an average development cost of $41,000 per unit. The units were sold to local investors through private placement of low-income tax credits. The funding was provided through an advance made to the sponsoring member which resulted in sufficiently reduced rents for the occupants that 30 of the units are very low income. The tenants will have the opportunity to purchase their units after the 15-year compliance period. This was identified as an innovative financial structure which extended low-income tax-credit financing through a public/private partnership to a rural area where corporate investors are not readily available. This same model has since been applied in other areas with an even greater proportion available to very low-income households.

Another application of the LIHTC form involved units of rental housing for the elderly. A local non-profit organization partnered with local and state government to bring not only LIHTC but a small cities Community Development Block Grant (CDBG), local Community Development Corporation grant money, an energy conservation grant and equity money. An AHP grant subsidy was provided through an advance which reduced the rental cost of the housing to a point that 93% of the units are occupied by very low-income individuals. At the end of the LIHTC compliance period, the structure of the project will permit the transfer of the property to the sponsoring non-profit.

A homeownership project of a different form is currently in process. A sponsoring non-profit organization in partnership with a member institution will purchase six single-family houses from the HUD-held inventory. Six homeless families will become tenants of available homes for a two-year transition period; this involves counseling and training in household finance and homeownership. After successful completion of this transition period, the households are able to purchase a dwelling, using the savings accumulated during the transition period with the assistance of the FHLBank programs. CIP funds are available to fund the first mortgages. AHP funds are used to reduce the mortgage principal to affordable servicing levels for the families. AHP funds also provide assistance in the purchase of the properties from the HUD Lease/Sale Acquisition of Single Family Properties for HUD-certified homeless providers.

A more typical but still innovative program occurred recently in rural Kentucky. Twelve of 15 units of new construction developed were sold to very low-income families. AHP grants were utilized to reduce the principal of the first mortgage. The permanent financing was provided by a sponsoring non-profit through a revolving fund at rates ranging from 1% to 5%. The success of this first project has resulted in its being replicated for first-time home buyers. All 20 units of this project will be sold to very low-income families. Again, the AHP subsidy was provided in part as a grant through the member institution and to fund construction. The permanent financing was provided by the non-profit partner at rates from 1% to 3%.

In another mid-sized community, the local housing authority created a section 5(h) program under the provisions of the United

States Housing Act of 1937. The goal of the program was to move families from public housing to homeownership. Three- and four-bedroom houses at scattered sites were purchased and renovated. Participants in the program who were selected for participation were occupying public housing. The families attended budget and counseling sessions in homeownership, and contributed to a saving fund and earned credits of up to $2,500 through participation in a lifestyle incentive program. The AHP subsidy was provided in the form of a discounted advance to fund the first mortgages.

Not every program can be innovative, and there is a need to continue to do what works well. One typical application of AHP funding is to use LIHTC as a funding component in the purchase of scattered site units, some of which are in the HUD inventory. The units are leased to very low-income households for the 15-year tax credit compliance, and the occupants are given the option of purchase at the end of the compliance period. Another frequent application is the use of AHP grants to fund down payment assistance, and they are frequently combined with forgivable second mortgages. Increasingly, the FHLBanks have given assistance grants to self-help housing programs which emphasize owner "sweat-equity".

SOME OBSERVATIONS ON WHY THESE PROGRAMS WORK

The variety of projects funded by the AHP and the diversity in the applications of CIP funding is not the goal of these programs, it is the result of the inherent flexibility. Rather than a set menu of programs into which projects must be fit, the FHLBanks have striven to provide a funding tool which can be used in almost any way consistent with the goals of the program. Neither program is without specific requirements and both involve demonstration of intent as well as accomplishment. The programs are monitored on a continuing basis to insure that the funds are being utilized consistent with the proposal funded. A conscious effort has been made to limit the complexity of the application process and burden of the continuing monitoring.

Both programs have been in existence for six years. It may be a little early to declare them fully successful, but there is every indication that the programs have succeeded in meeting their original purpose.[4] There is an expanding involvement and increasing participation of partnerships consisting of member lending institutions, non-profit community groups, and government housing and economic development agencies in the AHP. Growth continues. Possible reductions in housing support from federal agencies may be one reason for the increased interest in FHLBank System housing programs, but the relative ease with which the programs are accessed and the flexibility available in the manner of funding are strong contributing reasons for the expanding interest.

The CIP and AHP are not panaceas for the inadequate stock of affordable housing in the United States, but they are making a very positive contribution to relieving some shortages. There are several reasons why the program has met with success in a time when many government programs are under attack for ineffectiveness. The reasons for success relate to the nature of the partnership involved in the AHP and CIP, the local orientation of the sponsoring members, the size of the projects, and the selection process used to make awards. While the following observations relate primarily to the Cincinnati Bank experience, they are consistent with the experiences of most of the FHLBanks.

Accountability

The FHLBank has a member institution which assumes responsibility for each funded project. The District FHLBank holds the member institution accountable for affordable housing projects with which it is involved. The projects are an important but not a dominant element in the earnings performance of total activities of a member. There is substantial incentive for the member lender to make the programs a success and to produce a project which will provide local recognition and reflect favorably upon its CRA compliance. [CRA refers to the Community Reinvestment Act, which requires depository institutions to track and report on the location of their loans and deposits, and the demographic characteristics of their loans. Depository institutions are loosely required to "put funds back" into the communities from which they generate deposits.] If a project fails to meet the project specification, the FHLBank can recoup the unearned portion of any subsidy from the member institution. The selection of AHP awards depends in part upon the existence of community support and/or non-profit community groups which will provide continuation of management and control. The FHLBank, however, will not fund projects in which there is no active member involvement.

Local Control

The projects funded under the CIP and AHP are locally conceived, locally developed and managed, and to a large extent, the evaluation of the success or failure of a program is made by local people. There is no absent landlord or remote management by report. The role of the FHLBank is to facilitate programs when appropriate, guide where necessary and monitor to insure that the program objectives are being met. Local people determine the need, set the priorities, establish the approach and assume continuing responsibility for the success of the project. The diversity of programs is a result of the innovative manner in which local people meet the needs of their communities, often in very unique ways.

Size of the Projects

The funds available under the AHP and the CIP programs are limited. Members may access funding only from their district

FHLBank. The current level of funding for the AHP is expected to be very close to the $100 million minimum annual contribution. The FHLBanks have limited the amount of funding which they will commit to individual projects to insure diversity in the types of housing assistance and broad geographic dispersion. The AHP and CIP programs might be characterized as niche housing programs meeting the needs of certain types of developments. Frequently, a large project can be approached as a succession of smaller requests. Many projects which require significant funding levels are not presented to the FHLBanks because they would exceed the capacity of an individual member institution or consortium of member lenders, or the capacity of the District FHLBank to fund. As a result, AHP and CIP projects funded by the FHLBanks tend to be smaller in nature. While many are quite complicated, their relative size makes management easier, and control and monitoring more effective.

The Selection Process

The FHLBanks have received requests for funding for the AHP which have exceeded the funding available in every offering. One result is the FHLBanks can be selective. The Cincinnati Bank realized very early that it could not be a passive participant in the process. Rather than wait for programs to develop, it must reach out to member institutions, non-profit organizations and all the other potential partners in expanding affordable housing opportunities. The FHLBank staff not only provides training on the applications of AHP and CIP programs, it also provides active consulting in program development. It will assist on specific projects, attempt to bring interested parties into programs and, when needed, act informally as a project consultant. One result is that there is a growing pipeline of projects consistent with the objectives of the FHLBank's programs. Another result is the high acceptance rate on program applications re-submitted after an initial failure to win funding. It is unlikely that the FHLBanks will ever be able to fund as many affordable housing programs as they would wish. The active participation of the FHLBank in the flow of programs increases the number of quality projects and the success rate of those approved. The experience thus far suggests that in excess of 90% of the AHP programs accepted by the FHLBank will be completed as proposed.

The evaluation process reveals the strengths and weaknesses of proposed programs. The FHLBank has found that it must consider not only the financial feasibility of the development; the ability of the partners to deliver on their proposals is also an important factor. In selecting the programs which it will support, the FHLBank is not just a judge, it must consider itself a partner. The sense of partnership between the member institution, its public and private partners, and the FHLBank is the ingredient which leads to the success of the FHLBank affordable housing programs.

CONCLUSION

The affordable housing programs of the FHLBanks have achieved substantial success in encouraging more lenders and sponsors to finance and develop affordable housing. The programs continue to be refined and developed, but it is clear that there are a few reasons central to their success. Flexibility and local control are the two most important reasons. The projects considered by the FHLBanks are developed by the local community to meet their needs. There is no master model or set of design specifications which a project must meet. The programs sponsored by the FHLBanks truly are grass root developments. Each application is measured against the objectives of the program, not specific development models. There is at least one local lender accountable for the funds awarded by the FHLBank and the projects selected almost always involve a partnership among lenders and several local sponsoring community groups. This may not be the paradigm for producing mass standardized housing units, but it is an efficient design for expanding affordable housing and community development suited to the needs of the recipients. These are characteristics which can be applied successfully to the design of other programs.

NOTES

[1] To be eligible for membership, an institution must hold at least 10% of its assets in the form of mortgage-related assets. The present stock requirement is an investment equal to 1% of mortgage-related assets or 0.3% of total assets, whichever is greater, with the holdings of stock at least equal to 5% of advance loans outstanding.

[2] Source: Federal Housing Finance Board, April 1995.

[3] The FHLBanks place 10% of net income in their AHP housing fund. If 10% of net income does not equate an aggregate $100 million set aside for the Bank System, any short-fall is allocated based upon the proportion of each FHLBank's net income to System net income. For the period 1991 through 1993, 5% of net income, or an aggregate minimum contribution of $50 million, was set aside; and 6%, or $75 million, was set aside for 1994. In each year since the inception of the AHP, the FHLBank aggregate set aside has exceeded the minimum requirement of the Bank Act.

[4] See, for example, the recent report, *Housing Finance, Improving The Federal Home Loan Bank System's Affordable Housing Program,* United States Government Accounting Office, June 1995, Washington, DC.