Business Opportunities in Community Development Lending

Putting the Pieces Together:

How the FHLB Boston Can Help

March 30, 2012
Kenneth A. Willis
First Vice President
Today’s Topics

- Introduction to FHLB Boston
- Issues Related to Lending
- Community Lending Opportunities & Challenges
- Value and benefits of Community Investment Programs that facilitate business opportunities
- FHLB Boston and partners produce real results
FHLB Boston

- A cooperatively-owned, wholesale bank
- Served shareholders since 1932; 463 members
- Over $50 billion in assets (12/31/2011)
- Provide reliable funding and liquidity products and services that facilitate housing and economic growth
- Administer Housing and Community Investment Programs
- Over 20 years of working with members and housing developers
Membership Profile

463 Members: 212 thrifts, 154 credit unions, 70 commercial banks, 27 insurance companies

Massachusetts
239 members
Advances: $9.4B
Capital Stock: $1.1B

New Hampshire
34 members
Advances: $1.1B
Capital Stock: $104M

Connecticut
78 members
Advances: $4.0B
Capital Stock: $493M

Vermont
29 members
Advances: $0.4 billion
Capital Stock: $58M

Maine
61 members
Advances: $2.1B
Capital Stock: $183M

Rhode Island
22 members
Advances: $6.9B
Capital Stock: $1.7B

As of 12/31/11
Challenges to Residential Lending

• Declining property values and foreclosures heighten difficulty in refinancing

• Weakened consumer confidence, combined with real-estate market and unemployment uncertainty, has led to philosophical and cultural changes around renting versus purchasing a home

• Uncertainty extends to the secondary market (GSE Reform)
Challenges to Small Business Lending

- Banks are flushed with deposits, and contrary to media reports, are lending to those with good credit
- Businesses hesitant to borrow or expand during this time of economic uncertainty
- Small businesses unable to tap family, friends, credit cards, or home equity for funding needed to enhance bankability to secure lending
- Municipalities concerned with improving small business access to credit and increasing collaboration between public and private enterprises
Community Lending Opportunities

- New business relationships
- New business expertise, gain new markets
- Maintain competitiveness in changing marketplace
- New business and loan growth
- Partner and catalyst creating new community assets, community impact
- Reach underserved markets
- Community Reinvestment Act
- Public relations
Community Lending Challenges

- Lending or investing in nonprofits in this economy
- May not fully understand line of business
- Longer development timeline
- Complexity of other funders and regulations
- Public review; NIMBY
- Environmental concerns
- Limited cash flows
- Lower appraised values due to other use restrictions
- Harder to liquidate the asset
Housing & Economic Growth

- Housing and Community Investment Programs:
  - Affordable Housing Program (AHP)
  - Equity Builder Program (EBP)
  - Community Development Advance (CDA and CDA Extra)
AHP Overview

- Funded through 10% of the Bank’s annual net earnings
- Provides grants and subsidized loans for affordable housing production and preservation that serves very low-, low-, and moderate-income families
- Supports all rental and homeownership housing models
- Members underwrite and submit applications with developers
- Competitive funding round, over $13.7 million subsidy in 2012
- Income eligibility/restrictions and reporting
AHP Overview

- Direct Subsidy (grant) can be used as capital or equity
- Subsidized Advance is a reduced interest rate loan made to the member to reduce the interest rate on the project’s permanent debt
- Can combine both in one project and be used for:
  - Acquisition, hard and soft construction costs, and rehabilitation
  - Down-payment and closing-cost assistance, interest rate buy-down, developer fee, and certain home-buying counseling costs for AHP units
AHP Direct Subsidy

- A grant for housing development
- Secured by member using subordinate FHLB Boston mortgage and note
- 15-year term for rental housing/regulatory compliance
- 5-year term for ownership housing/reg. compliance
- Typically used and disbursed during development/construction
AHP Subsidized Advance

- Member borrows at AHP-discounted rate
- Supports permanent lending of the same term and amortization at a lower rate
- Member earns the credit spread they require
- The loan is in first position
- Uses standard mortgage documents with the AHP rider
- Minimum 10-year term, up to 20 year term, 30 year amortization
- Forward-rate commitments are available
- 15-year AHP regulatory compliance for rental
Berkshire Veterans Residence
Pittsfield, Massachusetts

Legacy Banks
United Veterans of America, Inc.

70 apartments with supportive services for Homeless veterans
$274,000 AHP Direct Subsidy
$274,000 AHP Subsidized Advance using $101,718 interest-rate subsidy
Sandywoods Farms  
Tiverton, Rhode Island

BankNewport  
Church Community Housing

Fifty units of affordable housing plus library, art gallery, community center, and recreational preserve.  
$400,000 Direct Subsidy  
$2.6 million Subsidized Advance using $393,391 interest-rate subsidy
Olde School Commons
Bridgeport, Connecticut

Webster Bank, N.A.
United Cerebral Palsy Association of Southern Connecticut

24 affordable apartments serving people with disabilities and low-income individuals.
$240,000 AHP Direct subsidy
$510 AHP Subsidized Advance using $253,934 interest-rate subsidy
EBP: Grants for Homeownership

- Individual grants up to $10,000 for the purchase of a home facilitated through members,
- A separate set-aside of the Bank’s Affordable Housing Program -- $2.4 million available in 2012
- Builds off members’ existing residential mortgage products, helps to expand residential lending
- Three keys to the program:
  - Member’s mortgage product with concession(s);
  - Income eligibility (80% AMI); and
  - Homeownership counseling
EBP Benefits

- Assists home buyers that qualify for a mortgage, but lack funds for down payment and/or closing costs
- Supports members’ existing mortgage program
- Can be used in conjunction with other subsidy and down-payment assistance programs
- List of participating members can be found on FHLBBoston.com
CDA Program

The CDA Program has two options to provide financing for predevelopment, purchase, construction, rehabilitation, or refinance: CDA and CDA Extra

- Housing (residential)
- Economic Development (nonresidential)
- Mixed Use (combination of residential & nonresidential)
- Eligibility based on geographic and targeted beneficiaries of the funds
Program Benefits

**Benefits:**
- Bank’s lowest cost advances
- Expand community development lending
- Meet the credit needs of communities
- Easy to find qualifying loans

**Allows you to:**
- Compete on term
- Lock in spread and term
- Mitigate interest rate risk
- Provide lower cost of funding to community
- CRA benefits
Rates

- CDA is a discounted advance
- CDA Extra is a deeper discounted advance
- Available as Classic (bullet), amortizing, and member option advances
- CDA/CDA Extra available in terms from one year to 20 year maturity/30 year amortization

CDA for Housing

Member: Bank of America

Eligibility: 51% of units occupied by families with incomes at or below 115% AMI

CDA Funds: $647,000

Location: Dorchester, MA

Refinance of a four-story building that will provide 27 affordable housing rental units. All units will be targeted to households earning at or below 80 percent of the area median income.
CDA for Economic Development

Member: Passumpsic Bank
Eligibility: Small Business Initiatives
CDA Funds: $6,000,000
Location: New Hampshire/Vermont

Financing to support small business initiatives located throughout Vermont and New Hampshire, including Lyndon Rescue in Lyndon, Vermont. Lyndon Rescue is an ambulance service with 35 employees providing medical transportation across a 560-square-mile area of northeastern Vermont.
Double-bottom line

- FHLB partnership model encourages public/private collaboration to expand community lending—provides capital for difficult to finance transactions
- Members receive a financial return on their investment and meet the credit needs in their communities
- Communities receive a sustainable asset that meets the needs of its residents and stabilizes neighborhoods; creates local jobs
- Investments in the community have an economic ripple affect that benefits everyone; the process can be replicated
AHP Plays Important Catalytic Role Creating Affordable Housing and Boosting Economy

- For every $1 million of AHP funding, $14.2 million of housing is built or rehabilitated.
- Each $1 million of AHP funding contributes to generating $27.6 million total output (including ripple effect of job creation and value-added spending).

2005 to 2009 AHP Completed Projects $53.7 Million

Housing Built or Rehabilitated $761.6 Million

Economic Activity $1.48 Billion

Source: New England Market Research, Inc. and I2 Community Development Consulting
## Affordable Housing Programs

### Community Development Advances

<table>
<thead>
<tr>
<th></th>
<th>CT</th>
<th>MA</th>
<th>ME</th>
<th>NH</th>
<th>RI</th>
<th>VT</th>
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<td>$ Disbursed</td>
<td>$1,853.3</td>
<td>$6,903.7</td>
<td>$1,013.5</td>
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<td>Small Business Funding</td>
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<td>$1,316.5</td>
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<tr>
<td>Total CDA Housing Units</td>
<td>10,511</td>
<td>51,158</td>
<td>7,555</td>
<td>7,831</td>
<td>2,764</td>
<td>4,576</td>
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### Affordable Housing Program

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<tbody>
<tr>
<td>Direct Subsidy/Grant</td>
<td>$22.4</td>
<td>$77.4</td>
<td>$24.9</td>
<td>$13.1</td>
<td>$9.3</td>
<td>$10.9</td>
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<td>Subsidized Advances</td>
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<td>$88.9</td>
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<td>$13.3</td>
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<td>Total AHP Subsidy</td>
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<td>$93.6</td>
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<td>$16.2</td>
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<td>13,250</td>
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<td>1,154</td>
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### Equity Builder Program

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<tr>
<td>$ Disbursed</td>
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<td>Total EBP Units</td>
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<td>91</td>
<td>72</td>
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<td>Total Housing Units</td>
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<td>65,145</td>
<td>10,334</td>
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<td>3,990</td>
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Where to Get More Information

**HCI Department Contacts**

<table>
<thead>
<tr>
<th>Name</th>
<th>Phone</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>Ken Willis, FVP/Director</td>
<td>617-292-9631</td>
<td></td>
</tr>
<tr>
<td>Mary Ellen Jutras, AVP/Deputy Director</td>
<td>617-292-9607</td>
<td></td>
</tr>
<tr>
<td>Theo Noell, Manager of Programs &amp; Outreach</td>
<td>617-292-9668</td>
<td>(Fairfield, Hartford, Litchfield, &amp; New Haven County CT)</td>
</tr>
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**Community Investment Managers**

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<thead>
<tr>
<th>Name</th>
<th>Phone</th>
<th>Notes</th>
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<tbody>
<tr>
<td>Tobi Goldberg</td>
<td>617-292-9653</td>
<td>(ME &amp; Essex County MA)</td>
</tr>
<tr>
<td>Kathy Naczas</td>
<td>617-292-9646</td>
<td>(NH; VT; Berkshire, Franklin, Hampden, Hampshire, &amp; Worcester County MA)</td>
</tr>
<tr>
<td>Christine Rogers</td>
<td>617-292-9677</td>
<td>(RI; Tolland, New London, &amp; Middlesex County CT; Barnstable, Bristol, Dukes, Middlesex, Nantucket, Norfolk, Plymouth, &amp; Suffolk County MA)</td>
</tr>
<tr>
<td>Paulette Vass, CDA Manager</td>
<td>617-292-9792</td>
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[www.fhlbboston.com](http://www.fhlbboston.com) 1-800-424-3863 (toll free)