

Banking On Communities

FEDERAL HOME LOAN BANK OF SAN FRANCISCO

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Congress Plans to Revamp GSE Regulation

By Dwight Alexander
Vice President

Senate legislation to consolidate oversight of the housing Government Sponsored Enterprises (GSEs) – Fannie Mae, Freddie Mac, and the Federal Home Loan Banks (FHLBanks) – has stalled amid partisan political fighting, heavy lobbying, and differences of opinion over the regulator’s authority.

Nevertheless, the question of how to best oversee Fannie Mae, Freddie Mac, and the FHLBanks will continue to be debated. Senate Banking, Housing and Urban Affairs Committee Chairman Richard Shelby (R-AL) still calls his bill a “key priority” on the legislative agenda.

According to Dean Schultz, President and CEO of the Federal Home Loan Bank of San Francisco (FHLBank San Francisco), having a world-class

regulatory agency would “provide consistent, enhanced, and vigorous regulation for all housing GSEs and is a strong statement in the marketplace that regulation of housing

GSEs is a priority of the Congress and the administration. A strong and independent regulator also assures the marketplace that regulation, examination, and policy devel-

opment will occur in an apolitical framework.”

The move to change the regulatory structure of the GSEs became a priority for Congress and the Administration last year after accounting problems forced a \$5 billion earnings restatement at Freddie Mac and the removal of three top officials there.

Fannie Mae and Freddie Mac are currently overseen by the Office of Federal Housing Enterprise Oversight, an independent entity within the U.S. Department of Housing and Urban Development. The FHLBanks are regulated by the Federal Housing Finance Board an independent agency. What’s often overlooked in the debate is the central role that housing has played in keeping the U.S. economy afloat

Home Finance Data	2002	2003	% Change ¹
Home Ownership Rate ²	67.9	68.3	0.6
New Home Sales ^{3,4}	973,000	1.1 Million	11.5
Existing Home Sales ^{3,4}	5.6 Million	6.1 Million	9.6
Median Existing Home Price ³	\$162,569 ⁵	\$170,000	4.6
Home Equity	\$7.9 Trillion	\$8.4 Trillion	6.1
Mortgage Debt	\$6.2 Trillion	\$6.8 Trillion	9.9
Mortgage Refinancing	\$1.4 Trillion	\$2.4 Trillion	71.4

NOTES ¹Percent change was calculated using unrounded numbers. ²Homeownership rate is from the Housing Vacancy Survey and is shown in percentage. ³Refers to single family homes. ⁴Measured in units. ⁵All dollar figures are in 2003 dollars. **SOURCES** Tables A-2, A-6; Federal Reserve Flow of Funds Accounts; Bureau of Economic Analysis, National Income and Product Accounts; Census Bureau, C-50.

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Housing Industry Lifts Nation’s Economy

By Dean Schultz
President and CEO

Many economists, including Federal Reserve Board Chairman Alan Greenspan, seem to agree that spending in the housing sector helped prevent the most recent recession from running deeper.

What has contributed to the booming housing market? Historically low interest rates, last seen in the 1960s, are a big part of the answer. Low rates have allowed consumers to exercise their purchasing power, which accounts for two-thirds of the nation’s economic activity. Besides just continuing to buy, consumers have been able to buy more with their money.

Furthermore, these record-low rates have propelled a mortgage-refinancing wave that has allowed homeowners to cash equity out of their properties, returning money to the economy through increased consumer sales in a variety of areas.

Despite the low interest rates, today’s thriving housing market would not exist without the structural support provided by the housing

Government Sponsored Enterprises: the Federal Home Loan Banks (FHLBanks), Fannie Mae, and Freddie Mac. Chartered by Congress, these GSEs encourage homeownership by increasing the available funds for mortgage loans.

Just as low interest rates benefit consumers, lower borrowing costs benefit the GSEs—and ultimately homebuyers. In part, because of an “implied” federal guarantee, these institutions can borrow money at below-market rates.

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Dean Schultz

Congressional Q&A with U.S. Representative Rick Renzi

This is another in a series of interviews with senators, representatives, and other public officials who play significant roles in helping to keep housing affordable in the communities served by the financial institutions that belong to the Federal Home Loan Bank of San Francisco (FHLBank San Francisco).

U.S. Representative Rick Renzi (R-AZ) represents Arizona’s new First Congressional District, one of the largest congressional districts in the country. The District includes the metro areas of Flagstaff, Show Low, Casa Grande, Safford, Payson, Prescott and Winslow. Prior to his political career, Rep. Renzi ran three businesses, including a real-estate investment firm. He currently serves on the House Committee on Financial Services, which oversees the securities, insurance, banking, and housing industries.

Q Your District is comprised of mostly rural communities. What affordable housing issues does your district face?

A The First District of Arizona covers over 58,000 square miles and is approximately the size of Illinois. The rural communities within this diverse region are faced with a limited supply of private land,

rapid population growth with an increasing number of low income households, and Native American families who face a combination of several severe housing issues.

Q The Arizona Housing Commission reports that privately owned land composes only 17% of the state’s acreage. How has this impacted the housing industry in Arizona?

A Much of the public and tribal lands in Arizona constitute National Forest and Park system lands, military installations or remote areas without established infrastructure and therefore are not suitable for residential development. The housing industry faces many challenges because of these obstacles to development. Because there

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Senate Bill Establishes Stronger Regulator

during periods of slow economic growth.

Harvard University's Joint Center for Housing Studies says that residential fixed investment alone accounted for one-tenth of the nation's Gross Domestic Product (GDP) growth in 2003, with commissions from home sales alone pumping \$80 billion into the economy. In fact, housing starts totaled 1.85 million, with 1.5 million coming from the construction of single family homes. Moreover, mortgage originations reached \$3.8 trillion when home purchases and refinances are included.

For the FHLBanks, and for homeowners alike, the central issue is having a regulator that ensures the continued safe and sound operations of the GSEs and that invokes confi-

dence on Wall Street. Further, the regulating body must understand the unique structure of the FHLBank System, and allow it to continue providing member institutions with the capital used to fund home mortgages in all regions of the country.

Certainly, there are many ideas on how to accomplish these goals, such as strengthening current regulatory bodies.

Another possible route is with Sen. Shelby's legislation. The proposed measure, the Federal Housing Enterprise Oversight Modernization Act of 2003, was approved by the Senate Banking, Housing and Urban Affairs Committee by a slim 12-9 vote, mostly along party lines, with Democrats opposing it. The

legislation, however, has stalled and further action this year is not anticipated.

The proposed Senate bill would create a new independently funded body, the Federal Housing Enterprise Supervisory Agency, led by a presidential appointee serving a six-year term and a four-member advisory board that would review decisions and advise Congress.

A series of amendments (see chart) proposed by the FHLBank San Francisco help achieve the goal of preserving the current structure of the FHLBanks. It is crucial that a sufficient firewall is in place, one that clearly separates the regulating of Fannie Mae and Freddie Mac from the FHLBanks and specifically establishes a deputy director of the regulating body to be assigned sole-

ly to regulating the FHLBanks.

"Our operation is so different from the other GSEs it is essential that there is sufficient staff involved in regulating the FHLBanks, and that there is a strong firewall between the two operations," said Lawrence Parks, FHLBank San Francisco's Senior Vice President of External and Legislative Affairs.

Moreover, Mr. Parks said it was also crucial that the number of appointed directors required to be on the boards of the individual FHLBanks not be reduced, as they would be in Sen. Shelby's legislation. "The appointed directors make strong contributions to the running of the Banks and bring a different perspective into the boardroom," Mr. Parks said. "They are often in the forefront of

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GSE REGULATORY REFORM		
Issue	Shelby Legislation	FHLBank San Francisco Proposal
AGENCY STRUCTURE	<ul style="list-style-type: none"> Office of Federal Housing and Enterprise Oversight (OFHEO) and Federal Housing Finance Board (FHFB) would be abolished and their functions moved to a new independent agency, the Federal Housing Enterprise Supervisory Agency (FHESA), with a Director and a four person advisory board (the Director, Treasury, HUD and the SEC). OFHEO's Director would be the first Director of FHESA. FHESA assumes new program approval and housing goal oversight functions of HUD The change would be effective one year after enactment. 	<ul style="list-style-type: none"> OFHEO and FHFB abolished and their functions moved to a new independent agency, the Office of Housing Finance Supervision (OHFS), with a Director and a three person advisory board (the Director, Treasury and HUD). OHFS' Director would be nominated by the President (and could not be the current head of OFHEO or the FHFB). The change would be effective six months after enactment.
AGENCY FUNDING	<ul style="list-style-type: none"> Fannie Mae, Freddie Mac and the FHLBanks would pay all FHESA costs, without Congressional appropriation. 	<ul style="list-style-type: none"> Separate assessment funds would be created for supervision of Fannie Mae and Freddie Mac and the FHLBanks. Neither fund could be used for purposes of supervising the other entity.
DIVISION OF DUTIES WITHIN AGENCY	<ul style="list-style-type: none"> FHESA Director required to appoint three Deputy Directors, one responsible for supervising Fannie Mae and Freddie Mac, the second for the FHLBanks, and the third for oversight of the housing goals of Fannie Mae and Freddie Mac. The Director may delegate powers to these Deputy Directors "as the Director prescribes." Authority and duties of Deputies not otherwise described. 	<ul style="list-style-type: none"> OHFS Director required to appoint and delegate authority to two Deputy Directors, one for supervision of Fannie Mae and Freddie Mac and the other for the FHLBanks. Each of the two supervisory divisions must be operated with separate personnel to preserve the different legal and other characteristics of the enterprises and the FHLBanks. Decisions regarding examination, enforcement or interpretive matters by the Deputy Director for FHLBanks would be binding, but the Director may request the Advisory Board to review such a decision. The Advisory Board may affirm, overturn or alter the decision.
NEW PROGRAM APPROVAL	<ul style="list-style-type: none"> FHESA succeeds to HUD's approval authority for the enterprises. A new program must be approved unless it is not statutorily authorized or is not in the public interest. FHESA succeeds to authority of the FHFB which includes authority over new FHLBank activities. 	<ul style="list-style-type: none"> OHFS Director must adopt a regulation specifying the standards and procedures for approving a new FHLBank business activity. The standards to be met must include consistency with the FHLB Act, sufficient risk-based capital, and consistency with the public interest. "New business activity" defined as an activity that "differs significantly" from prior FHLBank activities.
SECURITIES REGISTRATION/DISCLOSURE	<ul style="list-style-type: none"> Requires enterprises to register stock under the 1934 Act. Provides FHLBank securities with exempt status under the 1933 Act and exempt "government securities" status under the 1934 Act. 	<ul style="list-style-type: none"> Provides FHLBank securities with exempt status and exempt "government securities" status under federal securities laws.
OFFICE OF FINANCE	<ul style="list-style-type: none"> Establishes the Federal Home Loan Bank Finance Corporation as a jointly owned subsidiary of the FHLBanks and transfers the functions of Office of Finance to the new Corporation. The Corporation will issue its non-transferable stock to the FHLBanks, be governed by a board of all the FHLBank Presidents and be accorded the status of a FHLBank. 	<ul style="list-style-type: none"> Defines Office of Finance as the joint office of the FHLBanks, creates a new four-member management board consisting of the director of Office of Finance and three FHLBank Presidents, and provides the FHLBanks with access to one another's examination reports.
FHLBANK DIRECTORS	<ul style="list-style-type: none"> FHLBank boards will have 13 members, or such other number as the Director determines. All directors will be elected and two directors must be public interest directors with a background in consumer or community affairs. 	<ul style="list-style-type: none"> Keeps the current structure for the boards of the FHLBanks.

A Model Public – Private Partnership

By Jim Yacenda
Vice President

Collaborating on public-private partnerships is an essential component of the Federal Home Loan Bank of San Francisco's (FHLBank San Francisco) strategy for meeting the needs of its member institutions and the communities they serve. Upholding this tradition, the FHLBank San Francisco and three member institutions recently forged a unique partnership with the City of Inglewood and the U.S. Department of Housing and Urban Development (HUD). The partnership, known as the Economic Development Fund, supports the growth of new and existing businesses in Inglewood, California.

The member banks participating in this effort are Community Bank, Far East National Bank, and First State Bank of California. Working together with the FHLBank San Francisco, HUD and the City of Inglewood, they will make \$45 mil-

forward to seeing the development projects that will emerge and help to create new jobs and business opportunities in the community." The FHLBank San Francisco is providing access to below market funds through the Advances for Community Enterprises program known as ACE. The program's focus is designed to stimulate economic development and revitalize communities.

Unique public-private partnerships, such as this one, are made possible because of the ability of regionally based Federal Home Loan Banks (FHLBanks) to create solutions for local and regional capital needs. As legislative and regulatory structural changes are considered, it is crucial that any new oversight enacted by Congress or regulators have provisions that will continue to allow the FHLBank San Francisco to forge these kind of partnerships. These partnerships make a difference in the lives of individuals, families and

Vilcar Koo, Relationship Manager for Far East National Bank, agrees that the program will benefit the community, while providing borrowers with flexibility regarding



Vilcar Koo
Relationship Manager, Far East National Bank

how the funds can be used. As a full-service commercial bank with 15 branches in California and Asia, Far East specializes in serving the Chinese community in Inglewood

prospective borrowers with favorable terms and below market rates, depending on credit considerations.

James Whitney, Senior Vice Present and SBA Loan Manager of First State Bank of California, said their involvement with the program will enhance old and new relationships. As a member of the FHLBank San Francisco for two years, and a 20-year partner with the City of Inglewood, First State Bank of California brings to the table extensive expertise in non-profit and small business lending.

"All of our institutions and FHLSF are trailblazers with the creation of this program which can serve as a model for economic development in cities across the nation," said Mr. Whitney. "This is a solid program and unique venture to be a part of as First State Bank of California aspires to approve loans that retain employment in our communities, upgrade facilities, and provide significant returns to our stock-

We (FHLBank San Francisco) are forging public-private partnerships that are having an impact on the lives of many citizens and helping to rebuild communities.



Representative Maxine Waters (D-CA)

lion in loans available for businesses seeking to expand or relocate to Inglewood. City officials anticipate that loans will be used for restaurants, commercial and industrial business expansion, retail outlets, and health and human services.

"Section 108 HUD funds are extremely important to the economic development and the growth of our cities," said Rep. Maxine Waters (D-CA), who was instrumental in getting HUD to approve a \$10 million Section 108 loan for the project. "The City of Inglewood has put together a creative program using Section 108 loan guarantees with support from the FHLBank San Francisco and local banks. I look

businesses in the communities where our members are located.

FHLBank San Francisco members have committed to providing \$35 million in loans, with Far East National Bank providing \$15 million, First State Bank of California providing \$15 million, and Community Bank providing \$5 million.

"We are excited to be a part of this creative partnership," said Richard Wennkamp, Senior Vice President and Compliance Officer for Community Bank. Headquartered in Pasadena, Community Bank was founded in 1945 with the mission of providing financial services for small businesses. It has been a member of the FHLBank San Francisco for more than seven years and has more than \$1.6 billion in assets.

Mr. Wennkamp notes that the program is playing a key role in helping Community Bank maintain its commitment to providing small business and developers with versatile lending options. "By engaging in this collaborative process with the city, we were able to develop a sound profile of prospective borrowers, we are confident that this program will produce tangible results for all of the institutions involved and, ultimately, for the Inglewood community."

and small-to-mid-size businesses looking to expand their operations into the burgeoning Pacific Rim markets.

"HUD traditionally has a fixed set of guidelines for how loan funds can be used," said Mr. Koo. "This program provides an innovative solution for our customers by allowing us to provide supplemental funding and remove barriers to supporting non-traditional yet promising community development projects."

Under HUD guidelines, for each \$35,000 loaned, one new job must be created. Therefore, seven jobs would be created for each minimum loan of \$250,000. The maximum loan is \$1 million. The loans can be used for land acquisition, construction, renovation or remodeling, and equipment purchases.

The program requires that each business seeking funds must invest at least 10% equity into its own project. The city and HUD will lend up to 40% of the project costs and a financial institution will loan at least 50% of the remaining costs. Borrowers can seek their contributions from one of the three participating FHLBank San Francisco members or a financial institution of their choice. The participating banks are committed to providing

holders. We look forward to the loan applications submitted through this program."

Further, Dwight Alexander, a vice president at the FHLBank San Francisco said, "This project demonstrates the role that the FHLBank San Francisco and its member institutions play in revitalizing communities throughout our three-state region of Arizona, California, and Nevada. We are forging public-private partnerships that are having an impact on the lives of many citizens and helping to rebuild communities."



Richard Wennkamp, Sr. Vice President and Compliance Officer, Community Bank

All the Latest News

San Jose AHP Project Wins Prestigious Tax Credit Award

Markham Plaza, a 305-unit affordable housing community in San Jose, has won the Charles L. Edson Tax Credit Excellence Award as one of the most outstanding low-income housing tax credit development projects in the nation.

The prestigious award, granted by the Affordable Housing Tax Credit Coalition, was recently received at a ceremony in Washington, D.C. The project received nearly \$2 million from the Federal Home Loan Bank of San Francisco (FHLBank San Francisco) Affordable Housing Program (AHP), a competitive grant program used to fund affordable housing for very low- to moderate-income individuals and families. Developed by CORE Development, Inc., Markham Plaza's other partners include the City of San Jose, the Emergency Housing Consortium, Bank of America, and Citibank (West).

"This is a great example of all aspects of the community, lending institutions, the city, and nonprofit groups coming together to help build a project that will have a meaningful impact on the lives of the residents," said Steve Traynor, Senior Vice President, Financial Services and Community Investment, for the FHLBank San Francisco. "We will continue to fund projects like Markham Plaza, which play a key role in revitalizing communities in our region."

FHLBank San Francisco SVP Lawrence Parks Testifies at Hearing on Indian Housing

The FHLBank San Francisco is working with Native American organizations to overcome hurdles that have slowed their efforts to increase the supply of affordable housing in Indian Territory. Lawrence H. Parks, Senior Vice President, External and Legislative Affairs, for the FHLBank San Francisco, testified on May 5 in Tuba City, Arizona, before a House Financial Services Subcommittee on Housing and Community Opportunity. Mr. Parks said that the FHLBank San Francisco is committed to finding ways to provide affordable housing on Indian land. Mr. Parks said the FHLBank San Francisco spent three years negotiating with regulators before it received the approval to proceed with funding three housing projects on Native American reservations.

The FHLBank San Francisco continues to work with trade groups and others "to find creative approaches to address lenders' needs and the rights of tribes on their lands," Mr. Parks commented. He noted, for instance, that the FHLBank San Francisco's AHP has approved grants for seven projects on Native American lands. The projects will provide 282 units of affordable rental housing and 18 units of affordable ownership housing, resulting in attractive housing alternatives for 300 families. However, Mr. Parks said that it was not an easy path.

"The funding... (for) Native American lands has not been without difficulty, primarily because of the unique legal status of tribes and their lands," Mr. Parks testified. "The sovereignty of Native American lands and their trust status create legal problems for traditional methods of housing finance. Differences in tribal laws and sovereignty constraints make an across-the-board prescriptive solution for Native American lending nearly impossible absent some mechanism for ensuring payment in the event of default in lieu of the tra-

ditional foreclosure process." He said that there needs to be a balance between Native American sovereignty issues and the foreclosure concerns for financial institutions.

After a tour of living conditions on Indian land, Members of the House Subcommittee on Housing and Community Opportunity were appalled. "I visited Kaibito and saw three children living in a mud hut with their grandmother. Their stomachs were distended with dysentery. When I came home, I cried," Rep. Rick Renzi (R-AZ.) told reporters. "I thought, 'how can I call myself a congressman and not do something about this?'"

Mr. Parks said: "Providing adequate housing on Indian land needs to be a priority for both the public and private sectors. ... (we) will continue to cut through the red tape and forge private-public partnerships that can produce affordable housing and lift the standard of living for many Native Americans."

FHLBank San Francisco Awards \$5.5 Million to Help Lower-Income Homebuyers

The FHLBank San Francisco recently announced approximately \$5.5 million in matching grants to help lower-income residents become homeowners in Arizona, California, Nevada, and Texas. Of the total amount, \$3.5 million was awarded to the Individual Development and Empowerment Account (IDEA) Program and \$2 million to the Workforce Initiative Subsidy for Homeownership (WISH) Program.

"Moving lower-income residents from renting to owning is a priority for us," said Jim Yacenda, the FHLBank San Francisco's Vice President, and Community Investment Officer. "The IDEA and WISH programs are important tools to help families and individuals realize the dream of homeownership."

Under both programs, the funds may be used for downpayments and/or closing costs. Through the FHLBank San Francisco's member institutions, the IDEA and WISH programs provide up to \$15,000 per household, matching up to \$3 for every dollar contributed by the homeowner toward the purchase of the home. For the IDEA Program, eligible households must be enrolled in a Family Self-Sufficiency (FSS) program through a local public housing authority or be enrolled in

an Individual Development Account (IDA) program with a nonprofit organization or member of the FHLBank San Francisco. Participating households may earn up to 80% of the area median income and must complete a homeownership-counseling program.

The IDEA grants will be used by 24 financial institution members for 25 FSS programs and 35 IDA programs. The WISH Program grants are expected to help 135 to 150 households living in the following 12 high-cost California counties—Alameda, Contra Costa, Los Angeles, Orange, Riverside, Sacramento, San Bernardino, San Diego, San Francisco, San Mateo, Santa Clara, and Ventura. Under the WISH Program, homebuyers must participate in eligible mortgage assistance programs administered by a public or private entity.

\$19.3 Million in Affordable Housing Grants Awarded in Arizona, California, and Nevada

In June, the FHLBank San Francisco awarded approximately \$19.3 million in AHP grants in the first round of the 2004 competition. The AHP grants will support 51 projects and generate nearly 3,100 affordable housing units in Arizona, California, and Nevada.

"The AHP continues to evolve to address the impact that the high cost of housing in our District has on working families," said Mr. Yacenda. "The AHP has a history of bringing people together to find solutions to these housing affordability issues."

The following Arizona communities will benefit from the grants: Cave Creek, Glendale, Phoenix, Quartzsite, and Tucson. In California, the following communities will benefit: Anderson, Brentwood, Cathedral City, Eureka, Forestville, Fremont, Los Alamos, Los Angeles, Oakland, Poway, Red Bluff, Richmond, San Diego, San Francisco, San Jose, San Pablo, Santa Paula, Santa Rosa, Santee, Stockton, Vacaville, Watsonville, Westminister, and Williams. In Nevada, Henderson and Las Vegas will benefit from these awards.

Since 1990, FHLBank San Francisco's AHP has awarded approximately \$337 million to 1,282 projects, which provide rental and homeownership opportunities for more than 62,000 households in Arizona, California, Nevada, and other localities served by member institutions.



Winner of the Charles L. Edson Tax Credit Excellence Award

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is limited land availability, Arizona developers are subject to regulations in the form of environmental impact fees, design codes, and residential occupancy restrictions. This also increases the costs of construction, which are passed on to the homebuyer.

Q Native Americans make up a large portion of your District. What challenges does this population face in terms of gaining access to affordable housing and becoming homeowners?

A Native American populations face unique challenges in the financing and construction of affordable housing. Nationally, over 32% of tribal homes are overcrowded - six times higher than the national average. HUD estimates that 220,000 housing units are needed immediately in Indian Country and approximately 38,000 potential homebuyers exist in this market. While self-sufficiency is the goal of all Native American people, it is necessary for the tribes to first build cooperative relationships with institutions and sources of financing such as the Federal Home Loan Bank of San Francisco (FHLBank San Francisco) to achieve this goal.

Q According to the U.S. Census Bureau, Arizona is one of the fastest growing states in terms of population. How has this affected the ability of your constituents to find affordable housing?

A While Arizona's population makes it one of the fastest growing states, Arizona has one of the lowest average incomes in the nation. New residents have boosted the local economy; however, Arizona has not yet experienced an affordable housing boom to accommodate the influx of new Arizonans. It is easier for these new residents to rent than own due to the existing high costs and short supply of new homes.

Q Prior to running for Congress, you were a homebuilder. How has the housing crisis affected the industry?

A The most critical housing problem in rural Arizona is the disparity between annual income and the cost of purchasing a home. In Arizona, a police officer makes \$42,500 and could afford a \$115,000 home, however, the median cost of a home in Flagstaff is \$175,000. The gap between middle-income levels and affordable housing prices creates a situation where homebuilders are unable to cover the construction costs of low income housing. Homebuilders focus their efforts toward higher income families who are able to pur-



Representative Rick Renzi

chase more expensive homes in the scenic areas of the state.

Q What can be done to help homebuilders create more affordable housing?

A Creative partnerships between local developers and large lending institutions must be fostered. Low interest loans need to be more readily available to first-time homebuyers who cannot readily afford the downpayment costs associated with the purchase of a new home.

Q How can organizations, such as FHLBank San Francisco, and public-private partnerships help households in your district obtain affordable housing?

A Many private companies exist to help homebuyers with downpayment assistance. This helps to supplement the finite supply of federal grants and subsidy programs. To promote these programs, financial institutions need to become more involved with rural communities and understand the specific needs of local homebuyers.

Q What FHLBank San Francisco programs help residents in your district?

A Officials from the FHLBank San Francisco hosted a meeting on the White Mountain Apache Reservation to discuss the relationship between lending institutions and tribal governments. Later, the White Mountain Apache Tribe was awarded an Affordable Housing Program grant from the FHLBank San Francisco toward the completion of their local affordable housing project for a total of 32 new units.

Q What is the federal government doing to help address affordable housing issues in your district?

A I cosponsored the American Dream Downpayment Act, a bill that provides communities throughout America with \$200 million in grants designed to help with downpayment and closing costs, which are traditionally the most significant obstacles that would-be homebuyers face. This legislation assists 40,000 families annually with an average subsidy of \$5,000 towards downpayment and closing costs.

Bill Establishes Stronger Regulator

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creating affordable housing in America, and their opinions are valuable.”

The Senate Banking Committee's ranking Democrat, Sen. Paul Sarbanes (D-MD), prepared a rival bill, but that measure failed in committee. In an attempt to gain broader support for Sen. Shelby's bill, Republican com-

mittee members added an amendment creating congressional veto power over the oversight agency if it sought to place a GSE in receivership. Committee members also discussed other possible compromises. But the White House delivered the deathblow - at least for now - to the bill by rejecting attempts to compromise with Democrats on the committee. Administration officials said the receivership amendment, and other efforts to compromise, weakened the authority of the proposed regulator. Without White House support, the future of Sen. Shelby's bill is uncertain.

Administration officials said the amendments weakened

actions have caused some on Wall Street to question the implied guarantee for the GSEs - the longstanding notion that the government would come to the rescue if any of the GSEs were close to failing, Mr. Parks said.

Already, the General Accounting Office has endorsed the concept of a single housing GSE regula-

Without White House support, the future of Senator Shelby's bill is uncertain.

mittee members added an amendment creating congressional veto power over the oversight agency if it sought to place a GSE in receivership. Committee members also discussed other possible compromises. But the White House delivered the deathblow - at least for now - to the bill by rejecting attempts to compromise

the authority of the proposed regulator.

A joint statement released by Treasury Secretary John Snow and HUD Secretary Alphonso Jackson stated that the amendments would reinforce the perception that investments in GSEs are government-guaranteed. The administration's

tor and set out what it believes should be the basic tenets - a single regulatory agency should be independent and objective; prominent in government; economically efficient; and consistent in its approach to regulation. Mr. Parks said, "Those points give the Congress a clear starting point on which to agree."

Banking On Communities

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Senate Bill Can Strengthen FHLBanks

By Lawrence H. Parks
Senior Vice President

The Senate Banking Committee is making a noble effort to create new oversight for the housing Government Sponsored Enterprises (GSEs) that will help retain Wall Street's confidence, while allowing the Federal Home Loan Banks (FHLBanks), Fannie Mae and Freddie Mac to continue providing lending institutions with capital to finance home mortgages.

Unfortunately, disagreements among the GSEs, the White House and the Banking Committee prevented the forging of legislation that could be enacted at this time. However, while significant progress was made, it is anticipated that legislation will be finalized some time after the November election – most likely in the next Congress.

The Federal Home Loan Bank of San Francisco (FHLBank San Francisco) supported much of the Senate Banking Committee's bill, particularly the inclusion of the FHLBanks under the new regulatory body. This provision was not a certainty last fall when the legislation was first discussed. But as supporters of the FHLBanks stated their case, it became more and more evident that the best way to ensure continued "safety and soundness" of operations was to give the FHLBanks the same status as their better known GSE siblings.

Still, we believe there are ways the legislation can be improved so that the FHLBank System can perform at its very best.

Furthermore, the legislation should allow the FHLBanks to have enough flexibility to offer their member institutions products that are consistent with the economic times. The products that FHLBank members need to serve the mortgage-seeking public during an economic recession may differ from what is needed during booming economic times.

The benefits of such a provision are twofold. It will refine the process for approving activities that are new and substantially different from current activities. By establishing a definition for new business activity, it will also differentiate between refinements or expansion of existing activities, allowing



Lawrence H. Parks

the FHLBanks the flexibility they need to meet the needs of their member institutions and the mortgage-seeking public.

Our other concern regarding the status of subsidiaries used by many FHLBank member institutions in their businesses. At times, these subsidiaries become the source of collateral for FHLBank advances – the low-cost funding that the FHLBanks give to their member institutions so they can write more mortgage loans. We have suggested an amendment that makes it clear that any eligible collateral pledged by a member's subsidiary to support that member's FHLBank advances will have the same status as collateral pledged from the member institution itself and help maintain the secured financial interest of the FHLBanks in the collateral.

While these suggested changes might seem overly technical in nature, they are important to keeping the FHLBanks running smoothly and efficiently under a new oversight agency.

What's often overlooked is the role that the FHLBanks play in financing home mortgages. For instance, data from the Home Mortgage Disclosure Act (HMDA) shows that in 2001 the FHLBank San Francisco member institution wrote mortgages totaling \$33.4 billion, nearly one quarter of all the mortgages written in our three state-region of Arizona, California, and Nevada.

Clearly, the FHLBank San Francisco's member institutions have established themselves as the mortgage lenders for working people and their families. The overwhelming majority of members' originations for home purchases or refinances were for moderate sized mortgages (below \$275,000). In Arizona, 90% of the loans fit that description, in California 68% and in Nevada 95%.

By most accounts, the FHLBank San Francisco and the 11 other FHLBanks are successfully accomplishing their chartered mission: enabling members to generate home mortgages in good and bad economic times, and allowing many families and individuals – who otherwise may be turned down for loans or forced to pay higher rates – to enjoy home ownership.

Our system is working. It is providing mortgages to Americans of many different backgrounds and incomes. However, as we face changes in our oversight, it is important to enact the provisions that will allow the FHLBanks to continue their mission – bringing the American dream of home ownership to more and more families and individuals.

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Housing Lifts U.S. Economy

Discounted borrowing costs aid the GSEs in accomplishing their mission to foster higher levels of homeownership.

In April 2004, the Congressional Budget Office (CBO) examined this perceived federal subsidy to the GSEs. They found that the FHLBanks received \$3.4 billion in subsidies in 2003, funds that

"CBO assumes that the subsidy is passed through to conforming mortgage borrowers in proportion to member banks' conforming mortgage lending as a share of their assets," the report states. "The remainder, CBO assumes, is passed through to other stakeholders, including borrowers in the jumbo mortgage market and other cus-

tomers of member institutions."

In the 11th District, homebuyers of varying income levels and socio-economic demographics benefit from the cost savings provided by the Federal Home Loan Bank San Francisco (FHLBank San Francisco). A recent review of the latest data from the Home Mortgage Disclosure Act (HMDA)

shows that the FHLBank San Francisco's members originate more loans to minorities, women-headed households and residents of low-income communities than non-members. For instance, African-Americans in the 11th District – Arizona, California, and Nevada – had a mortgage origination rate of 57.9% with our member institutions, meaning that 57.9% of the applications submitted by African-Americans were approved. Meanwhile, among non-member institu-

tions, the approval rate was 49.6%.

The FHLBank San Francisco also provides other public benefits. Each year, 10% of our net income funds the Affordable Housing Program (AHP), which provides grants to affordable housing projects sponsored by our members. Last year, the FHLBank San Francisco awarded \$50 million to AHP projects.

While the discussion continues over the value to society of encouraging homeownership, we believe strongly that homeownership strengthens families and communities.

This issue of Banking on Communities focuses attention on GSE oversight. Maintaining a strong FHLBank System is a crucial step in allowing the FHLBanks to continue their role of making homeownership a reality for more Americans. Clearly, the FHLBanks

make good use of perceived benefits received from the federal government. This benefit is turned into real savings for homeowners and affordable housing for low- and moderate- income residents of our district. The FHLBanks forge public-private partnerships that work.

we believe strongly that homeownership strengthens families & communities

enabled the FHLBanks to continue to provide low-cost funding to our member institutions. In turn, our members passed those savings on to the families and individuals who they helped to become homeowners.

Indeed, the CBO study reaffirmed the fact that the benefits received by the FHLBanks and their members are passed on to consumers.