

Federal Home Loan Bank Programs for Community Development Finance

This *Community Developments Fact Sheet* discusses opportunities for community development finance provided by the Federal Home Loan Bank System (the System) that may be considered by national banks and federal savings associations.

The Federal Home Loan Bank System

The System comprises 11 Federal Home Loan Banks (FHLB) and the Office of Finance, which provides funds for mortgages and community lending. Each FHLB is a government-sponsored, federally chartered enterprise but is privately capitalized and independently managed.

Each FHLB is a cooperatively owned, membership organization. National banks and federal savings associations, state banks, credit unions, community development financial institutions, and insurance companies are eligible for membership in an FHLB.

The Mission

The FHLBs support member banks' residential mortgage and economic development lending activities by providing members with a reliable source of funds, through secured loans, which are called "advances," and mortgage purchase programs. Member banks use the funds to finance housing (including affordable

housing), as well as community and economic development.

Unique Qualities of the 11 FHLBs

The 11 FHLBs are each located in a different region of the country. Each FHLB determines individual program goals, based on local market conditions in their respective regions. They also develop unique programs that respond to the needs of their areas. A list of the 11 FHLBs and their geographic coverage can be found on the [FHLB website](#).

Bank Member Benefits

Membership: Only banks that are members of the FHLB (member banks) and non-member housing associates (principally state and local housing finance agencies) can borrow or obtain grant funds from the FHLB. Member banks must meet strict collateral, capital, and credit requirements, which are continually monitored.

Advances: Advance lending to member banks is the FHLBs' main business line. Advances have been designed to help ensure that financial institutions will have sufficient funds to meet the credit needs of their communities.

Community Investment Cash Advances (CICA): The FHLBs also offer below-

market-rate advances and other financial assistance for member banks' funding of economic development in targeted geographic areas, such as brownfields¹ or areas affected by military base closings, and for small businesses, which are not income-restricted.² The FHLBs offer additional CICA programs for member financing of economic development initiatives that provide jobs for or benefit rural households with incomes of up to 115 percent of area median income and urban households with incomes of up to 100 percent of area median income.

FHLB Programs

Mortgage Purchase Programs: These FHLB mortgage programs (also known as the "acquired mortgage assets" programs) serve as an alternative secondary mortgage market option. The programs split the associated risks according to expertise of the member banks (keeping the credit risk and maintaining the customer relationship) and the FHLB (managing the interest rate risk). Programs vary at each FHLB.

Affordable Housing Program (AHP): The FHLBs contribute annually 10 percent of their net income toward their individual AHPs (or more if needed to meet a system-wide minimum of \$100 million). The AHP competitive program provides grants and subsidized interest rates on advances through member banks for projects that finance very low-income and low- or moderate-income housing. The individual FHLB makes the awards based on scoring criteria that it designs; generally, however,

the scoring criteria is mostly derived from AHP regulations.

Member banks partner with developers and community organizations to finance the purchase, construction, or rehabilitation of owner-occupied or rental housing. AHP grants can also be used to lower the interest rate on loans, and to cover down payment and closing costs, counseling, homebuyer education, and the refinancing of existing loans. The program is flexible so that AHP funds can be used in combination with other programs and funding sources, ensuring a project's feasibility.

To make certain that AHP-funded projects reflect local housing needs, each FHLB is advised by an Affordable Housing Advisory Council for guidance on regional housing and community development issues.

A noncompetitive AHP homeownership set-aside program allows an FHLB to award a portion of its AHP funds to provide down payment and closing costs assistance to very low- and low- and moderate-income households to assist in their purchase of homes. At least one-third of this assistance is made available to assist first-time homebuyers. Each FHLB sets its own maximum grant amount, up to \$15,000 per household.

Member banks obtain the AHP set-aside funds from the FHLB and then use the funds as direct grants to eligible households. Some FHLBs require households to save with the member bank for a period of time or to obtain their mortgages from the member.

¹ According to the U.S. Environmental Protection Agency (EPA), a brownfield is a property, the expansion, redevelopment, or reuse of which may be complicated by the presence or potential presence of a hazardous substance, pollutant, or contaminant. EPA, ["Overview of EPA's Brownfields Program."](#)

² Additional eligible areas include: native areas, federal or state declared disaster areas, Champion Communities, Empowerment Zones, and Enterprise Communities.

Community Investment Program (CIP):

The CIP is a noncompetitive, community development lending program that provides below-market-rate advances to member banks. These loans enable member banks to extend long-term financing for housing for households with incomes up to 115 percent of the area median income and for economic development projects that benefit low- and moderate-income families and neighborhoods.

This program is designed to be a catalyst for affordable housing and economic development because it supports projects that create and preserve jobs and helps build infrastructure to support growth. Member banks have used CIP funds to finance owner-occupied and rental housing, construct roads, bridges, retail stores, and sewage treatment plants, and provide small business loans. The program is especially useful in rural areas where resources are limited.

Community Reinvestment Act Considerations

FHLBs can provide a source of liquidity to support community and economic development activities by national banks and federal savings associations to help meet the credit needs of their entire communities, including low- and moderate-income neighborhoods. These bank activities, in connection with FHLB funding, may receive consideration under the Community Reinvestment Act (CRA). For example, national banks and federal savings associations that are member banks may receive CRA consideration for affordable housing programs for low- or moderate-income borrowers that are supported by funds the banks receive from the AHP program. Member banks may also receive CRA consideration for community

development activities they undertake with funding from the CIP or CICA programs.

Resources

Each FHLB offers a unique set of programs that are designed for its specific region. To contact the FHLB in your area(s) and explore the programs it offers, find the FHLB district that includes the location of your bank's headquarters on the [FHLB website](#).

For additional information, review the following resources:

- [Federal Housing Finance Agency](#)
- [Federal Home Loan Bank System](#)
- [Federal Home Loan Bank Affordable Housing Programs](#)

Disclaimer

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