

Testimony of Lawrence Parks  
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on  
Improving Housing Opportunities for Native Americans  
before the  
Subcommittee on Housing and Community Opportunity  
House Committee on Financial Services

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Good afternoon. My name is Larry Parks, and I am the Senior Vice President for External and Legislative Affairs of the Federal Home Loan Bank of San Francisco. I am here today on behalf of the San Francisco Bank to discuss the Bank's role in supporting housing opportunities for Native Americans, especially through the Bank's Affordable Housing Program. The board and management of the Bank strongly believe the Affordable Housing Program is an important tool that, combined with the expertise and resources of its member institutions, provides expanded housing opportunities in a cost efficient manner.

Before focusing more specifically on the subject at hand, let me describe very briefly the structure of the Federal Home Loan Bank System. In 1932, Congress established the Federal Home Loan Bank System of 12 cooperatively-owned regional Federal Home Loan Banks to support largely federally insured housing lenders. The Federal Home Loan Banks take their housing finance mission seriously. Since the inception of the System, the Federal Home Loan Banks have developed a high level of expertise in providing housing finance to their 8,000 member-owner institutions, and have created a very effective and efficient delivery system. The Federal Home Loan Banks do so by providing liquidity for home mortgage loans that may otherwise be illiquid because such loans may not meet the underwriting criteria of the secondary market.

In brief, the Federal Home Loan Banks make advances (loans) to member institutions collateralized by home mortgages. The members in our Bank's district, encompassing California, Nevada, and Arizona, are banks, savings institutions, and credit unions that range in size from some of the nation's largest housing lenders to single office institutions. Our diverse membership base has a common interest: using the Bank as a source of liquidity and providing funding for housing loans. Access to the Bank's advances enhances lenders' ability to hold loans that they cannot sell easily in the secondary market and still meet either the seasonal or cyclical demands of the borrowing public. In effect, access to Bank advances takes the liquidity risk out of lending to families with the fewest financial options.

The core business of the Federal Home Loan Banks, providing advances to member institutions collateralized by home mortgage loans, amounted to over \$500 billion as of December 31, 2003. Of that, the San Francisco Bank's advances amounted to about \$112 billion.

The Federal Home Loan Bank San Francisco has 38 members with 184 branches operating in the State of Arizona. Those members provide housing credit across all segments of Arizona's population as a result of their outstanding advances from the San Francisco Bank of over \$63 billion dollars.

A central part of the cooperative Federal Home Loan Bank System is the Affordable Housing Program, through which the Federal Home Loan Banks provide subsidies on loans or cash grants to build or rehabilitate lower income housing through members institutions. The total grants and subsidies equal 10% of each Federal Home Loan Bank's annual income, thereby creating a pool of lower-cost funds to finance the purchase, construction or rehabilitation of low and moderate income owner-occupied or rental housing. Since the program's inception in 1990, the Federal Home Loan Banks have awarded nearly \$2 billion in AHP subsidies, helping to create more than 400,000 housing units for low-income families. In 2003, the Federal Home Loan Banks contributed \$200 million to this program. The AHP program is the largest corporate contributor to Habitat for Humanity International -- one in four Habitat homes in the U.S. has received AHP funds -- and is the largest private source of grant funds for affordable housing development in the country.

The eligibility requirements for AHP grants help to make certain that they provide needed funding in a competitive manner. AHP grants can be used to fund housing for families or individuals with incomes at or below 80 percent of the median income in the relevant geographic area. In addition, 20 percent of AHP funded rental housing must serve households with incomes at or below 50 percent of the area median. And AHP awarded funding is provided only through member institutions that work in partnership with a community sponsor organizations. This last standard helps to ensure that the private part of the public-private AHP partnership includes people who know best the needs of those that the AHP program is designed to serve.

Since 1990, the San Francisco Bank has provided \$312 million in AHP assistance to 2400 projects which provide rental and homeownership opportunities for nearly 60,000 households. Through the AHP a cross-section of lenders, developers, community-based organizations and local housing agencies work to create affordable housing. In 2003, the San Francisco Bank provided \$36 million in AHP funds through its members. These funds were awarded to 103 projects submitted by member institutions as part of a competitive process conducted by the Bank. Member banks teamed up with non-profit and for profit developers, developed project plans and submitted them to the San Francisco Bank's competitive AHP process, which scores and ranks projects based on factors that include the amount of dollars leveraged by the AHP subsidy, ancillary on-site services made available to residents such as daycare, counseling, job training and computer learning centers and the need for the subsidy to complete the project. These winning projects will help generate 6,600 affordable housing units, including 1100 homeownership opportunities.

In Arizona, the winning 2003 projects, located in Pima, Yuma, Santa Cruz, Cochise and Maricopa Counties, received over \$5 million in San Francisco Bank subsidies. The member institutions that submitted the proposals, Bank of America, Canyon Community Bank, Johnson Bank Arizona and BankUSA, represent the breadth of membership in the San Francisco Bank. The projects themselves ranged from 20 rental units in Phoenix for transitional housing for very low-income Native Americans and people with special needs (Whispering Pines Apartments) to

61 new single-family homes for low- to moderate-income first-time homebuyers in Nogales (Pena Blanca Village). In addition to housing, Whispering Pines will include a community kitchen and services for the residents, such as employment training and counseling, health and youth programs and child daycare. The Pena Blanca Village homeownership project will include pre- and post-purchase homeownership counseling, a community facility and child day care. The primary source of activity by the San Francisco Bank in Native American communities is through the Affordable Housing Program. Since the Program's inception, seven projects on Native American lands have been approved for grants by the San Francisco Bank. These projects provide 282 units of affordable rental housing and 18 units of affordable ownership housing, resulting in attractive, sound shelter for 300 families.

The funding by the San Francisco Bank of AHP projects on Native American lands has not been without difficulty, primarily because of the unique legal status of Tribes and their lands. The sovereignty of Native American lands and their trust status create legal problems for traditional methods of housing finance. That is, traditionally lenders place a lien and have the ability to take possession of or sell the property to satisfy the lien. Generally, this tool is not available on tribal lands. The San Francisco Bank is committed to working with the Native American community to find solutions to issues that plague lending on tribal lands. Differences in tribal laws and sovereignty constraints make an across the board prescriptive solution for Tribal Native American lending nearly impossible.

Balancing Native American sovereignty issues and the lien and foreclosure questions that the San Francisco Bank and its members often face as a challenge to providing mortgage credit on tribal lands. For instance, in 1999 and 2000, the San Francisco Bank approved direct AHP subsidies for three rental housing projects on tribal trust lands leased to the project owner by the tribe. At that time, the Federal Housing Finance Board's AHP regulations seemed to require that a lien be taken to secure any AHP repayment obligation that might arise in the event of noncompliance with AHP requirements, including the sale or refinancing of the project. In order to fund these projects and not violate federal regulations governing the Home Loan Banks, the San Francisco Bank sought a regulatory interpretation from our regulator -- the Federal Housing Finance Board that would clarify that mechanisms other than a lien on the property could be used to secure the AHP repayment obligation. After negotiating with the regulator for over three years, in 2003, the San Francisco Bank received a favorable answer. These projects are now finally underway.

The San Francisco Bank continues to work with trade groups and other collaborative to find creative approaches to address lenders needs and the rights of tribe on their lands. For instance the bank works with the National American Indian Housing Council (NAIHC) and participated in the development of the One-Stop mortgage process used to streamline mortgage lending on Native American lands. The San Francisco Bank would be happy to participate in other efforts to address this issue ways to balance the demands of Native American sovereignty while expediting the recordation of the leases or title and the ability to execute foreclosure or its equivalent when needed.

I appreciate the opportunity to participate in this hearing on behalf of the San Francisco Bank.

Thank You.