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Federal Home Loan Bank of San Francisco
on
Removing Barriers to Homeownership for Native Americans
before the
Subcommittee on Housing and Community Opportunity
House Committee on Financial Services

Camp Verde, Arizona

July 31, 2006

Good morning. My name is Tim Simons and I am an Assistant 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.

Since the Subcommittee's hearing in Tuba City two years ago, progress has been made in providing more resources for decent, safe and affordable housing on Native American lands. It should be noted that federal involvement has been enhanced by the enactment this past December 22 of the Native American Housing Enhancement Act of 2005, sponsored in the House by Mr. Renzi. This Act provides tribes with greater access to new funds under the Native American Housing Assistance and Self Determination Act of 1996, and more flexibility when developing housing improvement projects. Another federal action was a HUD award in late April of \$84.5 million in the form of a federal grant from the Indian Housing Block Grant program to the Navajo Housing Authority. This award expanded the availability of housing funds for the Navajo Nation through the use of a formula based on census data that more accurately recognized tribal populations. As Mr. Renzi said at that time, without the formula changes, the Navajo Nation stood to lose millions in Native American federal housing grants in the Administration's budget. These and other public and private efforts must continue in order to provide housing and vibrant communities for Native Americans.

For its part, the Federal Home Loan Bank System plays a key role in providing funds for housing finance throughout the U.S. Since Congress established the Federal Home Loan Bank System in 1932, the 12 regional, cooperatively-owned 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 do not meet the underwriting criteria of the secondary market. As deposits

have flowed to mutual funds and other investment vehicles in the past several years, advances have served as a vital funding source for community institutions. Our Bank serves large and small commercial banks, savings institutions, and credit unions in California, Nevada and Arizona that use the Bank as a source of liquidity and funding for housing loans.

System-wide, advances to member institutions collateralized by home mortgage loans amounted to over \$600 billion as of December 31, 2005. Of that, the San Francisco Bank's advances amounted to about \$150 billion. There are over 30 member institutions operating in the State of Arizona that use their advances to provide housing credit to borrowers throughout the State.

As we mentioned at the 2004 hearing, 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 member 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 approximately \$2.1 billion in AHP subsidies, helping to create more than 430,000 housing units for low-income families. In 2005, the Federal Home Loan Banks contributed \$280 million to this program. The AHP program continues to be 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 an appropriate manner. AHP funding is provided through a partnership between our member institutions and a community organization. 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.

Since 1990, the San Francisco Bank has provided \$382 million in AHP assistance to member sponsored-projects which provide rental and homeownership opportunities for nearly 70,000 households. Through the AHP, a cross-section of lenders, developers, community-based organizations and local housing agencies work to create affordable housing. In 2005, the San Francisco Bank provided \$42 million in AHP funds through its members. These funds were awarded to 102 projects submitted by member institutions as part of a competitive review process conducted by the Bank. These winning projects will help generate 6,000 affordable housing units, including about 1,000 homeownership opportunities.

The San Francisco Bank recently announced \$23.4 million in AHP grants in the first round of the 2006 competition. The AHP grants will support 60 projects and generate 3,679 affordable housing units, including Arizona projects in Glendale, Lake Havasu, Phoenix, San Luis, Show Low, Somerton, Surprise, and Tucson.

Two other noteworthy projects are in Kaibeto and in Page, Arizona. The Kaibeto project member sponsor is Washington Mutual Bank (WAMU) and the community sponsor is the Bee

Hoogan Shelter Foundation. The Foundation, a tribally incorporated nonprofit, will build twenty, 3, 4 and 5 bedroom homes for very low- and low-income first-time homebuyers in a remote area in the Kaibeto Chapter of Navajo Nation. Currently there is a waiting list of over 30 families for this project. These homes will range in size from 1,100 to 1,500 sq. ft., including porches. The AHP funding of \$280,000 will be utilized to pay closing costs and for downpayment assistance. The project financing is a unique and innovative blend of subsidy from the San Francisco Bank's AHP funds, Section 184 mortgages from Washington Mutual Bank and forgivable grants made available through the Native American Housing Assistance and Self Determination Act (NAHASDA). This project has an expected completion date of June 2007.

The member sponsor of the Page project was Norwest Bank and the community sponsor was the Navajo Partnership for Housing. The Navajo Partnership for Housing constructed 8 homes for Native American first-time homebuyers. The project site is in various locations in the City of Page. The AHP subsidy from the San Francisco Home Loan Bank will be used for down payment and closing assistance. Norwest Bank, as well as loan guarantees and insurance programs will provide the bulk of funding that will expand homeownership opportunities for Navajo families. Traditionally Navajo families with working incomes have had to live off the reservation, purchase a mobile home, or live in the scarce housing provided by the Navajo Housing Authority. As homeownership has seldom been an option for Navajo families, specialized homebuyer education and counseling was mandatory for pre- and post-purchase.

The San Francisco Bank is also focusing its efforts on supporting the National American Indian Housing Council (NAIHC), which is "the only national organization representing housing interests of tribes and tribal housing entities across the United States." The Bank has demonstrated support by providing sponsorships and targeted training at the Council's national conferences, describing how the FHLB System can assist in creating affordable housing on tribal lands.

While the San Francisco Bank has experienced issues in the past with funding projects on Native American lands, primarily because of the unique legal status of Tribes and their lands, a few years ago the Bank's federal regulator, the Federal Housing Finance Board, clarified that mechanisms other than a lien on the property could be used to secure the AHP repayment obligation. Of course, we recognize that there are issues regarding title and related matters under the control of other agencies that may affect private lenders.

The ability of Federal Home Loan Banks to provide AHP funds, dependent on Home Loan Bank earnings, may be adversely affected by a Finance Board retained earnings rule proposal that may decrease Home Loan Bank earnings and, therefore, funds available for AHP. The proposal would require each Home Loan Bank to hold a certain fixed amount of retained earnings and to reduce their dividends to member institutions until they achieve the fixed amount. One effect could be to make Home Loan Bank membership less attractive and thereby reduce the business and earnings of Home Loan Banks. The impact on housing credit of decreased Home Loan Bank usage and earnings would be adverse, as fewer advances are made and fewer funds are available for AHP. The Finance Board has received over 1,000 comments,

including critical comments from Federal Home Loan Banks, member institutions, housing groups and Congressmen Oxley and Frank. Most all of the 1,000 comments object to the proposal. The San Francisco Bank will continue to seek changes to the proposal to ensure it does not inadvertently harm the Bank's core business and AHP program.

The San Francisco Bank continues to work with trade groups and other organizations to find creative approaches to address lenders needs and the rights of tribe on their lands. The San Francisco Bank looks forward to continuing participation in efforts to address the issue of Native American housing.

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

Thank you.