

**FEDERAL HOME LOAN BANK
OF PITTSBURGH**

**COMMUNITY LENDING PLAN
2011**

BACKGROUND / RATIONALE

The Federal Home Loan Bank of Pittsburgh (Bank) is pleased to provide its Year 2011 Community Lending Plan (hereinafter "Plan"). The Plan describes the Bank's efforts to assist its members in reaching their housing and economic development goals for the communities they serve. Within this Plan, the Bank provides a summary of the unmet credit needs and market opportunities identified by the Bank for its district, which includes Delaware, Pennsylvania and West Virginia. These findings were derived from a variety of sources, including meetings with members and community stakeholders and research conducted during the preparation of the Bank's 2010-12 Strategic Plan.

On December 28, 1998, the Bank's regulator, now the Federal Housing Finance Agency (FHFA) passed the Community Investment Cash Advance (CICA) regulation, affecting each of the twelve Federal Home Loan Banks. Under CICA, each Home Loan Bank is required to complete an initial assessment of the credit needs and market opportunities for community lending in its district. The regulation also required each Bank to develop an annual Community Lending Plan on or before January 31st. The Plan must be approved by the Bank's Board of Directors and submitted to the FHFA. While encouraging the Bank to develop new programs and initiatives, the regulation ultimately promotes renewed participation of member financial institutions in the housing and economic development of their communities. Requirements of the Plan are provided below:

- A. Development of the plan requires that each Bank:**
- Conduct market research in the Bank's district.
 - Describe how the Bank will address the identified unmet credit needs and market opportunities in the Bank's district for community lending.
 - Consult with its Affordable Housing Advisory Council, member institutions, housing associates and public and private economic development organizations in the district in developing and implementing its Plan.
 - Establish quantitative community lending performance goals.
- B. Each Bank must provide its member institutions with an annual notice containing:**
- The identification of CICA programs and other Bank activities that may provide opportunities for a member to meet the community support requirements and to engage in community lending.
 - Summaries of affordable housing and community lending activities undertaken by member institutions, housing associates, nonprofit housing developers, community groups, or other entities in the Bank's district, that may provide opportunities for a member to meet the community support requirements and to engage in community lending.

In response to the requirements set forth within the CICA regulation, the Bank offers targeted products and has implemented specific initiatives. This report discusses and summarizes these initiatives in the three sections:

1. Market research
2. Credit needs and market opportunities
3. 2010 Performance and 2011 Plan

1. MARKET RESEARCH

The Bank annually conducts research in the Bank's district to identify opportunities for stakeholders to increase the availability of affordable housing finance, community development finance, and financial and credit services in underserved neighborhoods and communities. In conducting research and identifying opportunities, the Bank consults with stakeholders, housing associates, the Advisory Council and public and private housing and economic development organizations within the district.

- Market research was conducted in 2010 through the use of both primary and secondary sources. Primary sources include interviews, focus groups, surveys and direct observations. Secondary sources involve reviewing research and analysis prepared by other entities. Much of the research was conducted in connection with the creation of the Bank's 2010-2012 Strategic Plan, which includes a detailed analysis of market conditions and credit gaps. The Bank continuously augments its Strategic Plan through research, focus group discussions and consultations.
- In addition to the 2010-12 Strategic Plan, the Bank commissioned a more targeted research study by The Reinvestment Fund (TRF) in 2009 analyzing the impact of Changes in the Home Mortgage Market on Hispanic Homeowners in Pennsylvania and Delaware. The research paper was designed to provide the Bank with current market data derived from a variety of reliable governmental and non-governmental sources.
- The Consolidated Plans for Delaware, Pennsylvania and West Virginia were also reviewed and analyzed. The Consolidated Plans address the critical housing and community development needs faced by each state, provide housing market analysis and summarize the State's methods of distributing funds to local governments and organizations using U.S. department of Housing & Urban Development's (HUD's) four main formula programs:

Community Development Block Grant (CDBG)

HOME Investment Partnerships Program (HOME)

Emergency Shelter Grants (ESG)

Housing Opportunities for Persons with Aids (HOPWA)

In addition to the main formula programs, the state Housing Finance Agencies are also distributing Neighborhood Stabilization Program (NSP) grants as authorized under Division B, Title III of the Housing and Economic Recovery Act (HERA) of 2008. This HUD program provides grants to all states and selected local

governments on a formula basis. The program was designed to stabilize communities across America hardest hit by foreclosures. NSP is a component of the Community Development Block Grant (CDBG) program. The CDBG regulatory structure is the platform used to implement NSP and the HOME program provides a safe harbor for NSP affordability requirements.

2. CREDIT NEEDS AND MARKET OPPORTUNITIES

In researching and determining the credit needs and market opportunities in our district, it is important to understand present economic conditions and forecast.

The following is an excerpt from the Bank's 2010-12 Strategic Plan:

Economic Forecast

The U.S. economy is coming off its single worst recession since 1946 with real GDP declining by 3.8% during this economic downturn. The second half of 2009 signaled the end of the "Great Recession," as GDP rebounded and turned positive, mainly due to aggressive government stimulus and increased industrial production, setting the stage for economic expansion as we enter the initial period covered under the strategic plan. This expansionary trend will be tested as many fundamental issues continue to be a drag on economic activity, casting uncertainty on the transition away from government stimulus to self-sustained recovery.

Consensus economic forecasts project continued moderate growth throughout 2010, yet as stimulus dwindles, the Fed's actions in terms of monetary and fiscal policy will be crucial. The government's fiscal issues remain enormous, as a result of the efforts to stimulate the economy. The U.S. budget deficit ballooned to near \$1.4 trillion in fiscal 2009, up from \$475 billion in fiscal 2008. 2010's deficit is expected to be about as large, and the cumulative deficit from fiscal 2009 to 2012 will be nearly \$5 trillion, requiring record debt issuance by the Treasury. Without stimulus, the costs would have been measurably greater in terms of further economic decline, yet the actions taken to stimulate the economy will remain part of the fiscal budget throughout the time covered under this plan.

Many other hurdles will impact the transition to self-sustained growth throughout the first half of the strategic plan. Unemployment is extremely high, bank lending activities are light, and foreclosures continue to be a drag on the housing market. The first few months of 2010 brought signs of stabilization to these markets, yet significant growth is yet to be realized. Early indications suggest economic expansion will be led by more traditional economic means such as industrial production and corporate capital expenditures as opposed to the more recent consumer driven recoveries. Consumer confidence, hindered by high unemployment and future uncertainty, remains low, leading to decreased spending activity and increased savings rates. Any unexpected improvements to employment will likely increase consumer activity and yield higher than expected economic growth. Inflation should also remain low through mid 2011.

Housing

The national real estate market remains in turmoil due to a multitude of factors, resulting in continued elevated foreclosure levels and delinquency rates. As the housing market meltdown and credit crunch continue to impact the nation's economy, at-risk homeowners continue to face the daunting prospect of mortgage rate resets, delinquency, or outright foreclosure.

While the Bank's district of Delaware, Pennsylvania, and West Virginia has not been affected as severely as other parts of the country, the district's housing market remains vulnerable. The problem is greater for lower-income and subprime borrowers, but extends to homeowners at all income levels.

The current economic situation continues to reinforce and amplify the following needs and market opportunities identified through our research:

- The Bank should seek to address the critical housing needs in its district:
 - Populations in need of service supported housing
 - Relief for severely cost-burdened, especially rental housing (households earning less than 50% of median and paying more than 50% of income for housing.) Two-thirds of these households are renters.
 - Focus on homeownership for minorities and in urban areas.
 - Rehab of old housing stock.
- Many community banks do not have the resources and/or capacity to capitalize on community lending and investment opportunities. The Bank could offer education and training to assist member banks to more fully participate in community development.
- The housing market meltdown has resulted in increased property foreclosures in many markets in the district and communities lack the capacity and resources to develop strategies to address this worsening situation.
- Communities do not approach revitalization in a holistic manner. Community Planning is either not done or is inadequate. Leadership, planning, training and capacity-building are critical needs relative to promoting sustainable community development.
- Funding for predevelopment is limited.
- The lack of modern sewage, water, roads and other infrastructure necessities is still a significant problem in many rural communities. In most cases, the problem is better defined as having very old and underdeveloped systems that can no longer handle the needs of more modern communities.
- Small businesses are clearly the major provider of employment opportunities within the district. Assistance for start-up and expansion of small businesses is a significant need within the district.

- There is a clear need to address the lack of available credit for firms located within low-income areas and for minority-owned and women-owned firms regardless of their locations.

There are certain transactions that local banks cannot fund. Local nonprofits, Small Business Investment Companies (SBICs) and Community Development Financial Institutions (CDFIs) could serve as conduits for financing of small businesses without sacrificing the importance of proper credit worthiness analysis. The Housing and Economic Recovery Act (HERA) of 2008 included an amendment to the FHLBank Act permitting Community Development Financial Institutions (CDFIs) to join FHLBanks as members. The opportunity now exists to support underserved markets through partnering with CDFIs.

- Rural businesses show disparities in available credit sources and a lack of local organizations to serve as financing conduits and technical assistance providers.
- The need for equity, capital, collateral enhancements and lower interest rates are the most common barriers to small businesses.
- Comprehensive and sustainable community development, including site preparation and redevelopment and neighborhood revitalization, are high priorities. However, most comprehensive strategies, such as brownfield redevelopment, require substantial public subsidies.
- Poor financial literacy, especially in low/moderate income households, is a significant issue throughout the district.

3. 2010 PERFORMANCE AND 2011 PLAN

The information below, and on the attached table, highlight the Bank's 2010 performance.

Minority Homeownership Initiative - In November 2004, the Bank kicked off its Minority Homeownership Initiative with a financial literacy program designed to counsel at least one thousand low-income young adults by 2009. In January 2005, the Bank, along with nine banks serving Allegheny County, launched My Money, My Life: Financial Fitness for Young Adults in Allegheny County. My Money, My Life (MMML) is a free, five-year program aimed at educating young adults, ages 16-19, in low- to moderate-income neighborhoods about financial issues important to them throughout their lives. Program goals include increased financial literacy by at least 1,000 young adults by 2009 and enrollment of several hundred parents, guardians or caregivers in similar financial literacy programs over the same period. As of November 30, 2009, the goal has been met and 1,000 young adults have participated in the program. The My Money, My Life initiative continued in 2010, with two classes held and 47 students graduating.

Blueprint Communities – In 2005, the Bank and its partners developed Blueprint Communities (BC), a revitalization and leadership initiative that serves as a catalyst for creating sustainable communities in our region. In 2005, the initiative was focused on Pennsylvania, successfully helping 22 communities to move forward in their quest for sustainability. Communities targeted for selection are those that had *not* completed a

detailed community plan but possessed a strong foundation of local leadership and some development capacity. In 2006, FHLBank Pittsburgh expanded the initiative into West Virginia by working and partnering with 12 leaders in the WV community development movement and aligning financial and support initiatives. Ten communities were then selected and attended the Blueprint training in 2007. In October 2007, the Bank initiated Blueprint Communities in Delaware. Nine DE communities completed BC training in January of 2009. Of those communities, eight completed a community plan. DE participants showed a statistically significant increase in their knowledge of and skills in comprehensive planning and development.

In 2009, the Bank conducted an evaluation of the impact of BC in DE, PA, and WV. Team leaders were surveyed for program satisfaction, current implementation of plan activities, and dollars leveraged.

During 2010, the Blueprint Communities initiative focus was on helping designated communities maintain the momentum created by their team-building and revitalization planning activities. A recertification process was established to re-energize participating communities and assistance was provided through sponsorship of events, targeting of technical assistance, and marketing the Bank's Community Investment products to the communities.

Twenty-two communities in Pennsylvania and West Virginia continued their commitment to implementing plans, engaging citizens and strengthening relationships with member banks by recertifying their Blueprint status. Delaware Blueprint Communities, who were designated in 2009, were invited to recertify during the last quarter of 2010. Twenty-eight communities celebrated successes, shared experiences, and renewed their familiarity with FHLBank community investment products at five events sponsored in Pennsylvania, West Virginia and Delaware. AHP applications for 247 units of affordable housing were submitted for 16 projects located in Blueprint Communities, demonstrating the increased capacity of those Blueprint Communities to translate revitalization plans into action. Despite the difficult economic environment in challenged neighborhoods, six transactions were approved for Banking On Business funding to support small businesses located in Blueprint Communities.

Foreclosure Mitigation – In 2008, the Bank implemented a foreclosure mitigation strategy including short term and long term activities. The recommendations were based on the Bank's white paper *FHLBank Pittsburgh's Response to the Housing Crisis*.

On April 12, 2010, the Bank entered into an agreement with the Pennsylvania Housing Finance Agency (PHFA) and PNC Bank to help families avoid foreclosure. The Bank is contributing \$500,000, through the Mortgage Relief Fund (MRF), to the PHFA to assist the Agency in its mission to help at-risk homeowners refinance their first mortgages to more affordable terms under two programs - REAL (Refinance to an Affordable Loan) and HERO (Homeowners' Equity Recovery Opportunity) programs. PNC Bank will deliver the Bank's grant to PHFA. The Housing Finance Agencies from Delaware and West Virginia declined to participate in the MRF program.

Other Community Investment Activities in 2010:

Letters of Credit (LOC)– Two municipal finance training workshops were conducted in 2010. The workshops, held in Pittsburgh and Philadelphia, were designed as a training opportunity for member banks while giving the Bank the opportunity to raise awareness/market our letter of credit product and our tax exempt letter of credit authority. Other outreach included face to face meetings with potential users and presentations at conferences. Three LOCs have closed to date; a \$15 million industrial development taxable deal for Fulton Bank, a \$5.1 million PEDFA taxable deal for The Dime Bank and a \$4.9 million Erie Water Authority project for Marquette Savings Bank. A \$12 million tax exempt LOC with Northwest Savings Bank for Corry Memorial Hospital is scheduled to close on December 17, 2010.

Community Lending Program – As of November 30, 2010 the Bank funded \$40.1 million for specific projects.

Affordable Housing Program – Completed one funding round, approving \$2.7 million in AHP subsidy.

Banking On Business (BOB) – Approved approximately \$3.25 million for 36 small businesses as of 11-30-10.

Housing Event Sponsorships - The Bank sponsored various housing conferences in 2010, including the Housing Alliance of Pa. and Delaware State Housing Conference.

Other Events - Completed several successful AHP/Congressional events. Conducted multiple AHP consultations/training sessions and Bank representatives attended groundbreaking, ribbon cutting, and special events.

2010 Performance

The following summarizes the Bank's performance in 2010:

<u>2010 Goals</u>	<u>2010 Performance</u>
<p>Expand use of Bank's Community Investment Products and Services</p> <ul style="list-style-type: none"> • Community Lending Program- Commit funds to 40 specific projects • Banking on Business- commit \$3.5 million to small businesses • Letters of Credit- Increase the use of Letters of Credit on bond issues - 10 members use LOC product for bond issues • Technical assistance to stakeholders • Refinancing for Homeowners Program- Distribute funding authorized by the Board of Directors to homeowners at-risk of foreclosure 	<ul style="list-style-type: none"> • Committed to 27 specific projects as of 11-30-10 • \$3.25 million committed as of 11-30-10 • 3 members have used the LOC product for bond issues as of 11-30-10 • Conducted various technical assistance and training sessions throughout the district including 4 AHP workshops, 3 webinars and extensive technical assistance was provided to prospective AHP projects • Contributed \$500,000 to PHFA for the Mortgage Relief Fund

<u>2010 Goals</u>	<u>2010 Performance</u>
<p>Create new products and delivery capacities</p> <ul style="list-style-type: none"> • Increase capacity in underserved areas by supporting workshops and training • Blueprint Communities- Follow up on recommendations from the 2009 Blueprint Evaluation report and implement a technical assistance strategy for existing Blueprint Communities • Expand access of intermediary lenders • Maintain and expand partnerships 	<ul style="list-style-type: none"> • Conducted two Letters of Credit workshops in Pittsburgh and Philadelphia, an economic development focus group meeting and conducted a series of community leadership meetings • A recertification process for existing BC communities was conducted with 28 communities participating in BC events • Continued to fund investment in Mountaineer Capital, an SBIC in WV and researched membership opportunities for Community Development Financial Institutions (CDFI) • Co-sponsored various housing conferences and workshops. Attended various groundbreaking/ ribbon cutting/GR events and presented 2 Pillars awards and 1 Council award

2011 Goals – Summary

2011 Goals

1. Expand use of the Bank’s existing community lending products and services:

- A. Community Lending Program
Commitments to specific projects
- B. Letters of Credit - Increase the use of Letters of Credit on bond issues
- C. Technical Assistance
- D. Banking On Business
- E. Increase the number of members participating in Community Investment products or initiatives

Commit funds to 40 specific projects

5 new LOCs issued to support bond transactions provided that the Bank’s LOC authority is extended by Congress

Expand relationships with the Bank’s partners and provide technical training to members

Commit \$2.5 million to small businesses; and evaluate alternative parameters for the funds allocated to BOB

Increase the number of members participating in the Bank’s Community Investment products and initiatives over 2010 year-end levels

2. Create new products and delivery capacities.

- A. Increase Capacity in Underserved Areas
- B. Continue support for Blueprint Communities
- C. Expand access of intermediary lenders
- D. Maintain and Expand Partnerships

Support workshops and training activities for partners and members throughout the Bank’s district

Continue to support the efforts of the 22 recertified Blueprint Communities in Pennsylvania and West Virginia and complete the Delaware recertification process

Enhance relationships with intermediaries; continue to explore membership opportunities with CDFIs in the district

Co-sponsor events, implement the Bank’s Public Relations and Government Relations plans; Present Pillars and Council awards

2011 Goals Descriptions

1. Expand the use of the Bank's existing community lending products and services through the following:

1(A). Community Lending Program- commitment to specific projects

The Bank has created a loan product that incorporates the broader eligibility criteria permitted in the CICA regulation. The loan product, called the Community Lending Program (CLP), is priced at the Bank's cost of funds.

Creative partnerships with federal, state and local economic development funders will be cultivated to produce leverage opportunities. Combining loans with loan guarantees, Banking On Business funds, or creative equity investments from third parties could be incorporated to achieve greater value and impact.

The Bank will continue to emphasize specific project financing; member banks using CLP to match-fund loans to specific deals.

2011 Goal: *The Bank will commit funds to 40 specific projects*

1(B). Letters of Credit

The Bank's LOC may be used for a variety of purposes, including assisting members to participate in municipal or state bond issues to fund projects such as hospital expansions, independent living facilities for seniors or other economic development initiatives. All three states in the Bank's district permit LOCs to secure public unit deposits.

In 2004, the Bank developed the Public Deposit Access (PDA) product. PDA offers the Bank's Pennsylvania members the opportunity to use our Letter of Credit (LOC) to secure additional investments from public entities, such as local governments, authorities and school districts. PDA involved a collaboration between the Bank, member banks and the Pennsylvania Local Government Investment Trust (PLGIT), a mutual fund for public institutions. The Bank's AAA-rated LOC provides members the credit support required to secure public deposits through PLGIT.

In 2008, the Housing and Economic Recovery Act (HERA) was passed providing the Bank the ability to issue LOCs to enhance tax exempt bond issues. The Bank continues to conduct marketing and educational outreach to members and issuers in order to promote this product opportunity that will allow them to better serve their communities and for the Bank to assist a new group of constituents.

The authority to enhance tax exempt bond issues, under the aforementioned HERA legislation, will expire on December 31, 2010. As of this date, the extension of this authority is uncertain. The Bank's ability to market and issue Letters of Credit for tax exempt bond transactions is dependent on this extension.

2011 Goal: *5 new LOCs issued to support bond transactions, provided that the extension of the Bank's authority is secured.*

1(C). Technical Assistance

The Bank's Community Investment Department staff meets with members and partners providing technical assistance to members, developers and community development stakeholders on the use of our housing and community investment products. This practice will continue to be provided as a component of the Bank's 2011 Plan. In addition, the Bank will provide other training/education opportunities to members by partnering with other community and economic development entities.

2011 Goal: *Continue to expand relationships with the Bank's partners and provide technical training to members*

1(D). Banking On Business Program

In 2000, the Bank successfully launched the Banking on Business (BOB) program, which is designed to assist member-financed small business start-ups and expansion. The Bank will continue to emphasize technical assistance and promote usage to members in Blueprint Communities and underserved markets in 2011.

2011 Goal: *Commit all available funds (\$2.5 million) to eligible small businesses*

1(E). Increase the number of members participating in community investment products or initiatives

To count toward this goal, members must do one or more of the following during 2011:

- Submit an eligible business under the BOB program, or enroll to use BOB for the first time
- Submit a qualified Affordable Housing Program, Community Lending Program or Letters of Credit application
- Participate in member education training or Bank initiatives (Blueprint Communities or other new initiatives).

For purposes of goal measurement, a member can only be counted once even if they use multiple products during the year.

2011 Goal: *Increase the number of members participating in the Bank's Community Investment products and initiatives over year-end 2010 member participation levels*

2. Create new products and delivery capacities

2(A). Increase Capacity in Underserved Areas

The Bank will pursue opportunities to enhance the capacity of existing Community Based Organizations (CBOs) and developers to undertake affordable housing and economic development projects. The Bank recognizes that effective CBOs are a key element in encouraging members to participate in non-traditional partnerships for affordable housing and community development. In studying this issue, Bank staff found that CBOs require additional training in developing business plans, budgets, marketing and technology. The effective use of these tools by CBOs will assist members in understanding the complexities of these organizations, which will enable members to more effectively assist CBOs in improving local communities.

2011 Goal: *The Bank will support and sponsor training/education in workshops conducted by other organizations*

2(B). Blueprint Communities (BC)

During 2010, the Blueprint Communities initiative focus was on helping designated communities maintain the momentum created by their team-building and revitalization planning activities. A recertification process was established to re-energize participating communities and assistance was also provided through sponsorship of events, the targeting of technical assistance, and marketing the Bank's Community Investment products to the communities.

2011 Goal: *The emphasis in 2011 will be working with local partners and community stakeholders to support the efforts of the 22 recertified Blueprint Communities in Pennsylvania and West Virginia on the implementation of their community plans. The Bank will complete the recertification process for the Delaware Blueprint communities in early 2011 and support recertified communities*

2(C). Expand Access of Intermediary Lenders

For some economic development activities, other organizations may offer the best opportunity to meet credit needs in underserved markets. For example, CDFIs, SBA 504 Corporations, Community Development Entities under the New Market Tax Credits (NMTTC), or local economic development intermediaries may be appropriate Bank partners for deals that require a higher degree of risk or technical assistance. Incorporating member participation in these partnerships will be explored.

The Housing and Economic Recovery Act (HERA) of 2008 included an amendment to the FHLBank Act permitting Community Development Financial Institutions (CDFIs) to join FHLBanks as members. Membership would provide CDFIs with an alternative source of funds and access to community investment products provided by the Bank.

2011 Goal: *Enhance relationships with intermediaries, explore membership opportunities with CDFIs and continue to partner with various intermediary lenders serving the Bank's district*

2(D). Maintain and Expand Partnerships - Facilitate the creation of partnerships with state agencies, member banks, and other bank constituents.

- **Conference Sponsorship:** The Bank will seek opportunities to co-sponsor community development events.
- **Targeted Marketing Strategy:** The Bank's Government Relations, Communications and Community Investment Departments have developed a targeted marketing and public relations strategy that includes increased contact with community and economic development organizations. The Bank will monitor the effectiveness of the strategy in 2010.
- **Pillars of the Community Awards:** At regional stockholders' meetings, the Bank honors member financial institutions as partners who have completed exemplary housing or community investment projects. By promoting these awards at the regional meetings, members see firsthand innovative approaches to meeting credit needs within local communities. In addition, the Bank promotes the award recipients via national and local media, as a means to highlight innovative approaches to creating affordable housing and community investment.

Additional Market Opportunities Research

The 2011 Plan requires the Bank to continue conducting research on credit needs and market opportunities. At the onset of its research phase, the Bank sought to receive comprehensive feedback regarding the needs of underserved communities and populations. This research was designed to provide the foundation for many of the Bank's future lending plans and community investment programs.

The Bank's commitment to accurately assess the current and future needs of its District will continue. As a supplement to our current research findings, the Bank will have ongoing dialogue with the many agencies, housing developers and member banking institutions that participate in affordable housing and community investment initiatives. Our goal will be to supplement our current information with new resources, which may better equip the Bank to address the goals of its Plan. Such information is expected to be derived from the many partnerships currently existing between the Bank and its various constituents district-wide.