FEDERAL HOME LOAN BANK OF CINCINNATI

2011 Community Lending Plan

INTRODUCTION

On December 28, 1998, the Federal Housing Finance Board (Finance Board)[1] issued regulation 98-48, entitled the Community Investment Cash Advance (CICA) regulation. The CICA regulation addressed all current and future community-oriented lending activities in which the Federal Home Loan Banks (FHLBanks) may engage and provided the FHLBanks an opportunity to formally address the provision of credit for community lending (economic development) activities. The regulation required the FHLBanks to complete an assessment of the economic development needs and market opportunities occurring in their respective districts by June 30, 1999 and to develop a community lending plan in response to the identified needs by January 31, 2000 and annually, thereafter.

MARKET RESEARCH/ASSESSMENT

The Federal Home Loan Bank of Cincinnati (the FHLBank) assessed community lending needs and market opportunities occurring within the Fifth District by consulting with numerous individuals, agencies, cabinets, member institutions, organizations and professionals in the economic development field. The FHLBank conducted community lending forums throughout the District and reviewed published materials, reports and indicators of unmet housing needs, Brownfields, and economic development needs. The first Assessment of Community Lending Needs and Market Opportunities Report was submitted to the Finance Board in June 1999.

Throughout 2000, the FHLBank engaged in additional research into economic development needs through ongoing consultation with agencies, cabinets, member institutions, organizations and professionals in the economic development field. The FHLBank conducted a series of five economic development informational meetings at which information on economic development opportunities was solicited from the member institutions in attendance. In addition, the FHLBank hosted a regional conference on metropolitan growth and sprawl.

During 2003 and 2004, the FHLBank continued to assess needs and promote economic development opportunities. FHLBank staff continued to participate in the Memphis Business Opportunity Fund, pooling resources from the City, from lenders, and others to create a vehicle for business lending and investment. The fund was administered by Southeastern Community Capital (SECC), one of the FHLBank's Partners, and the FHLBank shared in the Fund's operating costs for the first two years.

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[1] In 2008, as part of the Housing and Economic Recovery Act, the Federal Housing Finance Board was replaced by the Federal Housing Finance Agency.

During 2005, the FHLBank received additional input on community lending needs from members of the Advisory Council's Economic Development Committee, who were requested to review and update the needs identified within the Fifth District.

On July 30, 2008, the President signed the Housing and Economic Recovery Act of 2008 (the Act). The Act made substantial changes in the regulation of financial institutions, including the FHLBanks, and provided significant new authority and funding related to housing and economic development. Included in the Act is a provision which allows Community Development Financial Institutions to become members of the FHLBanks. The FHLBank will continue to review the provisions of the Act and the regulations which will be promulgated. Some of the provisions might offer additional opportunities for economic and community development, consistent with the needs identified below.

SUMMARY OF IDENTIFIED NEEDS

The market research identified credit needs and market opportunities in economic development lending in three sectors: real estate financing needs, business financing needs, and specialized needs. The additional needs identified through research and other forums were incorporated into the original summary of identified needs, and were modified based on input from the Advisory Council's Economic Development Committee during 2005.

Real Estate Financing Needs:

1. Fixed rate financing, at low-interest or guaranteed rates, for construction and permanent financing (CIP).
2. Downtown development, i.e., façade and improvement loans for commercial properties and financing of upper story housing (CIP/EDP).
3. Infrastructure improvements and neighborhood revitalization (CIP/EDP).
4. Pre-development funding sources for commercial and mixed-use real estate development (ZIF).
5. Childcare/Daycare facilities, freestanding and within affordable housing developments (CIP/EDP).
6. Real estate financing for newly constructed, affordable owner-occupied and rental housing development, as well as the preservation of existing affordable units (AHP/CIP)
7. Funds for rehabilitation of existing housing, especially for the elderly (AHP).
8. Financing for community centers and teen centers based on a plan for structured, sustainable programming (CIP/EDP).
9. Rural medical and health facilities financing (CIP/EDP).

10. Cultural and arts facilities financing (CIP/EDP).
11. Transitional housing for persons leaving rehabilitation or other protected environments to assist in reintegrating into society (AHP/CIP).
12. First mortgage refinancing, especially for households facing economic distress or foreclosure (CIP/HPP).
13. Funds to bring vacant properties back into occupancy, especially those vacant because of foreclosure (AHP)

Business Financing Needs:

1. Equity investments (venture capital, seed money, micro-loans) for business start up and expansion, especially in rural and Appalachian communities *(through partner organizations such as SECC, Kentucky Highlands Investment Corporation, etc.)* (ZIF).
2. Loan guarantee programs and lender consortia (EDP).
3. Pre-development funding sources for small business development and expansion purposes (ZIF).
4. Disadvantaged business development financing, i.e., additional credit resources to provide capital for minority, women-owned, and disadvantaged business formation (through partner organizations)(ZIF).
5. Increased credit resources for construction or modernization of plant and equipment, thereby increasing productivity, new product development and market expansion opportunities (through partner organizations) (CIP/EDP).
6. Financing of non-traditional industries and entrepreneurs, e.g., tourism, seasonal enterprises, and new and expanding medical technologies (CIP/EDP).
7. Financing for emerging technology companies (CIP/EDP).
8. Working capital, especially revolving credit from $500 to $250,000 for micro and for small businesses (ZIF and partner organizations).
9. Alternative crop financing - since a significant number of Central Appalachian counties' economies are still heavily dependent on tobacco (CIP/EDP).
10. Financing for technology (CIP/EDP and through partner organizations).

Specialized Needs:

1. Small business and entrepreneurial technical assistance support, i.e., business planning, financial management assistance, business development assistance and marketing, entrepreneurial assessment (through partner organizations).
2. Education and technical assistance to members, community financial intermediaries and public and private economic development partnerships and organizations.
3. Credit and financing needs in both urban and rural areas for Brownfields acquisition, remediation, site preparation and redevelopment (CIP/EDP).
4. Mortgage credit and down payment assistance in support of minority homeownership to produce equity buildup for business formation and expansion (AHP).
5. Financing and lines of credit for social service programs in support of housing development.
6. Seed capital for non-profit organizations with a community development or community service focus (ZIF).
7. Funds for infrastructure needs, such as water and sewer lines (CIP/EDP/ZIF).
8. Funds for land-banking so developers, especially those with a mission to build affordable housing, can act quickly to gain control of land parcels for development.

COMMUNITY LENDING ACTIVITIES AND METHODOLOGIES FOR 2011

In response to the identified needs, the FHLBank will continue to provide financing for community economic development and small business expansion in the Fifth District.

All communities, particularly distressed communities, should be empowered to develop and implement their own economic development and revitalization strategies. The primary programmatic objectives of the FHLBank's Community Lending Plan are to respond to community needs and priorities that retain and create private sector jobs and leverage private capital.

These objectives will be accomplished through entrepreneurial lending and promotion, small business lending and promotion, and member venture capital investments for community and economic development activities within the Fifth District. These objectives should also result in additional public works investments and the generation of increased tax revenues for distressed communities.

In its initial Assessment of Community Lending Needs and Market Opportunities, the FHLBank noted a number of diverse credit needs that hinder the development of viable, sustainable communities in parts of the Fifth District. Subsequent research has reinforced these findings. The attraction of capital to business start up and expansion within certain

geographic sectors remains the lowest in the nation. The FHLBank recognizes that a unified assortment of strategies and participants are necessary to address the identified community and economic development financing needs in each community.

LENDING ACTIVITIES

Advances Programs

The FHLBank's Economic Development Program (EDP), introduced in 2000, will continue to address economic development lending. The Community Investment Program (CIP) will continue to be utilized to address economic development and housing financing.

During 2007, in response to the growing crisis in home foreclosures throughout the Fifth District, the Board of Directors created a set-aside of the CIP called the HomeProtect Program (HPP). The Board authorized $250 million in lending through June 30, 2009, at CIP rates, for members to use to refinance mortgages for households facing delinquency or default. The FHLBank also approved scoring changes for the second offering of AHP in 2008 which give a priority to projects in high foreclosure areas and for projects targeting properties vacant because of foreclosure.

The FHLBank will encourage use of advances in conjunction with the New Markets Tax Credit program.

Zero-Interest Loan Fund

In 2000, the Board of Directors approved the establishment of a Pre-development Fund (Fund). Late in 2001 and in 2002, the program was modified to better meet the needs of lenders. It has been refocused and renamed the Zero Interest Fund (ZIF). The ZIF program continues to provide zero-interest, recoverable loans to member institutions working with for-profit and not-for-profit organizations involved in the development of community lending projects. The ZIF program, initially capitalized by the FHLBank through contributions of $250,000 provided annually for a period of four years, will assist with early project costs typically not available through normal member lending practices.

During 2003, the ZIF program was broadened to include other uses, such as real estate acquisition related to development, working capital, and housing development, and, under certain circumstances, borrowers will be allowed to extend the term beyond the initial two-year period. The program was capitalized with an additional $1 million and the first repayments from earlier loans were also received during 2004.

During 2005, the Board of Directors increased the maximum amount of a ZIF loan to $100,000.

During 2007, the Board of Directors changed the maximum terms of ZIF loans for residential projects to 18 months. The maximum term for loans for economic development projects remained at 24 months, with extensions for good cause.

No changes to the program have been made since 2007 and none are currently proposed for 2011.

Letters of Credit

The FHLBank will continue to promote utilization of letters of credit as effective tools for housing and community lending activities.

NON-LENDING ACTIVITIES

Partnership Development/Strategic Alliances

In 2000, the FHLBank was instrumental in the development of seven partnerships and strategic alliances with established economic development organizations and a state housing finance agency within the District. The purpose of the partnerships is to further economic development activities, particularly in under-served regions of the District.

The FHLBank became a full member of the Kentucky Renaissance Alliance (Alliance) in 2000. The Alliance has been comprised of seven agencies dedicated to redevelopment and revitalization of the Commonwealth's cities and towns. The Alliance has undergone some substantial revision and the FHLBank remains a part of the Alliance on a reduced scale.

In 2001, the FHLBank increased the number of partnerships to ten by developing three additional partnerships with organizations involved in community lending and specialized needs. The FHLBank also focused on responding to the credit needs of the existing partner organizations. The Partners also met with the FHLBank's Advisory Council and summarized their work and offered suggestions about meeting future needs.

In 2002, the FHLBank focused on responding to the credit needs of the ten partner organizations. The FHLBank will seek to involve member institutions with the partner organizations.

During 2003, the FHLBank continued to assist in structuring partnership relationships between members and nonprofit organizations involved in community lending activities. In 2004, the FHLBank continued to foster the development of partnerships between members and nonprofit organizations to facilitate economic development project lending and multi-family lending.

During 2004, the FHLBank continued to participate in the Memphis Business Opportunity Fund. The Memphis Business Opportunity Fund pooled resources from the City of Memphis, from lenders, and others to create a vehicle for business lending and investment. The Memphis Business Opportunity Fund is administered by SECC, one of

the FHLBank's Partners, and the FHLBank shared in the fund's operating costs for the first two years (ending in 2004). The fund is now a program of the City of Memphis which fully funds program operations. SECC continues to administer the program.

In 2005, the Advisory Council's Economic Development Committee reviewed the formal partnerships. The purpose of the review was to assess the participation of the partners in programs of the FHLBank, to consider whether some of the partnerships might be retired, and whether new partnerships might be initiated.

The Economic Development Committee developed formal criteria for partnerships which were adopted by the Board of Directors. The criteria for partnership are: (1) The organization must have a regional/state geographic region extending beyond city/county areas; (2) The partnership must result in utilization of FHLBank products or partnership with projects; (3) The partnership must result in mutual promotion of the other partner; and (4) There must be compatibility of mission between the partner and the FHLBank to assist and revitalize communities. The Board of Directors also adopted a recommendation to expand the number of formal partnerships.

Late in 2005, formal partnership agreements were executed with the Ohio Housing Finance Agency and the Ohio Capital Corporation for Housing. In 2006, a formal partnership was executed with the Tennessee Housing Development Agency. Partnerships with Adena Ventures and Renaissance Kentucky were retired.

No changes to the formal partnerships have been made since 2006 and none are currently proposed for 2011.

Technical Assistance

The FHLBank will continue to provide ongoing CICA funding resources, information and project structuring technical assistance to members and their partners in support of economic development and community lending activities. The technical assistance may include project structuring and brokering, and developing linkages between resource representatives and members.

Education and Training

The FHLBank will continue to provide or participate in a variety of educational and training opportunities to members and sponsors involved in community lending. The training will be in the form of informational seminars/webinars, technical conferences, and other meetings co-sponsored with partnership organizations and others.

Research

The FHLBank will continue to stay abreast of ongoing research to assess unmet credit needs and market opportunities occurring throughout the Fifth District. Updating of the original credit needs survey will continue through outreach to the participating organizations.

Information Dissemination

The FHLBank will utilize its website, www.fhlbcin.com, as a link with our partner organizations' websites to inform members, community organizations, small businesses, and entrepreneurs about pre-development and financing resources, business development opportunities, and other technical assistance resources.

The FHLBank will communicate information in FHLBank publications and others about successful programs and projects to encourage participation by members and partners in economic development activities.

The FHLBank will develop additional informational materials to promote member utilization of FHLBank resources for community lending.

Advisory Council

The FHLBank will consider enhancing the community lending knowledge of the Advisory Council and Housing and Community Development Committee through informational programs and presentations by formal partners and outside providers as appropriate.

Staff Capacity

The FHLBank will provide staff training opportunities that will support community lending financing skills and build capacity for providing technical assistance to members and their partners.

PERFORMANCE GOALS

The CICA regulation requires the FHLBank to develop annual performance goals and measurable achievement standards. The following goals and achievement standards have been identified for 2011.

1.	Approved economic development and community lending projects utilizing EDP and CIP advances.	50
2.	AHP/CICA seminars and participation in other meetings for member institutions and economic development partners.	6
3.	Approved Zero Interest Fund Projects	7
4.	CICA/AHP funding transactions with Partnership Organizations	30

Figure 1 below summarizes the 2010 Community Lending Plan's goals and results.

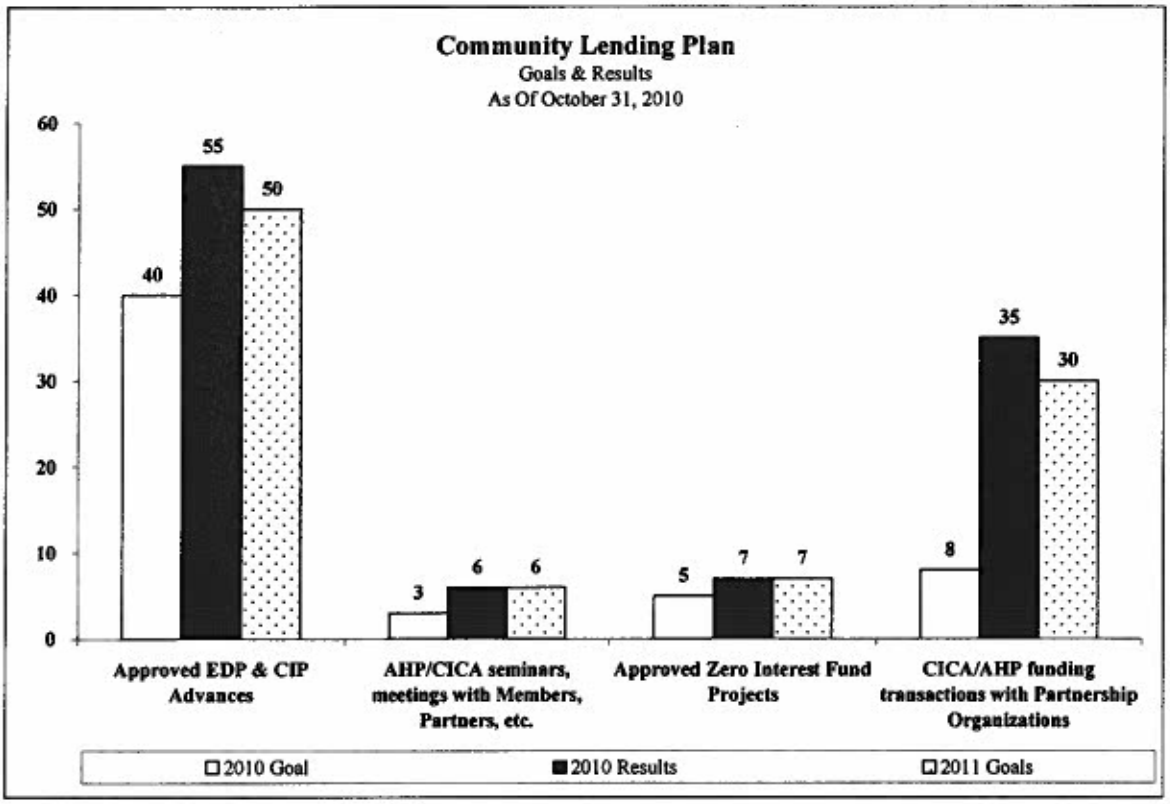
Community Lending Plan
Goals & Results
As Of October 31, 2010
60
50
40
30
20
10
0
40
55
50
3
6
6
5
7
7
8
35
30
Approved EDP & CIP Advances
AHP/CICA seminars, meetings with Members, Partners, etc.
Approved Zero Interest Fund Projects
CICA/AHP funding transactions with Partnership Organizations
2010 Goal
2010 Results
2011 Goals

Figure 1