

**FEDERAL HOME LOAN BANK SYSTEM
AND
UNITED STATES DEPARTMENT OF AGRICULTURE**

**Memorandum of Understanding
for
A Rural Economic Development Partnership**

INTRODUCTION

This initiative involves financing economic development projects through advances under the Federal Home Loan Bank (FHLBank) System's Community Investment Cash Advance (CICA) programs and the United States Department of Agriculture's (USDA's) Business and Industry (B&I) Guaranteed Loan program. As permitted by relevant regulations of the Federal Housing Finance Board (FHFB) and USDA, this combination of financing will be targeted to: federal rural Empowerment Zones (EZs), Enterprise Communities (ECs), Champion Communities (CCs); Rural Economic Area Partnerships (REAPs); non-metropolitan persistent poverty counties; non-metropolitan counties with greatest declining populations; areas impacted by natural disasters or federal actions that have resulted in a decline in economic conditions; or projects that add value to agricultural commodities in support of small farmers, including minority, women, and beginning farmers (targeted areas).

This Rural Economic Development Partnership (the "partnership") complements already existing partnerships between the FHLBank System and USDA. The Rural Home Loan Partnership which began in mid-1996 links USDA's Rural Housing Service Section 502 leveraged loans with the Community Investment Program (CIP). The Rural Head Start and Child Care Collaborative links USDA Community Facilities loans and grants with Head Start grants and the CIP.

THE OBJECTIVES

The partnership will seek to achieve the following objectives:

Encourage partnerships between FHLBank members and USDA's Rural Business-Cooperative Service (RBS) in order to increase access to financing for economic development projects in distressed rural areas;

Increase the number of member financial institutions providing long-term fixed rate financing for economic development projects in distressed rural areas;

Expand the capacity of the RBS and FHLBank member financial institutions to meet financial needs for economic development activity in distressed rural areas;

Create a flexible product that invites the participation of state and local resources; and

THE MEASURABLE RESULTS

The success of the partnership will be measured by:

economic development activity financed with private capital through CICA programs and the Business and Industry (B&I) Guaranteed Loan Program;

leveraging of federal economic development funds;

lenders participating in economic development projects in distressed rural communities; and

additional jobs in distressed rural communities.

THE FINANCING MODEL

The partnership creates a new financing vehicle to fund economic development projects in distressed rural areas using CICAs and a B&I loan guarantee. Only projects which use CICAs as part of the financing will be eligible under this agreement.

The FHLBanks have the authority to offer CICAs (loans) to thrifts, savings banks, commercial banks and credit unions that are members of the FHLBank System. The advances must be used for "community lending" purposes in rural or urban areas - to provide financing for economic development projects

for targeted beneficiaries. Targeted beneficiaries are determined by the geographical area in which a project is located, by the individuals who benefit from a project as employees or service recipients, or by the nature of the project itself. The regulation at 12 C.F.R. § 970 permits CICA assistance to be used in many geographic areas including but not limited to rural Champion Communities, Empowerment Zones, or Enterprise Communities, as well as in all Indian areas, Alaskan Native Villages or Native Hawaiian Homelands. CICA advances must be priced by the FHLBanks as regular advances and may be priced below the price of advances of similar amounts, maturities and terms. FHLBanks may require that borrowers receiving CICA advances pass through the benefit of any price reduction. In addition, FHLBanks may establish a fund to reduce the price of CICA advances. The strength of the CICA program is that it provides lenders with long-term flexible financing. CICAs allow the members to match a long-term or fixed rate funding source with a long-term fixed rate loan. This is especially important to portfolio lenders.

The B&I program can be used to guarantee loans made by private lenders to create and expand rural businesses and to create employment opportunities in distressed rural areas. Loans can be used to acquire, expand or improve businesses; purchase land, easements or buildings; purchase equipment, machinery or supplies; repair and modernize pollution control; transportation services; start-up and working capital; and feasibility studies.

ESTABLISHING THE PARTNERSHIP

The partnership will be demonstrated in the targeted areas with the participating FHLBanks and corresponding USDA Rural Development State Offices (see attached list of FHLBank Community Investment Officers and USDA State Offices).

ROLES AND RESPONSIBILITIES OF THE NATIONAL PARTNERS

The partners agree to the following:

USDA's Rural Business-Cooperative Service will reserve \$20 million in supportable loan guarantee authority for the partnership each fiscal year until September 1st, at which time any unexpended authority can be used for other purposes. The FHLBanks will set aside up to \$80 million each fiscal year in CICAs.

The partnership will continue each fiscal year unless terminated by either party with 60 days written notice to the other parties. Termination can only occur on the last day of the fiscal year. The financial commitments by the USDA and the FHLBanks will be subject to the appropriation of B & I funds and can be adjusted each fiscal year by mutual consent.

The FHLBanks will encourage their member lending institutions to pass the CICA discount (if any) to the end borrowers.

If authorized by 7 C.F.R. §4279.107, the Rural Business-Cooperative Service will charge a one percent guarantee fee for lenders participating in this partnership provided that projects are located in: EZ, EC, CC, and REAP areas; counties with persistent poverty; counties with declining population; areas impacted by natural disasters or federal actions that have resulted in a decline in economic conditions; or that add value to agricultural commodities in support of small farmers, including minority, women, and beginning farmers.

USDA will provide a guarantee of the total member financing on each loan of no more than 80 percent for loans up to and including \$5 million, 70 percent for loans of more than \$5 million and up to and including \$10 million, and 60 percent for loans above \$10 million.

USDA will encourage its Rural Development State Office Directors to work with the appropriate FHLBanks on projects, which may be financed under this demonstration. The FHLBanks will promote the demonstration to their members and will assist members in working with the state directors to receive funding.

The FHFB will promote and support the program in its publications and speaking engagements and also act as a liaison between the FHLBanks and the USDA. As liaison, the FHFB will assist in resolving any policy or procedural issues which arise out of this agreement; will, in conjunction with the USDA, keep the FHLBanks informed of any changes in the B & I program; will monitor the progress of the expenditure of funds under this agreement, and will act as a clearinghouse for the dissemination of project information to all the participating FHLBanks.

Notwithstanding any other provisions of this Memorandum of Understanding, USDA participation will be limited by relevant statutes and regulations.

CONCLUSION

Despite the upsurge in the national economy, the need to revitalize Rural America remains. This partnership will demonstrate new ways to increase the viability of distressed rural areas.

Signers

NATIONAL PARTNERS

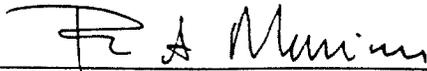


Raymond R. Christman, President, Federal Home Loan Bank of Atlanta for
the Federal Home Loan Bank System



Jill Long Thompson, Under Secretary for Rural Development
U.S. Department of Agriculture

APR 17 2000



Bruce A. Morrison, Chairman
Federal Housing Finance Board

**Federal Home Loan Bank System
 Community Investment Officers**

<u>DISTRICT</u>	<u>ADDRESS</u>	<u>STATES</u>	<u>CONTACT</u>	<u>TELEPHONE</u>
Boston	Federal Home Loan Bank One Financial Center, 20 th Fl. Boston, MA 02111; Mail to: PO Box 9106 Boston, MA 02205-9106	CT, ME, MA NH, VT, RI	David Parish Senior Vice President Housing & Community Investment	(617) 330-9872 FAX: 292-9645
New York	Federal Home Loan Bank Seven World Trade Center 22 nd Floor New York, NY 10048-1185	NJ, NY PR, VI	Joseph Gallo Vice President Community Investment	(212) 441-6824 FAX: 441-6859
Pittsburgh	Federal Home Loan Bank 601 Grant Street Pittsburgh, PA 15219-4455	DE, PA, WV	John J. Bendel Senior Vice President Community Investment	(412) 288-2820 FAX: 288-4578
Atlanta	Federal Home Loan Bank 1475 Peachtree Street, NE Atlanta, GA 30309; Mail to: PO Box 105565 Atlanta, GA 30348	AL, D.C., FL, GA, MD NC, SC, VA	Robert S. Warwick, Group Vice President Community Investment Services	(404) 888-8435 FAX: 888-5560
Cincinnati	Federal Home Loan Bank Atrium II, Suite 1000 221 East Fourth Street Cincinnati, OH 45202 Mail to: PO Box 598 Cincinnati, OH 45201	KY, OH, TN	Carol M. Peterson Director Housing & Community Investment	(513) 852-7615 FAX: 852-7647
Indianapolis	Federal Home Loan Bank 8250 Woodfield Crossing Blvd Indianapolis, IN 46240 Mail to: PO Box 60 Indianapolis, IN 46206	IN, MI	Frederick Hash Community Investment Officer Community Investment	(317) 465-0428 FAX: 465-0376
Chicago	Federal Home Loan Bank 111 East Wacker Drive Suite 700 Chicago, IL 60601	IL, WI	Michael Liu Senior Vice President Community Investment	(312) 565-5705 FAX: 565-5823
Des Moines	Federal Home Loan Bank 907 Walnut Street Des Moines, IA 50309	IA, MN MO, ND, SD	Curt Heidt, Vice President Community Investment	(515) 281-1175 FAX: 565-5823
Dallas	Federal Home Loan Bank 5605 N. MacArthur Blvd., 9 th fl. Irving, TX 75038 Mail to: PO Box 619026 Dallas/Fort Worth, TX 75261	AR, LA, MS NM, TX	Gary Schlette Sr. Vice President	(214) 944-8542 FAX: 944-8577
Topeka	Federal Home Loan Bank 2 Townsite Plaza 120 East 6 th Street Topeka, KS 66603 Mail to: PO Box 176 Topeka, KS 66601	CO, KS NE, OK	Christopher J. Imming Vice President Community Investment Program	(785) 233-0507 ext. 565 FAX: 234-1797
San Francisco	Federal Home Loan Bank 307 East Chapman Avenue Orange, CA 92666	AZ, NV, CA	James Yacenda Vice President Community Investment	(714) 633-1271 FAX: 633-0154
Seattle	Federal Home Loan Bank 1501 4 th Avenue Seattle, WA 98101-1693	AK, GU, HI ID, MT, OR UT, WY, WA	Judith C. Dailey Vice President Community Investment	(206) 340-8708 FAX: 340-8711