40-Year Community Investment Program Advances

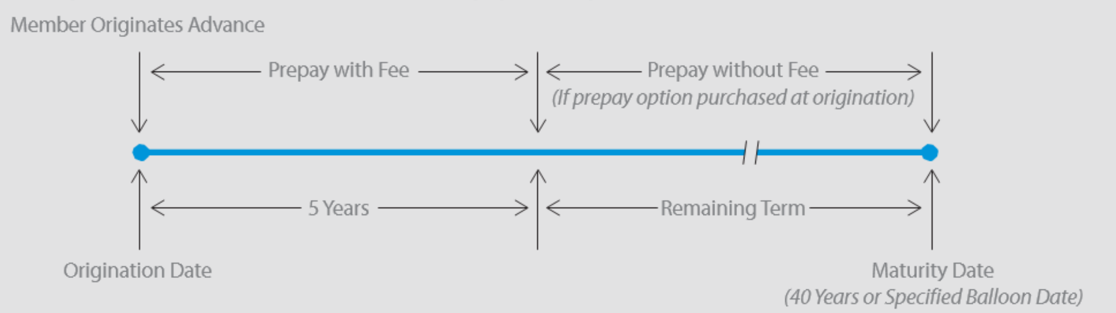
What is a 40-Year Community Investment Program (CIP) Advance?

The 40-year Community Investment Program (CIP) advance is a low-cost, fixed-rate, amortizing advance that allows your institution to match fund 40-year community development loans. The 40-year term is designed to provide your customers with lower monthly payments when compared to a comparable 30-year term. These lower payments will translate into higher project debt service coverage ratios for certain community development projects.

The CIP advance may be secured with eligible collateral under the Bank's collateral policies, including the blanket lien for eligible institutions. Payment of principal and interest is debited from your demand deposit account.

Additionally, your institution can purchase an option to prepay the advance without an advance prepayment fee any time after five years. If your institution chooses to purchase this prepayment option, the cost will be determined at the time of pricing.

Example of a 40-Year CIP Advance with a Prepayment Option



Why Use a 40-Year CIP Advance?

A 40-year CIP advance provides benefits to members, and a comparable 40-year, match funded loan benefits customers as follows:

Member Benefits 40-Year CIP Advance	Customer Benefits Comparable 40-Year, Match Funded Loan
• Low-cost source of funds • Ability to match fund, thereby reducing interest rate risk	• Low-cost source of funds • Lower monthly payments compared to comparable 30-year loan

Member Benefits 40-Year CIP Advance	Customer Benefits Comparable 40-Year, Match Funded Loan
• Generate new business and loan growth • Support community investment goals/ CRA requirements • Build relationships with affordable housing developers, community representatives, and government agencies	• Increased ability to qualify for a community development loan • Potential for lower down payment • Increased project cash flow

Providing a 40-year amortizing loan versus the traditional 30-year amortizing loan will provide customers with lower monthly debt payments. As seen by the example below, lowering monthly debt payments could increase project debt service coverage ratios, potentially reducing a hurdle with some community development projects.

Hypothetical Comparison of a 40-Year Versus 30-Year Community Development Loan

40-Year Versus 30-Year Loan	Monthly Payments ($'s thousands)	Debt Service Coverage (DSC) Ratio	Loan Eligibility/ Qualification (At Least 1.15 DSC)
40-year Community Development Loan	$23.8	1.23	Yes ☑
30-year Community Development Loan	$26.5	1.10	No ☒
Difference	**($2.7) 🡇**	**0.13🡅**	**☑ versus ☒**

Assuming a $5 million loan at 4.9% customer rate (3.4% member rate + 1.5% mark-up) with a 15-year balloon, estimated hypothetical annual net operating income (NOI) of $350,000, and a required minimum 1.15 debt service coverage ratio.

If an affordable housing developer was interested in obtaining a loan in the amount of $5 million for the purpose of developing a multifamily residential property and wanted to finance the project with a 4.9%*, 15-year note with payments based upon a 40-year amortization, the estimated monthly payment would have been approximately $2,700 less than for a comparable 30-year amortization.

Assuming an annual net operating income of $350,000, the debt service coverage ratio would have been 1.23 for the 40-year amortization versus 1.10 for the comparable 30-year amortization. If a debt coverage ratio threshold of 1.15 was required, the 30-year amortizing loan would not have qualified, and the 40-year amortizing loan would have been eligible for consideration.

$$\text{Debt Service Coverage Ratio} = \frac{\text{Net Operating Income}}{\text{Total Debt Service}}$$

If the 40-year community development loan with the customer was approved, the member could match fund with a 40-year CIP advance with similar terms to minimize interest rate risk.

**4.9% customer rate assumes a 3.4% member rate plus 1.5% mark-up.*

Low-cost CIP advances assist members with funding the purchase, refinancing, construction, or rehabilitation of multifamily rental properties for low- and moderate-income individuals and families.

To qualify for a CIP advance at least 51% of all tenants of multifamily properties must have household incomes at or below 115% of the area median income.
CIP advances may also be used for the following:

- Provide financing to participate in lender consortia for eligible housing projects
- Purchase low-income housing tax credits
- Make loans to entities that, in turn, make loans for eligible housing projects
- CIP advances can also be used in conjunction with the Affordable Housing Program, U.S. Department of Housing and Urban Development and Federal Housing Administration programs, as well as state and local governments and secondary market agency programs.

Risks

The Federal Home Loan Bank of Dallas does not act as a financial adviser. Any examples or information are for illustrative purposes only and are not intended to represent financial advice. Member institutions should evaluate the risks and suitability of advances.

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