

2021 TARGETED COMMUNITY LENDING PLAN



I. Targeted Community Lending Plan (TCLP) Overview

The purpose of the TCLP is to:

- Describe how the Federal Home Loan Bank Des Moines (FHLB Des Moines or Bank) will address the unmet credit needs and market opportunities for targeted community lending¹ in its 13-state district
- Identify significant affordable housing needs in the Bank's district that will be addressed through its Affordable Housing Program (AHP) as set forth in the AHP Implementation Plan

To achieve these objectives, the FHLB Des Moines:

- Reflects market research in its TCLP
- Consults with its Affordable Housing Advisory Council² (AHAC or Advisory Council), financial institution members, housing associates, and public and private community and economic development organizations
- Establishes quantitative performance goals

Diversity and Inclusion

The Bank is committed to a culture of diversity and inclusion among the Bank's directors, Advisory Council members, employees, grant recipients and suppliers. Diversity encompasses many visible characteristics such as race, gender, age and less obvious characteristics like personality style, ability, education, ethnicity, religion, job function, life experience, life style, sexual orientation, geography, regional differences, socioeconomic status, work experience and family situation. The Bank values differences, which enables it to more effectively fulfill its mission, realize its vision, live its values and achieve its financial goals.

In support of these objectives, the Bank offers Community Investment products that meet the affordable housing and community lending needs of our district, which are described in Section V. Additionally, the Bank engages companies with expertise in sourcing diverse talent to expand the slate of candidates to be considered for appointment to its Advisory Council.

¹ 12 CFR 1292.1 defines "targeted community lending" as providing financing for economic development projects for targeted beneficiaries. "Economic development" is further defined as "commercial, industrial, manufacturing, social service, and public facility projects and activities and (2) public or private infrastructure projects, such as roads, utilities, and sewers."

² The Advisory Council provides advice to the FHLB Des Moines' board of directors about the unmet credit needs in the Bank's district. There are 15 Advisory Council members, one representing each of the 13 states in the Bank's district and two at-large positions. All Advisory Council members are actively engaged in providing or promoting affordable housing and community lending.

II. Market Research

Overview

The FHLB Des Moines' engages with a broad range of stakeholders to gain insight into its 13-state district's affordable housing, community development, and economic development needs and opportunities.

The FHLB Des Moines is comprised of approximately 1,350 member financial institutions, including commercial banks, thrifts, credit unions, insurance companies and community development financial institutions (CDFIs). Our members and housing associates³ further inform our assessment of the affordable housing and community lending needs of our district, and play an important role in strengthening economic opportunity in the communities they serve.

The Bank references widely accepted industry sources for quantitative data and trends about affordable housing markets such as but not limited to Harvard University's Joint Center for Housing Studies, National Low Income Housing Coalition's publications, and the Board of Governors of the Federal Reserve System.

Our participation in local and regional housing, economic development, community development, and community lending conferences further informs our understanding of the unmet credit needs in our district, and provides important context for how to best structure community investment products to support our members' ability to meet those needs. As a result of the global health crisis caused by COVID-19, the Bank's engagement in these events transitioned from having previously been in-person to instead being virtual. As of October 31, 2020, the Bank had sponsored or attended 19 community investment conferences or events.

Additionally, at least five Bank staff are actively involved in on-going dialogue through participation in reoccurring committees, advisory groups, and service on boards of directors with nonprofit organizations that promote affordable housing or community lending. These engagements serve to deepen the Bank's understanding of a range of community investment needs such as the varying dynamics that impact affordable rental and owner-occupied housing in urban, rural, and Native communities.

FHLB Des Moines 13-State District

The FHLB Des Moines has the largest geographic district among the 11 Federal Home Loan Banks. The Bank's 13-state district includes the states of Iowa, Minnesota, Missouri, North Dakota, South Dakota, Idaho, Montana, Utah, Wyoming, Washington, Oregon, Alaska, and Hawaii, as well as the U.S. Territories of Guam, American Samoa, and the Mariana Islands.

Encompassing 40% of the U.S. land mass and 11% of the U.S. population⁴, the Bank's district is diverse, ranging from dense urban centers such as Honolulu, Minneapolis, and Seattle to expansive rural counties and remote Native Alaskan Villages that are not accessible by road. The economies of these communities are also diverse ranging from agricultural and ranching to technology to tourism to energy and much more.

³ State and local housing associates that meet certain statutory criteria may borrow from the Bank; while eligible to borrow, housing associates are not members.

⁴ Merging Markets, Housing Assistance Council, 2015

The Bank's district is home to approximately 30% of the U.S. Native population⁵. This demographic resides in urban and rural communities as well as on Tribal land, in Native Alaskan Villages, and on the Department of Hawaiian Homelands. Moreover, in the U.S., there are 574 federally recognized tribes, 311 of which are located in the Bank's district.⁶ The FHLB Des Moines 13-state district is also home to 32 of the 69 Native Community Development Finance Institutions.⁷

AHP Guiding Principles

The depth of breadth of diversity represented by the Bank's district has led its Advisory Council to establish guiding principles for its AHP. These principles provide a framework for prioritizing the affordable housing needs that will be addressed through its AHP.

The Bank's AHP guiding principles seek to achieve, over time, a reasonable balance of AHP competitive awards:

- Throughout the Bank's 13-state district
- Between urban and rural communities
- Between affordable rental and owner-occupied projects

Assessment of Significant Affordable Housing Needs for Each State in the Bank's 13-State District

In preparation for a modernized AHP regulation that becomes effective, in full, on January 1, 2021, the Bank enhanced its market research activities.

An independent third-party economist conducted an assessment of published market information pertaining to affordable rental and owner-occupied housing, as well as targeted community lending, throughout the Bank's 13-state district. The overarching affordable housing needs identified by these published market assessments corroborated what had been identified by the Bank's Advisory Council and further supported by widely accepted industry sources and the Bank's own market intelligence gained through dialogue with its members, housing associates, and community partners.

Collectively, these sources were used by the Bank to identify and assess the significant affordable housing needs that would be addressed through its 2021 AHP and related 2021 AHP scoring criteria.

Advisory Council Assessment of Priority Affordable Housing Needs

The Advisory Council conducted an assessment of priority affordable housing needs for the Bank's 13-state district, through which the following needs were identified:

- Housing for homeless households
- Housing for Native People

⁵ Merging Markets, Housing Assistance Council, 2015

⁶ <https://www.ncsl.org/research/state-tribal-institute/list-of-federal-and-state-recognized-tribes.aspx>

⁷ <https://www.cdfifund.gov/programs-training/certification/cdfi/Pages/default.aspx>

- Rental housing for households with incomes at or below 50% of area median
- Housing for the elderly
- Preservation of affordable housing
- Housing of people with disabilities
- Rural housing
- Housing that provides empowerment services

Summary of Published Market Information

The report of published market information that was prepared by an independent third-party economist categorized the Bank's district into three regions: Northern Midwest; Intermountain West; and Northern Pacific and Hawaii. Grouped accordingly, a summary of each state's priority housing needs by order of magnitude as well as the report's assessment of special circumstances for each state are summarized below.

Northern Midwest: Iowa, Minnesota, Missouri, North Dakota, South Dakota

Iowa

- Affordable rental housing for households with incomes at or below 30% and 50% of area median
- Affordable owner-occupied housing for households with incomes at or below 30% and 50% of area median

Iowa Special Circumstances: Within its 2018 Assessment of Fair Housing, Iowa reported more acute need in urban areas that are growing faster than many rural areas.⁸

Minnesota

- Affordable rental housing for households with incomes at or below 30% of area median
- Rehabilitation of senior-owned housing
- Retention of existing affordable housing stock

Minnesota Special Circumstance: Within Minnesota's Consolidated Plan, the State identifies a need for affordable housing for low-income households, largely due to escalating home costs. Leveraging funds from state and federal programs to provide more housing is recognized as a major challenge. Incentivizing and prioritizing housing development is a statewide housing goal.⁹

⁸ <https://www.iowaeconomicdevelopment.com/UserDocs/documents/IEDA/2018-Iowa-AI-DPR.pdf>

⁹ https://mnhousingtaskforce.com/sites/mnhousingtaskforce.com/files/document/pdf/Housing%20Task%20Force%20Report_FINALa.pdf

Missouri

- Affordable rental housing for households with incomes at or below 40% and 60% of area median
- Affordable owner-occupied housing for households with incomes at or below 40% and 60% of area median

Missouri Special Circumstance: According to the 2012 Housing Needs Assessment, new housing construction outpaced household formation until 2010. Since then, however, household formation has outpaced the addition of housing units, particularly for lower-income households. While construction and permitting activity are higher in urban areas, it has not been sufficient to satisfy the magnitude of need.

North Dakota

- Supply of affordable housing across all household age groups and incomes
- Affordable housing for low-income and elderly households
- Homeownership for first-time homebuyers

North Dakota Special Circumstances: The state expects that demographic shifts in the aging of baby boomers and the in-migration of younger households will continue to increase demand for rental and/or multi-family housing. According to the North Dakota Housing Finance Agency, the state's most prominent housing affordability challenges are cost burdened renters and homeowners, escalating costs, particularly for renters, and an aging housing stock requiring rehabilitation. As of the 2016 housing needs report¹⁰, North Dakota's rate of annual population growth has outpaced every other state since 2012.

South Dakota

- Housing affordability for households at or below 30% of area median income
- Homeownership rehabilitation program and assistance for homeowners in maintaining their homes
- Rental housing in substandard condition, overcrowding, and cost burdened

South Dakota Special Circumstances: Housing cost burden tends to be acute for Native American and Hispanic households. The state is confronting substandard housing conditions, which is being addressed by state and local governments and nonprofit organizations.¹¹

Intermountain West: Idaho, Montana, Utah, Wyoming

Idaho

- Rental housing for households with incomes at or below 30% of area median
- Homeownership for households with incomes at or below 50% of area median

¹⁰ <https://www.ndhfa.org/Publications/HousingNeeds.html>

¹¹ <https://www.sdhda.org/images/docu/housing-development/ConPlan18AssubmittedtoHUD.pdf>

- Rental housing for households with incomes at or below 80% of area median

Idaho Special Circumstances: The most common housing challenge is cost burden as household incomes have not kept pace with escalating housing costs since 2000. Disinvestment or poor maintenance in rental housing is particularly acute for rural areas.¹²

Montana

- Affordable housing related to escalating cost of housing
- Public funding to support housing development
- Ensuring that the regulatory environment is not an impediment to housing production

Montana Special Circumstances: In general, Montana communities employ a minimum of land use regulations related to housing development. Generally speaking, the state has traditionally not funded housing assistance, which instead has been supported by federal funds and private donations. While the state's regulatory framework makes housing less expensive to develop, funding to incentivize affordable housing projects has been difficult to obtain. The state is exploring strategies to support funding for affordable housing through state and local jurisdictions.¹³

Utah

- Demand for rental housing is outpacing supply causing an affordability problem for rental housing, particularly units for households with incomes below at or below 50% of area median
- Increasing housing supply
- Rental housing for households with incomes at or below 30% of area median

Utah Special Circumstances: Housing production has generally kept pace with demand except for housing affordable for lower-income households. The state's policy priorities are focused on facilitating coordination between public and private organizations and agencies for funding affordable housing for low-income households and homeless populations.

Wyoming

- Alleviating cost burden for households with costs that exceed 30% of household income, including elderly households
- General lack of affordable housing stock in a range of sizes
- Lack of access to housing for people with disabilities

¹² <https://www.idahohousing.com/about/housing-information-referral/>

¹³ <https://montanabudget.org/report/state-and-local-strategies-to-improve-housing-affordability>

Wyoming Special Circumstances: Availability of sufficient resources to subsidize affordable housing is a state challenge. Affordable housing challenges are exacerbated by disparities in access to resources by special needs populations.¹⁴

Northern Pacific and Hawaii: Washington, Oregon, Alaska, Hawaii

Washington

- Affordable housing for households with incomes at or below 30% of area median
- Homeownership for households with incomes at or below 30% and 50% of area median
- Housing for homeless and special needs households, including veterans and households carrying significant health care costs

Washington Special Circumstances: Statewide, the single largest affordable housing need is rental units for households earning up to 30% of area median income, particularly in the Puget Sound region and southeast and southwestern parts of the state. Washington has been working to incentivize multi-family housing in general and affordable multi-family housing in particular. The state recognizes that its housing stock of mostly single-family homes is not a match for the demands of its changing demographics driven by smaller and nonfamily households. The most severely cost burdened demographic is households under the age of 35. In addition, Washington identified that low-income and non-white households are more likely to face challenges related to housing discrimination.¹⁵

Oregon

- Affordable housing, particularly rental housing, for households with incomes at or below 30% and 50% of area median income
- Affordable homeownership for households between 50% and 120% of area median income
- Weatherization of energy-burdened households with incomes up to 60% of area median

Oregon Special Circumstances: Escalating housing prices, stagnant wages, and a shortage of affordable housing units are the primary factors driving the state's housing needs. Cost burden for low- and moderate-income households is the most severe challenge, followed by overcrowding and/or dilapidated housing conditions. Housing needs are disproportionately greater for special needs populations, including people with disabilities, the elderly and others.¹⁶ The state recently instituted a statewide elimination of exclusionary single-family zoning in an effort to mitigate underproduction of housing.

Alaska

- New affordable housing in rural areas to alleviate overcrowding

¹⁴ https://www.wyoingcda.com/wp-content/uploads/2018/03/WY_2017_AFH18.pdf

¹⁵ <https://www.commerce.wa.gov/housing-needs-assessment/>, and https://www.psrc.org/sites/default/files/vision-2050_housing_background_paper.pdf

¹⁶ <https://www.oregon.gov/ohcs/docs/outreach/Summary-Housing-Needs-Assessment.pdf>

- Affordable housing for household with incomes at or below 30% of area median
- Weatherization and energy efficiency
- Senior housing

Alaska Special Circumstances: The rate of overcrowding in Alaska's rural areas is twice the national average, with overcrowding likely due to housing relatives or friends who would otherwise be homeless. In some rural areas, more than half of all households are overcrowded. The population of senior citizens is expected to nearly double by 2030. To keep pace, more than 300 assisted and independent living facility beds must be added each year. Due to the state's severe climate, there is a significant need for weatherization and energy efficiency of housing units to moderate energy expenses for cost burdened households.¹⁷

Hawaii

- Affordable housing, particularly rental housing, for household with incomes up to 30% of area median
- Affordable housing, particularly on Oahu and Hawaii, for households with incomes between 60% and 80% of area median income
- Housing for homeless households, including those with and without special needs

Hawaii Special Circumstances: State policy is not favorable to single-family housing due to limited land mass. Subtracting open water, wetlands, and sloped areas, the percentage of land suitable for development is the lowest in the U.S. Additionally, construction costs are above average and the regulatory environment and review process are barriers to production.¹⁸

III. Significant Affordable Housing Needs Addressed in the AHP Scoring Criteria

The culmination of priorities identified by the Advisory Council, the independent third-party economist's report of published market assessments, the Bank's outreach to members, housing associates, and community partners, as well as various industry publications are captured in the competitive AHP's 2021 scoring criteria, which may be viewed in its entirety in the 2021 AHP Implementation Plan. These priorities include but are not limited to awarding points for:

- Housing for homeless households
- Housing for special needs populations, including but not limited to the elderly and disabled households
- Native housing

¹⁷ https://www.ahfc.us/application/files/3115/1638/5454/2018_Statewide_Housing_Assessment-Part 1-Executive_Summary_and_Housing_Needs_011718

¹⁸ https://dbedt.hawaii.gov/hhfdc/files/2020/02/State_HHPS2019_Report-FINAL_Dec.-2019-Rev.-02102020.pdf

- Rental housing for households with incomes at or below 50% of area median
- Preservation of affordable housing
- Rehabilitation for existing homeownership units
- New construction of owner-occupied housing

It is important to note that since 2016, 53% of homeownership projects assisted through the competitive AHP have been located in rural areas and 47% in urban areas. Similarly, 44% of rental projects assisted through the competitive AHP have been located in rural areas and 56% in urban areas. The Bank and its Advisory Council consider the AHP portfolio's balance of urban and rural projects to be in line with AHP's guiding principles described earlier in this TCLP.

Similarly, since 2016, a significant proportion of AHP awards have been made to households with incomes at or below 30% and 50% of area median.

2016: 75% units \leq 50% AMI - of which - 36% units \leq 30% AMI

2017: 73% units \leq 50% AMI - of which - 42% units \leq 30% AMI

2018: 86% units \leq 50% AMI - of which - 48% units \leq 30% AMI

2019: 59% units \leq 50% AMI - of which - 33% units \leq 30% AMI

In light of the significant proportion of AHP units that provide housing to households with incomes at or below 30% and 50% of the area media, the Bank and its Advisory Council are encouraged that the AHP scoring criteria have been effective in meeting the affordable housing needs of this population.

IV. 2021 Targeted Community Lending

In addition to compiling information about affordable housing, the independent third-party economist's report concluded that, to the extent that community economic development needs are captured in published needs assessments, those needs are aligned with the eligibility criteria for the Bank's Community Investment Advances (CIAs).

Examples of identified priority community economic development needs in the Bank's district include:

- Downtown revitalization and cure of blight
- Brownfield revitalization
- Public facilities and infrastructure, especially to spur employment
- Rural broadband extension and provision

The Bank's CIAs may be used by its members to finance eligible housing and targeted community lending activities. On a given year since 2016, between 62% and 66% of CIAs have been used to finance targeted community lending. Refer to Section V of this TCLP for additional information about CIAs.

V. FHLB Des Moines' Support of Unmet Credit Needs

Community Investment Products

The Bank offers a competitive AHP, two down payment assistance grant programs called Home\$tart and the Native American Homeownership Initiative (NAHI), and Community Investment Advances (CIAs).

- The competitive AHP provides equity to help finance the development, rehabilitation, or acquisition of affordable rental or owner-occupied housing. Members apply for the AHP subsidy on a housing sponsor's behalf on an annual basis.
- Home\$tart and NAHI provide equity in the form of down payment or closing cost assistance to purchase an owner-occupied unit. Members apply for the subsidy on behalf of an eligible homebuyer. Funds are made available on a first-come, first-served basis.
- CIAs offer members a reduced-rate on certain advances with terms of 1- to 30-years for eligible housing and community economic development financing. Funds are available on an ongoing basis. The maximum outstanding CIA balance per member is limited to \$10 million.

The Bank's president/CEO or designee may waive CIA's member cap for eligible activities located in a Federal disaster area to allow the rebuilding of communities affected by such disasters. The Bank reserves the right to cap the amount of CIA advances to any single member for use in a Federal disaster area. CIA approved for this purpose must be originated within 18 months of the disaster declaration.

The Bank's community outreach activities raise awareness about the availability of these products and how they can be deployed to support the unmet credit needs in the Bank's district. Moreover, technical assistance is regularly provided to members and housing partners to support their access to these products.

Housing Associates and Community Development Financial Institutions (CDFIs)

The Bank also engages in outreach to housing associates to explore opportunities for executing Stand-by Bond Purchase Agreements, and promotes business with existing and prospective CDFI members such as but not limited to identifying opportunities to utilize the Bank's advances and CIAs to support CDFI's community lending.

Impact of COVID-19 on the Bank's Community Investment Products

Over the past year, financial institutions' deposit growth has outpaced loan growth, and this trend has accelerated in the first six months of 2020 due to the COVID-19 pandemic. An important contributing factor has been the unprecedented government response to the pandemic crisis including direct payments to consumers, loans and grants to businesses, and other liquidity support in the markets.

In March 2020, member demand for CIAs increased significantly, resulting in March 2020 as being among the months with the largest volume of CIA originations in the Bank's history. However, shortly thereafter and consistent with market trends that put downward pressure on demand for regular Bank advances, demand for CIA decreased significantly. As a result, as noted in Section VII of this TCLP, the 2021 target for CIA originations has been reduced.

Although the pandemic stymied demand for CIAs, as of October 31, 2020, it had not had the same effect on demand for the Bank's AHP or its down payment products. In fact, as noted Section VI, the number of 2020 AHP applications exceeded 2019's submissions by 13%. Additionally, member demand for down payment products in 2020 has been comparable to 2019 levels.

VI. Encourage Members to Increase Targeted Community Lending and Affordable Housing Finance

In 2020, the Bank deployed several strategies to encourage members to increase their targeted community lending and affordable housing finance: (1) celebrate AHP's 30th Anniversary; (2) incorporate community investment objectives into the Bank's Strategic Business Plan; (3) engage members in meetings of the Board of Directors' Housing and Community Investment Committee (HCIC) to create opportunities for dialogue and feedback; (4) conduct a Strong Communities Award competition; (5) extend the 2020 AHP application due date by two weeks; and (6) allow Paycheck Protection Program (PPP)-eligible loans to qualify for CIA.

AHP 30th Anniversary

In Q1 2020, the FHLB Des Moines celebrated members for their engagement in community investment products. Members received materials that recognized their use of the products and the important community impact that their targeted community lending and affordable housing finance activities achieved. Members were further recognized with either a trophy, plaque, or certificate, depending on their level of engagement, to provide a durable and tangible reminder of their accomplishments and of the role that the FHLB Des Moines plays in supporting their community impact strategies.

To further promote awareness about the AHP as a strategic asset for members, the Bank developed a logo to celebrate AHP's 30th anniversary and featured information on our public website. These resources were included in AHP-related materials and communications throughout the year. Additionally, throughout the month of October 2020, the Bank conducted a social media campaign to inform a wide audience about AHP's impact and the important role our members play in serving their communities.

Strategic Business Plan

The Bank's Strategic Business Plan (SBP) recognizes Community Investment products as a strength, a strategic asset, and a key component of the Bank's value proposition to members. The quantitative goal for CIA originations included in this TCLP is also featured in the SBP.

Members Meet with the Housing and Community Investment Committee

In Q1 and Q4 2020, the Housing and Community Investment Committee (HCIC) of the Bank's Board of Directors invited a member guest speaker to attend each of those meetings. These members discussed the important role that the Bank's community investment products play in supporting the members' community lending strategies, as well as how members leverage the products to support minority communities and reach new customers such as low- and moderate-income first-time homebuyers.

Strong Communities Award

The FHLB Des Moines sponsors a Strong Communities Award competition to provide a platform for celebrating members' community engagement and impact. To participate, a member submits an application that features its lending or other support for affordable housing, small business, community development, or economic development activities. Two winners, one representing a rural project and a second representing an urban project, are selected through a public voting process. Each winner receives an award of \$15,000, the purpose of which is to highlight the project's impact on strengthening the vitality of the community in which it is located. A certain number of finalists are also recognized with a cash award. A project's competitiveness is subject to the following considerations:

- Impact - The project identified economic development needs of the community and provided a solution
- Results - The project demonstrated specific economic development benefits to its community
- Collaboration - The project included financial or human contributions from a FHLB Des Moines member

In 2020, a total of 60 applications were submitted by 50 members covering 11 states and the Territory of Guam. A public voting process was conducted in October 2020 to select winners and finalists.

Extended 2020 AHP Application Due Date

In response to the strain that COVID-19 imposed on members and affordable housing groups, the FHLB Des Moines extended the due date for its 2020 AHP funding round by two weeks. It is noteworthy that the total number of 2020 AHP applications exceeded 2019's total by 13%.

Allowance of PPP-Eligible Loans for CIAs

The FHLB Des Moines' adopted special authority granted by the Federal Housing Finance Agency to temporarily allow PPP-eligible loans to qualify for CIAs.

VII. 2021 Quantitative Targeted Community Lending Performance Goals

Refer to Attachment A for a report of progress to 2020 Performance Goals.

- \$115 million in CIA originations
- Participate in and/or support 10 community lending conferences and workshops
- Promote business opportunities with existing and prospective housing associates
- Promote business opportunities with existing and prospective Community Development Financial Institution (CDFI) members

ATTACHMENT A

Report of Progress to 2020 Performance Goals

As of October 31, 2020

- Goal: \$500 million in CIA originations
 - Progress: CIA originations totaled \$405 million
- Goal: Participate in and/or support 10 community lending conferences and workshops
 - *Progress: The Bank participated in and/or supported 19 community lending conferences and workshops*
- Goal: Promote business opportunities with existing and prospective housing associates
 - *Progress: Targeted outreach to five housing associates, including one Native housing associate*
- Goal: Promote business opportunities with existing and prospective CDFI members
 - *Progress: The Bank participated in a FHLBank System event tailored to CDFI members, and facilitated targeted outreach to a FHLB Des Moines member CDFI that led to advance borrowings*