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Meeting to Establish Washington CRC
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Welcoming Remarks

Hello! I'm Bob Parry, President of the Federal Reserve Bank of San Francisco. On behalf of the San Francisco Fed, I want to welcome you to this meeting and to invite you to stay for the luncheon that will follow. With me today are Gerry Kelly, whom most of you know; Gordon Smith and Kelly Walsh from the Community Affairs Department at the Fed; John Gray from First Interstate Bank of California, one of the founding members of the California Community Reinvestment Corporation; and John Trauth, Kathy Kenney, and Susan Phinney from the San Francisco Development Fund.

As I said in my letter to each of you, the topic of this meeting is the problem of housing affordability -- and how financial institutions can be part of the solution. I'm encouraged to see so many who share my concerns.

I'm sure we all agree that for humanitarian reasons, finding ways to make housing more affordable in this country is the right thing to do. But there are also some hard-headed economic and social reasons for doing so. Failure to provide affordable housing can compromise a state's economic growth. In the San Francisco Bay Area, for example, some estimate that as many as 450,000 new jobs will be lost by the year 2005 if we don't tackle the housing affordability problem.

Here in Washington, the problem may not seem quite as pressing. With a median sales price in the range of three times the average family's income, Washington still compares favorably to California, where the median house costs around four times the average family's income.

What's more, the supply of housing appears quite responsive to the growing demand for affordable housing. A flood of new multi-family units is coming on line in the Seattle area. And more units are scheduled: more than half of the housing permits issued in the spring of this year were for multi-family construction. So, it's hard to imagine that Washington has much of an affordability problem.

But there are some reasons to be concerned, particularly in the Seattle-Tacoma area. First, in the multi-family sector, supply is still running behind demand. As a result, the apartment vacancy rate, 4½ percent, is only half the national rate.

Another concern is that the average price of single-family homes has been rising at an almost unbelievable clip. The average house this past spring cost almost 30 percent more than it did a year earlier and almost 50 percent more than it did two years ago. And although markets are starting to cool off a bit, the median house price here ($140,000) is almost half again higher than the national average.

These kinds of price increases clearly have outstripped income gains, which have been in the four to five percent range over the last two years. In 1985, the average home cost about 2½ times the average family's income. Now, as I said, it's over three times. And monthly payments on a new home gobble up almost 40 percent of the average family's income, compared to only 30 percent two years ago.

With such high home prices, the Seattle-Tacoma area ranks as the fifth least-affordable home market in the country (based on a survey by Lomas of 28 major metropolitan markets). Moreover, a comparison of the average prices of new and existing homes suggests that much of the new single-family housing here is targeted for the high-end market, not for lower-income households.

In light of these trends, it appears that affordable housing is becoming a problem here as well as in California. Failure to provide an adequate supply of affordable housing will only make it more difficult to sustain the kind of booming growth this state has enjoyed over the last few years.

In addition to the economic costs of failing to provide affordable housing, there are enormous social costs, as well. This failure can stimulate social and racial tensions -- particularly in the areas that are becoming increasingly diverse culturally, ethnically, and racially.

In view of what is becoming an affordable housing problem here in Washington, I commend you for your foresight in addressing the issue now, instead of later when it could be an even bigger problem. With the dedicated leadership of the business, nonprofit, and government sectors working in partnership, I believe affordable housing can be made available to all residents.

One of the ways the financial community can become part of the solution is to provide the capital to finance the construction of affordable housing. This is sometimes easier said than done. These credits often are difficult to assess and costly to monitor, particularly for an individual institution.

In California, a number of banks have responded to these obstacles by banding together to share the risks and costs of community investment lending. I'm referring, of course, to the California Community Reinvestment Corporation. Because I think such a concept is workable here in Washington, I want to give you a thumbnail sketch of how CCRC came into being.

Back in 1987 the San Francisco Fed and the nonprofit San Francisco Development Fund entered into an agreement to encourage banks to explore the possibility of creating a lending consortium to provide a major source of funds for affordable housing finance. We then approached bankers with the idea, and asked them to serve on a task force to determine whether, in fact, the approach made sense. I was delighted with their response.

Ultimately, 26 banks formed the Task Force, and committees were created to consider all the organizational, operational, underwriting, and secondary market issues. Because of the enthusiasm and hard work of these bankers, the process moved along quickly. In just over a year, CCRC was in operation as the country's first state-wide banking consortium for affordable housing. CCRC now has a $100 million revolving loan pool, with $53 million in loans already approved. Not bad, for the first year of operation! John Gray will tell you more about CCRC later in the program.

What's especially exciting is the nationwide interest in CCRC. For example, the Development Fund currently is working with bankers in Hawaii, Nevada, and central Florida to establish similar organizations. And we're pleased that you've expressed an interest here in Washington.

Of course, a lending consortium is only one way to address your community reinvestment goals and obligations under the Community Reinvestment Act. I want to stress that your participation in such an endeavor is voluntary in all respects. Our desire is to make you aware of this option, and to provide support if you choose to pursue it. In the final analysis, we want to be a stepping stone, not a stumbling block, to responsible community investment.

If you choose to proceed with such a consortium, the goal of this meeting will be to form a task force. This task force will then get down to the business of creating a unique organization -- one that can respond to the specific needs for affordable housing in this state. Thus, the decisions you make today are important -- not only in terms of your own goals, but from the perspective of the state as a whole.

And now I'd like to introduce John Trauth. John is the Executive Director of The Development Fund. He and his capable staff worked closely with the California Task Force throughout the process of forming the CCRC. John's going to make a brief presentation on the concept of a community reinvestment corporation.