Rebecca Cohen: All right. Good morning. My name is Rebecca Cohen. It's my pleasure to welcome you to FHFA and to our Federal Home Loan Bank and CDFI Symposium. Whether you're joining us in the room or participating virtually, we're so glad you're here. We look forward to a productive and enlightening day of discussion on how the Banks, non-depository CDFIs and FHFA can better work together to meet housing and community development needs in underserved communities. Before we get started, I just have a couple of housekeeping notes. There will be opportunities for Q&A after each panel. If you're in the room and want to ask a question, just raise your hand. We'll have a couple mic runners who will come around and find you. Please be sure to identify yourself before asking. If you're joining on Zoom, just type your questions in the Q&A panel on the screen and we'll keep an eye on that for you.

There are QR codes on the table for folks in the room you can use to access the agenda for the day. We have a tight timetable. We may not get to some points. Our moderators may need to keep the conversation moving. We may not get to all the questions, but we'll do our very best. And finally, I think everyone's favorite part. I have a legal disclaimer that we would like to share, which I will read to make sure I don't miss anything. During today's session, FHFA will not discuss the status or timing of any potential rulemaking. If FHFA does decide to engage in a rulemaking on any matters discussed today, this meeting would not take the place of a public comment process. The rulemaking document would establish the public comment process and you would need to submit your comments, if any, in accordance with the submission instructions in that document.

FHFA may summarize the feedback gathered in today's session in a future rulemaking document if we determine that a summary would be useful to explain the basis of a rulemaking. Anything said in this meeting, and that also includes reactions such as nodding or eye-rolling, should not be construed as binding on or a final decision by the director of FHFA or FHFA staff. Any questions we may have are focused on understanding your views and do not indicate a policy or legal position. Today's symposium is being live-streamed on our website and video recorded. FHFA may also prepare a transcript of today's session, which would include the names of all speakers, the organizations they represent, if any. The recording and any transcripts prepared will be posted on FHFA's website and YouTube channel, along with any materials being presented today or otherwise submitted in conjunction with the symposium. Okay. With that out of the way, it is now my pleasure to introduce our opening speaker for some opening comments, FHFA director Sandra Thompson.

Sandra Thompson: Thank you. I will remember not to eye roll. I am so happy to be here. Good morning to everyone and thank you for joining us today. It is really great to see such a packed house and we have many more joining online. I know that all of the Federal Home Loan Bank presidents and staff are here, as well as many CDFI Fund presidents and chairs and directors and organizations. And I really do just want to take the time to thank you all for making the time to come. We also have people from Fannie Mae and Freddie Mac here. I want to acknowledge their presence and I, in particular, want to acknowledge two people, the head of the CDFI Fund from Treasury who came all the way across town in this heat to be with us in person. And you'll be hearing from Pravina Raghavan right after I speak.

And so we just want to welcome you to our building and thank you for taking the time out to come and speak on this very important topic. I also want to acknowledge FHFA staff who have been working diligently to make sure that we bring this together. I have been very engaged in this forum and just want to thank them and just express my appreciation and gratitude for all that they've done. But there's one person in the room that the people need to know, and that's Joshua Stallings, who's our Deputy Director for the Home Loan Banks. And he's done an outstanding job. He went around the country for almost a year and a half, I think your third week on the job, and got lots of information that provided input to our Home Loan Bank at 100 report. Now, I do believe that all of us here today are committed to working together to better serve underserved communities across the country.

Many of us live or work in these communities and we see their needs firsthand every single day. We are in the middle of a housing affordability crisis, which exacerbated by a housing supply shortage. And those suffering the most are our most vulnerable populations. At FHFA, we are looking closely to identify every single opportunity for our regulated entities to address urgent housing affordability needs while continuing to ensure safety and soundness. The Home Loan Banks and CDFIs are natural partners in addressing these challenges which can be found in cities, suburbs, rural areas, and tribal communities in every state and community across this nation. The Home Loan Banks have a liquidity mission and they also have a responsibility to support housing and community development in the communities within their districts. And CDFIs have the relationships and on-the-ground expertise to work in these areas that are typically not served by other financial institutions and with borrowers who often don't have access to traditional financial products and services.

We're very pleased to host today's symposium and we hope that this will provide an opportunity for the Home Loan Banks and CDFIs to build a greater understanding and appreciation of each other's business models and capabilities, and most importantly, figure out ways to better work together. We have leadership from each of the 11 Home Loan Banks with us today, either in the room or online, as well as again, the expertise from CDFIs across this country. And I'm pleased to also welcome our colleagues from the Treasury CDFI Fund who play an important role in certifying and supporting CDFIs. Certainly, while there's been tremendous growth in the number of certified CDFIs in recent years, only 71 non-depository CDFIs are members of the Home Loan Bank system. This is a much higher number than it was when I started at FHFA in 2013. The number was 11, and I won't ever forget it, but there certainly is room for further growth.

Of those 71 member institutions, fewer than half have outstanding advances from their Federal Home Loan Bank. The ability to access low-cost liquidity through advances is one of the most important benefits of becoming a member of the system. Members, including CDFIs, can turn around and use that financing to support projects in their communities that might not otherwise be able to be obtained or get funding from different sources. As I noted earlier, we're in the middle of a housing crisis. People can't afford to live where they work. Young people are returning home after college to stay with their parents or they're having four and five roommates. There simply isn't enough supply to meet the demand for affordable housing and apartments. As the CDFI industry matures and more and more non-depository CDFIs meet the requirements to become Home Loan Bank members, we have a real opportunity to make a difference.

CDFIs are aware of the needs in the communities in which they work, and they have a relationship-based approach that allows them to work effectively with different types of borrowers. The banks have the flexibility and local reach in their respective districts to partner with CDFIs to help support this work. I do want to acknowledge the hard work and ongoing efforts by many CDFIs to engage with the Home Loan Banks to identify and overcome issues that have prevented them from fully benefiting from the membership in the system. The insights and feedback provided by these CDFIs has been extremely helpful to us as we begin implementing recommendations in the System 100 report. FHFA staff will provide an update later today on the system at 100 implementation, and we'll continue to seek your input as we develop guidance and begin rulemaking on these and other issues. I also want to recognize steps taken by the Home Loan Banks to identify innovative ways to work with CDFIs.

You'll hear about some of these programs later today. And while I know that the work isn't always easy, I'm hopeful that with the willingness of both CDFIs and the banks to make a difference in our communities, that we will have a productive conversation. I'm really looking forward to a constructive day, and I'd like to come away with something concrete. This time next year, I would expect to see demonstrated progress between CDFIs and the Home Loan Banks. Our nation is experiencing a housing crisis and it's time for all of us to step up. The Home Loan Banks always step up during the middle of a crisis. Primarily it's a liquidity crisis, this time it's a housing crisis. It's time to exercise our authorities with the other side of the mission. I'm just hopeful that in the discussions that take place today and in the weeks and months to follow, I'm encouraging everyone to continue engaging with each other, thinking about the possibilities and finding ways to make this partnership work to address unmet needs. Thank you again for traveling and being here today to participate in this discussion.

And I'm hoping that there is some tangible outcomes and output from this discussion because we have these meetings all the time, and I really want to hear about progress. And progress can be measured and want to make sure that we have a good meeting, but that it results in something that is tangible. Thank you very much and have a wonderful conference.

Rebecca Cohen: Thank you, director. To save time throughout the day, we generally will not be reading through our amazing speakers credentials before each session. However, we have compiled speaker profiles on our public engagements webpage, and I encourage you to take a look to learn more, including about our next presenter, the director of Treasury's CDFI Fund. Please join me in welcoming to the stage, Pravina Raghavan.

Pravina Raghavan: That's good because I have a really long bio, so it just saves time. That's actually what I use for most of my 30 minutes. But anyway, I want to thank Rebecca, and I also want to thank the director, Director Thompson, for inviting me to the CDFI Symposium. I agree with her. This is a very important discussion to learn from each other and understand how we can help each other really help communities. And I moved from New York to Maryland and I actually went and looked at my sister who we bought together and said, we can't afford a house in Maryland, and we both are federal employees. Just put that there that you had two people moving from Brooklyn, New York, which is not cheap in itself, and yet we couldn't find a home here in Maryland where I am because of just the housing crisis. And you think I have an adequate amount of capital.

How do we help those who really can't even say that to somebody and come and make a difference? I'm looking forward to talking with you guys today. My job here today is to kind of give you a one-on-one on what the CDFIs are because the CDFIs in the room know, but other people may not. And so just to make sure that you understand what we do at the CDFI Fund, how we can partner with you, and I agree with Director Thompson. Let's get some real outcomes because I think it's great when you have these symposiums. It gives great ideas, but then how do we make sure that we're going through both from a policy perspective but also an interaction in developing partnerships? And I also want to commend the efforts of FHFA and the network of the federal Home Loan Banks to explore new ways that FHLB can serve the capital as a capital source for CDFIs.

For example, in your FHFA 100 reports issue last year, there are a number of recommendations on how FHLB can expand its activities, not only to non-depositor CDFIs, which I know we have in the room, which are extremely mission-focused and certain credit union members with a total pledge to a wider range of eligible collateral and to secure the advances, which are very critical and support the housing mission that we all have. We really are looking forward to partnering with all of you on it. Let's see if I can make this work. This is when we find out. Nope. Okay. Next slide, please. See, this is when we, oh, it's a big green button. I got it. They're looking at her going, shit. Just a little bit what I'm going to talk about, just give you a quick overview to help understand what is a CDFI, what of our programs that we actually run the CDFI fund, and then our program impact.

I just want to make sure there's the CDFI fund and then there are CDFIs. A lot of times people think we are the CDFIs. We are not, we are the fund that helps us certify and then validate them and then also provide capital to them. Just making that extension to make sure. I'm going to go, let's see if this works. Our mission. Our mission is very audacious. Our mission is to promote availability, affordability of capital and credit into distressed and underserved communities. And really what I talk about these communities, we're talking about communities that are in need, both in rural and metro areas, but have no way of accessing capital. And that means they might not even have a bank in their neighborhood. They don't know how to even start on the financial ladder. And what these CDFIs do is go into those communities, create relationships and help them grow.

But as you probably know, it's not just the CDFIs, it's also other partners. And that's actually from my work when I was at the state of New York, we partnered with CDFIs, we partnered with foundations, we partnered with a lot of people to help these communities. It's not a one-time-shot push in equity, but it is about creating a balanced approach to getting for them all to be financial wealth. And so I always say we have a very audacious goal. And at the fund, our vision is really to make sure that we help all people and communities to access that, being able to give them access quickly. And even if that's something from financial counseling to a loan fund, we even have private equities, venture capitalists, bond guarantees. We do a lot of programs that actually support different CDFIs to actually meet the people where they are as they grow. Let's see. Hey, I'm getting good at this. All right. There we go.

We operate a number of programs, and this will tell you all, we're going to get to the slide with the programs. We operate a number of programs to help assist mission-based. These also include grants, tax credits, as well as bond guarantees. And in total we have, this is actually a typo on this list. We've awarded over $7.5 billion in grant awards to organizations as well as $76 million in tax credits through our new market tax credit program. And then guaranteed almost $2.5 billion in bond issuances. Like I said, we have very different programs to hit different needs to make sure. The first question I always get is, what is a CDFI or what exactly do you guys do? The CDFI Fund, these are all legislation that affect us and we work upon them. And you'll see one says Housing and Recovery Act, but the one that we use as our statute that gives us the ability to help is the Riegle Act.

And there's where actually tells exactly what we need to do for each of their programs. As I said, these are community-based organizations focused on expanding economic opportunity to low-income communities. That's basically what they are. And they share a common goal of facilitating economic opportunities by actually working within the community in various places such as housing, consumer loans, small business loans and bond equity and guarantee, and building up the community that they're in. They help families finance their homes, support small businesses, and then rebuild credit histories, which is really important. And then also invest in local health education and community facilities. And that's something that's interesting. A community facility that can actually help the further neighborhood and not just the affordable housing area. And they are compromised of a mix of institutions including loan funds, credit unions, and banks.

What does the CDFI Fund do? We help certify CDFIs. They have to be certified to be able to access. And that responsibility between our authorizing statute that allows us criteria that is really well laid out about what you have to do to become a certified entity. Why do CDFIs become certified? One of the reason is it's a gateway in access to the Treasury program, our fund, but also in the past year is we've seen an increase in certification CDFIs because it also opens participation in other federal and state programs, as well as gaining access to corporate and philanthropic, I don't know why they read this in my, I can never say this. Philanthropy funding. And some agencies such as the CFPB have also provided regulatory waivers to certified CDFIs. And of course, membership to the FLH, Federal Home Loan Bank, is also another benefit of a certification.

Just so you know, on an annual basis, we validate all certified CDFIs to make sure that they continue to meet certifications. I want to point out we are not a regulator in the sense of prudential regulators that oversee banks and credit unions. We validate the information that is provided by us to any organization that voluntarily chooses to become a CDFI, to make sure they meet the thresholds of what they need to do from a community base, as well as the track record on their financial services to make sure that they really are providing services to the distressed communities. And the reason I bring that up is we validate what they tell us. It's not that we go in and do a significant audit as some of the other auditing and regulators, but we do work with them. And one of the interesting things is with our new certification process, we're getting all their transactional level data.

That is one of the things they need to report to us to ensure that they are really doing what they're saying they're doing. And all the CDFIs in the room, I'm just going to warn you, I am not taking any questions on certification. Okay. The rest of you who don't know what that means, don't worry. You're okay. Last year, we revised our certification application. It's the first time we revised that application since its inception in 1994. And really what it was is to provide us greater data on understanding what a CDFI does on their transactional level, but also making sure to promote community development, support the growth that CDFIs have reached, especially when it comes to their ability to innovate and use new services and technology. Also foster a greater diversity both in geography and types of activity that they do and minimize the burdens on CDFI while data quality and collection [inaudible 00:20:23].

They'll say we didn't do it, but I believe we did. And facilitate CDFI fund efficiency, just understanding certification. All the CDFIs are going to be going into a sort of re-certification process starting this fall. Well, some have already started, and that means that we are re-looking at everything. And then they get validated every year as long as they continue to hit their mission and their critical sectors, they continue to be certified. Let's see if, aha. There we go. It worked. Okay. These are several of the criteria to become certified. They must demonstrate this annually. If you can look at it, it has to obviously be a legal entity. Has a primary mission of promoting community development, be a financing entity. They must become financing. They do financing, maintain accountability. Our target markets are the areas that they look to push in their money and fund.

And this is what we do and this is what we look at and this is how we make sure that they are continuing to work where they're supposed to, where they've told us they will. This is a really small slide, but just to tell you, there are four types of CDFIs that we have. Not all CDFIs are created equally. They're banks and then there are thrift and bank holding companies, credit unions, loan funds, and community development venture capital firms. As you can imagine, each of them have different purposes and different activities that they've provided for the community. There're currently more than 1,400 CDFIs with the largest single block comprised of loan funds, 564. And the second largest is the credit unions, which has increased almost from the December 2020. They went from 12, which is funny to, they have 500 currently. They're at 55%.

They've been growing. They're almost neck and neck with our loan funds. And as you can see, I always laugh, our venture capital funds stick in there at 1%. They're the smallest that we have in our area. And these are the types of lines of businesses that they do. As you can see from, as I said, business, commercial real estate, consumer finance. The largest among the funds is microfinance is actually our substantial higher loan product. A lot of them offer that, which are small loans to get you credit and then start building up. And then consumer loans. Consumer financing is our lowest, but they do a wide range in there. And CDFIs, just so you know, assets equal roughly 300 billion. At the end of 1997, 196 certified CDFIs had four billion. We've obviously increased, a big increase, but they pale in comparison to the roughly $26 trillion in assets that are held by FDIC and NCUA insured organization. We're still growing. We're a small but mighty, but they are growing in significance.

This is asset type. There you go. This is where we are. This is the heat map. And you can see there's disparity. A lot on the east middle thing, but they're 400 and they serve more communities. This is where they're headquartered. That doesn't necessarily mean that's the area they serve. And they're in all over the country, both rural, native communities, in Guam, Columbia, Puerto Rico, the District of Columbia and the US Virgin Islands. We have them everywhere to make sure, but just this is where they're headquartered. We're looking to look at, they're close to reaching 1,500. And let me just give you an idea. When the fund started, there was about 808 and now we're at 1,500. We have doubled in the amount of CDFIs, which means the activity's there. It also shows the need for them and the communities that they serve.

There's a reason they exist is to get to people who normally don't have good relationships or any relationships with banks or any financial institution. And the thing they most know is the payday lender on the corner. My favorite. What do CDFIs do and how do they do it? The CDFI fund, I've talked a lot about the CDFIs. CDFI fund, we provide financing, as I said, balance sheet capital to CDFIs through our program and the way it is, you get certified, you come through and then we look to see what your impact is going to be. Excuse me. The monetary rewards are provided by our program, build the capacity for the CDFIs. That's really what it's meant to is to ensure that they have the ability to grow and achieve organizational sustainability. Our biggest program is the CDFI program.

It's named after the CDFI Fund. And we provide financial assistance, which is usually financial products like loan loss reserves, capital reserves, financial services and development services. We also do technical assistance, which is used to actually help the capacity of the organization so they can develop things such as hiring people, new tech, new services to make sure that they can be sustainable in the long run. And then the CDFIs utilize these grants to leverage their investments from a variety of public private sector partners. Those again include a mix of financial partners, both the foundations, governments, community stakeholders, and then doing that, forming a partnership with community-based groups to get both the clients, but also to build the community itself. And then they deploy these in different places like loans, mostly loans, and to look at accessing the needs of the community.

In addition to our one CDFI program, because everybody knows that one, we have other programs. And the traditional CDFI program is our anchor program, but these are the other ones that we provide. I'm just going to highlight a couple because of the audience that we have here today. The Bank Enterprise Award program is open to all CDFIs, open to all FDI insured depositors. You don't have to be a CDFI. If you are a certified CDFI, you can have an additional larger grant amount. And it really is helping to make sure that more loans are given to CDFIs, and that's the point of the bank enterprise. We give you money to give them more money and to create more stability and access to capital for the CDFIs. The Capital Magnet Fund, which is we call as our premier flagship affordable housing program.

We have one affordable housing program. That's the joke. And receives its funding through Fannie Mae and Freddie Mac is open to both CDFIs and nonprofits. And it also gives loans and capacity to do affordable housing and community development. We have the new market tax credit program. It's open to all, it's open to specific types of financial intermediaries, new community development entities. I just want to say those are different from CDFIs. CDFIs can be CDEs, but it's a different certification process. But they're actually tax credits that go in that are then are bought by the investors to do a project. And it's a very healthy program. I will say that my time at New York State, it's where we did a lot of our affordable housing initiatives. We coupled state money with federal money and then used investors to be able to use those tax credits, which actually you can put in a facility that you wouldn't have been able to do because people don't want to go into those neighborhoods, but we can encourage them. It's a very well-used program. And really interesting when you're looking at some of the housing shortages that we have currently going on.

I wouldn't be a government official if I didn't show you the cumulative impact of my programs. Thank you. For those who laugh, thank you. Everyone's like, should we laugh? These are the impact. And the reason I show this is there's still demand. There's a need. Every round of funding we have, we have between three to five times more demand than we have supply, which shows you that these communities still need the need and how can we help them? And that's actually what we do with the CDFI Fund. Our appropriations have grown steadily from two to 300 million over the last few years, but that's not enough. That's what we have to look at partnerships. Part of our thing is, I know as probably as all of you in this room, it's very interesting to see how the federal budget goes, but how do we then take that federal money and then capitalize and leverage with other resources?

And this just shows you all the impacts. Our program, if you remember the first map, but this is all the different programs we have and how they've impacted these communities across the state. My favorite is some of them you can actually outline the state because of how much those CDFIs have gone in and really helped those communities. We have a 30-year history at CDFI. We're proud of it, but there's still so much more work to be done and the gaps still exist. They're going to exist. There are many places beyond even the reach of the CDFIs in our network and how do you reach them? And that's what we really want to find out from you is how can we partner more so that we can actually reach these communities and get more capital into these CDFIs that actually know and people trust and allow them to build.

That's my one-on-one speech, and I'm happy to take questions if there are some, except for certification questions. I will not take any. You can ask, but I won't take them. Director Thompson's looking at me like, wow, she's very strange.

Rebecca Cohen: [inaudible 00:29:28] wonder if your slides would be available [inaudible 00:29:30].

Pravina R.: I'm going to say Rebecca, they are. Yeah. Yes, we will make sure they are. Yes, they're public. We're happy to send them out. You guys got them. Oh, I'm going to go back. But if there are any questions either online or in the room. And if not, it was a pleasure meeting all of you and I can't wait to see more of what we can do together.

LaRhonda Ealey: There is a question from online.

Pravina Raghavan: Okay.

LaRhonda Ealey: It's from an anonymous attendee. It says, do you provide funding for tech startups solving issues for CDFIs?

Pravina Raghavan: CDFIs do. The CDFI Fund itself does not, but one of the things is yes, if you apply to the CDFIs and we have them all listed on our website, look at their products, they do definitely provide funding for tech startups. It will be in the form of a loan, but we also have the venture capital CDFI funds that might actually look if you want to do the pitch deck and things like that. There are two questions here, but I know there're mic runners, so I'm going to wait.

Tony Lopez: Good morning. Tony Lopez from Raza Development Fund in Phoenix, Arizona. Are you looking to, in the future, expand the Capital Magnet Fund so that it can be used in conjunction with other programs or in conjunction with other CDFIs that have Capital Magnet Funds in this same project?

Pravina Raghavan: Oh, you mean where are we going to match our own money?

Tony Lopez: No, no, no, no. Not that. But it helps some of these programs, especially when you're talking about projects that are 50% of AMI and below to be able to add. And those projects tend to be hard to find and it helps to be able to work with other CDFIs and coming to a larger project and being able to-

Pravina Raghavan: Meeting consortium.

Tony Lopez: Put money into those projects.

Pravina Raghavan: Yeah. We are hopefully in the next few days, we had public comment on our CMF reg that was out. Thank you if anyone in this room put comment, we did review. We're close to announcing the new reg, which would allow consortiums in place. But yes, we have looked at some of the comments that came back and that was one that we've been looking at.

Kara Ward: Hi, I'm Kara Ward from Falcon Capital Advisors, and I have a question about Federal Home Loan Bank membership for CDFIs. I think a lot about residential mortgage finance and as you are engaging in discussion with the Federal Home Loan Banks and FHFA, what's on your dance card for the top topics that you'd like to be able to work out with them on what makes it easier for CDFIs to get in the door?

Pravina Raghavan: Whatever Director Thompson tells me, but no. She's like, no. Anyway. Actually, I think you brought up a good point. Collateral, right? I think it is one of the things we want to talk about to see how we can make it. Look, you're certified, you get on there and I think the statistics speak for themselves, right? 11 to 61, that's great, but I have over 1,400, so that's not a large and only half. Let's try to figure out why. And I think that's part of what we're going on, toward a listen to understand and then see if we can come to a solution, knowing that both of us have structures and regulations that seem immutable, but are there other pathways for us to sit there and come to an area where we can increase that and make sure, because it is an important part, it's a very easy source of capital. It's an affordable part to put into some of these projects. How do we get there?

LaRhonda Ealey: There is another question from online, another anonymous attendee asked, "How does the Fund target areas for investment, where there have been a lack of CDFIs and investment?"

Pravina Raghavan: Actually, it's very hard. We don't target areas. We actually, like I said, it's voluntary for CDFIs to come in and tell us where they want to go. We can't create a CDFI, so we encourage to ask CDFIs to look at outside their target areas. With the certification program, we're hoping to also get more CDFIs who have not been certified before to look into those. That's how we target it, really. But our money has to go to a certified CDFI.

Sanjay Bhasin: Pravina, Sanjay Bhasin, FHLB Dallas. I want to take two challenges that Home Loan Banks have and with CDFI borrowing. The first one is with haircuts and what the gap is. The bond guarantee program that the CDFI fund has, would the CDFI fund be open to expanding that to include the gap that is there, due to haircuts for that bond guarantee fund to apply on borrowing? You don't have to answer it or [inaudible 00:34:11].

Pravina Raghavan: Yeah, I can't answer on that right now, but yes, understood. Yes.

Sanjay Bhasin: It's something of a consideration that would the CDFI fund have. The second question is on data and the AMI system that is there. What is the plan for... Can that act as a central source? For example, for banks, all call reports go into FDIC. We use that data to then download the information. In the current system, the way it works is, it's got its own stresses in how we get information and how information is provided. But you are collecting vast amount of data, but it would be helpful to know what the plan is on the data front and how easily it will be available.

Pravina Raghavan: Yeah. On the first point, again, we also have strict structure around our bond guarantee program, so we need to work and see how we could do that. But I will take the note. Then on the data, we're actually trying to figure out the data architecture. I mean, we will have a lot of data, but it cannot be public. How do you share data like that? What data sharing agreements can we have? What can we release? We're working through that. It'll be the first time that we have records from transactional level records from all 1,500 of our CDFI.

This is new front for us too. We're working on that right now, knowing that we're going to have data, can we start showing it publicly aggregated? Who can be allowed to see the system? Because obviously we're a federal system, we need to keep that protected. We are working through those issues right now to see how can we make it so that we can create at least a base form or a foundation for looking at what the CDFI industry does. I saw another hand, but maybe it was just... No? Okay.

LaRhonda Ealey: As they think of a few more questions from online...

Pravina Raghavan: Sure.

LaRhonda Ealey: "Do CDFIs have any special privileges in the State's small business credit initiative?"

Pravina Raghavan: It'll depend on the state, actually. The state small credit initiative is also run out of treasury. It was a $10 billion program provided. Every state had to put in an application on how they were going to use the money. One of the biggest ones that is a revolving loan funds. Some states have involved their CDFIs, because that was the easiest way to get out to the market.

But it is state by state dependent, and you can find out what every state plan is and where they've signed up on the SSBCI website. It'll give you that information. I would encourage, if you're a CDFI, go and talk to your state. They're still trying to deploy their money. They're behind. They're starting to get their second tranches out. There's still time.

LaRhonda Ealey: Another one, "What conversation has the CDFI fund staff had with banking regulators about the implementation of the Revised Community Reinvestment Act? How does the litigation that has stopped the new CRA rule from taking effect affect CDFIs receiving investments?"

Pravina Raghavan: Well, CDFIs have received investments before. I don't think that'll stop it. It'll continue on. We do talk to the regulators. They have a job to do. We only give them information based on what we see in the industry and what we think would help. One of the things we've been promoting, obviously, is to ensure that they realize CDFIs, every bank examiner is different, that CDFIs are a really good investment for the bank and really do apply to the CRA, because it is all they do. That is their primary mission. We continue to talk to them to make it. It would've been good for the CRA to go through, because it wrote it right in there, but we're working on that.

LaRhonda Ealey: "Who are VC CDFI funds and where can we find them?"

Pravina Raghavan: Where are the CDFIs? Is that what you're asking?

LaRhonda Ealey: VC, Venture Capital.

Pravina Raghavan: Oh, it's on our website.

LaRhonda Ealey: Okay.

Pravina Raghavan: Yeah.

LaRhonda Ealey: Then one more.

Pravina R.: Cdfifund.gov.

LaRhonda Ealey: Thank you. One more, "How can a tech startup handling this kind of data reach out to the agency?"

Pravina Raghavan: You can write us at cdfifund.gov. I just want to also make a... This is contracting, so I don't have my... I like the eye rolling of the official one, but all contracts are publicly put out on GSA, so we can take a meeting. But I will say this, if you take a meeting and your solution is it, then you're out. Because when we contract, we have to make sure we're very fair.

Happy to learn about what you're doing, but just realize if you want a contracting opportunity, we've got to go through the federal contracting process. Any more questions? All right. Well, you've been a lovely audience. Most of my other audiences laugh a lot, so I'll work on it for next time, but, all right. Thank you.

Rebecca Cohen: Thank you. Now I'll welcome up our first panel for the day on the Federal Home Loan Bank membership value proposition. If y'all want to come on up.

Kirsten Landeryou: Wow. Good morning. We're here today to talk about the Federal Home Loan Bank and CDFI value proposition and also about the challenges. It's an introductory. We won't get to everything. We might touch on collateral, but we'll have a separate session on collateral in the afternoon.

We have Matt from NeighborWorks Capital, David from Wisconsin Native Loan Fund, and MaryBeth from the Federal Home Loan Bank of Indianapolis. We have about 45... I'm sorry, 40 minutes for discussion, leaving 10 minutes for questions. I think we should start with the membership value proposition from both the Federal Home Loan Bank and the CDFI perspective, and then reserve the rest of the time to talk about the challenges. We start with from the Federal Home Loan Bank side, what's the value proposition for having CDFIs join as members, non-depository CDFIs in particular.

MaryBeth Wott: Yes. From the Federal Home Loan Bank perspective, having the opportunity to partner with CDFIs as members just broadens the way that we can partner with these financial institutions. Prior to CDFIs being eligible for Federal Home Loan Bank membership, we were partnering with you all as sponsors on competitive HP developments, or you're using our home-ownership set-aside grants. This gives us a broader way that we can now partner, that you can be recipient of those grants. You can come to a competitive HP application as the member supporting another developer. This broadens the ways that we can participate.

We've found the participation with CDFIs and the comments that have been made in the introductory remarks about the unique perspective that you all have as a financial institution, but the grassroots boots on the ground knowledge of what is going on in the community. The most recent example for us was when we were looking in late 2019 or late 2018, going into 2019 on our investment in Detroit, which is the largest metropolitan city in our district. We knew there was certainly need in the city. We know there are people that are doing work in the community, so we did not have our grant dollars going to the city.

Our CEO Cindy Konich said, "How do we learn what's going on in Detroit?" I said, we need to go there and listen to people that know what's going on. The people that we met with were the organizations were CDFIs. We said it's not about membership. It was not necessarily our members. Sometimes they're members of other Federal Home Loan Banks or prospective members. We said it's not about membership, it's about you know what's going on.

We learned a lot. Ultimately we learned it was not any challenges with our programs, but rather that we were not physically in the city. That led to opening our Detroit hub. Again, CDFIs were a big part of that and a part of our education and our learning that we think we should hear from the members about the value proposition too.

Kirsten Landeryou: Great. Is there anything either of you would like to say about commenting on MaryBeth with the education and getting to know the CDFIs?

Matt Glatting: Go ahead.

David Gouwens: Well, yeah, for us joining, like you said, the education piece is a big piece for us. We as a non-depository bank... Or not bank, we're not obviously a bank. But when we came into the process, understanding some of the terminology, understanding some of the processes that we have to go through, onboarding, learning some of the terminology, there was definitely a learning curve for us.

My particular organization is well established. We've been around since 2007, but I'd say we're on the small to medium size of a CDFI. We're about a $10 million portfolio. We're about ready to break that barrier and go way past. But it's definitely the onboarding process and learning about the Federal Home Loan Bank system and some of the requirements, especially as a non-regulated agency. We've got to follow different rules. We've got to start following into some of the rules that the banks do have to follow that we haven't previously had to follow. We also have some record keeping and changes that we have to accommodate for becoming a member.

Kirsten Landeryou: I think you also mentioned some of these timelines. If you were to wait to make those adjustments when you really needed the money, it would take too long. It's important to learn these things well before you're applying for membership.

David Gouwens: Definitely. We're a pretty rapid changing organization, but the process did take some time to do. The timelines for us, it was when Federal Home Loan Bank of Chicago came to us and they said, "Well, we need this in the next 10 days, or the next 15 days," some of those things were hard for us to do because one we had to learn. The other part was that our technology may have not been set up for that. Again, like I said, making record keeping changes was... Currently we record all of our mortgages and things like that, but we may do a debt consolidation loan that is mortgage-backed versus a home loan that's mortgage-backed. We record that as a debt consolidation loan and a mortgage loan or a home loan. We do not record it as a mortgage-backed loan versus a non-mortgage-backed loan.

We've got to go through and update our systems, so that we can record those kind of things so that we can get the reports that the Federal Home Loan Bank system needs reported on. I think it's a quarterly basis that we have to report those out. There's definitely some changes that we need to make and some of those are going to take a little bit of time to implement, and in the meantime we've got to do it manually. It takes some work to do.

Kirsten Landeryou: Great. Thanks. Matt, you probably have a slightly different perspective from being a member for a while.

Matt Glatting: Sure. Thanks. thank you for having us today, and thank you to director Thompson for having the venue for this discussion today. We are the newest CDFI member in the Atlanta Bank. We joined in February. Our process for joining was actually fairly smooth. We are incorporated in Colorado, so we had to change our designation of principal business, but once we applied in November, we got the approval in January and became a member in February.

In terms of the value proposition for us, I thought this might come up. I wrote down a couple of notes. One was you have to be a member to submit AHP applications. We serve the 247 non-profits in the NeighborWorks network, and they historically had to go to financial institutions. Since we joined, we had a number of them actually call us up and say, "Hey, can you submit AHP applications on our behalf?" That's something that we can do as a member, but not from outside of the system.

I know there will be a lot of conversation later today on advances and collateral, so I'm not going to go in that too much. We do have some challenges as a CDFI with our collateral, the springing lean, the haircuts, but I know my friends will cover that in a later panel. But it is a stable and reliable source. It's competitively priced. I just learned in Atlanta the spread that they get on the advances is 14 to 18 basis points, which is not very high.

There are also some other benefits that we didn't know of prior to joining. For example, we can park our idle cash with the Federal Home Loan Bank in Atlanta, and we earn over 5.2% on our idle cash, which is much more than if we were to park it in a normal FDIC insured bank account. There's also an ability to do guarantees and credit wrap certain facilities. This will likely be less useful for us because we are SMP rated as an A plus. The additional benefit of credit wrapping something with the FHLB's credit rating is less likely, but it's good to have just in case.

We also wanted to be part of the system. If we wouldn't join or if we would not have joined, we would not have had the opportunity to be part of this discussion today. Or just last week, the Atlanta Bank hosted a annual member meeting and five of our CDFIs had lunch with Atlanta's executives team, including the CEO, CFO, Chief Legal Officer. It gave us an opportunity to be at the table. We wanted to be part of the solution, rather than just talking about challenges and issues from the outside.

Being part of the Federal Home Loan Bank also has a marketing value for us and a stamp of approval. We had to meet for financial ratios, to be able to join the Federal Home Loan Bank. The Atlanta Bank, they review our financials quarterly. I actually want to give a shout-out to the Atlanta Bank because with all of our investors, we have to provide quarterly reporting to them. The Atlanta Bank just takes it from ARIS, so sometimes I wonder if they actually get our reporting. We don't have to do anything. It just happens. I wish all of our investors would just get our reporting.

Yeah, we're excited to be able to take advantage of advances. I just wanted to touch on maybe two challenges we've had. One was a springing lien concept. We're looking at potentially setting up a subsidiary with a joinder agreement, to kind of ring-fence the assets that we pledge to get around this issue. Then secondly, we're currently capped at advancing 10% of our total assets. We could increase that to 20% once we start using the facility. I know each bank does it a little bit differently.

The one nice thing about this is, most of our investors give us a $10 million line or a $20 million line, but it doesn't scale with your balance sheet as your balance sheet goes. But with the Atlanta Federal Home Loan Bank, that 10% or 20% credit availability grows as your balance sheet increases. It's a nice way to scale your available capital without having to go back and negotiate a new $10 million line. Last but not least, we mentioned that we had to buy stock to become a member. This most recent quarter, the stock paid 7.35%. It's a nice return on the investment as well.

David Gouwens: If I could, I'd like to add, I really didn't talk, I guess, about the incentives for joining. For us, being a CDFI, those in the banking industry may not understand that we're non-depository. We don't have the pool of funds that a bank has to loan from. We have to get our funds from other sources. We have to get them from loans or from grants. A lot of the loan capital out there for us to get is skyrocketing in rates. Our average loans that we would get would be 2-3%. Now we're getting quotes of 6-7%. For us, that's unsustainable. I mean, we have to really do about a 4% margin on them to make money ourselves and to survive.

One of the things with joining the Federal Home Loan Bank system, as Matt mentioned, is being able to get funds, use our loans as collateral, be able to get funds from the banking system so we don't have to keep that money out there quite so much and at a lower interest rate than we might get from an unsecured loan. We also can go directly through the Federal Home Loan Bank system for the grants. Previously, we go through one of our partners, Bay Bank out of Green Bay. They're a native-owned bank, and we're a native CDFI, which does cause a little issue with trying to do the loans and things like that, because a lot of our properties are on tribal land. It does make an issue, but we're working on MOUs and things like that to try to get that process through, so that we can sell those loans or use those as collateral.

Kirsten Landeryou: Yeah, that was one of the follow-up questions I was going to ask, is unique to the native loans. Is there anything from the bank perspective you can talk about that issue? Like what's needed for collateral?

MaryBeth Wott: Yes. I know we have a panel later that is talking about collateral.

Kirsten Landeryou: Yes, we do.

MaryBeth Wott: I also manage collateral at the Indianapolis Bank, so have some experience with there. I think maybe just to tease some things up for the panel, just regulatory requirements that we have with collateral, that we can ascertain the value and that we can liquidate the assets. Then we have a conversation tomorrow about ways to partner with the enterprises. That's one thought is, when we have loans on tribal lands or we have a large population in Dearborn, Michigan with Muslim and faith-based loans because they can't pay interest in the way those are documented. If there are cases where the enterprises are able to purchase some of these types of assets, is that a potential vehicle then that we could say, in the what I think is an unlikely event, that we would need to liquidate, is that a potential way to be made whole, or to help us in that situation is we look at partnerships.

That word's coming up a lot today, is are there other partnerships that we can make with other organizations that could potentially help with those regulatory requirements for some of these assets? I think just to continue to educate and to think more holistically about the CDFIs, we're used as Federal Home Loan Banks to being able to look at a balance sheet of different depository institutions. Then you can compare them easily to each other.

We have a CDFI that it's my understanding, as CDFIs it's investing in more in real estate is going to look different from the balance sheet of someone that's investing more in small business loans. The ability to try to compare that balance sheet with a depository that we're more used to or even comparing to each other, so ways that we can think differently about risk and also what are the risks of not partnering and not engaging and are there things that we can continue to learn. But I think that's primary conversation you could keep having about the collateral is this requirement on valuing and liquidating the assets.

Kirsten Landeryou: Well, thanks. I'm glad you mentioned the diversity in the balance sheets that you're looking at from the bank perspective. I think it's also the case, it's an issue we've talked about the CDFIs are dealing with 11 different Federal Home Loan Banks with different policies and procedures. Can you speak to... I don't know, I guess have you had experience with other before NeighborWorks CDFIs?

Matt Glatting: I used be with Capital Impact.

Kirsten Landeryou: Uh-huh.

Matt Glatting: Which was also a member of the Atlanta Bank.

Kirsten Landeryou: Okay.

Matt Glatting: With NeighborWorks Capital, we just joined this year, so we actually haven't borrowed yet because many of our existing lenders, we have permitted lean language in our existing documents. We have to work through that before we're able to pledge assets and borrow, but I'm sure Jared will talk more about Capital Impact borrowing. But it was a good way to manage overall balance sheet asset liability mismatching, just because we could borrow from overnight to longer term 10 years, 15 years at competitively priced rates. When we looked at our overall balance sheet, asset liability matching, it was a good way to borrow and fill the gaps.

Kirsten Landeryou: Anything?

David Gouwens: Yeah. We also just joined the Federal Home Loan Bank of Chicago. We're actually their newest member from what I understand, and their first native CDFI member. We're still learning the ins and outs and the processes. We too are looking at our policies and the regulations that we're under to make sure that we can pledge to capital, make sure that's not a conflict to make sure we've just got all of our i's dotted and t's crossed, so to speak. But we are looking forward to that.

Kirsten Landeryou: Well, we're a little ahead of schedule. Is there anything else you want to add or should we open it up to some questions?

MaryBeth Wott: I have one additional challenge from the Federal Home Loan Bank perspective that we've experienced and that is needing to be US Treasury certified CDFI to join. We had a member that then in the recertification process lost the certification, so then not eligible to be a member. It was a member that had used our set-aside grants, who did not have competitive HP, long-term obligations and had not borrowed. But that would be a concern we have this entity that has borrowed and now that they're not eligible to be a member.

As we look at certification, is there some way either as Federal Home Loan Banks that there's transactions that can help you all meet those requirements? Or is there a way when we're looking at the certification process to say, "Oh, this entity is a Federal Home Loan Bank member," and so that would help maintain that certification? Because that's certainly a potential challenge.

Kirsten Landeryou: I don't know how often do they come up for recertification? Is it every... How often is it, every five years?

Speaker 2: Every annual.

Kirsten Landeryou: Annually.

Speaker 2: Yeah.

Kirsten Landeryou: Okay, so this could be just come up.

David Gouwens: Yeah, the CDFI Fund, as she mentioned earlier, has new regulations. That's why she didn't want to take any questions on the recertification.

MaryBeth Wott: I defend myself on regulation.

Speaker 2: They're not regulation.

David Gouwens: Okay, sorry. But there's new certification requirements.

Kirsten Landeryou: Okay.

David Gouwens: And so we're all kind of working through that. We're all trying to figure them out. I think they are trying to figure them out as well. But it is definitely going to change the industry and there are some things we've been able to do that we aren't going to be able to do. One of the biggest issues for us, and I think most CDFIs, especially when it comes to home loans, is coming up long-term capital. We can get loans, we can get plenty of loans. We can get five, 10 year loans. Actually, I think we're talking with the Federal Home Loan Bank of Chicago about, it's like a 10-year loan.

The problem is to do a mortgage, you need 20 or 30 year loans. We don't have... Some lenders will do renewable loans, but we can't necessarily count on that. Can we ethically do a twenty-year or twenty-plus year loan using funds on a ten-year renewable funding source? That's one of the big issues for our organization, is coming up with that kind of capital. That kind of capital that's longer term, that's 20/30-year capital. We do have a nice loan from actually

USDA to give them a shout-out that we're using in a low-income housing project in Northern Wisconsin. They're taking one of the native organizations up there, one of the housing organizations is taking 24 homes that were rental homes owned by the tribe and they are transferring them to homeownership. We're going to do all this in the next two years. We're doing 16 of them I think in January.

Some of that money, or the majority of that money from USDA is going to be used to fund, I believe, it's 12 of those homes. But again, there's some regulation changes. I'm not going to get into those that are tying our hands from being able to do some more creative financing things. I get the purpose of them, but they do restrict things like being able to do balloon payments or things where you can do a twenty-year loan and do a ten-year and then with a renewable ten-year. That would allow us to use funding that's ten-year funding. We can't do that anymore, under the new regulations. Or not regulations, under the new certification requirements. That is a problem, that's a problem for us for getting into housing.

Like I said, honestly, our biggest issue is that long-term capital. That is part of why we did join the Federal Home Loan Bank, is to try to find some of that longer-term capital to try to get some of the grants that they've got available. We are talking with them about some other loans and some other grant products that are going to hopefully help meet that longer-term capital needs.

MaryBeth Wott: Another potential benefit along the access to Capital line is there are Federal Home Loan Bank members. The depositories that are subject to CRA we know are investing in CDFIs are purchasing loans originated by CDFIs for CRA credit. Our role as Federal Home Loan Banks as conveners and bringing our members together with community partners, so now you have this group of colleagues that are fellow members that could potentially also be interested in investment.

I have to, if you ask me a question, I don't know the answer, but I know someone who does. I don't know details about how that works, but I know there are people here that have had that happen that I can hook you up with. But to also think about access to Capital and as a Federal Home Loan Bank member with your fellow members in your district that you can partner with.

Kirsten Landeryou: I think we're ready for questions? All right, great. Any questions from the room?

LaRhonda Ealey: As persons are thinking of the questions that they may have in the room, I do have some questions from online that we can start with.

Kirsten Landeryou: Thanks.

LaRhonda Ealey: One is, "Can you talk about the differences in membership benefits received by CDFIs, versus other member types?"

Matt Glatting: Generally as a member, so in Atlanta, they have to treat all members equally. The pricing we get on advances, it's exactly the same as if Bank of America were to take an advance. There are some differences with respect to collateral. For example, we might get a little bit of a bigger haircut as a CDFI. I think is it 5% or 10%, because we are not regulated. There's some differences, but in terms of submitting AHP applications, being able to get guarantees, as a member, we can vote in board elections. We can run for a board seat in the state that we're a member of.

All that is the same. There's another difference in terms of risk rating. I had mentioned those four financial ratios, so it's 20% had assets, a liquidity ratio, a loan loss ratio, and...

Speaker 3: Phone a friend.

Matt Glatting: Yeah, phone a friend. I know I had that written down. [inaudible 01:04:40]. Oh, a three-year change in net assets. That's how we have to meet those four to be able to join. Once we're a member as a CDFI, if we fail to meet one of those in Atlanta, then our credit rating changes from 101 to 102 to 103 and the haircuts and ability for us to borrow changes based on that risk rating. That is different for CDFIs as it is as compared to banks. Again, those are some differences in Atlanta. I don't know about Chicago or Indianapolis.

David Gouwens: I don't think there's really any difference for us versus a bank, but we are fairly new. We just joined like you and I think it was actually February as well. It is a new process for us. We're learning it, but my understanding is pretty much everything is equal.

MaryBeth Wott: Yeah. There's Regulation 7J, so we need to treat all of our members the same. We could have a rule about collateral would need to be more based on the way a balance sheet looks. We couldn't say CDFIs are this, and insurance companies are this, and depositories are this. We would have something that the way your balance sheet looks or the percentage, and so then you would...

MaryBeth Wott: ... something, that the way your balance sheet looks or the percentage and so then you would have these different requirements. There's community support statements that are required of members are not required of CDFIs that you know that you're meeting needs in community based on a designation. But that may be something that we need to look at going forward as we talk about mission-oriented collateral and the recommendations of System at 100 different things that we could do, the potential of saying you can do these different things when you're working with CDFIs.

Speaker 4: Any questions in the room?

LaRhonda Ealey: Okay. I have some more from our virtual attendees for years bills to allow CDFIs to pledge non housing loans as collateral and join as members as CFIs have been introduced in Congress. How are the leaders of the Federal Home Loan Banks supporting bills which would allow non-depository CDFIs that don't make home loans, but do make community development small business and agricultural loans qualify for membership and advances?

Matt Glatting: I think that question is more for you, but as part of our application, we had to show a certain percentage of our total assets was in home loans. So even if you just do business loans when you first join, you have to show that I think it is 10% of your total assets has to be in home loans. But I think the question is more how Federal Home Loan Banks.

MaryBeth Wott: Yes, I'm understanding the question along the lines of how we're advocating and we do have council at Federal Home Loan Banks that does some advocacy for us and do appreciate the opportunities that we've had with some recent, the regulation on the affordable housing program and some advisory bulletins, usually the community investment officers will see those ahead of time and have a chance to comment.

As we alluded earlier, when there's regulations and rulemaking processes it's a very prescribed conversations and that we need to go through and our ability to give input. And so I think we are in a stage now where we are learning and we're exploring and we're curious and open to the opportunities. In my opinion, may look like Federal Home Loan Banks have more opportunity to influence those things then we may actually have.

David Gouwens: I don't know about joining an actual membership, but the Federal Home Loan Bank of Chicago actually has, they're helping us with some grants or they've got some grants available for small business grants and things like that. So once you are a member, yes, we have to have, I don't remember what the percentage is I thought it was a little higher than 10%, but our portfolio has to be housing loans, but they do have programs to help business as well as home lending.

LaRhonda Ealey: I have another question. Some CDFIs have served as members of AHAC and boards. What impact have CDFI leaders that have served on the board and AHAC brought to the Federal Home Loan Banks? And how do CDFI leaders enable Federal Home Loan Banks to meet community needs as identified by CDFI leaders serving within the system?

MaryBeth Wott: So, I'm here today with our AHAC vice chair from a CDFI and current board member and former board members who are or have been with CDFIs, and it's very valuable input and the things that we don't often think about and having that different perspective. Our most recent advisory council member who has been very engaged, just was approved in April I have not had a chance to meet her yet, Nikki Bash, who was at the native communities. So these opportunities, I think just in general from the advisory council and the independent directors that we have to learn different perspectives and have education. I think there are misperceptions that are out about the risk of a CDFI-D balance sheet.

Again, by nature making loans that others aren't able or willing to make, that doesn't mean that they're not done with some risk metrics and risk mitigation. So I think just having the opportunity to pick brains of these people and ask questions and listen and learn from each other, it's very valuable that we can have this perspective on our advisory council and also on our board.

Matt Glatting: And maybe two comments on that, so to serve on the Affordable Housing Advisory Council, you can be an officer or director of the bank, so we as a member couldn't serve on the advisory council. So I think that there's also a distinction between if you're a CDFI member or a non-member of the Federal Home Loan Bank. And then secondly, the way we're able to provide input as I had mentioned last week, five of the Atlanta CDFIs had a lunch with the executive team so they asked us, "What can we do that would be helpful for us?" And we were able to provide input to their leadership team in a way that we wouldn't be able to if we were not members. So we're able to have that opportunity be at the table and have those conversations.

LaRhonda Ealey: I have a question specifically for MaryBeth. Can you talk more about the Detroit hub and how other banks may implement something similar?

MaryBeth Wott: Well, the Detroit hub is one of my favorite topics to talk about and love the city of Detroit. So repeating myself I guess a little bit from the beginning. But we are looking at, I think we all look at heat maps of our district and where our grants are going and we're seeing in Michigan in general, so we have states of Indiana, Michigan for those that may not know in the Indianapolis Federal Home Loan Bank and looking at heat maps and seeing not as many competitive HP applications specifically, even with some of the other, the Homeownership Set-Aside Grants coming from Michigan. And in some cases it's because we don't have member financial institutions there or they're more rural areas there's not development, it's not as much going on that there may be partnership opportunities. But in Detroit, that is not the case.

We know that are know there's need and we know there are amazing people that are doing things. Seriously, that revitalization of the city of Detroit and bankruptcies should be a case study in community development for the work people have done very amazing. And so we're reading a lot about Detroit, we're not feeling that we know... We can really learn and so we said, "Let's go and listen more than we're talking." And as I looked at the time, what we did, I will admit we did not say, "Let's go talk to CDFIs." But as I was thinking about that and looked at the institutions that we talked to, that was the first group were CDFIs and just that unique financial institution perspective and knowing what's going on.

So this is 2019, I'm going to Detroit about once a month and meeting with a variety of people along with other members of senior executive management and we decide towards the end of 2019 that we're not physically there, so let's have office space. And so we take a tour in February of 2020, of different office space in Detroit and we're looking at having workstations and all these offices and where's all the staff going to sit. And then in March we had this kind of change in the environment and so we continued, and who does this? We opened an office in downtown Detroit during a pandemic, we hired someone from the city of Detroit an advisory council member was nice enough to recommend someone from his staff for this open position, Anna Shires outreach partner, and she was willing to go with a mask and FaceTime us and look at rental properties that we could rent.

So we have 3,000 square feet in The Palms building on Woodward right across the street from Tiger Stadium and and all The Lions, and I forgot my Detroit teams here. So it's a great location that we love and it's 3,000 square feet and it does not have any offices or a station for staff, it is collaborative space. It is available for our partners free of charge. As we started doing this though, our attorneys did make us come with a little contract that you all signed and are going to use the space, so we had that in place now, a little application that you need an agreement. And we're there regularly, the space is available for communities that we can have, we are hoping that Director Thompson's making a visit to Michigan in July and that we can have an event there and show her this amazing space as well.

So this is, I am trying to give some of my remarks more as Federal Home Loan Banks in general. This is Indianapolis Federal Home Loan Bank and differences among the Federal Home Loan Banks. But it's been really helpful for us to be in Michigan, we all have these names we're the federal home bank of a city in a certain state and then people in Michigan are like, "Why is this woman from Indianapolis talking to me about affordable housing?" And so I think sometimes it's confusing, so it has made a big difference to have more staff there it gives us another market that we can recruit IT from. And so it is not just a community investment or account managers that we have in Michigan, we've been able to also recruit IT and we try to go there and meet with the staff there and have events. It's a great space that we can have member meetings and we can host suites at one of the stadiums.

And I mean, if you want to know... Or I guess it was an online question so to answer your question, I'm talking about the breaks. But just a lot of benefits of knowing the community by being there physically for us, it's just been really helpful. I think people, you can tell a difference now in our partners in Michigan, we understand, we know more what the Federal Home Loan Bank is and why you're here, so it's been a great benefit for us. And in a weird way, the pandemic helped because we got the right kind of space for collaboration and meetings as opposed to a place for people to work.

LaRhonda Ealey: Another question from a virtual attendee asked, what are the unique challenges that native CDIs face? And maybe we should start with David for this one.

David Gouwens: Yeah, you talking about with joining the Federal Home Loan Bank system or just in general?

LaRhonda Ealey: I think it may be both, if you could address both.

David Gouwens: In general, I think, I don't want to get too much into collateral, but I was thinking about this earlier of mentioning it. Almost all of the homes that we lend on are on tribal land, so they're leased land. So you can't get, the assets basically will stay in control of the tribes if they go into default, so we can't foreclose as well. And if we do foreclose, you get rights to the house but not the land it's sitting on. So that makes a lot of issues with finding funding and with working with banks for both the borrowers and for us because when you can't foreclose, the bank doesn't want the asset.

We are working on some MOUs, there's a big push throughout the country to organize some MOUs with each of the tribes and they have to be done individually with each tribe, each reservation, to set up that agreement. And that's all due to the sovereignty laws and sovereignty with the individual tribes. So most of those are going to, I don't know how they're all going to look, I would assume most of those are going to end up being where the tribe has the right or had the obligation maybe to purchase the loan out, I think is ultimately how those are going to work out.

But that plays into our issue as well when it comes to funding. Most of our mortgage portfolio is funded by these loans that are on tribal lands and so we can't simply turn around and pledge them to Chicago Home Loan Bank because they won't accept them as collateral, we can't use them as collateral and other places as well. So it makes it a little more difficult and also we can't sell them to Fannie Mae or Freddie Mac like most of the banks can do. So we are really limited on regaining our capital and that's kind of where that 20 to 30 year loan money comes into play is we can't take a loan and turn around in a year or two years, sell it. Our goal is to get the clients bankable so in say five years or so, they can go to a bank and get either a 184 loan if it's on tribal land or just a regular conventional loan if it's off tribal land. But that's kind of our goal to get to, not everybody always gets to that point.

So we have to look at each loan as though we're going to carry it out for 20 years. And to even come close to making affordable housing 30 years is not going to happen. Ideally, you want to be able to get to 30 years for affordable housing, we cannot hold a note for 30 years. Our funders, our board, one of our board members is the president of a bank and he's point blank said, "You don't want to hold a note for 30 years." And so without being able to sell them or pledge them or use them in other aspects. So that's the biggest, I think, hurdle for us as a native CDFI.

Speaker 4: I think we still have a question.

Joe Neri: I just wanted to ask the question.

Speaker 4: Do you want a mic?

Joe Neri: Having the-

Speaker 4: Mic. And identify where you're from too, please?

Joe Neri: Fair enough.

Speaker 4: Yeah.

Joe Neri: Joe Neri, CEO, IFF in Chicago, but office in Detroit. So how do you feel about the hub, is the hub changing the heat map, right? Because the point of having the hub is to work on making sure that capital is flowing to Detroit, so how is that going?

MaryBeth Wott: Yeah, so prior to the Detroit hub, and so we're doing, we opened in 2020 and the last competitive HP application from Detroit was in 2014. And so we hired someone in April of 2020, Anna Shires, and I was going to be happy if in 2021 we had Detroit applications. She hit the ground running applications were due that year probably in July, and we received and awarded four competitive HP applications in 2020. And I don't know at the top of my head what the dollars have added up in those past few rounds, but we are seeing that.

There also were differences with the State Housing Finance Authority in Michigan, MSHDA and how their tax credit applications work. And we've had with Anna's leadership have made progress in talking to MSHDA about, I know you like to have majority of the funding, and again, you asked me a question, I don't know the answer but I know who does, half joke. The difference between a 9% and a 4% deal, but especially in the 9% but we had some traction with 4%. You could telling MSHDA, if in the time we have $1 million max this year, but if we had $500,000, we're having these conversations. I mean, if there's four deals that we can put $500,000, that's $2 million that you can do something else with, and so trying to make some progress.

Also, I think having the Detroit hub and the staff there helped us make some progress in general in the whole state with conversations with MSHDA. That's led to a partnership with tribal housing that we were committing $3 million to over three years. So it's been beyond Detroit as we were hoping and throughout the state of Michigan and partnerships with statewide organizations.

LaRhonda Ealey: MaryBeth, there's another question for you. Is there one in the room at this point? Okay, another question for you MaryBeth, what are the voluntary program commitments that the Federal Home Loan Bank of Indianapolis will prioritize and what percentage of net income is your goal?

MaryBeth Wott: I thought all the questions are going to be for our members on the value of Federal Home Loan Bank membership. I also like talking about voluntary programs however, I've been with the bank a long time and I did not think in my career, I would have the opportunity to be this creative and innovative and do things on a voluntary basis. So I do not have a answer for that, that I know will reflect all of my colleagues.

But I think in general, we are all looking at the needs in our district that are voluntary, our priorities for voluntary programs. We all have a targeted community lending plan. So our regulated and voluntary programs are to stem from needs that we have outlined with market research. Our advisory council members, we talked about CDFIs as advisory council and board members, that they provide us a lot of information on needs in the district and unmet needs and things that we can do.

We like copying off of each other to come up with voluntary programs, so if someone's done something that's been successful, can we replicate that in our district? And again, there's I think a reason for the regional approach of the Federal Home Loan Banks. I think we have examples of dollars that have gone to very small communities that I'm not sure would have been dispersed that way if this was done on a national basis. And the approach that we can have as a Federal Home Loan Bank to work through our member financial institutions and learn what these needs are and get the dollars into communities, I think is very unique to the structure and the regional structure of the system.

I believe there's also part of that question that talked about AMI, and again, I don't think collectively, I know we haven't had a conversation to what is your AMI goal. I will say the voluntary programs have given us... One of the things that we kind of do in regulation is go over 80% AMI, so we had a pilot program that we are going to hopefully announce here soon as a recurring program Home Boost, which is a special purpose credit program. And we have 120% AMI and I think other districts that have a special purpose credit program also have 120% or they have workforce housing programs. There are needs that are greater than the 80% AMI and to have the flexibility with these programs to reach other people that are having challenges and struggles with their housing.

I think especially when you're talking about homeownership and you have a limit of 80% of AMI, it's challenging for someone. And we do have people at less than 50%, 50%, 60%, AMI that use our down payment assistance grants. This gives us a way to reach people that there just really are not grant dollars out there in those income levels to help, and I think it's an opportunity to be very impactful with our dollars.

Speaker 4: Okay, we probably have time for one more question if there's any.

LaRhonda Ealey: I'll defer to the room first.

Speaker 5: So, I didn't hear any of you talk about associate memberships. I know several of the housing finance agencies or local housing finance agencies may come in as an associate member. And the difference between being a member and an associate member, it'd be nice to hear that.

MaryBeth Wott: So our associate members would be our state housing finance authorities, so able to borrow and still have collateral requirements and that's a hurdle for them as well, I think other districts have more borrowers. Again, it's different ways that you can partner that are different from a traditional depository institution. Associate members though are not able to use our community investment program advances or to apply for our grant programs, so that is something that they cannot do. But the opportunity of access to capital, we have ways that we can invest and support and support bonds and other ways that we can invest with housing associates, but I think that's a primary, they're not able to access the grant programs.

LaRhonda Ealey: I have one more from our virtual community. Can you talk about the value of community, the Community Investment Program, CIP and Community Investment Cash Advances, CICA, the advantages that these can provide to CDFIs and are there any particular examples from the Federal Home Loan Bank of Indianapolis?

MaryBeth Wott: Most of the certified CDFIs in our district are credit unions. We have them joining as credit unions, look at them as a depository member. We have four non-depository CDFI members, one of them is a native CDFI in the upper peninsula of Michigan and that's the only one that has borrowed so far and borrowed in our traditional advances window. And so the community investment program, the CICA, the CIP, that's a program we can lend at our cost for certain needs. And I would think that would be a program that would be open to CDFIs and that the work that they're doing would meet those criteria of investing.

You can qualify on housing and that's 115% AMI so that's not a grant program, that's a lending program. And then there's differences on the economic development side, whether it's an urban or a rural area, there's ways if you're supporting small businesses or you're creating jobs, and that's where I tell people, just tell us what you're doing and we'll figure out which box it fits in. But I think CDFIs in the communities that you're serving, that would be an opportunity, it just depends on the pricing levels and how that is. And again, I know just know enough to be dangerous, but I know people that can answer that question for you, how we're pricing advances and how much of a rate differential there is between the regular advance window and the CIP, but that is the lowest cost advance that we offer.

Matt Glatting: Yeah, so I took a CIP advance in a prior role with Atlanta, and I think it was like 10 or so basis points lower. Usually the challenge we have at CDFIs is if we make loans, we extend them a bunch of times and they actually run longer. The challenge we had with the CIP loan was actually, we used a specific loan for the CIP advance and that loan actually paid back early, so then we didn't have a specific loan for that CIP advance. But yeah, it lowers your cost by 10 or so basis points in Atlanta. So it's a good way for CDFIs to get some additional spread.

Speaker 4: Well, thank you. I think we're out of time, thanks so much.

Matt Glatting: Yeah, thanks so much for having us.

David Gouwens: Thank you.

Rebecca Cohen: Great, well thank you everyone. We're going to go on a morning break now, there's still food and drinks outside. We'll reconvene here at 11:20.

If I could get everyone's attention, we're going to get started in just about 30 seconds here, so please take your seats. I am going to welcome our next panel if you want to make your way up to the stage.

Joe Weisbord: I thought it could be self moderating.

Rebecca Cohen: All right, so if everybody can join me in welcoming our next panel to the stage to discuss CDFI credit risk. Joe, take it away.

Joe Weisbord: Thank you. Welcome to understanding CDFI, credit risk. Thank you Angela, Jaret, Michael, Eben, you can take a look at their bios online. But I think you'll agree that we have terrific expertise and experience here to tackle this issue.

Just by way of introduction, I would venture to say that everyone in this audience, or nearly everyone in this audience at some time in their career, went through some kind of credit training or credit education. And whether you learned the 5 C's of credit, or the 4 C's of credit, or the 3 C's of credit, Google it. And whether you can remember them or not, you do remember one thing, which is that there's two fundamental questions that we're asking when we're looking at credit risk. One is, can the borrower repay? And second, if they don't repay, how can I be made whole? And that second question, the collateral question, which has already come up a number of times, is you'll have to wait in suspense until after lunch to really dig into that.

But the question that my colleagues and I are going to talk about this today is understanding how we assess the credit risk at the enterprise level. And that's important to the banks because it has an impact on the lending terms that are extended to members, particularly around advances. And so we have this terrific group, we're going to spend some time talking about the nuts and bolts of credit risk assessment. I'm going to stick my neck out and ask them for their thoughts on what FHFA can do to further accelerate, make the credit risk assessment process more accurate, more efficient and then last, we'll take your questions.

So the first thing I want to dig into is the difference between non-depository CDFIs, who as Pravina mentioned earlier, don't have a prudential regulator in the same way that banks and credit unions do and the distinction that the banks make between non depositories and their depository members. And I want to start with Michael and get the bank perspective on how you approach evaluating risk for non-depository CDFIs versus your insured and regulated members.

Michael Zheng: Okay. Yeah, I think that's a very good question. So overall, I think as we all know, we have 11 different Home Loan Banks. So our credit policies practices are slightly different. But overall, we are under the same sort of Home Loan Bank Act and the same regulator of FHFA. So there's some commonality in the post. We evaluate quite a risk just talking about, for example, banks. Typically, if you had to talk about credit risk, essentially, actually there are two parts of credit risk. The first part is we have to assign a rating for every member regardless, depository or non depository, that's one part.

Second part is, the credit monitoring piece. After you assign the rating, you continue to monitor their credit. So for the first part, I think every Home Loan Bank has a rating system, whether it is, for example, Dollars use letter grade A, B, C, D, and E. Some other bank use one through 10. I mean, I heard Atlanta 101, 102, 103 ish. So regardless, there's a number associates with each member. Pretty much like your FICO score, right?

So essentially that rating dictate how you can conduct business with Home Loan Banks. So their rating determines if you need to deliver collateral or once you deliver collateral, what's the level of [inaudible 01:36:53] costs would be, so that ratings very important. So typically we evaluate their ratings through a CAMELS approach, right? We all know CAMELS, capital, adequacy, asset quality, management, liability and sensitivity to market risk. So, essentially we had to evaluate their financial reports to make that conclusion.

I think through our own audit and regulations, we have to document our decisions. So every credit analyst essentially need to write up a credit review when they make a call of the rating, which really in order to do that, you have to solely read through their financial reports. They put some numbers in prospective, if you are bank, depends on your size, you file either 051, 041 call report. There's roughly the line items is roughly between 1,300 to 1,900. So there's a size of financial reports that you file.

So essentially, you can see there's a very comprehensive work. That's only the first part. So after you assign the rating, you continue to monitor their financial reports, basically the ongoing requirements. So every quarter we look through members core report. Apparently we cannot do, for example, Dollars has 800 members, we cannot do 800 reviews. So you'll see many banks actually build a model to do that work. The model basically track all the risk for those eight other members. We also monitor their public news and negative news on certain members. So more importantly, we also have opportunities to talk to their regulators if we have any-

Michael Zheng: -opportunities to talk to their regulators if we have any concerns. So that's the part for certain institutions we can get their exam report as well. So those are more like a third-party assurance that we are doing a good job evaluating the risk.

You can see those things do not exist for CDFIs. So the most comprehensive CDFI financial reports I think I have is roughly 130 data points. That's the most comprehensive financial reports we got. There's no potential regulator of CDFI, so we don't have anyone to talk to. So more uncertainty is on liquidation. So in the very unlikely event of liquidation, we have to go to a court to get things resolved. So those are the more concerns in inquiry risk assessment for CDFIs. So if you talk, the big difference is really relying on these parts, the information availability, lack of potential regulators, and uncertainty in the liquidation process.

Joe Weisbord: Thanks. I want go to Eben and sort of get the CDFI perspective on this and what might be missed in comparing non-depository CDFIs with the other traditional bank members.

Eben Sheaffer: Yeah, so great question. So I will say to me, it's a little bit like I'm trying to draw an analogy, maybe like a baseball analogy. I remember "Moneyball" was big several years ago when people said, "Oh, let's look at the data" and there are these unknowns. And for non-depository CDFIs, don't have the same level of publicly available data, but the data that we do have is that non-depository CDFIs don't fail, they just don't. And I think the University of New Hampshire looked into it. They couldn't find any defaults. They found somewhere the CDFIs unwound intentionally and just folded up shop or merged.

The other thing I'll mention is Bank of America built the multi-billion dollar portfolio lending to CDFIs. And if you ask them about it, they will tell you just how great the loan performance is. I don't think they've had any, they may not have had any losses. So it reminds me a little bit of traditional baseball scouts saying "This person has a bad batting stance and they chase pitches out of the strike zone." But then you look and you say, "Okay, well, but all they do is get on base and hit home runs."

So these things are true process issues to work through, but ultimately the fundamental credit risk of a non-depository CDFI is extremely low, probably lower than the depositories.

Joe Weisbord: Angela, you want to talk about how you look at as you're the internal risk manager for your institution, how you compare the assessment that you undergo as a bank member to your internal assessment and management of credit risk and how your investors look at it and are there key metrics or measures that maybe are missing or maybe are under-weighted in assessing a CDFI?

Angela Dowell: Yeah, so I'll start with the first part of that question and say that in terms of our Federal Home Loan Bank of Chicago, they are very similar to our other kind of bank investors. So shout out to Federal Home Loan Bank of Chicago. I see a few of them in the room already. So I think it is very similar, which I think is great. Their covenants are similar. The type of documents that they request to get to the overall credit assessment or the risk rating seems to be very similar to a lot of our other bank investors. So that makes it very easy. So if there's any CDFIs in the room or online that are thinking about becoming a member, and you think that you're going to need to go through all of this other extensive underwriting, I think a lot of it is similar to other investments. So I would start with that with that.

And then the second part of your question in terms of what do I wish was weighted more. So I would say one thing is self-sufficiency ratios. When I think about CDFIs in particular, especially non-depositories, we're usually both a nonprofit and we're a financial institution. And so when you think about that nonprofit piece, we receive a lot of grants and those grant amounts can fluctuate. So we had someone from the CDFI funds speak, and there are a lot of grants. If you got an ERP award, it may have inflated your earnings for a particular fiscal year. Many CDFIs received money from Mackenzie Scott. So if you got this $10 million grant, it may have inflated your earnings. And so I think a lot of the questions that we get when we're talking to investors or the Federal Home Loan Banks, it's about our fluctuations in net income. "Oh, you had a $5 million net income in fiscal year 2022, but in fiscal year 2023 you're down to a million. So tell me why that is." Or it's seen as a risk because our earnings aren't that way.

So I wish that there was more weight put on self-sufficiency ratios, which kind of tells you how reliant the organization is on grant funding. So the higher the self-sufficiency ratio, the less reliant you are on grants. And so I think really looking at that and seeing that a lot of the grants that come in are not necessarily for CDFI's operations, but a lot of times they're actually capital that's going into our lending pool to reduce the interest costs to our borrowers, or for a particular program or something of that nature. So I wish that that was something that was a little bit more focused on.

I would say the second thing that I wish was a little bit more focused on, a lot of organizations' investors look at our net asset ratio and they just look purely at that. They want you to have a blanket 20% or 25% net asset ratio. But I think when you're looking at a CDFI's balance sheet, you really have to look at the rest of it to understand the strength. A lot of us have subordinate debt, EQ2s. So if you think about that, it's the net asset ratio and our EQ2s. So we have a very strong base.

And then to your point, we don't have very many losses. So if you compare that net asset ratio and the subordinate debt to our overall loss ratio on a CDFI's balance sheet, you'll see that we have a lot a lot of cushion. And so I wish when looking at that net asset ratio that organizations didn't just look purely at that and say, "You have to have this flat percentage," but look at the overall balance sheet overall losses when really thinking about that.

Joe Weisbord: Great observations. I want to turn to Jaret. Momentus, at least of the three CDFI's that are sitting up on the platform right now, Momentus has ratings from Fitch and S&P. And how well do those ratings reflect the financial health of your institution? And again, what's missing? What aspects did maybe the traditional ratings not tell?

Jaret Ings: Yeah, so I would say it's a pretty deep dive into our operating performance, strength of management, I think that's one thing that we should probably highlight across the CDFI's. We have extensive experience from industry prior to coming to CDFIs, some from banks. So they look at that. They also look at our portfolio. They go loan by loan, see whether or not it's cash flowing, if it's construction or facility loan, they look at credit enhancement, they look at guarantees. It's a process that annually, even though they know us could take about two months of back and forth. So they really drill into each loan.

They also look at our underwriting guidelines. They mention our risk ratings, how robust they are. They mention our prudent risk management and that we're high touch in our borrowers. Our goal is the mission. So we work with our borrowers and we're pretty in contact with them pretty often.

And then on the Fitch side, they look at us at the enterprise level. They look at us as a normal business. They actually put us in their ratings criteria with banks and non-bank financial institutions. So that's kind of where we sit in their group. So they do a pretty good deep dive from top to bottom. They want to hear about our strategy. It's not just hearing about the strategy, but how do we plan to execute. So I would think it's very thorough and we've been rated at least since 2017, and they're up to 15 CDFIs that at least have one rating.

Joe Weisbord: That's a heavy lift though, to get that rating. What would you say to CDFIs that haven't gone that route yet, and how much of an impact does it have on how you're treated by your Home Loan Bank?

Jaret Ings: So I'll answer the last question first. I'm not sure. I don't think we've talked about it.

Joe Weisbord: We'll get to Michael on that in a second.

Jaret Ings: About our ratings. Is it worth it? For us, it has been. So we've accessed the capital markets for the last seven years, so we've added that as one of the tools in our toolkit. It also gives some of our folks that we're going to do partnerships with, it gives them more confidence. This organization is rated by both S&P, Fitch and then we have an Aeris rating too. So that kind of makes it really helpful.

As far as the lift, I would say the best way to kind of think about it is if it's something worth it, you just have to prepare for it and just start thinking about it two, three years out. What does our loan tape look like? Can I leverage some of the knowledge that the CDFIs that are rated? Can I leverage some of their learning in the process to try to prepare for that?

So I would say it's worth it, but just make sure that it's not just worth it from a qualitative standpoint, but quantitative in dollars and that you can access multiple sources and you can leverage it in multiple ways.

Joe Weisbord: Michael, from the bank perspective, how important are the traditional ratings from the, I can't remember what the acronym is from...

Michael Zheng: NRSRO?

Joe Weisbord: Yes, thank you. Rating agencies.

Michael Zheng: From a CDFI's perspective, if we want to get access to capital markets, I think having an NRSRO rating is very helpful. For Home Loan Banks is also very helpful information. I think for Home Loan Banks, we have our own regulation that basically ask us to, the word using there is not solely rely on NRSRO. So even if you have an NRSRO rating, we still have to perform our own review.

But having that information is very helpful since for example, the first issue I talk about is not much information available from CDFIs. So having a rating report in front of me truly helped me make the decision. So essentially we talk about CDFI, sort of actual risk of CDFI. Actually, I think there was a study I think by D&B. D&B tracked I think 1,500 CDFIs for 20 years, I think 2014. From their tracking actually there were non-bankruptcy. Actually they were not zero, but then non-bankruptcy, but it is still a small number.

If you add some other thing together, roughly, I think the failure rate from this 1,500 sample is 5%. So if you track banks for the past 20-some years there were roughly 10,000 banks ever existed. So 500 banks failed. So roughly 5% as well. So I would think from that standpoint, the risk is probably equivalent to banks, not much higher but not much lower. I think the issue here is, I just don't have enough information to differentiate the risk. I cannot consider all CDFIs the same. Some CDFIs is better. So essentially the order issue, I think having an NRSRO rating certainly help. Sometimes even not an NRSRO, like a smaller rate agency like Aeris, that's really also very helpful. Basically, help me to differentiate the risk.

Joe Weisbord: Jaret mentioned Aeris and you mentioned it as well, and I think all the institutions on this platform, and I think most or majority of the industry, CDFI industry has Aeris ratings. Just can you say a little bit more about what that is for folks that may not be familiar with it?

Michael Zheng: Yeah, so Aeris I think is a specialized rating agency for CDFIs. Interestingly, not sure there's, okay... I'll tell you one story maybe. So seven years ago there was another CDFI conference in D.C. At that time I served as a chair of the system credit group. So I had to speak up for the credit concerns on CDFIs. So as you can tell, I was not the most popular speaker in the conference. But anyway, afterwards actually we see something positive happening.

For example, more CDFIs signed up for Aeris reading. So much better, even if you do not have Aeris reading, Aeris provides standardized quarterly reports for the CDFIs. And that service is free for CDFIs, but I pay a subscription so they earn money from me, not from you. But that really provided me convenience, getting data together, so I don't have to chase you for financial quarterly, I get that automatically from Aeris.

I think if you're familiar with banks, there's something called a UBPR. FFIEC, Uniform Bank Performance Report, meaning you can pull any bank's core report and compare to peers. I think Aeris is trying to create something similar. Not only they got your own financials, they told me maybe two weeks ago, they are creating something in peer analysis for CDFIs. So all this improvement I think we see happened in the past few years.

Joe Weisbord: Thanks. Talking about CDFIs, part of the reason that the CDFI designation emerged some 30 years ago was to reach parts of the market that weren't being reached by traditional institutions. And as the director of the CDFI fund said earlier, they remains a critical part of the CDFI mission is reaching underserved and unserved parts of the market.

And that inherently involves greater flexibility and the ability to take risks that other institutions might not take. And I'd like to just throw out to our CDFI panelists, what are the sort of risk management, risk mitigation tools that are important in addressing, in managing those risks or the possibly maybe perceived risks? And how do you deploy those in your business? I'll start down at the end with Eben and we can work our way back this way.

Eben Sheaffer: Yeah, I feel like it really comes down to the management team, the board of directors. You're assessing an institution that has a business. You're also really assessing that business strategy. To your point, Joe, about a CDFI, an organization that's serving people that are not otherwise well-served by financial institutions. Oftentimes that strategy is a better strategy than say a business that's serving very affluent people in a highly competitive market. So in that sense, you can also take a step back and just evaluate the business itself and the markets that they operate in and then look at the management team and see how well do they understand the markets that they're doing business in.

Jaret Ings: I would just say at the kind of the transaction level, there are a number of different types of credit enhancements that take first loss prior to our exposure being at risk. So that's one. There are personal guarantees, there's corporate guarantees, but then there are state guarantees, right? On our small business side, there are federal guarantees.

So I would say there are a number of enhancements that we've made based on our collective experience that mitigate the risk where we could identify, okay, if this happens, where are we at risk? And we have a number of folks that have been doing this for years and nothing really, I could probably say nothing passes any of our credit committees without being fully covered. So we just don't pass deals along just because there's high impact in the community. We look for other partners, we find other ways to be more creative to get that deal done. But as is, deals have to go back and be restructured.

Angela Dowell: And I echo the comments of the other panelists. I'm going to come at it from a slightly different perspective just to give something new and kind of talked about some of the soft skills that I feel like CDFIs have. One thing that we do is we're not just the lender. We all provide technical assistance as well. It's one of the requirements of the new CDFI recertification. So everybody provides technical assistance as well. And it's not just workshops and things like that. If you think about our portfolio management teams, the asset managers, they are providing technical assistance, they are helping the borrowers. So if the borrowers ever get to a point where they're experiencing some challenges, our teams come in and they help those borrowers. And I feel like that is a big risk mitigation factor. And I would just say, as you already mentioned, being very creative in the deals as well really helps us to not experience any of those losses.

Joe Weisbord: Well, that's a great point. And that in the CDFI certification, which I know we're not supposed to talk about, that's referred to as development services, correct? But that's a key differentiator and it's part of the reason that CDFIs use grant funding. I think we talked about grant funding a little bit and the use of a traditional earned income ratio as a metric. Any further observations on that? Because that does seem like a big... It's something that changes the appearance and the character of CDFI balance sheets as the presence of those grant funds. And are there better ways to understand that because of the way it skews earnings?

Angela Dowell: Yeah, I think I kind of answered this earlier.

Jaret Ings: Yeah, I just put probably a different spin on it. So when folks look at grant income, they look at this free pile of cash is just going, and we're getting it every year and we're saying, you know what, it looks like we're shorter dollar, we're going to get two next year. That's not really how it works. I would say that grants are more like contracts. So if you have a large contractor, you're trying to evaluate the backlog. So that's multi-year grants. You're trying to evaluate the management team's capability in executing on that backlog.

And then you're also looking at how many different contracts that contractor has. Well, it's the same thing For most CDFIs. We have a diversified pool of grants, and every year there's multiple multi years going in. So every year we're adding that grant revenue that you're seeing in subsequent years, it's being released for the expenses. And then some of the expenses that you're seeing, they're directly grant related. So if they're not there, if the grant's not there, then those expenses aren't there. So I would say that you could probably, at least for CDFIs, I would count it to a certain extent. I would count it and understand it. And then if it turns out that maybe 80% of those grants are more like contracts, then you can include that. But I wouldn't exclude it from earned income.

Eben Sheaffer: Yeah, at Inclusiv, the way that we monitor our ongoing operational income is to look at what is our net earnings of or the net margin at the organization if we removed all of the grant revenue and the associated grant expenses? So I think just on the top line, we're at 65%, something like that self-sufficiency. But by our own metric, removing those expenses as well, we're at like 97%, something that.

One other thing I would just mention about kind of non-depository CDFI balance sheets relative to maybe the banks or regulated institutions is just that, the 20% net asset ratio, I think that, I don't know where it came from, honestly, it came from the beginning of CDFIs, and everyone was scared about the loan performance. So we said we got to have 20%, and now there's been 30 years of incredible loan performance and we're still at 20%. And what's the equivalent like Basel Capital ratio for that? Most non-depository's going to have like 20% of their balance sheet in cash.

So what's your Basel Capital ratio? 40%. It's crazy. The low leverage is not commiserate with the loan performance. And this kind of gets back to the profitability question around grants. That low leverage does have an effect on earnings. CDFIs would be more profitable if they could lever their balance sheets more appropriately to the low-risk assets that they're holding.

Joe Weisbord: Thanks. I want to give all of you a shot at what FHFA might do, hypothetically, to reduce some of the lingering misperceptions around credit risk associated with CDFIs and more generally to increase from the bank's perspective, the efficiency of assessing credit risk, and from all of our perspectives, the accuracy of assessing credit risks. So whoever wants to jump on that first.

Angela Dowell: I'll start. We talked a little bit about Aeris ratings, and I think on the previous panel, I heard someone say that their Federal Home Loan Bank relies on that Aeris report for quarterly reporting. But I think relying on the Aeris report is something that is very key. We give a lot of information to kind of the Aeris organization to get that rating. And so I think relying on some of that and kind of standardizing it across some of the Federal Home Loan Bank systems for their underwriting and credit assessment could be something that could help.

Jaret Ings: So I'll say encourage collaboration amongst the CDFIs and the member banks as the leader of the discussion, the leader of the analysis, the leader of this project with the defined timeline, with defined milestones on when we want to get things done. But led by the FHFA. So there's nothing lost in translation. When we come up with solutions between us and the member banks, we don't have to run back to the regulator to say, "Well, does this work?" If the regulator's in the room at all times through the process, I think we can eliminate that and we can get there a lot quicker. But this isn't really a hard problem to tackle. There are a number of different ways we can tackle it, and I think ther''s some evidence and loan portfolio data that'll allow us to get there.

Joe Weisbord: Hopefully today's convening will move us forward in that direction.

Eben Sheaffer: I think the only thing I would add to that is just that getting more non-depository CDFIs in the door isn't enough. I think it was mentioned earlier that only half of the members of the FHLB system have borrowed the non-depository, the CDFI members have borrowed. So if we get a lot more in the door, but we're still only batting 50% on how many have taken advances, then this is really only one piece of this puzzle.

Joe Weisbord: Michael, we didn't get your perspective on FHFA.

Michael Zheng: Just from the bank's perspective, as I'm hearing all these good comments. So some reason why many CDFIs haven't borrowed is largely because of collateral issue. I think we're going to talk about collateral in the afternoon session. Also, there's a haircut issue, the level of haircut that Home Loan Banks on those collaterals. I think there's a lot of this stuff actually is based on our own regulations. So we have certain requirements that we have put a price tag on every collateral. So we only take those collateral that we can evaluate. And there's certain requirement is how we calculate haircuts for each type of collateral.

And those type of collateral that you can pledge to Home Loan Banks are also prescribed by regulation for certain type of institution. So also there's a thing, we talk about something called 7J in the first session, so we have to treat all member equally. But I think CDFIs are very different. So it probably makes sense to have a separate policy just for CDFI, but under 7J, we cannot do this as of today. Those things, I think probably just inviting the agency's help to help us sort out.

Joe Weisbord: Thanks. And I'm not the person to comment on 7J. Someone else can do that. Let's open it up to questions from all of you and from the anonymous people online. In the back of the room and then up front here.

Nick Mitchell-Bennett: Nick Mitchell-Bennett, Rio Grande Valley Multibank CDFI. And so this question is for Michael. Michael's been great to work with. We're a member of the Dallas Bank, and really trying to understand us. My question is for Michael and the other credit officers of the other 10 banks. Is there anything that you learned when underwriting insurance companies that can be applied to us or you thought outside the box for them? Can you start thinking the same way for us that are in CDFIs?

Michael Zheng: That's a very good question. I think in term of insurance, they are not federally regulated, but they have each state regulator, so they have a state regulator. They also perform exam for those insurance companies. So that's one.

Second is even if insurance companies state regulate, they do have a federal agency. It's not official agency. It's more like a voluntary agency that all insurance put together called NAIC. I forgot the full name, but it's NAIC. The NAIC basically set up reporting standards for all insurance companies. So they end up having same reports. So that NAIC report actually is more comprehensive than a core report.

I mentioned I think that the line items for core report range between 1300 to 1900. So a core report can easily double that. So there a lot of requirements for those reporting. And also that NAIC, they have a different working group to solve problems. For example, they even have a FHLB working group to solve the issues deal with is the Home Loan Banks. So I think, yeah, something this practice may be the CDFI or instance we can learn.

Joe Weisbord: Up here in the front.

Christopher Blair: Yes, this question is for Jaret.

Joe Weisbord: Can you just say your name.

Christopher Blair: Christopher Blair, the Community Development Trust, not to put you on the hot seat Jaret, but you've definitely used your rating for issuances that have been one of the leading CDFIs. And I'm curious, do you see any limitations on using the Federal Home Loan Bank system given that you are rated? And have you heard any feedback from S&P and Fitch given their rating effectively unsecured debt?

Jaret Ings: So yeah, I would say the limitation is really the collateral challenge. Our portfolio is probably close to $600 million now, and there's a high percentage of loans that we could pledge if they were within the guidelines. I would say that's kind of been challenging, but hopefully that could be changed with this discussion. At least trying to get lower haircuts because our internal rating will be better because we have a credit rating. And then what was your-

Speaker 7: Have a credit rating. And then what was the second part of your question?

Speaker 8: Have you heard any feedback directly from-

Speaker 7: Regarding the Federal Home Loan Bank? No, not at all.

Speaker 9: I feel like we're the warm-up act for the collateral panel. There's another question in the front here.

Chuck Wall: Hi, I'm Chuck Wall from Renaissance Community Loan Fund. We're in the Dallas Bank and no we, Nick and I did not have plans for these questions, but this question's for Mike. Michael, the CDFIs that are rated by S&P or Fitch, are they treated the same as the CDFIs that are not rated from a collateral haircut perspective or a rating? And if they are, then what's the value in getting a rating?

Michael Zheng: So far for Dallas Bank, so I'm talking about my own experience. We don't have CDFIs that are rated by an RSO. Maybe have one, Journey, but so from that part, I just don't have experience to tell whether this helped me. But as I just talk about having that RSO report, RSO rating is more serve a third-party assurance of a CDFIs financial reporting integrity, operation management capability, et cetera. Since you guys do not have a regulator, they don't receive exam. I think that part of RSO rating and their report serve a very good supplemental information to help me make a better decision. So just for example, if I have two CDFIs look the same, one has an RSO rating of a single A, one doesn't have any. I probably read the one with an RSO higher since I have some assurance on that part of operation.

Speaker 9: I've got one question over here then over there and then in the back of the room.

Brooke Carillo: Thank you. My name is Brooke Carillo, I'm with Redwood Trust non-Bank, not a CDFI, but a prior FHLB member. My question was that in a prior life, I had looked at capitalizing a CDFI. We've talked today about some of the challenges around the inability, some of the, I guess, developments in the ability to issue rated debt, but also some of the challenges that the reliance on grants bring. And I think in the prior exercise just illuminated that there were a lot of complexities around providing equity capital or longer-term capital in the form of preferred event to CDFI. So I was just wondering if there have been any developments in your kind of collective experience up there to simplify some of those or if you have experienced those within your own organizations.

Speaker 9: Does anyone want to take that on? Little bit? It's a really interesting question. I think it's a little bit beyond our scope here. Michael, did you have a comment?

Michael Zheng: Maybe from Dallas standpoint, I think we do have CDFI borrow from us. Also, we have products that range from overnight always I think up to 10 years. And we don't have any CDFI borrow for 10 years, but we do have depository CDFI borrow longer term for their asset liability mismatch issue. So in that sense, Home Loan Bank does offer a range of products to meet your asset liability needs, just one. Second, I think from Dallas standpoint, I think we recently announced, for example, we call it CDSFP program is a reduced peer cut program just for community support. I think a few CDFIs, Chuck, but you can't speak about that. So they already signed up for their program. That's one available product for CDFIs. I think maybe a few weeks ago we announced something called Canopy program, which is more like a recoverable grant or unsecured loan up to 10 years for CDFIs. I think that will probably generate more impact.

Speaker 12: Nice job with that by the way. That's good.

Speaker 9: Back right?

Tia Patterson: Tia Patterson, California Community Reinvestment Corporation. And I want to welcome our new president with the San Francisco Federal Home Loan Bank, San Francisco. We just recently became a member. We have a S&P credit rating and we are regulated by the state of California and we are treated exactly the same and the haircuts are just as big as if we didn't have any of those. And so this education component, I think, is very important because we know there's 11 different Federal Home Loan Banks. And so if one is treating someone a little differently than another bank that has those qualifications that you are looking for when you're evaluating credit risk, I think that's a bit problematic.

Secondly, I'm really looking, I don't have an Aeris credit rating, but we report into Aeris because we're both a CDFI bond guarantee program and Treasury uses the Aeris for their fiscal reporting. And when we became a member of the Federal Home Loan Bank, we use the Aeris system. So I don't know how many of the federal home loan banks in the system are using ARIES, but I want to go back to that ARIES system and the standardizing because it really is that piece that you all are saying is missing where like CDFIs get compared to like CDFIs and you really can evaluate that credit risk.

Michael Zheng: That's very good point. Essentially, like I said, there's no UBPR for CDFIs. So Aeris is actually creating more like a defacto UBPR for CDFIs. So that's a very good development. So I think with more CDFIs signing for their service is free for you. So I think that information availability piece will improve.

Also talk about education. I think probably my view on this is probably education is two-way. CDFIs learn how Home Loan Bank evaluate their credit risk. I think we probably also need to better learn how you guys manage your own credit risk. I do recognize that CDFI has very low charge off rate. Your delinquency is higher compared to a normal bank, but you end up having almost a similar level of charge off. I think I read a Fitch research. I think your charge off bank is roughly 48 basis point. You guys have 50, so almost the same level, but the level in delinquency loans are quite different.

Speaker 12: And it's the same for CDFI credit, CDFI credit Union, the same thing. Delinquency is higher, but the charge off rate, same or lower.

Michael Zheng: You guys tend to manage high touch customers. So what's your secret sauce? Probably want to learn more.

Speaker 14: That's what she said.

Speaker 12: Accountability to the target market definitely helps.

Michael Zheng: Education is a two-way lesson we need to learn from you as well.

Speaker 9: I think we have time for one last question here in the back.

Mark Curtiss: Oh boy, that's a lot of pressure. Thanks, Joe. Mark Curtiss from the Massachusetts Housing Partnership. This is a great discussion with everybody in the room together and I want to make sure that we focus on root causes of the challenge that Michael was talking about, which is that a lot of CDFIs who are members don't borrow and a lot of CDFIs who are not members aren't interested because of the challenges to borrowing. And I think that that boils down to primarily two things. One is the collateral haircuts and we're going to talk about that this afternoon. And the other is the CDFI credit risk issue. And I would say particularly around the risk of bankruptcy and how that permeates and affects the way that the banks look at that risk, evaluate that risk, and then punish CDFIs and other mission-based lenders because of that risk of bankruptcy.

Just one very quick example of this. We're a state housing finance agency, a public instrumentality in Massachusetts. So we basically can't go bankrupt and yet we are being assessed a risk of going bankrupt that affects and permeates the borrowing that we can do from Federal Home Bank, Boston. And we're told that that is regulatory. And I'm wondering, can we be more specific about what in the statute and in the regulations specifically requires that very conservative approach to the infinitesimally small risk of bankruptcy for a well-rated CDFI or other mission-based lender, and how much of this is about interpretation and policy and, frankly, culture?

Michael Zheng: Yes, it's partially culture. So Home Loan Bank, unlike a commercial bank, a commercial bank can tolerate quite a loss. Let's swing a number, 5%. So Home Loan Bank is zero. So essentially we are not supposed to have a loss. So our principle is to manage towards a zero-loss principle. So that's probably the fundamental reason of many conservative credit policy you have seen with Home Loan Banks. So that's probably true.

Secondly, really the bankruptcy issue, as I said, my research identified roughly nine CDFI bankruptcies in the past. Yet is no further information. No, only information I know are those names of those nine names, no research on how the bankruptcy got resolved and how quickly that got resolved. So I think those outcomes actually are very important since many things baked into haircut is really the how long I can liquidate that collateral and how I liquidate the collateral. So if there's more information available, CDFIs failure history and the case study on those failure histories, that certainly will help all the credit managers not only in Home Loan Banks, but in other equity funds as well.

Speaker 9: Thank you and thank you all for the great questions. Let's thank this panel. It's terrific conversation.

Rebecca Cohen: Now going to break for lunch, we'll resume at 1:10. If you're here at Constitution Center, you can go either way to get food. So we will see you in about one hour. Thank you.

LaRhonda Ealey: Good afternoon. If you all may find your seats, we are ready to resume the second half of our program. Thank you again for those of you joined us in person as well as for those of you who are, excuse me, joining us virtually. We do hope that you all enjoyed your lunch, your break, you had time to catch up on emails and other tasks, but moreover, especially for those of you in the room, we hope you had an opportunity to network and engage with your colleagues in between the CDFIs, FHFA, and the Federal Home Loan Banks. As many--if not all of you--know, the Federal Home Loan Bank System at 100 initiative focusing on the future, produced a very comprehensive report which had a number of recommendations to increase Federal Home Loan Bank support for housing and community development. So here to give us an update on where we are with advancing those recommendations in the report are associate director Amy Bogdon and supervisory economist Liza Pena.

Amy Bogdon: Thank you LaRhonda. All right, now they showed me which button and okay, we will turn it to the first slide and it came up with the right one. Okay. Lisa and I are here to present a brief update on the System 100 initiative. Although many of you work for one of the banks or for a member institution, I think there may be some people in our audience, possibly especially online who may be less familiar with the bank system. So I'm going to give a really brief background on the bank system and I encourage you to look at the report where there's much more information. And here's my prop for those in the room. I can see it. This is a copy of the report.

So anyway, I will start with a brief background on the system and then on the initiative. And then Liza will provide more information on mission-oriented collateral and mission-oriented organizations. And that will lead into the topics of our next panels. So the bank system was created in 1932. It was actually during the Great Depression. It was actually in the Hoover administration, not like many other institutions that were created later. And the focus was really to support the thrift institutions and encourage longer-term amortizing mortgages.

So in thrift institutions and insurance companies were eligible members at that time. The system currently includes 11 regional Federal Home Loan Banks in the Office of Finance. The Office of Finance is a joint office that issues and services the bank debt securities. And the map that you see on the screen shows the location of the banks and the headquarters for each bank and also the stars that you see show the location of various round tables and the areas of focus for the virtual round tables. Actually this version of, oh yeah, I can see the stars.

Okay, so the eligible member institutions, as I said, were initially thrifts and insurance companies, but they now include commercial banks, credit unions, and of course non-depository CDFIs, hence the focus today. That's since 2008, they became eligible. Depository CDFIs are eligible as commercial banks or as credit unions. The system currently has about 6,500 members, of which I believe about 74 are non-depository CDFIs. And about 440 are non-depository CDFIs.

The primary business of the banks is providing advances to their members and in their secondary market entity. So these are low-cost loans that must be secured by eligible collateral. And this is set out in the parameters are established in statute, most of which is housing related. Other products and services include the acquired member asset programs through which the banks purchase loans, mortgage loans from their members, standby letters of credit and deposit accounts. In addition, the bank act requires each bank to offer an affordable housing program through which they must contribute at least 10% of the prior year's net earnings.

Wrong button. Okay. The System at 100 review. So back in 2022 and 2023, FHFA undertook a comprehensive review of the Bank System and it really was the first review since probably the nineties that really was all-encompassing. We looked at different issues in between those times, but it was really tried to encompass a comprehensive look. And as you see here, there's a statement of the purpose or focus, and I want to emphasize several points about that. So one is that the safety and soundness is necessary. It is not in conflict with the mission, but it is necessary. The provision of stable and reliable funding to credit worthy members is I would emphasize the credit worthy. In addition, the support for housing and community development through their members. So these are all important components of the purpose. So advances are made to members to support housing activities in their communities as well as HP is awarded through member applicants to projects, to project sponsors.

The review was initiated against a backdrop of some concerns about the banks. So if you stepped in at the end of 2021, the bank system advances were at about 351 billion. A year later, the end of 2022, they were over 800 billion. So there's variation because of the demand, because of the very support given to individuals and businesses during Covid, the demand for liquidity had dropped markedly during that time period. And so there were fewer earnings maybe to support HP, but also there were just concerns about the system.

So turning to the System at 100 process. As part of the System at 100 FHFA held numerous public events and we had lots of opportunities for public input as outlined here. Many of you may have participated in or watched some of the events. It culminated in a report. I've already shown my prop, but maybe I should show it again. Maybe I'll get a laugh this time. Aha, it worked. Okay. But in all seriousness, the report is available on the website and is available for download. And I encourage you to read it because it really looks forward at what we're trying to do going forward, where the system is and where we're going, where we as FHFA see this going.

The report was issued last November and there are four primary sections. It covers a lot. So I'm only really going to touch a little bit on some of these topics. So one of the core areas that it focuses on, or it starts with certainly is the mission of the system. Since the creation of the system, there have been significant changes in mortgage markets from, if you go back to 32, when they thought an eight to 12 year amortizing mortgage was a long-term mortgage to now in which people are looking at 30 years and maybe twenty is not enough in certain circumstances, at least as came up in an earlier discussion.

FHFA heard differing views on the mission. So we heard different perspectives. Some people very much emphasized the provision of liquidity of and by itself, whereas others were looking at the whole focus on housing and community development, liquidity for housing and community development. Clarifying the mission is really one of these key steps that we see in implementing the report recommendations, and I'll touch more on this in just a moment.

The banks also were established to provide, so in the next category, of stable and reliable source of liquidity. So the banks were established to provide this to their members and they have fulfilled this function over their history in the 92 years of existence. And I think it's been particularly important for community-based financial institutions that have limited access to capital markets, but it is also used by other financial institutions. And the recommendations in this area of the report have focused on things like improving liquidity management priorities, the banks are not to be the lender of last resort; strengthening the bank's management of member credit risk; strengthening capital management; and prioritizing climate risk assessment and climate resiliency, turning to housing and community development. This is one area we try to focus on increasing support for and focus on housing and community development throughout the bank's business. So this is support for mission-oriented organizations and acceptance of mission-oriented collateral for advances, which Liza will be talking about in a few minutes. Mission-focused advances and the CIP and CICA programs.

Also increasing the statutory minimum for the affordable housing program, the statutory minimum contribution, and prudent engagement of the banks in pilot and voluntary programs. When we talk about support for focus on housing and community development, it shouldn't be just off to one side. Yes, it's important to have programs that can offer subsidies where needed, but it is sort of part of the whole program and the whole business is, and so the more that can be pushed out to support housing and community development through regular programs, then the more that can reserve subsidies for the areas where it's truly needed.

And the recommendations and the report follow multiple approaches. So where FHFA is committed to ongoing engagement, I think you heard the director earlier discuss this through events, through requests for input, and we anticipate more of those in upcoming months. There are also proposed actions that may include guidance rule makings, and we had some recommendations for congressional action.

So I turned to this as some key priorities, with an emphasis on the "some", for 2024. This is certainly not all of our priorities for 2024. This is sort of a selection, maybe a little bit more of interest to this group, but even it may not encompass all that you might be interested in. So there is a report implementation page on our website and I encourage you to go there and to kind of keep track of some of the things that we're working on. But as I alluded to earlier, one of the key areas we're starting with is clarifying the system mission in the core mission activities regulation to make sure that we encompass these areas of liquidity and support for housing and community development in an interrelated fashion.

Also, we have issued a request for input on core mission activities and mission achievement. And yes, I have another prop and that is also on our website. It's been out for about a month, and I encourage you to provide your comments. There's no explicit statement of mission in the Bank Act, but the mission can be inferred from other parts of the statute or from other statutory requirements. And so as outlined in that RFI, we're seeking input on an updated mission statement, measures of mission achievement and member incentive programs.

We're also looking to align member eligibility requirements, including requirements that are applied on an ongoing basis so that members are continuing to have a connection to the mission. We expect to have guidance to address some barriers for non-depository CDFI members. And so we are looking forward to all your input here today. Other areas include streamlining affordable housing program requirements and we also expect to hear more. I would like you to expect to hear more in the upcoming months about these and other topics as well as those that Lisa will be discussing. One of the other things the agency has already issued an RI on addressing Cooperativa membership as CDFIs and clarifying what is in the regulations on that. So I will turn it to Lisa.

Liza Pena: Good afternoon everyone, and thank you, Amy, for the introduction. Like Amy, I will be providing a quick update on some of the System at 100 actions that the division of Bond Regulation is taking to address the recommendations from the System at 100 report. Specifically, I have three avenues to increase the Federal Home Loan Bank's engagement with mission-oriented organizations. Actions to enhance pledging of collateral with a strong connection to the mission of the federal home bank system and strengthening member risk management.

Similar to the topics that Amy covered for the topic of increasing Federal Home Loan Bank's engagement with mission-oriented organizations, FHFA will be releasing a request for input soliciting public input to assist FHFA in developing a supervisory framework that better positions mission-oriented organizations to help advance the Federal Home Loan Bank's mission, including identifying any needed changes to the current FHFA guidance. This request for input would also inform the parameters that the mission-oriented collateral programs should have, so we can incentivize members to pledge collateral that is mission-oriented.

This request for information will also seek input about the products that better serve mission oriented organizations and other specific considerations for lending to these institutions. Those are the details that I will provide today. That is ongoing and you'll hear more about these in the near future. We encourage the public to please provide comments when available to do so. We also have ongoing work on different options for establishing mission-oriented collateral programs. And again, this is to incentivize members to pledge collateral that enhances lending in supporting of housing and community development.

Finally, the Division of Bank Regulation completed a draft of the member credit management guidelines. This advisory bulletin provides guidance to the Federal Home Loan Banks on ensuring a sound member credit risk management framework. It is intended to memorialize FHFA's long-standing expectation that the Federal Home Loan Bank's underwriting and credit decisions should reflect the member's financial condition and not rely solely on collateral securing their credit obligations. That's all I have for today. Oh, sorry, I forgot to, I didn't have the menu. Apologies about that. Do we have some minutes for questions? Okay, Rebecca?

Rebecca Cohen: Five minutes.

Liza Pena: Oh, we have five minutes. Oh, okay. Sorry. Any questions?

Speaker 19: Yes.

Peggy Hamilton: Hello. Peggy Delanois Hamilton, Federal Home Loan Bank of Pittsburgh. You mentioned an advisory bulletin. When can we expect that?

Speaker 17: What's that? Very, very soon. It's coming. I know you have heard me say that before.

Dave Porterfield: Dave Porterfield, the Advisory Council of the Federal Home Loan Bank of Chicago. I'm curious, you're going through basically looking at the mission of the system it looks like. Do you expect that then the individual banks will create their own mission based on that or just follow that mission? I'm just curious the procedure, what you're thinking about that.

Speaker 16: Thank you. I think it's setting forth the mission for the system. So that would apply to all. It would be in a regulation just like the existing mission statement is in a regulation.

Doug Bystry: Hi, Doug Bystry with Clearinghouse CDFI. I've heard some talk about gathering data points for safety and soundness, which I understand the banks do as well as FHFA. Has there been any thought to gathering data on members' own impact of-

Doug Bystry: ... data on members' own impact of housing and community development, not through your programs, but on their own, and tracking that since it's part of your mission.

Speaker 24: I think there's a certain amount that happens through the requirements for community support, but I think there are more narrowly targeted requirements. But this is something we could consider.

Todd Hollander: Hi. Todd Hollander, Lendistry, member of the Federal Home Loan Bank of San Francisco. I've heard a lot of conflicting information about why you can't take SBA 504s and 7(a)s as collateral. That would sure give us some much needed capital if we could utilize the FHLB for that. Can you shed some light?

Speaker 17: I probably can't at this moment or in this space, but I invite you to provide comments on the request for input because that's the kind of information that we are looking to learn from the public, specific collateral and specific characteristics of the collateral that might help with the mission.

Speaker 24: Thank you.

LaRhonda Ealey: Thank you again, Amy and Liza. And now it's time for the panel, I'm sure many of you have all been waiting for as many questions have been queued and prefaced and preamble. So as our next panel is getting ready to take... Or as they take their seats in getting ready for our next panel, I'll just introduce the next panel, which is entitled, Insights on Mission-Oriented Collateral. So without further ado.

Marianne Gerrard: Thank you, LaRhonda. So it's been the hot topic already, so I anticipate there will probably be a lot of questions. So we've got a fully packed agenda. We're going to try and cover three topics, mission-oriented collateral, leveraging pilots in the collateral space, and then we'll do a little bit of a discussion with low-income housing tax credits. So we have three individuals joining us to talk about these topics today, and they'd like to just give a quick little intro to kind of explain their expertise to be on this panel.

Christopher Blair: Sure. So I'm Christopher Blair with the Community Trust and we are not Eris rated, but we do support the general getting data aggregated together similarly, but I think I wanted to mention who we are so you understand where I kind of come from. We are a CDFI that's focused on creating and preserving affordable housing. We have 40,000 units in our debt and equity programs in 42 states, as well as District Columbia, Virgin Islands, and Puerto Rico. We, since our inception 25 years ago, have originated or purchased on the secondary market, 415 affordable housing loans, totally over $950 million and 95% of those have been loans on low tax credit properties.

The partial premise of our founding was to be alternative to Fannie Mae and Freddie Mac and providing unfunded Ford commitments and secondary market purchases on loans on LIHTC properties. Obviously, 25 years things have changed in the market, but our founding premise kind of remains with us today. We have been a member of the Federal Home Loan Bank of New York since 2013, and in aggregate have taken $213 million of advances since we've started our first borrowing in 2017. So I look forward to the discussion today. I think CDFIs are really partners in the system since we all have really expertise in developing financial products.

Sean Mulroy: Good afternoon, Sean Mulroy with the Federal Home Loan Bank of Chicago that currently manage our member credit teams responsible for the financial underwriting of our members, banks, credit unions, CDFIs. Prior to that role, I was head of our collateral evaluation and haircuts team, so I can talk about both sides of the coin.

Cindy Holler: And hi, I'm Cindy Holler. I'm the CEO of Community Housing Capital, which is based in Atlanta. We are a 25-year-old CDFI. We are rated, we got rated both by S&P and Fitch, and high investment grade, I may add. We also have been members of the Federal Home Loan Bank of Atlanta, proud members by the way, since 2008. And we have taken $14 million worth of advances from the bank and have deployed about $5 million worth of HP grants. So we continue to explore with that team a lot of great programs that they can offer and we continue to march down and try to figure out how to use them.

Marianne Gerrard: Thank you. So we're going to kick it off with the first topic, which is mission-oriented collateral. So at a high level, we're going to go around and have each of you talk about what does mission-oriented collateral mean to you? And I think, Cindy, you want to kick it off?

Cindy Holler: Sure, happy to. I re-pondered that question again last night in preparing for this. And if affordable housing and community development is our mission, then we really have to consider sort of all asset classes in this. And Christopher and I talked, and he's going to focus a little more on multifamily, I'm going to talk a little bit more about single family, which by the way is about 70% of the assets that are in the United States are single family assets. So I think if we're going to do community development, we really need to look at all asset classes, but particularly single family.

And so what does mission-based collateral mean for me? I hate the word low-income communities. I like to think of it more like emerging markets. If you're a member by the way of HPN, the Housing Partnership Network or the NeighborWorks network, could you raise your hand please? Just take a look. There's a reason that we all know each other. We're part of those two networks. They're nationwide networks. They're basically small community development businesses, they're trying to change neighborhoods, and they work in emergent markets. And almost all of them have not only a development arm but also a community development financial institution that's associated with them that originates mortgages to first time homeowners in emerging markets where the credit scores are probably going to be lower than you would like, but we have found as these two networks, that the losses that these CDFIs experience are very, very low, very low.

And we need to get that word out to you all because I think we can be as CDFIs sort of the retail to those folks. So if you ask me what mission-oriented capital or collateral looks like, I think there's some real opportunities to look at this, AMA guys, say it with me, it is the Acquired Members Asset program and really put that to work in our communities. Some of the banks are doing it now. I think we could be doing more of it. I think that we could be using unsecured lines of credit to CDFIs to do warehouse lines of credit to some of our members.

Dan Ellis is sitting over here. He's a developer at NHS of Baltimore. He has changed West Baltimore, go up and see it, by rehabbing homes there using our money, but he constantly runs out of money when he's trying to originate mortgages to the home owners. So how do we combine some of these programs that are targeting emerging markets, creating community development, and let's relook as a system in the Federal Home Loan Bank system about how to make those consistent with the people that are living in those neighborhoods, not necessarily what the highest and best credit standard is? Let's look at that. That's what mission-oriented collateral is. And I think the CDFIs can actually help the other member banks get there. So that's my too long response, but here we go.

Marianne Gerrard: Well, thank you. No, I appreciate it. Sure.

Christopher Blair: So I'll take this more, my comments will be really targeted to multifamily affordable housing, but I would say in multifamily, I think many of you know it, it's really divided between capital A affordable and lowercase or little A affordable. Capital A affordable is generally defined as properties with regulatory agreements, restricting units or households making 60% AMI or below. There's many different programs, but the most common are Project Based Section 8 and long losing tax credit. Little A or lowercase affordable is a little bit more of an open-end definition, but it's generally thought of as naturally occurring affordable housing to residents making 60% AMI or below in the multifamily space.

I do think that the Federal Home Loan Bank system should support both, but really should really target capital A affordable housing types, loan types, collateral types at first. It's an easier definable definition. It's also more consistent performance data and it's also a large enough market in its own right. There's over 3 million units under regulatory agreements in the LIHTC program or Project Based Section 8, and there's other programs beyond that. I also think that we're going to talk about loans on probably more standard 9% transactions later, but CDT, we've mentioned a number of different collateral types and multifamily affordable housing we think should be eligible collateral throughout the system, and we were surprised wasn't. The first is unrated private placement tax-exempt bonds on 4% LIHTC projects.

When LIHTC is discussed, it's pretty much discussed both as of right 4% LIHTC credits with tax-exempt bonds and then competitive 9% credits with taxable mortgages. In a given year, it can vary, but in generally half the LIHTC units created are under each program and the collateral is the same with the first mortgage, except obviously legal documentation with the tax-exempt bond is much different. I think there's actually even more secondary market information on 4% tax-exempt bonds since it's a much larger market. It's a little hard to find certain data, but it's generally thought to be three times as the permanent tax-exempt bond market is over three times as large as the loan market and 9% transactions, and the bond sizes are just about the same.

And we'll talk a little bit later on, but typically 9% loans when they're sold, they're sold in pools and 4% bonds have been sold individually, so there's just more data on it. The second collateral type that I was still surprised wasn't always eligible is second mortgages on multifamily affordable housing projects throughout all the banks. I know some banks permit second mortgages on multifamily but prohibit CDFI members for pledging such. And there's growing capital gaps in affordable housing that you probably all hear, and commercial banks have difficulty providing second mortgage, particularly the larger ones due to capital charges. So I think that the CDFIs could work together and kind of derail, create a credit parameters or credit box for second mortgages, although I do acknowledge the secondary market information is more limited on second mortgages and the valuations are much more nuanced than first mortgages.

Marianne Gerrard: Thanks, Christopher. Sean, do you want to add in?

Sean Mulroy: Maybe a little shorter. So the Chicago Bank approach is generally one that is all encompassing of both aspects of the mission, to provide reliable liquidity to support affordable housing and community development. I think those concepts are not mutually exclusive and fundamentally we view mission-oriented collateral as all acceptable collateral that is pledged to us, whether that be T-bills or low-income housing tax credit loans. I think in Chicago we endeavor to provide a broad suite of collateral in which members can lever against, and we're constantly learning. I think we can maybe jump into some of the valuation considerations later on, but our philosophy is all encompassing.

Marianne Gerrard: Thank you. So I guess another big question in this space is, so what can FHFA do to help in this mission-oriented collateral space? Cindy?

Cindy Holler: Well, one thing we've got to say it, guys, put the banks and the CDFIs in the room and let us figure out how to standardize the haircuts on collateral. They're not even. And they're not in single family space, they're not in the multifamily space. And I would not try to impose a regulation on it right away, but let's force us all to get in the room and really talk about it with real data. I think it would help a lot because we've really been doing a lot of surveying about how different those haircuts are and it's reflective of some biases of our industry. So that's one thing.

I think also, I think it's really important to really think about publicizing some of the successes out there and let's do that together so that it doesn't look like it's just publicity for one or the other. So I'm going to defer to my colleagues on some other things that they might want.

Marianne Gerrard: Christopher?

Christopher Blair: Sure. I would just start with today more affordable housing knowledge in the system, particularly the collateral departments of the Federal Home Loan Banks, but as well as the field examiners of FHFA. I think that would help create some collateral to programs, but just as importantly, the treatment of collateral is almost as important because we can talk all day long about mission-oriented collateral, but if we can't improve the treatment and that's higher base margins, lower haircuts, however you want to define it, and also better mark-to-market treatment, it will not make sense for members to pledge such collateral. So those are really the two big points.

And other, just to focus also on Federal Home Loan Banks, maybe on collateral programs. I think grants are great, low-subsidized advances are impactful, but the core of the federal bank system is collateral and I think we really need as a system to kind of improve it.

Marianne Gerrard: Thanks, Christopher. Sean, do you have anything you want to add?

Sean Mulroy: Yeah, I think I would echo both of these points and I think there's a lot of salience to both of them. I think kind of the togetherment that we're having here and trying to solution some of these issues is wildly beneficial. Again, I would welcome, I think the work that the agency is doing with the RFI and mission-oriented collateral will help to spell out a path towards what Cardinal North should look like for many of the Home Loan Banks. I don't want to skirt the issue. I want to acknowledge that there is a difference in approaches across Home Loan Banks. I obviously can't speak to their collateral practices, but I think the information sharing between not only the FHFA, the Home Loan Banks as well as the CDFI members in which we support to be really beneficial, and Christopher and I have been maybe talking through the LIHTC issue for about a year now.

I think we're making some substantive process in that arena, but a lot of that has been information sharing. Christopher is educating me on some issues that I was unaware of or not privy to. And I think I hope that I've been able to educate you and even the examiners that come into the office on some of the complexities and nuance of not only the deals we see, but how do we navigate some of the regulatory nuance? I think the RFI is a good first step, but in certain areas we potentially need additional guidance on latitude in which we can operate.

Cindy Holler: Can I?

Marianne Gerrard: Yeah, go ahead.

Cindy Holler: Could I build on that? Because I think that's a really important point. We're a national CDFI, we lent to 240 NeighborWorks organizations around the country. So we're really the retail and the Federal Home Loan Bank system I feel like is the wholesale. And if we could work in a very cooperative way with the other members, we can use the networks I just pointed out to get the money out to the ground where capital doesn't go. There's got to be some standards up here. We can do the funky stuff, but that only happens if we're really talking to each other in forms like this. And I'm really, really hoping that this doesn't stop. We've got to go back to our banks like Atlanta has done and bring everybody together with the CEO and sit down and say, "We're going to make something happen here." That's got to happen.

Marianne Gerrard: Thanks, Cindy. So switching to the second topic, leveraging pilots, FHFA issued an advisory bulletin in November of last year, which provides guidance to the banks about our FHFA's expectation about establishing a framework for essentially setting up pilot programs. So I will say one important note to highlight with respect to pilot programs is that each one must conform to applicable statutory, regulatory, or other legal authorities. But in this section we wanted to kind of focus discussion kind of as ideas for potentially leveraging pilots in the context of the collateral space, so where can we potentially use pilots to try things out? So Sean, we're going to start with you this time, talk about it from the FHL Bank of Chicago perspective.

Sean Mulroy: Yeah. And I think I'll start my points kind of off of my previous comment of I think the guidance that was provided in the AB on pilots has been super beneficial to the Home Loan Banks and our ability to really rethink some of the issues that many of our CDFI members have with respect to collateral and how we can meet the unmet demand in an innovative way. So FHFA has detailed for us a nice playbook by which we can follow, and we are now moving with Gusto and trying to support some of these pilots specifically in the LIHTC space. And then as we look further into advanced solutions as well, it really has been a positive effort on our end and how we are thinking about, and really giving us the latitude that I described, to innovate in ways. So we're pretty excited about it.

Marianne Gerrard: So, Cindy, I think you had a couple ideas you wanted to-

Cindy Holler: Yeah, a couple thoughts. First of all, I know this is the collateral panel, I get that, but I think if we combine some unsecured lending with some collateral lending, we could be really, really powerful. I think we should be lifting up the work that the Chicago and Dallas Bank did on the Canopy program and the Community First program, that is unsecured capital going to the CDFIs. So we can imagine collateral-type programs with our customers, but we need that capital to be unsecured. And the Atlanta bank has been working with us on this idea and tossing around with their senior leadership, and thank you.

Underneath that, if you give me an unsecured line of credit so that I can lend to the 81 CDFIs that are part of the NeighborWorks network, they're going to originate mortgages with it and I'm going to bring those mortgages in and then maybe we can start using the Acquired Members Asset program to get it off their books and revolve it. So this is where grants stop at the moment that you give them out. This is a way to kind of complete the system and revolve that capital all around the United States. So that to me, and as we discussed with the Atlanta Bank, we can't do 25 pilots. We're going to have to pick a couple and maybe each bank picks a couple and we learn from each other because you can't do R&D all over the place, and that was very wise. So let's sit down and figure out what makes the most sense for that bank and then definitely compare notes.

Marianne Gerrard: Yeah, definitely one of the key parts of the pilots is what can we learn from the implementation of them? So, Christopher?

Christopher Blair: Yeah, I would encourage everybody to read the CDFI working group letter that went out last week that has information on pilots as just Wells Collateral, so I want to give a shout-out to that, and Joe Nery who led that. So I do think the two pilots that interest me is the ways to use retained earnings above kind of statutory HP contributions to kind of collateralized pilots in some first loss position. What particularly interests me that I think Cindy kind of hit on is the way to recycle that capital I think would be very meaningful because my expectation of affordable housing pilots are done correctly, you'll find that the system will not lose money, and that capital will grow.

I think second of all, I think AMA programs could be very impactful in expanding them to multifamily affordable housing. I read the Federal Reserve Bank of New York put out a study and showed that CDFIs, including depository CDFIs, originated $8 billion of multifamily loans in 2022. What particularly interests me in AMA, and I think the structures that have been talked about, is where selling members would retain kind of a top loss or B piece or some credit enhancement in those loans. And I think that would one, protect the Federal Home Loan Banks, but second of all, it could put some asset management functions on the multifamily loans, but I'm not really sure the Federal Home Loan Bank system has really the capacity or the expertise right now.

But I want to end on one thing. I want to be clear on what pilots are and what our desired outcomes are before we really dive in as a system. So the pilot, a definition is an initial trial that helps an organization learn how a large scale project might work in practice. I want to be clear that a goal of a pilot is not a one-and-done program, but something that should be made more permanent and larger if it's successful.

Marianne Gerrard: Amen. Yeah, and I would agree that would be the goal is this is the testing of the ideas to see what works and what works well, what doesn't work as well. I know you've kind of touched on this a little bit already, but in the space of leveraging pilots, is there anything we want to add about what FHFA can do to help?

Cindy Holler: Okay, so this is a compliment, but it's not going to sound like one. Just be clear about that. I never want to have this meeting again. Never. Because the next time we get together, we should have done something. So let's take the reports, the ideas, let's get in rooms, let's hash it out, and make something happen. So help us move it along.

Marianne Gerrard: Well, I think the director was very clear this morning what her expectations were on [inaudible 03:10:06].

Cindy Holler: I heard that and I'm affirming that.

Marianne Gerrard: So yeah, we heard that as well. So Christopher or Sean, anything you want to add at this point?

Sean Mulroy: Yeah, I would maybe again echo Cindy's points, but kind of bringing things maybe back to the Community First fund in a way, which was maybe the pilot program before the pilot program was originally incepted. And for those who maybe don't know, the Community First one has been in operation for a decade at this point. We've incurred zero credit losses and it's been wildly impactful not only to our organization and understanding CDFI's business models, but also to the CDFIs in which we are serving through that program. And I would encourage all Home Loan Banks as well as the agency to be willful participants to engage on similar programs just given the knowledge that we have in the Chicago bank and how meaningful and impactful that program has been.

Christopher Blair: Sure. So I'll add just two points. I think that FHFA could encourage the federal home banks to leverage off each other in pilots. The ideal pilot for me for a collateral pilot is where many Federal Home Loan Banks would come together to create more of a national and larger scale pilot. But if that can't happen, at minimum, the federal banks share data learned on their pilots to other federal banks, so the other federal banks do not have to start from scratch and could even create maybe permanent collateral programs off lessons learned and data from other federal homeland banks.

And I also want to make a comment, and I'm not sure this really has to do with pilots, but just a general comment on collateral in the system. Affordable housing collateral systems should be treated very similar if not uniform across the banks. And there's really no reason affordable housing collateral is treated so disparately by bank to bank because the national performance and valuations are very similar. And I think that we should really understand as a system that we're only as strong as our least impactful Federal Home Loan Bank.

Marianne Gerrard: Well, I appreciate you all sharing your ideas and thoughts of what we can do in this space. So we're going to move to our third and last topic before we open it up for Q&A. And so we're going to talk about low-income housing, tax credit, multifamily loans. I know this is probably a favorite topic of many people in this room and they've had many conversations about it over the past months or even years. So one thing I do want to know is when we are talking about the low-income housing tax credit, multifamily loans, we're not actually talking about just a CDFI-specific issue. This is a issue for other members of the Federal Home Loan Banks as well, because this is collateral that they would all also potentially have to pledge. So, Christopher, I think you're going to kick us off talking kind of about your experience in the LIHTC market.

Christopher Blair: I live on this daily, but I do want to give a couple data points that there really is no other affordable housing multifamily program that comes near the impact of LIHTC with approximately or nearly 100,000 units created or preserved annually under the program. To give a sense, in multifamily, approximately over the past 20 years, approximately 20% of the new multifamily units developed have been through the LIHTC program. It's really low-hanging fruit in the federal home bank system to improve the treatment of loans on LIHTC properties.

There's a significant amount of performance data since the program began in 1986, all sources I've seen point to LIHTC loan collateral being one of, if not the most secure real estate investment, not even affordable housing, real estate investment loan type out there. CohnReznick puts out a pretty well regarded biannual performance study on tax credit properties and has a lot of data in it. And I encourage anyone who has not seen that to look at it, but in the report it shows that the cumulative foreclosure rate on loans on long tax credit properties is 50 basis points since the program inception, and there were no foreclosures noted in 2021 and '22 in the entire program.

There's many reasons for this, but one data metric I would say is the permanent loan to cost on 9% LIHTC properties and most of the country is in the 20% to 30% range. And in higher barrier entry markets, sometimes that percentage is even lower. CDT, my firm, we have a 25-year track record lending on LIHTC properties. Our average size is a little bit below the average size in the program, which one would think maybe that's more risky, but that if you really understand the program, that's actually not the case.

Last year, it was the first year we had to book a general loan loss reserve on our portfolio of loans and it required us to go back and look at 24 years of history on our credit performance, also look at some market data, and CohnReznick has also an auditor that helped. And the conclusion was on 202 loans in our portfolio, all but four of them were LIHTC totaling $498 million. Our auditor supported a general loan loss reserve of $568,000 or 11 basis points. So even I do want to mention the foreclosures in the program is always a concern, but there's very few of them. But the ones that have, you can actually have pretty substantial recoveries.

We are in the process of foreclosing our first foreclosure in nearly a decade. It's a 34 unit property in Little Rock, Arkansas, 15 years in, small sponsor key principal, passed away, spouse couldn't really operate the business, and the loan really has a negative DCR. Think about negative DCR negative NOI. It's been a long foreclosure process. I won't say foreclosure process does not take long, it does, but we are at the end of it and expect in the next month, maybe two months, how these things go to have a full recovery. When I say full recovery, principal interest, default interest, small prepayment ability, and all fees paid on that loan.

And we could actually make a significant amount more money on that if we wanted to take away the affordability restrictions that the lender can. However, we have a mission and we're going to keep it affordable as long as we're just made financially whole. So that gives a case of where you have probably a worst performing loan with a negative DCR that you can actually have a full recovery. Obviously, that's pan out in the next month, so I'll be in trouble if it doesn't, but I wanted to mention that, but I know that's just credit characteristics.

I also want to talk about the investor interest in LIHTC loan collateral. LIHTC loan collateral has a lot of features, but two features that market rate loan collateral doesn't have is there's a lot of mission-based capital out there these days, and there's also CRA needs from banks. So in addition to Fannie Mae and Freddie Mac's significant involvement in loans on losing tax credit properties, you also have private investors, banks, insurance companies, and pension funds that are all in the new origination as well as been in historical secondary market.

As I mentioned, CDT is also in the new origination, but we also in the secondary market, we've purchased over 80 LIHTC loans since our inception. The issue over the past 10 years is people figured out this is a great collateral and they don't really want to sell it. And you also had in the past 10 years, the CDFI Bond Guarantee fund has come out. It's issued $2.5 billion of bonds to CDFIs and a portion of that has been collateralized by affordable multifamily and a portion with that, I think a good amount has been LIHTC loan because it matches well with the bonds, and that's really allowed CDFIs to retain loan-

Christopher Blair: ... well with the bonds, and that's really allowed CDFIs to retain loans on their balance sheet that they might've historically had to sell.

And you also have, Freddie Mac has really improved its secondary market platform for LIHTC loans. In the past seven years, they've taken 5.9 billion of secondary LIHTC bonds through their M-Deal structure, and 1,000,000,060 of taxable 9% loans to their Q-Deal structure, and that's the past 10 years.

So, there's a significant amount of investor interest. It's a very strong credit parameters, and it also has really... It's institutional quality loan collateral. Because you have institutions in the ownership LIHTC ownership structure, and remember, these are all substantially rehabilitated or, a lot of times, new constructed properties, and one would expect that the system would treat this as the gold standard, the best collateral with higher base margins and better market to market treatment, and that's not been the case to date. But it will need to be the case if we want to get more LIHTC loan collateral in the system.

Marianne Gerrard: Thanks, Christopher. So, Sean, turning to you, can you kind of talk about from the Federal Home Loan Bank perspective about how you deal with collateral, and specific the LIHTC?

Sean Mulroy: Yeah, and this is maybe where I lose the room. I want to be forthright about the performance aspects of LIHTC, LIHTC performs well. There really is not much debate nor concern on my end about how well these assets perform.

One thing that I do want to clarify, at least, in the Chicago Bank approach, and again, I cannot speak to the other Home Loan Bank's approach to valuing this, we assign the same haircuts that we would to any other member. If a bank is pledging those LIHTC loans, they're going to receive the same margin as the CDFI would, as an insurance company would.

But the scenario in which we are managing to internally is more a function of the liquidity piece, and that's secondary market liquidity. And one of the reasons that Chicago maybe has a more informed opinion on it, we're currently, we assign a 15% discount on top of our multifamily haircuts for LIHTC-specific collateral.

And the reason we've done that is there's a couple of reasons. One, we do have a concentration of these assets. I think some of the other Home Loan Banks that might not have a concentration of these assets have been fully endeavored to contemplate the structure, or really, there hasn't been a demand from the membership, so they've been agnostic to it in ways. Chicago, we have a generally formed opinion, I think it's evolving. And the liquidity piece, I do want to kind of hit on this, to Christopher's point, as it performs so well, that price discovery in secondary markets is challenging to ascertain.

And part of the guidance that we have received from the FHFA is that we need to account for liquidation costs, and the base assumption is that we are going to have to sell this asset in a stress scenario and that our haircut should be sufficient to cover all of the liquidation costs, all of the market risk, and any other idiosyncratic factors that we determine to be salient in the evaluation of that asset.

I think, again, we welcome the opportunity to leverage pilots in a new way to support this asset class, because in my humble opinion, for what it's worth, I do believe that these are transformative assets in the affordable housing space and should be something that we continue to support. Again, though, the performance piece, I would, say is more closely associated with eligibility. Right? And beyond that, is it performing, is it not eligibility binary, yes or no? The liquidity piece is what really drives some of the haircut, at least, at the Home Loan Bank of Chicago, and how we think about evaluating it further.

The valuation treatment, we could talk about... Christopher and I were joking, we could have a whole day's symposium on how we value these mark them, et cetera. Price is price. It tells me something, it doesn't tell me everything. I think we make some adjustments on pricing assumptions given the strong credit performance of the asset, but it really is not substantive enough to overcome some of the hurdles that CDFIs face and need for us to address and continue to support this asset more holistically.

And a long way of saying, I think there are challenges, for sure, I don't want to skirt them, but it is something that, I think, we can manage and some of which comes back to maybe a more philosophical approach to risk and what risk means. Risk does not mean, oh, we should not do something. Everybody in this room manages risk on a day-to-day basis. Not all risks are created equal. And our approach to managing risks needs to be dynamic.

And I think LIHTC and kind of how we're working to support it more holistically at the Chicago Bank is a prime example of how we're rethinking some of these risk management frameworks to not only appeal to some of the safety and soundness concerns from the regulatory side, but also, to meet that unmet demand on the CDFI side, to ensure that we can continue to support this collateral.

Because ultimately, right, there is an advance on the other side of this asset, and our mandate is to incur zero credit losses, so we kind of got to get it right in a lot of ways, but we're excited and we welcome the opportunity to continue to collaborate, not only with us on the panel, but everybody in the room, on how we can make that a reality.

Marianne Gerrard: One thing that occurs to me hearing both of you talk about the liquidity piece, right, the secondary market, is that maybe we need to think about a conversation about a little more nuanced view of, is it a demand or a supply issue in the secondary market for liquidity, right?

It's not a lack of... Generally, it's the lack of price discovery. Right? You don't have people that want to buy it, but hearing both of you talk, it's more about nobody wants to sell it.

Sean Mulroy: Yeah. I wouldn't even say that nobody wants to buy it. There would be buyers.

Marianne Gerrard: Yeah, that's what I mean. In this case, there's no buyers.

Sean Mulroy: Nobody wants to sell it.

Marianne Gerrard: Yeah.

Sean Mulroy: It performs so well. It's really core to the mission, and I'll let Christopher speak to that.

Christopher Blair: Yeah. CDT, we're very interested buying secondary market, but there's been very few secondary market sales. There's been some consortias that have sold kind of to their members. But I think that you've seen that people, as I mentioned, don't want to relinquish themselves of this good quality collateral. What's always confusing me on the system is, other than the longer terms, because LIHTC loans are, typically, the standard is 18 year terms, never short or 15, some are 30, you should have the same buyers for a market rate loan collateral.

So, that should be the baseline, and then, it should be... But it has all these other characteristics that should make it stronger. But it seems that's not the way the system really looks at it, or can or does look at it.

Marianne Gerrard: Cindy, was there anything you wanted to chime in with?

Cindy Holler: I really agree with this conversation. I would just say, we even see some bias against LIHTC when we're just pledging it as collateral on in advance that we're guaranteeing. Okay. And I think there's still a misunderstanding system-wide about what the low-income housing tax credit program is. And I still feel like people are getting tripped up by the word low-income. Okay.

So, I think there's still more work to be done. I'll just leave it at that.

Marianne Gerrard: Yeah. Well, thank you. We're coming up in about 11 minutes left to the panel, so I think let's open it up for questions. Yeah. In the front here.

Dave Porterfield: Dave Porterfield, Chicago Bank, chair of the advisory council. Sean, you said that there can be no risk, or zero loss, I think, that's what you said. Why is that? I mean, it seems like every business that I know of, budgets for loss. Is this a federal requirement that could be changed? I mean, if you budgeted for it, you would have something there to absorb it if it needed to be. What's the reason for that?

Sean Mulroy: So, again, coming out of 1932, the Home Loan Banks, in all of our history, we have never incurred a secured credit loss, secured, the key phrase there. We take losses on other things. One of the ongoing standards, whether it be cultural regulatory-driven, is the expectation is that we are not to incur a secured credit loss.

And part of the way that we manage that is through the credit underwriting piece that Michael was speaking about earlier, as well as, the collateral practices to ensure that we have a margin against all the dollars that go out the door and that the assets are fully secured, or securing that advance. Excuse me.

Dave Porterfield: So, when you say there's a margin, there is a margin somewhere in the budget for some loss, is that...

Sean Mulroy: We do not have a reserve for advances.

Dave Porterfield: Okay. That's what I need to know. Thank you.

Marianne Gerrard: We've got a question in the back.

Tony Lopez: Sean, quick question. Tony Lopez, Raza Development Fund. So, when a CDFI pledges collateral to the bank, it's usually on an LTV of 80% or less. And then, you do another haircut of 30%. So, that's putting your collateral, or your risk, basically, 50%.

Are you saying that there's that much risk on a transaction that you need a 50% haircut on the overall transaction to feel that there won't be any risk on the overall transaction?

Sean Mulroy: So, maybe, let me ask a clarifying question just so I'm understanding your example. You've lent out 30, or a loan 30% LTV, and then, you pledge that to us. We assign a 80% margin to it, correct?

Tony Lopez: Yeah.

Sean Mulroy: The conjecture. Right. The piece of collateral, in and of itself, is the loan. We are perfecting our security interest in the loan. We have no desire to foreclose on that loan and seize the underlying collateral. And in a liquidation scenario, we are going to be looking to sell just that loan. So, just your 30% of the value of the underlying collateral.

So, we're generally agnostic to the LTV, high LTV loans, might, in some instances, at the Chicago Bank, incur an additional discount, but the margin in and of itself is to account for the liquidation risk, the volatility around market price and any brokerage fees that we could incur selling that collateral in the event of a default. Does that answer your question?

Tony Lopez: Yeah.

Sumit Advani: Sumit Advani, treasurer at Low Income Investment Fund. You talked about all your collateral being pledged. What if we reboot it with you instead? Would that give you... Like, that allows you, if there's a liquidation on the CDFI, to actually have the collateral a lot quicker, liquidated a lot faster?

Sean Mulroy: I wish I could answer your question better than I probably can. I don't believe I have an informed opinion on [inaudible 03:30:05] collateral to us.

Marianne Gerrard: Yeah, that's an interesting question. I probably have to talk to somebody in OGC legal to make a determination about the feasibility of that.

Rebecca Cohen: We have a question from the online community. One of the question is about FDIC's deposit insurance fund. And could the FHFA consider establishing a backstop loan fund with funds from interest held in the bank's retained earnings, which are ring-fenced?

I'm not sure if this is a question for Marianne or for the panelists to weigh in on.

Marianne Gerrard: Yeah. So, essentially, asking the question, can FHFA establish a fund similar to FDIC as a backstop? I'd have to consult with Joshua back there, and OGC to opine on that. My guess is no. Over on the far end.

Tia Patterson: Is this on? But you could encourage the Federal Home Loan Banks with the interest on their retained earnings to set that up probably, and would be really helpful, if FHA isn't setting it up, but there's voluntary money in retained earnings in each of the Federal Home Loan Banks and they wanted to set up, and a reserve or an insurance, because there are some Federal Home Loan Banks that are thinking of things like that. And encouragement from their regulators would probably go a long way.

Marianne Gerrard: Yeah. So, if I am hearing you correctly, more of a direct encouragement is your suggestion to the Federal Home Loan Banks from FHFA?

Doug Bystry: Hi.

Marianne Gerrard: Yes.

Doug Bystry: Doug Bystry with Clearinghouse CDFI again. I've kind of been confused about the role, be it formal or informal, between the FDIC bank insurance fund and the Federal Home Loan Banks. Would one of you care to explain exactly what that relationship is?

Sean Mulroy: I can give you maybe a high level overview, but our relationship with FDIC is maybe twofold. They're, obviously, the prudential regulator for many of our depository institutions, so we interface with them for points that Michael raised earlier, about regulatory exams and any member credit-related concerns.

In a liquidation scenario, obviously, we have much more experience in dealing with bank failures than we do with CDFI failures or insurance companies. The takeout has usually been, and this is not necessarily to say that this would be the circumstances in all cases, but in almost all instances, somebody might need to fact check me. I believe in all instances for bank failure, the FDIC will repay our advances as we relinquish our lien against the collateral that it was securing those advances.

And then, the FDIC, in their capacity, could look to liquidate that collateral on their own, take it and do what they will to try to protect the insurance fund. But that is the nature of our relationship with FDIC.

Doug Bystry: That's not a formal agreement or is it formal?

Sean Mulroy: There is no formal agreement, to my knowledge.

Doug Bystry: Thank you.

Speaker 26: So, my question is for Marianne.

Marianne Gerrard: Yes.

Speaker 26: So, we have two panelists, multi other people have asked this question and a bank, stating that we really need to get in a room and work this out together. How does that happen?

Marianne Gerrard: So... Josh was going to chime in.

Joshua Stallings: Yeah. I think, partially, you are in the starting of that right now. We’re in the room. So, I think that we’ve been in the room once before, we’re in the room again. I think that we're at a point now where the agency has pulled everyone together here because we think that we need to make progress. It's not just from our perspective, it's from the bank's perspective and the CDFI's perspective.

I think we all are in agreement on that right now, that this is a topic where we can find ways to improve the relationships and find points of improvement. So, I think that the path moving forward is the continued relationship of individual CDFIs with their individual banks, but it's with the banks across the board working together and with the FHFA to make sure that we all come to a common understanding of how some of these things should be treated.

Because I think that, obviously, the FHFA has been a part of the history of where we are, be that the more conservative treatment on some of these things, and we also think that we have to be part of the solution for it.

That said, I will always caveat everything with, we always have to do everything in a safe and sound manner. And I'm going to sit back down. Thank you.

Marianne Gerrard: Yeah. And I would just add, and particularly, in the LIHTC space. We have an ongoing kind of project that we're working on internally, and we've been talking with specific individuals who have expertise in that space, internally, externally with some of the banks, some of the CDFIs, to help inform that project.

Christopher Blair: Marianne, with that, is there any thought of a safe harbor provision on certain types of collateral including LIHTC just...

Marianne Gerrard: So, I'd say everything is on the table for discussion. We have not made any determinations of exactly where we're going to go. But that is what's on the table for us to consider. There's no more questions?

Joshua Stallings: Looks like we've got all the collateral issues solved. That's good.

Christopher Blair: We'll end on one, is I do think that we provided a working group letter on LIHTC loan collateral and all other things, but I do think goals for certain types of collateral, so the system can keep track would be very beneficial.

I think, one, just understanding how the system is supporting collateral, but also, to help us keep track of things need to be adjusted if we're not meeting certain goals.

Speaker 25: So, I have one more question from the Zoom. Can someone speak to how having a more robust secondary market for these assets helps the loss issue from the bank perspective? That's a question for Sean, I think.

Sean Mulroy: Yeah. So, I wouldn't actually conflate those two issues. The price discovery in the secondary market speaks to underlying value, right, and what we can discover and ascertain and we can measure the volatility of the price of those assets with more certainty.

I'm a free market economist, the more data is always better data, and the more certainty we can have around the observable price, the better my assumptions get in understanding what I could liquidate this asset for in a stressed environment.

So, the more data, the better. That's great. The credit loss piece is kind of, again, maybe more attuned towards general eligibility, can we accept it? Can we not?

Speaker 25: I think we have one more question. We have about five minutes left.

Marianne Gerrard: Yep. Mark.

Mark Curtiss: Yep. Thank you. So great discussion. Learning a lot here. I want to challenge the premise that liquidation is the right outcome, even in the infinitesimally small circumstance that there's a bankruptcy of a CDFI or another mission-based lender here.

Just because this asset class, in addition to having extraordinary performance, is also backed by so many actors in the mission-based lending space who have an interest in doing the work to keep these loans serviced and performing over time, and we've been doing some brainstorming about this concept that, maybe, there's an alternative that is better for the banks, and also, better for the CDFIs an' other mission-based lenders, that includes another lender taking over the advances and the servicing of that portfolio in order to avoid a liquidation, in order to avoid this incredibly deep additional haircut that's applied in these circumstances.

And we've got a lot of national and regional CDFIs that would be interested in servicing these kind of portfolios. It's part of their mission. HFAs would also be interested in servicing that kind of portfolio. I think it solves a lot of problems that are created here because of that assumption that a CDFI goes bankrupt and you've got a LIHTC portfolio that isn't performing, and then, you have to liquidate and there's no other option.

Sean Mulroy: It's a very fair point. And the Chicago Bank is wildly open to challenging that premise of a liquidation scenario. I want to lead the horse on a few items, but we're challenging that premise, and we look forward to engaging with the HFA on what we have planned there.

Marianne Gerrard: Another question over there.

Tia Patterson: Tia Patterson. So, I want to go back to your associate members, and the amount of collateral that an associate member has to put up, it's basically a dollar for dollar. So, if I got to put up a dollar, why would I ever borrow a dollar?

I mean, so as we're thinking through collateral, not just for your members, but your associate members who are state or local housing finance agencies, I'm asking this for the California Housing Finance Agency, but it makes it very difficult for mission-driven public lenders to ever utilize your product. And if you go back to what your core mission is, housing and community development, that's exactly what their core mission is, housing and community development.

And so, the ability to really think through how you're going to deal with an associate member who as, I think, Mark said, is never going to go bankrupt, some serious thought needs to be given to that.

Marianne Gerrard: Yeah. And so, I would just say that, I know we're talking mostly about non-depository CDFIs today, but, obviously, when we talk about mission-oriented organizations, that's a little bit of a wider net, and housing associates would in that bucket in the discussion for what else we can do in that space as well.

Speaker 25: We have time for one.

Marianne Gerrard: We got time for one more.

Speaker 25: Two more.

Marianne Gerrard: Two more.

Speaker 25: Yep.

Damon Allen: Hey, I'm Damon Allen, community investment officer, chief marketing officer at the Federal Home Loan Bank of Cincinnati.

One thing I do want to say and reiterate what Michael said and what Sean said about the collateral issue, the banks have an appetite to be more accommodative, but we do have restrictions, and until those restrictions are dealt with, we're not going to step too far out of our comfort zone because there are ramifications.

So, we'll get finings, we get examined, et cetera. So, I do want to reiterate that we are trying to be accommodative, but there are some constraints on us. I just want to make sure that perception that we're not accommodative, or not willing to be isn't out there.

Marianne Gerrard: And we are looking to provide additional guidance to give the Federal Home Loan Banks a little bit more clarity on expectations. That is on the to-do list.

Joshua Stallings: And we're also happy to look at any proposals you might have, Damon.

Damon Allen: Absolutely, we got some.

Marianne Gerrard: Yeah. Right up front.

David Gouwens: David Gouwens. Just to follow up on the comment from over there. We're talking about mission-oriented collateral and you've got a great panel, but there's nobody up here that is talking about any of the indigenous populations. Whether it's Hawaii, whether it's Alaska, whether it's Native American tribes, and dealing on tribal lands. That's collateral that can't be pledged into the systems.

And like she was saying back there, we can't get benefit from... And we are members. We can't get benefit from a lot of the programs because of that issue. I'm not saying there's a quick fix, but I'm saying it needs to be addressed, it needs to be a part of this conversation and not just overlooked.

Marianne Gerrard: And I would say we can definitely add that towards the top of our list of collateral issues to look at.

Joshua Stallings: And one more piece on that, just so everyone's aware, we are having another meeting tomorrow, that a lot of the members of the Federal Home Loan Banks will also be participating and they touch on some of those topics. So, we're actually are working on some of those things as well. So, thank you.

Marianne Gerrard: And I just want to put in a plug for the request for input that we're going to put out. We want as much information or detail about, say, these specific types of collateral issues so that we can really focus our work on the things that will make the largest impact.

And Cindy, you want to...

Cindy Holler: I just want to say one more thing about that, because I think it's important. We do do lending to native CDFIs and on native lands. We pledge other kinds of collateral for that. Okay?

Now, another thing to think about is whether or not some of the other members, because we don't have unlimited collateral either, but some of the bigger members in the Federal Home Loan Banks system that do have collateral could pledge some of that with us, making loans, could be a way to solve your problem. So, we should talk more about that.

LaRhonda Ealey: Can we give our panelists another round of applause? Thank you so much for sharing your insights on mission-oriented collateral, and thank you all for your questions. They definitely... And your comments, they definitely engage the dialogue and the conversation.

At this time, we're going to take another break, our afternoon break, and we will reconvene at 2:45. So, you have about 14 minutes. [inaudible 03:45:49]

If you could, please, take your seats. You can come on up.

And welcome back. It is now time to be engaged in our last panel of the day, about innovation and new opportunities. So, without further ado, I will allow the panel to introduce themselves.

Tiffani Moore: Great. Well, this has been a great day thus far. We learned a lot, have lots of notes. I think you all have some really great ideas about the path forward and ahead.

This panel's going to really spend some time talking about innovation, partnership, new opportunities, but really want to be mindful of the go forward, and the act of what we need to do as a collective, whether it be the banks, the CDFIs, and yes, FHFA as well. So, we'll spend some time talking through that.

I'm really fortunate to have Katie and Mike, Greg and Chuck here to talk with us about that. And so, really, I think we've kind of discussed this at length, that CDFIs really have the potential for impact within the system regarding affordable housing and community investment. But the opportunities to leverage the nimbleness of the CDFIs is something that we need to be much more mindful of and think through a bit more.

So, we'll spend some time talking about that, but wanted to kind of dig a little deeper, really, talking about the partnership aspect of it first, before start talking about other pieces. So, how are the banks and CDFIs currently partnering to support affordable housing and community investment?

I'll turn it to you, Katie, to kind of talk through a little bit with that, if you don't mind.

Katie Naftzger: Sure. And I think the phrasing of that question is the key. Sometimes, we talk about how are the banks supporting CDFIs when we started drilling down into these specifics, and I think we lose sight of the broader why. We're really trying to partner to support communities.

Speaker 28: Yes.

Katie Naftzger: So, I think your question, in a way, is the answer. In Chicago, we have a number of programs that are uniquely-tailored to supporting CDFIs to achieve those community impacts that we're mission aligned on. One is our Community First. One, we've talked… Sean talked about that on the last panel.'It's a revolving loan fund that supports CDFIs.

We have another new product coming out shortly that will support CDFIs through in advance, which we can talk about later. But, yeah, I think... This topic of our panel is innovation.

Speaker 28: Yeah.

Katie Naftzger: And there's ways we can innovate within our regulatory programs. We've done quite a bit of that across the system, but the voluntary programs are where we have a real opportunity to innovate and to think differently about how we can partner with CDFIs to achieve those impacts that we're all after.

Speaker 28: Mike, you...

Mike Ciaccia: Yeah. I'd just like to add on that. Thank you, Katie. As for being innovative, the Community First Fund really is important to our organization. I represent Community Investment Corporation and we're a mission-based CDFI that does affordable, or I'm sorry, affordable rental housing in Chicago. And the Community First program really helps with our clients who can't take advantage of the AHP Program due to the heavy compliance reporting on it.

Our clients are local small business owners. 60% minority owned, 20% women, and they just don't have the resources for the type of reporting they would have to do for the AHP. So, the Community First really is an innovative program for us to use towards our clients for lending. And in the last two years, we actually renewed the CFF in 2022. And since that time, we've already created, or preserved 2,000 affordable housing units through the program. So, it's a great program that we were able to leverage.

Greg Hettrick: So, based on the previous panels, it seems like you've heard of CANOPY. Yeah. Words out. Anybody know what it stands for?

All right, we got one. He's cheating. All right, so this is maybe the longest acronym name for a program ever, but I need to share it with you, and I have trouble remembering it, so that's why I'm reading it. CANOPY stands for Community Advancement through New Opportunities & Partnerships Yielding Results.

There'll be a test afterwards to see who gets that.

Speaker 28: Yes.

Greg Hettrick: But CANOPY is our pilot, our loan fund, dedicated for non-depository CDFI members of the Dallas Bank. We just launched this less than 60 days.

Greg Hettrick: ... Dallas Bank. We just launched this less than 60 days ago. The Dallas Bank this year has taken a focus on our voluntary programs towards the CDFI side of the ledger. We've got some interesting characteristics to our district. This is one of those cases where our district is top of the bottom. When you look at per capita income ... I'm going to pick on your state.

Chuck Wall: Go ahead.

Greg Hettrick: Mississippi is 50th in the lowest level of per capita income. Three of our other five states are in the 40s. Dallas is below ... Dallas, Texas is below average. We're not even average in terms of per capita income. We're near the lower end of the spectrum. We've got an incredible diversity geographically in terms of things that happen to us in terms of climate and natural disasters, hurricanes, floods, fires, tornadoes. On top of that, we've got a very diverse populace. And there's diversity in education, there's diversity in ethnicity. And you tie that all into income and we started looking at who can help us reach more of those folks throughout our district? And the answer is CDFIs. Thus, we've focused a number of our priorities for pilots this year in that capacity. It's not that there aren't other needs, there are, but we've had to take time to listen to the folks in our district, our members, and to understand where we can make a difference now. And I do want to shout out to the FHFA on the pilot framework, that has been a game changer for us. It's allowed us to experiment with some things that herefore we wouldn't be able to have experimented with. And I have to agree with a comment that was made earlier, it is an opportunity for us to learn and figure out what works and what won't, so appreciate that.

Chuck Wall: Yeah, and I think the key term here is listen. In order to listen, you got to communicate. And the working group that Joe Neri had been working on for three quarters of his life, and ...

Joe Neri: I wish I was that [inaudible 03:53:57].

Chuck Wall: Yes. And Nick Mitchell Bennett, who may have skirted the area already, they spent a lot of time on this. And HPN Shannon Ross is back there, they've been bringing all of this together so we could put forth our thoughts and our ideas for improvement. And we did a great forum in Chicago in 2020 before the world took a pause, and we came up with a lot of great ideas. And that forum was attended by I believe, all the banks. I think Director Thompson was there, if I remember right. And we came out of there with a whole laundry list of things that we wanted to address, and we thought, "Boom, we could put these things in the works right away."

Well, COVID had a different idea, so we had to take a pause on that. We came back together through a lot of encouragement by Joe to, "Hey, the banks want us to do something on this, so let's start putting our ideas in process and let's figure out how we can narrow these things down to really what we want to do."

In the meantime, the listening sessions and the FHLB 100 tour across the US was happening and they heard a lot of the same things that we were talking about. Again, listening. They were hearing what we really wanted. After that, while they're in the midst of preparing their report, they invited the working group members to come in for a private session to talk about what was happening great and what needed to be changed in the system. We initially went in there with saying, "We're not going to be negative, we were going to be positive."

And that changed 30 seconds into it when the FHFA says, "We want to hear everything good and we want to hear everything bad, so let's not sugarcoat it."

For our group, you don't have to worry about that. If there's an issue, it comes up pretty quickly. We had that meeting. Shortly thereafter I went to Dallas for our annual conference, met with Sanjay, and they had already heard some of the things that we had talked about and the report came out. And then right before the report came out, Sanjay and his team gathered the CDFIs and non-depository CDFIs in Dallas for a meeting to talk about what they were planning to do. This was before the report came out, I'm sure they had heard some of the things, but they were telling us what they were going to do. And that was great. We didn't have to sit there and beg, borrow and steal and say, "Hey, we'll do this if you'll do this."

No, "This is what we're going to do and when we're going to do it."

That was great. And a lot of the things that have come out on the pilot programs since that point in time, it's exactly the way they said it was going to happen. That's great, but it's all part of listening. And that's how you get through innovation. If we had the same opportunity to do this with the CDFI Fund, that would be great that they could actually listen to what the CDFIs are experiencing and the lack of transparency that we're getting with the fund. I guess, we're going to have to work with the system first and then we'll head to the CDFI Fund, or the CDFI Fund next. But again, I think a lot of these things are great, they're long in happening. And so I think the sooner we can put these things in place, the better off we're all going to be.

Greg Hettrick: And if I can just follow up on the meeting we held about 10 months ago I guess it was, with our CDFI members. Chuck said, we told them what we were going to do. We presented some ideas. We told them what we thought we would do. We asked for feedback, "Do you like this?"

It's exactly what you said though, it was a listening and it was a back and forth between all of our organizations, so it was really productive and it helped inform things that we're doing in our pilot programs this year.

Chuck Wall: Yeah. And I will add to that, prior to Canopy being announced, we had a call with Sanjay and Greg and Kalyan and Nick and I to talk about, "How can we better understand ... "

Because they were looking at, "Do we want to do a loan fund? Do we want to do an EQII product? What's the difference between the two? Which would you prefer? What are the terms you would like to see?" This is what we're thinking, but how does that work?"

Again, listening, they really wanted to hear what we wanted and if it would benefit us, as opposed to just saying, "Here it is, deal with it one way or the other."

That was good, it was very appreciative that we had that opportunity to participate.

Mike Ciaccia: And I would like to echo that too, with the Chicago bank. We're constantly in contact with the Chicago bank, and what's nice about it is they're always asking us, "What is the gap? We're the boots on the ground. What do we see? What products do we need and how can they help?"

And like you said, like everybody's saying up here, communication's key. And we need to leverage that along the FHL bank system wide, really understand what CDFIs need, what mission-driven organizations need in the communities.

Tiffani Moore You stole my question, because really my question to you and to Mike really was ... Excuse me, you and Chuck, was really what charge or what action would you give to those banks that maybe don't have programs that directly support CDFIs like Chicago and Dallas? What's the action? What's the next step? What should they be doing at this point? And then also, what should FHFA be doing in that space as well?

Mike Ciaccia: Yeah, so I'll just add one more. In addition to how FHLB can provide programs and products for us, the other thing is to share their resources with us, such as putting us in contact with some of their other members. We have a diverse set of funders. Most of our funders are commercial banks, FHL Bank, FHLB Bank, but it would be nice to tap into other resources, such as insurance companies or credit unions, spread the word who we are, use that resources, leverage off of that. And I think one of the questions came up about, we're talking about CDFIs, how there's no losses with CDFI lending. We have strong balance sheets, and I was just looking back from when we first started taking advances in 2017, we've borrowed over 264 million through the advance window and paid back over $240 million. We're very credit reputable.

Chuck Wall: Yeah, we're not that aggressive at the advance window. We've borrowed I think, 14, 15 million, somewhere around there. We had almost six million outstanding. We got 14 million of first mortgage loans on deposit. And in one of their pilot programs that came out was this haircut reduction from ... Ours was 40% down to 12%. If the borrower at the time of the loan started was 115% or below. Fortunately, I think around 80% of ours that we had pledged were in that category. And so our advanced line of credit went up about two and a half million dollars. We've got about 6 million of capacity to draw if we need to. Again, that's great. As Cindy mentioned earlier in the last panel, if we could figure out a way to work through the nuances of the AMA program to figure out how CDFIs could get quicker liquidity, that would be something that would be of interest. But I don't believe any CDFIs have participated in that program to date.

I could be wrong but I don't believe they have. That would be something that would be helpful.

To the other banks that are looking for things to do to address the pilot programs or some of the things that are in the report and waiting for encouragement from FHFA, I would just take a chance, see what works with the CDFIs, talk to them, hear what they want to do. As you've seen from most of the other panels, there's a lot of expertise in this room. People know what they're doing, they've been doing it for a long time. We are very patient lenders, we work day and night with borrowers to make sure that they pay us back because unlike banks, if they don't pay us back, we don't have a fallback. There's nobody providing us with millions of dollars of deposits to keep us going. That's how we get the next loan out the door in a lot of cases, is somebody pays us back. We're very flexible with our borrowers and working through plans to get them on track because I hear it all the time, "My car's not running, I can't make my payment. What can I do?"

"Well, we'll work with you."

That's one of the beauties of CDFIs, is we're flexible and we're understanding, but we are as conscious of risk as banks are because we don't want to suffer losses. And in most cases, our losses are very minuscule. And so that's good. We've had a lot of history in doing this, we got to lot of expertise that we can share and be a part of, and I think we're going to talk about that in a little bit, of being a partner to the bank system.

Tiffani Moore: Well, since you said that, we'll go ahead and pivot now. Great. I wanted to pivot a little bit and talk a bit more about this idea of risk versus impact, and its effect on creativity and innovation within the Federal Home Loan bank system. And Greg and Katie, maybe could you all talk about what the banks are doing to address mission and safety and soundness. We all know that they're not opposing ideas but as we've heard today, there's real opportunity here, so wanting to hear from you all how you all have thought and considered that in your engagement with CDFIs.

Greg Hettrick: It is a balance, and approaching a balance of what impact and risk mean to us and to CDFIs and all our members, really looking at where the opportunity is. And the good thing about pilots in particular is it gives us the opportunity to learn and to make adjustments as we go. The AHP is very, very structured and very rigid. Pilot programs we can massage and work with but really, it gets back to understanding what our mutual objectives are and working in an environment where …'We're looking at things where safety and soundness is informed by achieving the mission, without safety and soundness being the sole mission. And that takes a little different path of thought.

Katie Naftzger: Yeah. And I'd say too, I think we've arrived as a system at a point of reflection/ I think back to the 2020 CDFI forum that we held in Chicago where many of our

CDFI members and the banks came together to talk about CDFIs. We were in an educational mode, "Here's who we are, here's who you are. Let's learn."

We are not having that conversation today. Even though there's work to be done, we are on this journey that ... And I think we are making progress. I think we'd like to see the pace of that pick up now that the working group has re engaged post-pandemic and the banks have re-engaged. There's work to be done but I think in terms of risk and impact, we need to reflect on what we've learned since CDFIs became members of the bank. We're going on 15 years at this point I think, we've learned a thing or two in that time. We've learned a thing or two in Chicago through our Community First Fund. That was a gateway to membership actually for a number of the partners that came on. Membership is not a requirement for that program but many of those partners became members because we came to understand CDFIs better through that program, which was not a regulatory program.

I think we're at a point of reflection where we can look at what we offer and maybe where the gaps are and also existing programs and what those parameters are. Are there things that we put in place initially that maybe are not necessary anymore or maybe we could pivot or loosen or expand access to programs because we know more now. And I think that's part of our maturing as a system and our understanding. And I think it speaks to the knowledge we've gained about the risk. We know more and I think we can do more.

Greg Hettrick: If I can follow a little more on this ... Our two banks have been focused in Chicago a lot longer but we're focused on the needs of CDFI members. Other banks in the system are doing innovative things as well, and that shouldn't be lost in this conversation. There are banks pursuing and have already launched special purpose credit programs. We've got banks that are doing tremendous things with native housing. There are different needs throughout our footprint and different ways of solving problems, and we're active in a lot of different ways. I guess, the ask here is be patient as we all get around to different things and address different things. It's difficult to do everything all at once. It really is.

Katie Naftzger: I'll also add, the community investment officers, Greg and I are each the community investment officers at Dallas and Chicago, there are 11 of us throughout the system, we convene monthly to talk about what we're doing, what we're working on, what's coming on the pipe. And so that idea that Mary Beth mentioned earlier, our colleague from Indianapolis Bank, replication. We are able to be much more intentional about that now I think, because we're having this conversation so regularly. And it's not just replicating what folks are doing. I look at Dallas and I think, "Gosh, you've stood up a lot of new stuff this year."

The first part of this year, you set up multiple pilots and about a month and a half ago reached out to Greg's team and said, "How'd you do that?"

Because it's not replicating just the what, it's the speed. Chuck, you mentioned not having this take forever. We can replicate that too. There's things we can learn from one another to try to put things in motion where maybe there's a will and we just don't know the way. There's a lot of structure and complexity through even things like the pilot framework, that adds a layer of complexity that we have to then figure out how to work through. And if we have fellow banks that are doing that, we can learn from them and hopefully move more quickly.

Tiffani Moore: Wanted to turn it to Mike and Chuck, any other ideas or thoughts you have in this space as well?

Mike Ciaccia: Yeah, I just want to add, it's great that Chicago and Dallas, they've got these pilot programs, and you had mentioned other banks are doing some stuff system wide. I think it's important as the FHL Banks could have a little bit more opportunity to use voluntary funds to create these pilot programs, to keep in mind from the FHFA's perspective to not put any undue additional compliance on them to allow them to be innovative, and keep it flexible. Because one of the issues ... Not issues, but one of the ... Well, major issue that we're dealing right now is this high cost, high interest environment that we're in now. Five years ago we had free money, now credit's getting tight. And to have these innovative programs to where we could pass those cost savings off to our borrowers is great. Our clients at a community investment corporation, our lending is unsubsidized. Our clients, we do naturally occurring affordable housing. And to have innovative programs that allow us to keep doing that and bring those savings brings more capital into the community. I would encourage the banks to do more as far as some pilot programs, but not have that burden of additional compliance with that.

Chuck Wall: Yeah. I think there are more impact opportunities as well. I know that there is a reluctance to add a minority component to some of the impact reporting or allowed uses, which I think is amiss. The key topic that keeps going around is attacking racial wealth gap. Well, you can't address racial wealth gap until you deploy more products and services to minorities. And the CDFI fund has allowed that to be acceptable as part of our target market, and we changed our target market in 2018 from an encouragement from our board saying, "You need to do more to minority groups."

And Mississippi, yes, we are the low-income state in the union. We're also the highest percentage of black population in the US outside of Washington D.C. Naturally, doing stuff with minorities makes sense, but having that not included in the impacts that the FHLB's can report doesn't make any sense. The other thing is with the recertification changes that are coming out, and I know we're not talking about recertifications, but those recertifications are allowing CDFIs to expand across borders, which means the CDFIs are now going to be working in areas outside of their district footprints if they're a Federal Home Loan Bank member. For example, we just moved into, or we just expanded into Alabama in

2023, which is in the Atlanta Bank and not Dallas, and CDFIs cannot be a member of two different FHLBs so any services that we provide to Alabama cannot be supported by FHLB grants, which doesn't make any sense to me. To me, it should be if you're providing the grant to the member, they should be able to provide those services to wherever they provide within their target market, and the FHLB should get credit for that. That's just another idea that would be helpful if we could do because expansion now that the borders are going to be removed, you're going to see it all over the place.

Tiffani Moore: That's helpful, and this is some good ideas and good thoughts here. I want to jump back again, we've talked about what the banks could be doing. You all have hinted at what maybe FHFA should be doing as well. I wanted to dive a little deeper into that because again, this is a place where all of us need to be engaged in moving forward when it comes to innovation and partnerships. Are there other things that the agency needs to be doing in this space as well outside of the framework that we provided? Are there some other ideas or thoughts that you all might have?

Chuck Wall: I don't know if this is FHFA or FHLB, there's so many terms here, but if we could get CDFIs a seat at the table of leadership in the banks to hear what our thoughts are and how we can better craft programs for our members, that would be very helpful. Yes, we probably can go through the ... And Greg and I had this conversation last week, trying to get voted in, but CDFIs are such a small percent of the members, it's highly unlikely that we'd ever get voted in. And if we could get a seat at the table without getting punished and not participating in programs, that would be helpful. You would get the ability to achieve ... I believe, the report has it as centers of excellence, there's a whole lot of excellence in this room. The more that we can get the communication between the banks and the CDFI members, I think the better off we're all going to be.

Greg Hettrick: Yeah. Since we talked about this, I'll jump in. Yeah, we convene groups and advisory groups all the time. And so we got you all together last year, we desire to do that again. We recently had a meeting of our state and regional HFAs that we hosted at the bank. We've got an insurance advisory council. We got a credit union advisory council. We've set up these different groups to give us insights that are very specific. It's not a board seat, it's not the Affordable Housing Advisory Council, but in conveying ideas to us, extremely effective. And so we want to continue to build on our conversations. I know you're specifically interested in the AHAC, I think that's an FHFA-type ask of how that's managed. But I think our dialogue's really generally good.

Speaker 31: When you talk about the AHAC, talk a little bit more specifically, making some regulatory changes to who could be seated there or, ..

Greg Hettrick: Right now basically, members can't be on the advisory council because they have an opportunity to be on the board in terms of governance.

Speaker 30: Correct.

Greg Hettrick: Chuck asked for a seat. That's all I'm conveying, is if there's going to be a change in that, that that's got to come from not us.

Speaker 31: Understood, understood.

Chuck Wall: Chuck rarely has a shortage of asks like that.

Speaker 31: Please.

Katie Naftzger: Yeah. In terms of what the FHFA could do to support innovation, innovation requires focus. It requires us to be intentional and a lot of listening to make that effective. I think we need the space and grace to innovate as banks. The pilot framework helps to provide that. It provided some structure around what's needed to stand up something new. There's the targeted community lending plan for those who aren't familiar, it's an annual plan the banks produce that documents the most urgent district needs in this space. And then anything we do in terms of new initiatives needs to point back to that plan for that next year. We have to have documented the need before we stand something up. And there's some new expanded guidance that will be coming around, what needs to be in that. That's helpful in many respects to help us draw clean lines.

That type of thing also adds layers of complexity. There's a number of new plans that hit the banks in the community investment space that will just take some bandwidth from the subject matter experts that we also need to be driving innovation. There's not a way to just expand staff to do it. You need people that can have that subject matter expertise working on all these things. I think as the FHFA rolls out some of these new supports, many of them are supports, they're intended to help, mindfulness of the demands that that will place on the folks who are needed to innovate would be very helpful.

Speaker 31: Mike, go ahead, please.

Mike Ciaccia: Yeah. And Chuck, you said it before too. We met 2020 in Chicago. We had these conversations, we're having the symposium today. And I think it's great that the FHFA is interested in listening to the issues around collateral, around pilot programs, new capital, but now we need to have action. I think that's the main thing, is to have action.

Speaker 31: Agreed, agreed. Well, with that, are there any questions? We'll go ahead and start taking some questions from the audience and then in the virtual space as well if we have any.

Speaker 29: Just want to address to the gentleman's comment about getting on the board as a CDFI, I'm O for 13 in elections but I'm looking forward to 14th year to run from San Francisco and get on the board, I'm still optimistic. Does the FHFA have the authority to designate a seat for CDFI members, or is that something that would have to come from Congress?

Speaker 31: No, we do not. Yes.

Speaker 29: Thank you.

Chuck Wall: Should you?

Speaker 31: I thought I heard another response. Sorry about that. Okay. All right. Please.

Agnes Hardison: Agnes Hardison, Home Loan Bank of Chicago. I wonder if Greg and Katie, you could just talk for a moment. We've talked a little bit about the unsecured funds, the haircut reduction initiatives, but there are a lot of other innovative things that the Home Loan Banks are doing, and some of them are also beneficial to CDFIs. And I wonder if you could just touch on those for just a moment.

Katie Naftzger: Since I think I might know one thing that you're thinking of, I will kick this off from Chicago. We are launching a pilot program shortly, it's a discounted advanced product that will meet needs that we cannot currently meet on the lending side through CICA and CIP, those are our community advanced products that provide a modest discount. This will be a more deeply discounted advance for certain types of community lending that are somewhat outside of the regulations, what they would allow. And it supports CDFIs really in two ways, it's really exciting, so I'm glad that you teed this up. For our CDFI members who want to use that product, they can support the community lending they're doing, get a deeper discount to really facilitate and we can amplify their impact in their work. They can be users of this product. Other members can also lend to them as recipients. One potential use for this advance is for members to lend to CDFIs and then receive a discounted …

Katie Naftzger: ... members to lend to CDFIs and then receive a discounted pricing in recognition of that. So CDFIs can be the beneficiaries in two ways on this product, and that's something that we had not been able to achieve through the regulatory program, but we're going to be able to do through this. So that was a result of a lot of listening. We did a host of member calls, including with many of our CDFI members, to understand where the regulatory program was falling short and where we could add more impact for them.

Greg Hettrick: Yeah, so thank you for the question. And I would be remiss if I didn't mention too that the Federal Home Loan Bank of Boston is developing and I think soon to announce a discounted advance dedicated to their CDFI members. I don't know all the details, but I was given the green light to share that, so there is another bank coming up with another CDFI-specific program. In terms of Dallas Bank, we've got a number of things that we've done in the last year, and before that we stood up a small business program that fills the gap on small business lending, that we learned from Pittsburgh. We borrowed a lot of elements from the Pittsburgh Bob offering. We borrow it a lot from Community First Fund to set up canopy so that the sharing that Katie mentioned earlier does happen and it flows really well.

To that end, Renaissance, Chuck's CDFI, uses the Small Business Boost program at an exceptionally high level. They're typically one of the top three users of this program every year. Well over 50 small businesses have been helped over the last three plus years, so that's one innovation, one benefit to membership. Last year, we also created a program that addresses heirs' property rights issues and helping communities resolve those issues. It's a real big deal in the Mississippi Delta. A lot of urban areas, a lot of rural areas. Most of our district where titles of homes, businesses, land are not clean, can't be used for any kind of collateral, can't be borrowed against. It's a problem. We've also created a program called our Fortified Fund, and that's one that addresses the issues around wind storms, specifically tornadoes, hurricanes. And if you don't know, fortified construction's a scientifically developed t'pe of building that has been proven to withstand cat 3 hurricanes and EF 2 tornadoes. So it's not a hundred percent foolproof, but it's really, really good.

And so we've got a program that will help people re-roof their homes with this fortified standard, because I think you all know if you can get back into a community and get back into your home sooner, the faster the community can recover. So that was a priority of ours last year and we've committed close to $6 million between last year and this year to replace roofs in our district with that program. It's been really well-received. Shifting gears back to the CDFI piece, aside from Canopy, we've got the community building and growth grant, which is a capacity building program. We're in the process of receiving final applications from CDFIs, both members and non-members, right now. Those are due at the end of the month, but those will provide grants up to a half a million dollars for members, up to a hundred thousand dollars for non-members, and it is what it says.

We're providing grants so that you can do more of what you're doing and help CDFIs grow. We opened it up to non-members. We purposely made the benefit for members higher, and that was very effective coupled with the Canopy announcement to actually increase our CDFI membership. So we've got two brand new CDFI members. It's my understanding we might get a third here pretty soon, and there's benefits all the way across the board for these things. So it has been a great year for us to do a lot of different and unique things, but they're all things that can help benefit not only CDFIs, but all of our membership.

Chuck Wall: Yeah. Just to reiterate what Greg is saying, the small business Boost program that he's talking about, we lent out over $2 million, to 52 business or something of that nature. And it's a great program. It's a mezzanine program. It's non-recourse to the CDFI. If the borrower has an issue down the road, it becomes a grant to the borrower, so we're not responsible for paying it back. But it's a great additional capital source for our borrowers to continue with their business. And the capacity grant that Greg just mentioned, it allowed us to come up with some innovative new programs, hence the title word here, innovation, to serve our borrowers. One is an emergency capital fund for our small business borrowers to prevent them from heading to the payday window, which is very prevalent in Mississippi. We've had some borrowers' businesses negatively impacted because they were suffering a cashflow crisis and they went and took down a lot of these advances. As you know, they're very expensive. I think the average in Mississippi is 600% or something.

If Nick was here, he would have all the statistics as he's the leader in these small business or these small money fund loans. So, we did that. We are creating our first consumer loan to help out with housing borrowers who are not able to address some issues that their insurance provider is telling them that they're not going to be renewed. So we're allowing them under this program, it's one of our ideas, that they can borrow from us on an unsecured basis to fix those, whether it be their roof issues or have a tree removed or fix an air conditioner. This capital is very much needed, and I think our application was two times more than the max that we were allowed, the 500,000. And we're going to make it into revolving loan funds, so that's what we do as CDFIs. We are innovative, we are creative, and we look for ways to keep our borrowers moving.

Katie Naftzger: Can I add one thing?

Greg Hettrick: Please.

Katie Naftzger: Last week, representatives from six of the banks represented the system at the Oweesta Capital Access convening outside of Albuquerque in New Mexico. We had a session about the system. It was a wonderful conference. One of the evenings there was an awards event, and it was an innovation awards event. And one of the recipients, a staff member from one of the CDFIs that represented there, had to give her acceptance speech. And in her acceptance speech, she said something that really resonated and I continue to think about multiple times a day. She said, "This work isn't hard." And then she proceeded to talk about why it's not hard. And the reason it struck me is we were in the middle of some of these conversations around LIHTC collateral and things that sometimes feel challenging around innovation. And so I've been reflecting a lot on what makes it feel hard.

And I think we come at these topics with our lenses and our perspectives, and there is intersection where there is an opportunity for solutions. And I think we're limited by our own creativity, getting the right voices in the room so we can have the understanding to inform the solution. But I do think there are intersections between the spaces we all work in where we can find those solutions. And when you find those spaces of where the solution will be, it is not hard. It becomes obvious. And so I think we're still waiting for some of the light bulbs on some of the issues we're talking about, but I think that was my takeaway last week, and I'm carrying that spirit into the rest of the year because I think that's how we're going to get things done is to get more into problem-solving mode. And sometimes we can feel stuck, but that's our own choosing.

Speaker 31: I like that. I really do. I like that.

Katie Naftzger: Sharing for what that's worth. It was powerful for those of us who were there.

Speaker 31: Mike, I want to pivot back to something you mentioned earlier, so the AHP is very near and dear to me. Many of those here know that. Wanted to talk a little bit about, you mentioned the regulatory frustrations that many CDFIs have with the affordable housing program. Since we're talking about innovation and new opportunities, I know this is very much on the spot, but wanted to kind of talk to you a little bit about what do you see to be more innovative in that somewhat prescriptive space as you've identified it and said that it's a little limiting? What could be done there in that space to really support CDFIs more?

Mike Ciaccia: Yeah. For us, it's similar to what we've been talking about, the CFF fund, the Community First Fund, the new program that's coming out with the discounted interest on the advances. That helps us bring the capital to our clients. Since our clients are unsubsidized, this is what they really need and we can make that happen without the undue regulatory burden. Clients.

Speaker 31: Understood. Please.

Speaker 25: I've got a separate but related question from the chat, specifically asking about the Heirs' Property Program at the Dallas Bank, and whether the bank will be continuing this voluntary program. But then I'm going to ad lib with a broader question about how the banks think about voluntary programs and how do you consider when to keep them going and when to sunset them and think about new things?

Greg Hettrick: To go in reverse, Dallas loves voluntary programs, and I think it's allowed us to do the things that I just talked about and to do more of it. The commitment the system made to do an additional 5% of our funding into community investment programs this year, coupled with the pilot framework, has just helped us spawn so many new ideas and do new things and add to things that are already successful. So I'm a big fan. I would much prefer, and this is Greg Hettrick's personal opinion, doing more and continuing with the voluntary piece rather than a full ad of it all goes to AHP no matter what. I think that that limits what we can do. I like to have flexibility. I like options. I like to be able to do really interesting, impactful work, so that's me.

Heirs' Property Program? Yes, we are carrying it on this year. We've got $2 million. We've doubled the commitment from last year. It was very well received last year, and we'll open it up in, I think it's late August, or I'm blanking on the date exactly, but August. fhlb.com for more information.

Katie Naftzger: Related to voluntary programs, you asked about the approach we take, how do we determine what to pursue and so forth. Every year we do a needs assessment that we document in our targeted community lending plans, and so that process to inform that document identifies some of the most critical needs. We then talk with our advisory councils and other stakeholders and partners and members to determine where to hone in. In Chicago, we identified three areas of acute need back in 2021 and launched three new voluntary programs in 2022, a diverse developer initiative to support diversity in the affordable housing industry, support for housing counseling agencies, and then small business grants. We committed to three years at that point because we saw this was not a short-term need and we wanted to get familiar in those spaces and have some maturity when that three years came up, which is now.

We're in the third year and we are now looking again. Of all the needs in the district, where do these lie? Are these things we're going to continue? What else has emerged since we last approved these? So it's an iterative process over time where we go with that voluntary strategy, but the main driver is community needs, gaps, unmet needs.

Rebecca Cohen: And I’m going to build on that with another question we received from online about the targeted community lending plans. If y’all could talk a little bit more about steps that banks take to make sure the plans are implemented. There’s also a question about FHFA’s oversight over the plans, and I’ll add any steps CDFIs can take or do take to be involved in their development or implementation.

Greg Hettrick: In terms of Dallas, our targeted community lending plan is informed from talking with our stakeholders, from our members to our AHAC to a wide variety of folks. So every four years, we also do a deep-dive research project. We call it our district needs assessment. We’re currently wrapping that up right now, and that helps inform our targeted community lending plan. So we mix a combination of census and statistical data and research along with surveys and interviews with our members, HP sponsors, AHAC, et cetera. A lot of housing and small business stakeholders as well throughout our district, and so that helps inform what we’re doing.

In terms of accountability in the target community lending plan, there are goals within that that we set annually. We report to our advisory council and our board on the results quarterly. Each targeted community lending plan has the results of last year’s goal setting. Did we accomplish what we set out to do? And there’s a written evaluation about what was working and did we meet the goals or not. And if we didn’t, we take a look at why.

Katie Naftzger: Yeah, the outreach strategy the banks each use, it differs by district, and it's partly just due to the structure of our system. Chicago has two states. So the outreach we do to inform that plan might look a little bit different than Des Moines, for example, where they've got states and territories in the double digits. So the way they collect their data in terms of the input piece might look a little bit different than what some other states or districts would do. Right now, that is driven by the banks. We each develop our own strategy for soliciting those inputs based on the nuances in our district. Do you have anything to add to this?

Tiffani Moore: Yeah, I can talk a little bit about FHFA's oversight. So we do not approve the plans, but we do post them. They're publicly available on our website, so we do post them, but we do actually read every plan. We do evaluate. We share our feedback on the policy side with the examiners. So when they do go out, if there is something in the plan that may be questionable for us or we have additional we were wanting some additional insight on, we do share that feedback. So it is a very involved process as far as our review and evaluation.

Speaker 32: These programs are all incredible and kudos to all of the banks that are leaning into this space. We often tend to focus innovation on the new, and we focus it on products and services. So at risk of being a broken record, the other way to innovate is to think about challenging problems, haircutting on LIHTC, and new ways of coming at that. So just one more plug for the regulator to think about how they can innovate getting us all in a room to work on some of those challenges where we see the results. Excessive haircuts. We all know that that's not right and yet all of our processes take us to that, "That's exactly right." So how do we innovate collectively where we've got three different parties with different perspectives here as a system? So I just want to make that encouragement to the regulator that innovation can come in process change as well.

Speaker 31: Noted. Noted very much. Any other questions? Well, I have my list of takeaways. I'm hearing impact. Yes, beyond that, but definitely impact and flexibility. And of course the listening piece is something that we're all doing, but I think one of the things that Director Thompson charged us with, and Cindy brought it up during her remarks as well though, is that it just can't be the conversation. There has to be action from this point. And Joe, to your point, I think you're very much going to see this is just the first of many, and this is not a conversation, but really a directive for all of us on how we're going to move forward. So with that, thank you all and I'm going to turn it over to Joshua Stallings to close us out.

Joshua Stallings: Yes, thank you all. Let me just say a few thank-yous before we get out of here. I would say that if anyone wants to know my grand thoughts on all of these things, I think the director pretty much said it all this morning. I think that me reiterating a lot of those points is probably not the best use of our time. I want to thank all of our panelists and speakers that we had today. I also want to thank all those here at the FHFA who helped get this all set up, who were coordinating this. Those efforts were certainly very useful. I also want to say thank you to everyone that's here. Look, I think it's not a small thing to ask CEOs, board members of the federal home banks, but also the folks running the CDFIs, to make time out of their day, come across the country to all be here to talk about some of these things.

I think that a lot of these topics are things that we all have heard some level of detail on a few times, but I think that it's all slowly starting to sink in. There's something about repetition that does that. So I would say that the biggest takeaway from me right now is just to keep pressing on this from the agency perspective. I think that there are solutions here that can be found. I didn't hear a lot of things come up today that weren't on some level solvable. Now, will it be a hundred percent the solution that everyone wants? Maybe not. But will we be able to find some solutions? I think so. And look, I would say that in the history of these kind of topics, one of the biggest obstacles has been my role.

Obviously, supervision of the Federal Home Loan Banks is a piece of what has made the system a risk-averse system. But I think it's also led to, in some ways, some processes not even necessarily being risk averse, but just not being as curious as it could be. And the beauty is that curiosity is actually in the system. You unleash it. We're seeing it now. A lot of the banks have these people in place. They just weren't unleashed to really think these things through and try to get to the solutions. And so I think one of the best things that I've really been seeing over the last few months is that the Federal Home Loan Banks have this. We just have to continue to nurture this and foster it. I think we're going to get to some good solutions. I think the Federal Home Loan Banks have the kind of personnel that want to find solutions here, and we'll continue to work with them to try to get to those ends.

Now, I imagine it will be uneven for a while. We're trying some things out at one bank and not at another, and we will see some of those practices cross over the system over time. But where we can align practices, we will push for some of that. I think that that is particularly of interest to me in the collateral space and in some degree in the member evaluation space to make sure we're all coming at this from a similar point of emphasis. So again, let me thank you all for being here. I would say that we're not done. Everyone getting in the room is not an accomplishment. It is nice to see everybody though. And I would say that I don't want to hear on these topics that the answer is the FHFA won't like that, because if the answer is the FHFA won't like that, then it probably means that we haven't really asked the FHFA enough about why they don't like it.

If they can't tell you why, they don't know yet. So I would encourage the banks to continue to engage with us, and the CDFIs, continue to engage with your bank, and we'll continue to try to find some solutions on these topics. So look, I think that the CDFIs as a group were the last big cohort of potential members to gain access to the system. It was a slow go for all the other membership classes that joined too. But at some point there was a break point, and we saw the benefits really start to flow to some of those other membership types. I think that we'll see the same here, but I think that we're still at the beginning phases of some of that.

Please stay engaged with all of this. We have a lot coming down the pipe over the next years, if people let me sit in this seat long enough. But certainly, I don't want anyone to think that we're not working on things now. Unfortunately, we are a government agency, so I can't share a lot of what we're thinking until we're done, but we are working on quite a bit. We are hoping to have quite a bit out over the coming months and coming year. So again, thank you all. Stay engaged with your bank, with us, and on these topics, because they clearly are important. With that said, I can either let you guys all go or you guys can ask me a couple of questions. It really depends on what you guys want to do. I think they want to go. Let's let that happen. Thank you all again.