cinnaire®
ADVANCING COMMUNITIES cinnaire.com | 844-4CINNAIRE

June 23, 2020

Federal Housing Finance Agency
Division of Federal Home Bank Regulation
400 7th Street SW
7th Floor
Washington, D.C. 20219

To Whom It May Concern:

Thank you for the opportunity to share our perspective on Federal Home Loan Bank (FHLBank) System membership requirements. As a Community Development Financial Institution (CDFI) member of the Federal Home Loan Bank of Chicago, we appreciate the opportunity to comment on the role that FHLBanks play in helping CDFIs achieve their missions in a manner that supports the safety and soundness of a critically important component of the banking system.

Cinnaire is a certified, non-profit CDFI that raises and deploys capital for impactful affordable housing and community development efforts. Cinnaire operates in nine states in the Midwest and Mid-Atlantic regions, with a focus on rural and urban communities that are typically not well-served by mainstream financial institutions. To date, we have invested more than $4.7 billion through a combination of tax credit equity and community development loans. By working with mission-driven partners throughout our footprint, Cinnaire works to transform struggling neighborhoods into thriving communities through financial investments and loans, innovative partnerships, and development services.

CDFIs share a common goal of expanding economic opportunity in low-income communities by providing access to financial products and services for residents, nonprofits, and businesses. Across the country, there are approximately 1,100 certified CDFIs that make up a $185 billion industry, located in all 50 states. CDFIs cultivate deep relationships where they invest and build partnerships. These local relationships, including partnerships with local governments and foundations, help drive investment into communities that are underserved, especially in times of crisis.

As you know, Congress has provided the FHLBanks with distinct advantages that enable them to provide crucial liquidity to its members. In 2008, Congress expanded FHLBank member eligibility to include non-depository CDFIs that have been certified by the U.S. Department of Treasury's CDFI Fund. The Federal Housing Finance Agency's (FHFA) membership standards rulemaking in 2010 recognized both the value that CDFIs can provide

**Lansing** | *Corporate Headquarters*
1118 South Washington Avenue
Lansing, Michigan 48910
517 482 8555

**Detroit**
2111 Woodward Avenue, Suite 600
Detroit, Michigan 48201
313 841 3751

**Grand Rapids**
100 Grandville Avenue SW, Suite 202
Grand Rapids, Michigan 49503
616 272 7880

**Chicago**
225 West Washington Street, Suite 1350
Chicago, Illinois 60606
312 957 7283

**Indianapolis**
320 North Meridian, Suite 516
Indianapolis, Indiana 46204
317 423 8880

**Madison**
2 East Mifflin Street, Suite 403
Madison, Wisconsin 53703
608 234 5291

**Wilmington**
100 West 10th Street, Suite 502
Wilmington, Delaware 19801
302 655 1420

to FHLBanks as well as their unique nature and differences from traditional financial institutions.

CDFI membership in the FHLBank system has proved mutually beneficial for CDFIs and the FHLBanks. CDFIs and the communities they serve have benefitted from low-cost access to capital, helping address one of the main constraints on CDFI efforts to boost housing opportunities in low-income communities. At the same time, CDFIs have diversified the FHLBanks' membership to include a set of reliable, mission-driven lenders that help the FHLBanks achieve the housing finance and community development mission intended by Congress. CDFIs help FHLBanks achieve this mission in a manner that supports the safety and soundness of the FHLBank system.

This mission has never been more critical. The COVID-19 crisis has both exposed and exacerbated existing racial wealth and health disparities in the United States. COVID-19 is killing disproportionate numbers of black Americans at staggering rates. At the same time, black Americans are more likely to have lost work or income since the crisis began, in large part because black Americans are more likely to work in industries affected by shutdowns. As communities work to rebuild after the dual crises of COVID-19 and civil unrest, CDFIs are well-positioned to fill gaps and help drive investment to underserved communities, including the development of affordable housing to address the lack of safe, quality homes for low-income individuals.

While CDFI membership in the FHLBank system has helped achieve this goal, the relationship between the FHLBanks and CDFIs has room to develop further. In the nearly 10 years since non-depository CDFIs became eligible for FHLBank membership, CDFIs and FHLBanks have made substantial progress in understanding their respective business models. Given the relatively early stage of this relationship, potential changes to CDFI membership or financial condition requirements that do not recognize the unique nature of CDFIs could jeopardize our ability to build on the success of CDFI membership in the FHLBanks.

We have provided comments below on select questions posed by FHFA in the RFI.

***2. Financial condition requirement***

> *b) Would there be benefits to establishing financial condition review requirements that are substantially similar for all applicants, regardless of whether they are organized as an insured depository institution, insurance company, or CDFI? What would such requirements comprise, and would such changes entail risks to the System's safety and soundness and the FHLBanks' ability to provide liquidity to members through the cycle?*

We appreciate FHFA's interest in ensuring that FHLBank advances should be made consistent with the safety and soundness of the system. We believe that, in considering potential financial condition review requirements, FHFA should recognize the unique nature of CDFIs and the low risk they pose to both individual FHLBanks and the FHLBank system.

The current tailored financial condition requirement approach has proved effective at fostering sustainable partnerships between CDFIs and the FHLBank system without affecting the safety and soundness of the system. CDFIs have proven to be reliable FHLBank members and, in general, have demonstrated strong performance as evidenced by low delinquency rates greater than 90 days (1.34%) and a cumulative 0.74% loan loss rates (from 1999-2017). Loan loss reserves are set by individual CDFI boards, but average 3.14% and are re-enforced by investor loan covenants that require a minimum level of established reserves.

The potential risk of CDFI membership in FHLBanks is also mitigated by their relatively small institution size and share of FHLBank membership. CDFIs are not large institutions and do not take large amounts of advances. The failure of one CDFI would not likely pose a material risk to a FHLBank. In addition, CDFIs often cooperate, thus reducing risk and exposure of individual institutions.

Given the relatively low risk profile of CDFIs, FHFA should not impose additional requirements that would be overly restrictive. Such requirements could threaten the progress that has been made to date to foster partnerships and better collaboration between the FHLBank system and CDFIs. Earlier this year, the Chicago FHLBank hosted a CDFI FHLBank Forum to look at ten years of CDFI FHLBank membership. The forum was planned along with the CDFI FHLB Working Group, a group of CDFI FHLBank members, including Cinnaire. Over two days, participants from CDFIs, FHLBanks and other critical partners such as FHFA discussed CDFI-FHLBank partnerships, including potential challenges and solutions. For example, FHLBank and CDFI representatives discussed CDFIs' financial reporting and how changes could be made to make interactions between the FHLBanks and CDFIs more efficient and how the composition of CDFIs' collateral can limit their access to advances. These conversations have continued since the forum between CDFIs and their FHLBanks. It will be critical to ensure that potential solutions to these challenges are allowed to develop with support from FHFA.

There is also clear mission compatibility between the FHLBank system and CDFIs. CDFIs enable FHLBanks to achieve their mission-driven work without increasing risk to the system. This will be increasingly important to the FHLBanks as our nation works to address racial disparities and encourage investment in low-income communities. Financial condition requirements that do not recognize the unique nature of CDFIs could threaten this work.

**3. *Use of conduit arrangements by ineligible entities.***

*a) Should FHFA amend its regulations to bar from FHLBank membership particular types of otherwise-eligible entities that are most susceptible to being used as conduit vehicles by institutions that are not themselves eligible for membership? Which types of currently eligible entities are most susceptible to such use?*

*b) How should FHFA balance the legitimate housing finance activities of those types of entities against the risks that they could be misused as funding conduits by ineligible entities to create another form of de facto membership?*

*c) Should FHFA amend its regulations to impose conditions on membership approvals pertaining to those entities that are susceptible to being used as conduits that do not apply to other types of members?*

*d) Irrespective of membership requirements, should FHFA limit conduit activity by FHLBank members through other means, such as by restricting the amount of advances a FHLBank may have outstanding to a single member (for example, to a percentage of the member's total assets) or limiting the extent to which affiliates may pledge collateral to secure a member's advances? If so, what should those limitations be? Should FHFA impose any such limitations on all FHLBank members as a prudential measure, irrespective of any concerns about conduit activity?*

We appreciate the need to address attempts for ineligible entities seeking membership at FHLBanks. As FHFA considers additional membership requirements, we would caution against additional requirements on CDFI membership in the FHLBank system that would limit opportunities for CDFIs or curtail the full participation of CDFIs in the FHLBank system programs and activities.

As you know, the CDFI Fund is responsible for determining whether entities applying for certification as a CDFI meet certain standards, including a primary mission of promoting community development. This process is essential for ensuring that CDFIs are serving low-income people and communities by providing affordable, responsible financial products and services, and prevent organizations that are not mission-driven from creating subsidiaries or affiliates that may attempt to be certified as CDFIs. The CDFI Fund has solicited public comment on the certification process, which we believe is the appropriate avenue for addressing concerns about CDFI standards. Given the potential harm that could come from additional requirements on CDFI FHLBank members, we encourage FHFA to continue reviewing these concerns on a case-by-case basis.

*__6. Rebuttable presumption approach of regulation.__*

> *Would the safety and soundness of the FHLBanks be enhanced if FHFA were to establish new standards that provided less discretion to the FHLBanks, and all of which must be met for an applicant to be admitted to membership? If so, what should those standards be? Please explain in detail.*

We are concerned that a one-size-fits-all approach for FHLBanks on membership would undermine efforts to create institutional diversity among FHLBank membership. As we outlined above, the prudent discretion on membership afforded to FHLBank members has proved important for fostering CDFI membership in the FHLBank system, as envisioned by Congress. We strongly recommend that the FHFA maintain the level of discretion currently available to FHLBanks with regard to membership criteria.

**Conclusion**

Thank you for the opportunity to comment on your questions regarding FHLBank membership. We are happy to answer any of your questions on our comments or provide additional information.

Respectfully submitted,

Chris Neary
Vice President – Policy, Research and Advocacy