

June 23, 2020

Mark Calabria
Director
Federal Housing Finance Agency
400 7th Street SW
Washington, DC 20024

Re: Federal Home Loan Bank Membership Request for Input (RIN 2590-AA18)

Dear Director Calabria:

Thank you for the opportunity to comment on the Federal Housing Finance Agency's (FHFA) Request for Input (RFI) on Federal Home Loan Bank (FHLB) membership. I write to you on behalf of Opportunity Finance Network (OFN), a national association of 304 Community Development Financial Institutions (CDFIs), which includes 46 FHLBank members. CDFIs are lenders with a mission to serve low- to middle-income borrowers, many of whom are minority, female, and/or Native. CDFIs serve as critical vehicles for moving capital into economically distressed communities, especially during times of national crisis. As the country continues to grapple with the impacts of COVID-19, CDFIs are on the frontlines addressing affordable housing issues by offering flexible terms and repayment options, restructured loans, and even loan forgiveness for borrowers.

Since the 2008 housing crisis, CDFIs have been important players by providing solutions to address the affordable housing crisis by offering credit, capital, and financial services to promote sustainable homeownership; countering predatory products and services; developing affordable multifamily and rental housing; and pioneering innovation in financing such markets as shared-equity housing and manufactured housing. When mainstream finance retracted lending during the housing crisis, CDFIs kept capital flowing to businesses and communities and only increased charge-off rates to 5.9%. As you are aware from your work on the Housing and Economic Recovery Act of 2008 (HERA), Congress authorized CDFIs to be included in the housing crisis solution, which allowed those eligible to apply for FHLBank membership. Since their inclusion in HERA, CDFI FHLBank members have gained access to long-term funding which allowed more high-impact loans to be made to creditworthy borrowers in underserved communities.

Since the beginning of this partnership, FHLBanks have seen enormous growth in CDFI memberships and advances. According to FHFA's 2018 Report on Low-Income Housing and Community Development Activities of the Federal Home Loan Banks, CDFI membership has grown almost 4.6 times since 2012¹. The report also shares that annual FHLB advances to CDFIs have grown from \$59 million in 2013 to \$221.5 million in 2018. FHLBanks recognize the value CDFIs provide in not only serving low to moderate-income communities but helping achieve their mission of "supporting housing finance and community investment." Additionally, several FHLBanks, including the FHLBank of New York, remain active in trying to recruit more CDFI members.

CDFIs have also been able to utilize grants from the Affordable Housing Program (AHP) to make high impact loans in distressed communities. For example, in 2017, FHLBank member and CDFI

¹ 2018 Low-Income Housing and Community Development Activities of The Federal Home Loan Banks. Federal Housing Finance Agency. <<https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/2018%20Low-Income%20Housing%20and%20Community%20Development%20Activities%20of%20the%20Federal%20Home%20Loan%20Banks%20Report.pdf>>



Enterprise Community Partners was awarded \$1 million in affordable housing grants by the FHLBank of Atlanta². This grant funding was used by Enterprise Community Partners to finance affordable housing projects in Wisconsin and Maryland. Access to affordable housing remains a growing challenge and CDFIs need access to low-cost, long-term capital to ensure low to moderate-income families have adequate access to housing and homeownership. Our association welcomes the opportunity to share feedback and recommendations to help further the successful partnership between CDFIs and the FHLBanks.

Question #1

OFN supports the current membership framework and requirements established in the FHLB Act, including sections 4(a)(1) and 4(a)(2). Paralleling the statute, OFN also supports the six general requirements highlighted in FHFA's regulation on FHLBank membership. OFN believes that CDFIs have demonstrated their reliability, safety, and soundness as creditworthy lenders in the 10-year partnership with FHLBanks. CDFI members have generated success in community lending from advances and have assisted the FHLBanks in meeting their mission. OFN does not recommend new requirements for CDFI members. However, if FHFA decides to generate new requirements, those policies should not prohibit CDFI members from accessing critically needed capital and liquidity that enables them to carry out their mission of serving low- and moderate-income (LMI) communities. While OFN recognizes the need to ensure the safety and soundness of the FHLBanks, we urge FHFA to balance that to ensure the primary mission of community development is not jeopardized in the process.

Question #2

As stated in the response to Question #1, OFN stands by the current statutory and regulatory frameworks. In addition to the existing requirements, OFN believe that CDFIs currently submit adequate financial information to support and maintain their FHLBank membership. Under current FHLBank requirements, CDFIs must maintain a ratio of net assets to total assets of at least 20 percent, have a positive net income, hold loan loss reserves of at least 30 percent of loans and leases 90 days or more delinquent, and operating liquidity of at least 1.0 for the four most recent quarters and for one or both of the two preceding years³.

OFN does not support making new financial condition review requirements that are substantially similar for all applicants due to the vast differences between different entities. The financial condition review should be flexible enough to reflect the differences in business models and capitalization structure for FHLB members. Alterations to the financial condition requirements could impede the growth of advances to CDFIs which will in turn negatively impact CDFI financing and support to LMI communities. For certified CDFIs, U.S. Treasury CDFI certification remains a mark of confidence in an organization's lending practices and commitment to community development.

Question #3

OFN is dedicated to ensuring that all CDFIs are mission-driven, including both parent and affiliate entities. The U.S. Treasury's CDFI Fund is responsible for ensuring that entities applying for certification as a CDFI have a mission focus. This process is essential for ensuring that CDFIs serve

² Reilly, Rachel, 2017. "Loan Fund Wins \$1 Million Award, Will Grant to Our Housing Partners." Enterprise Community Partners. <<https://www.enterprisecommunity.org/blog/2017/07/loan-fund-wins-1-million-award-will-grant-our-housing-partners>>

³ 2010. Federal Home Loan Bank Membership for Community Development Financial Institutions (Final Rule). Federal Housing Finance Agency. <<https://www.fhfa.gov/SupervisionRegulation/Rules/Pages/Federal-Home-Loan-Bank-Membership-for-Community-Development-Financial-Institutions.aspx>>



LMI 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 recently released an updated certification application for public comment that will apply its mission-driven test for certification to all CDFI types and require applicants to demonstrate the mission focus of their parent and affiliate entities⁴. This will help the CDFI Fund determine if a parent and their affiliate is truly 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 can be certified as CDFIs. OFN has also called for the CDFI Fund to evaluate applicant adherence to their stated mission including but not limited to: ⁵

- Charter or other formal documents establishing the organization's community and economic development mission
- Reports or publications that convey the results or impact of its mission
- Information on collaborations, partnerships or community engagement activities
- Affiliates and subsidiaries that demonstrate primary missions of community and/or economic development that complement the work of the CDFI
- Information on terms, rates and fees on loan products geared towards low income and other underserved borrowers.

As discussed in Question #1, OFN urges FHFA to ensure any proposed requirements do not hinder the FHLBanks' and CDFIs' missions of community development.

Question #4

Data demonstrates the success, safety, and soundness of CDFIs. For example, data shows that OFN membership, which includes mostly non-depository CDFIs, have low loan loss rates—a cumulative 0.79% from 1999-2018 that outperformed the 0.92% loan loss rate of FDIC-insured institutions in that same time period. OFN data also indicates a 1.34% delinquency rate greater than 90 days among OFN members in 2018. These points indicate minimal levels of risk for OFN's non-depository CDFIs, which includes nearly all non-depository CDFI members of the FHLBanks. CDFI members of the FHLBank system are low risk due to their size, advance withdrawals, and performance. There is limited data to suggest that CDFIs have challenged the safety and soundness of the FHLBanks.

Question #5

If FHFA were to permit conduit arrangements, OFN recommends new subsidiaries immediately be required to provide information that demonstrates how those entities will meet and advance the public policy mission of the FHLBanks. Regarding the FHLBank housing finance mission, OFN believes CDFI certification should be adequate in assessing CDFI commitment.

⁴ 2020. CDFI Certification Revisions for Public Comment. <<https://www.cdfifund.gov/programs/training/certification/cdfi/Pages/CertificationPRA.aspx>>

⁵ Williams, D., 2017. Comments on Request for Information On CDFI Certification. Opportunity Finance Network. <<https://ofn.org/sites/default/files/resources/PDFs/Policy%20Docs/2017/OFN%20CDFI%20Certification%20Comments%20Final%20March%2010%202017.pdf>>



Question #6

OFN does not recommend any changes.

Question #7

Regarding legislation, OFN supports H.R.5612, a bill introduced that would allow certain types of CDFIs, particularly non-depository CDFIs, to pledge additional types of collateral such as small business and agriculture in exchange for advances⁶. Although this RFI is un-related to legislation specifically, OFN would like to emphasize the need for greater collateral flexibility for CDFI members of the FHLBanks.

Conclusion

OFN appreciates FHFA's interest in receiving stakeholder input and we look forward to working with you to ensure CDFI members of the FHLBanks are fairly evaluated as they continue to serve LMI borrowers and carryout the mission of the FHLBanks.

If you have any questions, please feel free to contact me at (215) 219 -7243 or jhabibi@ofn.org.

Thank you,

Jamal Habibi

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⁶ H.R. 5612 - Small Business and Community Investments Expansion Act of 2020.



1. 2018 Low-Income Housing and Community Development Activities Of The Federal Home Loan Banks. Washington, DC: Federal Housing Finance Agency.
<https://www.fhfa.gov/AboutUs/Reports/ReportDocuments/2018%20Low-Income%20Housing%20and%20Community%20Development%20Activities%20of%20the%20Federal%20Home%20Loan%20Banks%20Report.pdf>
2. Reilly, Rachel, 2017. Loan Fund Wins \$1 Million Award, Will Grant To Our Housing Partners.
<https://www.enterprisecommunity.org/blog/2017/07/loan-fund-wins-1-million-award-will-grant-our-housing-partners>
3. 2010. Federal Home Loan Bank Membership for Community Development Financial Institutions (Final Rule). Federal Housing Finance Agency.
<https://www.fhfa.gov/SupervisionRegulation/Rules/Pages/Federal-Home-Loan-Bank-Membership-for-Community-Development-Financial-Institutions.aspx>
4. 2020. CDFI Certification Revisions for Public Comment. <https://www.cdfifund.gov/programs/training/certification/cdfi/Pages/CertificationPRA.aspx>
5. Williams, D., 2017. Comments On Request For Information On CDFI Certification. Opportunity Finance Network.
<https://ofn.org/sites/default/files/resources/PDFs/Policy%20Docs/2017/OFN%20CDFI%20Certification%20Comments%20Final%20March%2010%202017.pdf>
6. H.R. 5612 - Small Business and Community Investments Expansion Act of 2020.