October 13, 2022

Federal Housing Finance Agency (FHFA)
Constitution Center
400 7th Street, SW
Washington, DC 20219

Dear Sir or Madam:

I am writing today in response to the FHFA's request for comments regarding the Federal Home Loan Bank (FHLB) system, and particularly how it might better facilitate the development, rehabilitation, and preservation of multi-family housing that is affordable to low-income households. I offer recommendations that would help CDFIs better contribute to meeting the FHLB's national affordable housing and community development goals.

I write as the President and CEO of The Community Development Trust (CDT). Established in 1998 and certified as a CDFI in 2002, CDT has been a member of the Federal Home Loan Bank of New York since 2013. We are the nation's first real estate investment trust focused entirely on affordable rental housing. Unlike most of our CDFI peers, we attract a mix of debt and equity to capitalize our financing activities. To date, we have raised $309 million worth of common and preferred stock in six separate offerings, each of which have been filed with the federal Securities and Exchange Commission. We were the FHLB of New York's first CDFI borrower (in 2017) and have borrowed thus far an aggregate of $160 million from the FHLB.

We are one of the highest producing CDFI affordable housing financiers in the country. Since inception, we have provided more than $2.7 billion worth of loans and equity investments in support of 477 separate residential properties that collectively contain more than 53,000 rental units. About 90% of these units are affordable to low-income households, and more than 60% are affordable to very low-income tenants. We have a national service area; to date, we have financed projects in 42 separate states, the District of Columbia, Puerto Rico, and the US Virgin Islands. Our capital has supported the development and/or preservation of both subsidized and naturally affordable housing. We have financed family housing, developments specifically targeting the elderly, and mixed-income properties. We typically target smaller and/or non-conforming properties in which larger lenders have little interest. These experiences have given us both a broad and deep perspective on the range of issues facing the affordable housing industry.

CDT is a charter member of the CDFI Federal Home Loan Bank Member Working Group. Through our participation in the Group, our FHLB membership experience, and our relationships with other CDFIs, we have come to understand both the strengths and the limitations of the current FHLB approach to its CDFI members. Access to the FHLB's capital has enabled us to grow our pool of lending and investing dollars. In the five years since we first borrowed from the FHLB of

New York, we have increased our net worth by $270 million and our outstanding affordable housing portfolio by more than $1.3 billion. The comparatively low-cost FHLB dollars (our average borrowing rate has been below 2.0%) have helped reduce our weighted average cost of capital and enabled us to compete effectively with multi-family lenders that are not mission oriented. Since we impose an affordability covenant on each of our financed properties, we have been able to ensure that low-income households continue to rent apartments in these complexes well into the future.

At the same time, there are several aspects of the current FHLB system that limit what CDT and other CDFIs can do with respect to furthering affordable multi-family housing. The various FHLBs tend to offer CDFIs less favorable advance rates, collateral requirements, and loan pledges than they offer their regulated bank members. Moreover, the FHLBs' lending standards for CDFIs differ by region, as illustrated below:

FHLB	**Chicago**	**Dallas**	**New York**	**Pittsburgh**	**San Francisco**
Max Term on Loan Advances (years)	30	20	10	5	18
Max LTV on Multifamily Loans	100%	85%	85%	85%	N/A
Max Advance Rate on Multifamily Loans	65%	70%	75%	65%	79%

Moreover, certain FHLBs have developed specific programs for their CDFI members. The FHLBs of Chicago and Dallas, for instance, accept tax exempt bonds as collateral for multifamily loans. The FHLB of Chicago tailors its terms and ratios to members based on their financial position and capacity. Other FHLBs are less flexible, with strict ratios that apply to all their CDFI members.

These discrepancies have ramifications for affordable housing and community development. CDFIs that are members of the FHLB of Chicago, for instance, can access much longer-term capital from the FHLB than can members of the FHLBs of New York and Pittsburgh. As a result, the Chicago CDFIs can offer longer-term loans to their borrowers; longer-term capital is much more desirable than shorter-term money, as it fixes costs over a more extended period. Similarly, the FHLB of Chicago allows for a higher loan-to-value ratio in its underwriting of CDFIs' multi-family portfolios. Chicago-based CDFIs thus can potentially access more low-priced FHLB capital than their peers in other FHLB jurisdictions. In effect, CDFIs have access to different amounts and different types of capital simply because of the geographic location of their headquarters – even though they are borrowing from entities within the same nationally regulated system. Assuming the amounts and terms of the loans they offered were tied directly to the amounts and terms they received from their FHLB, New York-based CDT, San Francisco-based Low Income Investment Fund (LIIF), and Chicago-based Community Investment Corporation (CIC) would offer vastly different loans to the same affordable housing developer on the South Side of Chicago. (Both LIIF and CDT have national footprints, while CIC focuses almost entirely on Cook County, IL.)

The availability of affordable long-term capital for multi-family housing has become increasingly important in the past few years. Most affordable units continue to be financed in part with equity associated with the federal Low-Income Housing Tax Credit (LIHTC) and with proceeds from tax-exempt bonds. Yet with the cut in the federal corporate tax rates in 2017, the value of the LIHTC has dropped by up to 10% while spreads on tax-exempt bonds have increased. The reduced amounts of equity going into projects, along with higher development expenses resulting from increased labor costs, building material shortages and other supply chain issues, and rising interest rates, have resulted in larger capital financing gaps in both new construction and rehabilitation/preservation projects. With limited public subsidies available, developers have been forced to seek even greater amounts of debt.

The FHLBs' low advance rates on multifamily capital can negatively affect residential units' long-term affordability. If the FHLB advances only 70% of a CDFI's requested amount, the CDFI needs to find other sources for the remaining 30%. That non-FHLB capital generally comes with a much higher interest rate and potentially a shorter term than the FHLB dollars. With a higher blended cost of funds, the CDFI cannot offer as favorable financing to the developer as it would wish. The borrower consequently has less flexibility to offer lower rents or additional tenant amenities on site.

As a recipient of multiple awards from the federal CDFI Fund, CDT recognizes the importance of being a good steward of public dollars. We appreciate the importance of adequately collateralizing our loans and certainly do not wish to subject the FHLB capital to undue risk. That said, affordable multi-family properties – especially those financed largely with LIHTC-related equity – are among the safest financing assets in residential lending. The LIHTC equity accounts for up to 70% of the property's underlying value and serves as a built-in loan loss reserve. There is a widespread national shortage of affordable housing, with a typical property having dozens of households on its waiting list for an apartment. Maintaining high residential occupancy rates is not difficult for good property managers, and CDFIs such as CDT have become quite adept at identifying and supporting such managers. Simply put, the FHLBs should feel confident providing higher advance rates to loans supported by LIHTC projects.

As an entity committed to the FHLB system and the benefits it offers for affordable multi-family housing, CDT respectfully offers the following recommendations for ways the FHLBs can better meet the needs of their CDFI multi-family members:

1. Create consistent collateral requirements, advance ratios, loan-to-value ratios, stock purchase requirements, loan terms, and other lending policies across the system. These policies should apply equally to bank and CDFI members. A CDFI should not receive different loan terms simply because of its geographic location and the FHLB of which it is a member. This is particularly important given CDFIs' considerable geographic market overlap. A CDFI that is a member of the FHLB of Chicago, for instance, should not bring different FHLB capital to a Philadelphia-based development than a local CDFI that is a member of the FHLB of Pittsburgh.

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Specifically, we recommend the following:

- CDFIs' advance ratios should be similar to those afforded regulated bank members of the FHLB. Currently, CDFI members of the FHLB of New York have ratios typically 5% lower than bank members, which places the CDFIs at a considerable disadvantage in their ability to lend.
- The FHLBs should accept tax-exempt bonds as collateral for loans to CDFIs. Some FHLBs (Dallas, for example) presently allow such bonds to be used as advance collateral, but others (New York, for instance) do not – even though they may accept such "alternative" collateral from regulated bank members. First-position tax-exempt bond financing is a major source of capital for new affordable housing developments, and the bonds are underwritten in a manner similar to a typical first-position mortgage.
- Similarly, the FHLBs should accept CDFI second mortgages as approved collateral. Several FHLBs permit their bank members to use such loans as collateral while preventing their CDFI members from doing so. With the growing capital gaps in affordable housing developments, the importance of second mortgages has become even clearer. While the FHLB's Affordable Housing Program (AHP) continues to be a critical source of gap-filling capital for many projects, there simply are not enough AHP dollars available to address the extent of the need.
- Each FHLB should offer advance terms of at least 30 years to its CDFI members. Long-term financing promotes the stability of quality ownership, which benefits the affordable housing property and its residents.

2. If the FHLBs continue to maintain independence with respect to setting lending standards for CDFI members, CDFIs should have the opportunity to become members of (or transfer their existing membership to) any FHLB whose district encompasses at least a portion of the CDFI's geographic target market. In other words, a national lender such as LIIF or CDT should be able to choose the FHLB in which it holds a membership, rather than be limited to the bank whose district contains the CDFIs' headquarters.

3. The FHLBs should explore developing products specifically for CDFIs, recognizing their critical role in furthering affordable multi-family housing (and thus helping the FHLBs realize their mission). For example, the FHLBs could consider higher advance ratios for loan collateral secured by LIHTC projects. They could pool capital contributions from some of their regulated bank members for use as CDFI financing, with the bank members receiving Community Reinvestment Act credit when the CDFIs deployed their funds.

4. The FHLBs should not impose blanket requirements on their CDFI members with respect to collateral, reserves, or borrowing capacity. Rather, they should tailor their lending policies based on the financial condition, portfolio characteristics, and repayment capacity of the individual member. CDFIs have different credit profiles based on their markets, type of lending, and portfolio performance; their borrowing options should better reflect their specific profiles.

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To the best of our knowledge, the FHLB currently does not undertake such an analysis of its CDFI members after the CDFI's initial application for FHLB membership. Yet the quality of lenders and their portfolios change over time. With the receipt of Rapid Recovery Program and other stimulus dollars, many CDFIs are now in a much stronger financial position than previously. Moreover, the pandemic had very disparate effects on different types of CDFIs; multi-family lenders generally fared better than single-family or small business lenders.

5. In general, the FHLBs should recognize the complementary role that CDFIs play in helping realize the FHLBs' broader affordable housing and community development goals. CDFIs can and should be partners in the process. Rather than view CDFIs as "junior" members whose capital capacities are much smaller than those of regulated banks, the FHLBs should view and treat CDFIs as flexible organizations that can help catalyze development in distressed areas, meaningfully contribute to alleviating the nation's affordable housing shortage, and facilitate realization of the goals of the Community Reinvestment Act and the Housing and Economic Recovery Act of 2008.

Thank you for the opportunity to offer suggestions. I would be happy to further discuss any of these recommendations if desired. CDT very much appreciates our relationship with the Federal Home Loan Bank and looks forward to develop it further in the future.

Thank you,

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President and CEO

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