



March 17, 2023

The Honorable Sandra Thompson  
Director  
Federal Housing Finance Agency  
400 7th Street, SW  
Washington, DC 20019

Dear Director Thompson,

Thank you for the opportunity to share our experience and insight with your organization. I am writing to you as the President and CEO of The Center by Lendistry (TCbL), a member of the Federal Home Loan Bank of San Francisco Affordable Housing Council, and an experienced advocate with insight into the needs of low-income communities FHLB aims to support. I write to you in collaboration with Everett K. Sands, CEO and Founder of Lendistry.

Access to competitive financing is essential to Community Development Financial Institutions, which are the forefront of innovative solutions for underserved and undercapitalized communities. B.S.D. Capital dba Lendistry (“Lendistry”) is a member of the Federal Home Loan Bank of San Francisco because it is a valuable partner, resource, and direct source of capital, and deploying capital to the communities that need it most is at the core of Lendistry’s mission. The Center by Lendistry is a nonprofit organization that provides resources and education to small business owners and works closely with Lendistry to provide access to responsible small business capital.

Currently, not many CDFIs are members of the Federal Home Loan Bank. I would like to take this opportunity to outline some gaps which, if addressed, would encourage more CDFIs to become members and provide them with the affordable capital they are more than capable of putting to good use in undercapitalized areas. This would help FHLB to foster a stronger economic foundation for small businesses across the country.

There are few to very limited resources to support economic development strategies community development entities and CDFIs may want to pursue. The affordable housing field is much more mature in this area as it has resources such as:

- Robust Federal and State Tax Credits - While there are NMTC (New Market Tax Credits), the overall program is much smaller in size and scale and therefore impact on the economic development implementation landscape.
- Federal Lending products
- Local Lending resources (Cities, Counties, State sources)
- Other subsidy sources (FHLB Housing Programs)

This gap could be filled by the FHLB in the following ways:

#### **Larger Funding Pools and consider multi-year**

Within the FHLBSF system, the introduction of the AHEAD program (Affordable Housing Economic Assistance for Development) has served as an excellent resource to support non-housing related strategies to support community and economic development. The current program deployment strategy relies on distributing a larger number of awards at a lower dollar figure (\$25K to \$35K). Programs are supported at this level but greater scale of learning and impact don't occur with grants at this level. The recommendation here would be to increase the individual grant amounts and/or ask sponsoring member financial institutions, depending on size, to match 1 to 1 or .5 to 1. FHLBSF and others might also

consider multi-year commitments. CDFIs that sponsor might be given greater flexibility with regard to match requirements.

### **Place-based Funding**

Economic Opportunity has spatial implications. Clusters of poverty and lack of opportunity are readily visible. The FHLB system might consider multi-year place-based strategies that focus on key communities of investment that can involve member banks participating with resources, staff and product and local foundations. The goal would be to pool FHLB resources to create intensive and sustained impact on a place over time. During the pandemic, I was responsible for standing up a network of organizations across the state of California to support applicants in need of emergency and on-going support. There was a clear need to invest in key places that need stronger organizations and ecosystems to be able to take in and direct resources to vulnerable communities.

### **Create an Economic Development AHP-like program**

AHP is a huge source of funding for Affordable Housing, might the FHLB system create a similar program for Economic Development Activities? Large scale grants are hard to find for the purposes of economic development activities (community facilities, maker's space, creative loan funds, procurement accelerators, cooperative economic activities [joint commercial real estate ownership, worker owned cooperatives]). With a strategic focus on identifying high impact projects that have investment potential, an AHP-like program for economic development would go a long way in bringing more econ focused projects online.

### **Research/Convening/Training**

If the FHLB system moves more squarely into economic development there will be a need to conduct and share research about best practices and models with the field. The FHLB can serve as a convener on economic development bringing together thought leaders and sharing ideas. Finally, as more and more community development organizations consider how economic development (or lack thereof) impacts their work, I see a growing need to conduct trainings beyond convenings regarding what is economic development, the various strategies and how to implement strong programming and activities in the area.

### **Structural Changes to FHLB**

I don't believe that the FHLB system needs consolidation. Some regions may need to be broken up further to better serve smaller areas. Currently the FHLB staff, member participation and community advisory support relies heavily on Affordable Housing expertise. If FHLB is to move more towards economic development there will be a need to add staff, member bank partners and community advisory members with economic development expertise.

### **Structural Inconsistencies Between Banks and CDFIs**

Because FHLB accepts mortgages as its source of secured collateral, CDFIs are left out even though their assets are comparatively secure. Due to guarantees built into SSBCI and SBA financing, small business loans are just as secure as mortgages. We recommend FHLB begin to accept other asset classes to responsibly expand its member base.

Despite having zero losses from CDFIs, and even though the FHLB is mission focused, CDFIs are not given the credit they are due as innovative and effective financial institutions.

CDFIs are not allowed to originate small business loans and are not included in the definition of a CFI (Community Financial Institutions) according to FHLB. CDFIs are given an on average 10% - 20% lower advance rate than banks, and are also given shorter borrowing terms. Instead of providing funds (CIP, etc.) for lower interest rate for community projects, we recommend building a loan loss reserve fund (even though they never have lost money) to support higher



advance rates. We also recommend greater transparency from FHLB concerning what defines risk factors, so that CDFIs can provide information about their mitigation practices and qualify for competitive rates.

### **Collaboration Across Agencies**

FHFA and SBA should have an agreement (just like FRB and SBA do) to allow the SBA guarantee to transfer to FHLB in the event of default, and CDFIs and their subsidiaries should be allowed to originate and pledge SBA loans. The net effect would be low interest rates, more fixed vs. adjust rates to underserved communities, and larger capital deployment.

### **Liquidity for Smaller CDFIs**

Smaller CDFIs without the ability to become FHLB members still need access to liquidity sources. One strategy the FHLB might consider is helping to establish loan purchasing pools. The resources to establish these loan purchasing pools will be especially helpful for CDFIs with micro and small business portfolios.

And finally, if there is an opportunity to offer low- or no-cost capital for smaller CDFIs for the purposes of supporting creative capital deployment, this may be considered from a hybrid membership standpoint to allow for greater access to alternative sources of financing for growing CDFIs. This might even include a participation exchange network. Whereby, if a smaller CDFI has a loan that is viable but is in need of participation partnership, FHLB members could be part of an exchange to quickly vet and offer direct financing or help capitalize a fund that can be called upon depending on the project's characteristics.

Thank you for inviting your members to contribute to making FHLB a more inclusive and effective partner for small business and low-income communities.

Tunua Thrash-Ntuk  
President & CEO of The Center by Lendistry

Everett K. Sands  
CEO of Lendistry