



March 17, 2023

Sandra L. Thompson
Director, Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20024

RE: The Federal Home Loan Bank System at 100: Focusing on the Future

Dear Director Thompson:

Thank you for the opportunity to comment on the current performance of the FHLBank System and offer recommendations for the future. We appreciate FHFA's organizing regional roundtables to hear directly from the communities the FHLBanks are meant to serve in addition to providing this comment period. We have included in this letter recommendations for how the FHLBank System can not only remove barriers to accessing the FHLBank System faced by Puerto Rico's financial cooperatives but also serve mission-driven lenders like CDFI and MDI credit unions in all parts of the country more effectively.

Inclusiv is a member of the Federal Home Loan Bank of New York (FHLBNY) and is a national network of more than 450 mission-driven community development credit unions and cooperativas that for almost half a century has focused on promoting financial inclusion and community development in historically redlined communities and other communities shut out of the mainstream financial system. Inclusiv works closely with the network of financial cooperatives, or cooperativas de ahorro y crédito, in Puerto Rico. 95 cooperativas are Inclusiv members and they collectively serve 1.2 million people and hold more than \$11.9 billion in assets.

The FHLBank System Should Support Homeownership Efforts in Puerto Rico

Cooperativas are an integral part of Puerto Rico's financial system. Despite their regulated status and central role in Puerto Rico's economy, they have been excluded from tools available to mainland credit unions and access to federal and private community development and capital opportunities. For decades, cooperativas have provided affordable asset building opportunities and financial services leveraging their own capital. They have supported homeownership, resiliency initiatives, green lending, loans for consumers without credit histories, and more. Cooperativas are very active in the mortgage market, offering opportunities for non-conforming mortgages to low- and moderate-income and underserved members of their communities. Cooperativas collectively hold a portfolio of \$1.6 billion in mortgages.

The Federal Home Loan Bank of New York (FHLBNY) has the potential to support affordable homeownership and the development of affordable housing in Puerto Rico, but cooperativas, despite serving the communities FHLBanks were created to support, have faced significant challenges in joining the FHLBNY. We urge FHFA to address the challenges laid out below so that the FHLBank System serves residents of Puerto Rico equitably. In addition, extending membership to cooperativas could also represent one of the largest expansions of the FHLBNY in its history.

Cooperativas Are Publicly-Insured and Regulated Institutions

Although the capital structure of cooperativas is different than that of federally insured credit unions, they are publicly-insured and regulated institutions. They are regulated by the Public Corporation for the Supervision and Insurance of Cooperatives in Puerto Rico (COSSEC), an agency created by state law, and whose assets are guaranteed by the Government of Puerto Rico. COSSEC is considered equivalent to state credit union regulators by the Department of the Treasury's CDFI Fund and works closely with the Federal Reserve Bank of New York, NCUA, and other federal agencies.

Cooperativas in Puerto Rico are regulated by COSSEC, which provides government insurance instead of private insurance. Despite not being insured by the National Credit Union Administration, cooperativas are still subject to government oversight. However, the FHLBank System considers cooperativas as non-federally insured credit unions, which means they are excluded from membership if they do not meet the much more stringent standards required for privately insured credit unions. According to a recent analysis by COSSEC, this exclusionary policy effectively bars all cooperativas from becoming members of the FHLBNY.

We urge the FHFA to engage in a rulemaking process to update 12 CFR 1263.19 to allow cooperativas to participate in the FHLBank System on an equal footing as all other regulated and publicly-insured credit unions.

Ensure Equitable Language Access

Many federal programs are made available in Puerto Rico but few invest in the translation and interpretation services needed to ensure that there is broad and equitable access to the resources the programs provide. The FHFA should ensure that FHLBNY program materials are made available in Spanish to support cooperativas in accessing all programs in which they are eligible to participate, and should ensure that FHLBNY is appropriately staffed with Spanish-speaking staff who have programmatic expertise.

Facilitating Coordination Between FHFA and COSSEC

We have a close relationship with the Public Corporation for the Supervision and Insurance of Cooperatives (COSSEC). They have expressed to us their availability to address any and all questions you might have concerning the cooperative system to facilitate the development of a process to approve cooperativas for membership in the FHLBNY. We would be delighted to facilitate a formal relationship between FHFA and/or the FHLBank System and COSSEC.

The FHLBank System Should Be More Responsive to Community Development Credit Union Needs

FHLBank System members vary in their responsiveness to CDFI and MDI credit union needs. As a member of FHLBNY, our comments are focused on their specific programs and policies, but we urge FHFA to review all FHLBank System members' responsiveness to CDFI and MDI credit unions' as well as other mission-driven lenders' needs.

The FHLBNY's strong track record of collaborating with mainstream bank members to create effective products is well-known and it is important to extend that collaboration to CDFIs and MDIs that exist to serve the low-income communities and communities of color that mainstream banks fail to serve. Indeed, it is critical to ensuring that

the FHLBNY succeeds in its mission to “advance housing opportunity and local community development by supporting members in serving their markets.”

Three specific issues we would recommend the FHFA address through this process are: extending the terms on and reducing the CDFI haircut on advances, removing the requirement to provide physical documents when pledging whole loan collateral, and allowing the Mortgage Asset Program (MAP) to purchase loans secured by cooperatives.

The current maximum term on FHLBNY advances to CDFIs is 10 years, but a longer term would be significantly more supportive of homeownership programs. We would recommend adopting a term of at least 20 years. Allowing pre-payable advances would also be an important improvement that would allow FHLBNY to more effectively support mission-driven lenders. In addition to the less attractive terms available to CDFIs, FHLBNY charges CDFIs an additional 5% haircut, which disadvantages CDFIs compared to other FHLBNY members and is unwarranted given CDFIs’ strong track record of responsible lending.

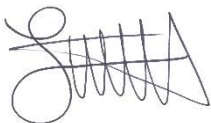
Requiring physical documents poses a significant administrative burden for smaller FHLBNY members and may prevent them from being able to use mortgages they originate as collateral and relying on Freddie Mac securities instead. Allowing CDFI borrowers to use listing status collateral would be a major step in the right direction. MDI credit unions, for example, are often small institutions—4 out of 5 have less than \$100 million in assets. Addressing this barrier would facilitate small lender participation in FHLBank System programs.

Finally, permitting FHLBNY members to sell loans on cooperative apartments into MAP would support affordable homeownership opportunities, as cooperatives are generally much more affordable than condominiums in New York City.

In addition to these policy changes, streamlining the membership application process would help smaller, community-based lenders join the FHLBank System and advance affordable homeownership in their communities.

We look forward to working together to help the FHFA strengthen the FHLBank System to better support its mission-driven members and remove barriers to the admittance of cooperativas into the Federal Home Loan Bank Of New York for the benefit of low- and moderate-income people in Puerto Rico.

Sincerely,

A handwritten signature in black ink, appearing to read 'Pablo DeFilippi', with a stylized, cursive script.

Pablo DeFilippi
EVP, Inclusiv Network