



March 31, 2023

Federal Housing Finance Agency (FHFA)  
Constitution Center  
400 7<sup>th</sup> Street SW  
Washington, DC 20019

**Re: Federal Home Loan Bank System at 100: Focusing on the Future**

Dear Sir or Madam:

The Low Income Investment Fund (LIIF) is pleased to contribute to the public input phase of the Federal Housing Finance Agency's (FHFA) Federal Home Loan Bank (FHLB) System at 100: Focusing on the Future initiative. As a member of the FHLB San Francisco and a national community development financial institution (CDFI) with a mission of advancing racial equity by driving \$5 billion towards opportunity-rich communities we see this comprehensive review as vital to ensuring the FHLB System remains dedicated to its charter of supporting community investment and economic development. It is imperative for the FHLB System to have a true understanding of how it can better support the CDFI sector, as we fill the gaps in financing historically excluded communities and our work is consistent with the FHLB's charter of supporting affordable housing financing and community lending.

For over 11 years, LIIF has been a member of FHLB San Francisco. We joined when FHLB first opened its membership to CDFIs and wanted access to lower priced credit facilities. Since becoming a member, we have benefitted from that access. For example, during the pandemic we were able to leverage the emergency financing programs our branch offered, which helped to serve our borrowers. Our branch offers a line of credit for short-term liquidity purposes that we utilize. We worked with our customers to secure Access to Housing and Economic Assistance for Development (AHEAD) grants offered by our branch. We also acted as advisors during that process. We are not a significant user of the Affordable Housing Program grants but having that option for our projects is helpful and we know that our peers greatly benefit from this program. Our relationship with FHLB San Francisco has been beneficial and positive, but there is more that the system can do to support the CDFI sector.

**1. Full System Change to Better Support CDFIs**

A key concern for the CDFI industry is the conservatism demonstrated by the FHLB, exemplified by "haircuts" and "mark to market" processes. These make significant borrowings from FHLB impractical and disadvantageous. Further, each branch differs in how flexibly it operates. The San Francisco branch has the most CDFI members within the system yet maintains a much more conservative approach. We believe creating concrete volume goals for FHLB like other government-sponsored enterprises will create a broader force for change. This will deepen the system's understanding of their CDFI clients and provide increased levels of service. By deepening the system's understanding, it will better support smaller CDFIs that could truly benefit from the sort of flexible capital the FHLB System is looking to offer.

**2. Change Underwriting Criteria to Reflect the Creditworthiness of CDFIs**

FHLB pricing is most beneficial to members viewed as less risky because they take deposits and have a consistent income stream – like banks and insurance companies. Because of this CDFIs are often treated as second-tier borrowers. We receive worse borrowing rates from FHLBs with haircuts ranging from 10% to 40% across the system.

LIIF is an S&P-rated organization and should be treated the same as other FHLB members with the same rating. Changing FHLB's underwriting criteria to reflect the creditworthiness of its borrowers would vastly improve our ability to leverage capital. FHLB should look at each CDFI's financial strength, portfolio



characteristics, and repayment capacity individually rather than grouping all CDFIs under the same general standards.

### **3. Consistent Advance Ratios**

The FHLB System should create consistent advance ratios between CDFIs and those afforded to insurance and regulated bank members of the FHLBs. FHLBs should establish and fund a shared insurance or reinsurance pool that would serve as a first loss back-stop on advances to non-depository CDFIs. This mechanism could be used by FHLBs on a competitive basis, like the Affordable Housing Program, to support lower haircuts and greater advances.

Providing member organizations with the ability to offer third-party collateral advances would increase access to the FHLB's advance window. CDFIs work with other FHLB member organizations, like banks and credit unions, as well as other investors like foundations. These relationships are vital to our work because they allow us to create innovative capital products that address historic inequities our society continues to grapple with. For example, we partnered with Bank of America and Wells Fargo to create the Black Developer Capital Initiative, which is a Special Purpose Credit Program that allows us to drive capital to specific communities. Leveraging these existing relationships provides banks with another opportunity to meet their CRA obligations, and for foundations to meet their charitable objectives.

### **4. CDFI-Specific Products and Services**

Finally, developing standardized products specifically for CDFIs in each branch will better support its CDFI members and is consistent with the FHLB's charter. The true benefit of this recommendation is an increase in the flow of capital into underserved communities, which is the basis of CDFIs – and FHLB's – work.

We support the true structural changes like those we have recommended to strengthen how CDFIs work with our member branch. By creating centralized expertise, the FHLB System could more efficiently and effectively develop appropriate and impactful CDFI products and services. These changes would ensure the FHLB System is responsive to the [White House's Executive Order on Further Advancing Racial Equity and Support for Underserved Communities Through The Federal Government](#). We are eager to see change and be a partner to FHFA and the FHLB System as it works to meet its charter.

If you have any questions regarding these comments, please contact me at [dnissenbaum@liifund.org](mailto:dnissenbaum@liifund.org) or Lucy Arellano Baglieri, our Chief Strategy Officer, at [larellano@liifund.org](mailto:larellano@liifund.org).

Sincerely,

A handwritten signature in blue ink, appearing to read 'Dan Nissenbaum', with a long horizontal flourish extending to the right.

Daniel A. Nissenbaum  
Chief Executive Officer  
Low Income Investment Fund