



March 31, 2023

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

Dear Director Thompson,

Coastal Enterprises, Inc. (CEI), appreciates the opportunity to comment on the Federal Home Loan Bank system and our experience as a non-regulated member of the FHLB of Boston (FHLBB).

CEI is a 45-year-old non-profit Community Development Financial Institution (CDFI) based in Brunswick, Maine. Our mission is to build a just, vibrant and climate-resilient future for people and communities in Maine and rural regions by integrating finance, business expertise and policy solutions in ways that make the economy work more equitably. We do this by integrating finance, business expertise and policy solutions in ways that make the economy work more equitably.

CEI envisions a world in which vibrant, equitable and environmentally sustainable local economies enable all people and communities to thrive.

Since 1977, the CEI family of organizations has provided \$1.53 billion in 3,222 enterprises, creating or retaining nearly 45,000 jobs; created/preserved over 3,500 affordable homes; provided training and counseling to over 72,000 individuals and businesses; created/preserved nearly 7,200 child care slots; and provided leadership on state and federal policy initiatives. CEI was a founding member of the New Markets Tax Credit Coalition and helped to shape that program, and has been a leader in New Markets, community development venture capital, and other creative and high-mission capital deployment in Maine and beyond. CEI is also a NeighborWorks Organization and a member of the National NeighborWorks Association (NNA), the National Community Reinvestment Coalition (NCRC), the National Rural Housing Coalition (NRHC), the Opportunity Finance Network (OFN), the CDFI Coalition, the New Markets Tax Credit Coalition, and the National Association of Affordable Housing Lenders (NAAHL).

As you know, in early 2010, the FHFA issued regulations implementing the provisions in the Housing and Economic Recovery Act of 2008 (HERA) opening Federal Home Loan Bank System membership to CDFIs. CEI was active in the effort to open FHLB membership to CDFIs, working with OFN to advocate for membership, and subsequently for the promulgation of rules conducive to CDFI membership. FHLB membership was attractive in large part because of the prospect that it could provide access to very low-cost, very flexible capital and credit enhancement. In early 2013, CEI became the first CDFI to join the FHLBB. While CEI was then and continues to be primarily a small business lender, at the time our portfolio of first-position housing loans totaled nearly \$17 million. We believed that this would provide

sufficient collateral to access FHLB advance, with which we hoped to build additional collateral through housing lending and mortgage purchases.

However, once we had been admitted as a member, we immediately encountered obstacles.

1. CEI was limited by FHLBB to pledging only cash or securities. This determination was based on FHLBB's understanding that CEI lacked sufficient loan collateral, although they did not conduct a review of that collateral. However, our internal review indicated that very few of CEI's housing loans would qualify. CEI's loan portfolio included very few of the type of loans considered by FHLBB to be acceptable collateral. We are primarily a small business lender, and these loans do not qualify. We do make mortgage loans both to multifamily housing projects and to commercial real estate projects, but not all of these are first position, and some of the real estate lending is to project types excluded by FHLBB, or does not have sufficient LTV, DSCR, or adequate payment history to qualify.
2. For every advance, the FHLBB imposes a blanket lien on all eligible assets unless the member is using cash or securities as collateral. This created a barrier for CEI, as many of its loans are funded with general recourse loans from others that would not want their assets to be included in an FHLB lien.
3. For loans that may have qualified, the FHLB haircut made an advance a great deal less attractive. As a Category 3 member, CEI's haircut would have been at least 35% on any pledged mortgages.
4. The FHLBB also accepted commercial real estate loans as collateral, and initially CEI believed that our commercial real estate portfolio might offer a way in. However, FHLBB's list of excluded types of mortgages created a challenge not worth attempting to surmount.
5. FHLBB also accepted selected small business and farm loans as collateral – but only from Community Financial Institutions (CFIs), which are defined in statute as depository institutions.
6. Finally, our experience was that the membership and community development staff with whom we initially worked to gain membership either did not know or did not share information about the credit restrictions that became evident after our admission. The result was that we underwent a time-intensive and rigorous admissions process, were accepted, and only then began to understand the barrier that stood in the way of actually benefitting from this membership.

During our time as a FHLBB member, CEI has taken only one small advance – using cash as collateral. We did so only in order to establish a foothold, in the hopes that we might subsequently be able to access some of the FHLBB's more valuable resources. We were never able to do so, and in October of 2018, we notified the FHLBB of our intent to exit membership as 10/18/23.

This experience was a great disappointment. While CEI is, as stated, primarily a small business lender, we had hoped that our affordable housing lending might not only provide collateral for FHLBB's valuable products, but would also grow as a result. In addition, we had hoped that FHLBB could provide short-term liquidity and longer term financing to support both housing and small business lending.

In the end, CEI's assessment is that our organization was not a good fit for FHLBB membership under current rules and practices. While we understand the need for the FHLBs to minimize risk, we would suggest that the restrictive practices of FHLBB were excessively conservative. CEI is an Aeris-rated CDFI with a strong balance sheet, a high-performing portfolio, and a long and successful history of lending, investment, and financial management. The FHLBs have a mission to support affordable housing and community development, not simply to provide liquidity for (some) of their members. We urge FHFA to consider changes that would support this mission and CDFI participation. FHLBs could be encouraged to initiate pilot programs or carve-outs for high-mission organizations and projects, for instance. They could consider different approaches to underwriting strong CDFI members so that they are not classified as third-tier members – perhaps a stepped approach starting with small advances to allow CDFIs to build collateral and a track record. We also suggest that FHFA review the haircuts imposed by FHLBs to determine whether they may be excessive.

Finally, CEI urges the FHFA to consider all of the ways that the FHLB system can provide support for affordable housing and community economic development in underserved urban and rural communities. The Affordable Housing Program provides valuable resources in our region, but given the strong financial performance of the FHLBs, we suggest that they could – at least in good times – carve out a larger share of their profits for this and perhaps other programs. A low-cost lending pool for CDFIs that are too small or not a perfect fit for membership would be one idea. The FHLBs are government supported enterprises and, as such, we believe they could and should be asked to do more.

Sincerely,



Laura Buxbaum

SVP, Public Policy and Resource Development

