

March 31, 2022

The Honorable Sandra L. Thompson  
Director  
Federal Housing Finance Agency  
400 7th Street SW  
Washington, DC 20219

Dear Director Thompson:

Thank you for the opportunity to submit comments related to the FHLBank System at 100: Focusing on the Future.

Opportunity Finance Network (OFN) is a leading national network of more than 390 community development financial institutions (CDFIs), specialized lenders that provide responsible financial products and services in low-income rural, urban, and Native communities nationwide. Since its founding in 1986 and through 2021, the network has originated more than \$100.4 billion in financing.<sup>1</sup>

Since the CDFI industry's earliest days, CDFIs have worked to boost homeownership for low- to moderate-income (LMI) people and increase affordable rental housing opportunities. CDFIs offer low-interest rate mortgages with flexible underwriting, invest in the development of high-quality, energy-efficient homes, and innovate in affordable housing preservation and creation. CDFI investments create affordable, safe, and desirable rental housing that provide stability and a place to call home for families in all 50 states, D.C., Puerto Rico, and the U.S. Virgin Islands. Through 2021, OFN member CDFIs have helped support the development or rehabilitation of more than 2.3 million affordable housing units nationwide. CDFIs nationwide have financed \$2 billion annually in mortgages.<sup>2</sup>

OFN is pleased to submit responses to the following questions:

1. What is the single most important change you would recommend to best position the System to fulfill the role(s) you envision? If no changes are needed, why not?

**The system should have an explicit focus on meeting the housing finance needs of Low and Moderate-Income people and places.** The current practice places an excessive emphasis on protecting the system from losses and averting risk, at the expense of making capital available to address the housing crisis. The nation's affordable housing crisis is worsening – and homeownership is getting further out of reach for many low-income families. Working more closely with CDFIs is an important way to reach deeper into underserved markets including communities of color, rural communities, and Native communities.

FHLBanks work well with mainstream financial institutions but that does not always address the needs and challenges of those outside of the financial mainstream – especially as nonbank mortgage lenders capture a growing share of the market and serve more LMI

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<sup>1</sup> <https://www.ofn.org/cdfi-impact/>

<sup>2</sup> <https://www.ofn.org/key-priorities/affordable-housing/>



customers and people of color. This creates a separate housing finance system for underserved communities that could be exacerbating inequality in the housing market.

Progress towards a more equitable housing finance market has been made with the opening of FHLB membership to community development loan funds but more must be done. **Ten years after CDFI loan funds became eligible members, there are still fewer than 70 loan fund members of the FHLB system, less than 15 percent of the more than 500 loan funds currently certified by Treasury.** There have even been CDFI loan funds that joined as members and subsequently exited the system because membership did not offer the benefits they had anticipated. While FHLB membership is not a good fit for all CDFIs, there is much more room to grow, partner with, and leverage the nation's network of CDFIs. This is especially true as the CDFI Fund tightens requirements for CDFI certification, ensuring that all potential CDFI members of the FHLB offer affordable, responsible financial products and have a true community development mission.

**2. Do you believe structural changes to the FHLBank System (e.g., consolidation, change in membership) would be necessary or advisable to fulfill the role(s) you envision? Why or why not?**

Yes, particularly as it relates to collateral and other requirements for nonbank mission lenders. FHLBs provide access to the low-cost, long-term capital that CDFIs need to do their work. Unfortunately, the benefits of being members of the FHLB system have not been fully realized for many CDFI members because of the challenges of securing advances from their member banks, primarily due to collateral requirements. Safety and soundness are important, but loan funds have an extensive track record of exceptional financial management, repayment to investors, as well as delivering community development impact.

CDFI loan fund members are a tiny fraction of the system's membership and represent almost no systemic risk. At the same time, these specialized lenders are uniquely qualified to help capital flow to low-income and low-wealth markets at a time when affordable homeownership opportunities are getting further out of reach.

Providing additional training to FHLBanks on the performance and asset quality of CDFI loan fund members could result in reforming some of the financial practices of the FHLBanks designed to avoid unnecessary risk and losses. Currently, these practices vary based on the bank. FHLBs should also provide access to more CDFI friendly products that offer the long-term, low-cost capital needed to serve underserved markets.

**3. Additional Recommendations:**

The existing grant programs to support homeownership like the Affordable Housing Program and Downpayment Assistance Program - while helpful and effective - are simply too small to address the scale of challenges facing LMI borrowers. Given the magnitude of the challenges in the housing market, the FHLBs should invest more resources into these grant programs. OFN recommends increasing a FHLB's net income devoted to products or advances supporting community development in low-income markets from 10 to at least 15 percent.



There is also a need for more innovation in the system – especially larger, focused partnerships like the Community First Fund in Chicago. The Community First Fund is a \$50 million revolving loan fund that provides direct support to community development financial institutions, community development loan funds, and state housing finance agencies serving Illinois and Wisconsin. It supplies lower-interest-rate, long-term financing to help recipients expand their capacity for affordable housing and economic development lending. The Community First Fund provides organizations with the resources they need to employ their expertise and allocate funds according to the demands they see at the local level. Among the Fund's unique features is its capacity to support economic development and affordable housing. This excellent model could be expanded to other FHLBs.

The FHFA should facilitate information sharing among all eleven FHLBs on topics of mutual interest such as underwriting CDFI loan funds. The FHFA could also highlight products or procedures that have worked well for CDFI loan funds in an individual FHLB to the rest of the system. While regional markets are different and individual FHLBs operate independently, efficiencies could be realized by a more proactive FHFA role around successfully engaging CDFI loan fund members.

We appreciate the opportunity to share recommendations on how CDFI loan funds can better support the FHLB system's affordable housing mission by participating more fully as member institutions.

Sincerely,

Jennifer A. Vasiloff  
Chief External Affairs Officer