

# KENTUCKY HIGHLANDS INVESTMENT CORPORATION

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July 1, 2009

Alfred M. Pollard  
General Counsel  
Federal Housing Finance Agency, Fourth Floor  
1700 G Street, NW  
Washington, DC 20552

ATTN: Comments/RIN 2590-AA18

Dear Mr. Pollard,

On behalf of my organization, Kentucky Highlands Investment Corporation, I appreciate the chance to comment on the Federal Housing Finance Agency's (FHFA) request for comments on the proposed rule published in the *Federal Register* on May 15, 2009 regarding community development financial institutions' (CDFIs) membership in the Federal Home Loan Bank System (FHLBank System).

Kentucky Highlands Investment Corporation is a 41 year old community development financial institution which has created over 17,000 jobs and has invested over \$175 million in businesses located in its southeast Kentucky service area.

Opportunity Finance Network (OFN) addressed all questions posed by the FHFA regarding the proposed rule and I encourage you to follow the guidance provided by OFN.

In particular, I strongly urge the FHFA to consider CDFIs as community financial institutions. My CDFI falls well below the \$1 billion asset threshold and we provide all types of lending, not just housing. Kentucky Highlands is one of the original organizations that developed the community development venture capital field recognizing that both access to capital and entrepreneurship development are necessary in order to create jobs and have a vibrant economy. Kentucky Highlands provides both debt and equity financing for businesses. The FHFA should consider CDFIs community financial institutions because they ARE community financial institutions. Not only would this help CDFIs like mine continue to offer much-needed services, but it would also allow us to help the FHLBs fulfill their mission for *both* affordable housing and community investment.

You are also proposing a minimum net asset ratio of 20 percent for membership eligibility. I believe this is unduly high and out of line with other financial entities, which are considered well capitalized with a net asset ratio of three to seven percent. A lower net asset ratio of 10 percent for membership eligibility is more appropriate since my CDFI has a sound equity base and we use that equity to leverage debt.

I would also like to emphasize the following points that Opportunity Finance Network made in its comment letter:

- I agree with the FHFA that there is no need for a self-sufficiency ratio. My CDFI provides technical assistance and other services to our borrowers as part of our mission. My organization should not be penalized for following CDFI certification requirements.
- CDFIs should be considered in compliance with the community support regulation by virtue of certification as a CDFI.
- The FHFA should require each FHLB to report on how many CDFIs applied for membership; how many were accepted as members; how many were rejected and why; and the CDFI members' use of advances.
- CDFIs could originate SBA 7(a) and 504 loans to increase investment in community small businesses. Many small banks do not have personnel to originate these loans.

Opportunity Finance Network addressed all questions posed by the FHFA regarding CDFI membership, and again, I urge you to refer to OFN's comment letter to provide guidance. There are, however, a few questions that you posed in the proposed rule that I would like to specifically address. There are many CDFI's that primarily specialize in business development and investment and not housing. Kentucky Highlands Investment Corporation is one of them.

In general, the proposed rule recognizes the unique characteristics of CDFIs and the valuable contribution we make to low-wealth and low-income communities across the nation. I would like to express my gratitude to the FHFA staff who undertook this endeavor to understand CDFIs and their benefit to the Federal Home Loan Bank System. I encourage you to finalize the proposed rule with the changes suggested as soon as possible.

Thank you for the opportunity to comment. Please do not hesitate to contact me at 606-864-5175 or [bmcdaniel@khic.org](mailto:bmcdaniel@khic.org). if you have questions or need additional clarification.

Sincerely,



Brenda McDaniel  
Executive Vice President and Chief Financial Officer