July 9, 2009

Alfred M. Pollard
General Counsel
Attention: Comments/RIN 2590-AA18
Federal Housing Finance Agency
Fourth Floor
1700 G Street NW
Washington, DC 20552

Re: Comments to proposed rule governing Federal Home Loan Bank membership for Community Development Financial Institutions

Dear Mr. Pollard:

Self-Help Ventures Fund ("Self-Help") respectfully submits this letter to you in response to the request for comments from the Federal Housing Finance Agency to the proposed rule governing Federal Home Loan Bank ("FHLB") membership for Community Development Financial Institutions ("CDFIs"), as published in the Federal Register on May 15, 2009.

I. INTRODUCTION

Self-Help was designated as a CDFI in 1996, and ever since we have been an active participant in many CDFI activities and programs offered by the Community Development Financial Institutions Fund (the "Fund") of the U.S. Department of the Treasury. We are grateful for the opportunity to comment on the proposed rule.

In July 2008, Congress passed the Housing and Economic Recovery Act of 2008 (the "Act"). Section 1206 of the Act permits Treasury-certified CDFIs to join a Federal Home Loan Bank (FHLB).

As the financial crisis has developed during the past year, the FHLB as a potential financing source has increased in importance for CDFIs. Self-Help is a CDFI with assets of approximately $1 billion, and it provides financing to families, small businesses and nonprofits across the country through commercial lending and a home loan secondary market program. The recession has sharply curtailed the availability of reliable financing for Self-Help, despite our continued strong financial position. In the past year, three of Self-Help's credit providers have ceased their funding to us due to their own financial difficulties. Two others have gone out of business entirely. Another one was placed into conservatorship by the National Credit Union Administration ("NCUA") earlier this year. Other counterparties are in financial distress and ongoing availability of credit from them is uncertain at best. The cumulative result is significantly reduced funding for Self-Help due to factors that are independent of our own financial position and credit worthiness. This curtailment hampers our ability to provide ongoing financial services to disadvantaged communities. Membership in the FHLB would be an important source of potential funding for Self-Help.

It is important to note that FHLB membership is only the first step for a CDFI to obtain an advance from a FHLB. Membership alone does not assure access to credit, as the FHLB must also rigorously underwrite each member that seeks a loan as being creditworthy. In addition, the CDFI must satisfy the FHLB's strict collateral requirements.

II. COMMENTS ON THE PROPOSED RULE

We believe that the proposed rule as a whole is reasonable and balanced, and will provide valuable opportunities for CDFIs to become members of a FHLB. We commend the Federal Housing Finance Agency for its thoughtful and carefully crafted proposed rule. Although we are generally supportive of the rule, we believe there are several sections of the proposed rule that place unnecessary burdens on CDFIs to become members of a FHLB. Below we address the specific proposed provisions, describe our concerns about them, and provide an alternative approach that we believe will better accomplish the objectives of the Act.

A. Net Asset Ratio.

1. *Definition of Net Assets.*

Proposed section 1263.16(b)(2)(i) requires a CDFI applicant, other than a CDFI credit union, to a FHLB to have a "ratio of net assets to total assets of at least 20 percent." Net assets is "the residual value of assets over liabilities" based on the applicant's most recent financial statements. We believe this definition should be modified to exclude unrealized gains and losses. The exclusion of unrealized gains and losses from the net assets ratio would be consistent with NCUA's definition of "net worth," which is a synonym for net assets in the credit union context. 12 CFR 702.2(f) defines net worth to be the retained earnings of a credit union, except for low-income designated credit unions, which can also include secondary capital accounts. As retained earnings includes only undivided earnings, regular reserves and other appropriations of accumulated undivided earnings, it excludes unrealized gains and losses, which do not flow through undivided earnings.

2. *Proposed Ratio Should be Lowered.*

We believe a 20% net asset ratio as a threshold for membership is excessively high. A bank that has a net assets ratio of only 5% is regarded as "well capitalized," which is the highest classification, and a net asset ratio of 4% is sufficient for a bank to be treated as "adequately capitalized." See 12 CFR 325.103(b). Credit unions require a net assets ratio of only 7% to be classified as "well capitalized" and only 6% to be "adequately capitalized." See 12 CFR 701.102. We believe it is overly burdensome to require CDFIs to maintain a net asset ratio nearly three times higher than that required of other FHLB members. We believe a net assets ratio of 7% - the highest ratio that is legally required for depository institutions that desire to become members of a FHLB - would be appropriate for CDFI applicants. We believe that a non-depository CDFI with net worth below 20% should not be barred from FHLB membership based solely on that measure.

Furthermore, imposing a 20% net asset ratio on CDFIs would unnecessarily restrict the flow of credit. The severity of the current economic downturn was caused in part by the credit crisis that sharply reduced the ability of our nation's businesses to borrow. Requiring CDFIs to maintain a 20% net asset ratio would

cause CDFIs such as Self-Help to restrict their lending at a time when community development lending needs to flow in order to spur economic recovery.

We recognize that the net asset ratio is an important measure of a CDFI's financial strength, but imposing a net asset ratio that is far out of line with the ratios for other members of the FHLB is unnecessary. Any other concerns about the suitability of the CDFI applicant for membership are sufficiently addressed through the other requirements for membership set forth in the proposed rule. In addition, the net asset ratio is used only to determine eligibility for membership in a FHLB. Membership alone does not assure access to credit. The FHLB itself will make a separate decision, based on sound underwriting practices, on whether to extend credit to a CDFI.

B. Earnings.

Proposed section 1263.16(b)(2)(ii) requires a CDFI applicant to have "positive net income for two of the three most recent years." We agree that this requirement is appropriate for established CDFIs. However, we believe it is inappropriate for newly formed CDFIs. We suggest that newly formed CDFIs should be exempt from the earnings requirement if they have been in existence for less than three years. This provision would put CDFIs on par with de novo insured depository institution applicants of the FHLB, which are addressed by 12 CFR 925.14 and in section 1263.14(a) of the proposed rule. That section states,

"An insured depository institution applicant whose date of charter approval is within three years prior to the date the [FHLB] receives the applicant's application for membership in the [FHLB] (de novo applicant) is deemed to meet the requirements of §§ 1263.7, 1263.8, 1263.11 and 1263.12."

Proposed section 1263.11(b)(3)(A) includes the earnings requirement for insured depository institution applicants. Section 1263.14(a) exempts a de novo applicant from the earnings requirement. We believe a similar exemption should apply for CDFIs that have been in existence for less than three years.

We realize that a FHLB may be concerned about extending credit to de novo CDFIs that do not have a track record of positive earnings. Adopting the provisions we propose here would not require a FHLB to extend credit to de novo CDFIs – any credit decision would be made by FHLB as part of their rigorous underwriting process. We see no reason to deny FHLB membership to a de novo CDFI solely because it is impossible for it to meet the earnings requirement, provided that it satisfies the other requirements for membership.

C. Community Financial Institution Amendments.

When it published the proposed rule, FHFA requested comment on whether the Act's provisions related to Community Financial Institutions ("CFIs"), which broadened the circumstances under which CFIs may obtain advances from the FHLB, should also apply to CDFIs. We believe they should. Section 1211 of the Act modified 12 USC 1430 to permit a FHLB to make advances to CFIs for "community development activities." Such activities are not further defined by the Act. Although we acknowledge that CFIs must be depository institutions that are insured by the Federal Deposit Insurance Corporation, the Act amendments that permit FHLB advances for community development activities make no mention of the FDIC insurance requirement. We believe that Congress did not specifically make Section 1211 of the Act applicable to CDFIs because CDFIs, prior to the enactment of the Act, were not eligible for FHLB membership. Thus, we believe the most reasonable construction of the Act is that Congress intended

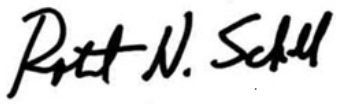
community development activities to be eligible for FHLB advances, and community development loans to be eligible collateral for FHLB advances, both for CFIs and for CDFIs. This is supported by Section 1211 of the Act with respect to CFIs, and by Section 1206 of the Act with respect to CDFIs. Section 1206 of the Act, which made CDFIs eligible for FHLB membership, supports the position that Congress intended broad-based FHLB support for community development activities. CDFIs, by their very nature, engage in community development activities, and therefore we believe that they should be afforded the same opportunities to receive advances from, and pledge collateral to, the FHLB as CFIs. Therefore, we believe FHFA should implement that broad intent by construing the provisions of Section 1211 of the Act to apply to CDFIs.

III. CONCLUSION

Again, we applaud the Federal Housing Finance Agency for its proposed rule, and we appreciate the opportunity to provide comment on it. We believe modifying the net asset ratio and earnings requirements, and applying the CFI community development activities provisions to CDFIs, all as set forth above, will serve to implement the purposes of the Act more effectively without presenting any material risk to a FHLB.

Please feel free to contact me at 919-956-4434 or bob.schall@self-help.org if you have any questions.

Sincerely,



Robert N. Schall, President
Self-Help Ventures Fund