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July 9, 2009

Mr. Alfred M. Pollard
General Counsel
Federal Housing Finance Agency
1700 G Street, NW, 4th Floor
Washington, DC 20552

Re: RIN 2590-AA18

Mr. Pollard:

Please consider the following comments regarding proposed rules for admitting Community Development Financial Institutions (CDFIs) as members to Federal Home Loan Banks ("Bank"). Note that Funding Partners for Housing Solutions, Inc. (dba Funding Partners) holds certification as a CDFI revolving loan fund through the CDFI Fund within the Department of the Treasury and active participant with FHL Bank of Topeka. Lending and development services primarily focus upon residential development and purchase assistance to low and moderate-income households.

Pursuant to the request for comment on proposed rules issued May 15, 2009, the following observations represent the opinion of Funding Partners and ordered according to appearance within the Federal Register and not intended to address all matters of further consideration by the Federal Housing Finance Agency ("FHFA"). Further note Funding Partners supports to substantial degree and has signed on to a comment letter submitted by Opportunity Finance Network. Deviations of opinion are addressed within this statement with additional commentary as to issues absent from the Network letter.

Section II (E) *Eligibility*

Long-term mortgage loans requirement. The proposed rule appears to provide certain latitude to the Bank to determine whether the CDFI applicant demonstrates consistency with Section 4(a)(1)(C) the Bank Act. While this may allow a more broad interpretation of definitions under Subpart A of the Notice, it fails to recognize an important business model of numerous CDFIs. While regulated institutions primarily issue first lien debt instruments and offer subordinate lien instruments as a matter of convenience to its customer base, CDFIs tend to operate in reverse. First lien instruments are capital intensive, which precludes most CDFIs from offering a portfolio loan product. Further, such product must offer significant differentiation in form or function from widely available financing alternatives within the marketplace to justify the dedication capital resources. Recognizing these limitations, a CDFI that offers a senior lien loan product most often functions as a mortgage broker or wholesale, rather direct, lender.

Reflective of the smaller capitalization size, as compared to regulated institutions, most housing-focused CDFIs design and issue subordinate lien products that carry a smaller principal balance to maximize the number of households served. To deliver community benefit, such products tend to offer more flexibility than a traditional amortizing product. Subordinate products may also provide financing to improve health, safety and energy efficiency improvements not widely available through regulated institutions. Therefore, those CDFIs that otherwise clearly deliver mortgage financing to target households and underserved communities based upon the prevailing definition may be precluded from demonstrating a core service to target populations under the proposed definition.

For purposes of defining eligibility and related references, proposed rules should refer to “Residential Mortgage Loan” as defined within Subpart A, or clarify “home mortgage loan” to include *any mortgage instrument secured by deed or other instrument to evidence a collateral position no greater than 100% of the property appraised value, inclusive of all recorded collateral instruments, at the time such loan is issued*. Regardless of reference or amended definition, this modification should not be construed to define acceptable collateral for advances issued by the Bank.

Financial Condition Requirement. Proposed rules allow CDFI applicant institutions opportunity to demonstrate independent assessment of reporting systems and financial condition free of undue burden. Further it recognizes the need for FHL Bank institutions to establish a uniform evaluation and monitoring tool across this industry segment. It should be noted that annual GAAS-consistent financial audit requirements are appropriate; greater frequency would constitute a financial burden to most CDFIs given the relative size of such institutions. Alternatively, the more sophisticated institutions would be able to submit quarterly financial reports which include a positive affirmation as to the completeness, accuracy and presence of any material issues not reflected within the internal statements. Such affirmation would be executed by both a governing Board representative and chief executive officer of the CDFI, as consistent with reporting provisions under interpretation of the Sarbanes-Oxley Act.

FHFA is discouraged from adopting a third-party rating standard within the proposed regulations, such as the CDFI Assessment and Rating System (“CARS”) offered through Opportunity Finance Network. In the absence of competing vendors for industry-specific rating services, it would be premature to assume such service is both appropriate and relevant to supplant individual assessment of an applicant CDFI by the member Bank.

Self-Sufficiency or Sustainability Ratio. Proposed rules accurately characterize the inherent discrepancy of achieving objectives defined by the CDFI Fund while retaining the economic integrity of the CDFI and, by extension, the Bank to which it might belong as member. Provided the ratio reflects earned revenue as the numerator and the sum of total expenses *minus* extraordinary items as denominator, a ratio should be considered as a measure of maturity and sophistication of the CDFI. The threshold should further reflect peer data collected by the CDFI Fund that recognizes the extent of non-revenue generating activities of the applicant institution as required for certification by the CDFI Fund; e.g. “Development Services”.

As with most financial institutions, CDFIs have also been faced with asset impairments which tend to negatively exaggerate the true market value of loans receivable during times of economic distress. Unlike regulated institutions, however, a CDFI will be heavily discouraged from capturing additional revenue as market conditions improve to offset any recorded impairment. This impact may be muted by the exception of accrual expense items considered extraordinary in nature as determined by evidence provided by the CDFI and further considered by the Bank.

Section II (I) *Community Financial Institution Amendments*

It appears from the analysis that HERA legislation circumvented the primary benefit of bank membership to a CDFI. Since a primary barrier to mission achievement, as noted within the *Background* section, is the lack of liquidity and inability to access capital markets, Bank membership offers a remarkable achievement for many CDFIs. Consistent and appropriately structured liquidity vehicles, as structured under Bank advance programs, represent a primary motivation for our industry to seek this legislation. Therefore, FHFA is strongly encouraged to forward a clarifying definition of CDFIs so as to differentiate FDIC insurance requirements of CDFIs established under the Bank Act.

According to analysis, interpretation and prevailing standards of each Bank member, CDFI applicants should be provided opportunity to structure and deliver adequate collateral for participation under Bank advance programs. The presence of FDIC insurance alone should not be deemed as a defining endorsement of the financial health, organizational management and asset quality of Bank members.

We appreciate the opportunity to provide this commentary and welcome any request for further clarification or exploration of the subject matter.

Respectfully,

Joe Rowan

Joe Rowan
Executive Director