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July 14, 2009

BY FEDERAL EXPRESS AND EMAIL

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

RE: Federal Home Loan Bank Membership for Community Development Financial Institutions – RIN 2590-AA18

Dear Mr. Pollard:

The Board of Directors (Board) and the Affordable Housing Advisory Council (AHAC) of the Federal Home Loan Bank of Des Moines (Bank) express their appreciation for the opportunity to submit comments on the proposed rule for Community Development Financial Institution (CDFI) Federal Home Loan Bank (FHLBank) membership.

AHAC held a teleconference to discuss the proposed rule, including the issues on which the Federal Housing Finance Agency (Finance Agency) requested comment, as well as other issues concerning the proposed rule that that AHAC thought warranted additional comments. The conclusions of AHAC concerning the proposed rule are reflected in this comment letter and have been reviewed and are supported by the Board of Directors of the Bank. Therefore, the following comments on the proposed rule are submitted on behalf of the Board and AHAC.

To facilitate review of this comment letter, we begin each section of the letter by referencing the topic name, pertinent sections of Code of Federal Regulations (C.F.R.) or United States Code (U.S.C.), the page number of the Federal Register and an italicized section of the proposed rule to which the Bank's comment relates.

1. HERA Section 1201; 12 U.S.C. 4513(f) and 12 U.S.C. 1424(a); Page 22850 of the Federal Register Vol. 74, No. 93

Finance Agency requests comments about whether the differences between the FHLBanks and the Enterprises (Fannie Mae and Freddie Mac) in rulemaking that affect the FHLBanks with respect to their cooperative ownership structure, mission of providing liquidity to members, affordable housing and community development mission, capital structure and joint and several liability should result in a revision of the proposed amendment as it relates to the FHLBanks.

The Bank believes that the Finance Agency has appropriately considered the differences between the FHLBanks and the Enterprises in crafting this proposed rule since it would implement statutory provisions of the Federal Home Loan Bank Act that applies only to the FHLBanks.

2. Definitions; 12 CFR 1263.1; Page 22851 of the Federal Register Vol. 74, No. 93

Finance Agency requests comments on whether the proposed definitions are appropriate in the context of assessing the financial condition of CDFI applicants.

The Bank recommends that the definition of unrestricted cash and cash equivalents should further define “highly liquid” assets as investments with original maturities of three months or less in order to comport with Generally Accepted Accounting Principles.

3. Financial Condition Requirements; 12 CFR 1263.11 and CFR 1263.16; Page 22852 of the Federal Register Vol. 74, No. 93

Finance Agency requests comments on what other documentation credit unions without National Credit Union Administration (NCUA) insurance would prepare that would provide the FHLBanks with comparable information to credit unions with NCUA insurance about their financial condition.

The Bank believes that, in addition to audited financial statements, credit unions without NCUA insurance should also provide detailed loan aging schedules and net asset calculations. The Bank believes this information would be necessary for the Bank to make informed assessments of asset quality and is comparable to information provided by credit unions with NCUA insurance.

4. CDFI Credit Unions; 12 CFR 1263.11(a) and 12 CFR 1263(b)(3)(iii); Page 22853 of the Federal Register Vol. 74, No. 93

Finance Agency requests comments on whether the application of these standards is appropriate for CDFI credit unions and whether the nature or extent of oversight and examination by a state regulator differs in any manner that would require any of the provisions in this section to be modified.

The Bank agrees that standards for earnings, nonperforming assets and allowance for loans and lease losses are appropriate for CDFI credit unions. These standards represent important information upon which the decision to approve credit union applicants is based, and should

apply to CDFI credit unions. The Bank does not have direct knowledge of the types of financial condition statements and regulatory reports that CDFI credit unions submit or what types of examination and rating are provided by state regulators.

5. Generally Accepted Auditing Standards (GAAS); 12 CFR 1263.16(b)(1); Page 22853 of the Federal Register Vol. 74, No. 93

Finance Agency requests comments on whether there might be alternatives to GAAS-compliant audited financial statements that would allow a FHLBank to assess accurately the financial condition of a CDFI applicant.

The Bank believes that GAAS-compliant audited financial statements should be the standard for CDFI applicants. Absent regulatory oversight and standardized financial reporting, GAAS-compliant audited financial statements are necessary to ensure the Bank can make informed decisions based upon reliable information.

6. Net Asset Ratio; 12 CFR 1263.16(b)(2); Page 22854 of the Federal Register Vol. 74, No. 93

Finance Agency requests comments on the inclusion of restricted assets in the net asset ratio and on the proposed use of a minimum net asset ratio of 20 percent for membership eligibility.

The Bank agrees with the inclusion of restricted assets in the net asset ratio and the Finance Agency's proposal that the minimum net asset ratio for membership eligibility be set at 20 percent.

7. Earnings; 12 CFR 1263.16(b)(2); Page 22854 of the Federal Register Vol. 74, No. 93

Finance Agency requests comments on the appropriateness of this measure of earnings and on the proposed minimum eligibility standards.

The Bank agrees with the proposed annual earnings criterion as a CDFI eligibility standard and that positive earnings in two of the last three years is acceptable. However, the Bank believes that the criteria should also require positive earnings in an applicant's most recently completed fiscal year. Recent negative performance trends may be indicative of material adverse financial changes, and the Bank believes it should be permitted to declare a CDFI applicant ineligible due to these negative trends rather than being required to accept a CDFI member that would be subject to credit restrictions within a short period of time after attaining membership status.

8. Loan Loss Reserve: 12 CFR 1263.16(b)(2); Page 22854 of the Federal Register Vol. 74, No. 93

Finance Agency requests comments on the appropriateness of the proposed loan loss reserve measure, the rationale for the different standard for CDFIs or whether there are any alternative standards that might also serve this purpose.

The Bank believes the proposed loan loss reserve measure of 30 percent of loans and leases 90 days or more delinquent, including loans sold with full recourse, is inappropriate. While the Bank is not aware of the existence of empirical data over multiple credit cycles regarding the performance of CDFI originated loans, the current housing market conditions should necessitate a higher standard than 30 percent. Banks, thrifts and credit unions that are currently members of the Bank are held to a higher standard and the Bank believes it imprudent to apply lower standards to a new class of members for which we have very limited experience or performance data. Therefore, it is the Bank's opinion that CDFIs should demonstrate a loan loss reserve equal to or greater than 60 percent of nonperforming loans and leases. It is also the Bank's understanding that most CDFIs exhibit loan loss reserve ratios greatly in excess of 30 percent of nonperforming loans.

9. Liquidity Ratio; 12 CFR 1263.16(b)(2); Page 22854 of the Federal Register Vol. 74, No. 93

Finance Agency requests comments on the appropriateness of the proposed requirement for operating liquidity.

The Bank agrees with the Finance Agency's proposed measure of operating liquidity.

10. Self-Sufficiency Ratio or Sustainability Ratio; 12 CFR 1263.16(b)(2); Page 22854 of the Federal Register Vol. 74, No. 93

Finance Agency seeks comment on whether to include a standard for the self-sufficiency ratio as part of the minimum financial condition standards for CDFI members and, if so, what the threshold standard should be.

While the Bank does not have a strong opinion on including a self-sufficiency ratio in the membership requirements for CDFIs, it would likely use such a ratio to gauge the financial wherewithal of a member when establishing business terms. The Bank is of the opinion that operating results, such as net income, are of more value.

11. CDFI Bank Holding Companies; 12 CFR 1263.16(b)(2); Page 22854 of the Federal Register Vol. 74, No. 93

Finance Agency seeks comment on whether it should include, in the final rule, additional provisions relating to bank holding company membership based on CDFI status.

The Bank agrees with the assessment that CDFI holding companies would not be allowed membership similar to current bank holding companies being ineligible for membership. Given the fact that the holding company would not likely hold eligible collateral on its balance sheet, there would be no benefit to membership status for those entities.

12. Character of Management; 12 CFR 1263.12; Page 22855 of the Federal Register Vol. 74, No. 93

Finance Agency requests comment on whether there are any other means by which a Bank can assess the charter of a CDFI applicant's management.

The Bank concurs with the character certifications required by management of both general membership and CDFIs as recommended in the proposed rule. The Bank does not have any suggestions for other means by which the Bank can assess the character of CDFI management.

13. Community Support Amendment-Part 944; 12 CFR 944; Page 22856 of the Federal Register Vol. 74, No. 93

Finance Agency requests comment on whether it is appropriate to apply the current requirements to CDFIs or whether it is appropriate to adopt an alternative community support standard for CDFIs that recognizes their unique mission and business practices while still complying with this statutory requirement.

The U.S. Department of Treasury's eligibility test to approve an entity as a CDFI requires an entity to directly serve a high percentage of low and moderate income households or areas. The other Bank members are not directly required to serve low and moderate income households. It would seem appropriate that CDFIs be deemed to be in compliance with the community support regulation by virtue of their certification as a CDFI by the U.S. Department of Treasury. The added burden of additional paperwork to show compliance with the Community Support regulation would seem to be superfluous.

14. Community Financial institution Amendments; Section 1211 of HERA; Page 22856 of the Federal Register Vol. 74, No. 93

Finance Agency requests comment on whether there is any basis in the legislative history to the Housing and Economic Recovery Act of 2008 (HERA) or otherwise on which it could reasonably rely to construe the new Community Financial Institution (CFI) provisions as applying to CDFIs as well as CFIs.

As the Proposed Rule points out, CDFIs lack FDIC insurance coverage and therefore are distinguishable from CFIs. Accordingly, it seems clear to the Bank that the new CFI provisions would not apply to CDFIs, and the Bank does not believe that the legislative history of HERA would suggest otherwise.

Although HERA does not allow CDFIs to be defined as CFIs, the Bank thinks that it is unfortunate that CDFIs are not classified as CFIs for collateral purposes. In general CDFIs, by

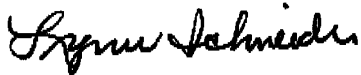
size and composition of assets, more closely fit the definition of a CFI. It is unlikely that a significant number of CDFIs will have eligible collateral in sufficient quantity to make the best use of Bank advances.

We appreciate the opportunity to comment on the proposed rule. If you have any questions on our comments, please contact Gary Dodge, Director of the Community Investment Department, at 515-281-1047 or gdodge@fhlbdm.com.

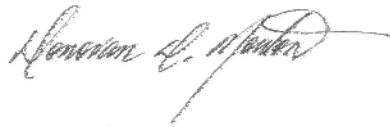
Sincerely,



Michael K. Guttau
Chairman of the Board



Lynn V. Schneider
Chair, Business Operations and Housing Committee



Donovan D. Mouton
Chair, Affordable Housing Advisory Council