



**INDEPENDENT COMMUNITY
BANKERS of AMERICA**

July 13, 2009

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General Counsel
Federal Housing Finance Agency
Fourth Floor
1700 G Street, NW
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Attention: Comments/RIN 2590-AA18

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The Independent Community Bankers of America¹ (ICBA) welcomes the opportunity to comment on the rule proposed by the Federal Housing Finance Agency (FHFA), Federal Home Loan Bank Membership for Community Development Financial Institutions (CDFIs). The proposed rule would implement a section of the Housing and Economic Recovery Act of 2008 (HERA) that authorized non-federally insured, CDFI Fund-certified (certified by the Department of Treasury) CDFIs to become members of a Federal Home Loan Bank (FHLB). The newly eligible CDFIs include community development loan funds, venture capital funds and state-chartered credit unions without federal insurance. Before the enactment of HERA, a CDFI could not become a member of a FHLB unless it also was a federally insured depository institution, such as a community development bank, thrift or credit union.

In addition to CDFIs that are insured depositories and holding companies, the following are types of CDFIs that now may be eligible for FHLB membership: community development loan funds which are unregulated institutions specializing in financing of housing, businesses or community facilities that provide healthcare, childcare, educational, cultural or social services, and community development venture capital funds which are unregulated institutions that provide equity and debt-with-equity features to small and medium-sized businesses in distressed communities. The FHFA states there are estimated to be over 1,000 CDFIs in the nation with the average size of non-depository institutions being \$22.5 million. While CDFIs provide many services to low-

¹ *The Independent Community Bankers of America represents nearly 5,000 community banks of all sizes and charter types throughout the United States and is dedicated exclusively to representing the interests of the community banking industry and the communities and customers we serve. ICBA aggregates the power of its members to provide a voice for community banking interests in Washington, resources to enhance community bank education and marketability, and profitability options to help community banks compete in an ever-changing marketplace.*

With nearly 5,000 members, representing more than 20,000 locations nationwide and employing over 300,000 Americans, ICBA members hold \$1 trillion in assets, \$800 billion in deposits, and \$700 billion in loans to consumers, small businesses and the agricultural community. For more information, visit ICBA's website at www.icba.org.

and moderate-income communities, their limited access to long-term funds has limited their ability to provide housing finance in their communities.

HERA requires that a CDFI applying for FHLB membership must demonstrate that it is duly organized under state or federal law, either is subject to inspection and regulation under banking or similar laws or is certified as a CDFI under the CDFI Act. It must also make long-term mortgage loans and, among other requirements, must have a character of management that is consistent with sound and economical home financing and have a home financing policy that is consistent with sound and economical home financing.

A CDFI that has been approved for FHLB membership must purchase the required amount of FHLB stock called for by the FHLB's capital structure plan and collateralize its borrowings as other members do. The FHFA believes that any CDFI that becomes a member of a FHLB should be able to satisfy the current community support requirements. Therefore, the FHFA is not proposing to establish any unique community support requirements for CDFIs. ICBA agrees that the normal business of a CDFI should enable it to meet the current community support requirements.

The CDFI Fund is not a regulator of CDFIs, thus it does not evaluate their safety and soundness during either the certification process or during the process of awarding funding. A CDFI certification does not constitute an opinion by the CDFI Fund as to the financial viability of the CDFI or that it will be awarded funding by the CDFI Fund.

Because CDFIs may not be subject to the same regulation and oversight or regulatory financial reporting requirement as the vast majority of current FHLB members and their financial performance assessment standards may differ from those of traditional FHLB members, ICBA recommends that the FHFA establish special measures for determining the financial health of CDFIs as needed. CDFIs may provide state regulators information comparable to that provided by other FHLB members to their regulators that can be used and the FHLBs should obtain whatever supplemental information is needed to properly determine their financial condition.

ICBA agrees with the proposed requirement that CDFI applicants have mortgage-related assets that reflect a commitment to housing finance as we believe that it is generally consistent with the operations of most CDFIs. The CDFIs should also provide the appropriate documentation of their ability to meet the requirement of making long-term loans as suggested by the proposed rule.

The FHLBs and the FHFA should use whatever supervisory and examination tools they need to ensure that they have sufficient information about CDFIs that may not be subject to as stringent reporting requirements and examinations as other FHLB members to ensure that they do not expose the FHLBs to additional risk. We urge the FHFA and the FHLBs not to compromise oversight of these members simply because less or nontraditional forms of financial information maybe be available. The FHFA should establish separate financial documentation requirements and approval standards for assessing the financial condition of CDFIs that supplements their existing reporting information as needed. We agree with the FHFA that standards and requirements should

parallel that used for depository institutions, recognizing unique characteristics of the CDFIs.

CDFIs should be subject to generally the same or comparable financial and audit standards as other FHLB members if they are to have the same user privileges. For example, the proposed loan loss reserve ratio would be less stringent in recognition of a historically lower delinquency rate among CDFI-originated loans which have performed equally to or better than prime loans according to the FHFA. Many community banks would argue that they too have loans (often held in portfolio as with CDFIs) that have historically performed better than the norm, yet they do not have a less stringent loan loss reserve requirement. We are concerned that requiring positive earnings on a yearly rather than quarterly basis may mask deteriorating financial conditions. The FHFA should not compromise on financial standards or provide one type of member more lenient standards, particularly in the current challenging economic environment for both the FHLBs and their members.

We appreciate the opportunity to provide comments on the proposed rule. If you have any questions about our views, I may be reached by email at ann.grochala@icba.org or by phone at 202-659-8111.

Sincerely,

/s/

Ann M. Grochala
Vice President, Lending and Accounting Policy