From: Jim King [mailto:Jim@fahe.org]
Sent: Tuesday, July 07, 2009 9:45 PM
To: Jones, Gwen
Subject:

July 14, 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 FAHE, INC. 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).

FAHE has addressed all questions posed by the FHFA regarding the proposed rule.

In particular, we strongly urge the FHFA to consider CDFIs as community financial institutions. Our CDFI falls well below the $1 billion asset threshold. The FHFA should consider CDFIs community financial institutions because they ARE community financial institutions. Not only would this help CDFIs 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. We believe this is unduly high and the best solution would be to better align CDFI net asset ratios with those of other financial institutions. According to the Federal Deposit Insurance Corporation (FDIC), a credit union is considered well capitalized if it has a net worth ratio of seven percent or greater.[1] For banks, the FDIC requires for all but the most highly-rated institutions that the minimum leverage capital requirement be a ratio of Tier 1 capital to total assets of not less than four percent,[2] to be considered well capitalized the percentage is five percent.[3] For a savings association to be considered strong it must have a minimum ratio of core capital to adjusted total assets of three percent and all others must have a ratio of four percent.[4]

We suggest that a 10 percent net asset ratio is more appropriate and aligns the requirements for CDFIs more closely with current regulation for other financial institutions.

The FHFA proposes that a CDFI demonstrate that it has generated a positive net income for any of two of the three most recent years to support its earnings measurement.[5] We request consideration to allow CDFIs to include additional years to support a pattern of positive net income. Given the current economy and the potential time it will take the FHFA to finalize the rule, we believe that it is appropriate to allow CDFIs to provide additional information to prove a history of positive net income rather than relying on just two years.

Loan loss reserves and unrealized income (and losses) should be excluded from the measurement as these are not true earnings, but rather restricted funds. We suggest that the FHLBs look at the change in "unrestricted" net assets instead of the suggested change in "total" net assets.

We 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.

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. We would like to express our 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.

Sincerely,

Jim King
Chief Executive Officer
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fahe federation of appalachian housing enterprises, inc.
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[1] Section 216(c)(1) of the Federal Credit Union Act (12 USC 1790d(c)(1).

[2] 12 CFR § 325.3 Minimum leverage capital requirement.

[3] 12 CFR 325.103(b).

[4] 12 CFR 567.8.

[5] Net income is defined as gross revenues less total expenses, based on the most recent financial statements. Gross revenues are total revenues received from all sources.