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July 14, 2009

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

Subject: Comments regarding 12 CFR Part 925 and 12 CFR Part 1263 Federal Home Loan Bank Membership for Community Development Financial Institutions; Proposed Rule

Dear Mr. Pollard:

Thank you for the opportunity to comment on the Proposed Rule of the Federal Housing Finance Agency, Federal Home Loan Bank Membership for Community Development Financial Institutions, as set forth in the Federal Register on May 15, 2009.

The National NeighborWorks® Association (NNA) is the national trade association of “NeighborWorks®” organizations: non-profits chartered by NeighborWorks® America that create affordable housing in America’s urban, rural and suburban communities. Our membership includes over 170 non-profit organizations in 50 states, Washington, DC and Puerto Rico.

Local NeighborWorks® organizations (NWOs) provide a wide variety of services that reflect the needs of their neighborhoods and communities. Over the last few years, the NeighborWorks® Network has provided homeownership counseling to more than 500,000 families, and assisted nearly 150,000 families to becoming homeowners. NeighborWorks® organizations also own and manage more than 70,000 units of affordable rental housing. In FY 2007 alone, the NeighborWorks® network generated about $4 billion in direct reinvestment in distressed communities across the nation.

Our members have a 30-year history of facilitating lending to non-conventional borrowers – including lower income families, borrowers with impaired credit and others who would not normally qualify for a conventional mortgage. Over one-third of the NeighborWorks® Network are current CDFIs and have utilized over $68 million of CDFI funding over the past ten years.

By providing quality pre-purchase homeownership counseling, financial fitness training and working with borrowers to improve their credit rating, their budgeting, and encouraging savings, local NeighborWorks® organizations are able to prepare borrowers for reasonably priced traditional mortgage loans and prepare them to achieve sustainable homeownership.

Comments Regarding Proposed Rule

NNA is supportive of the efforts being taken by the Federal Housing Finance Agency through this Proposed Rule.

Given the unique situations and services of CDFIs, and particularly NWOs that are also CDFIs, we would like to suggest the following recommendations.

Long Term Mortgage Loan Requirements

NNA recommends the inclusion of second loan mortgages at the 10% threshold. Many of our member NWO-CDFIs primarily offer second loan mortgages. Many also offer first loan mortgages. However, if the proposed rule allows only first loan mortgages to be included in the long-term mortgage requirement, many of our CDFIs would be excluded from Bank membership. Very few NWO-CDFIs would be able to meet the 10% criteria based solely on first mortgages. Inclusion of second mortgages would allow more of our membership to apply for Bank membership.

Net Asset Ratio

NNA is supportive of the inclusion of restricted assets in the net asset ratio. NWOs often carry more restricted assets that non-restricted, however; NWO-CDFI restricted assets have less lending flexibility than other CDFIs.

In addition, many of our members are supported with EQ2s. These lines of credit are critical sources of leverage for NWO-CDFI lending services. We recommend that EQ2s be included in the net asset ratio calculation. Excluding EQ2s, meeting the 20% ratio would be much more difficult for our members.

Given the two factors mentioned above, NNA believes the 20% ratio maximum is too high. NNA believes that a 10% maximum is more reasonable and workable. A lower ratio would also be more in line with other financial institutions, many of which are required to have total net asset ratios between 3% and 7%.

Earnings

NNA recognizes the importance of being able to demonstrate earnings potential. However, because of the non-profit nature of NWO-CDFIs, NNA has two recommendations to make the proposed rule more reasonable for mission-based non-profits. First, a longer cycle than two to three years is necessary to show earnings capacity. NNA recommends allowing CDFI applicants to show earnings capacity within a four to six year time period. Secondly, NNA suggests some type of weighted earnings average to demonstrate earnings capacity. Because of the dynamic environment our member NWO-CDFIs operate in and the time span for pre-development and other costs related to our missions, earnings are not regular year over year. We recommend the rules allow for some method of capturing the dynamic earnings capacity of the typical non-profit housing and community development organization.

Loan Loss Reserves
NWO-CDFIs tend to be more conservative in their write-offs and also work longer with their lending clients than the typical bank. Our membership has a national default rate that rivals the prime default rate (despite the low income, low credit score population our members serve). This is partly due to NWO-CDFI clients being allowed more time to ultimately pay off the loan. While many banks may be in the position to write off bad loans faster than CDFIs, NWO-CDFIs do not write-off borrowers who are more than 90 days delinquent; rather, NWOs work with these borrowers to put them into a better position. As such, NNA believes that a 30% loan loss ratio is too high and recommends lowering the ratio to 20%.

Liquidity Ratio
NNA believes the liquidity ratio of 1.0 for the current year as offered in the Proposed Rule would be difficult to meet as defined. Many NWOs rely on grant money that is received in uncertain ways and NWOs may not always have cash on hand at specifically designated times. The lines of business of NWOs/CDFIs differ from those of banks. While banks need to have cash on hand to meet the needs of people who withdraw money, NWOs are not in this line of business, and therefore a ratio of 1.0 would be more difficult to meet consistently. As such, NNA recommends a liquidity ratio of .5.

Character of Management
NNA respectfully suggests that no one procedure (or test) for determining character of management be required under this proposed provision. There are currently several ways to determine character of management and NNA strongly recommends that no one template be used institutionally.

Self-Sufficiency Ratio
NNA strongly supports this proposed provision as written in the Proposed Rule.

Thank you for your consideration of these comments and for your efforts on behalf of consumers and the capital markets. Please feel free to contact me for any clarification of these comments.

Sincerely,

Eddie Latimer
President

David C. Brown
Executive Director