



July 14, 2009

Corrected Copy

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,

We appreciate having the opportunity 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).

We are community development financial institution with a long track record in financing sustainable community development transactions in Los Angeles, Orange and Ventura Counties. We strongly urge the FHFA to consider CDFIs as community financial institutions. Our CDFIs fall well below the \$1 billion asset threshold and we provide all types of lending, not just housing. 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 affordable housing and small business finance. It is becoming increasingly important that communities in need of affordable housing will not flourish or sustain themselves without thriving economic tax base. We believe the local tax base is driven by the growth and expansion of small business development and job creation. Our CDFI's play a very important role in meeting the entire range of credit needs in these communities; especially, the needs of small businesses and minority-led organizations.

You are also proposing a minimum net asset ratio of 20 percent for membership eligibility. We believe this is counterproductive and unduly high and believe 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. 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, to be considered well capitalized the percentage is five percent.

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.

We recommend 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. We request consideration to allow CDFIs to include additional years to support a pattern of positive net income. Given the

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current economy it is possible many of your current members would have difficulty meeting this threshold. Our review of the recent reporting from the California Department of Financial Institution (DFI), for state chartered banks and credit unions, would support this assertion. It is reasonable to assume that we are dealing with extraordinary financial circumstances during this recession and we believe that it is appropriate to allow CDFIs an adequate time period demonstrate a recovery or provide additional information to prove a history of positive net income rather than relying on just the results during and economic downturn which many believe was induced by the behavior at regulated institutions during the past several 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 are a member of the Opportunity Finance Network and would also like to emphasize the following points made by them their comment letter:

- We 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 see the CDFI industry participate to the fullest extent possible benefit the mission of the Federal Home Loan Bank System and its commitment to serve a broad range of communities throughout our nation.

We encourage you to finalize the proposed rule with the changes suggested as soon as possible.

Thank you for the opportunity to comment.

Sincerely,

A handwritten signature in cursive script that reads "Michael Banner".

Michael Banner  
President and CEO