LISC
Helping neighbors build communities

January 12, 2015

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Federal Housing Finance Agency
400 7th Street S.W., Eighth Floor
Washington, DC 20024

RE: Comments/RIN 2590-AA39 – Notice of Proposed Rulemaking

To Whom It May Concern:

The Local Initiatives Support Corporation (LISC) is pleased to provide comments on the Federal Housing Finance Agency's (FHFA) proposal to revise its regulations governing Federal Home Loan Bank (FHLB) membership.

Established in 1979, LISC is a national non-profit housing and community development organization that is dedicated to helping community residents transform distressed neighborhoods into healthy and sustainable communities of choice and opportunity. LISC mobilizes corporate, government and philanthropic support to provide local community development organizations with loans, grants and equity investments; as well as technical and management assistance.

LISC has a nationwide footprint, with local offices in 30 cities and partnerships with 60 different organizations serving rural communities throughout the country. LISC invests approximately $1 billion each year in these communities. Our work covers a wide range of activities, including housing, economic development, building family wealth and incomes, education, and creating healthy communities. Since 1980, LISC and the National Equity Fund (LISC's Low Income Housing Tax Credit syndication arm) have invested $13 billion in communities across the country, which has leveraged $38 billion in total development and financed over 300,000 affordable homes and apartments.

LISC is a certified Community Development Financial Institution (CDFI), and as such, welcomed provisions in the Housing and Economic Recovery Act of 2008 that enabled CDFIs to join the FHLB system. We believe that CDFIs, which by definition have a mission of serving low-income communities and underserved borrowers, are well positioned to help the FHLBs serve markets and borrowers that have the most difficulty accessing home mortgage loans, as well as those that have the greatest need for affordable rental housing. We have been pleased that, after a slow start, many FHLBs are now actively encouraging CDFI membership, and that CDFI membership has grown significantly over the past two years. While there is still work to do to ensure uniform treatment of CDFIs across the FHLB system, as well as to make sure CDFIs are treated on par with regulated financial institutions, we feel very positive about the direction taken by the FHFA and FHLBs to encourage CDFI membership.

We are therefore concerned that, so shortly after Congress enacted legislation to allow CDFI membership in the FHLB system, and after so many gains have been made to ensure access for CDFIs, the proposed regulations will in fact have the unintended consequence of limiting or prohibiting CDFI membership -- even for those CDFIs that work extensively or exclusively in the housing sector. Most notably, the proposed requirement that a member must at all times "maintain at least one percent of its total assets in long-term home mortgage loans" will be difficult if not impossible for most CDFIs to meet for at least two reasons:

(i) **Loan Duration.** The typical CDFI loan, particularly in the housing sector, is a short term instrument, such as a predevelopment loan or a construction loan. These are often the first and hardest pieces of financing to obtain, and without these early CDFI investments, the projects (both homeownership and rental housing) could not secure long-term, permanent financing from banks. However, despite playing such a critical role in financing the housing, such loans rarely go beyond three years in duration, and therefore would not meet the FHFA definition of a "long-term" home mortgage loans (i.e., five years or greater).

(ii) **Collateral.** It is atypical for CDFIs to provide loans secured by a first lien mortgage, which is what the regulations require in order for a loan to be considered a home mortgage loan. More often, CDFIs will take a subordinated position in order to facilitate a loan by a bank, who will take the first lien position. So as above, but for the CDFI's investment, there would not be the availability of long-term home mortgage loans – yet the CDFI cannot get credit for these activities because they are not covered within the current definition of a long-term home mortgage loan.

While we understand the merits of imposing a minimum threshold requirement as a way of ensuring a member institution is engaged in activities that support housing finance, a 1% threshold based upon the current definition of "long-term home mortgage loans" simply won't work for most CDFIs due to the nature of their lending. To the extent the FHFA decides to impose a minimum threshold requirement, **we recommend that the FHFA provide an alternate route to membership based on the CDFI demonstrating that it provides "residential mortgage loans".**

The FHFA's definition of "residential mortgage loans" is much broader than that of "long-term home mortgage loans", and includes residential loans regardless of duration, as well as loans secured by junior liens. While most FHLB members are required to demonstrate that at least 10% of their assets are held as residential mortgage loans, CDFIs have historically been exempted from this requirement due to the short-term nature of their lending. Allowing CDFIs that cannot meet the 1% test to instead gain entry through a review of their residential mortgage lending strikes us as an appropriate way to continue to implement Congress's intent to expand membership to CDFIs, while still providing a backstop to ensure that these CDFI members are supporting investments in housing.

In addition, for entities that cannot meet the designated threshold levels based upon the percentage of their total assets that are related to housing loans, the FHFA should also allow a path for entry based upon outstanding portfolio balance or loan origination activity. Paths for entry based on these other thresholds would enable entities that play an important role in supporting housing-related financing but don't hold loans on their balance sheets, as well as those whose assets may include a large amount of fixed real estate, to benefit from membership.

We thank your for this opportunity to comment, and look forward to working with you further on implementation.

Sincerely,

Matt Josephs
Senior Vice President for Policy