



*"A Tradition of Native American Housing"*

July 13, 2006

Federal Housing Finance Board  
1625 Eye Street, NW  
Washington, DC 20006  
[comments@fhfb.gov](mailto:comments@fhfb.gov)

Re: Federal Housing Finance Board Proposed Rule: Excess Stock Restrictions and Retained Earnings Requirements for the Federal Home Loan Banks  
RIN Number 3069-AB30  
Docket Number 2006-03

Dear Sir/Madam:

The **National American Indian Housing Council**, which represents the housing interests of more than 450 federally recognized tribes, appreciates the opportunity to comment on the Proposed Rule: Excess Stock Restrictions and retained Earnings Requirements for the Federal Home Loan Banks (RIN Number 3069-AB30, Docket Number 2006-03). Now in its 32nd year, NAIHC provides Technical Assistance and Training, Research and Communications to tribes/tribally designated housing entities across the nation.

NAIHC is a strong supporter of a financially sound and vibrant mission-oriented Federal Home Loan Bank System (FHLBs). We support this effort of the Finance Board to expand mission-related investments. We agree that the Finance Board should "supervise the Banks and ensure that they carry out their housing finance mission, remain adequately capitalized, and are able to raise funds in the capital markets." However, we recommend that "community development" be added to "housing finance mission" as it was in the past.

### **1. Appoint Public and Community Interest Directors**

We strongly believe that the lack of Public and Community Interest directors on the boards of the FHLBs remains a major barrier to the above goal. We urge the FHFBB to fill the more than 60 vacant PID and CID seats across the system with people knowledgeable in affordable housing and community development, including **representation from rural areas and tribal communities**. Expanding financial controls or strengthening the Advisory Council are no substitutes for ensuring that the Board of each FHLB has directors who are knowledgeable and experienced in financing and development of affordable housing and economic development projects. The FHLBs' boards are currently serving below capacity in experience and numbers. To ensure that the FHLBs meet their mission and operate in a safe and sound manner, the FHFBB must fill the vacant PIDs/CIDs seats immediately. In our view, the excess stock requirements are less important than strong vibrant FHLBs' board leadership, which has been undermined by the Finance Board inaction.

## **2. Track Mission-Related Activities**

We are disappointed that this proposed rule does not pay adequate attention to ensuring that liquidity and investments are appropriately used for a broader public good through affordable housing and community economic development. We strongly support the FHFB's efforts to ensure that the FHLBs' advances are used as much as possible for housing and community development mission activities. We are concerned that the FHLBs' activities in the past have undervalued the profitability and responsibility for community development and affordable housing investments. We strongly support FHFB public review and analysis of each Bank's annual lending plans and creation and promotion of an annual metric detailing each Bank's financial activities in affordable housing and community development. However, without clear mission metrics, there is no guarantee that these proposed changes would expand mission-related investments. It may be possible that a compromise position may be adopted permitting excess capital to be invested if a substantial portion of other advances are invested in mission-related activities.

## **3. Ensure Positive Impact on Affordable Housing and Community Development**

There exists some concern that this change could reduce profitability of the FHLBs, thus reducing the overall contributions to the Affordable Housing Program (AHP). If there is a decline in the number of large members, and thus profits, the AHP could be significantly curtailed. In 2005, a total of \$280 million in AHP funds were awarded, funding hundreds of affordable housing units. While we strongly support the AHP program and know it to be a valuable resource for communities, we also know that it is not the only role the FHLBs can or should play in ensuring broader access to capital for affordable housing. However, the Finance Board must be fully engaged to reduce any threat to the AHP.

## **4. Ensure Access for Small Banks**

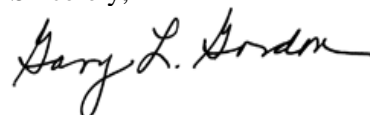
We are concerned that the proposed limitation on dividend payments could have the consequence of driving large members from the FHLB System. Many large members can access the capital markets themselves and as the "all-in" cost of FHLB advances increases due to dividend limitation, these members could decrease their usage of FHLB advances or even leave the System. This could result in the shrinking of FHLB assets and earnings which could result in a weaker system.

Additionally, a decrease in volume of the System may result in a higher cost of advances. Smaller members have no other access to the long-term debt markets. Raising the cost of FHLB credit to small financial institutions will directly affect the amount of affordable housing lending these members can do. It could also raise borrowing costs for working families who are struggling to find mortgage funding.

In conclusion, if the FHFB adopts this rule, it should clearly state how it would ensure a greater investment in affordable housing – through both the AHP and mission-related advances. The FHFB should also ensure access to long-term debt markets for smaller financial institutions.

Thank you for the opportunity to share our comments. Please do not hesitate to contact me at (202) 789-1754 or [ggordon@naihc.net](mailto:ggordon@naihc.net) if you have questions or concerns.

Sincerely,



Gary L. Gordon,  
Executive Director