NCCED

Creating Exceptional Communities

July 10, 2006

Federal Housing Finance Board
1625 Eye Street, NW
Washington, DC 20006

Attention: Public Comments—By E-Mail & Regular Mail

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

Dear Sir/Madam:

On behalf of the Board of Directors of the National Congress for Community Economic Development (NCCED) and its membership body, thank you for the opportunity to comment on the Federal Housing Finance Board's proposed rule on excess stock and retained earnings requirements.

For the past thirty-five years, NCCED has served as a strong voice in the national arena and in Congress, insisting that community economic development policies and regulations be considered in both short- and long-term planning and impact. NCCED has worked effectively with federal, state and local governments, financial institutions, and related parties to provide resources and investments for community-based economic development initiatives for community development corporations (CDCs) and community development organizations (CBOs) across the United States. Among our more than 400 members, are practitioners in the community economic development (CED) industry, financial institutions, educational entities, residents, and university students.

NCCED also is the founding entity of the State Association Network of CDCs, organized in 1984, which has more than thirty-five members. Many of these non-profit organizations use the Federal Home Loan Banks (FHLBanks) Affordable Housing Programs (AHPs) to deliver benefits to residents in our disadvantaged and disinvested urban and rural communities across the United States.

The Affordable Housing Programs (AHPs) of the Federal Home Loan Banks (FHLBanks) are a critical source of affordable housing funds. They involve unique public-private partnerships among the Banks, their member institutions, community-based sponsors, state and local governments, and other entities. The final report of NCCED's 2005 Census, "***Reaching New Heights***"—which measures the quantitative achievements of community-based development organizations across the United States through 2004—unveiled on June 27, reflects a critical and significant milestone **as the number of affordable housing units generated by community groups passed the one million mark (See www.ncced.org).**

Our position on this proposed rule is informed and influenced by the facts in our 2005 Census as well as the following significant points:

- A member's profitability would be adversely affected by the significant cut in the dividends received as earnings are retained and the resulting increase in the all-in cost of advances. This impact will be over a period of several years;
- When member's profitability is reduced, the amount of funds available for lending in their communities also will be reduced;

- This flow of funds, based on the statutory requirement of 10% of earnings, is made possible because of the Bank's financial strength and strong earnings. NCCED's member organizations rely on these funds to build affordable housing in our communities;
- The proposed regulation also may limit the ability of the FHLBanks to provide additional voluntary contributions for affordable housing and community economic development initiatives, in addition to supporting the AHP program. Many FHLBanks provide these voluntary funds, including the Federal Home Loan Bank of San Francisco;
- The proposed rule—with its requirement to increase retained earnings and thereby decrease the dividends available to members—is likely to make membership in the Banks less attractive for some current members. Some members, particularly larger ones, may choose to borrow less, and therefore reduce the profitability of the Bank, and consequently the net earnings that support AHPs;
- The AHPs provide grants and subsidized loans to create affordable rental and homeownership opportunities for lower-income households. Since the beginning of the Federal Home Loan Bank of San Francisco's ("Bank's") AHP program in 1990, it has awarded approximately $400 million in AHP grants to assist in creating over 70,000 affordable housing units; and
- Overall, more than $2.5 billion in AHP funds have been contributed by the FHLBanks to affordable housing since the program's inception.

We also are especially concerned that the Finance Board does not seem to have devoted sufficient time to evaluating the impact of the proposed rule on AHP programs, and other voluntary contributions, which rely on FHLBank earnings for their funding. The proposed rule does not include any such analysis, despite the likelihood that the rule would cause a reduction in Bank earnings and, therefore, funds available for AHP programs.

The proposal will cause a simple trade-off between retained earnings and dividends—that is, requiring FHLBanks to increase retained earnings requires a reduction in dividends to members. Estimates vary, but the Stanford Washington Research Group indicates that the increase in retained earnings is over $3 billion for the Federal Home Loan Bank System. Some estimate that the Federal Home Loan Bank of San Francisco would have to increase its retained earnings by over $500 million. The increase could cause member institutions to find FHLBanks membership less financially attractive. Larger institutions may choose other sources of funding resulting in a reduction in advances, negatively impacting FHLBanks earnings and reducing AHP funds.

It is ironic that, in its proposal, the Finance Board indicates that the FHLBanks are adequately capitalized, yet suggests just the opposite. The overall impact of the proposed rule could be particularly adverse in this period of increasing mortgage rates and reduced federal funding for housing. Families unable to afford higher rate mortgages or those who are shut out from the ever shrinking amount of federal housing subsidies do not need the Finance Board to cause a reduction in a successful public-private program like AHPs.

NCCED urges you to withdraw this proposed rule. Its impact could be extremely damaging to the efforts of our non-profit member organizations—and similar organizations nationwide—that are working to provide affordable housing opportunities to families in need in our disadvantaged and disinvested urban and rural communities across the United States.

We thank you for your very careful consideration of these comments.

Sincerely,

Pamela L. McKee

Pamela L. McKee
Interim President & CEO