



## People's Self-Help Housing, Inc.

307 KY 59, Vanceburg, KY 41179-7648

Providing Affordable Housing Opportunities  
in Lewis County since 1982

visit us at [www.pshhinc.org](http://www.pshhinc.org)

January 30, 2012

Alfred M. Pollard, Esq.  
General Counsel  
Federal Housing Finance Agency  
Fourth Floor  
1700 G Street, N.W.  
Washington, DC 20552

### Re: Federal Home Loan Bank Community Support Amendments; RIN 2590—AA38

Dear Mr. Pollard:

I am submitting this letter in response to the request for comments issued by the Federal Housing Finance Agency (FHFA) on November 10, 2011, when it proposed amending its community support regulation to, among other things, require the Federal Home Loan Banks (FHLBanks) to monitor and assess the eligibility of FHLBank members for access to long-term advances, including Affordable Housing and Community Investment programs. I appreciate your consideration of my views on this important matter.

People's Self-Help Housing, Inc. (PSHH) is a nonprofit housing corporation that has been providing affordable housing for low and very low income households in Lewis County, Kentucky. Since 1982, PSHH in-house construction crews have built nearly 300 new, energy-efficient homes that are affordable to households with a gross monthly income as low as \$700 per month. In addition PSHH has developed 124 affordable rental units, including emergency shelter and transitional housing for the homeless. Besides providing safe and decent housing, PSHH also provides 20 full time jobs in a county with persistently high unemployment rates. For the past twenty years, the FHLBank of Cincinnati has been a strong housing partner in our work, assisting PSHH in financing nearly fifty new homes through the Affordable Housing Program (AHP) and the American Dream Program. Financing from the Federal Home Loan Bank of Cincinnati is further leveraged by Citizens Deposit Bank, the local Member Bank which provides hands on labor in constructing the new homes in addition to providing below market rate first mortgages. My interest is in maintaining the effective structure of the FHLBank cooperative, which has been a valuable partner to my organization, particularly, throughout this difficult economic crisis.

**The Proposed Rule raises both substantive and procedural concerns.** The FHFA seeks to shift the administration of its own regulation to the FHLBanks. The new Proposed Rule would require the FHLBanks to review the performance of each FHLBank member bank and thrift to evaluate their compliance with Community Reinvestment Act (CRA) ratings and first-time homebuyer support statements. Subsequently, the FHLBanks would determine members' eligibility for access to long-term FHLBank advances, a process currently performed by the FHFA. Additionally, the Proposed Rule would eliminate the probationary one-year period currently set aside to improve a rating of "Needs to Improve."

PHONE (606) 796-6333 FAX (606) 796-2606



TDD for the Hearing-Impaired 1-800-648-6057

**I oppose eliminating the probationary period under the community support regulation.** The current practice should be maintained that allows member banks and thrifts with a single CRA rating of “Needs to Improve” to continue to have access to long-term advances and the community investment products offered by the FHLBanks while working to improve their ratings. As the proposal notes, a policy that would deny access “could restrict a member’s ability to use long-term advances to address the deficiencies that led to the ‘Needs to Improve’ rating.” I agree. It is counterintuitive to deny these products to members who need them for a purpose for which the products were designed.

**Eliminating the probationary period also would undermine the reliability of long-term advances.** Members would have less certainty about the availability of long-term advances if they can be denied at any time for CRA deficiencies. It would increase the risk that FHLBank liquidity and long-term funding will not be available when needed to support a member bank and its community. This would undercut the FHLBanks’ housing finance mission. At a minimum, this provision should be amended to allow such members to continue to have access to the FHLBanks’ Affordable Housing Programs and Community Investment Cash Advance programs.

**Limited Impact.** As the proposal notes, this change would impact very few members. Only about two percent of FHLBank members that were subject to CRA evaluations from 2008 to 2010 received ratings of ‘Needs to Improve’ requiring them to be placed on probation. The limited impact of affected members does not suggest a problem in need of a solution, and it would be counterproductive to deny those few members the tools they could use to improve their ratings and better serve their communities.

**Revise “first-time homebuyer” definition.** I appreciate the FHFA’s recognition that the definition of “first-time homebuyer” has been expanded, through statutory amendment to the Cranston-Gonzalez National Affordable Housing Act, to include previous ownership of manufactured or substandard housing. The FHLBank Cincinnati uses the amended definition for application of its Affordable Housing Program and I would support inclusion of the revised definition within Part 1290 of the community support regulation.

**Procedurally, the Proposed Rule would require the FHLBanks to act as regulators of their members.** The rule proposes to delegate from the FHFA to the FHLBanks responsibility for determining their members’ compliance with the FHFA’s community support requirements, which effectively would require the FHLBanks to perform functions that are inherently regulatory in nature. The proposal notes that requiring the FHLBanks to “make decisions on any restrictions on access to long-term advances would be consistent with their general advances and underwriting responsibilities.” However, determining whether or not a member is in compliance with a regulation is a regulatory function. The FHFA is best suited to determine compliance with its own regulation. That responsibility should not be shifted to the FHLBanks. Moreover, the FHFA already has in place a uniform procedure. Requiring each of the 12 FHLBanks to adopt its own procedure, to be reviewed under FHFA supervision, creates unnecessary duplication for little, if any, gain.

**Additionally, such a proposal threatens to re-create a conflict of interest which Congress eliminated long ago.** If the FHLBanks are required to determine whether their members have sufficiently satisfied the FHFA's community support regulation in order for them to continue making long-term advances to those members, a clear conflict of interest would be created. As member-owned cooperatives, it would be inappropriate for the FHLBanks to act as both lenders to, and regulators of, their members. Such a result would appear to contravene the intent of Congress. In the aftermath of the 1980s Savings and Loan crisis, Congress abolished the Federal Home Loan Bank Board, splitting the regulatory and lending functions with the newly created Office of Thrift Supervision and within each FHLBank, respectively. This division recognized the inherent conflict of the FHLBanks acting as both lender and regulator.

In conclusion, for the reasons described above, **I recommend that FHFA amend the Proposed Rule to keep responsibility for determining compliance with the FHFA's community support regulation at the FHFA, thereby ensuring the FHLBanks are not required to act as regulators of their members. I support the adoption of the amended "first-time homebuyer" definition, and I urge the FHFA not to eliminate the probationary period for members with a single CRA rating of "Needs to Improve."**

Thank you for your consideration of these comments.

Sincerely,

A handwritten signature in blue ink that reads "David L. Kreher". The signature is written in a cursive, flowing style.

David L. Kreher  
Executive Director