

From: Michael Wallace [wallace@nlc.org]

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To: !FHFA REG-COMMENTS

Subject: RIN 2590-AA24 -- Comments by the National League of Cities on Use of Community Development Loans by Community Financial Institutions to Secure Advances
National League of Cities

April 26, 2010

Alfred M. Pollard, General Counsel
Federal Housing Finance Agency
1700 G Street, NW
Washington, DC 20552

VIA ELECTRONIC MAIL

Re: RIN 2590-AA24 -- Use of Community Development Loans by Community Financial Institutions to Secure Advances; Secured Lending by Federal Home Loan Banks to Members and Their Affiliates; Transfer of Advances and New Business Activity Regulations

Dear Mr. Pollard:

The National League of Cities (NLC) is the oldest and largest national organization representing municipal governments throughout the United States. On behalf of the 19,000 cities and towns represented by NLC, we welcome the opportunity to comment on the Federal Housing Finance Agency's (Finance Agency) proposed rule (Rule).

In § 1211 of the Housing and Economic Recovery Act of 2008 ("HERA"), Congress expanded the list of eligible collateral that a Community Financial Institution (CFI) is permitted to pledge as to their FHLBank. This expansion continues a trend, begun under the Financial Institutions Reform, Recovery and Enforcement Act of 1989 (FIRREA) and further enhanced in 1999 under Graham Leach Bliley where Congress has sought to increase the likelihood that small banks and credit unions would make certain loans and investments due to their eligibility as FHLBank collateral.

Under HERA, Congress expanded the existing list of eligible collateral to include "economic development activities." The Rule seeks to define such collateral using the Community Reinvestment Act (CRA) including:

1. affordable housing or community service targeted to low- or moderate-income areas or residents (with incomes less than 80 percent of area median income);
2. small business and small farms; or
3. activities that revitalize or stabilize disaster or other designated areas.

NLC believes that the Rule's narrow definition of eligible assets will unnecessarily limit to ability of the FHLBanks and their member institutions to partner with cities and towns to overcome economic development challenges, particularly in this time of fiscal difficulties. NLC also believes the Rule's definition of eligible assets is contrary to Congressional intent.

During debate on HERA, Congressman Paul Kanjorski (PA-11) stated “H.R. 3221 further includes several important provisions that will enable the Federal Home Loan Bank System to accomplish more in the broad area of economic development, community development, public finance, and public infrastructure. The System is uniquely positioned to promote such activities, and these reforms build on the 1999 law I worked to enact.”

Congress clearly intended to encourage CFI economic development lending and investment (municipal bonds) by expanding their access to liquidity. The proposed regulation fails to achieve this. A more applicable and consistent definition would utilize existing FHFA regulation of the Community Investment Cash Advance (“CICA”). It defines economic development (12 C.F.R. 952.1) as:

1. Commercial, industrial, manufacturing, social service, and public facility projects and activities;
2. Public or private infrastructure projects, such as roads, utilities, and sewers.

This definition would better meet Congressional intent by supporting local banking activities including infrastructure (roads, water, and sewer projects), hospitals, schools, colleges, universities, community centers, nursing homes, utilities, power generation, energy, technology, and recreational facilities.

NLC believes that the ability of CFI members to obtain liquidity by pledging municipal bonds backed by community development loans will be extremely helpful to CFI members and the communities they serve. Further, the liquid market for municipal bonds will provide individual FHLBanks with well-known and high quality marketable collateral.

Under the existing Letter of Credit regulations FHLBanks are already permitted to accept investment grade municipal bonds as collateral for certain letters of credit. See 12 C.F.R. § 1269.2. The ability to accept municipal bonds backed by community development loans as collateral for advances to CFIs builds on the FHLBanks’ existing experience with this collateral.

Again, we appreciate the opportunity to comment on this important issue and appreciate the Agency’s interest in our comment. If you have any questions concerning our comments, please feel free to contact our representatives listed below:

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