

January 8, 2015

Mr. Alfred M. Pollard, General Counsel
Federal Housing Finance Agency
Constitution Center
Eight Floor
400 Seventh Street SW
Washington, DC 20024

Attention: Comments/RIN 2590-AA39
Members of Federal Home Loan Banks

Dear Mr. Pollard:

On behalf of NeighborWorks® America (also known as the Neighborhood Reinvestment Corporation) I want to thank the FHFA for the opportunity to provide comments regarding its proposed revisions to the regulations governing Federal Home Loan Bank (FHLB) membership. These comments have not been submitted to or approved by NeighborWorks America's board of directors. They reflect the view of NeighborWorks America management and do not necessarily represent the views of its board members, either collectively or as individuals.

NeighborWorks America has more than 240 local and regional non-profit affiliated NeighborWorks organizations, more than 70 of which are Community Development Finance Institutions (CDFIs) recognized by the Treasury Department. NeighborWorks performs rigorous annual off-site financial and programmatic assessments of all NeighborWorks organizations, and performs on-site assessments of all organizations once every three years.

These comments have been formed in consultation with a number of NeighborWorks organizations. Seven CDFIs in the NeighborWorks network are currently FHLB members. Several more organizations are pursuing membership, and many others are interested in applying for FHLB membership. In addition, since 1999, 106 NeighborWorks organizations used the Affordable Housing Program to develop 370 rental housing projects comprising almost 19,000 rental units. NeighborWorks organizations also regularly use other programs offered by individual FHLBs to develop affordable rental and homeownership opportunities.

There are two themes to our comments. First, the opening up of FHLB membership to CDFIs is still a work in progress. FHLBs have made progress in extending membership to CDFIs since the 2008 Housing and Economic Reform Act first opened Bank membership to CDFIs, and since membership regulations were finalized in January 2010. The 2010 final rules on FHLB membership state that FHFA "is confident that CDFIs will bring added value to the Federal Home Loan Bank System consistent with the Banks' mission and without compromising their safety and soundness." With this in mind, FHFA should be looking for ways to help the FHLB System meet the Congressional intent of the Housing and Economic Reform Act, and open membership to CDFIs as much as is possible.

As of the end of November 2014, 29 CDFIs have become FHLB members, out of 811 CDFIs certified by Treasury as of FY 2013. While FHLB membership is now an option for CDFIs, it has not been an easy process for them to apply for membership and it has been especially difficult for them to access capital and liquidity through the FHLBs. Further, ongoing collateral requirements limit the usefulness of FHLB advances.

NeighborWorks believes that the FHLB System still has too little experience with CDFI applicants to make modifications to the membership requirements at this point. With some Banks having zero, one, or two CDFI loan fund members, CDFIs and the FHLB System cannot anticipate unintended consequences of any changes to the membership regulations. We believe that the proposed regulations will discourage CDFI FHLB membership, and that FHFA should instead take steps that encourage increases in CDFI membership.

Second, NeighborWorks believes that the FHFA should not take steps which would decrease FHLB membership in general, and thus diminish the size and effectiveness of the FHLB System's Affordable Housing Program and other affordable housing programs administered by individual Banks in the FHLB System. NeighborWorks organizations have made great use of these programs to leverage other funding, lower development costs, and to create housing that is affordable to lower income families. Changes in regulation that would decrease the overall membership of the FHLBs will decrease the amount of funding available for these critical programs.

In particular with regard to these themes, NeighborWorks suggests that the FHFA not implement changes that:

- Require applicants to have one percent of their assets in affordable housing finance, along with ongoing compliance with that requirement
- Eliminate an appeals process for institutions denied membership.

“One Percent” requirement

Implementation of the new “one percent” requirement would preclude many NeighborWorks organization CDFIs from obtaining FHLB membership. Many NeighborWorks organizations that make single-family loans originate and then sell these loans. They do not hold first mortgages on their books because, as non-profits, they do not have access to the longer-term affordable capital necessary to originate and then hold loans on their books.

NeighborWorks organizations that make multifamily loans often specialize in making shorter term (less than five year) loans, including predevelopment and construction loans, because they do not have affordable long-term capital to make longer-term loans.

This proposed requirement puts current and potential NeighborWorks FHLB members in a chicken-and-egg situation. NeighborWorks organizations who are single-family and multifamily lenders find the prospect of FHLB membership attractive because of the availability of long-term, affordable capital—capital that they often have difficulty obtaining at volume elsewhere in the market. With FHLB membership, a NeighborWorks CDFI that hopes to expand its mortgage lending would be able to use FHLB advances to do so, but it might not

meet even a low threshold at the time of membership application, or prior to borrowing once it becomes a member.

In fact, instead of changing the regulations to limit CDFI membership in the FHLBs, NeighborWorks requests that the FHFA encourage FHLBs to explore ways to expand membership to CDFIs. One suggestion is to examine the possibilities of expanding membership to CDFIs that make second mortgages, as opposed to just first mortgages.

NeighborWorks also suggests that the FHFA encourage the FHLBs to examine policies for CDFIs to take advantage of FHLB programs once CDFIs have obtained membership. While there have been significant improvements over the past three years in advance policies, the collateral requirements for CDFIs at some of the FHLBs are still somewhat prohibitive.

Appeals Process

NeighborWorks strongly suggests that FHFA not revise the FHLB membership appeals process. In its proposal, the FHFA requested comments on whether it should continue to permit applicants that have been denied membership to appeal those denials, saying “The concept of an appeals process may have been appropriate after the Finance Board first delegated to the Banks the responsibility for approving or denying membership applications in 1996, but is probably less necessary today, given the years of experience that the Banks have had in processing membership applications.”

NeighborWorks notes that FHLBs have been processing membership applications from CDFIs since 2010 at the earliest—not since 1996 – and that most FHLBs do not have significant experience processing membership applications from CDFIs at this point. Though CDFIs may not have used the appeal process to date, the inconsistent experience with CDFI membership across the System suggests that the option for an appeal process should be maintained.

Importance of a Strong Affordable Housing Program (AHP)

NeighborWorks organizations rely on the AHP program and other affordable housing lending programs offered by the various FHLBs to expand affordable housing opportunities for lower income homebuyers and renters. An unintended consequence of creating new regulations which limit FHLB membership will be to decrease funding in these important affordable housing creation programs.

NeighborWorks urges FHFA to carefully consider the impact on AHP and other FHLB affordable housing programs in its plans to revise FHLB membership requirements. In addition, NeighborWorks encourages FHFA to consider ways to include in AHP other allowed regulatory uses such as Revolving Loan Funds, which could increase the impact of AHP in communities even more.

Closing

NeighborWorks America applauds FHFA's attention on FHLB membership and appreciates the opportunity to comment. By examining the impact of the proposed changes on CDFIs and on the affordable housing sector, the FHFA can assist the FHLB System in expanding even further the provision of affordable, sustainable housing for Americans across the country.

Sincerely,

A handwritten signature in black ink, appearing to read "Charles Wehrwein". The signature is fluid and cursive, with a horizontal line extending from the end.

Charles Wehrwein
Acting President and Chief Executive Officer