African American Alliance of CDFI CEOs

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Federal Housing Finance Agency
400 7th Street, SW
Washington, DC 20024

Re: Comprehensive Review of the Federal Home Loan Bank System

As financial leaders directly serving diverse communities, the African American Alliance of Community Development Financial Institutions (CDFI) CEOs (the Alliance) is a membership-driven intermediary organization of 67 Black-led CDFIs, which aims to build the capacity of member organizations, expand access to capital for member organizations, and build power in Black communities by challenging and influencing financial sectors to operate more equitably. Our members reach historically underserved communities in all 50 states by providing financial services in the small business, affordable housing, and commercial real estate development sectors. Currently, 10 Alliance members are Federal Home Loan Bank (FHLB) members, and this letter highlights the challenges and operational issues hose members face as they navigate the FHLB System. Additionally, we provide recommendations for increasing program access and usefulness for our members and other non-depository CDFIs across the country.

The racial wealth gap is larger today than it was when the Fair Housing Act of 1968 was signed into law more than 50 years ago. In large part, this can be attributed to the significantly lower rates of homeownership in Black communities relative to its white counterparts. According to the National Community Reinvestment Coalition in 2018, only 42 percent of Black people owned homes, compared to 73 percent of whites during the same period. [1] Additionally, the denial rate for mortgage loans for Black Americans is nearly double that of whites. Furthermore, Black property values are often lower than that of Whites, which has an adverse impact on funding for public education and educational attainment. These disparities translate to billions of dollars of unrealized Black wealth and results in Blacks settling for lower paying jobs at a higher rate than of white Americans. Consequently, by the time Black Americans reach retirement age, they have accumulated about $1.1 million less than their White counterparts. However, there are initiatives underway in both the public and private sector to increase minority homeownership and property values. The Biden Administration and the Secretary of Housing and Urban Development, Marcia Fudge, are making a conscientious effort to ensure fair housing practices are fulfilling their original mission to minimize the barriers to homeownership many minorities experience. Another initiative, The National Association of Real Estate Brokers' Two Million Home Program, seeks to eliminate the racial wealth and homeownership gaps within the United States by advocating for regulatory reforms that can increase minority homeownership and, by extension, the racial wealth gap.[2] Efforts like these will assist in increasing opportunities for

[1] https://ncrc.org/60-black-homeownership-a-radical-goal-for-black-wealth-development/
[2] https://www.nareb.com/2mn5/

more Black Americans to eventually own a home. Further, CDFIs, through their commitment to serve communities often neglected by traditional banks, can be instrumental in spurring Black economic prosperity through homeownership.

The FHLB System presents another opportunity for CDFIs to increase the development of and expand access to affordable housing for very low- to moderate income households. The system affords CDFIs: access to flexible low-cost wholesale funding for contingent, daily, and strategic liquidity needs; the ability to pledge eligible securities and mortgage collateral to secure borrowings; and the ability to leverage membership in the cooperative to network with other CDFIs as well as banks, credit unions, insurance companies, and housing authorities. However, challenges persist for smaller, non-depository CDFIs, particularly those Alliance members that are FHLB members, as they try to maximize the potential of the FHLB.

Collateral Requirements Post Greatest Challenge for Non-depository CDFIs

Collateral requirements, which must be met to obtain advances, tend to disproportionately discourage non-depository CDFIs from seeking FHLB membership or to pursue FHLBs' low-interest advances. Specifically, our members cited the steep haircuts and availability of eligible collateral as the primary challenges to obtaining advances. Further, some non-FHLB members cite the collateral requirements as a disincentive to seeking FHLB membership because they do not feel as though they would be able to take full advantage of advance benefits of membership. A troubling feature of the FHLB System is that the collateral requirements – including the pledge method and haircuts – applicable to non-depository CDFIs seeking advances are comparable to those generally imposed on higher risk depository members.

We recommend the FHLB system to consider alternative mechanisms aimed at increasing access to capital and FHLB advances for non-depository CDFI members. CDFIs are, by and large, limited in their borrowing from FHLB due to the amount and type of collateral pledged. On the other hand, non-CDFI FHLB members have substantial excess collateral through which they can alleviate some of the capital needs of CDFIs. By fostering partnerships between CDFI and non-CDFI FHLB members, the two entities may mutually benefit – CDFIs through increased access to capital and non-CDFIs, potentially, through Community Reinvestment Act (CRA) credit.

There should be a great deal more coordination between the Federal Housing Finance Agency (FHFA) and the CDFI Fund. We believe that FHFA should consider allowing capital from the CDFI Fund to be used as leverage to provide guarantees or credit enhancements to the FHLB. This would, in turn, allow additional capital to make its way to CDFIs and, by extension, to communities that have historically been shut out of traditional finance.

FHLB System Should Treat Non-Depository CDFIs as Equal Partners

The Housing and Economic Recovery Act of 2008 (HERA) authorized CDFIs certified by the CDFI Fund to become FHLB members. The Final Rule regarding the procedures and standards to be used to evaluate applications for FHLB membership from CDFIs were published in January 2010. Unfortunately, in the dozen years since the Final Rule, CDFIs, particularly non-depository CDFIs, continue to receive unequal treatment within the FHLB system, evidenced by the fact that FHLB Banks still lend less than .05 percent of their available capital to finance the liquidity of CDFI members despite those institutions comprising 1.03 percent of total FHLB membership.[3] The rationale provided by FHLB Banks is that non-depository CDFIs pose certain risks not inherent to depository institutions (e.g., non-depository CDFIs are not supervised by a prudential federal or state regulator like other FHLB members). However, these risks are largely illusory and not based on credit quality. Rather, these non-depository CDFIs are being denied access to capital for non-economic reasons. In other words, by not financing CDFI loans to minority and low-to-moderate income communities, they avoid the elevated reputation risk of potentially having to collect on failed loans from non-depository CDFIs. This perpetuates the injustice experienced by borrowers that have persistently been alienated by the traditional financial system.

Affordable Housing Program (AHP) Considerations

AHPs are required by each member bank, and FHLBs must set aside 10 percent of their net earnings for their AHP, the funds of which can be used for the construction, purchase, and/or rehabilitation of owner-occupied housing or affordable rental housing. In 2020, FHLBs helped house roughly 40,000 LMI households, including almost 22,000 very low-income households through about $393MM in AHP funds. This represents a 14 percent decrease from 2019 due to smaller net earnings in 2020.[4]

We recommend FHLBs should allocate 15 percent of their net annual income for the AHP. This shift will help address the affordable housing crisis by financing more than 1 million affordable homes to low-income families. FHLBs should adopt AHP scoring structures that reward projects that include a member loan participation or project-specific investment with a CDFI.

Other Considerations

We would also like to see FHFA and FHLB to make a commitment to increase CDFI representation on governing boards, as these community development-focused leaders can be instrumental in developing policies that can increase access to capital for low-income populations. Currently, only 9 of 183 board members represent CDFIs and 6 of 11 FHLB boards have zero CDFI representation.[5] This is simply unacceptable if CDFIs are to be considered equal FHLB partners.

Finally, a persistent issue faced by communities of color relates to Heirs' property. Heirs' property is land that is jointly owned by descendants of a deceased person whose estate was never handled in probate court and is passed down from generation to generation. These joint owners have the right to use the property, but none of them have a clear title. Without proper documentation and a court proceeding to clear the "cloudy" title, third party financial institutions have no way of knowing who is entitled to the property and whether any creditor claims apply. This means that none of the heirs can sell, mortgage, or make any repairs to the real estate. A large percentage of heirs' property is found among racial and ethnic minority groups, low-wealth, low-income households, rural and distressed urban communities, and other vulnerable

[3] https://www.gao.gov/products/gao-15-352
[4] https://www.novoco.com/notes-from-novogradac/new-fhfa-report-illustrates-how-federal-home-loan-banks-resources-continue-be-critical-source
[5] https://www.atlantafed.org/community-development/publications/partners-update/2016/01/community-development-finance/160210-cdfis-seek-federal-home-loan-bank-membership

populations who are less likely to conduct sophisticated estate planning. Relatively high rates of African American land loss during the 20th century likely contributes to the widening racial wealth gap by depleting existing assets and undermining the transfer of these assets across generations.

We encourage other FHLBs to follow the lead of the Atlanta FHLB in addressing the negative impacts related to Heirs' property. Through its Heirs' Property Prevention and Resolution Funders' Forum and subsequent $1 million in grant funding, FHLB Atlanta connected potential funders with nonprofits and other entities to address the issue of Heirs' property.[6] This program is designed to "help entities execute local initiatives that will have a scaled response to the Heirs' property challenge in neighborhoods across the Southeast." Ultimately, this program will improve minority homeownership, revitalize neglected neighborhoods, and promote the accumulation of generational wealth in minority communities, thus narrowing the racial wealth gap. We hope other FHLBs adopt this model to address the racial wealth gap in their regions.

For America to succeed we need to make sure that African Americans have equal opportunities to contribute to the economy as business owners who create jobs and build wealth. If FHLB's goal is to maintain public input and accountability, we believe the changes could help reduce inequalities and increase membership among Black-led CDFIs who serve communities of color.

Sincerely,

Lenwood V. Long Sr.
President and CEO
African American Alliance of CDFI CEOs

[6] https://www.atlantafed.org/community-development/publications/partners-update/2016/02/160419-understanding-heirs-properties-in-southeast