

# Tribal Nations Opportunity Forum

Community Development Financial Institution Membership

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# Community Development Financial Institution (CDFI) Membership

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In addition to depository institutions and insurance companies, Community Development Financial Institutions (CDFIs) may join the Federal Home Loan Bank System.

Eligible CDFIs must be able to demonstrate that they have a commitment to housing finance by holding residential housing finance assets on balance sheet and submit a written justification acceptable to the Bank of how and why their home financing policy is consistent with the FHLBank System's housing finance mission.

# Federal Home Loan Bank Membership

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Membership in the Federal Home Loan Bank (FHLB) provides access to a credit facility as well as community investment grant programs

## FHLB Credit

- Most CDFI members have access to a credit facility which can be up to 100 percent of net assets (net worth), or more for companies with good credit
- Typical terms for credit can be out to 7 years
- Most CDFIs can receive funding at discounted rates using CICA advances
- All credit is collateralized by mortgage loans or securities

## FHLBank San Francisco Grant Programs

- Affordable Housing Program (AHP)
- Access to Housing and Economic Assistance for Development (AHEAD)
- Workforce Initiative Subsidy for Housing (WISH) and Individual Development and Empowerment Account (IDEA)

# Agenda

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## Today's Agenda:

- Advance Rates
- Products
- CDFI Certification
- CDFI Membership – Where do I join?
- CDFI Membership Requirements
- Application Process
- Three Pillars of Borrowing
  - Capital Stock
  - Financing Availability
  - Collateral
- Transacting Advances

# Advance Rates

Advance rates as of April 14, 2021

### Variable Rate Credit (VRC) Advance

Advance Maturity	Advance Rate (%)
Overnight/Open	0.11

### Fixed Rate Credit (FRC) Advance

Advance Maturity	Advance Rate (%)
1 Month	0.13
2 Months	0.12
3 Months	0.13
6 Months	0.16
1 Year	0.18
2 Years	0.33
3 Years	0.51
5 Years	1.03
7 Years	1.50

# Credit Products

## Advances

- Fixed Rate Credit (FRC)
- FRC w/ Prepayment Symmetry (FRC PS)
- Amortizing Advance
- Variable Rate Credit (VRC)
- Adjustable-Rate Credit (ARC)
  - SOFR
  - Fed Funds
- Callable w/ PS
- Putable w/ PS

## Letters of Credit

- Public unit deposits
  - Regular
  - Variable Balance
- Bonds and other purposes

# CDFI Fund

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## **How does an organization obtain CDFI certification?**

To become a certified CDFI, you need to meet the eligibility requirements and submit an application to the CDFI Fund. Find it at [www.cdfifund.gov](http://www.cdfifund.gov).

## **CDFI eligibility requirements**

To be eligible for CDFI Certification, an organization must meet the following criteria:

- Have a primary mission of promoting community development
- Provide both financial and educational services
- Serve and maintain accountability to one or more defined target markets
- Maintain accountability to a defined market
- Be a legal, non-governmental entity at the time of application (with the exception of Tribal governmental entities)

# CDFI Membership

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Once certified, CDFIs are eligible to join the Federal Home Loan Bank (FHLB)

## **Which FHLB do I join?**

Applicants must determine its principal place of business to establish which FHLB it is eligible it can join

In general, the principal place of business is the state where the applicant's corporate or tribal offices are licensed

## **FHLBank San Francisco serves:**

Arizona

California

Nevada



# CDFI Membership Eligibility Requirements

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**CDFIs must meet the following eligibility requirements:**

- 1. Duly Organized:** The applicant must be organized under Federal, State or Tribal laws.
- 2. Subject to Inspection and Regulation:** CDFI applicants are certified by the CDFI Fund
- 3. Makes Long-Term Mortgage Loans:** The applicant must originate or purchase long-term mortgage loans (with an original term of five years or more) that are secured with a first lien on the underlying residential real property. An applicant may also qualify by purchasing and holding mortgage-backed securities (MBS) representing an undivided interest in long-term mortgage loans.
- 4. 10% Requirement:** CDFIs are not subject to the 10% residential mortgage asset requirement but must demonstrate a commitment to housing through a robust Home Financing Policy (see eligibility requirement #7 below).
- 5. Financial Condition:** The applicant's financial condition is such that the Bank may safely make advances to it.

## CDFI Membership Eligibility Requirements *(continued)*

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6. **Regulatory Examinations:** Not applicable to CDFIs
7. **Home Financing Policy:** The applicant must show that its home financing policy is consistent with sound and economical home financing and meets the following requirement: The applicant must have mortgage-related assets that reflect a commitment to housing finance, as determined by the Bank at its sole discretion. In addition, the applicant must submit a written justification acceptable to the Bank of how and why their home financing policy is consistent with the FHLBank System's housing finance mission. CDFIs must have "residential mortgage loans", which include single and multifamily mortgage loans, MBS (passthroughs and collateralized mortgage obligations) and home equity loans, that equal 5 percent of assets.
8. **Capital:** The applicant meets or exceeds all current minimum statutory and/or regulatory capital requirements. (Not required for CDFIs)
9. **Earnings:** In general, a CDFI applicant has positive net income on a rolling three-year average basis.

## CDFI Membership Eligibility Requirements *(continued)*

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- 10. Net Asset Ratio (CDFIs Only):** The applicant has a ratio of net assets to total assets of at least 20 percent, with net and total assets including restricted assets, where net assets are calculated as the residual value of assets over liabilities and is based on the information derived from the applicant's most recent financial statement.
- 11. Loan Loss Reserves (CDFIs Only):** The applicant has a ratio of loan loss reserves to loans and leases 90 days or more delinquent of at least 30 percent, where loan loss reserves are a specified balance sheet account that reflects the amount reserved for loans expected to be uncollectable and are based on the applicant's most recent financial statement.
- 12. Liquidity (CDFIs Only):** The applicant has an operating liquidity ratio of at least 1.0 for the four most recent quarters, and for one or both of the two preceding years, where the numerator of the ratio includes unrestricted cash and cash equivalents, and the denominator of the ratio is the average quarterly operating expense for the four most recent quarters.

## CDFI Membership Eligibility Requirements *(continued)*

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**13. Audit Opinion:** The applicant has received an unqualified audit opinion from its external auditor related to the most recent audit of its financial statements.

**14. Character of Management:** CDFIs must meet the following requirements:

**Criminal, Civil and Administrative proceedings** – Neither the applicant or any of its directors or senior officers has been the subject of any relevant criminal, civil, or administrative proceedings reflecting on credit worthiness, business judgement or moral turpitude in the last three years.

**Monetary Liabilities, Pending Lawsuits, and Unsatisfied Judgements** – There are no known potential monetary liabilities, material pending lawsuits or unsatisfied lawsuits against the applicants or any of its directors or senior officers that are significant to the applicant's operations in the last three years.

# Application Process

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- Submit all required forms, agreements and exhibits to the Bank
- Two documents require board of director resolutions
- Bank reviews application for completeness and may request additional information as needed
- The Bank will ‘deem complete’ the application once it determines all relevant information has been received and compiled
- Once “deemed complete”, the application decision will be made within 60 days
- If approved, the applicant will have 60 days to make the required capital stock purchase

# Three Pillars of Borrowing

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Three things need to be in place for a member to borrow

1. Capital Stock
  - Membership and Activity Stock
2. Financing Availability
  - Established by the Credit team
3. Collateral
  - Loans
  - Securities

# Capital Stock Purchase

## Capital Stock Calculation Worksheet

(Reported in whole dollars)			
Membership Assets	Book Value	Asset Factor	Membership Asset Value
1 Residential 1-4 family mortgages - 1sts	0	85%	\$0
2 Residential 1-4 family mortgages - 2nds	0	55%	\$0
3 Open-end revolving LOC secured by 1-4 family dwellings	0	55%	\$0
4 Multifamily mortgages, 1st Mort	0	70%	\$0
5 Agency and Non Agency MBS Pass - throughs	0	95%	\$0
6 CMOs	0	95%	\$0
7 Other Investment Securities Eligible to Pledge	0	75%	\$0
8 US government and U.S. agency securities (excluding MBS)	0	97%	\$0
9 Commerical real estate loans and Loans on nonresidential properties (excluding Land)	0	55%	\$0
10 Investments in Eligible Mutual Funds	0	75%	\$0
<b>Total</b>	<b>\$0</b>		<b>\$0</b>
		<b>1% MAV Stock Requirement</b>	<b>-</b>

For each asset type, input the book value from the balance sheet, multiply it by the Asset Factor to determine the Membership Asset Value for each asset type. Add up the Membership Asset Values. The required stock purchase would equal 1 percent of the sum of the Membership Asset Values. Minimum stock purchases is 1 share, or \$100

# Capital Stock Purchase

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- Membership stock is the minimum stock required to remain a member
  - Calculated annually based on year-end financial data
- Activity Stock is the amount of stock that must be purchased to support credit activity
  - Advances                    2.7 percent
  - Letters of Credit        0.1 percent
  - Repurchased daily when not required to meet the activity requirement



# Financing Availability

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- The Bank's Credit team will assign the member a Financing Availability
- The Financing Availability defines the amount and term of the credit facility provided to the member
- The Financing Availability will also consider the amount of collateral that is available to pledge to the Bank

# Securities Collateral

**Table III: Insurance Companies with High Credit Quality Ratings <sup>1</sup> and Non-Depository CDFIs <sup>2</sup>**

Eligible Securities	Borrowing Capacity as a Percentage of Market Value <sup>3</sup>			
	0-3%	Effective Duration <sup>4</sup>		
		>3-5%	>5-10%	>10%
<b>Treasury</b>				
Treasury Bills	95	NA	NA	NA
Treasury Notes and Bonds (remaining maturity < 5 years)	95	90	NA	NA
Treasury Notes and Bonds (remaining maturity ≥ 5 years)	NA	90	85	68
<b>Agency</b>				
Discount Notes	95	90	85	68
Debenture Notes & Bonds	95	90	85	68
Agency MBS Passthrough Securities	95	90	85	68
GNMA Home Equity Conversion Mortgage (HECM) MBS Passthrough Securities	92	90	85	68
Agency CMOs (FHLMC, FNMA, GNMA)	93	90	85	68
GNMA HECM Real Estate Mortgage Investment Conduit (REMIC) Securities	92	90	85	68
Agency CMO Accrual Bonds (Z-tranches) with low price sensitivity) <sup>5</sup>	93	90	85	68
Agency CMO Accrual Bonds (Z-tranches) with high price sensitivity) <sup>5</sup>	75	75	75	68
Structured Notes	90	90	85	68
Index Amortization Notes (P.S.A. Linked Notes)	93	90	85	68
Small Business Administration Pools	93	90	85	68
SBA-Guaranteed CDC Participation Certificates	93	90	85	68
SBA-Guaranteed SBIC Debenture Participation Certificates	93	90	85	68

# Loan Collateral

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## Maximum Borrowing Capacity Overview for CDFIs

- Residential First Lien Mortgage Loans – 82%
- Residential Second Lien Mortgage Loans and HELOCs – 67%
- Multifamily First Lien Mortgage Loans – 80%
- Commercial First Lien Mortgage Loans – 80%

# Transacting Advances

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Call the Member Services Desk (800) 444-FHLB

Request Advance – identify term and collateral type

- Cut-off at noon for term advances (anything over 1 day)
- Cut-off at 2pm for overnight advances

Funds are credited to the member's Settlement/Transaction Account

Provide the Bank or correspondent bank with wire instructions

Funds sent to member's correspondent bank account same day

# Questions?

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