

July 14, 2009

Alfred M. Pollard, General Counsel,
Attention: Comments/RIN 2590-AA18,
Federal Housing Finance Agency,
Fourth Floor, 1700 G Street, NW.,
Washington, DC 20552

Re: Comments on Federal Home Loan Bank Membership for Community Development
Financial Institutions; RIN 2590-AA18

Dear Mr. Pollard:

The Federal Home Loan Bank of Boston (the “*Bank*”) appreciates this opportunity to comment on the Federal Housing Finance Agency’s (the “*Finance Agency’s*”) proposed rule to amend its membership regulations to authorize non-federally insured, CDFI Fund-certified community development financial institutions (“*CDFIs*”) to become members of the Bank. Per the proposed rule, the newly eligible CDFIs would include community development loan funds, venture capital funds and state chartered credit unions without federal deposit insurance.

We support the proposed regulation’s extension of authority giving the newly-eligible CDFIs the opportunity to become members of the Bank. Their purpose to offer credit and financial services to underserved populations is consistent with our own mission to help member financial institutions expand the availability of mortgage credit and foster strong and vibrant communities through community and economic development. While we favor expanded membership opportunities for mission-compatible entities such as CDFIs, we also request that the Finance Agency to provide guidance and structure in its rulemaking that will allow the Bank to preserve its safety and soundness and protect all of our members who benefit from the Bank’s cooperative ownership structure.

Special Considerations Presented by Newly-Eligible CDFIs

Appropriately, the Finance Agency has recognized and articulated in the proposed rule that the regulatory requirements for the newly-eligible CDFIs are either extremely different or non-existent when compared to the regulatory processes that govern institutions currently eligible for Federal Home Loan Bank (“*FHLBank*”) membership. The newly-eligible CDFIs are not subject to federal supervision, examination, and safety and soundness requirements, and many are not subject to any regulatory oversight at all. Accordingly, newly-eligible CDFIs present the FHLBank System with special underwriting and monitoring challenges, because receipt and review of current reports of regulatory examination and any resulting enforcement actions taken are an integral part of the Bank’s risk management framework. Regulatory examinations provide the Bank detailed information regarding a member’s financial condition conducted in conformance with a CAMELS analysis and rating. Additionally, they provide an important

assessment of a member's management and its ability to manage risk, which may not be evident from financial performance metrics.

Further, the majority of the Bank's members are federally-insured depository institutions and subject to well-defined regulatory structures and resolution processes in the event of a failure. The certainty these structures and processes help the Bank isolate and manage risk from member to member. As a cooperative, it is important that we retain the ability to protect all members from the failure of any one member. However, the newly-eligible CDFIs are not subject to the well-defined resolution processes of the FHLBanks insured-depository institution and credit union members. In addition, the FHLBanks have benefited from the Federal Deposit Insurance Corporation ("*FDIC*") and National Credit Union Administration ("*NCUA*") resolution of insured-depository institutions and credit unions and the FDIC's and NCUA's prompt satisfaction of the obligations of a member in FDIC receivership or NCUA liquidation. Imposition of an automatic stay in a CDFI bankruptcy could, for example, result in a significant time delay of the CDFI's resolution and in repayment of obligations to the FHLBank. Further, the Bank's contractual rights to realize on collateral and redirect servicing payments might be thrown into question under bankruptcy rules.

Comments to the Proposed Rule

To address the special challenges presented by the newly-eligible CDFIs, the Bank requests the Finance Agency to promulgate a final rule with the proposed rule's substantive requirements modified by the following comments. Alternatively, the final rule should specify that each FHLBank has discretion to impose each of the following minimum requirements in addition to other requirements such FHLBank may determine appropriate for newly-eligible CDFIs in its district.

1. CDFI Fund Certification: The final rule should require that each newly-eligible CDFI applicant whose CDFI Fund certification is more than one year old at the time of membership application be required to obtain re-certification under the CDFI Fund requirements and to submit the new certification with the application.

2. GAAS Consistent Audited Financial Statements: The Finance Agency asked whether an FHLBank could accurately assess the financial condition of a newly-eligible CDFI using an alternative to financial statements that are consistent with generally accepted auditing standards (GAAS). The Bank believes the final rule should require that all newly eligible CDFIs provide GAAS-consistent audited financial statements in their applications. It is uncertain whether the FHLBanks would be able to comply with their statutory obligation to treat members fairly and without discrimination, if required to accept different standards of audited financial statements from different membership classes when performing credit underwriting analyses.

3. Financial statements: The final rule should require newly-eligible CDFI applicants to submit independent audits for the three years preceding the year in which the application is submitted and audited quarterly statements for six quarters preceding the submission so the performance of the applicant can be evaluated over a longer time horizon to witness its

performance in different economic climates. . As per the immediately prior comment, the Bank also believes these financial statements should be consistent with GAAS.

4. Gross Revenues. The definition of gross revenues should be revised to exclude all restricted funds and grants so as to include only gross earned revenues and unrestricted donor contributions and grants. Including restricted funds and grants in this definition may tend to overstate the financial resources of a newly-eligible CDFI applicant.

5. Loan Loss Reserves. Section 1263.16(b)(2)(iii) should be revised to require newly-eligible CDFIs to maintain loan loss reserves equal to 60% of nonperforming loans (rather than the proposed 30%) for four of the most recent six quarters, which is the same standard applicable to other applicants for FHLBank membership. While we recognize that delinquency rates among CDFI-originated loans have historically been lower than prime loans and appreciates the Finance Agency's rationale for proposing different ratio requirements, the Bank is concerned that the ongoing mortgage and liquidity crisis may impose stresses on CDFIs and their home-mortgage borrowers that change historical trends. This will also preserve parity in treatment among FHLBank members particularly in light of the absence of federal regulatory examination of newly-eligible CDFIs.

6. Nonperforming Assets. The final rule should include a requirement that newly-eligible CDFI applicants have a ratio of nonperforming assets to total loans less than 10% in its most recent calendar quarter. This will preserve parity in treatment among FHLBank members particularly in light of the absence of federal regulatory examination of newly-eligible CDFIs.

7. Transfer of Membership. Section 1263.18 of the proposed rule should be revised to clarify that no automatic transfers of membership from one FHLBank to another are allowed without a re-underwriting of the membership and any other requirements specific to such FHLBank at such time.

8. Financial Statements: The final rule should require newly-eligible CDFI applicants to submit independent audits for the prior three years and audited quarterly statements for the prior six quarters so the performance of the applicant can be evaluated over a longer time horizon to witness its performance in different economic climates.

9. CARS Rating Requirement: The final rule should require newly-eligible CDFI applicant to be rated by the CDFI Assessment and Rating System ("CARS") and maintain an ongoing rating by CARS during such CDFI's membership as a condition to each advance. CARS includes a financial strength and performance rating that analyzes a CDFI's capital, assets, management, earnings and liquidity. Accordingly, the CARS analysis and rating will provide information that a CAMELs analysis and rating would provide which would assist each FHLBank in evaluating the applicant relative to its members with CAMEL ratings. In addition, each newly-eligible CDFI accepted for FHLBank membership should be required to provide its FHLBank with each updated CARS rating it receives as well as with each annual interim report on the newly-eligible CDFI provided by CARS.

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The Bank believes these comments are consistent with providing access to FHLBank membership to newly-eligible CDFIs while protecting the safety and soundness of the FHLBank System. Thank you for your consideration of our comments.

Sincerely,

A handwritten signature in black ink, appearing to read "M. Susan Elliott". The signature is fluid and cursive, with the first letters of the first and last names being capitalized and prominent.

M. Susan Elliott
Executive Vice President, Member Services