Community Preservation Corporation

July 15, 2024

Federal Housing Finance Agency
Division of Bank Regulation
400 7th Street SW, 7th Floor
Washington, D.C., 20219

REQUEST FOR INFORMATION:
FEDERAL HOME LOAN BANK (FHLB) CORE MISSION ACTIVITIES AND MISSION ACHIEVEMENTS

To whom it may concern:

Please find the following comment submitted on behalf of the Community Preservation Corporation (CPC), a nonprofit community development financial institution (CDFI) specializing in multifamily housing finance. Currently in our fiftieth year, CPC was founded in 1974 as a direct response to the chronic issues of property abandonment and blight facing New York City's multifamily housing stock, and we began to provide financial and technical resources to stabilize and revitalize underserved communities. Since its founding, CPC has invested over $14 billion to finance the creation and preservation of more than 225,000 units of housing. Since its inception, CPC has partnered with New York City and State to provide financing solutions supporting their housing plans. In the decades since, CPC has been a strategic partner to government agencies to create and preserve affordable housing in the City, State, and beyond.

Today, CPC is proud to be the largest community development finance institution in the nation solely focused on investing in multifamily housing. Leveraging 50 years of expertise in housing finance, public-private partnerships, and public policy, CPC effectively expands access to affordable housing through its self-sustaining operations. Our work is guided by three impact goals, against which we evaluate every transaction: expand access to affordable housing, close the racial wealth gap, and reduce the impacts of climate change through investments in the green economy. In FY2023, 99% of CPC-financed projects advanced one or more of these impact goals.

Rated AA- with a stable outlook by S&P, CPC has nearly $300 million in Net Assets, of which $184 million is liquid. The company's Assets under Management is $12 billion that produce nearly $60 million of revenues and include: 1) a portfolio of construction loans, 2) permanent loans originated by CPC, sold to investors, and serviced by CPC, 3) a diverse portfolio of equity investments made across the real estate industry, and 4) unrestricted and restricted funds managed by CPC. CPC has a robust governance and risk management infrastructure that is overseen by a Board of Directors to ensure that the company's capital allocation and investment decisions are sound. As a result, CPC has realized less than 1% in losses on the originations it has made since 2012.

CPC's core lending business includes financing for the acquisition, refinancing and/or moderate rehabilitation of occupied multifamily properties, conversion/renovation of vacant buildings into habitable multifamily properties, and new construction of multifamily properties. CPC has originated over $11 billion of these construction loans since inception and $3.3 billion since 2012. This financing resulted in the creation or rehabilitation of over 30,000 units and nearly 200 projects targeting affordability and energy efficiency, including 25,000 units under 80% Area Median Income (AMI) and over 100 energy retrofitting projects.

Along with the National Equity Fund and Cinnaire, CPC co-owns and operates CPC Mortgage Company LLC, a subsidiary of CPC and a first-of-its-kind partnership of impact driven, nonprofit mortgage lenders and investors. CPC Mortgage Company is pushing the industry forward to develop and implement innovative new models and leverage our industry expertise to drive social impact particularly in affordable multifamily communities as the only nonprofit multifamily mortgage lender with multiple licenses with Freddie Mac, Fannie Mae, the US Department of Housing and Urban Development (HUD), and the Federal Housing Authority (FHA). CPC Mortgage Company is currently scaling up our Low-Income Housing Tax Credit (LIHTC) projects and engagement with State Housing Finance Agencies.

Following the collapse of Signature Bank, CPC formed Community Stabilization Partners (CSP), a joint venture with Related Fund Management with Neighborhood Restore as a strategic consultant, to partner with the FDIC on loan servicing and asset management. CSP now manages 35,000 units of housing from Signature Bank's multifamily commercial real estate portfolio in New York City, of which 80% is rent stabilized. CSP is focused on preserving the long-term affordability as well as the physical and financial stability of these buildings for decades to come.

As a certified carbon neutral company, CPC is committed to climate resiliency and sustainability in its multifamily housing finance work. CPC launched its sustainability platform in 2008 to promote energy and water efficiency measures in the built environment, create green capital products, and advise on best practices in the green economy. Since 2015, CPC has financed over 12,000 sustainable units, with 75% of those units serving low-income populations. CPC was also recently selected for a $2.4 billion award as a part of the Climate United coalition through the Biden Administration's Greenhouse Gas Reduction Fund. Through our subsidiary CPC Climate Capital, we will deploy these funds to advance and scale underwriting products that make carbon neutral the new standard for multifamily housing construction and renovation.

From our beginning as a small, local CDFI to our innovative and nationwide reach today, CPC is proud of all we have accomplished, and we are excited for what is to come. We have stayed focused on perfecting our model of addressing capital needs in our backyard – New York and its neighboring states - and diversifying our business on a nationwide scale through partnerships and collaboration with like-minded capital workers. As we look ahead to the next 50 years and the impact we can make, we remain committed to strengthening our core business and managing key growth areas as outlined above. To achieve this, we are focused on raising and layering in new, diverse, and lower cost sources of capital. Given the mission alignment between the FHFA, the FHLB System, and CPC, we have begun initial membership discussions with the FHLBNY.

We submit this response to the FHLB's Core Mission Activities and Mission Achievements Request for Information as a prospective member of the FHLB and hope to expand our capacity and continue mission-driven impact by joining the FHLB. The following comments reflect our experience as a nonprofit CDFI system lender and highlight our experience where we believe it could be illustrative for the FHFA and the FHLB.

Thank you for this opportunity to provide comments – do not hesitate to reach out to me directly in the event of any follow up questions or desire for more information.

Sincerely,

Rafael E. Cestero, Chief Executive Officer
The Community Preservation Corporation
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MISSION QUESTIONS

1. How should the mission statement for the FHLBanks reflect the connection between the liquidity provided by the FHLBanks and their support for housing and community development?

It is essential that the mission statement for the FHLBanks reflects not just the connection between liquidity and housing/community development, but the connection between liquidity and housing *affordability*. This specificity of focus on affordability is crucial as it will guide FHLB's work, as it has CPC's. While CPC was initially started in response to neighborhood disinvestment, we have found that as our communities have evolved with time, it has been critically important to also evolve our work in response. About four years ago, CPC further focused our mission on addressing immediate crises in our communities by introducing impact goals, which expand our focus beyond increasing access to affordable housing to include closing the racial wealth gap and responding to the climate crisis. Since then, our work has been laser focused and impact has been easily quantifiable. We recommend the FHLBanks take a similar approach in their mission statement – specifically target affordable housing and incorporate a focus on today's pressing social and economic issues in order to have targeted and timely impact. Clarity and specificity in mission can elevate lending impact.

Furthermore, if the FHLBanks hope to support housing and community development, one of the best things they could do is allow construction lending as a collateral type for members. Currently, the FHLBank system does not allow construction lending as a collateral type, which we see as detrimental to not only prospective members but also to communities in need of more housing. Over our 50 years, CPC's construction lending in support of affordable housing across New York City and State, has been a critical tool in creating quality housing and stabilized neighborhoods. Specifically, rehabilitation of affordable housing through construction financing (approximately 50% of our lending) has been catalytic in neighborhood revitalization, with 97% of all our construction lending projects meeting our target goal of affordability We, and many other CDFIs like CPC, are hopeful that the FHLB will demonstrate its commitment to housing and community development by making capital for construction lending an eligible form of collateral for membership consideration, which in turn would help us and other CDFIs scale our work and grow our impact.

2. Are there components in addition to providing liquidity and supporting housing and community development that should be included in the mission statement?

In addition to providing liquidity and supporting affordable housing development, we would recommend that the FHLBanks also include in their mission statement directives for member organizations to:

- utilize liquidity and lending tools to drive multiyear impact in affordable housing;
- prioritize support for housing and community development that also closes the racial wealth gap;
- prioritize support for housing and community development that also greens multifamily housing; and
- prioritize investments made in partnership with government and the private sector to leverage public and private financing resources and extend impact wherever possible.

MEASUREMENT QUESTIONS

1. Are there characteristics other than those listed above that FHFA should consider in developing measures of mission achievement? Please provide the rationale for consideration of any other characteristics.

We support the characteristics listed for the FHFA to consider in developing measures of mission achievement and have no further additions.

2. Should all activities in the CMA regulation qualify as core mission activities? Are there items that should be added to or removed from the list of core mission activities? Please provide the rationale for any additions or deletions.

Core mission activities can be advanced by supporting housing finance and community development, including community development finance institutions, which have a known track record of financing catalytic community projects, working with government partners to maximize impact, and successfully braiding together funding sources. In addition to the core mission activities listed, we recommend that FHFA expand eligible liquidity and collateral to include construction financing and provide advances for construction loans.

3. In developing multiple measurements, what additional aspects of mission achievement should FHFA assess? What additional measurements should FHFA adopt to assess support for housing and community development, including support for lower income households or other groups with identified needs?
    a. Should core mission activities be weighted differently from others? For example, in assessing support for housing and community development, should advances or other activities involving members with a stronger mission focus (as discussed below) be given greater weight?

       Given the FHLBank's growing focus on specific impact through core mission activities, we would recommend that there be more weight attached to specific core mission activities that target affordable and equitable housing development. For example, if FHLBank makes a construction loan with a mission component and/or public subsidy, this loan could be qualified as lower risk which would in turn yield a higher advance rate, allowing the project to access greater financing at initiation. This prioritization would increase the potential for impact of FHLB member activities. The FHLB may also want to explore assigning additional weight to projects that increase climate resiliency and reduce or avoid greenhouse gas emissions If there is a greater mission focus on how the funds are being used, there should be more robust and flexible financing opportunities associated.

    b. Should all FHLBank advances count as core mission activities, or should there be limits or exclusions for advances (or other activity) involving members that have only a limited connection to housing and community development? How might this be measured? Should the type of collateral securing an advance be considered in evaluating advances? (Alternatively, this type of approach could be used for calculating one or more additional measurements.)

       Advances to CDFIs should be viewed separately from advances to non-CDFIs given the nature and activities of certified CDFIs. CDFI certification, as performed by the Treasury Department's CDFI Fund, requires each CDFI to demonstrate and maintain a primary mission to promoting community development. This certification should carry more weight regarding FHLBank advances, and all advances to CDFI certified CDFIs should be viewed as "mission oriented."

In addition, given the long history of performance associated with housing that is publicly regulated and required to meet certain affordability levels, this asset type should be viewed with a lower level of risk when applying haircuts to eligible collateral. The low-risk history and market appetite for these assets suggests that current haircut levels are overly prudent and not in line with market expectations.

As outlined above, other asset types held by CDFIs, such as construction assets built to support affordable housing, should be accepted (with the appropriate haircuts) as eligible collateral.

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c. How should an FHLBank's AHP contributions that exceed the statutorily required minimum or voluntary program contributions be reflected in the mission achievement measures?

No comment.

4. As discussed in the System at 100 Report, the FHLBanks receive certain advantages from their status as GSEs. Another approach to assessing mission achievement could tie measurement to the value of GSE status. If FHFA were to pursue this approach, how might the value of the GSE status be measured and how should mission achievement be compared to that value?

No comment.

5. Are there other approaches FHFA should consider?

No comment.

MEMBER INCENTIVE PROGRAM

1. What factors should FHFA and the FHLBanks consider in determining each member's commitment to housing finance and community development under a member incentive program?

To determine each member's commitment to housing finance and community development under a member incentive program, we recommend the FHFA and the FHLBanks consider the following factors:

- A track record of multiyear impact, as evidenced by:
    - Total dollar amount deployed
    - Total new units built and leased
    - Total units renovated or rehabilitated
    - Total affordable units created or rehabilitated
    - Total units financed
- Demonstrated partnership with governments actors as reflected in completed financing deals
- Experience of successfully braided funding from local, state, and federal partners into a projects' capital stack
- Success utilizing a variety of products and programs

2. What metrics and activities should be used to determine each membership category threshold? Are there housing- or community development-related activities that should not count or should be discounted in the calculation? Are there some that should count for a greater amount? How would flow business that might not be reflected on the member's balance sheet be reasonably considered?

We recommend that the primary metrics used to determine each membership category threshold exclude significant business operation that is a part of assets under management. These funds allow businesses like ours to scale impact in other areas but should not be held to the same evaluation standards within the membership category threshold.

3. Member activity that supports the housing finance and community development mission may change over time. How frequently should members be evaluated and classified as to their incentive category? Should the members self-report their level of housing and community development activity and provide documentation or a certification to the FHLBank, or should the measurements be performed by the FHLBank? What should the steps or process be for re-assigning members whose engagement in housing finance and community development activities has shifted, resulting in a change of category?

Member activity supporting housing finance and community development can fluctuate year to year based on the economy, changes in the industry, programs available, and government priorities. To control for these fluctuations, we would recommend the FHLBank develop a five year evaluation process that looks at year over year averages to control for major fluctuations across the market.

Additionally, where possible, measurement and reporting should align with existing requirements. As a CDFI, we have been certified by the Treasury Department and we annually recertify through robust reporting. To reduce the administrative burden on members and streamline evaluation, we would recommend FHLB incorporate existing reporting requirements through industry partners (such as the Treasury Department, rating agencies, and other third party reports), and use those as an annual evaluation tool.

4. What additional benefits should accrue to members in each category?

No comment.

5. What provisions should be required for each FHLBank's program to ensure it does not adversely affect the FHLBank's safety and soundness?

No comment.

6. Should there be requirements that ensure members who obtain the benefits of such programs are not engaged in conduct inconsistent with the public interest, such as predatory, discriminatory, or unfair practices?

The FHLB must ensure that all members are held to high standards to ensure against predatory, discriminatory, or unfair practices. However, such oversight will need to look different to accommodate a more diverse membership. Diversifying the membership of FHLB requires recognition of variation in scale and structure, and any requirements put in place by the FHLBank to ensure conduct consistent with the public interest will need to account for the different oversight, financial, and governance structures that come with varied organization types.

In conclusion, we greatly support expanding the mission and admission guidelines for the FHLBank members as this will strategically focus impact and open doors for new organizations to become members and contribute to that mission. CDFIs have long been stewards of affordable housing and community development, and the opportunity to grow that impact through FHLBank membership is very promising, not only for us but for the entire affordable housing and community development field. We look forward to the opportunity to contribute to the impact of the FHLBank and continue advancing our shared missions.