CDBA Community Development Bankers Association
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STATEMENT OF JEANNINE JACOKES
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GSE Duty to Serve Virtual Listening Session
WEDNESDAY, DECEMBER 11, 2019

On behalf of the members of the Community Development Bankers Association (CDBA), I thank the leadership and staff of the Federal Housing Finance Agency (FHFA) for holding these listening sessions.

My name is Jeannine Jacokes and I am the Chief Executive Officer of the CDBA.

CDBA is the national trade association of banks with a primary mission of promoting community development. There are currently 138 banks and 93 bank holding companies designated by US Treasury as certified Community Development Financial Institutions (CDFI) – which means at least 60% of their total lending, services and other activities must serve Low- and Moderate-Income (LMI) communities. The urban, rural and Native American communities that CDFI banks serve are characterized by high unemployment, poverty, lack of opportunity for residents, and widening inequality relative to the rest of the nation. CDFI banks work to finance affordable housing in the underserved market segments outlined in statute – namely rural housing, manufactured housing and affordable housing preservation.

Our membership is comprised of small banks with a strong commitment to community and financial inclusion. In fact, 47% of all CDFI banks are headquartered in high needs rural areas targeted under Duty to Serve.

First and foremost, we urge FHFA's leadership to maintain a strong focus on the high needs rural areas. Income inequity is growing in this nation at a rapid pace and rural areas are among those hardest hit. From 1989 to 2016, the share of wealth held by the bottom 90% of earners fell from over 33% to 23%, and this trend has continued in the past three years.[1]
Second, we urge the GSEs to embrace partnerships with CDFI banks as a central element of their Duty-to-Serve strategies. CDFI banks are on the front line of addressing the need for affordable housing in the high-needs rural areas that are the focus of the Underserved Market Plans. Per FHFA's regulatory requirement that the Enterprises seek to support Small Financial Institutions (12 C.F.R. § 1282.34 (d)(1)), CDFI banks should be considered ideal partners with an average asset size $434 million[2].

CDFI banks have operated in these areas for decades. They understand risk and local credit needs. CDFI banks have found ways to meet affordable housing needs in a safe and sound manner despite the market challenges. The large majority of loans that CDFI banks originate do not "fit the box" of the Enterprises' conventional products. Further, despite having good borrowers and seasoned loans with

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[1] Stone et al. "A Guide to Statistics on Historical Trends in Income Inequality." The Center on Budget and Policy Priorities. Updated August 21, 2019. https://www.cbpp.org/research/poverty-and-inequality/a-guide-to-statistics-on-historical-trends-in-income-inequality
[2] Average asset size of all CDFI banks is $434 million at Q3 2019 per the FDIC Call Reports. The largest CDFI bank is $3,4 billion and the smallest is $25 million.

strong payment histories, these banks' loans remain in portfolio. We believe there is much that the Enterprises and FHFA could learn from local mission-focused lenders – but it will require greater flexibility than current GSE standards and FHFA policies currently afford.

In October 2018, CDBA hosted a Duty to Serve bus tour and roundtable in Indianola, MS – the heart of the Mississippi Delta. We were pleased to have participants from FHFA, Fannie, Freddie, local and state government, nonprofits and for-profit developers, and a large group of CDFI banks from the greater Mid-South region. We had a robust discussion about single-family mortgages, affordable multifamily preservation, manufactured housing, financial literacy, and how the GSEs could work with the CDFI banks. Yet, a year later, we do not have any tangible progress toward forming partnership with these banks.

On our Delta bus tour, we saw first-hand the problems that housing developers, lenders, and borrowers experience. We saw great challenges and truly dire need – small towns with poverty rates over 40%. We saw neighborhoods of aging housing stock, where the cost of rehab can be out of reach for residents and the housing stock simply deteriorates. We saw modest single family homes that are hard to buy and sell because of difficulties with rural appraisals and the cost-prohibitive nature of small-balance mortgages.

Yet, we also saw great examples of opportunity – CDFI banks and developers working together to provide safe, healthy housing. We saw small nonprofits who put every dollar into helping their neighbors learn about credit scores, financial planning, and how to become a homeowner. Despite the large portion of CDFI banks in the rural Mid-South, most have never worked with Fannie and Freddie. Most do not originate a high enough volume of mortgages to be direct sellers, and most of the loans originated do not fit the GSEs' conforming standards due to the economic challenges of the communities they serve. The issues are complex, ranging from loan-to-value requirements, to small mortgage sizes, to appraisals, to financial literacy, and many other factors.

We believe the FHFA must ensure that the Enterprises have robust plans for 2021-2023 that challenge the GSEs to expand the distribution and availability of single and multifamily housing. Within the recently released Request for Input on the Proposed Modification to their 2018-2020 Duty to Serve Plans, both GSEs proposed to substantially reduce or rescind prior loan purchase commitments across multiple types of housing. We oppose these changes and urge the FHFA to maintain healthy targets.

CDBA welcomes the opportunity to engage in a deeper dialogue with FHFA, Fannie and Freddie on how to develop pilot initiatives tailored to the needs of underserved communities our CDFI banks serve. We also recommend the Enterprises create Underserved Markets Advisory Committees comprised of CDFIs and other affordable housing lenders that will provide on-going guidance on implementation of the Enterprises plans.

Finally, we endorse and support the recommendation advanced by Opportunity Finance Network in the last listening session that the GSEs make equity or equity-like investments in CDFIs as a mechanism for reaching some these difficult to serve markets. Prior to conservatorship, Fannie Mae operated a highly effective program that used this strategy. We strongly urge the FHFA to revisit this issue. For decades, these underserved markets have proven a great challenge for the Enterprises to reach. Thus, we encourage the agency to "think outside of its box" and engage in creative problem solving.

On behalf of CDBA and its members, I thank you for opportunity to share these views and look forward to working with FHFA and the Enterprises to bring capital to high need rural communities.

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