**The Small Business and Community Investments Expansion Act, H.R. 1355  
Expand eligible collateral for CDFIs who join a Federal Home Loan Bank  
Sponsored by Representatives Ellison, Stivers, Maloney, Paulsen, Delaney, Cartwright***Supported by LISC, Opportunity Finance Network, Capital Impact Partners, Ohio Finance Fund,   
Community Reinvestment Fund USA, Self-Help, TRF*

Community development financial institutions (CDFIs) struggle with limited capital to lend to businesses and families. Unlike financial institutions which are usually leveraged at a ratio of at least 9:1, the majority of non-depository CDFI loan funds are leveraged at a ratio below 3:1 with nearly half at 1:1. This limited leverage rate is due to the higher cost of debt as well as limited sources of funding available to them. Cuts to federal sources like the CDFI Fund, CDBG and the SBA has limited CDFIs ability to raise additional lending capital.

One solution that would enable non-depository CDFIs to leverage their existing portfolio to make more loans is Federal Home Loan Bank membership (FHLB). CDFIs could become members of a FHLB, pledge collateral and receive advances (loans). Any FHLBank member that wishes to borrow from its Bank must pledge certain types of collateral to secure its repayment obligation on advances, and must otherwise demonstrate to the Bank that it is creditworthy

However, under current law, the FHLBs cannot accept the same type of non-depository CDFI collateral that they can for similarly-sized depository members. General members must pledge ‘long-term home mortgage loans” of at least five years. However, the FHLBs allow a specific class of members, community financial institutions (CFIs), to pledge additional collateral including secured loans for small business, agriculture or community economic development, or securities representing a whole interest in such secured loans. This expanded collateral definition does not include non-depository CDFIs, even though non-depository CDFIs are of similar size and focus as CFIs. This lack of inclusion was due to a drafting error in the Housing and Economic Recovery Act of 2008, not because of any opposition. The FHLB System prefers to treat its members equally.

## The bill would permit non-depository CDFIs who exclusively finance small business lending, charter schools, community facilities, commercial facilities, etc. to pledge those loans in exchange for advances, if they qualified for FHLB membership. This technical change would result in greater economic activity in communities, create jobs and would be especially beneficial to rural communities and communities facing disinvestment. The current rules hinder CDFIs access to the FHLBank finds a March 2015 GAO report 15-352, *Collateral Requirements Discourage Some Community Development Financial Institutions from Seeking Membership.*

**Citations:** Eligible collateral for CFIs. [12 U.S.C. 1430(a)(3)]   
Section 1211 of HERA amended section 10(a)(3)(E) of the Bank Act to broaden the collateral that may be pledged by CFI members to include secured loans for community development activities. [Section 1211 Public Law 110–289, 122 Stat. 2790 (*amending* 12 U.S.C.]

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