



July 10, 2009

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VIA EMAIL AND REGULAR MAIL

Alfred M. Pollard
General Counsel
Federal Housing Finance Agency, Fourth Floor
1700 G Street, NW
Washington, DC 20552

Re: Comments/RIN 2590-AA18

Dear Mr. Pollard:

The Community Development Trust, LP (“CDT”) appreciates the chance to comment on the Federal Housing Finance Agency’s (“FHFA”) request for comments on the proposed rule published in the *Federal Register* on May 15, 2009, regarding community development financial institutions’ (“CDFIs”) membership in the Federal Home Loan Bank System (“FHLB System”).

CDT is the country’s only private real estate investment trust (“REIT”) devoted to affordable housing that is also a CDFI. CDT was created in 1999 with an initial capital investment from Local Initiatives Support Corporation and has subsequently purchased over \$700 million worth of loans to and equity investments in affordable housing properties in 39 states. CDT’s efforts have helped preserve over 27,500 units of housing affordable to individuals and families earning between 30 and 60 percent of their respective area median incomes. CDT has a 10-year track record of providing critical long-term financing to the affordable housing industry. CDT’s rigorous credit culture has led to a near-spotless record of portfolio performance.

CDT supports Opportunity Finance Network’s (“OFN”) comment letter to you, and CDT encourages you to follow the guidance provided by OFN. By relaxing the financial requirements recommended by OFN, more CDFIs will be eligible to become part of the FHLB System and able to continue expansion of their community development activities. Notwithstanding CDT’s endorsement of OFN’s letter from an industry perspective, please note that CDT is extremely well capitalized and would not be seeking waivers from the proposed rules on self-sufficiency or minimum net asset ratios. However, CDT does have a comment regarding FHFA requirements related to “earnings.” The proposed rule provides that an applicant needs to show a positive net income for two of the three most recent years, where net income is calculated as gross revenues less total expenses and is derived from the applicant’s most recent financial statements. Presently, CDT complies with this requirement; however, this may become an issue for CDT in the future due to its REIT requirements. As a REIT, CDT is required to distribute 90% of its taxable income to its shareholders. CDT’s financial statements are consequently a little more difficult to understand than those of most companies.

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In many REITs, including CDT, shareholders actually receive dividends "in excess of earnings" every year. The apparent deficit results from the annual depreciation charge taken against the entity's real estate investments. Depreciation is an accounting convention that reduces reported earnings, but does not result in any cash outlay. In reality, REITs receive far more cash than their reported net income (depreciation reducing the reported net income) and typically distribute this excess cash in the form of dividends. As a result, REITs' balance sheets frequently show an "Accumulated Deficit" account created by these "distributions in excess of earnings." This deficit typically reflects the dividend distributions CDT has paid, not real losses incurred over its existence. If CDT had experienced real losses, it likely would have reduced or temporarily suspended dividends.

Unlike most financial entities, REITs typically measure profitability through Funds From Operations (FFO). FFO is essentially a proxy for cash flow generated by a REIT and determines the appropriate level of dividends to pay to common shareholders. Since depreciation is a non-cash charge against earnings, it is added back to net income when calculating FFO. Net capital gains and preferred dividends, in contrast, are deducted from net income to arrive at FFO. Accordingly, CDT suggests that an exception be made for CDFIs that are REITs requiring that their earnings be calculated based upon FFO.

CDT would also like to emphasize the following points that OFN made in its comment letter:

- CDFIs should be considered in compliance with the community support regulation by virtue of certification as a CDFI.
- FHFA should require each FHLB to report on how many CDFIs applied for membership; how many were accepted as members; how many were rejected and why; and the CDFI members' use of advances.
- CDFIs should be able to become members and seek advances from the FHLB in any region in which they serve as long as they are providing financing in that region.

In general, the proposed rule recognizes the unique characteristics of CDFIs and the valuable contribution we make to low-wealth and low-income communities across the nation. CDT would like to express its gratitude to FHFA staff who undertook this endeavor to understand CDFIs and their benefit to the FHLB System. CDT encourages you to finalize the proposed rule with the changes suggested as soon as possible.

Thank you for the opportunity to comment. Please do not hesitate to contact me at (212) 271-5087 or srobbins@cdt.biz if you have questions or need additional clarification.

Sincerely,



Susan T. Robbins
General Counsel

STR:jfp