

Community Development Special Finance Program (CDSFP)

FAQS

Frequently Asked Questions

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The Community Development Special Finance Program (CDSFP) is a pilot program designed to support community development activities, especially for Community Development Financial Institution (CDFI) members that historically have had challenges with collateral availability. The pilot will support FHLB Dallas members, including CDFIs, with a reduced collateral haircut for qualifying mortgage loans to certain income qualified borrowers (“CDSFP Qualified Loans”).

What benefit can this program provide?

- The CDSFP provides a more favorable haircut (12 percent for most members) on qualified loans to lower income borrowers compared to the usual haircut (25-40 percent for non-depository CDFIs).

Are there specific household income requirements related to the CDSFP Qualified Loans:

- Yes, for all loans pledged under this program, members will certify that borrower income is equal to or below 115 percent of the area median income at the time of mortgage origination. This borrower income qualification is consistent with the limit used for FHLB Dallas’ Community Investment Program Advance.
- In addition, all loans pledged under this program must meet all FHLB Dallas eligibility requirements as outlined in the Member Products and Credit Policy and the Loan Collateral Eligibility Requirements guide.

Will there be a program volume limit?

- Yes, the maximum amount of qualifying collateral eligible to be pledged under the Pilot Program is \$200 million (after pricing and haircuts), of which \$150 million will be dedicated to CDFI members (including CDFI banks and credit unions and non-depository CDFI members) for the first six months.
- The pilot begins March 1, 2024, and will continue for two years. Members can pledge eligible collateral during the duration of the program as long as the aggregate collateral value of loans pledged under the program is \$200 million or less.
- Until the program volume limit is met, a member may pledge eligible collateral up to the lesser of \$20 million or 35 percent of the member’s total assets.

Example: Member pledges \$20 million in eligible loan collateral on the first day of the program, which is the lesser of \$20 million or 35 percent of that member’s total assets. As loans pay off, mature or become ineligible, the member can pledge additional eligible loans under the program up to the \$20 million limit.

Who is eligible for this program and are there any credit requirements?

- All FHLB Dallas members are eligible for this program; however, members must meet the Bank’s minimum required internal credit rating of “D” or higher. Members with an internal credit rating of “E” will be evaluated by FHLB Dallas on a case-by-case basis.
- Members must comply with the Community Support Requirements/Community Reinvestment Act.

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How do I pledge loans under the program?

- Members interested in participating must complete an onboarding process with your Member Sales Officer and Collateral Services including execution of the CDSFP Opt-In Agreement
- Members on Custody collateral status must physically deliver CDSFP Qualified Loans to FHLB Dallas. Participating members on Blanket collateral status will be required to list CDSFP Qualified Loans and provide monthly updates.

When can we begin pledging collateral under this program?

- The pilot begins March 1, 2024 and will continue for two years. It will be open to the pledge of qualifying collateral so long as the aggregate collateral value of loans pledged under the program is \$200 million or less.

Will non-CDFI members have access to this special collateral haircut?

- Non-CDFI members will have access to the special haircut for \$50 million of qualifying collateral for the first six months after launch of this pilot. After the first six months, all members, including non-CDFI members will have access to any unused capacity.

Would I be able to participate in this program if I already have collateral pledged to FHLB Dallas?

- Yes, collateral pledged under this program may be used in conjunction with all collateral pledged to FHLB Dallas to secure advances, including CIP/EDP advances, and other outstanding obligations.

How do we obtain value for eligible loans already pledged to FHLB that meet program requirements?

- Members who have already pledged loans to FHLB Dallas will inform the Collateral Services team in charge of vault operations which loans they want to transition to the program by submitting a spreadsheet that lists the qualifying loans.

Note: If new loans are being submitted, the qualifying loans must be submitted using FHLB Dallas' delivery or listing processes, which require the submission of an Add File via SecureConnect using the assigned member specific call report code. Members on Custody status must deliver all applicable loan documents to satisfy eligibility requirements.

What is the timeframe for delivery and assignment of collateral value?

- Members on Custody status and non-depository CDFIs will need to submit an "Add File" with the list of new loans that they intend to pledge for the CDSFP program. FHLB Dallas will "reserve" the projected collateral value for seven days after submission of the "Add File" for the member to deliver the loan documentation for FHLB Dallas' documentation/eligibility review. The Bank will complete the review within 10 days of the delivery of the documentation. For information on the collateral value of your loans, please see the Collateral Detail report available in FHLB Dallas' SecureConnect portal.

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- Only loans meeting FHLB Dallas' eligibility requirements will receive collateral value. Loans not meeting the eligibility and documentation requirements will be marked a "Problem Loan," indicating the loan has an exception. Loans with exceptions will not receive collateral value until the exception(s) are cleared. The projected capacity initially reserved for Problem Loans will be released and made available to all members.

Are members able to exceed the \$20 million program collateral value limit?

- Per the program's parameters, a member's collateral value under this special program will be capped at \$20 million. Any program eligible loans with a combined collateral value exceeding the \$20 million cap will be transitioned and given the standard haircut as applicable for members on Custody or Blanket status. The Bank will monitor the program and member limits.

How will the eligibility of collateral be monitored, and can eligible or ineligible loans be replaced?

- FHLB Dallas will monitor the program participants daily for program eligibility and limits.
- Standard practice requires that members submit an electronic monthly update on the loan status. Failure to perform the monthly update could result in the loss of collateral value.
- The member will be allowed to complete the monthly update to bring delinquent loans current or they may request a release of the delinquent or ineligible loans.
- The Member will be allowed to replace loans that lose eligibility if there is program availability.

How will FHLB determine which loans will be reviewed/processed first?

- FHLB Dallas will review loans on a first-come, first-served basis.

Will this program be visible on my SecureConnect profile?

- Members on Blanket collateral status will see the amount of collateral pledged under this program in the Listing section of the Member Profile.
- Members on Custody collateral status will see the amount of collateral pledged under this program in the Delivered section of the Member Profile.

How will the collateral for this program be identified so members can keep track of it?

- Members can see how much collateral they have pledged under this program through the Collateral Detail report available on SecureConnect.

Are there any additional costs associated with this new program?

- No, but all standard fees apply, including delivery fees for delivered loans.

What could stop my institution from benefiting from this program?

- Being placed on Restricted status.
- Failing to comply with the requirements of the program.
- Delivering or listing collateral that is not within the spirit of the program.
- The program's overall volume limit is met.

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What is the process if a member decides to opt out of the program?

- An executive of the member with Collateral signature authority will need to submit the request to the entity's Member Sales Officer or the Collateral Services department in writing or via email.
- Loans will be removed from the program and given the standard haircut as applicable for members on Blanket or Custody status.

How will FHLB Dallas manage member participation and members waiting to participate in the program?

- A first-come, first-serve waitlist will be established for members wanting to participate in the program. If program capacity becomes available, the waitlisted members will be contacted.

At termination, are there specific actions to take?

- Members can choose to keep the collateral with FHLB Dallas at the standard haircuts.

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- If the pilot program is terminated, members that experience a collateral shortage will be responsible for curing the shortage as specified in the Member Products and Credit Policy.

Additional details about the program will be made available ahead of the official launch on March 1, 2024. For questions, please contact Collateral Services at 800.541.0597 or vault@fhlb.com.

