1350 Broadway, Suite 700 ^ New York, NY 10018-7702 ^ www.cdt.biz

cdt

tel: 212-271-5080

fax: 212-271-5079

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Jodie Harris, Policy Specialist
Community Development Financial Institutions Fund
U.S. Department of the Treasury
601 13th St., N.W.
Suite 200 South
Washington, DC 20005

RE: CDFI Bond Guarantee Program ("Program") - Request for Public Comments

Dear Ms. Harris:

I am writing you on behalf of The Community Development Trust ("CDT"). CDT is a certified community development financial institution ("CDFI") with a national service area. We serve primarily as a secondary market purchaser of affordable housing and community development loans, helping to re-capitalize both CDFIs and conventional lenders so that they can provide additional financing for these purposes. We also originate these same type of loans and we make direct equity investments in affordable housing properties across the country. We are the only national real estate investment trust ("REIT") that focuses exclusively on affordable housing and community development finance. Since our founding in 1998, we have committed and invested more than $760 million in support of affordable housing and community developments throughout the country, helping to create and preserve nearly 30,000 units affordable to low-income families and households.

We welcome the opportunity to submit comments and suggestions for the design of the CDFI Bond Guarantee Program, which was established by the Small Business Jobs Act of 2010. Our comments address particular questions raised in the Federal Register notice of July 1, 2011.

1) How should the term "low-income" be defined as such term is used in Section 114A(a)(2)?

We recommend that a "low-income" area be defined as one in which the median family income is 80 percent or less of the metropolitan area median (if the area is within an MSA) or 80 percent or less of the statewide median (if the area is outside of an MSA).

We also encourage the CDFI Fund to permit activity, regardless of location, which directly benefits low-income populations, those whose incomes are 80 percent or less of the respective MSA median (for people living in an MSA) or statewide median (for those living outside of an MSA). Such an approach would be consistent with the CDFI Fund's historical acceptance of low-income populations as eligible CDFI target markets. It also would allow the CDFI bond proceeds to be used to finance affordable housing for economically disadvantaged people living in higher-income, higher-cost markets. There are large numbers of low-income families living throughout the country, including in higher-income census tracts. For example, one should consider Cook County, Illinois. According to the 2000 Census, there were more than 14,000 low-income families living in census tracts whose median family income was 150 percent or more of the MSA median. Many of these families contain individuals whose work is critical to the local economy, such as teachers, clerks, police officers, and firefighters. Preventing CDFI Bond proceeds from being used to finance affordable housing for these households would engender further income segregation and could strain local economies.

2) How should the term "rural areas" be defined as such term is used in Section 114A(a)(2)?

We recommend that rural areas be defined as those locations that are outside of Census Urban Areas with populations of 10,000 or more. This represents a broader definition than that used in the New Markets Tax Credit Program, which equates "rural" with "non-metropolitan." Our proposed definition accounts for the fact that many counties within metropolitan statistical areas are relatively sparsely populated and are much more rural than urban in nature. The Census has defined urbanized areas and urban clusters as census blocks that have population densities of at least 500 people per square mile. A number of the counties included in metropolitan areas have densities of 100 people or less per square mile. In fact, the Housing Assistance Council found that less than half of the people living in small towns, those with populations of 2,500 or less, live in non-metropolitan areas. A broader definition of rural areas will allow the CDFI Bond Program's benefits to be spread to communities that receive much smaller amounts of community development capital than large MSAs, particularly large MSAs on the country's east and west coasts.

3) Should there be any limitations on the types of loans that can be financed or refinanced with the bond proceeds?

We do not believe that there should be any limits on the types of loans that can be financed or refinanced with bond proceeds. The CDFI Fund has already certified CDFIs as having a primary mission of promoting community development and as devoting most of their activity to eligible target markets. Provided that the CDFIs are intent on retaining their certification, they will use the majority of the bond proceeds to support their community development activities. In the absence of a fully functioning secondary market for CDFI loans and investments, there is a significant unmet need for CDFI liquidity, particularly since many organizations have had to make longer-term loans in the past few years with the pullback of many conventional lenders from the community development marketplace. Given the wide variety of development needs throughout the country, it would be counter-productive to set any limits on the types of loans or investments that could be financed or re-financed; the CDFI Fund presently does not make any such restrictions in its Financial Assistance Program. Even if the bond proceeds are initially used solely to reduce the cost of the CDFI's existing capital (i.e., refinancing existing loans or investments), that use will enable the CDFI to offer more favorable financing in the future to support key local businesses and developments.

4) **Should CDFIs be allowed to use bond proceeds to purchase loans from other CDFIs? If so, should the CDFI that sells the loans be required to invest a certain portion of the proceeds from the sale to support additional community development activities?**

As noted above, one of the biggest needs in the CDFI industry is additional capital. There are few secondary market options for CDFIs, particularly with the continuing troubles of Fannie Mae and Freddie Mac and the dissolution of Neighborhood Housing Services of America. The CDFI Bond Program creates an opportunity to help CDFIs recapitalize by enabling other secondary market CDFIs to purchase their loans and investments. Thus we strongly recommend that CDFI loan and investment purchases be allowed under the Program. This would help the Program's benefits be more widely spread throughout the industry.

We also recommend that the seller CDFIs be required to invest at least 85 percent of the sale proceeds in community development activities, be they additional loans, development services, or other activities designed to improve conditions in their target markets. We do not view this as an onerous requirement, as the organizations would presumably use additional capital for such purposes anyway. We feel it important to include, however, since the CDFI Fund's certification threshold has historically required organizations to devote only 60 percent of their activities to community development purposes in order to meet the target market test. We believe that the 85 percent threshold, which is consistent with the "substantially all" requirement in the NMTC Program, is reasonable for proceeds associated with the CDFI Bond Program.

5) **Should the CDFI Fund place additional restrictions on the awardees' loan products, such as a cap on the interest rate, fees and /or late payment penalties, or on the marketing and disclosure standards for the products?**

We recommend that the CDFI Fund not place any additional restrictions on awardees' loan products, as doing so would inhibit awardees' ability to use the bond proceeds most effectively. CDFIs are a diverse set of entities with various product types. They operate in very different markets, with a range of borrowers and investees, and confront varying levels of risk. One of the hallmarks of the industry has been its ability to develop and adapt products to meet particular needs as they arise; CDFIs require the flexibility to structure their products as they see fit and to price them in a way that both addresses the borrower's needs and the CDFI's financial sustainability. It is hard enough for CDFIs to anticipate and respond to needs as they arise. Asking the CDFI Fund to set particular parameters around products could well hamstring CDFIs in their ability to address particular needs effectively. There is also the practical reality that any such effort on the part of the CDFI Fund could well conflict with the CDFIs' existing covenants with other funders and lenders, forcing a renegotiation of those agreements.

To ensure that the awardees' products are generally geared toward meeting the needs of disadvantaged communities and populations, the CDFI Fund should require all applicants to provide a general outline of their current and proposed products, including their rates, terms, and other features, in the application for bond authority. The CDFI Fund should require each awardee to report on its actual products on an annual basis and then compare those reports with the projected activities in the respective application. The CDFI Fund could reserve the right to label an awardee "out of compliance" should there be a significant mismatch between proposed and actual products.

6) **Can qualified issuers apply for multiple issuances? Should there be a limit per qualified issuer? If so, what should that limit be?**

We recommend that qualified issuers be able to apply for multiple issuances, with no limits. Similarly, we feel that awardees should be able to apply for subsequent issuances provided that they have been able to deploy the previous proceeds in a manner that is consistent with the strategy proposed in their prior application and that is beneficial to the markets they have targeted. Our rationale behind this recommendation is that we believe that relatively few CDFIs will be able to handle large issuances in a cost effective manner, and that the CDFI Fund should take advantage of and build upon their strengths.

7) **Should the CDFI Fund allow all existing CDFIs to apply, or should there be minimum eligibility criteria?**

Given the inherent uncertainty in the Program, particularly in its early years, it will be important that awardees have the ability to withstand some potential losses. We believe it is very important to the success of the Program that the awardees have some financial stake in the performance of loans made with the bond proceeds. CDFIs that have strong financial positions and capital at risk are much more likely to be able to withstand and cure issues that arise with investments made under the Program. To that end, we recommend that the CDFI Fund require all prospective CDFI applicants or groups of applicants to have net worth equal of at least 20 percent of the amount they are requesting in the bond allocation. The CDFI Fund should also require that applicants demonstrate their capacity to attract investors and ability to deploy large amounts of capital within a relatively short time frame.

8) What elements should be required in a capital distribution plan? Issuance Cost Graded in Applications:

As part of each application, the CDFI Fund should require applicants to detail their fixed and ongoing costs of deploying the capital. This should include discussions of the costs associated with creating special purpose entities and managing multi-CDFI entities. While we support the ability to create different bond structures that will support the needs of a multiplicity of CDFIs, we recommend that the CDFI Fund take into account the cost effectiveness of the activities proposed in each application and be particularly mindful of the increased issuance costs of complicated structures with numerous entities. These costs tend to be passed onto the ultimate borrower and its community, which reduces the ultimate impact of the Program. The presence of numerous CDFIs in a special purpose entity also can make it more difficult for the entity to cure defaults, particularly if the CDFI Fund allows special recourse entities with no net worth and no recourse to individual CDFIs. We would also ask that the CDFI Fund provide guidance on issuer structures and the number of CDFIs allowed in "joint applications."

We are supportive of the Opportunity Finance Network's position paper posted on their website (http://opportunityfinance.net) regarding issues that we have not specifically addressed in this letter.

We appreciate your consideration of these comments and look forward to the success of the CDFI Bond Guarantee Program. Please do not hesitate to contact me at (212) 271-5073 or cblair@cdt.biz should you have any questions or concerns about these recommendations.

Sincerely,

Christopher C. Blair

Christopher C. Blair
Vice President – Finance
CB:jfp