Enterprise

August 15, 2011

Ms. Jodie Harris
Policy Specialist
CDFI Fund
U.S. Department of the Treasury
601 13th Street, NW, Suite 200 South
Washington, DC 20005

Dear Ms. Harris:

Enterprise Community Loan Fund appreciates the opportunity to submit comments on the CDFI Bond Guarantee Program (CBGP). Enterprise Community Loan Fund (ECLF) is one of the nation's premier affordable housing Community Development Financial Institutions (CDFIs) and one of the largest nonbank CDFIs in the United States. Enterprise was instrumental in the development of the Low-Income Housing Tax Credit and the HOME Investment Partnerships Program, and the Enterprise family of companies has made investments in all 50 states. Together, we have strategically blended capital, innovation, and policy advocacy resulting in nearly $11.3 billion in loans, grants, and tax credit equity invested in low income communities across the country. Our investments have helped build and preserve more than 283,000 affordable homes, and more than two-thirds of the people served have incomes that are classified as extremely low or very low income.

We concur with the comments provided by the Opportunity Finance Network (OFN), of which ECLF is a member, and we would like to emphasize a number of key issues as you draft regulations on CBGP. In particular, we strongly urge the CDFI Fund to consider our comments below on program structure, use of funds and risk mitigation.

Program Structure and Bond Mechanics

The CDFI Fund should exercise maximum flexibility in implementing the CBGP. This includes allowing for a variety of bond structures and accommodating a variety of asset classes in order to support the needs of a wide range of CDFIs. ECLF recommends that at a minimum the CDFI Fund consider the three models laid out by OFN: Direct Issue, Pooled-Asset Backed Loans, and Pooled Loans to CDFIs.

Use of Funds

The range of uses should be as flexible as possible and should include refinancing, capitalization of a revolving loan fund, loans to and purchase of loans from other CDFIs, loan loss reserves, the required risk-share pool, debt service reserves, and/or sinking funds in support of a federally guaranteed bond, among other uses. All of these activities are either routinely undertaken by

CDFIs or would be part of a strategy for prudent use of bond proceeds. The Fund should not dictate or restrict the proportion of proceeds that can be directed to any one particular use.

In particular, the ability to use bond proceeds as a revolving loan fund is essential and generally reflects the business model in which many CDFIs operate. A revolving fund will allow CDFIs to continue to flexibly manage their loan portfolios. The model that we propose is more consistent with a receivables securitization structure that allows assets to be repaid and replaced with new assets, rather than an asset-backed deal for term loans that winds down as the loans repay. Many CDFIs conduct their lending business as revolving loan funds and routinely capitalize their balance sheets with investments from the CDFI Fund. Many CDFIs perform asset liability management in the aggregate, as opposed to loan by loan and liability by liability. CDFIs don't necessarily match each of their loan assets with debt liabilities, but recycle their loan assets multiple times within the term of their liabilities. Therefore, we believe that bond proceeds can and should be allowed to be used in a similar manner as capital for revolving loan funds. Another benefit of a revolving loan fund is that it will allow CDFIs to continue to provide financing in markets with temporary disruptions, markets in which permanent financing is temporarily unavailable and loans, while performing, need more time before repayment sources come to fruition.

Another use that will make the program highly successful and effective for the community development field is the ability to refinance existing loans to borrowers. Refinancing a portion of CDFIs' balance sheets with bond proceeds could lead to more stabilized balance sheets, better mechanisms for asset liability management, and more financing capacity. Existing lenders and funders will take comfort in knowing that CDFIs have multiple sources of capital and are not dependent on one or two funders. Using the bond proceeds to replace existing capital is likely to lead to growth in community development financing, as CDFIs will redeploy existing capital in new eligible projects more suitable to the short term financing provided by traditional CDFI lenders.

For decades, CDFIs have had to structure their loan assets to meet the terms of their liabilities, which at times has constrained their ability to respond to the needs of their borrowers. For example, many lenders to CDFIs want to lend at terms of less than five years and more often at three years (in line with their CRA cycle), which creates either an asset/liability mismatch, or requires a short term solution to meet the longer term needs of borrowers. For example, this mismatch might mean that the CDFI can only provide a 5 or 7 year loan to a borrower with a 20 year amortization, instead of the 20-year loan the borrower really needs. In order to manage the associated interest rate and duration risk, there is a need to create "buckets," limiting the dollar amount of loans a CDFI can provide for these longer term needs. Having access to 30-year bond capital will allow CDFIs to refinance their existing loan assets to more appropriately meet the need of their borrowers, as well as increase their capacity to make these longer term loans within the term of their capital source.

The 10% relending account and the 90% deployment requirement work hand in hand. The purpose of the relending account is to allow CDFIs to collect and then relend unexpected principal prepayments, loan repayments, and investments with maturities that are shorter than the bond maturity. The purpose of the 90% deployment requirement is to ensure that a good portion of the bond proceeds are deployed in underserved communities. Both provisions are important in ensuring that the bond proceeds are deployed in community development. That said, issuers will need to set aside cash accounts for liquidity (to manage asset-liability matching) and for credit or risk share purposes. These cash reserves should not count as part of the relending account, because doing so will not leave enough capacity to accommodate prepayments and shorter term maturities. Moreover, for purposes of the 90% deployment requirement, these same cash accounts should be included in the definition of deployment, because they will be needed to ensure prudent risk mitigation and available liquidity to support the underlying assets.

Risk Mitigation

As it has over the past 15 years, the Fund should rely on CDFIs to make end-borrower risk assessments. Under a Direct Issue or Pooled Loans to CDFIs bond structure, the financial resources of the CDFI should be analyzed to determine whether a CDFI qualifies to participate in a CBGP bond issue and what supplemental credit enhancements might be necessary. In these cases, the Fund should apply the loss and payment experience of the CDFI as indicators of risk, as opposed to conventional market indicators. The CDFI Fund should work with the qualified issuer or applicants to utilize a “toolbox” of credit enhancements to mitigate risk, including affirmative covenants or other measures.

The CDFI Fund should use the actual historic loss data of the CDFI industry to estimate loan performance, without relying on indirect proxy data from conventional markets. Indirect proxy data from conventional markets could leave the CDFI Fund with inaccurate credit subsidy rates and significant re-estimates every year. CDFIs have a “high-touch” approach to the management of credits, as well as unique underwriting standards that are informed by significant direct experience with specific subsets of borrowers, geographies, credit enhancement types, and subsidy sources. As such, there are institutional differences in the way we do business that would only be reflected in the actual historic loss data. Confounding the CDFI Fund’s modeling assumptions with performance data from conventional markets could result in an ineffective program structure.

We would also like to emphasize the following points:

- The CDFI Fund should evaluate each application based on its individual merits. The Fund should make use of expert resources in and outside the Federal government with deep experience in underwriting both CDFIs, community and economic development transactions, and more specifically bond market transactions.

- There should be no prohibition against using the CBGP in conjunction with other government programs such as the New Markets Tax Credit, the Low-Income Housing

Tax Credit, HOME funds or guarantee programs offered through HUD, the Small Business Administration or the U.S. Department of Agriculture.

- Servicers should be able to show a successful track record of managing the cash flow and performance of a portfolio of loan assets.

- The Fund should not require one qualified issuer (or appointed trustee) for all bonds and notes issued under the program, as doing so would prevent multiple CDFIs from becoming direct issuers.

- CDFIs issuers should be allowed to operate as their own servicers. Again, we believe that one of the CDFI industry's strengths is its loan servicing capabilities. CDFIs hold the relationship with the borrower and have access to local resources, putting them in the best position to find solutions. This ability of CDFIs to manage and service their loans is a major driver of the strong payment history of CDFIs over the past three decades.

- The CDFI Fund should not set minimum underwriting criteria for CDFI issuers. As part of the underwriting process, each CDFI issuer should be flexibly and thoroughly evaluated, with all risk mitigants considered. For example, not all CDFIs carry a 20% net assets/total assets ratio, however, there is protection provided to the lender via other means. Therefore setting a 20% minimum net asset/total assets ratio could lead to the disqualification of a financially strong CDFI.

- The CDFI Fund should not set minimum underwriting criteria for end-borrowers. CDFIs specialize in understanding risk in markets that are outside of the financial and economic mainstream, with a remarkable record of success and minimal losses and delinquencies. The Fund should rely on this unique experience by continuing to allow CDFIs to make the best decisions regarding the needs of their communities.

Thank you again for the opportunity to comment. I am available to answer any questions you may have, and look forward to participating in any further opportunities for discussion regarding your outreach to the CDFI industry and relevant rulemaking.

Sincerely,

Lori Chatman

Lori Chatman
President, Enterprise Community Loan Fund