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August 11, 2011

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

Dear Ms. Harris:

Finance Fund is pleased to offer comments concerning the establishment of the CDFI Bond Program. We appreciate the outreach efforts by the U.S. Department of the Treasury and the CDFI Fund to identify challenges and opportunities with this important new program.

Finance Fund is strongly supportive of the CDFI Bond Program and encourages Treasury to continue its forward moving activities to create guidelines and establish the program. With the recent economic recession, conventional lending has become severely constrained. Along with cuts in public sector economic development programs, this has resulted in a tightening of resources available to community based economic and community development projects. As such, the role of the CDFI Bond Program in bringing the strength and resources of the federal government, and the Federal Financing Bank (FFB) in particular, to provide CDFIs with capital market resources for economic development is critical. Linking this program with approved Community Development Financial Institutions is the perfect pairing. CDFIs around the nation have a strong track record in managing large portfolios.

Since 1987, Finance Fund and its affiliates including NMTC and CDFI entities, have invested more than $170 million in housing, economic development, and community facility projects leveraging over $905 million. This investment was accomplished through 2,604 awards to community-based organizations throughout the state. Finance Fund provides debt and equity to our clients through the management of 14 investment funds totaling over $160 million. Partnerships have enabled low-income people access to 15,422 units of affordable housing, 11,843 full-time jobs, and 3,036 early care and education spaces (classrooms) for 69,497 children benefiting the lives of over 119,400 Ohioans.
We would like to offer comments in four areas relative to the establishment of the CDFI Bond program. All of these comments are in the area of assuring that the program can be as responsive as possible to the particular needs of the types of projects that CDFIs around the country have great and long-term experience in financing.

17 South High Street, Suite 900, Columbus, Ohio 43215
800.959.2333 614.221.1114 fax 614.221.7493 www.financefund.org

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1) ***Maintain flexibility of loan structuring to respond to particular community needs:*** Finance Fund believes that the CDFI Bond Program should retain as much flexibility as possible in the structuring of loans and should afford participating CDFIs the flexibility to structure loans to respond to needs in their communities. This would include both eligibility for loans (eligible borrowers, use of funds, partnering with other finance sources) as well as underwriting standards (rate, term, collateral, guarantees, etc.) The complexity of the underlying bond sales transaction will be significant, and the use of funds will be restrained by the structuring needs of the FFB. As such, CDFIs should have maximum flexibility to the greatest extent possible.
2) ***Assess risk based upon a portfolio standard, rather than a loan by loan standard:*** There is a potential to see the use of Bond type programs as being contrary to the mission and investments of CDFIs. The very nature of the work of CDFIs should dictate that structuring of bond issues recognizing that there will be a wide range of underlying credit risks among loans included in a specific bond issue, even with the BEST underwriting systems. We believe that this can be accomplished by taking three approaches: The first is to hold all participating CDFIs to a very high standard of loan evaluating, underwriting, closing and servicing. Assuring experienced staff, rigorous underwriting standards, robust loan tracking systems, and active loan servicing will make sure that the underlying investments are appropriately managed. Second, we believe that the evaluation of pool performance should be based upon all of the loans within the pool, and that the structure of the bond issue should have built in reserves and enhancements. Thirdly, CDFIs making loans should have the flexibility to add on additional credit enhancement at the loan level.
3) ***Enable the establishment of a blind pool bond issue***: One of the challenges with a bond financed program will be the actual process of closing loans. Creating the pool of loans for inclusion in a bond issue inherently provides a challenge for both borrowers and CDFIs. Borrowers may find a need to identify interim or construction financing for a period of time until the bond issue can be sold. A further challenge will be in the actual pricing on a FFB investment, which has not been determined at this point in time. Both of these will increase the costs for borrowers and provide a challenge for CDFIs in enabling projects to move forward. This has been shown to be a challenge for another federal program, the SBA 504 program, which uses a somewhat similar bond financing mechanism. One way of responding to this problem would be to develop a mechanism to enable bonds to be issued on a blind pool basis, with strict criteria for advance commitment on the part of CDFIs and streamlined drawdown procedures. This will reduce the time delay in disbursal of funds and makes the interest rate risk less of a problem. To be clear, we are not advocating that CDFI Bond funds be used for construction financing. Rather, we are recommending that a primary focus be on speeding up and streamlining the drawdown process for underlying loans.

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4) ***Keep program costs as low as possible:*** The use of FFB resources will carry an interest rate to reflect the federal government's risk in guaranteeing the bonds. As such, it is anticipated that the interest rate on the bonds could be significant in the eyes of potential borrowers. We believe that the idea of using the capital markets to access resources for CDFIs is important, so the program should work hard to keep the range of fees limited and predictable. Fees are used both to cover costs for program administration, as well as reflect the risk on loans. Using the bond mechanism could entail engagement of a trustee, fiscal agent, and investment banker for pool structuring. In addition, covering the costs for loan servicing, as well as establishing a risk pool are needed. Each of these will result in the potential addition of both up front and ongoing fees. In structuring the program, fees should be included for actual services delivered and should be kept to an absolute minimum.

We appreciate the work of Treasury and the CDFI Fund in advancing this program, and thank you for the opportunity to comment. Please feel free to contact us at any time if we can provide further elaboration on these comments or be of assistance. Primary contact: Mark Barbash (614) 568-5049.

Sincerely,

James R. Klein

James R. Klein
CEO
Finance Fund

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