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POLICY POINTS

CDFI Bond Guarantee: Below-the-Radar Opportunity to Increase Community Development Lending

By Peter Lawrence, Enterprise Community Partners

While the budget battles continue in the U.S. Capitol, and the House considers cutting overall fiscal year (FY) 2013 discretionary spending by $19 billion below the already austere spending caps established by last year's debt ceiling deal, core federal affordable housing and community development funding are once again at risk. This is the landscape in Washington, D.C. where an unheralded program is waiting to be launched, a program that could be a game-changer for community development finance.

And best of all, the program, the Community Development Financial Institution (CDFI) Bond Guarantee Program (BGP), comes with a zero net cost to the federal government—a very desirable feature in these budget-challenged times.

The BGP was created in the Small Business Jobs Act of 2010. It passed with strong bipartisan support and was signed into law on September 27, 2010. Sen. Robert Menendez, D-N.J., championed the proposal, and continues to fight for the program as the Obama administration has grappled with implementing it. The program, which could dramatically increase CDFI access to 30-year, patient, low-cost capital, has long been championed by the community development industry.

There is great need for such capital. "[W]e believe the CDFI Bond program will create significant new opportunities and could encourage substantial new lending by banks and other financial institutions. For that reason alone, fast action on the CDFI Bond Program is particularly critical today," wrote 92 community organizations in a public letter to Treasury Secretary Tim Geithner last year.

Because of their mission-driven nature, CDFIs often play a key lending role in the affordable housing and community development industry, providing specialized but affordable debt products like bridge loans, mezzanine debt and other financial products that the traditional banking industry is reluctant to offer. CDFIs also understand the needs of community development finance, working patiently with developers on complex financing structures that are common in the affordable housing world.

But CDFIs have very little wiggle room with their sources of capital. Many developers need longer-maturity loans for their financing needs, yet CDFIs have access only to short-term capital. While it's true that some banks occasionally provide CDFIs with longer-term loans so they can meet their community financing obligations under the Community Reinvestment Act, there are not nearly enough loans or loan dollars to meet the demand for CDFI lending products by the affordable housing and community development industry. Consistent, reliable, low-cost patient capital is not generally available to CDFIs that are unable to access the capital markets as many mainstream financial institutions and high net worth investors can.

Many of the projects that CDFIs help finance, such as affordable multifamily developments, require long-term capital because of their expected overall economic lifetime. By not having stable and affordable access to long-term capital, CDFIs are not always able to meet the needs of their devel-

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oper borrowers.

The BGP was created to provide well-priced, long-term capital for CDFIs. The program was designed to operate through FY 2014 and authorizes the Treasury to guarantee as much as $1 billion in bonds annually with maturities of as many as 30 years. The guarantee enhances the bonds' creditworthiness, thus greatly reducing the participating CDFIs' long-term debt borrowing costs. With access to less-expensive, long-term capital, CDFIs are in a better position to provide high-quality, financial products to affordable housing developers, low-income households, small businesses and communities.

Unfortunately, the promise of the BGP has not yet been realized because the administration has not yet issued regulations to implement and run the program. And the clock is ticking. The first year of the program's four-year authorization has already elapsed, and the second authorized year is likely to do so by the end of September.

To be fair, the BGP is a completely new, complex program designed from scratch, and one the administration did not conceive of or advocate for. It's understandable that the administration would need time to develop appropriate rules and underwriting guidelines to ensure the BGP operates according to plan. And in this case, the administration has the challenge of creating a program with a net credit subsidy score of zero. This means the guarantee must be designed to generate no net costs to the federal government, and that any losses be covered by guarantee fees levied on, or reserves posted by participating CDFIs.

But as the second authorized year is slipping away, we are in danger of losing valuable resources that could bring forward a transformative program that has the potential to increase CDFIs' access to long-term patient capital and help underserved communities rebuild. Fortunately, this program is already law - we just need Congress and the administration to work together quickly to get the program running as soon as realistically possible.

When the administration issued its FY 2013 budget request in February, it included language as required by the Federal Credit Reform Act to authorize the issuance of the BGP bonds with the needed zero net credit subsidy cost. That was an important step in getting the program up and running—and represented a tremendous achievement to bring forward the support of an initially skeptical administration. However, such language will be considered as part of the annual appropriations process, a process that is likely to be complicated and delayed by election-year politics. It is not likely that Congress will finalize the appropriations bills before the end of the fiscal year—a deadline that it often misses even in non-election years. And without approval of the needed

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bond issuance authorization language, the BGP is stuck.

As of the writing of this column, a small opportunity to get Congress to kick start the BGP presented itself in the form of recent jobs legislation that was passed with rare and strong bipartisan support in the House. If we come together to convince the Senate to add the authorization language to that bill to get the program going, the BGP can begin to help finance community development projects nationwide, creating jobs and bringing much-needed capital to underserved communities. The needs of those communities and the potential benefits of the program are too great not to take action.

I'd like to add a coda to my column this month to note the passing of Patricia "Patty" Traugott Rouse on March 5, 2012. Patty was co-founder along with the late legendary developer Jim Rouse, of The Enterprise Foundation, now Enterprise Community Partners. She passed away in Columbia, Md., in the community that Jim created decades ago and where Enterprise is currently headquartered

Patty and Jim Rouse established The Enterprise Foundation to ensure that every person living in America has a decent, affordable home, and 30 years later, Enterprise has grown, emerging as a leading provider of the development capital and expertise it takes to create decent, affordable homes and rebuild communities nationwide. It's Patty's vision that continues to inspire me to advocate for policies that help make affordable housing for everyone in America possible.

Peter Lawrence is the senior director of public policy and government affairs for Enterprise Community Partners. He leads the execution of Enterprise's policy and advocacy agenda. His primary issue responsibilities are tax (including advocacy on the Low Income Housing Tax Credit and the New Markets Tax Credit programs as well as tax incentives to promote green and sustainable building), housing finance reform, affordable housing preservation, and rental housing policy. He also is the Secretary of the Board of Directors of the Affordable Housing Tax Credit Coalition, as well as a member of the Board of Directors of the New Markets Tax Credit Coalition.

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