CITY FIRST BANK OF DC

August 15, 2011

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

By e-mail to cdfihelp@cdfi.treas.gov

Dear Ms. Harris:

City First Bank of DC and its holding company CFBanc Corporation, both certified Community Development Financial Institutions, appreciate this opportunity to comment on the implementation of the CDFI Bond Guarantee Program (CBGP). This new CDFI Fund initiative represents an unprecedented opportunity to support economic development in communities across our nation. City First Bank of DC strongly supports the program and we urge the CDFI Fund to implement it as quickly and as flexibly as possible.

City First Bank of DC is a nationally chartered commercial bank. Like other CDFIs, its mission is to provide financial and other services in low to moderate income communities. With assets of $157 million, loans of $110 million, and deposits of $120 million, the bank targets Washington DC neighborhoods east of 16th Street including far Southeast and Northeast Washington and economically challenged suburban communities. Since 1999, we have financed 4,368 units of affordable housing, originated new commercial loans that, in the aggregate, created or retained 2,559 jobs, and financed spaces for 6,619 charter school students. Since 2005, we have originated 255 new commercial loans for these purposes, putting over $175 million into low and moderate income neighborhoods in Washington DC and its close-in suburbs. We are very well capitalized, with a leverage ratio of over 17%, and, like many CDFIs, have come through the recent recession in strong condition.

City First has received $300 million of New Markets Tax Credit allocations in four rounds, including $70 million in the most recent round. We use our NMTC allocations primarily for community facilities, including health centers and charter schools in the District of Columbia, Maryland, Pennsylvania and Delaware. Among the projects supported by City First NMTC allocations in the District of Columbia are:

- Financing of the new facility for Mary's Center in Petworth and the renovation of the Adams Morgan facility
- The expansion and renovation of Bread for the City's facility in the Shaw community

We see the possibilities

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- The development of a new 120,000 square foot storage and distribution facility for the Capital Area Food Bank, the largest nonprofit food distribution and nutrition education resource in the Washington metro region
- The redevelopment of Tivoli Square, the defining catalyst for redevelopment efforts in Columbia Heights
- Permanent financing of THEARC, a community and arts education center in Congress Heights, east of the Anacostia River
- The construction of a the new campus for the E.L. Haynes Public Charter School in Petworth

We look forward to being able to access the CDFI Bond Guarantee Program to enhance our mission and our impact. Many of our borrowers need access to longer-term financing than we have been able to provide them, given the structure of our liabilities. We are particularly excited about the prospect of being able to match fund longer-term loans to support community facilities such as charter schools. In addition to our comments in this letter, we are members of and support the letters submitted by the Opportunity Finance Network (OFN) and the Community Development Bankers Association (CDBA).

Program Structure and Bond Mechanics

The CDFI Fund should exercise maximum flexibility in implementing the CBGP. The program must allow a variety of bond structures in order to enable a diversity of CDFIs to meet the needs of the communities and populations they serve. The program needs to support access to both lending and equity capital. The CDFI Bond Program must be flexible enough to accommodate aggregation of many types of loans from various originators (directly or indirectly) as well as single originators. CDFI bonds should accommodate a full spectrum of asset classes and no one structure should dominate.

Eligible issuers under CBGP should either be a CDFI or a special purpose entity (SPE) sponsored, organized or as trustee for a CDFI. If the issuer is an SPE, it is critical that the bond purchaser's recourse be limited to the assets of the SPE (including all reserves). If recourse to the sponsoring CDFI is required, CDFIs--and regulated CDFI depositories in particular--will have to maintain the same capital ratios for loans transferred to the SPE as for assets remaining at the sponsoring CDFI, thus drastically limiting the effectiveness and impact of the CBGP. If the assets of the SPE are properly evaluated, and reserves or other appropriate risk mitigants are in place, there is no need to require recourse beyond the asset pool.

Issuers should be able to prepay, in part or in whole, the principal of bonds without penalty. Prepayment penalties would have two major adverse effects on the impact of the program: (i) loans to borrowers would have to themselves be structured with substantial prepayment penalties to mirror any penalty in the basic bond, thus limiting the ability to use the bond's proceeds to meet the needs of low-income community borrowers; and (ii) a prepayment penalty would be a strong disincentive for CDFIs to make short-term business loans for uses such as equipment and inventory purchases and would steer much of the program to longer-term real estate-based lending.

Program Eligibility

Though each bond issue should be considered separately and on its own merits, the Fund must ensure that all issuers have a strong track record of meeting the needs of low income and disadvantaged communities, are mission-based, and can and will direct bond proceeds to appropriate community and economic development uses. Issuers should be selected based on their proposed strategy for deploying bond proceeds and their historical track record in meeting the needs of the communities and populations, as targeted in a Capital Distribution Plan. We recommend an approach that parallels the CDFI Fund's selection process for evaluating applicants to its CDFI Financial Assistance (FA) program in assessing both eligibility and capacity to deliver on a Capital Distribution Plan.

Use of Funds

As the intent of the CBGP is to provide new capital sources for CDFIs, its uses should support CDFIs in their financing activities, both existing strategies and new ones made possible by the CBGP. Therefore we advise caution on any limits to specific eligible uses.

Eligible bond proceeds must include all loan and investment types and financing segments as long as they meet the definition of community or economic development in the CDFI Fund authorizing statute. In particular, we support the opportunity cited by the CDBA to use the CBGP to provide critically needed equity capital to CDFI banks and thrifts, and urge the CDFI Fund to favorably consider the CDBA's request that Community Trust Preferred Securities be regarded as eligible loans under the CBGP. As noted above, City First is very well capitalized, with a leverage ratio of over 17%, but as we grow our bank and our impact, we will need access to additional equity capital. In the current economic climate, acquiring equity capital is difficult for any small commercial bank; it is especially difficult for a bank committed to continued status as a CDFI, serving low to moderate income communities and people.

Eligible uses should also include, but not be limited to: refinancing—including refinancing of loans related to New Markets Tax Credit transactions; 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 the guaranteed bond; and investments (such as the security outlined in the CDBA's letter) that generate regulatory capital. These are all activities that are 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 a particular use. The CBGP offers a unique opportunity to significantly increase the impact of the work CDFIs do by leveraging other funds, including funds from the CDFI Fund, that support CDFIs.

Risk Assessment and Mitigation

CDFIs industry-wide, and City First Bank in particular, have a strong record of success serving distressed markets with minimal losses and delinquencies. The CBGP can and should rely on this unique expertise.

Underwriting criteria (e.g., leverage, cash flow coverage, asset quality) and risk mitigation techniques (e.g., required credit enhancement, liquidity requirements, interest rate protection, etc.) should be based on the specific risk profile of the planned use of proceeds and on the loss performance history of the participating CDFI(s), not on a generic, one-size-fits-all set of requirements. Historic loss and payment performance data from conventional financial markets are generally not reliable indicators of CDFIs' performance and should not be the basis for the Fund's risk assessment for the CBGP.

The Fund should allow the risk-share pool to be funded from various mechanisms, including but not limited to: bond proceeds, CDFI investors, and investment cash flows (e.g. the spread between assets earned and debt service required for the bond). The size of the risk share requirement should recognize the CDFI industry's long track record of successfully originating and servicing high-performing loan portfolios that are appropriate support for a federal guarantee program. Thus, the degree of credit enhancement required (and the associated costs) should be based on a combination of the experience of the CDFI industry and the sponsoring CDFI as well as the financial strength of the issuing CDFI (if the CDFI is issuing bonds directly) or of the underlying assets (if an SPE is issuing the bonds).

The Fund should employ a robust set of strategies to mitigate credit risk and expand program participation among CDFIs that meet the impact criteria described above. This could include over-collateralization, covenants, and supplemental loss reserves funded by excess spreads. Third party guarantees and bond insurance are also potential credit mitigation strategies, but they should be used sparingly, as the additional layer of risk-reduction that will be required by third parties may unduly limit the community impact of the program. As noted above, it is essential that if the bond issuer is an SPE sponsored by a CDFI, these risk mitigants be structured so that recourse is limited to the SPE and its assets, so the sponsoring CDFI is not required to maintain regulatory capital ratios against the SPE's assets.

Monitoring, Evaluation, and Impact

It is absolutely critical that performance evaluation be based on the outcomes and impact that participating CDFIs propose to produce under the Program. No two bond issues should necessarily look the same or produce the same results. Outcome measures should incorporate the full range of CDFI activity and include, as appropriate given a bond's Capital Distribution Program, measures relevant to consumer finance and community development as well as more common measures of jobs created or housing units financed.

Conclusion

In the coming weeks, the CDFI Fund will make important decisions about implementing the CDFI Bond Guarantee Program. Please keep in mind that a core strength of the CDFI industry is its diversity, and a one-size-fits-all approach in the regulations will seriously limit the program's success. The diversity of the industry also makes it difficult to mandate specific outcomes and impact a priori; the program should assess each bond application on a case-by-case basis. Throughout its history, the CDFI Fund has demonstrated flexibility and an appreciation for the unique contributions of CDFIs with varying legal structures and business plans. This operating philosophy will be particularly important in writing regulations for the CDFI Bond Guarantee Program.

Thank you for your consideration of these recommendations.

Sincerely,

Kimberly Levine
Acting President & CEO
City First Bank of DC