FAIRFAX COUNTY
Federal Credit Union

Fairfax County Federal Credit Union

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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:

Fairfax County Federal Credit Union (FCFCU) represents more than sixteen thousand members in a community based credit union located in Fairfax County Virginia. FCFCU has just over $235 million in assets, has been a certified community development financial institution (CDFI) since 2009 and was designated low-income by the NCUA in 2010. FCFCU is looking to expand our impact in the underserved community of Fairfax County and the surrounding environs.

FCFCU fully supports the CDFI Bond Guarantee program and believes it is a timely opportunity to offer expanded financial services to our membership. The continuing local and national economic distress shows little chance of improvement anytime soon. The CDFI Bond Guarantee program as outlined in the legislation offers the prospect of access to long-term capital at advantageous rates. If it is properly structured and implemented, it has the potential to stabilize and support the growth of financial institutions, such as FCFCU, that specializes in serving low- and moderate-income households who are suffering disproportionately from the current recession.

Certain general program parameters are essential if the CDFI Bond Program is CDFI credit unions are to be able to participate fully.

1. Secondary capital must be an eligible use of bond proceeds.

Secondary Capital is long-term, equity-like debt available only to credit unions designated low-income by the National Credit Union Administration (NCUA), the federal regulator for credit unions. It is counted as net worth, subject to terms and conditions defined by NCUA. Credit unions must by regulation have ratios of net worth to total assets of seven-percent (7%) or higher in order to be classified as "well capitalized." Unless they are well capitalized, they are constrained from adding deposits (and therefore, loans), and frequently, from expanding their membership in low- and moderate-income communities.

There is extensive precedent for secondary-capital investment in CDFI credit unions by the Treasury Department. The CDFI Fund has long made secondary capital loans to CDCUs directly. In 2010, the Treasury Department's Community Development Capital Initiative (CDCI) made $69.9 million in low-cost, long-term secondary capital investments in 48 CDCUs. FCFCU was one of these fortunate CDCU's and received just over $8 million from the CDCI program.

We recommend that the CDFI Fund consult, as appropriate, with NCUA to ensure that secondary capital investments under the CDFI Bond program conform, or can be conformed, to NCUA regulations. NCUA demonstrated great responsiveness in 2010 in working with Treasury to ensure that the CDCI program would allow effective credit union participation.

Finally, we note that our recommendation to explicitly recognize secondary capital as an acceptable use of bond proceeds parallels that of the Community Development Bankers Association. CDBA has called for structuring investments so that they count as Tier 1 capital for community development banks. Secondary capital for credit unions has somewhat different characteristics, but the need and rationale for this use of funds is comparable.

2. The CDFI Bond Program Should Align with Existing CDFI Fund Programs

The CDFI Fund has a 15-year history of funding a variety of CDFIs, delivery channels, and financial products. We recommend that the CDFI Bond program be structured so as to utilize and incorporate all the innovations and flexibility that the Fund has developed over the years. Along with the Community Development Bankers Association, we recommend that the CDFI Bond Program "be consistent in the use of definitions, reporting requirements, and other program implementation features with the CDFI Fund's existing programs."

In particular, we recommend that the program explicitly recognize the role of CDFI-certified intermediaries. The $100-million minimum bond size virtually ensures the need for aggregators. Even the largest CDFI credit unions would be highly unlikely to issue their own $100 million bond, so it is critical that an intermediary be able to aggregate on behalf of multiple CDFIs. The Fund should explicitly recognized that funds invested in CDFIs by an aggregator or intermediary be considered deployed.

3. Maximum Flexibility for Risk-Share Pools is Essential.

The CDFI Bond Program should allow for a variety of structures for the risk-share pool. We expect that various mechanisms will be offered by direct issuers and by intermediaries or aggregators.

- Funding the risk-share pool out of bond proceeds is one model that should be permitted.
- Under another model, participants would pledge collateral in the form of liens on a basket of loans held in their portfolio. The approach suggested by one CDFI credit union is as follows:

> Treasury is encouraged to implement a reserve structure which is similar to the collateralization requirements practiced by the Federal Home Loan Bank system. For instance, along with the issuance of secondary capital from a bond fund, a

companion instrument could be issued, establishing Treasury's right to receive reserve payments from a credit union in the case of a default. The instrument could collateralize Treasury's interest with a senior, superior lien on specific assets, yet would not require the transfer of cash or assets to Treasury until a certain loss was identified. This alternative would provide Treasury risk mitigation and reduce potential cash flow and yield impediments for a credit union that had received funds from a bond fund.

Where an aggregator issues a bond on behalf of a variety of CDFIs, we recommend that the risk-share pool not require for any case, joint and several liability: that is, if one participant in the aggregated pool does not perform, there should be no recourse other than to that institution's collateral or *pro rata* share of the pool.

Specific Program Design Questions

In general, FCFCU supports the recommendations of the CDFI Bond Policy Group. In response to several specific questions posed by the CDFI Fund, by way of elaboration and clarification we offer the following responses in form of the Position Paper.

We thank you for the opportunity to comment on this important program. Please feel free to contact me by phone (703-218-9900 x 1130) or e-mail (jthomas@fairfaxcu.org)

Sincerely,

Joseph D. Thomas, Jr.,
President/CEO