FreedomFirst
Credit Union

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

Dear Ms. Harris:

Thank you for the 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. Freedom First Federal Credit Union strongly supports the program and we urge the CDFI Fund to implement it as quickly as possible.

Freedom First FCU is a full-service community development credit union owned and controlled by its members and operated for the purpose of providing access to affordable, equitable financial and development services to its members and the communities in which they reside. Since inception, Freedom First has been committed to financial inclusion by providing members with the products, services and education they need to achieve financial independence. Our mission is achieved through enacting our core values of social responsibility, integrity and respect, accountability, collaboration, and innovation. Successful implementation of our mission has enabled Freedom First to be a major force for economic development in investment areas.

The potential of this program allows us to further our mission to help people prosper. As we undertake new programs and products to provide a full range of financial services to unbanked, underbanked and low income individuals, this program has the potential to aid us in increasing community outreach efforts, boost consumer confidence, and deploy loan dollars to impoverished and unbanked residents.

Further, Freedom First Credit Union is a member of both the National Federation of Community Development Credit Unions and the Opportunity Finance Network. We endorse the positions of these organizations in addition to the comments submitted below.

The following recommendations are most critical to my CDFI's successful participation in the CBGP:

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 meet the capital needs of a diversity of CDFIs. The CDFI Bond Program must be flexible enough to accommodate aggregation 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.

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 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 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. Regardless of structure, eligibility criteria should apply to the CDFIs themselves, not the end borrower if the borrower is not a CDFI.

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. The range of uses should include but not be limited to 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, investments of regulatory capital—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.

Risk Assessment and Mitigation
CDFIs have a strong record of success at 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 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 employ a robust —toolbox‖ of strategies to mitigate risk and expand program participation. Some elements of that toolbox could include over-collateralization, covenants, third party guarantees, bond insurance, supplemental loss reserves funded by excess spreads, and a supplemental risk-sharing mechanism.
The Fund should allow for 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).

Freedom First Credit Union supports the requirement for a loss reserve designed to protect the fund from credit losses. We encourage the adoption of 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 the fund's right to receive reserve payments from a credit union. The instrument could collateralize the fund's interest with a senior lien on specific assets, yet would not require the transfer of cash or assets to a risk pool until a certain loss was identified. This alternative would provide risk mitigation for the fund and reduce potential cash flow and yield impediments for a credit union that had received funds from a bond fund.

Monitoring, Evaluation, and Impact
Performance evaluation should be outcome-based. No two bond issues will look the same or produce the same results. CDFIs should be held accountable to the outcomes and impact that they propose to produce under the Program. Outcome measures should incorporate the full range of CDFI activity and include 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 critical 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, demonstrating the necessity of a program that assesses 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 different types of CDFIs. 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,

Dave Prosser
Vice President, Community Development
Freedom First Federal Credit Union

Keith A. Rickoff
Chief Financial Office
Freedom First Federal Credit Union