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facsimile transmittal

To:	Ms. Jody Harris	**Fax:**	(202) 622-7754
From:	Michael Lopez/Hispanic Net	**Date:**	August 15, 2011
Re:	Community Development Financial Institutions Fund – Bond Guarantee Fund – Public Comment	**Pages:**	4 (including Cover Sheet)
CC:	[Click here and type name]		

X **Urgent** ☐ **For Review** ☐ **Please Comment** ☐ **Please Reply** ☐ **Please Recycle**

Notes:

Please see Public Comment Submission as detailed in Federal Register Vol. 76, No. 127 (July 1, 2011)

Regards,

Michael Lopez
President
Hispanic Net

HISPANIC NET

August 15, 2011

Ms. Jody Harris
Policy Specialist
CDFI Fund, US Department of Treasury
601 13th Street, NW, Suite 200 South
Washington, DC 20005

RE: Community Development Financial Institutions Fund
12 CFR Chapter XVIII
Bond Guarantee Program – Public Comments

Dear Ms. Harris:

I am responding to your request for public comments for the Community Development Institution Bond Program under the Small Business Jobs Act of 2010.

Hispanic is a Silicon Valley-based, non-profit organization that fosters and supports high-value businesses for Hispanic entrepreneurs. We serve a wide range of community needs and work with many aspiring entrepreneurs.

Our organization also has the privilege of working with the White House and a range of Departments on policy issues and appointment candidacies. The intent and success of the CDFI Fund is of tremendous interest to our individual members and us as an organization.

As we have seen in Silicon Valley, the access to capital is one of the most effective tools to building a robust and healthy community. Various research reports we have seen show a dramatic decline in net worth of Hispanic households across the nation. This is an alarming turn of events to which we are quite concerned. A decline in Hispanic net worth affects many who are seeking education, start a business, support a family and build a better life. The United States cannot progress or compete, as a nation, with such a large and growing portion of its population compromised by adequate progress in these areas.

The CDFI Fund is a tool that can help solve this problem. The ability for CDFIs to access the capital and provide financing to underserved communities is an efficient and effective channel. The local positioning allows for capital to be used in its most competent applications

The CDFI Bond Guarantee program would facilitate the distribution of $5 billion dollars to low-income communities and sets a positive precedent of using capital markets to address these resource shortages.

We have read the information detailed in the Federal Register, Vol. 76, No. 127 (Dated July 1, 2011). To this end, there are some comments we wish to offer:

Eligibility: All certified CDFIs should be eligible. There is an existing lack of capital in these communities already. The potential recipients are using their market assessments to gauge the best uses for the capital. Limiting the eligibility will distort the flow a capital to the detriment of its overall return.

Structure: Subsidiaries or non-parent company entities should be allowed to be an insurer. An optimal platform might be a designated-function subsidiary that will act as an intermediary for the purpose of debt issuance. These loans would be moved from the CDFI to the subsidiary that would then issue debt via the Bonding Program. This is a type of asset-backed method that is understood by the capital markets. Historical performance of the loans is an important factor in underwriting by bond investors. It is in the Bonding Program's interest to have all applicants use this designated-function/asset-backed approach and demonstrate reporting transparency in loan performance.

Program Launch: A Program launch by 2012 is imperative. The OMB has questions about the proposed 3% risk-sharing reserve and the funds to cover losses exceeding 3%. To this end, we suggest the following two points:

The first is using an outside, government-approved entity to validate the risk by means of historical performance of the applicants' loan portfolio. The risk would be losses over the 3% amount, as legally stipulated. Such overage amounts could be funded by the proceeds from the issuance of the bonds. The applicant(s) could then be required to provide such funding as a covenant of the guarantee.

Another method could include loss insurance for amounts in excess of 3%. The cost could be part of the cost of funds for the issuance of bonds. This method would eliminate the risk exposure to the guarantor.

Underwriting Criteria: The success of the Program requires guidelines that recognize the reality of the communities. Many have not used traditional means of accessing capital and therefore do not have the standard risk evaluation metrics. Such factors as minimum FICO scores and other limitations not relevant to the realities of these communities will hamper the desired outcomes. An alternative is to use the CDFI's actual loan portfolio performance. The applicant's should demonstrate the quality of reporting information and/or show methods of improvement as criteria for underwriting.

Servicing: CDFIs should be allowed to service and collect on their loans. Separating these two processes lessens the customer relationship and damages the interaction that is crucial to engagement. This unique relationship allows for collection practices that have shown efficacy in the market. For this reason, CDFIs must have the ability to service the loans they make.

Refinancing: If existing loans are in conformity with the guidelines detailed in the issuance of Program bonds, CDFI's should be allowed to refinance such loans. Also, such refinancing transactions should apply against the 90% loan consistency stipulation with CDFI guidelines

Reinvestment: Capital should not be retired. If a loan matures or is paid off, the CDFI should be allowed to make new loans. This lessens the impact of the capital and, thus, the impact of the Program. Repayment is not impaired or risk increased by issuing new loans. An extreme scenario is where all loans are paid early and the capital goes to pay off the Bond. This defeats the whole purpose and penalizes those borrowers who have excelled.

Access to Traditional Financial Markets: The finite term of the Program presents a potential problem. After the Program's expiration, there is the threat of loss of capital to the very communities where assistance was intended. In the case of Program non-renewal, means need to be created where the progress attained in the Program's five-year term can be translated into performance metrics and history used by traditional institutional sources of capital. Loan performance records and credit rating criteria generated from the Program should become available just a mainstream borrowers already have in place. All means possible need to be brought to bear to mitigate the risk perceptions that have prevented access to capital in these underserved communities.

Hispanic Net appreciates your time and consideration in these comments

Regards,

Michael Lopez
President
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