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Ms. Jodie Harris
Policy Specialist
CDFI Fund
U.S. Department of the Treasury
601 13th Street N.W.
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Washington, DC 20005

Submitted by e-mail: cdfihelp@cdfi.treas.gov

Dear Ms. Harris:

The Housing Partnership Network (Network) appreciates this opportunity to comment on the program design framework for the new Community Development Financial Institution (CDFI) Bond Guarantee program. The CDFI Bond Guarantee program represents a significant new tool for those organizations dedicated to serving low-income communities. It is critical that the CDFI Fund put the program resources to work with all due haste to address the unemployment crisis in America.

We urge the Treasury Department to implement this new program in a way that embraces the judgment and capacity of high-performing CDFIs and provides them with flexibility and latitude on the use of the funds. It also important to focus on making the new program work as seamlessly as possible with the existing CDFI Fund programs. And, most importantly, we ask that the CDFI Fund do everything it can to ensure that the program places its highest priority on positive outcomes for the low-income communities the CDFIs are dedicated to serve. We look forward to working with you to ensure the program's success.

The Network is a 21 year old, business alliance of 97 of the nation's top-performing nonprofit housing developers, owners, lenders, and counselors. These organizations have come together to increase their business performance and their contributions to the communities they serve. The Network members share a commitment to social mission, business performance, and public-private partnerships. The members manage social enterprises that operate at a regional, statewide, or national level for large scale impacts. Network members collaborate with one another through peer exchanges that advance best practices in the field and have come together to create innovative, collectively–owned businesses that enhance their operations and impacts. As a mission-driven business collaborative experienced in raising capital with and for our members, we hope that our comments will help you as you craft the program's features.

The Network Includes Both CDFI Lenders and Potential Borrowers

We believe that the composition of the Network provides us with a unique perspective on the enormous potential for this new program. The Network's members include some of the nation's strongest nonprofit CDFIs. The Network itself is a certified CDFI and most of the 40 members who are in the lending business are also certified CDFIs. Many of these organizations are likely to apply to the CDFI Bond Guarantee program as issuers.

The Network also includes many of the Nation's strongest nonprofit single-family and multifamily developers, owners, and managers. These organizations engage with the CDFI community as borrowers and bring demonstrated capacity to efficiently deploy capital. This set of members has the desire to access the new bond guarantee resources to advance their affordable housing and community development missions.

Even before this program was enacted into law, the Network had launched a peer-to-peer exchange among the members to explore how CDFIs as mission-oriented providers of capital might better work with affordable housing nonprofit developers and managers as consumers of mission-oriented capital. Already, our members are working together to apply CDFI community capital to affordable single-family and multifamily development; to retrofit existing housing for energy conservation; to link housing opportunities to jobs by developing close to transit; to preserve affordable housing; and/or to create affordable homeownership opportunities to low-income and low-wealth families. The CDFI Bond Guarantee program will offer mission-oriented lenders the ability to increase the scale of their activities and provide new sources of lower-cost, long-term capital to their mission-driven customers. The new CDFI Bond Guarantee program opens new areas of possibility for collaboration, economies of scale, and greater impact. All of the Network members are excited by the possibilities that the CDFI Bond Guarantee program offers for access to long-term capital for affordable housing, charter schools, and other community development assets that need patient capital and will benefit neighborhoods for decades.

Urgency to Implement the Program

While the program offers a tremendous opportunity to advance the community development field over the longer term, in the short term the CDFI Bond Guarantee program also offers an opportunity for the Administration to provide catalytic benefits to a troubled economy suffering from excessive unemployment. If implemented expediently, the program will have the ability to leverage its $1 billion in low-cost capital many times over to create jobs in the construction sector in low-income communities where unemployment rates exceed the national average. The government can take advantage of the job-creating power of this program if it deploys the funds to support the construction of affordable housing and community facilities such as charter schools. The program could also help speed the economic recovery by supporting strategies that absorb the excess single-family housing stock and return it to productive uses, including repurposing properties as affordable rental housing. We urge the CDFI Fund to implement the program with great urgency.

Flexibility in Use of Funds

The Network believes that the most important principle in designing the CDFI Bond Guarantee program is to align this program as much as possible to the rules, definitions, processes, and systems used in the Financial Assistance (FA) program. The CDFI Bond Guarantee program will work best if it does not create new legal, regulatory, and operational complexities for the CDFIs that will manage the funds. Eligibility rules should mirror those for the FA program. Commonly used definitions such as those for incomes, geographies, and loan features should also track those used in the CDFI Fund programs.

Support a broad definition of community and economic development activities. The Treasury Department should define the eligible uses for bond proceeds in the same way as other CDFI Fund programs define eligible uses. In response to the questions posed in the request for public comment, we assert that the final rules should not preclude any asset types and that all the uses listed in Question 2 – including refinancing of existing assets; loan purchases from, and investments in, other CDFIs; and capitalizations of revolving loan funds, credit enhancements, and loss reserves, debt service reserves, sinking funds – should all be eligible activities. The CDFI Fund should put few, if any, regulatory restrictions on the specific eligible uses and purposes. The pricing and repayment sources for bond proceeds available in the market to the CDFI issuers will, in practice, determine the most appropriate uses of the funds.

Permit loans and investments in CDFIs. We urge the CDFI Fund to include among the eligible uses of the bond proceeds loans to or investments in other CDFIs. This structure allows the aggregation of loan demand and is consistent with Congressional intent that the program support CDFIs as institutions. This approach allows a CDFI issuer to provide other CDFIs with long-term capital, and enhance their capacity to expand their investments in community and economic development.

Permit revolving loan funds. Many CDFIs conduct their lending business through a revolving loan fund backed by a line of credit. These organizations do not always match fund each of their loan assets with a specific debt liability, but will instead recycle their loan assets multiple times. In this context, many CDFIs conduct asset/ liability management in the aggregate as opposed to a loan by loan, liability by liability, matched funding approach. We believe that the rules should allow bond proceeds to provide capital for revolving loan funds, consistent with current market practice.

Examples of revolving loan fund uses that are current CDFI practice include:

- Acquisition and predevelopment real estate loans for construction of affordable housing, health clinics, and healthy food retail outlets for which funding is often short-term in nature; and

- Bridge financing in markets with temporary disruptions. For example, over the last several years when the Low Income Housing Tax Credit (LIHTC) market was very challenging, CDFIs were able to support tax credit deals with short-term funding until the government established the tax credit exchange and provided other programs to help fill gaps.

With the new CDFI Bond Guarantee program in place, the expansion of these and other good practices become possible.

Allow refinancing of existing assets. We strongly encourage the CDFI Fund to support refinancing of all types of assets in the eligible uses of the bond proceeds. We note that the authorizing statute explicitly permits refinancing at sections 114A(a)(3) and 114A(b)(2). We argue for broad application of this authority given common misapprehensions about the value of refinancing activities for communities.

Refinancing can serve a variety of important functions for the CDFIs participating in the program. Refinancing a portion of a CDFI's assets with bond proceeds could add more stability to a CDFI's balance sheet, enhance mechanisms for asset/liability management, and provide more financing capacity. Very practically, a single refinancing can allow a lender to better match the useful life of an asset with financing terms, such as when a long-term mortgage refinances a short-term real estate construction loan.

More importantly, a refinancing product is critical to end users. In the affordable multifamily housing space, for example, a refinancing can help the owner recapitalize an existing property, lower debt service costs, or invest in energy or other operating cost savings – all enhancing the prospects for the longer-term preservation of the property as affordable housing. In addition, refinancing existing debt allows a mission-oriented owner of a multifamily property – like those organizations in our Network – to redeploy capital from the transaction, and allows the development entity to expand its mission-oriented activities, leverage the new capital, acquire new properties for long-term preservation, and/or enhance its service package for the residents. On the single-family side, new 30-year debt provided by a community sensitive lender could provide a homeowner who currently has a predatory mortgage with the opportunity to refinance into a standard, "right-sized" affordable mortgage.

<u>Encourage the Availability of Long-Term Debt</u>. One of the most dramatic features of the new program is the ability to issue bonds with terms up to 30 years. For much of the history of the CDFI movement, their lenders and funders have typically provided the CDFIs with loans of 10 years or less. This has limited the CDFIs' ability to respond to their customers' needs for longer term, patient capital. CDFIs had to tolerate asset/liability mismatches or force long-term needs into short-term solutions. The potential availability of long-term debt through the CDFI bond guarantee program is an enormous breakthrough for the community development movement and is an especially important new tool. For example, it could support neighborhood stabilization strategies, where end-loans are difficult to come by in a very tight credit environment and where Network members have demonstrated various successful approaches to sustainable homeownership by coupling innovative loan products with pre-purchase counseling and longer term borrower support. Critically, on the multifamily side, longer-term mortgages provide debt service cost stability for the preservation of affordable rental housing where owners have entered into use restrictions of 15 to 20 or more years.

Use in Conjunction with Other Public Funds. The final rules should avoid placing any prohibition on using the proceeds from a guaranteed CDFI bond in conjunction with other government programs including: the New Markets Tax Credit, the Low Income Housing Tax Credit, and Historic Tax Credits; most HUD programs including Community Development Block Grants, HOME funds, and the Neighborhood Stabilization Program; or those offered through the Small Business Administration or the U.S. Department of Agriculture. These programs, together, provide critical financial support for projects that otherwise cannot move forward. It is important the new program work well in tandem with other public subsidy sources.

Support Innovation. One of the other terrific opportunities for this new source of capital is to use some portion of the funds in support of innovative ideas that advance the practice of high-impact housing and community development. The Network is involved in two new ventures that serve as examples of the emerging opportunities for CDFI Bond Guarantee capital:

- Under an initiative with the working title of the Multifamily Stabilization Trust (MuST), more than 10 of our high capacity, large-scale multifamily developer members have come together with the Network and Stewards of Affordable Housing for the Future to create a new entity with sufficient capital and capacity to move quickly to acquire multifamily properties or portfolios that come available for sale. MuST will focus on acquiring unsubsidized, unrestricted properties with relatively low market rents. The member/investors will reposition the assets and manage these as affordable housing over the long term.

- Another Network venture that we have undertaken with Mercy Investor Services, Enterprise Community Partners, and the National Community Stabilization Trust is the Mortgage Resolution Fund (MRF). The partners have come together to create a vehicle to purchase non-performing single-family notes. Upon acquisition, MRF-supported resolution specialists will engage with the borrowers to restructure the loans, right-size the note, and provide the homeowner the greatest opportunity to stay in the home. For those borrowers who cannot succeed under any feasible restructuring approach, the MRF initiative will provide counseling support to help them through the most advantageous exit whether this is a short sale, a deed in lieu, or a foreclosure.

Eligible Entities

The CDFI Bond Guarantee program should work on behalf of mission-oriented CDFIs. Eligibility for a guarantee should, at a minimum start with entities approved for CDFI status by the CDFI Fund at the Treasury Department, but should also include additional standards for the issuer/aggregators related to their mission focus and community service. It is important to ensure that the bond proceeds flow to loan originators that are working to serve unmet community needs and not to originators and financial engineers who would use the credit enhancement merely to increase the profitability and returns and/or shift otherwise private credit risk into a government guaranteed structure.

Eligible entities should also include CDFIs that come together in consortia or special purpose entities to issue bonds collectively. Special purpose entities operating on behalf of one or more

CDFI will allow the participating entities to share risk, spread transaction costs, and operate at a scale consistent with the program requirement that bonds equal at least $100 million.

The Network's Chartered School Financing Partnership (CSFP) is an example of business collaboration among our members that could model successful collaboration under the new bond guarantee program. In 2008, five CDFI members – the Community Reinvestment Fund, Low Income Investment Fund, NCB Capital Impact, The Reinvestment Fund, and the Raza Development Fund – came together with the Network to create CSFP. CSFP is a groundbreaking vehicle to access secondary market financing for charter schools that serve disadvantaged students and communities. The U.S. Department of Education awarded $15 million to the Network and the Walton Foundation provided a $5 million PRI to CSFP to credit enhance transactions originated by the member organizations. By pooling resources and achieving economies of scale, CSFP is able to use the credit enhancements to reduce the interest rates and lower the cost of financing for charter school borrowers. To date, CSFP has provided an $800,000 credit enhancement to a $5.2 million New Markets Tax Credit facility for the Jersey City Golden Door Charter School. It has also issued $3.69 million in credit enhancement commitments for a $27.75 million bond supporting three Brighter Choice charter schools in Albany, N.Y. Collaborations, like CSFP, could serve to lessen the government's risk exposure, bring CDFIs to scale and enhance the ability of the government to deploy the CDFI Bond Guarantee funds more rapidly.

Limit Credit Enhancement Requirements

We urge that the Treasury Department not require some form of third party credit enhancement as a condition of its guarantee. A requirement that a CDFI issuer seek a credit enhancement only serves to increase the cost, complexity, and time to close of the transaction and undermine the core concept of the program in the first place – that the Treasury Department itself would provide the credit enhancement on the bonds.

The cost of the credit enhancement makes the end loans too expensive and therefore not particularly useful in the context of long-term financing for real estate related assets. In numerous discussions with the members of the Network who are potential end users of these funds, it was very clear that the funds become increasingly less powerful with each basis point increase in the ultimate cost to the borrower.

We submit that a variety of other factors should lessen the need for a credit enhancement requirement in the final rule. First, and foremost, the government should assess its risk exposure by underwriting the CDFI (or consortia of CDFIs) based on the financial strength of the entity, its credit and operational performance over time, its demonstrated management of its own portfolio, its controls, its management team, and other measures of its capacity to perform. Most will stand on their own as good, low-risk investments. In addition, the government should look to the assets that the bond proceeds will fund and the underwriting criteria that the CDFI will use to make its loans. CDFIs have consistently demonstrated tremendously low levels of losses. The CDFI loan portfolios have outperformed large financial institutions during this current financial crisis.

Appreciating the concern that program should avoid transactions that would require having to seek an appropriation we urge the government to adopt an approach to lowering its risks that selects from a menu of options. The government should allow itself to apply one of a variety of administrative remedies to credit enhance the bond transaction. These could include overcollateralization, affirmative covenants, borrower or institutional recourse, increased interest rates (using the spreads to fund loss reserves), and/or requiring additional reserves above the 3 percent required in statute. Third party credit enhancement could be included on the list as one of the risk mitigation tools and utilized if this is the least cost solution for the issuer.

We also oppose the required use of rating agencies in a CDFI bond guarantee transaction. CDFIs, by definition, are serving a segment of the market poorly understood by mainstream private capital and by organizations like the rating agencies that are peripheral to the transaction. We fear that the rating agencies would bring an ill-informed bias to their analysis, inappropriate private upscale market analogs, and benchmarks based on loan performance from the other clients they serve. The rating agencies would likely apply conservative ratings, overcompensating for their lack of understanding of the CDFIs and the specialized lending the CDFIs provide. A rating agency requirement would bring added cost with little added benefit to the transaction.

Priority for Bond Guarantee Allocations

We support some clarity by the CDFI Fund on the criteria it will use to choose among proposed bond issuances should application requests oversubscribe the available bond guarantee authority.

We anticipate that the CDFI Fund will want to put in place selection criteria that capture its desire to minimize the government's risk exposure while at the same time maximizing the social return on investment. We expect and support selection criteria that reflect the admonition in the statute that qualified issuers demonstrate "appropriate expertise, capacity, and experience." Selection criteria should also assess the financial strength of the applicant, its scale and capacity, the applicant's ability to underwrite and manage a loan portfolio, the entity's track record with respect to lending against the kinds of assets proposed in the application, and the strength of the applicant's management team.

Likewise, the government should signal its priority uses of the funds to include outcome and impact measures, among them the job creation potential of the proposed investments, the ability of the investments to leverage additional amounts of private and public capital, and/or the ability to meet other Administration priorities like Sustainable Communities, Choice/Promise Neighborhoods, Healthy Food Financing Initiative, charter schools, and the preservation of affordable housing.

Conclusion

Thank you, in advance, for your consideration of these comments. If you wish ask additional questions or seek additional support from the Network, please do not hesitate to contact our Washington representatives, Paul Weech (Weech@housingpartnership.net) or Kris Siglin (Siglin@housingpartnership.net). Our office phone number there is 202-677-4290.

Sincerely,

Thomas A. Bledsoe
President and CEO