



LIVING CITIES

August 15, 2011

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

Re: Response for Public Comment
CDFI Fund Bond Guarantee Program

MEMBERS

AARP Foundation

AXA Community
Investment Program

Bank of America

The Annie E. Casey
Foundation

J.P. Morgan Chase
& Company

Citi Foundation

Deutsche Bank

Ford Foundation

Bill & Melinda Gates
Foundation

Robert Wood Johnson
Foundation

W.K. Kellogg Foundation

John S. and James L. Knight
Foundation

The Kresge Foundation

John D. and Catherine T.
MacArthur Foundation

The McKnight Foundation

MetLife, Inc.

Prudential Financial

The Rockefeller Foundation

Surdna Foundation

To Whom It May Concern:

Living Cities is a collaborative of 22 major foundations and financial institutions with a long history of investing in low-income urban communities. Over the past two decades, our members collectively have invested over \$4 billion in more than 130 individual CDFIs, with cumulative losses of under 3%. We are strong believers in the importance of CDFIs and their role in facilitating sound investment. We offer our comments as investors with first-hand knowledge of what it takes to bring capital to underinvested communities and the difference that this capital can make in creating jobs and rebuilding local economies.

Living Cities applauds the sponsors of this legislation and the Department of the Treasury for bringing forth the CDFI Bond Program. We are eager to support your efforts to launch the Program. We believe that the Program is a tremendously important, game-changing resource. It will create a much-needed infusion of capital to invest in small businesses, affordable housing, health and community facilities and other community and economic development priorities at a time when this capital is particularly scarce. This Program also creates the opportunity to significantly expand and diversify the CDFI investor base – a result which would dramatically improve the financial model that supports the CDFI industry.

As a consortium of the leading community development investors, we offer the following guiding principles related to the design and deployment of this new Program.

1. Launch quickly to maximize use of permitted authority and demonstrate need and impact. Given the current weakness in the national economy, which greatly affects CDFIs and the areas they serve, this is of critical importance. We urge you to make this possible by:

AFFILIATE MEMBERS

The Cleveland Foundation

The Skillman Foundation

PRESIDENT & CEO

Ben Hecht

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- Issuing regulations and guidance quickly so that investments can begin as early as possible in 2012
 - Gearing the Program toward the organizations, structures and program rules that give the field the best chance for quick and effective deployment.
2. Keep the Program simple. We encourage you to strive for simplicity, as this will reduce transaction costs, improve execution speed and lead to better price transparency. Specifically, we recommend the following:
- Do what is necessary to minimize the number of parties at the table
 - Build in flexibility to accommodate differing levels and types of risk
 - Avoid complex allocation procedures.
3. Ensure that bond proceeds are available for investment anywhere. Currently, the flow of capital is driven in large measure by Community Reinvestment Act assessment areas and allocation of credits such as the New Markets and Low Income Housing Tax Credits. The Bond Program presents a great opportunity to move beyond geographical concentrations and open up investment to places that need it. Specific requirements to *avoid* would include:
- Formula calculations
 - State-by-state allocations
 - Minimum spending requirements in specially designated areas.
4. Allow proceeds to be used flexibly. The Treasury Department should foster innovation and respond to the range of community needs by accommodating multiple investment sectors, financing structures and issuer types. CDFIs have the judgment and experience to respond to the needs of the communities they serve, and have proven their ability to be excellent stewards of the capital they borrow. Among other things, the Program should provide for:
- Direct borrowing in which CDFIs would use proceeds to originate loans and hold them on the balance sheet
 - Off-balance sheet structures in which CDFIs would originate loans to be sold to a Special Purpose Entity (SPE) and held on the balance sheet of the SPE
 - Use of proceeds for refinancing and loan loss reserves as well as the full range of CDFI asset classes
 - Multiple forms of credit enhancement.

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5. Allow funds to be used in combination with other federal programs. This Program has tremendous potential to create synergies with other federal programs. As the CDFI Bond Program does not require any federal outlays of money, it would not create a double-dip subsidy, but rather an opportunity for greater impact. At the same time, it should be clear that the Bond Program should not replace existing sources of support for CDFIs. The capital provided by the Bond Program is debt; other CDFI Fund programs offer critically needed equity and technical support. A “maintenance of effort” approach is called for.
6. Utilize the Program to broaden the investor base for CDFIs. We understand that the Federal Financing Bank has been designated to purchase all CDFI Bonds. Although having the FFB as the sole investor may expedite the launch of the Program, we recommend that starting in the second year, the Bonds be marketed to a broader set of investors. The field has long sought access to the broader capital markets for reliable, long term funding. This Program has the potential to be a proof-of-concept model that would generate valuable pricing, performance and transactional data. This information could be used to revamp the capital structure that supports community development and position it to survive economic uncertainty. Inviting a broader investment base will make this goal achievable.
7. Emulate the best features of existing models of public-private partnerships. The community development sector has been successful in combining private and public sector resources and know-how. If the Program is to be effective, private sector resources should be tapped in order to encourage joint participation, full engagement, efficient leveraging and essential innovation. With an ever-shrinking supply of public funding, it is imperative to develop closer and deeper ties with the private sector. The banking and philanthropic worlds, including Living Cities members, have been long-standing partners with CDFIs and bring unique expertise in underwriting CDFIs and creating deal structures that address specific needs and risk characteristics. We stand ready to work with the Treasury Department to ensure the success of this Program.

CDFIs are working diligently during the current downturn to spur economic growth in communities across the nation. They are also poised to create much-needed jobs, having proven their ability to create jobs at levels consistently higher than national averages. However, the challenge has

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never been greater. CDFIs struggle in the face of diminished access to capital and growing needs in low and moderate income communities suffering from high levels of unemployment.

Through the CDFI Bond Program and its potential for generating unprecedented amounts of long-term capital, the industry will expand its capacity to build communities and improve the economic well-being of the people who live in them. It is our strong hope that the Program will be designed to achieve simplicity, flexibility and maximum efficiency so that it will realize its promise of transforming the communities most in need of access to opportunity.

Sincerely,

A handwritten signature in black ink, appearing to read 'Ben Hecht', written over a horizontal line.

Ben Hecht
President and CEO