Partners for the Common Good
Investing in Social Change
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August 12, 2011

Ms. Jodie Harris
Policy Specialist
Community Development Financial Institutions Fund
U.S. Department of the Treasury
601 13th Street, NW, Suite 200 South
Washington, DC 20005

Dear Ms. Harris:

Partners for the Common Good (PCG) appreciates the opportunity to respond to the Notice for Public Comment published in the Federal Register on July 1, 2011 inviting comments on the Community Development Financial Institutions (CDFI) Bond Guarantee Program created by The Small Business Jobs Act of 2010 (Public Law 111-240).

PCG is a national CDFI loan fund based in Washington DC that operates as the CDFI industry's first wholesale loan participation network. Our mission is to advance economic justice and opportunity by partnering with and promoting organizations that provide access to capital to low income people and communities. We work with a broad spectrum of depository and non-depository CDFIs. We enhance their capacity to make larger loans and manage liquidity, portfolio concentration, and deal specific risk by organizing lending partnerships that serve borrowers with inadequate access to the credit markets. To date, we have worked with 30 CDFI lending partners that finance affordable housing, community facilities (e.g. charter schools, day care, community health care) and working capital to non-profit and mission oriented for-profits. Within this role, we serve as market organizer, aggregator, and as a source of financing.

PCG believes the CDFI Bond Guarantee Program ("CBGP") provides an exciting opportunity to expand lending in under served communities across the nation. The program will facilitate job creation and economic revitalization in the places hardest hit by the current recession. We believe the program can support CDFI lending by providing a critical source of affordable, long-term patient capital.

The CBGP is also important because it provides a critically – and missing – piece of CDFI industry "infrastructure." Infrastructure generally enables an industry or sector to operate more effectively. In the case of CBGP, it matches users of capital with suppliers quickly, efficiently, and profitably. Traditional financial institutions grow to scale quickly because of a highly developed infrastructure that includes a range of public and private sector institutions and services. On the public side, industry infrastructure includes access to affordable Federal agency borrowing windows, Federal deposit insurance, and regulatory agencies that establish common standards and enforce behavior. On the private side, infrastructure includes bankers' banks, corporate credit unions, correspondent lenders, loan syndication and participation networks, access to bond markets, industry reporting and analysis services, training vendors, and other specialized service providers. The value of infrastructure is that it expands the capacity of the entire sector, while allowing its individual members to collectively reach scale.

The CDFI industry does not have the same infrastructure as the traditional financial services sector for a variety of reasons, including: (1) the size of the industry; (2) the modest size of many players; (3) lack of standardization; (4) below-market pricing relative to risk; (5) higher operating costs of "high touch" lending; and (4) insufficient support for infrastructure organizations to promote operational efficiencies their offerings. These factors limit our scale and impact.

Our CDFI industry infrastructure is nascent. In 2004, the Aspen Institute published the first in a series of papers examining various for-profit and non-profit subsectors that had reached a sufficient level of scale to become sustainable. Among its findings, the researchers observed "[n]o field can go to scale without appropriate infrastructure, and this infrastructure must be consciously invested in and built."

Broadly defined, "infrastructure" for the CDFI sector encompasses tools, systems and institutions that help us collectively do things that none of use can do alone. Some of our current building blocks include CDFI Assessment and Rating Service (CARS), Policy Map, Community Reinvestment Fund's secondary market work, Credit Builders Alliance, PCG's loan participation network, as well as the intermediary lending activities of groups such as Opportunity Finance Network, National Federation of Community Development Credit Unions (NFCDCU), and Community Development Venture Capital Alliance (CDVCA). CBGP creates an important building block that will provide CDFIs with much needed liquidity, the ability the properly match assets and liabilities, and resources to offer a range of new products.

<u>General Recommendations</u>: PCG recommends that, to the maximum extent feasible, the CDFI Fund's CBGP should:

- Fully utilize the broad flexibility granted by Congress to craft a program that encourages a variety of structures and strategies that will enable

- Recognize that a broad range of CDFI types, asset sizes, and CDFI-originated or -issued assets should be eligible for participation in the program; and

- Be consistent in the use of definitions, reporting requirements, and other program implementation features with the CDFI Fund's existing programs.

<u>CDFI Diversity</u>: As you are well aware, CDFIs serve niche markets that cannot be served by standardized approaches or products. As an integral part of our loan participation network strategy, we work and promote collaboration across the spectrum of CDFI types. We know that each CDFI business model has its unique challenges and it's positioned to serve different markets. To maximize the effectiveness and impact of the CBGP, we strongly urge the CDFI Fund to ensure CBGP embraces the diversity of types of CDFIs, asset types, and market niches. We support the recommendations articulated by our colleagues in the CDFI loan fund, credit union, venture capital and other segments of industry to make sure the CBGP also works for their sectors. We support the views and recommendations of Opportunity Finance Network, Community Development Bankers Association (CDBA), CDFI Coalition, Carsey Institute's Financial Innovations Roundtable, National Federation of Community Development Credit Unions, as well as many other CDFIs that have submitted formal comment letters.

<u>Structures</u>: We support the framework presented by Opportunity Finance Network that recognizes multiple potential structures for the CBGP, including: (1) direct issues of at least $100 million by a single qualified issuer; (2) pooled asset-backed bonds whereby several CDFIs would contribute borrower loan assets to a trust or special purpose entity (SPE) comprised of a pool of eligible assets totaling at least $100 million; and (3) bond backed by pooled loans to, and debt-like investments in, CDFIs (in this case a trust or SPE created by a CDFI would issue a bond backed by a pool at least $100 million of loans and/or investments to/in CDFIs). We also encourage the CDFI Fund to keep its regulations sufficiently flexible to allow additional structures to emerge.

<u>CDFI Asset Size</u>: For small to mid-sized loan funds, such as PCG, that comprise the large majority of CDFIs, structures (2) and (3) above provide the only feasible opportunity to participate in the CBGP. Thus, we strongly urge the CDFI Fund to ensure its regulations and implementation of the CBGP is sufficiently flexible to allow not only CDFIs of all types to participate – but, also to allow structures that

will enable small- to mid-sized CDFIs to access these critical sources. Given the statutory requirement that a bond issue must be at least $100 million, pooled structures are the only viable option to maximize CDFI participation and achieve the statutory goals of the program.

<u>Loan Participations</u>: In response to the question raised under Use of Funds iv question (iv), CDFIs should definitely be allowed to use bond proceeds to purchase loans from other CDFIs. CDFIs that use bond proceeds to purchase loans from other CDFIs should not be mandated to invest a certain portion of proceeds from the sale to support additional community development activities. Since this activity involves a CDFI-to-CDFI transfer of assets, for simplicity in implementation it is recommended that any CDFI that sells a loan to another CDFI for inclusion in a bond should only be required to maintain their status as a CDFI.

Demand for financing in low income communities is high. CDFIs already help each other respond to demand through loan participations and syndications. The CBGP should not prohibit such activity; rather it should encourage it. Loan participations and syndications are helpful liquidity enhancement and deal making tools that all CDFIs can benefit from in order to serve borrowers.

Annually PCG conducts a survey of approximately 200 CDFIs representing a cross section of the industry. Attachment A includes a summary of some key statistics. Our May 2011 survey found that 62.1% of 200 CDFIs surveyed reported they were “definitely” and 48.8% “maybe” interested in selling loans to other CDFIs. Furthermore, an additional 22.1% were “definitely” and 32% “maybe” interested in buying loans from other CDFIs. The types of assets they are interested in selling or buying represent a spectrum of lending including affordable housing, community facilities, commercial real estate, business, and others. CDFIs are interested in selling and buying loans and participations for a variety of reasons, including enhancing their capacity to: (1) do larger loans; (2) manage liquidity, portfolio concentration, and deal specific risks; and (3) generate earned income by more fully deploying loan capital.

The 2011 survey also found that 75% of all CDFIs reported engaging in at least one loan participation transaction within the past three years. Fully, nearly 40% of all CDFIs reported engaging in 2-6 loan participations on average per year with an additional 16% reporting an average of 7-20+ per year. These findings have remained consistently strong over the four years since PCG began its annual survey. This data establishes that loan participations are a tool that CDFIs regularly employ and are valuable tool for serving borrowers. Participation transactions are a particularly important form of pre-secondary market liquidity for transactions that are not standardized enough for a pooled securitization issue.

Aggregators: One important role and/or function not discussed in the Notice is asset aggregation. This function is particularly important in the case of pooled asset-backed bonds whereby several CDFIs would contribute borrower loan assets to a trust or special purpose entity (SPE) comprised of a pool of eligible assets.

The CDFI market is highly fragmented and many of its members operate in isolation. As a participation lender, PCG's infrastructure building work has focused on helping CDFIs maximize the use of scarce lending capital caused by loan limits and liquidity, portfolio concentration, and deal specific risk. Our strategy is to be a market organizer by facilitating lending partnerships that mitigate fragmentation and reduce isolation.

In Q3 2011, PCG will be launching a new online market organizing and aggregation tool that can facilitate loan asset aggregation at a large scale. Our new CapNexus is an online matching database and listing service that matches money and partners to community development financing opportunities. CapNexus works by connecting CDFIs, other community development lenders, and socially motivated investors with each other on deal-specific transactions. Registrants can browse loan profiles or search by pricing, geography, social impact and asset type to find loans that exactly match their portfolio needs. In the case of CBGP, a participating issuer could use CapNexus to find deals that meet its bond issue parameters quickly and efficiently. CapNexus further enables mission driven capital to get to the borrowers and places that need it -- when they need it.

For the CBGP to be successful, a variety of aggregators and tools are needed to assemble groups of eligible community and economic development assets into $100 million bond issues. This function will be particularly critical in the case of pooled asset backed bonds. Very few entities with the infrastructure and expertise to be highly effective aggregators for CBGP have the balance sheet capacity to be direct issuers or sponsors of a pooled asset-backed bond. The CBGP should recognize the need for the aggregator function, as well as support and create incentives for partnerships between aggregators and those issuers selected to participate in the program.

The CDFI Fund will soon make some critical decisions about implementation of the CBGP. Since it was authorized in 1994, the CDFI Fund has demonstrated flexibility and an appreciation of the industry's need for flexibility and the strength its diversity brings. We trust that this operating philosophy will continue to guide the development of CBGP as well. We urge you to ensure the CBGP respects and celebrates this approach in meeting the credit needs of low income people and communities. A one-size-fits-all approach to the regulations will seriously inhibit the program's success in meeting Congressional intent.

We look forward to working with you in the future. I thank you for the opportunity to comment on this important and exciting initiative.

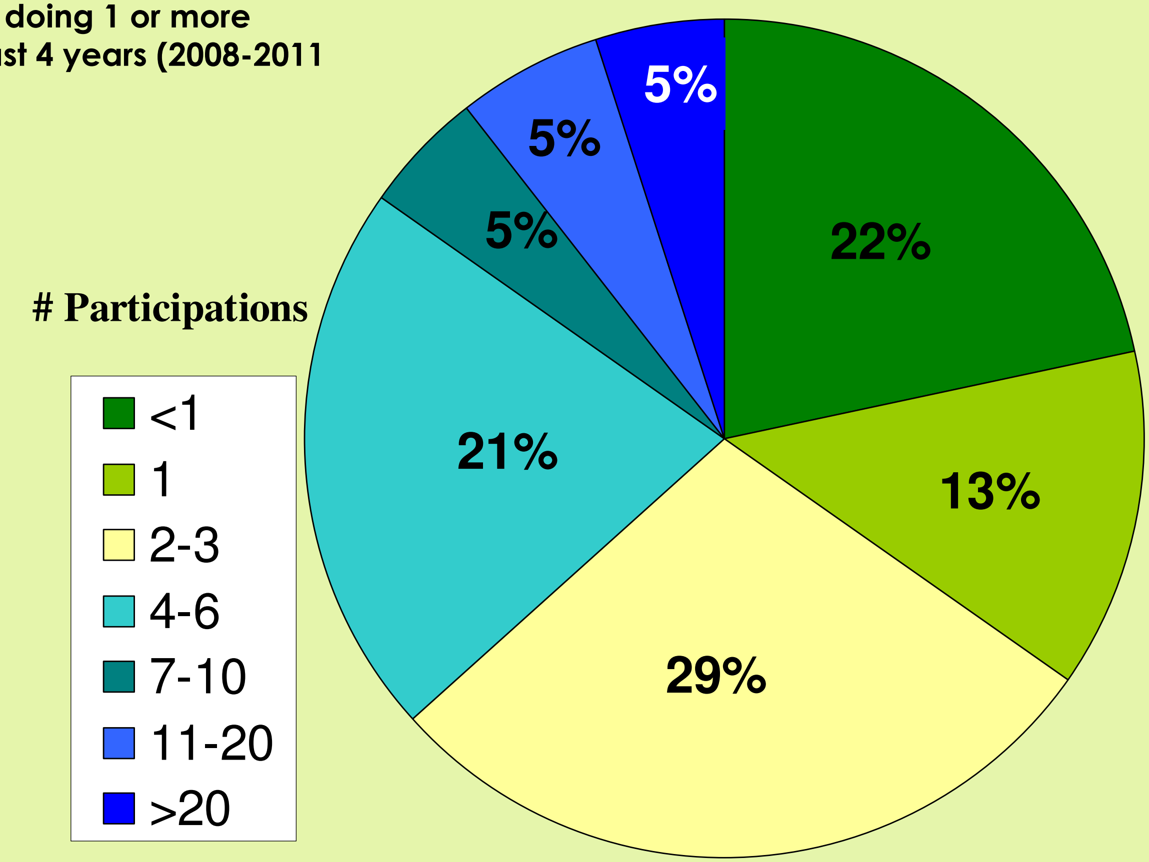
Sincerely,

Jeannine S. Jacokes

Jeannine Jacokes
Chief Executive Officer

CDFI Loan Participation Market

75% of CDFIs reported doing 1 or more participations within last 4 years (2008-2011 annual average)



Average annual number loan participations by CDFIs (2008-2011)

Attachment A

Source: 2008-2011 PCG annual survey of approx. 200 CDFIs

What are CDFIs Interested In Doing?

	Buying (yes & maybe)	Selling (yes & maybe)
2010	41%	71%
2011	53%	72%
Within next 12 months	$119 million	$102 million
Within next 24 months	$221 million	$201 million

Attachment A

Source: 2010-2011 PCG annual survey of approx. 200 CDFIs (21% of all certified CDFIs)

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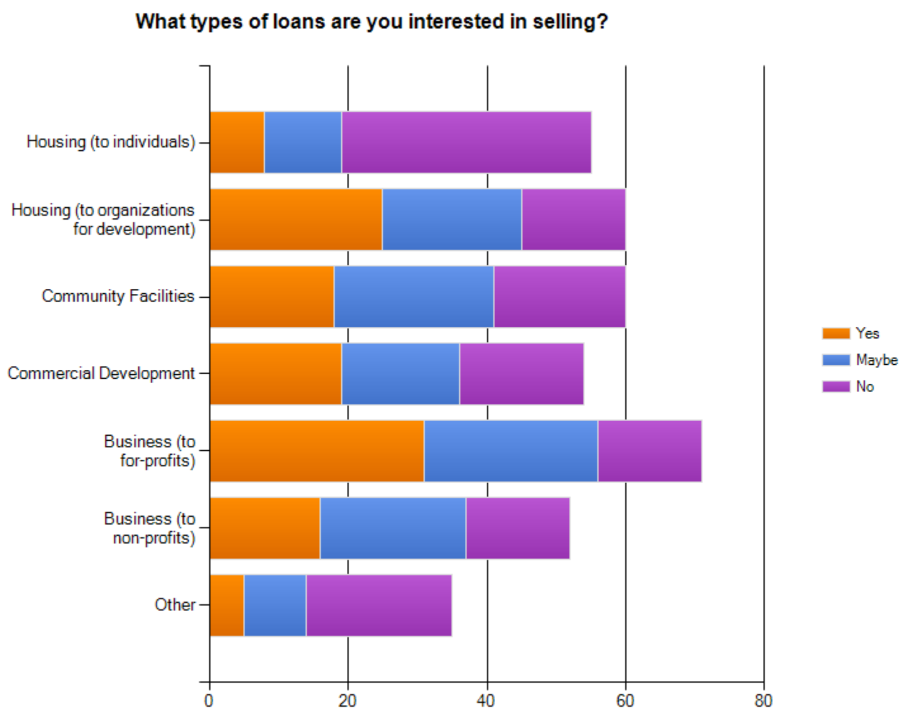
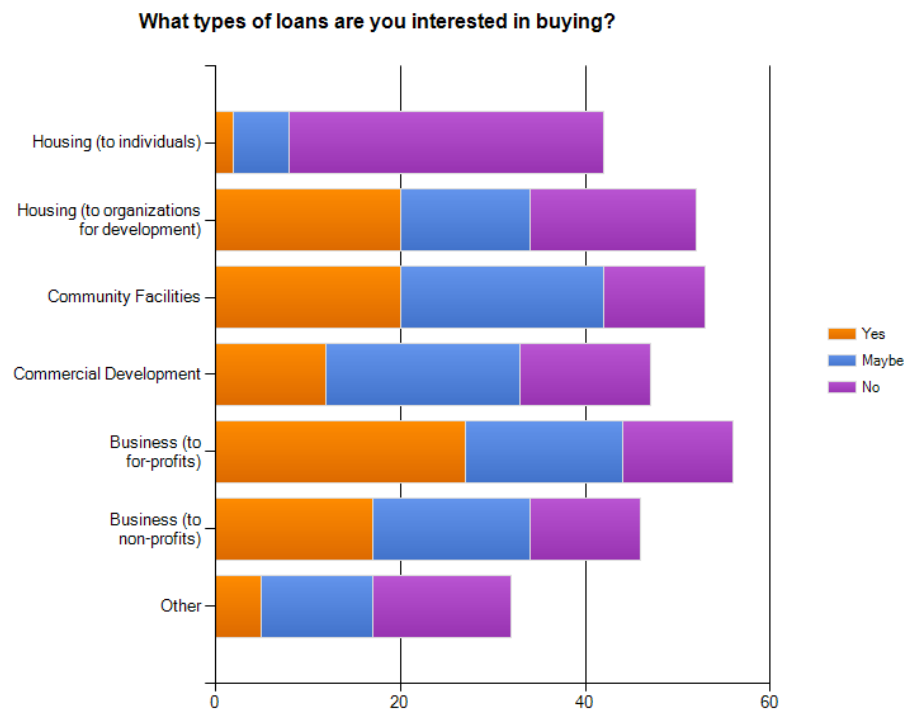
Types of Loans?

Selling



Buying



Attachment A

Source: May 2011 PCG survey of approx. 200 CDFIs

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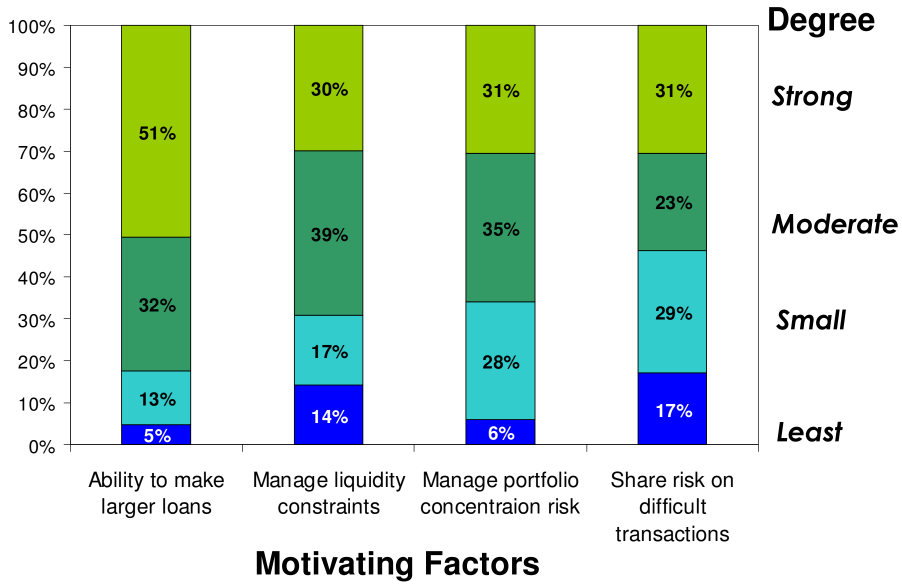
CDFI Motivations for Buying & Selling

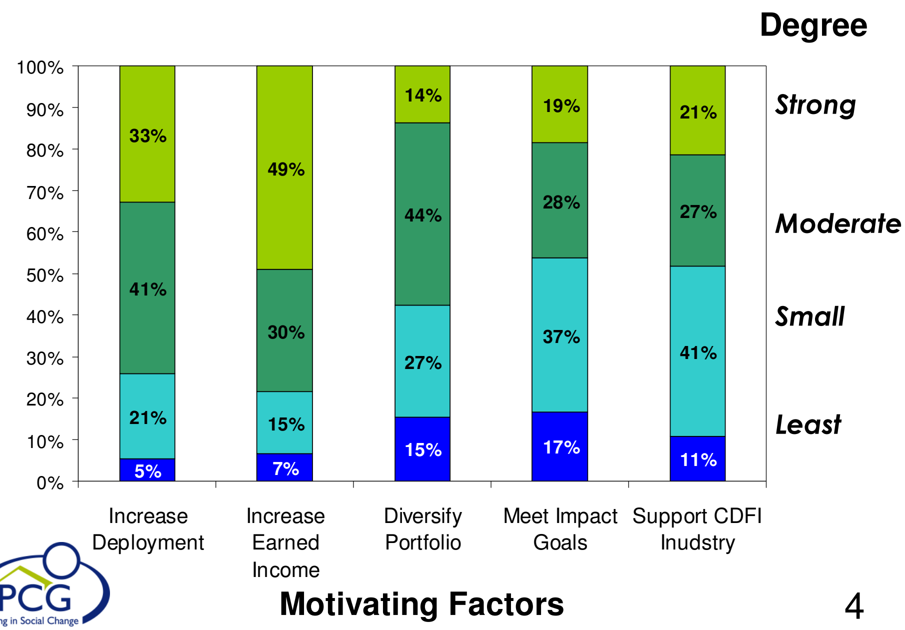


Why Sell Participations or Sell Loans?

(Survey participants were asked to rate degree to which factors motivate their interest in selling loans or loan participations to others)

Why Buy or Participate In Loans?

(Survey participants were asked to rate degree to which factors motivate their interest in buying or participating in loans originated by others)



Attachment A

Source: May 2011 PCG survey of approx. 200 CDFIs