SVB Financial Group

August 15, 2011

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

Re: Department of the Treasury, *Community Development Financial Institutions Fund,* 76 Fed. Reg. No. 127 (July 1, 2011)

Dear Ms. Harris:

SVB Financial Group ("*SVB*") is pleased to submit these comments in response to the Treasury's Request for Public Comment on the Community Development Financial Institution Bond Guarantee Program, which was created by the Small Business Jobs Act of 2010.

SVB is a bank holding company and a financial holding company. Our principal subsidiary, Silicon Valley Bank, is a California chartered bank and a member of the Federal Reserve System.

We are the premier provider of financial services for companies in the technology, life science, venture capital and premium wine industries. Through Silicon Valley Bank and our other subsidiaries, we provide a comprehensive array of banking services to clients throughout the United States and in key innovation centers globally.

We began serving the technology and life science markets in 1983, at a time when these markets were not well understood by the financial services industry, and when many of the leading companies in these industries were just getting started. Over nearly three decades, we have become the most respected bank serving the technology industry. We have developed a comprehensive array of banking products and services specifically tailored to meet our clients' needs at every stage of their growth. We have deep expertise and extensive knowledge of the people and business issues driving the technology sector, which we believe allows us to measurably impact our clients' success.

Our interest in this rulemaking comes from three sources. First, as described below, we work with Community Development Financial Institutions ("*CDFIs")* in several different capacities and understand clearly both what they can accomplish and the challenges they face in securing adequate capital. Second, for thirty years we have worked to meet the credit needs of what historically had been an underserved population (early stage technology startups). While startups and lower income communities are clearly different, our work with startups has helped us recognize the importance of creating creative, responsible structures to ensure the U.S.

financial services sector meets the needs of all participants. Finally, we are committed to doing what we can to help the communities in which we work in thrive. CDFIs play a critical role in promoting the economic stability of lower income communities and the development of robust, healthy communities across the country.

SVB'S WORK WITH CDFIS

Through SVB's Community Development Finance (CDF) group, SVB is involved closely with CDFI's both as active participants and as a lender and investor. The Manager of our CDF group, Christine Carr, is the Chair of the Board of the California Community Reinvestment Corporation, a member of the loan committees of both the Opportunity Fund and Bay Area Local Initiative Support Corporation (LISC) and she is also a member of Enterprise's Bay Area Leadership Council. Silicon Valley Bank's CDF group, lends to and invests in all of these CDFI's and also to the Northern California Community Loan Fund, the Low Income Investment Fund and the Housing Trust of Santa Clara County.

At SVB, we believes that CDFIs play a crucial role in deploying capital to underserved communities, as they are more flexible and have more specialized lending programs than traditional financial institutions. Properly implemented, the CDFI Bond Guarantee Program will increase dramatically the amount of capital that will be deployed to underserved communities across the country. The program will provide much-needed long term capital to repay the shorter term capital provided by conventional financial institutions, thereby allowing conventional short-term capital to be continually recycled for increased community development activity. The Bond Guarantee Program could significantly increase Silicon Valley Bank's financing in CDFIs.

SVB'S COMMENTS ON THE CDFI BOND GUARANTEE PROGRAM

As the Department of the Treasury moves toward finalizing its regulations for this program, SVB offers the following comments.

- ***Expeditiously Launch the Program***: We believe the Bond Guarantee Program will meaningfully help CDFIs access capital and should be implemented as expeditiously as possible. That said, we acknowledge the Office of Management & Budget's (OMB's) concern about the adequacy of the proposed 3% risk sharing reserve (as mandated by the statue). We believe that CDFIs, such as Progresso Financiero, have offered workable solutions to deal with this issue, including requiring individual CDFI's to set aside a portion of the funds raised as an additional reserve (based on the CDFI's historical credit performance) or requiring CDFI's to purchase insurance to cover the excess risk. We also believe the government has developed expertise in how to appropriately structure risk reserves in the context of government loan guarantee programs (including programs within the Department of Agriculture and the Department of Energy), and has also developed an understanding of structures that stifle these programs' effectiveness. We encourage the Treasury to build upon the government's existing expertise and the recommendations of CDFI's such as Progresso Financiero to develop a streamlined, workable solution to the question of credit reserves.

- ***<u>Eligibility</u>***: We believe that the Bond Guarantee Program should be made available to all certified CDFIs that are providing loans that serve low-income and underserved communities. We do not believe Treasury should restrict access based on the type of loans (*e.g.*, mortgage, real estate/project finance, small business, small dollar credit building, etc.) or the structure, terms and rates of the loans. While we recognize that Treasury may wish to structure participation in a way that appropriately addresses the credit risk of individual CDFIs and ensures an adequate reserve for guaranteed bonds, we do not believe additional it should impose any other restrictions that would artificially impede the flow of capital to CDFIs serving lower-income communities.

- ***<u>Structure; Use of Proceeds</u>.*** The Request for Comment contains a number of questions about specific aspects of the program, including the legal structure of entities that should be eligible to participate, whether loan proceeds should be allowed to be used to refinance existing debt, and the like. While we do not have specific responses to each of these questions, we encourage Treasury to adopt rules that are as flexible and minimally burdensome as they reasonably can be, consistent with the Program's goal. Over time, we believe that different CDFIs may elect to approach the bond guarantee differently, based upon their unique situations, and the more the final regulations can accommodate those differences, the more effectively it will promote capital formation by CDFIs.

- ***<u>Underwriting Criteria</u>***. At SVB, we have a great deal of experience and expertise in underwriting loans to non-traditional clients. Our clients are often startup companies in the innovation sector with new technology or a new business model. Traditional underwriting criteria that apply to most businesses may not work for our clients. Similarly, we believe that successful CDFIs may require non-traditional underwriting criteria, particularly since those CDFIs are generally dealing with underserved communities. Accordingly, we do not believe Treasury should impose any arbitrary underwriting requirements, such as minimum FICO scores of a borrower. CDFIs will vary in their approach to credit and underwriting, and may not rely on FICO scores. As long as they have demonstrated their ability to maintain acceptable credit performance over time for their CDFIs portfolio loans, they should not artificially be penalized for finding new ways to determine creditworthiness among an underserved borrowing population.

- ***<u>Bridge to Mainstream Financial Market Access</u>.*** We believe that one of the Program's benefits will be its ability to help CDFIs bridge to mainstream financial markets. The

Program is only authorized for a five year term, and if it is not renewed by Congress, CDFIs will need to turn to other sources. Even if the Program is renewed, helping CDFIs access private capital markets will help broaden and deepen the available capital pool for funding CDFIs. As a result, we believe Treasury should design the Program in a way that will help prepare participating CDFIs be ready to meet the requirements of mainstream financial markets. This could include, for example, requiring participants who are not yet ready for mainstream financial market access (without a government guarantee) to take the necessary steps over the Pilot Program's tenure to develop those capabilities, such as creating robust loan systems of record and loan document quality assurance and retention processes that meet the collateral requirements of private sector capital markets.

We appreciate your consideration of these comments.

Sincerely,

Mary Dent
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