



Mr. Scott Berman
Acting Chief Operating Officer
CDFI Fund
U.S. Department of the Treasury
601 13th Street St. NW, Suite 200 South
Washington, DC 20005
Via email: cdfihelp@cdfi.treas.gov

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Dear Mr. Berman:

Self-Help appreciates the opportunity to comment on possible changes to the CDFI Fund's authorizing statute. Generally, Self-Help compliments the CDFI Fund for effectively serving its mission of helping CDFIs invest in American families, businesses and communities that lack access to traditional capital. Indeed, the CDFI Fund has exceeded expectations in terms of how effectively it has carried out its mission in its first 15 years.

As a member of the CDFI Coalition, the Opportunity Finance Network, and the National Federation of Community Development Credit Unions, Self-Help generally supports the comments that those organizations are submitting. Self-Help also has a few additional comments.

Create a CDFI Federal Loan Guarantee

In response to Question B5(d) and Question D, Self-Help strongly supports the creation of a CDFI Federal Loan Guarantee. CDFIs have increasingly struggled to attract sufficient liquidity to fund growing community development lending programs, a problem greatly exacerbated in the current economy. A CDFI guarantee program would incent investors to free up constricted private sector capital, providing CDFIs access to affordable, high volume financing with minimal federal budget outlay.

The CDFI Fund could model the guarantee similar to well-known SBA and USDA programs that guarantee 85% of the loan amount. The CDFI Fund would guarantee 85% (or some other percentage) of the loan amount made to a CDFI, giving the investor considerable comfort while still requiring a significant amount of recourse, ensuring the loans are carefully underwritten. The guarantee would allow CDFIs to negotiate for best rate, private sector advances. In addition to kick-starting commercial bank loans to CDFIs, a federal guarantee could expand the CDFI investor pool to institutions such as insurance companies and pension funds that are already providing credit under other federal guarantee programs.

301 West Main Street, Durham, NC 27701
P.O. Box 3619, Durham, NC 27702-3619

Tel: 919.956.4400 / Fax: 919.956.4600

www.self-help.org

Lenders interested in receiving a guarantee from the CDFI Fund would complete an application providing an assessment of the risk of the loan. The rates and terms would be negotiated between the lender and CDFI, ensuring flexibility to accommodate the guarantee's possible use by CDFIs of all sizes and supporting the wide range of CDFI lending activity. For instance, a guaranteed loan to a CDFI could attract wholesale investors to fund a secondary market outlet for loans made by CDFIs that are not interested in the additional borrowing that a guarantee could facilitate. So even CDFIs not participating in the guarantee could likely see increased liquidity options.

By guaranteeing loans that are made *to* CDFIs (instead of loans made *by* the CDFI) this credit enhancement would provide liquidity for any type of loan that a CDFI chooses to make. Thus CDFIs, large and small, would have liquidity to do what they do best and not have to change their lending programs to fit the requirements of a structured securitization program.

Like other federal guarantee programs, a loan guarantee fee would cover the cost of loan losses thereby minimizing the federal budget outlay. In terms of cost to the CDFIs, guarantee programs are highly efficient as there are none of the legal, investment banking, and accounting costs that are associated with other secondary market programs. In addition to attracting best-priced private sector capital to CDFIs, a federal guarantee would provide a large amount of capital to low-income communities at a very low cost.

Annual Data Collection Only if Data Collection Burden Reduced.

Annual data collection from all CDFIs would allow the industry better and broader data in terms of impact. However Self-Help only supports annual data collection of basic minimum financial information in tandem with elimination of the CIIS Transaction Level Report (TLR). This would put the Fund's data collection systems more in line with other financial institution requirements. It would establish industry-wide data akin to the call reports that credit unions and banks report (CDFI banks and credit unions could actually use information submitted to their regulators). CDFI Fund grant recipients would still be required to report on their grant but not to the exhausting level required under the TLR. The TLR has required CDFIs to devote thousands of hours to this report, with very little benefit. Users of the data have found the TLR to be mostly useless because of its irregularities and inconsistencies. On this point Self-Help strongly supports the CDFI Coalition's comments and repeats them here:

While the Coalition understands the potential benefits of annual reporting by all certified CDFIs, we are only supportive if such reporting is minimal and not overly burdensome. If this approach is adopted, any data to be collected should be narrow in scope and be entered electronically and/or be drawn from regulatory agencies in the case of regulated CDFIs. We believe the value of the data is the creation of a more comprehensive understanding of the size, scope and impact of certified CDFIs. This collection of data may be adequate to provide a profile of the financial capacity of CDFIs without becoming an assessment of financial health. Currently there is no



comprehensive data source on the entire industry. Thus, the Fund has a unique opportunity to collect such information. The limited data points to be collected could be addressed in the upcoming request for public comment on the CIIS data collection effort.

We also strongly urge the Fund to reduce the breadth of data currently required from Awardees, particularly the Transaction Level Report (TRL), which is a tremendous time burden with minimal return. Many CDFIs expressed these exact fears before the TLR was initiated. That the TLR still became such an encumbrance leaves the Coalition concerned about the potential new burden resulting from “data creep” if annual reporting by all certified CDFIs is implemented.

CDFI Definitions and Certification Have Functioned Well

Self-Help generally believes the current definitions and certification requirements have worked well and do not need significant change. Self-Help opposes adding financial soundness standards to the certification process. Certification is an eligibility threshold, not an assessment of the viability of the financing entity. In particular, Self-Help does not believe that Federal Housing Finance Agency standards should be adopted by the Fund either in terms of definitions or certification. The FHFA standards serve an entirely different purpose, i.e. for non-depository CDFIs seeking to join Federal Home Loan Banks. The CDFI Fund should maintain the structure of current definitions that allow necessary flexibility for diverse types of CDFIs to become certified. And given the diversity of CDFI types the Fund should not adopt a single set of ratios. For instance bank and credit union regulators don't use a single set of ratios, and the CDFI Fund should not be more rigid than regulators.

Avoid Creating Segmented Funding Accounts

The Financial Assistance program has been a solid, if imperfect, source of funds for a good range of CDFIs. While it can certainly be improved to ensure better competitiveness among different CDFI types, Self-Help cautions against increased efforts to “silo” funds by CDFI type. The Fund should award grants to highly effective institutions with the best applications as they are the best stewards of federal funds. Creating segmented funds runs the inherent risk of awarding grants to less effective institutions by reducing competition.

That said, Fund awards should support all types of high-performing CDFIs and the Fund should ensure that each type of CDFI has full opportunity to submit competitive applications. By their nature, different types of CDFIs have different strengths and weakness. For example loan funds are effective at leveraging funds in larger, project-based loans. Retail depository CDFIs effectively provide high-volume transactional services to low-wealth families. It is critical that application reviewers have appropriate expertise to understand the value of these different services and are instructed by the Fund to value these services appropriately. By improving the review process, the Fund can maintain its emphasis on performance based awards and address legitimate concern that some sectors are undervalued without bifurcating the FA program and diluting the impact of the awards.



Conclusion

The CDFI Fund has been a remarkably effective catalyst for community development in its first 15 years, even more so considering its relatively small annual appropriations. Self-Help appreciates the support provided by the Fund and looks forward to further discussion on how the CDFI community and the CDFI Fund can better provide access to credit in low-income communities across this nation.

Sincerely,

David Beck
Self-Help Policy Director
David.beck@self-help.org
(919) 956-4495

