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May 6, 2010

Scott Berman  
Acting Chief Operating Officer  
CDFI Fund  
U.S. Department of the Treasury  
601 13<sup>th</sup> Street, NW., Suite 200 South  
Washington, DC 20005

**RE: FR-10561/ Department of Treasury Request for Public Comment:  
Community Development Financial Institutions Fund, Community Development  
Financial and Technical Assistance Awards, Native Initiatives, and Bank  
Enterprise Awards (Vol. 75, No. 44), March 8, 2010**

Dear Mr. Berman,

This comment letter is submitted by the Southern California Community Development Collaborative (the "Collaborative"), in response to the Department of the Treasury's March 8, 2010 Notice and Request for Public Comment related to the Community Development Financial Institutions Fund (the "Notice"). The Collaborative is a group of six nonprofit affordable housing developers in Los Angeles and Ventura County that have been working together since May 2009 to address the impacts of the national financial crisis on affordable housing and community development activities in the Southern California region. The Collaborative has specifically focused on critical issues related to stalled affordable housing projects in the region, including the lack of pre-investment and patient capital in financing affordable housing projects.

The members of the collaborative – A Community of Friends (ACOF), Beyond Shelter Housing Development Corporation, Cabrillo Economic Development Corporation, East LA Community Corporation, Little Tokyo Service Center Community Development Corporation, and Women Organizing Resources, Knowledge & Services (W.O.R.K.S.) – have completed over 5,400 units of affordable housing totaling over \$780 million in total development costs. The Collaborative's work has been facilitated by Public Counsel, the largest pro bono law firm in the country.

In this new and uncertain environment, which has frozen public financing and made it much harder to access private capital, affordable housing projects are taking longer than initially projected to start construction. This situation is exacerbated in Southern California by the State's budgetary issues and the contraction of predevelopment lending by all lenders, including CDFIs whose mission orientations have traditionally made them the go-to-partners of nonprofit affordable housing developers. Collaborative members have a long history of developing affordable housing in the Southern California region, have maintained long-standing partnerships with

community development financial institutions (“CDFIs”) in the development of such projects in Los Angeles and Ventura County and have also recently submitted an application to the CDFI Fund’s Capital Magnet Fund. It is for the foregoing reasons that we believe that we can offer valuable input with respect to several of the questions posed in the Notice. Our input to selected questions is set forth below:

*A. Community Development Financial Institutions Fund*

1. Community Development Advisory Board. The Notice seeks input with respect to a range of questions related to the composition of the Community Development Advisory Board. We have limited our response to subsections (e) and (f):

**(e) Should there be baseline requirements related to the knowledge private citizens appointed to the Advisory Board have about CDFIs and/or community development finance?**

Yes, there should be baseline knowledge requirements for citizen appointees to the Advisory Board. It is imperative that all members of the Advisory Board have firsthand knowledge of the community development field, particularly in the area of affordable housing finance, in order to effectively advise the Director on the policies of the CDFI Fund<sup>1</sup> to engage in economic revitalization and community development work. It is our experience that the number and complexity of the CDFI Fund programs, which are *national* in scope, can have dramatic *regional* impacts, especially during this economic crisis, and we believe strongly that the CDFI Fund and the community development field would be benefitted in its policy analysis of both national and regional impacts with the help of an experienced Advisory Board. Therefore, the Collaborative believes that each of the nine private citizen appointees to the Advisory Board should have community development finance experience, either in a prior capacity as a consumer/borrower or as a lender. Given the requirement that is already in the law that four of the appointees shall be officers of lending institutions,<sup>2</sup> to ensure adequate representation of the organizations directly engaged in the economic revitalization and community development work at a regional level, we recommend that at least four of the remaining five appointees have community development finance experience from the consumer/borrower end.

**(f) Is the requirement to meet at least annually sufficient?**

No. To effectively advise the Director on the complex and rapidly evolving issues surrounding community development finance at a national and regional level, and to provide the most up-to-date advice in a changing economic environment, the Advisory Board would ideally meet on a quarterly basis, but should not meet less than twice a year.

*B. Community Development Financial Institutions (CDFI) Awards*

2. Certification The Notice seeks answers to a range of questions involving the CDFI certification process. We have limited our response to subsections (f) and (h):

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<sup>1</sup> 12 U.S.C. 4703(d)(4)

<sup>2</sup> 12 U.S.C. 4703(d)(2)(G)

- (f) Currently, CDFI certification review does not entail an assessment of an organization's underlying financial soundness. Should the CDFI Fund require any or all of the following financial documentation as a condition of certification?**

While the Collaborative clearly supports certification of financially sound, stable CDFIs, we urge caution with respect to the imposition of financial requirements on CDFIs that may ultimately have negative effects on borrowers and their ability to access capital from CDFIs. The CDFI Fund was formed in the early 1990's to address the myriad of social problems in distressed communities due to disinvestment. While the Collaborative understands the importance of being financially prudent during these economically challenging times, the CDFI Fund must also adhere to its mission of promoting economic revitalization in low-income communities through low-cost capital and loans. Overly burdensome or conservative financial requirements may push CDFIs to exercise less patience and flexibility with their nonprofit borrowers. Indeed, these impacts have already been felt in Southern California. Our Collaborative conducted a survey on the impact of maturing acquisition loans on Community Development Corporations ("CDCs") and found that the majority of CDFIs were requiring CDCs to re-marginalize their loans, with two groups having to pay down over \$1 million each.

- (h) Should the CDFI Fund require certified CDFIs to annually submit current information on financial viability and other data necessary to assess the financial condition and social performance of the CDFI industry?**

The CDFI Fund is one of the largest sources of public capital for community revitalization projects and must be responsive to the needs of the communities it was formed to serve. Especially during this economic crisis, measures must be taken to assess the ultimate impact of the CDFI Fund on the institutions that the CDFI Fund supports. Without adequate measures of social performance, the CDFI Fund cannot analyze how its activities further its stated goals and mission, or how the CDFIs are meeting their mission of serving low-income people and economically distressed communities. (12 U.S.C. 4701(b)) We recommend that as part of the recertification process for CDFIs, the CDFI Fund require certified CDFIs to annually submit information and data indicative of their social performance and the impact made on the communities they serve. In the affordable housing context, it would be helpful for CDFIs to report how they are working with their borrowers to move development projects forward. We recognize that CDFIs have some minimum level of accountability to their target markets, which can be demonstrated by convening community meetings and conducting surveys.<sup>3</sup> However, there does not appear to be any mechanism for the public and borrowers to provide direct feedback to the CDFI Fund on CDFI performance, whether on an annual basis or at the re-certification stage. We recommend that the CDFI Fund also institute such a mechanism for public comment.

5. Financial Assistance The Notice seeks answers to a range of questions involving the CDFI certification process. We have limited our response to subsections (c), (d), (e) and (g).

- (c) Under the CDFI Fund's authorizing statute, the CDFI Fund has the authority to make long-term, low-interest loans to CDFIs, dependent on matching funds. Is there a need for a loan product in addition to the CDFI financial and technical assistance awards and its lending authority?**

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<sup>3</sup> CDFI Certification Application, p. 12 (revised June 2007)

The Collaborative believes that there is a need for such a loan product. However, the Collaborative would caution against the distribution of such funds without adequate measures to ensure that the benefits of these financial products are made available to CDC borrowers. Given frozen public financing and lack of access to private funds, it is even more critical in today's economy that borrowers that are building affordable housing have access to patient and low-cost capital, particularly low-cost predevelopment loans. For the same reasons, there is a dire need in the affordable housing sector for a working capital fund that could help nonprofit affordable developers with expenses while they work to advance projects to loan closing.

**(d) Is there a need for a CDFI federal loan guarantee and if so how would it be structured?**

The Collaborative believes that a CDFI federal loan guarantee would be useful to the extent that it is required to act as a top-loss reserve, particularly for borrowers who have viable projects but need more patient capital during the current financial crisis.

**(e) Should a category be created specifically for CDFIs that serve a national market or are intermediaries? If so, what proportion of the appropriation should be allocated for such applicants?**

The Collaborative cautions against creating set-asides that will limit the efficient flow of new and patient capital to community development organizations in need of predevelopment capital with ongoing and future affordable housing projects. To the extent that CDFIs that serve a national market can ensure that new capital will be efficiently distributed to borrowers on favorable terms, a set-aside might be appropriate. Any set-aside should recognize the existing affordable housing finance crisis and the need for borrowers to immediately access patient capital.

**(g) Should the CDFI Fund provide a technical assistance award to an organization (i.e., a community development corporation) that proposes to create a new CDFI, even if that organization is not a CDFI itself?**

Yes. The CDFI Fund should provide technical assistance awards to organizations proposing to create a new CDFI. In light of today's economic climate and consistent with the purpose of the CDFI Fund, these awards are critical to allow community development organizations who are most familiar with community needs direct access to funding that would support on-the-ground economic revitalization and community development work, and will assure that the funds directly and quickly reach the types of projects and borrowers they are intended to reach. We believe strongly that to ensure the CDFI Fund accomplishes its mission, the reach of this vital public program should not be limited to existing CDFIs.

*D. Capitalization Assistance to Enhance Liquidity*

The CDFI Fund seeks input as to whether its existing but unappropriated Liquidity Enhancement Program (LE Program) would help to address CDFIs' liquidity needs. The Notice seeks answers to a range of additional questions involving the LE Program. We have limited our response to a general comment and to subsection (a):

General: The Collaborative is comprised of primarily community development organizations. Although we are aware that liquidity is an issue for many existing CDFIs, we do not have sufficient information to

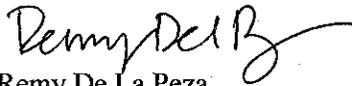
comment on the primary question. However, we note that “*organizations receiving LE Program assistance would not be able to receive other financial or technical assistance from the CDFI Fund.*” (12 U.S.C. 4712(a)(2)) This criterion has the effect of discouraging applications for LE assistance at a time when more liquidity is needed, not less. If funds do get appropriated for the LE Program, we recommend reevaluating this prohibition and allowing applicants to also receive other assistance from the CDFI Fund.

**(a) Do CDFIs have a liquidity need?**

We recognize that many CDFIs are faced with an increased need for liquidity, for the same reasons that borrowers are facing needs for immediate and patient capital. As a result, we support liquidity assistance programs like the LE Program to the extent that there is a direct correlation between the liquidity provided to CDFIs and the benefits incurred by community development corporations and other borrowers.

Thank you for the opportunity to provide comments on the Community Development Financial Institutions Fund. We commend the CDFI Fund for its commitment to promoting economic revitalization and community development and to its efforts to solicit comments from the public regarding its programs. Please contact us with any questions or for further discussion.

Sincerely,



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