

Ms. Jodie Harris

Policy Specialist

CDFI Fund

U.S. Department of Treasury

601 13th Street, N.W. – Suite 200 South

Washington, D.C. 20005

Dear Ms. Harris:

As partners in the effort to rebuild the City of Detroit, we are pleased to have the opportunity to provide comments to the Treasury Department regarding the CDFI Bond Program. When implemented, the Bond Program will provide the kind of at-scale, long term capital our City needs to move forward a portfolio of catalytic projects along the Woodward Corridor. The Woodward Corridor is home to many of the City's largest employers and the area where jobs, residents, commercial activity and investment are being centralized. However, given the instability Detroit has experienced, investor capital is scarce and not of long enough term for many projects. The CDFI Bond program provides perhaps one of the best, near-term opportunities to move forward a series of transformative real estate investments that can strengthen this critical region of the City.

The City of Detroit, NCB Capital Impact, the Kresge Foundation and local partners including Invest Detroit and Midtown Inc. are at work assembling a pipeline of projects that will utilize proceeds from the Bond. We offer the following comments regarding the structure and implementation of the Bond based on the projects under development here in Detroit:

1. Timing: Issuing regulations and guidance as quickly as possible will allow the CDFI industry and local partners to organize and invest in projects in 2012. At a time when many federal, state and local sources are being significantly constrained many projects will be at risk due to a lack of subsidy and financing sources. The "live/work downtown" initiative currently being sponsored by Henry Ford Hospital and other major employers is increasing demand for residential and commercial development. It's essential that capital is available now to move forward the new development which is being planned to support this initiative and respond to increasing demand.
2. Allocation: Because the Bond proceeds are expected to be taken down in \$100MM tranches, only a select group CDFIs will be in a position to access and deploy capital in these large increments. We believe it will benefit the implementation of the Program if larger, more mature CDFIs are the first wave of recipients. CDFIs, like NCBCI, deal regularly in complex financing structures and have the balance sheet and experience to be able to absorb this volume of capital. Furthermore the larger

CDFIs have developed the underwriting and credit systems to evaluate complex projects, like the ones in Detroit, to ensure that the safest but most catalytic projects benefit from the Bond.

Allowing for the use of off-balance sheet vehicles, will further facilitate the ability of CDFIs to utilize Bond proceeds. CDFI equity is limited and hard to replace. Taking Bond proceeds onto balance sheet will require a commensurate amount of equity support – the most challenging source of capital for CDFIs to raise. Permitting CDFIs to use alternative structures through Special Purpose Entities will help manage the equity requirements needed and perhaps, in time, allow these entities to serve a range of CDFIs.

3. **Flexibility:** Each community has a unique definition of what will bring about visible, transformative change; we urge you to provide for a wide range of permissible investments. Specifically in Detroit we need to allow for:

- Projects that will benefit a LMI census tract or projects that benefit a population up to 120% AMI
- Projects that will exceed standard loan to value (LTV) underwriting criteria e.g. 120% LTV
- The refinance of existing debt which will free up local sources to be invested in new projects
- Commercial and mixed use projects
- To allow a portion of the bond proceeds to be used for loan loss reserve.

The Auburn is a mixed use project being planned for the southeast corner Cass Avenue and Canfield Street in Detroit – it provides an example of the power the CDFI Bond program could have in a project's financing. The project scope of the Auburn includes the development of 58 rental apartments, twenty of



which restricted to individuals earning less than 60% AMI, with on-site parking and 9,000 square feet of first floor retail. The site is located in the heart of Midtown, one block west of Woodward Avenue and just south of Wayne State University. With the financing sources available today, the project utilizes 6 layers of capital and has a gap of \$2.6MM.

If the CDFI Bond were available to this project, it would have the following positive impacts on the financing

structure and project feasibility:

- The project would achieve a higher debt service coverage ratio, be more likely to attract a lender and meet financial covenants due to the improved financial feasibility of the project
- The reduction in debt service requirement, due to the extended term of the debt, significantly increases the project's ability to absorb vacancies;
- Proceeds from the Bond, eliminates the need for a junior leveraged loan (and subsequent refinance risk) from Invest Detroit, a local source of capital, thereby freeing up those funds for other investment.

Without Bond	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
<i>Total Revenue</i>	583,067	664,036	683,957	704,475	725,610	747,378	769,799	792,893
<i>Total Operating Expenses</i>	213,870	220,286	226,895	233,702	240,713	247,934	255,372	339,380
<i>Capital Reserve</i>	18,460	22,187	22,853	23,539	24,245	24,972	25,721	22,676
Net Operating Income	350,737	421,562	434,209	447,235	460,652	474,472	488,706	430,837
Debt Service	359,834	359,834	359,834	359,834	359,834	359,834	359,834	
DSCR	0.97	1.17	1.21	1.24	1.28	1.32	1.36	

With CDFI Bond	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19
<i>Total Revenue</i>	583,067	664,036	683,957	704,475	725,610	747,378	769,799	792,893
<i>Total Operating Expenses</i>	213,870	220,286	226,895	233,702	240,713	247,934	255,372	339,380
<i>Capital Reserve</i>	18,460	22,187	22,853	23,539	24,245	24,972	25,721	22,676
Net Operating Income	350,737	421,562	434,209	447,235	460,652	474,472	488,706	430,837
Debt Service	301,059	301,059	301,059	301,059	301,059	301,059	301,059	
DSCR	1.17	1.40	1.44	1.49	1.53	1.58	1.62	

4. Investors: We understand the Federal Finance Bank to be the designated purchaser of any CDFI Bonds. While having the FFB as the sole investor may expedite the program implementation, we recommend that in the second year of the Program the ability to purchase the Bonds be opened up to a broader set of investors for several reasons:
- A non-public, Bond buyer will provide another layer of vested participation in making sure the underlying investments are successful;
 - In a place like Detroit, where many investors have ceased lending activity, purchasing a CDFI Bond helps re-introduce them to the market by participating in an investment where their downside risk is limited. One would hope that many projects funded with Bond proceeds are successful and help to alter the investment appetite;
 - Many philanthropic investors, including Kresge, have invested in CDFIs and provided credit enhancement with a very low history of loss. The value of the federal guarantee, the performance history of CDFIs and smart underwriting will bring investors to the table to purchase these Bonds. Having the performance history of these projects transparent to the market and not restricted to the public sector, helps to further build the credibility of CDFIs as sophisticated intermediaries capable of structuring projects misunderstood to many traditional lenders.

As you may know, last week Secretary Donovan announced that Detroit was selected as site for Strong Cities/Strong Communities effort being led by the HUD. This effort, to bring intensive, federal, technical assistance to the City from multiple agencies is a welcome and important investment. However, technical assistance without capital investment is an uneven response in a City that needs both. We are pleased at the great example of public, private and philanthropic partnership which is at work in Detroit. Together, we can provide a national example of how the Bond can benefit and help move forward the City of Detroit. We urge the Treasury Department to carefully consider the input it receives during the comment period and to move quickly to implement the Program.

Please let us know how we can be of further assistance to your work.

Sincerely,

A handwritten signature in black ink that reads "Dave Bing". The signature is fluid and cursive, with the first name "Dave" and last name "Bing" clearly legible.

Dave Bing
Mayor
City of Detroit



Rip Rapson
President & CEO
The Kresge Foundation



Terry Simonette
President & CEO
NCB Capital Impact

cc: Lisa Harris, CDFI Fund
Mark Pinsky, Opportunity Finance Network
Sue Mosey, Midtown Inc.
Dave Blaskiewicz, Invest Detroit