



**Community First Fund™**  
capital powering prosperity

August 15, 2011

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

Dear Ms. Harris:

Thank you for the opportunity to comment on the implementation of the CDFI Bond Guarantee Program (CBGP). This new CDFI Fund initiative represents an unprecedented opportunity to support economic development in communities across our nation. The Community First Fund strongly supports the program and we urge the CDFI Fund to implement it as quickly as possible.

The CBGP has the potential to provide an important new source of capital for CDFI loan funds, both large and small. This capital can be deployed quickly by the CDFI network to provide for the creation of new jobs, the development of new units of affordable housing and the development of new facilities for essential human service and educational facilities. With a \$20MM portfolio, Community First is most concerned that the program not become so complex that it is inaccessible to small and medium sized CDFI's.

The following recommendations are most critical to Community First Fund's successful participation in the CBGP:

#### **Program Structure and Bond Mechanics**

The CDFI Fund should exercise maximum flexibility in implementing the CBGP. The program must allow a variety of bond structures in order to meet the capital needs of a diversity of CDFIs. The CDFI Bond Program must be flexible enough to accommodate aggregation of loans from various originators (directly or indirectly) as well as single originators. CDFI bonds should accommodate a full spectrum of asset classes and no one structure should dominate.

#### **Program Eligibility**

Though each bond issue should be considered separately and on its own merits, the Fund must ensure that all issuers have a strong track record of meeting the needs of low income and disadvantaged communities, are mission-based, and can direct bond proceeds to appropriate community and economic development uses. Issuers should be selected based on their proposed strategy for deploying bond proceeds and their historical track record in meeting the needs of the communities and populations targeted in a Capital Distribution Plan. We recommend an approach that parallels the CDFI Fund's selection process for evaluating applicants to its CDFI Financial Assistance (FA) program in assessing both eligibility and capacity to deliver on a Capital

Distribution Plan. Regardless of structure, eligibility criteria should apply to the CDFIs themselves, not the end borrower if the borrower is not a CDFI.

### **Use of Funds**

As the intent of the CBGP is to provide new capital sources for CDFIs, its uses should support CDFIs in their financing activities, both existing strategies and new ones made possible by the CBGP. Therefore we advise caution on any limits to specific eligible uses. Eligible Bond Proceeds must include all loan and investment types and financing segments as long as they meet the definition of community or economic development in the CDFI Fund authorizing statute. The range of uses should include but not be limited to refinancing, capitalization of a revolving loan fund, loans to and purchase of loans from other CDFIs, loan loss reserves, the required risk-share pool, debt service reserves, and/or sinking funds in support of a Federally guaranteed bond, investments of regulatory capital—all activities that are routinely undertaken by CDFIs or would be part of a strategy for prudent use of bond proceeds. The Fund should not dictate or restrict the proportion of proceeds that can be directed to a particular use.

### **Risk Assessment and Mitigation**

CDFIs have a strong record of success at serving distressed markets with minimal losses and delinquencies. The CBGP can and should rely on this unique expertise. Underwriting criteria (e.g., leverage, cash flow coverage, asset quality) and risk mitigation techniques (e.g., required credit enhancement, liquidity requirements, interest rate protection, etc.) should be based on the specific risk profile of the planned use of proceeds and on the loss performance history of the participating CDFI not on a generic, one-size-fits-all set of requirements. Historic loss and payment performance data from conventional financial markets are generally not reliable indicators of CDFIs' performance and should not be the basis for the Fund's risk assessment for the CBGP.

The Fund should employ a robust toolbox of strategies to mitigate risk and expand program participation and to insure that small and medium size CDFI's are able to participate. Some elements of that toolbox could include over-collateralization, covenants, third party guarantees, bond insurance, supplemental loss reserves funded by excess spreads, and a supplemental risk-sharing mechanism.

The Fund should allow for the risk-share pool to be funded from various mechanisms including but not limited to: bond proceeds, CDFI investors, and investment cash flows (e.g. the spread between assets earned and debt service required for the bond).

### **Monitoring, Evaluation, and Impact**

Performance evaluation should be outcome-based. No two bond issues will look the same or produce the same results. CDFIs should be held accountable to the outcomes and impact that they propose to produce under the Program. Outcome measures should incorporate the full range of CDFI activity and include measures relevant to consumer finance and community development as well as more common measures of jobs created or housing units financed.

**Conclusion**

In the coming weeks, the CDFI Fund will make critical decisions about implementing the CDFI Bond Guarantee Program. Please keep in mind that a core strength of the CDFI industry is its diversity, and a one-size-fits-all approach in the regulations will seriously limit the program's success. The diversity of the industry also makes it difficult to mandate specific outcomes and impact, a priori, demonstrating the necessity of a program that assesses each bond application on a case-by-case basis. Throughout its history, the CDFI Fund has demonstrated flexibility and an appreciation for the unique contributions of different types of CDFIs. This operating philosophy will be particularly important in writing regulations for the CDFI Bond Guarantee Program.

Thank you for your consideration of these recommendations.

Sincerely,

A handwritten signature in black ink, appearing to read "Daniel Betancourt". The signature is fluid and cursive, with a long horizontal stroke extending from the end of the name.

Daniel Betancourt,

President and CEO