Alternatives
FEDERAL CREDIT UNION

Tristram Coffin
Chief Executive Officer
tcoffin@alternatives.org
607-216-3417

Lisa M Jones
Manager
CDFI Bond Guarantee Program
CDFI Fund
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington DC 20220

Dear Ms. Jones:

Alternatives Federal Credit Union is pleased to offer comments on the interim rule implementing the CDFI Bond Guarantee Program. We are particularly appreciative of the diligent efforts of you and your staff to develop a structure to bring this potentially impactful idea to fruition.

We are concerned, however, that the rule as drafted will limit the ability of depository CDFIs such as credit unions to benefit from this initiative. Unlike community development loan funds, CDFI credit unions finance their lending activity with their members' deposits. Not needing to borrow for loan capital, NCUA-designated low income credit unions who are CDFIs use subordinate, unsecured debt to supplement their net worth to meet regulatory standards. Use of Secondary Capital can help a credit union grow to scale without diluting its net worth ratio, enabling the credit union to aggregate more deposits from, and make more loans to, lower income people at the center of its mission. We believe that the intent of policy makers who crafted the "CDFI Bond Program" was to serve the entire CDFI industry, not just non-depository CDFIs who borrow loan capital. As presently contemplated under the interim rule, there is little to benefit the CDFI credit union universe in this program.

Secondary Capital is by definition subordinate and unsecured. We ask you to work closely with NCUA and consider revising the program rules so that Secondary Capital would be an eligible first use of bond proceeds, as well as an eligible second use of bond proceeds. This would have the effect of allowing CDFI credit unions to access capital and dramatically expand their capacity to make a difference in the lives of millions of underserved consumers who remain chronically "unbanked". The CDFI Fund has long made secondary capital loans to Community Development Credit Unions (CDCU) directly. In 2010, the Treasury Department's Community Development Capital Initiative (CDCI) made $69 million in low-cost, long-term secondary capital investments in 48 CDCUs, including Alternatives.

We understand that you have relied heavily on OMB Circular A-129, which provides guidelines for managing federal credit programs, in constructing the interim rule. However, we believe that these guidelines were clearly not drafted with borrowers such as federally regulated credit unions in mind, and therefore one may reasonably consider whether the requirement that the Secondary Loans be assigned as collateral for the Bond Loan is necessary in this instance. In the manner by which we hope to use these proceeds, the Secondary Loan would be a Secondary Capital investment, which by NCUA rules cannot be pledged. We believe Treasury should consider allowing Bond Loans to be secured with loans other than the Secondary Loans that are funded with the Bond proceeds. This may make it more likely that credit unions could use the Bond to finance Secondary Capital investments. We are hopeful that you will work with NCUA to develop imaginative approaches that provide for the greatest possible use of the Bond program by CDFI credit unions, consistent with maintaining the highest possible degree of safety and security for the Treasury.

Finally, we are concerned that by the time bond proceeds flow through qualified issuers to end-user CDFIs, they may come at a cost that is prohibitive. Presently the program is designed as a Zero Subsidy Program, and that feature is ensconced in the rule. We hope that you will issue the rule in a way that would not preclude the program from being altered to become subsidized in the future, as many federal credit programs are, so that the cost of this capital to CDFIs may potentially be reduced in future years.

Most of all, we are thankful and appreciative for the work you have done to create a structure that implements the enabling legislation of the Bond program. We believe this program will be a useful tool for community development finance, and ask that you consider approaches that will make the program work for Community Development Credit Unions as well.

Sincerely,

Tristram S. Coffin