

Creating, economic opportunities for people in low income communities across the nation

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RE: Request for Comments on CDFI Bond Proposed Regulation

Dear Ms. Jones:

CEI Capital Management LLC (CCML), a wholly owned subsidiary of Coastal Enterprises Inc., is a multi-year allocatee under the New Markets Tax Credit (NMTC) program and has received allocation awards totaling \$787 million.

CCML applauds the CDFI Fund's efforts to realize the potential of the CDFI Fund Bond Guarantee program. It also recognized the challenges that the CDFI Fund faces if it is to make financing from this initiative available to a broad range of CDFIs at a reasonable price and also enabling bond issue proceeds to be use to fund new projects and programs in addition to refinancing existing projects.

CCML has committed significant time and resources to explore various high impact deployment opportunities for CDFI Bond Guarantee Program financing proceeds. The following comments and questions have arisen from this exploration.

It appears that the vast majority of CDFIs do not have sufficient unencumbered assets or equity to provide the collateral necessary to achieve a "zero subsidy" status in OMB review. Consequently, to participate in the CDFI Bond Guarantee Program as an Eligible CDFI most CDFIs will require additional credit enhancement, such as third party guarantees, additional cash reserves from equity or grants, or assignment of secondary loan collateral. In practice, a combination of such measures will likely be necessary. Structuring and documenting complex transactions of this type is usually an involved and highly detailed process. A mechanism by which potential applicants could gain insight into the suitability of proposed investment structures and collateral package from the CDFI Fund prior to application submission would, in CCML's opinion, improve the quality and completeness of final applications and could save CDFIs fruitless labor and expense.

CCML understands that a Qualified Issuer, or a subsidiary of the Qualified Issuer, cannot be an Eligible CDFI in the same pool. To best utilize the CDFI Bond Guarantee Program's capacity to provide affordable long term capital smaller CDFIs may join together or work collaboratively. Within one pool, the proposed regulation does not appear to preclude a subsidiary or affiliate of a Qualified Issuer being the borrower on a secondary loan made by an Eligible CDFI (assuming the secondary borrower is not an affiliate of the Eligible CDFI).

Clarification on this point could spare CDFIs legal costs, eliminate uncertainty, and possibly also prevent needless work by CDFIs seeking to collaborate.

Also, accounting firms and financial institutions engaged in the CDFI industry perform many roles and provide a variety of services to CDFIs, some of these services may only be peripherally associated with the CDFI Bond Guarantee Program or may be completely dissociated. To assist in the structuring of possible investment vehicles and selection of Qualified Issuers and service providers,

- a) Is it permissible for the Qualified Issuer, or a subsidiary of a Qualified Issuer, to serve as non-member manager of an LLC that is secondary borrower, from an Eligible CDFI (assuming the Eligible CDFI is not affiliated with the Qualified Issuer), i.e. the Qualified Issuer or its subsidiary has no ownership in the Eligible CDFI but has responsibility for limited day-to-day management operations of certain aspects of the secondary borrower?
- b) Is it permissible for the Qualified Issuer, or a subsidiary of a Qualified Issuer, to enter into a service contract with an entity that is an Eligible CDFI or an affiliate of an Eligible CDFI, e.g. if an accounting firm provides accounting or back office services on a contract basis to a CDFI would that preclude the firm from serving as the Qualified Issuer in an issue pool in which the CDFI was an Eligible CDFI?

It appears possible that to participate in the CDFI Bond Guarantee Bond program an entity may have good reason to register a special purpose subsidiary as a CDFI, e.g. a certified CDFI might need to register a subsidiary to be the applicant for the CDFI Bond Program or a community development entity not certified as a CDFI needs to seek certification. Will the CDFI Fund either expedite these certifications, to approve or reject prior to the CDFI Bond Guarantee Program application date, or undertake to process and consider Bond Guarantee Program applications of entities that have a certification request submitted but not yet reviewed? Not doing so could severely disadvantage entities that wish to participate and are equipped to do so except for having CDFI status currently.

CCML has extensive experience working with the New Market Tax Credit (NMTC) program and is a leading national allocatee. It believes that it may be possible for proceeds of the bond issue to be used to fund NMTC leverage loans which, when combined with NMTC credits and investor equity, will further enhance access to capital for areas and populations that are currently severely underserved and/or disadvantaged. Bond Proceeds may also play an important role in refinancing projects to preserving their low income benefits as their initial tax credit financings mature and require refinancing.

In Tax credit program financing structures, like the NMTC program, funds often flow through intermediate special purpose pooling entities before being deployed to their ultimate low income community use. Will the CDFI allow a "direct tracing" approach of Bond Proceeds to be employed in determining low income use that analyzes the ultimate use of the proceeds rather than each individual step, as various bond programs do?

Thank you for the opportunity to provide comment and ask questions regarding the CDFI Fund Bond Guarantee Program. CCML very much appreciates the opportunity.

F. Robert Wilson
Managing Director, New Products