April 5, 2013

Ms. Lisa M. Jones
Manager, CDFI Bond Guarantee Program
CDFI Fund, US Dept. of Treasury
1500 Pennsylvania Ave., NW
Washington, DC 20220

Dear Ms. Jones,

Thank you for the opportunity to comment on the interim regulations for the CDFI Bond Guarantee program. Clearinghouse CDFI strongly supports the CDFI Bond program and is excited about the potential benefits this new program brings to our CDFI and the network of CDFIs throughout the country. Access to substantial, long-term, and affordable debt will greatly benefit CDFIs and the low-income and distressed communities we serve.

We offer a number of comments/opinions on several issues currently proposed within the interim regulations. Our concerns center around the issues of: collateral, requirements for term borrowings under the program, timing parameters of commitment and deployment within the program, and the definition of non-metropolitan in serving rural communities.

Access to capital

Access to significant capital that is affordable can be transformative for the CDFI industry. In our fifteen-year plus history, Clearinghouse CDFI has raised capital primarily from regulated financial institutions. In 2012, and at several other times in our history, we have had to slow down or stop lending because of lack of debt capital. This issue has particularly been problematic for many CDFI's, like ours, that have seen increased demand from borrowers in our target markets. The process of raising capital from regulated financial institutions is difficult and inefficient. While we expect to continue to work closely with our regulated financial institution partners, this program allows us to better manage our portfolio growth and the delivery of credit to the community.

Collateral

Collateral, and how it is assigned to the bond purchaser, is perhaps the most important factor in determining the success of this program. Pledged collateral under this program should be limited to only collateral from new loan activities funded with bond proceeds.

We understand that there will be an assignment of real estate liens and cash flows, when available, as collateral for the borrowings under the CDFI Bond Guarantee program. While we support this requirement in concept, we suggest some important considerations.

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Most successful CDFI's have already pledged loans to support the other capital-debt instruments currently on our books. As such, it is important that the bond program not require the pledging of existing collateral in a CDFI's portfolio. We agree with the requirement to assign new collateral obtained as a result of new lending originated from CDFI Bond proceeds.

Any requirement of CDFIs to pledge collateral from existing loans on their books would interfere with pre-existing agreements and covenants from other sources of debt capital. For example: Clearinghouse CDFI has borrowed $25 million from the San Francisco Federal Home Loan Bank (FHLB). To do so, we are required to pledge approximately $40 million in collateral for that facility.

The benefits we have received from Federal Home Loan Bank membership clearly justify the pledging of this collateral. However, a similar collateral requirement with the CDFI Bond Program would interfere with this arrangement and other obligations Clearinghouse CDFI has with our existing debt providers.

Pricing & Term
"Affordable" pricing for the bond proceeds will be paramount to ensuring the success of the program. We are somewhat concerned that with issuance fees, funding the "risk share pool" and the 1% fee to the CDFI Fund that the overall cost to the CDFIs will be less attractive. This pricing issue will be even more pronounced for those CDFIs that plan to lend to other CDFIs. If the ultimate cost of bond proceeds is not viewed as competitive, the industry may choose to not participate.

The ability to access long term (20-30 year) debt capital will certainly improve the impact CDFIs have in low-income and distressed communities. This feature of the bond program contrasts greatly with the current, much-shorter terms (5-7 years) typically offered by regulated financial institutions.

One concern we have is our understanding that CDFIs would have to select one term for the entire amount requested under the program. We think the program would be improved if a CDFI could request portions of their bond proceeds at staggered terms. For example, if a CDFI requesting $100 million could access $50 million at 30 years and $50 million at 15 years, it may help them in managing their asset/ liability function on their balance sheet. Furthermore, it would presumably allow for better pricing in the community for those projects that can support a shorter term loan.

Prepayment penalties, for funds that could not be relent, should be kept to a minimum to prevent additional unforeseen costs to the CDFI.

Disbursement Timing
Clearinghouse CDFI generally supports a shorter than 60 month time period for bond proceeds to be drawn down. We question the 36 month period allowed from time of commitment to time of draw. Even the most complicated construction transactions are usually no longer than 24 months. Perhaps the CDFI Fund should consider flipping the project commitment time requirement to be 36 months and the disbursement time requirement to be the remaining 24 months. Given our experience and pipeline in our two state service area, we are convinced we could commit and deploy $100 million in 24- 36 months.

Overall, we support programmatic priority for those CDFIs that have a time-tested proven track record of deploying significant amounts of debt capital in low-income communities. We are concerned about start-up CDFIs and others that may access bond proceeds and be unable to deploy them in a timely manner. The Capital Distribution Plan should be evaluated in the context of previous experience. We are equally concerned that some new CDFIs may not be as committed to a mission of serving low income communities.

Qualified Issuers
We support the concept of allowing CDFIs to be issuers. We are concerned that non-mission based issuers may charge fees that will make the bond pricing unattractive. We encourage the Fund to place a high priority on an Issuer's mission and their track record of providing capital in the low-income community.

Recourse to CDFIs
Full general recourse to CDFI participating in the Bond Guarantee Program is appropriate. By working directly with those CDFIs demonstrating financial strength and historical efficient management, this program will successfully result in "no cost" to the government or to future tax payers. The provision for Bond recipients to lend to other CDFIs is the best way to assist smaller, emerging CDFIs under this program.

Non-Metropolitan / Underserved Rural
We are strongly concerned that the Bond Guarantee Program is defining "underserved rural area" using the same definition as "non-metropolitan" as defined in the NMTC program. This definition is not inclusive and overlooks certain rural regions throughout the country that do not meet this narrow definition of non-metropolitan. This definition is focused on the entire county, as opposed to a more logically defined area. HUD, USDA and Office of Rural Health Policy all offer definitions that make more sense when recognizing the significant variance in counties size and composition from state to state. We strongly recommend that an alternative definition be adopted.

California, the most populous state in the union, has exactly half the number of counties as Kentucky. With approximately 10 times the population, it is easy to see why most counties in California have at least one city exceeding 50,000.

San Bernardino County in southern California is a great example of why this definition does not work. This county is the largest county in the US. It is larger than the nine smallest states in the country. The states of New Jersey, Connecticut, Delaware and Rhode Island could all collectively fit within this county, with vast amounts of deserts and mountains. Those four states have 20 counties meeting the "non-metropolitan definition, yet San Bernardino County, because of one population center, does not qualify.

There are many other, though less dramatic, examples of this issue in our two state service area. We request the CDFI Fund to consider this issue and possibly create an exception or alternative definition that could be used for states with high populations and less counties. We believe strongly that financing a project in a small town- hundreds of miles from any city- is truly beneficial to any underserved rural communities.

Conclusion

Clearinghouse CDFI anticipates participating in the CDFI Bond Guarantee Program and appreciates the impact it will have for all CDFIs throughout the country. We recognize the balance being sought between community impact and financial responsibility. Thank you for considering our comments and for moving this valuable program forward as we all work to benefit low-income and distressed communities.

Sincerely,

Douglas J. Bystry
President/ CEO

Clearinghouse CDFI