Housing Partnership Network

April 8, 2013

Lisa Jones
Manager
CDFI Bond Guarantee Program
CDFI Fund
Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, D.C. 20220

Dear Ms. Jones:

The Housing Partnership Network appreciates the opportunity to comment on the interim rule implementing the CDFI Bond Guarantee Program, established through section 1134 of the Small Business Jobs Act of 2010.

The Housing Partnership Network (HPN) is a member-driven organization comprised of 100 high-performing entrepreneurial nonprofits that operate all across the country. The members are diversified social enterprises combining a mission focus with business acumen. The members' businesses include lending, real estate development, property management, and housing counseling. Collectively, they have 13,800 employees, $1.3 billion in annual revenues, have provided $10 billion in CDFI financing and have served 4.3 million low-income people.

The Housing Partnership Network has signed onto the comments on the interim rule from the Opportunity Finance Network and endorses OFN's suggestions on how to make the program more workable and effective. We particularly want to support OFN's suggestion that CDFIs be able to charter new affiliates in order to utilize the CDFI Bond Guarantee Program.

We provide our own perspectives on the interim rule, because HPN's membership not only includes Community Development Financial Institutions, but also includes a wide range of social enterprises in the affordable housing and community development field which might use the capital generated by the CDFI Bond Guarantee Program. HPN includes both the potential lenders and the borrowers under the CDFI Bond Guarantee Program in its membership, all of whom are committed to one of the central goals of this program – bringing lower-cost, longer-term, and flexible capital to low-income communities. Our additional comments on the interim rule reflect our members' experience as potential Qualified Issuers, eligible CDFI lenders and end users of the bond proceeds.

As you know, Community Development Financial Institutions (CDFIs) serve as an important source of gap and at-risk capital for community development activities that private financial institutions are often reluctant or unable to provide. CDFI lending supports health care, child care, charter school, small business, public facility development, and affordable housing development. If high-performing nonprofit housing developers are to play a bigger role in the housing and community development delivery system, they will need new and expanded sources of mission-oriented capital. CDFIs are uniquely positioned to play an expanded role in providing community capital. The CDFI Bond Guarantee Program has the potential to transform the CDFI industry by providing CDFIs with a source of long-term, patient capital and over time, serve to build new stronger relationships between CDFIs and the capital markets.

This is why HPN had high hopes for the CDFI Bond Guarantee Program as a potential source of the long term capital that the industry needs. The Housing Partnership Network is itself a CDFI that operates with and on behalf of our members. The HPN CDFI might consider using the CDFI Bond Guarantee Program for multifamily affordable housing capital needs of our members.

HPN is often a vehicle for its members' collaborative businesses. For example, the Network operates the Charter School Financing Partnership with five of our CDFI members. This venture has supported $158 million in capital investments in charter schools in seven states to serve over 7,300 disadvantaged students from low-income communities. The structure proposed in the interim rule that allows a $100 million bond issue to be divided into ten, $10 million tranches has great potential for an organization like ours because of the opportunity to serve as an issuer aggregating the activities of ten of our members who might re-lend the capital for important community needs. With this flexible structure, for example, HPN and its members may have the opportunity to expand its charter school financing efforts even further. We appreciate the flexibility shown in drafting the interim rule to allow groups of CDFIs to come together working with a qualified issuer. It is most likely that CDFIs with similar types of lending will share a pool of bond proceeds.

Given our focus on the needs of the end users of this capital source, one of the issues that concerns HPN about the proposed interim rule is the potential that the all-in rate on the loans made with CDFI Bond Program proceeds may not be sufficiently competitive and will dampen borrower interest in the program. We encourage you to be mindful of the rates charged to the end users of bond proceeds as you delineate the role for the Qualified Issuer (QI). As additional program administration and monitoring roles are layered onto the QIs, costs may be passed onto end users in a way that will undermine the purpose of the program.

Developers of multifamily housing have potential sources of long term debt through the Federal Housing Administration (FHA) or tax exempt bonds. If the rate on the CDFI Bond Program lending is much higher than these other sources of long term debt, our developer members will not borrow the money; this will be a missed opportunity to provide a sustainable future for an asset class that is reliable and straight forward to underwrite. Alternatively, there are not as many sources of long term debt for charter schools, so this type of lending will not be as sensitive to interest rates as multifamily housing is.

HPN encourages the CDFI Fund to carefully monitor the use of the program as it gets underway this year and be willing to make changes in the future based on experience with the initial bonds. We fully understand the need for the program to have a zero net subsidy cost to the government. Nevertheless, it is also important that this program fulfill its mission to create a source of transformative capital for the CDFI industry. This is important at a time when resources are needed to sustain communities in need under the continued stress of unemployment, foreclosures and economic challenges. We hope that you will be willing to consider changes in the future. There may be more creative asset-backed structures that will reduce government credit risk concerns while at the same time providing more flexible capital for secondary loans to allow the expansion of the CDFI industry that the drafters of the CDFI Bond Guarantee Program envisioned.

We also encourage you to not be overly prescriptive with the guidance that the CDFI Fund intends to issue about various asset classes of secondary loans. The CDFI industry has an exemplary track record for lending, thus it makes sense to give CDFIs the flexibility to underwrite their loans. If there is recourse to the CDFI's balance sheet and a requirement that collateral be pledged on each loan, it seems that incentives are clear and unambiguous for the CDFIs to be careful, prudent lenders as they have historically demonstrated. It is not also necessary for the Fund to go into great detail about what is permissible for different types of lending; it will be just this flexibility that will allow CDFIs to create diversified structures and reduce risk.

Thank you for the opportunity to comment on the interim rule. Please contact Kris Siglin at Siglin@housingpartnership.net if you have any questions about our comments.

Sincerely,

Housing Partnership Network
Community Reinvestment Fund, USA
Mercy Loan Fund
The Reinvestment Fund