capital for healthy
families & communities

April 8, 2013

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

Dear Ms. Jones:

The Low Income Investment Fund (LIIF) appreciates the opportunity to submit comments on the Interim Rule for the Community Development Financial Institutions (CDFI) Bond Guarantee Program (Program).

LIIF is dedicated to creating pathways of opportunity for low-income people and communities. Serving the poorest of the poor, LIIF is a steward for capital invested in community-building initiatives. In so doing, LIIF provides a bridge between private capital markets and low-income neighborhoods. Through 2012, LIIF has invested $1.2 billion to create 60,000 homes, 191,000 child care slots, 61,000 spaces in schools, and 6.8 million square feet of community space. That investment has served 1.2 million people in low-income communities, providing an estimated monetary benefit to those families and communities of $21.6 billion. Indeed, LIIF exemplifies the spirit of CDFIs making a difference in this nation's low-income communities.

LIIF is encouraged by Treasury's efforts to establish the regulations to implement the program. We fully understand the need for the program to have a zero net subsidy cost to the government. Nevertheless, the combination of full recourse to CDFI balance sheets and stringent collateral requirements on secondary loans may result in an underutilization of the Program, as other industry partners like Housing Partnership Network and Opportunity Finance Network (OFN) have addressed. This would be a missed opportunity to create a source of transformative capital for the CDFI industry. As such, we would like to comment on the following items in the Interim Rule:

**1. Clarification on the Application Process [1808.302(e) & 1808.500]**
Interim Rule states, "The CDFI Fund may impose other limitations as appropriate to administer the CDFI Bond Guarantee Program including, but not limited to, requiring Qualified Issuers to obtain Credit Enhancement to safeguard against the risk of default." Treasury should clarify if the application process will have interval notifications to submit more information or be a one-time application. Ideally, the Fund's application review process should be iterative and interactive to ensure Program parameters, including the potential requirement of additional credit enhancement, are workable for CDFIs.

Low Income Investment Fund
100 Pine Street
Suite 1800
San Francisco, CA 94111

415.772.9094 tel
415.772.9095 fax
www.liifund.org

San Francisco
Los Angeles
New York
Washington D.C.

Ms. Lisa Jones
April 8, 2013
Page 2

**2. Flexibility of Secondary Loan Requirements [1808.102 (xx)]**
Although the Interim Rule does not provide detail about Secondary Loan Requirements, Treasury should allow for some flexibility for Eligible CDFIs to underwrite loans with varying loan-to-value ratios and debt service coverage ratios, perhaps based on the asset class. Given other Program requirements of full recourse to Eligible CDFIs, market incentives to only lend to borrowers that can cover their debt service are already present without restricting LTV, debt service coverage, or other secondary loan requirements.

**3. Flexibility on Negative Covenants of Eligible CDFIs [1808.613 (a)]**
LIIF's greatest concern about the Interim Rule is the potential restrictions of negative covenants as they relate to all other investment streams Eligible CDFIs currently utilize. We would note that negative covenants are typically only required by unsecured lenders, and we find this requirement to be intrusive and unnecessary for a secured program. As to not crowd out future private sector investment in CDFIs, any negative covenants with respect to the incurrence of additional long-term or short-term debt should be developed specific to each Eligible CDFI and allow them maximum flexibility. Further, given the potential 30-year term of the Bond Loans, Treasury should create an accessible and flexible process to amend any such negative covenants in the Bond Loan Documents or delegate the authority to do so to the QIs.

**4. Flexibility on Substitute Loans**
Treasury should allow Eligible CDFIs to substitute Secondary Loans of similar size or delegate the authority to do so to the QIs. This allows Eligible CDFIs the flexibility to restructure Secondary Loans that may become troubled outside of the Bond Loan structure.

**5. Flexibility on Amortization Schedules on Secondary Loans**
Given the ability for CDFIs to create additional Secondary Loans through the Relending Fund, Treasury should allow for some flexibility for Eligible CDFIs to make Secondary Loans with a partially amortizing schedule (e.g. level debt service payment with a bullet due at maturity).

In addition to these recommendations, LIIF has also endorses OFN's suggestions on how to make the program more workable and effective. In particular, LIIF agrees with OFN's comments regarding Limited Recourse Structures, Relending Calculations, Relending Constraints, CRA Credit, Covenants, and Qualified Issuers.

Thank you for the opportunity to comment on the interim rule. Please contact Kim Latimer-Nelligan at klatimer-nelligan@liifund.org if you have any questions about our comments.

Sincerely,

Nancy O. Andrews
President and CEO