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

April 5, 2013

Dear Ms. Jones:

Thank you for the opportunity to provide comments on the interim rule implementing the CDFI Bond Guarantee Program. The National Housing Trust (NHT) is a non-profit housing organization whose core mission is to preserve affordable housing for low-income families through advocacy, development, and lending activities. NHT is home to two CDFI loan funds - the National Housing Trust Community Development Fund (NHTCDF) and Institute for Community Economics (ICE). NHTCDF and ICE advance the core mission of NHT by providing the flexible and low-cost capital needed to finance the preservation and production of affordable housing across the nation. NHTCDF and ICE want to take this opportunity to provide comments on the CDFI Fund's interim rule for the CDFI Bond Guarantee Program from the perspective of potential Secondary Borrowers and Eligible CDFIs.

Both NHTCDF and ICE provide an important source of expertise and financing for housing developers and community organizations working to preserve and produce affordable housing for low-income families. The Bond Guarantee Program has the potential to be a transformational tool, as the long-term, flexible capital made available to organizations like NHTCDF and ICE will help to expand their mission-oriented work serving low-income families and individuals. However, as currently structured, NHTCDF and ICE (and many other CDFIs) may have difficulty accessing the valuable capital resources provided by the Bond Guarantee Program. More specifically, the following items may act as barriers to entry for many CDFIs that would otherwise greatly benefit from the Bond Guarantee Program:

Cost of Capital for Eligible CDFIs and Secondary Borrowers
NHTCDF and ICE serve as a vital source of low-cost capital for the production and preservation of affordable housing. Low-income families are the ultimate beneficiary of low interest rates and fees which help to keep the cost of housing affordable. NHTCDF and ICE are only able to provide these low interest rates when the organizations' cost of capital is low. In order for NHTCDF and ICE to provide low-cost capital to housing developers, it is imperative that the cost associated with accessing capital through the Bond Guarantee Program remains affordable.

It is our understanding that Bond Loan interest rates charged to Eligible CDFIs will be the same as the rate of the Bond Issue - a fixed rate indexed to Treasuries of comparable term plus a spread. We would request that the Federal Finance Bank take into consideration CDFIs' need for low-cost capital when determining the spread (liquidity premium), and any additional fees associated with accessing capital from the Bond Guarantee Program be kept at a minimum.

We also understand that the CDFI Fund will establish a minimum and maximum spread applicable to the Secondary Loan Rate. We request that the maximum interest rate for Secondary Loans is affordable for Secondary Borrowers, and the best way to do this may be to minimize the capital costs associated with the Bond Loan.

Recourse and Collateral
It is our understanding that the Bond Loan will be recourse to the Eligible CDFI, and loans made with Bond proceeds will have to be secured with collateral acceptable to the CDFI Fund. Eligible CDFIs must pledge to the Master Servicer/Trustee all loans receivable and debt service payments associated with Secondary Loans. Secondary Loans may be secured in the form of a Principal Loss Collateral Provision such as a cash collateral guarantee; however this is ill-defined.

We ask the CDFI Fund provide more definition around what collateral will be acceptable to the CDFI Fund. Additionally, we wish to raise the issue that, CDFIs will have to reach agreements with existing unsecured creditors to allow new secured borrowings and to conform financial covenants among creditors. It will be important for the Bond Loan to not impact the already existing loan covenants that CDFIs have with investors. ICE, for example, capitalizes its revolving loan fund through socially-motivated individual and institutional investments; all of which share a first position in the case of default. It is our understanding that Bond proceeds could not easily be incorporated as another source of capital in ICE's revolving loan if those proceeds require repayment priority over current investors' proceeds.

Cross-Collateralization of the Three Percent Risk Share Pool
It is our understanding that each Eligible CDFI will be required to contribute a pro rata equity stake, in the amount of three percent of their Bond Loan, to a risk share pool that is cross-collateralized across all Eligible CDFIs in the Bond Issuance Pool. This equity requirement presents a barrier to entry for smaller CDFIs, and restricts these capital assets over the term of the Bond Issue.

Additionally, cross-collateralization means that the sum of the risk share pool is available to pay a default on any Bond Loan by any Eligible CDFI within each Bond Issue. The potential for an Eligible CDFI to lose their risk share capital due to a default by another Eligible CDFI presents an increased exposure to risk which may discourage many CDFIs from participating in the Bond Guarantee Program.

Addressing these barriers will serve to increase the program's flexibility, expanding access to a broader pool of CDFIs. Indeed, without this flexibility, there may be a lack of participation in the program. In turn, lack of participation may signal to Members of Congress that there is not a demand for long-term, low-cost capital in the CDFI industry; however this could not be further from the truth.

In today's credit-constrained environment, CDFIs are a source of capital for development activities that serve low-income families and communities. Private financial institutions are often reluctant or unable to provide financing to support affordable housing, small businesses, and community facilities like charter schools and health care centers. CDFIs will continue to act as an essential source of community capital, and the CDFI Bond Guarantee Program could serve as a transformational tool to allow these organizations to bring their solutions and services to scale.

We hope that you will consider our comments as you work to create a program that will enhance CDFI's core missions.

Additionally, we wish to extend a special thanks to the Opportunity Finance Network for their advocacy and analysis of this issue.

Sincerely,

National Housing Trust

National Housing Trust Community Development Fund

Institute for Community Economics