April 8, 2013

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

Dear Ms. Jones,

Thank you for the opportunity to comment on the Interim Rule published on February 5th, 2013. We have been and continue to be a strong supporter of this historic federal initiative to promote community and economic development in low income and underserved areas. As one of the largest CDFIs in loan transaction volume with nearly all of our loans being made to low-income Hispanics in California and Texas, the majority of whom come to us with no credit record, we are acutely aware of the challenges that CDFIs like ourselves face in lending to those communities where mainstream financial service providers may be unable or unwilling to lend. One of the largest challenges in meeting the communities' need for affordably-priced, responsibly-underwritten capital at the scale that we currently support today with over 144,000 active borrowers is securing dependable lending capital at affordable rates. The CFDI Bond Guarantee Program has the potential to address this challenge in a very meaningful way.

However, in reading through the Interim Rule, we have ascertained that the Bond Guarantee Program has been designed to best fulfill the capital needs for CDFIs who are lending to corporate or commercial borrowers with collateral and not directly to individuals, as is the case for our model. For instance, the requirements for bond loans to secondary borrowers, such as representations and warranties, covenants, and events of default and remedies, will not work for individual non-commercial borrowers.

The allowable interest rate spread for the loans made to secondary borrowers is also a potential concern. Small loans made to individuals or small businesses are most costly to underwrite and service, and these costs are reflected in the interest rate. How is the CDFI Fund thinking about this interest rate spread? Will it be a spread designed to fulfill the needs of corporate or commercial borrowers, or will it be able to accommodate individual and small business lending models?

We encourage the CDFI Fund to expand the use of the program to CDFIs who are making loans directly to individuals and small business owners as these are the true seeds and eventual recipients of community and economic development. Behind every successful business is an individual or set of individuals who, in the early days of the business, were only able to secure capital based on their individual credit histories. And those individuals were only able to build their credit by obtaining access to credit, one trade line at a time. This is where we have focused our efforts - in helping individuals who do not yet have a credit score and therefore only have access to predatory forms of credit, gain access to the financial system and establish a credit history. Since our first loan in 2006 we have lent over $550 million to over 250,000 LMI individuals and families in underserved communities and have helped them establish their credit and gain a foothold into the financial mainstream. Many have used their loan proceeds to finance small part-time business ventures and have grown those businesses into thriving, full-time jobs for themselves and other members of their community.

We understand that the individual and small business lending models have different risk and market profiles. To moderate some of these differences we would like to propose that the CDFI Fund consider adopting a similar approach as was done in California with the Affordable Credit-Building Opportunities Pilot Program under Senate Bill 1146, passed in 2010 and implemented in 2011. The California legislature recognized the relative dearth of responsible lending options for low-income communities in California (99% of lending under $2,500 is made under the Deferred Deposit Law or "payday", as it is commonly known) and the Pilot Program was conceived as a proactive step to encourage increased availability of responsible lending alternatives for loans under $2,500. Pilot participants are required to demonstrate a commitment to responsible lending by following best practice lending guidelines such as comprehensive underwriting, reporting to the national credit bureaus, and providing credit education to borrowers. The CDFI Fund could utilize a similar approach to manage the different nature of individual and small business lending. CDFIs who lend to individuals and small businesses could commit to best practice lending guidelines as prescribed by the CDFI Fund and would be held accountable to secondary borrower requirements that are more consistent with standard practices for individual and small business loans and permitted to charge interest rate spread for secondary borrowers that is aligned with the higher costs of underwriting and servicing.

We hope that the CDFI Fund will consider how to expand the accessibility of the program to CDFIs who work directly with individuals and small businesses to improve their livelihoods and the financial health of the communities in which they live.

Sincerely,

Raul Vazquez
CEO, Progreso Financiero