CREATING OWNERSHIP AND ECONOMIC OPPORTUNITY

March 12, 2012

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

RE: CDFI Bond Guarantee Program Interim Rules

Dear Ms. Jones:

Thank you for the opportunity to comment on the CDFI Bond Guarantee Program interim rules. This program is an important innovation for the CDFI industry, providing a major new source of low-cost market-rate debt. Self-Help is excited by the prospects this program can have to expand our impact, but also because it represents a significant step towards the goal of obtaining a stable source of unsubsidized debt to finance the growth of the field. Self-Help is composed of three large CDFIs (Self-Help Credit Union, Self-Help Ventures Fund and Self-Help Federal Credit Union) each of which have difference financing needs to support their community development finance activities. We have studied the interim rules, attended various CDFI Fund presentations on the program, and have served on OFN's Bond Policy Group for several years. We are still deciding the best use of the program for Self-Help, but have arrived at three likely candidates: Secondary Capital Investments for the credit unions; refinancing and financing debt for our NMTC program; and direct commercial lending to businesses and non-profits. These three scenarios will be described briefly, followed by three specific comments on the rules.

Secondary Capital: Secondary Capital Investments should be an eligible use of the Bonds and the rules should permit CDFIs to use Bond proceeds to make these investments. Both of Self-Help's CDFI credit unions are growing through expansion in their current markets as well as mergers and acquisitions. Their growth is limited by their net worth (capital) which, in a credit union, can only increase through retained earnings. However, NCUA designed low-income credit unions can borrow subordinate, unsecured debt, called Secondary Capital, to increase their net worth. Self-Help's credit unions, and many other CDFI credit unions, have been anticipating that the Bond Guarantee would be a good source of Secondary Capital. Self-Help would be interested in borrowing between $20 million and $50 million to use to make Secondary Capital Investments in its affiliate credit unions. This use

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will require several changes to the rules and will be dependent on the Bond Loan's interest rate being affordable.

Given what we know about the program, it seems that the best approach would be for our non-profit CDFI (Self-Help Ventures Fund) to participate in a Bond issue that has a 15-20 year term. It would borrow one or more Bond Loans from the Issuer, and relend them to Self-Help's CDFI credit unions. Self-Help Ventures Fund has a particularly strong balance sheet with over $330 million in net worth, so it would be a good candidate for recourse borrowing. In order to keep the rate on the Secondary Loans as low as possible, Self-Help Ventures Fund would lend the funds at cost. Self-Help Ventures Fund may use proceeds of the Bond Loans to make loans to other CDFIs, subject to Bond Loan Requirements.

The interim rules create several problems for this scenario. First, the rules require that the Secondary Loans be assigned as collateral for the Bond Loan. In this circumstance, the Secondary Loan is a Secondary Capital Investment, which by NCUA rules cannot be pledged. We are suggesting an alternative method for providing collateral to avoid this problem. Secondly, the interest rate on the Secondary Loan may be too high to be useful for Secondary Capital in our credit unions. Currently Self-Help Ventures Fund borrows at 1% (fixed) to finance its existing Secondary Capital investments in the credit unions. We don't expect this program to match that rate, but the rules have created several layers of fees that will increase the interest rate beyond what the Federal Financing Bank will charge. For this reason, it would have been optimal for Self-Help Ventures Fund to be the issuer and eliminate some of the fees related to issuing, but the rules have excluded the possibility of an Issuer providing Bond proceeds to affiliates. To reduce other fees, Self-Help will want to borrow the Bond Loan itself so it can make the Secondary Loans to its credit unions at very low cost. We cannot determine the ultimate cost of borrowing at this time, but if it is much above Treasury plus 100 basis points, it is unlikely that we will use the Bond Guarantee for Secondary Capital. CDFIs will need more transparency on the actual costs of borrowing under this program to be confident that they can make use of the funds.

NMTC Leveraged Debt: Self-Help Ventures Fund is a CDE and has been awarded $260 million of NMTC allocation. Typically, Self-Help Ventures Fund lends the leveraged loans to its NMTC subsidiaries LLCs. Self-Help borrows from third parties, on a recourse basis because it can obtain better terms by borrowing than the LLCs can, and on more flexible terms. We currently have approximately $35 million of leverage debt outstanding. In addition, we hope to receive additional NMTC allocations in the future which will require more liquidity for leverage loans. For this purpose, Self-Help Ventures Fund may use proceeds of a Bond Loan to refinance existing loans it borrowed from creditors and/or make new leveraged loans to newly formed NMTC subsidiaries. In addition, it might also make leveraged loans to other CDE's NMTC subsidiaries. For this purpose Self-Help would borrow at 12-20 year maturities to finance the leverage loans during their 7 year period, but also to provide liquidity for the underlying loans (QLICIs) after the tax credit period expires. The QLICIs would be the Secondary Loans in this scenario, so each of them would have to qualify as eligible uses.

The difficulty this scenario presents is meeting the interim rules' collateral requirements. With a large number of Secondary Loans that amortize and mature on different schedules, the Secondary Loans collateral value will decrease much faster than the Bond Loan amortizes. It is likely that it will not be possible to relend the Secondary Loan repayments fast enough to avoid accumulating more than 10% in the Relending Account – one large loan payoffs could exceed this limit. For this reason we have suggested an alternative method of providing collateral to secure Bond Loans. We expect that interest rate on the Bond Loans to be within the acceptable range for this purpose.

Direct Commercial Lending: Self-Help Ventures Fund is an originator loans for small businesses, non-profits and commercial real estate projects. Loans have terms of 5 to 25 years, a variety of amortization schedules and a variety of interest rates. We do not expect to have a tidy pipeline of loans with similar interest rates, terms and amortization schedules that match that of the Bond Loan. In this scenario we expect to use the proceeds of a Bond Loan to make Secondary Loans for eligible purposes, and that we will have a constant stream of repayments from these loans. Collateral logistics will be complicated as well. Our comments on the rules will seek to make this scenario possible. Unfortunately, we do not expect to have a large demand for this use of the Bond Guarantee Program. We have a large amount of liquidity, funded by deposits, in our credit unions that is presently available for commercial lending. These deposits carry interest rates that we expect to be lower than the rates from Bond Loans. In the next year, we expect to need less than $10 million for this purpose in our Self-Help Ventures Fund (for loans that cannot be originated by credit unions). Therefore, if we were to use Bond proceeds for this purpose we will have to deploy part of a Bond Loan we borrow for another purpose.

RULE COMMENTS

Collateral Requirements: The CDFI Fund must permit Bond Loans to be secured with loans other than the Secondary Loans that are funded with the proceeds of the Bond. This will make it more likely that credit unions can use the Bond to finance Secondary Capital investments. Furthermore it will make it more possible for CDFIs to finance a broader variety of Secondary Loans with maturities and amortization schedules that don't exactly match those of the Bond. Instead, the CDFI Fund should follow the Federal Home Loan Bank's practice for assigning loans for collateral. The FHLBs require their advances (loans) to be fully secured. Members of the FHLBs provide a portfolio of eligible collateral to the FHLB to secure the loans, but those loans do not have to be the loans funded by the advance. FHLB borrowers must value the collateral every quarter to ensure collateral is sufficient to secure outstanding advances. Borrowers assign additional loans should collateral drop below required amounts, and borrowers often over-collateralize their advances to prevent this from happening. This system has worked well for the FHLB system and would be a good model to employ in the Bond Guarantee Program. This would not eliminate the need for CDFIs to identify Secondary Loans that are funded with the proceeds of the Bond.

Refinancing CDFI Debt: At the February 22nd CDFI Fund Information Session, the CDFI Fund staff was unsure as to whether it refinancing loans to CDFIs would be an eligible activity under the Program. The Small Business Jobs Act clearly states that guarantees are to be used to ensure payment on "bonds issued by a qualified issuer to finance or refinance loans to eligible community development financial institutions". The CDFI industry has been anticipating that refinancing debt they hold on their balance sheets with lower cost and longer term Bond Loans would be an eligible use. The CDFI Fund should clarify that refinancing loans made to CDFIs will be permitted under the Program. This ability would not remove the requirement that CDFIs identify eligible Secondary Loans that are financed with Bond proceeds.

Application from Issuers Accepted Continuously: It will not be an easy task to organize several CDFIs into a Bond application with similar terms. This will take time; some of the best applications might come from Issuers that take 4-6 months to prepare. In addition, loan demand at the scale required to participate in this program is not regular. CDFIs' business cycles are tied to market demand, so their need for liquidity can come at any time during the year. For this reason the CDFI Fund should accept applications from Issuers (applications for Bonds) throughout the year, not just once a year as is the case with other CDFI Fund programs.

We provide these comments to help make the program more accessible for CDFIs. We look forward to the successful implementation of this very important new source of debt for the CDFI industry.

Sincerely,

Robert N. Schall

Robert N. Schall, President
Self-Help Ventures Fund