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Calvert Social Investment Foundation ("Calvert Foundation") appreciates the opportunity to comment on the program design framework for the CDFI Bond Guarantee Program. This exciting new program represents an unprecedented opportunity to spur economic recovery and development in low-income communities across the nation and to scale the CDFI industry's proven track record of successful investing in our nation's underserved communities. To realize the greatest possible community impact, we urge the CDFI Fund to exercise maximum flexibility in the program structure and allowable use of funds, set eligibility criteria to ensure high-quality issuers, rely on industry expertise on assessing and mitigating risk, and act as quickly as possible to implement the program.

Calvert Foundation's mission is to maximize the flow of capital to disadvantaged communities in order to foster a more sustainable and equitable world. A certified CDFI since 1999, Calvert Foundation has a more than 15-year history lending to support the CDFI industry. Calvert Foundation is not an endowed foundation but rather raises investment capital on its balance sheet to lend to communities through the marketing and sale of the Calvert Foundation Community Investment Note ("CI Note"). The CI Note is the only investment of its kind available to the retail investor through a broker, allowing private capital to invest in community development projects throughout the world. Calvert Foundation lends both in the US and abroad and, with its wholly-owned subsidiary Community Investment Partners, Inc. ("CIP"), has approximately $500 million of assets under management. CIP is an investment advisor registered with the Securities and Exchange Commission of the United States Government. The mission of CIP is to increase community investment by replicating Calvert Foundation's successful lending and investment strategies and products for third party institutional investors.

Domestically, Calvert Foundation makes loans to multi-sector CDFIs, housing CDFIs, affordable housing developers, social enterprises, charter school-related organizations, and mission-related financial institutions. Together Calvert Foundation and CIP manage more than $250 million in loans and investments to more than 155 CDFIs and nonprofit organizations in the US. Calvert Foundation has developed and maintained long-term relationships with CDFIs throughout the U.S. and is viewed by our borrowers as a critical partner in their long-term sustainability and growth. We work closely with borrowers to share information on best practices for risk management and credit oversight. Calvert Foundation's primary loan product is typically unrestricted and unsecured, fixed-rate, non-amortizing with interest-only, semi-annual payments and bullet maturities. This structure enables Calvert Foundation loans to serve as patient and flexible capital for borrowers. With only 1% in losses through our lending history, Calvert Foundation's portfolio has withstood the test of time, demonstrating our ability to assess and manage risk while also providing an important, flexible source of capital to spur meaningful community impact. To date, Calvert Foundation investments have helped build or rehabilitate over 19,000 homes, create 34,000 jobs, and finance over 26,000 community facilities, social enterprises, nonprofits, and cooperatives nationally.

We have chosen to comment on following areas:

1. Program design and bond mechanics should allow for a variety of structures.

A variety of bond structures should be allowed in order to meet the capital needs of a diversity of CDFIs. The CDFI Bond Guarantee Program should accommodate an aggregation of loans from various originators as well as single originators and make financing available to a full spectrum of asset classes. *In particular, we would encourage the CDFI Fund to allow draw-down bond structures under the overarching $100 million minimum issuance requirement.* This would allow CDFIs to draw down bond proceeds in increments smaller than $100 million as needed to fund loans, mitigate the cost of negative arbitrage, and accommodate a variety of product maturities, pricing, and other terms under a single bond guarantee. The CDFI Fund can look to the Department of Housing and Urban Development's FHA Section 242 insured taxable securities or the Historically Black College and University Financing Program of the Department of Education (purchased by the Federal Financing Bank) for draw-down bond program models. We would be happy to work with you in the coming weeks to obtain sample bond indentures and other documentation for such structures.

The CDFI Fund should work with the industry to develop appropriate standards, weighting and scoring metrics, and programmatic risk share levels for various asset classes, and then evaluate individual capital distribution plan proposals from qualified issuers against these criteria. Issuers and aggregators should explain and justify any variance from these criteria in their proposed issuance structure, employing a variety of risk mitigation tools.

We encourage the CDFI Fund to align, where possible, processes and systems with those of existing CDFI Fund programs, such as the Financial Assistance Program, in order to minimize new regulatory and operational complexities for the industry. We recommend defining "low-income" as it is defined in the CDFI Fund's Authorizing Statute and "underserved" as those in areas and populations defined in that statute as "investment areas" and "targeted populations".

2. Allow flexibility in use of funds to maximize impact.

Calvert Foundation urges the CDFI Fund to *maximize flexibility in the allowable uses of CDFI Bond proceeds* and support the broadest possible definition of community and economic development activities. Calvert Foundation cautions the CDFI Fund against any specific limitations around eligible uses, generally. Instead, we encourage you to adopt as a model the CDFI Fund's Financial Assistance Program (12 CFR part 1805.301), which permits a wide range of financing activities and allows for additional flexibility and innovation through subsection (g), "Other businesses or activities as requested by the Applicant and deemed appropriate by the Fund". An example of one such innovation could be the funding of entities that serve the public interest, such as rural broadcasting networks. Indeed, one of the CDFI industry's unique strengths is its proven track record of financial innovation to meet the community and economic development needs of underserved individuals, businesses, and communities. The CDFI Bond Guarantee Program should encourage rather than stifle innovation to maximize impact.

All of the uses listed in Question 2 in the Request for Public Comment – refinancing of existing assets; loan purchases from, and investments in, other CDFIs; and capitalization of revolving loan funds, credit enhancements, loan loss reserves, debt service reserves, and/or sinking funds – *should be eligible purposes under the CDFI Bond Guarantee Program.* As described above, Calvert Foundation's traditional loan product is unsecured, general recourse loan to the borrowing entity's balance sheet. We have seen the positive impact this flexible financing has had on the ability of our borrowers to innovate, grow, and ultimately produce outcomes in their communities. We strongly encourage the CDFI Fund to make this type of unsecured financing an eligible use of CDFI Bond proceeds. *Similarly, loans to all types of entities (nonprofits, for-profits, and municipalities) should be allowed, provided they support community and economic activities.*

We urge the CDFI Fund to *apply broad application of its statutory authority to permit refinancing* as an allowable use of program funds. Refinancing existing short-term debt with longer-term financing can strengthen CDFIs and individual community projects alike. Refinancing existing debt can assist CDFIs with asset-liability matching and enable them, in turn, to provide longer-term project financing in the communities they serve. At the project level, the benefits of refinancing include recapitalization, preservation, energy efficiency improvements, and predictability of financing costs in a potentially rising interest rate environment.

Allow the purchase of loans from CDFIs as well as new investments and loans to CDFIs. These uses of funds support CDFIs as institutions (as does refinancing) with longer-term capital, balance sheet liquidity, and better asset-liability matching. It also allows for the aggregation of loan demand and the inclusion of small and mid-sized CDFIs who would otherwise be unable to participate in the CDFI Bond Guarantee Program given the $100 million minimum bond requirement. Without such an eligible use of funds, not only would a large segment of the CDFI industry be excluded from participation in the program, but more importantly, rural and other communities served exclusively by smaller CDFIs would not benefit from the program's economic investment. *We also encourage the CDFI Fund to allow bond proceeds to be used to purchase loans from entities other than CDFIs, provided there is a requirement that such loan purchases generate at least equal, if not greater, community investment as a result.* The CDFI Fund could set clear reinvestment or leverage criteria for this eligible use of proceeds and look to the bond issuer to ensure these are met.

Allow CDFI Bond Guarantee funds to be used in conjunction with other public funds such as those made available through the Small Business Administration or US Departments of

Education and Agriculture, the New Markets Tax Credit Program, the Low Income Housing Tax Credit Program, Community Development Block Grant, and the Neighborhood Stabilization Program. This will expand the universe of projects eligible for CDFI Bond Guarantee financing and amplify the scope of existing public funds thus increasing the ultimate economic development impact in underserved communities.

3. Set eligibility criteria to ensure selection of high-quality issuers and aggregators with strong mission track record.

Calvert Foundation urges the CDFI Fund to set criteria for program eligibility that will ensure selection of the highest quality bond issuers and aggregators. At a minimum, criteria for bond issuers should include:

- CDFI certification in good standing, with a *significant and sustained track record of community development financing to support low-income communities*;
- Proven track record managing risk through lending activities and in sectors aligned with those proposed in their application;
- Strong and seasoned management team and a deep and skilled base of employees.
- Strong financial condition with assets under management of at minimum the proposed scale of bond issuance ($100 million minimum);
- Strong credit culture with clear investment and loan loss reserve policies and proven track record of managing to minimal loan losses;
- Demonstrated capacity to work out troubled credits as they arise with clear process and direction;
- Adequate infrastructure for operations, back-office, compliance, and financial reporting;
- Collaborative approach with other CDFIs and industry groups; and
- Strong base of borrower relationships, with positive borrower recommendations in support of the applicant

In cases where a bond issue is structured through a Single Purpose Entity ("SPE"), the *CDFI Fund should apply the above criteria to the CDFI(s) participating in the bond issue under the SPE.* The Communities at Work Fund is a good example of an SPE formed with the expressed purpose of channeling private sector capital into a broad base of community economic development organizations. Citibank, Opportunity Finance Network, and Calvert Foundation formed a Limited Partnership in 2010 with a commitment to make $200 million in loans to CDFIs to increase their lending to small businesses and community facilities.

We discourage the CDFI Fund from setting a cap on the number of times a qualified issuer can apply or on the amount of bonds issued by a single qualified issuer.

Selection criteria for aggregators under the CDFI Bond Program should mimic those articulated above, with the following exceptions:

- Non-CDFI aggregators may be allowed provided the entity demonstrates a significant track record of community development financing and support for the CDFI industry.
- Non-CDFI aggregators may benefit from having a CDFI partner or advisor.

- In order to ensure alignment of interest in identifying high-quality investments, there should be risk retention requirements for aggregators in the bond structure (e.g., minimum capital contribution requirements or partial recourse).

An acceptable capital distribution plan should demonstrate a viable pipeline of underlying assets and cash flow projections that illustrate the ability to service the guaranteed bond based on the expected terms and conditions of the assets in the pipeline. We discourage the CDFI Fund from underwriting the underlying assets, and instead urge the Fund to work with the industry to develop appropriate broad standards, weighting and scoring metrics, and programmatic risk share levels for various asset classes. Variance from these programmatic standards should be allowed, provided they are explained and justified by the issuer or aggregator in their capital distribution plan(s).

The CDFI Fund should not select a single servicer for all bonds and notes under the program, but rather allow for the possibility of approving multiple servicers, all of whom demonstrate a successful track record managing the cash flow and performance of a portfolio of loan assets. CDFI issuers should also be allowed to serve as their own servicer, provided they have a successful servicing track record.

4. Rely on CDFI issuers' expertise at assessing and mitigating risk.

Calvert Foundation strongly encourages the CDFI Fund to rely primarily on the expertise of the proposed qualified issuer in assessing and mitigating risk. Within the CDFI industry there is considerable, proven expertise in evaluating and managing risk in financing underserved markets with minimal losses. In point of fact, Calvert Foundation's own 15-year track record of lending to CDFIs and other nonprofit organizations with only 1% in net losses is reflective of the industry's risk management capacity. Of course, CDFI bond issuers will likely apply a variety of forms of risk mitigation techniques depending on the nature of the issuance and underlying assets, and the CDFI Fund should evaluate the appropriateness of the proposed risk mitigation approaches on a case-by-case basis. *Calvert Foundation discourages the CDFI Fund from attempting to prescribe a one-size-fits-all approach to risk mitigation across issuances, above and beyond the statutory 3% reserve requirement.* Additionally, as discussed above, *the use of CDFI Bond proceeds to structure appropriate risk mitigation techniques should be allowed.*

The CDFI Fund should leave open the possibility for a CDFI to serve as both program administrator and master servicer/servicer, provided the CDFI demonstrates an ability to adequately manage conflicts of interest. One effective approach to managing conflicts of interest is separate but affiliated corporate entities serving in the different roles. Such a structure should include separate management and governance as well as clear policies to prevent conflicts and to identify, disclose, and mitigate conflicts, should they occur.

Time is of the essence.

Finally, Calvert Foundation urges the CDFI Fund to implement the CDFI Bond Guarantee Program with haste in order to realize the program's full potential to spur job creation, stem the economic decline, and ignite recovery in our nation's hardest-hit communities. We are eager to work with you to put this new program to work in communities as quickly as possible.

Thank you, once again, for the opportunity to inform the program design for the CDFI Bond Guarantee Program and for your consideration of these comments. Please do not hesitate to contact me (Lisa.Hall@calvertfoundation.org) or Jesse Chancellor, President of CIP (Jesse.Chancellor@calvertfoundation.org) should you have any questions or desire additional support from Calvert Foundation in the coming weeks.

Sincerely,

Lisa L. Hall

Lisa Hall
President and CEO