



INDUSTRIAL CREDIT UNION

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facsimile transmittal

Jodi Harris, Policy Specialist

To: CDFI Fund, US Treasury Fax: 202-622-7754

From: Jerry Solstrom Date: 8/5/2011
President/CEO - ICU

Re: CDFI Bond Guarantees Program Pages: 4

- Urgent For Review Please Comment Please Reply

Notes:

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August 3, 2011

Jodie Harris
Policy Specialist
CDFI Fund
U.S. Department of the Treasury
601 13th Street, NW, Suite 200 South
Washington, DC 20005

Dear Ms. Harris:

Thank you for the opportunity to comment on the implementation of the CDFI Bond Guarantee Program (CBGP). This new CDFI Fund initiative represents an unprecedented opportunity to support economic development in communities across our nation. Industrial Credit Union of Whatcom County (ICU) strongly supports the program and we urge the CDFI Fund to implement it as quickly as possible.

ICU is a community development credit union with approximately 22,000 members. According to NCUA testing, over 80% live in low income designated areas. We are the only CDFI available to this county. Although we are successful real estate mortgage lenders with 50% of our loan portfolio in real estate secured loans, ICU has not been able to offer a 30-year fixed rate home mortgage program due to asset-liability management issues. The ability to participate in this program will allow us to offer long term loans to our members. The timing of this is crucial as one of the biggest real estate lenders – Horizon Bank – was recently closed. This leaves only one large credit union the opportunity to serve our county, forcing our members to make a choice of dual membership or going outside the industry for their financing.

The following recommendations are most critical to my CDFI's successful participation in the CBGP:

Program Structure and Bond Mechanics

The CDFI Fund should exercise maximum flexibility in implementing the CBGP. The program must allow a variety of bond structures in order to meet the capital needs of a diversity of CDFIs. The CDFI Bond Program must be flexible enough to accommodate aggregation of loans from various originators (directly or indirectly) as well as single originators. CDFI bonds should accommodate a full spectrum of asset classes and no one structure should dominate.

Program Eligibility

Though each bond issue should be considered separately and on its own merits, the Fund must ensure that all issuers have a strong track record of meeting the needs of low income and disadvantaged communities, are mission-based, and can direct bond proceeds to appropriate community and economic development uses. Issuers should be selected based on their

proposed strategy for deploying bond proceeds and their historical track record in meeting the needs of the communities and populations targeted in a Capital Distribution Plan. We recommend an approach that parallels the CDFI Fund's selection process for evaluating applicants to its CDFI Financial Assistance (FA) program in assessing both eligibility and capacity to deliver on a Capital Distribution Plan. Regardless of structure, eligibility criteria should apply to the CDFIs themselves, not the end borrower if the borrower is not a CDFI.

Use of Funds

As the intent of the CBGP is to provide new capital sources for CDFIs, its uses should support CDFIs in their financing activities, both existing strategies and new ones made possible by the CBGP. Therefore we advise caution on any limits to specific eligible uses.

Eligible Bond Proceeds must include all loan and investment types and financing segments as long as they meet the definition of community or economic development in the CDFI Fund authorizing statute. The range of uses should include but not be limited to refinancing, capitalization of a revolving loan fund, loans to and purchase of loans from other CDFIs, loan loss reserves, the required risk-share pool, debt service reserves, and/or sinking funds in support of a Federally guaranteed bond, investments of regulatory capital—all activities that are routinely undertaken by CDFIs or would be part of a strategy for prudent use of bond proceeds. The Fund should not dictate or restrict the proportion of proceeds that can be directed to a particular use.

Risk Assessment and Mitigation

CDFIs have a strong record of success at serving distressed markets with minimal losses and delinquencies. The CBGP can and should rely on this unique expertise. Underwriting criteria (e.g., leverage, cash flow coverage, asset quality) and risk mitigation techniques (e.g., required credit enhancement, liquidity requirements, interest rate protection, etc.) should be based on the specific risk profile of the planned use of proceeds and on the loss performance history of the participating CDFI not on a generic, one-size-fits-all set of requirements. Historic loss and payment performance data from conventional financial markets are generally not reliable indicators of CDFIs' performance and should not be the basis for the Fund's risk assessment for the CBGP.

The Fund should employ a robust —toolbox of strategies to mitigate risk and expand program participation. Some elements of that toolbox could include over-collateralization, covenants, third party guarantees, bond insurance, supplemental loss reserves funded by excess spreads, and a supplemental risk-sharing mechanism.

The Fund should allow for the risk-share pool to be funded from various mechanisms including but not limited to: bond proceeds, CDFI investors, and investment cash flows (e.g. the spread between assets earned and debt service required for the bond).

Monitoring, Evaluation, and Impact

Performance evaluation should be outcome-based. No two bond issues will look the same or produce the same results. CDFIs should be held accountable to the outcomes and impact that they propose to produce under the Program. Outcome measures should incorporate the full range of CDFI activity and include measures relevant to consumer finance and community development as well as more common measures of jobs created or housing units financed.

Conclusion

In the coming weeks, the CDFI Fund will make critical decisions about implementing the CDFI Bond Guarantee Program. Please keep in mind that a core strength of the CDFI industry is its diversity, and a one-size-fits-all approach in the regulations will seriously limit the program's success. The diversity of the industry also makes it difficult to mandate specific outcomes and impact, a priority demonstrating the necessity of a program that assesses each bond application on a case-by-case basis. Throughout its history, the CDFI Fund has demonstrated flexibility and an appreciation for the unique contributions of different types of CDFIs. This operating philosophy will be particularly important in writing regulations for the CDFI Bond Guarantee Program.

Thank you for your consideration of these recommendations. On behalf of the member of Industrial Credit Union of Whatcom County, I look forward to participating in the program.

Most sincerely,

A handwritten signature in cursive script that reads "Terri Salstrom". The signature is written in black ink and is positioned to the right of the typed name.

Terri Salstrom

President/CEO

360-734-2043 x 2401