August 15, 2011

Jodie Harris, Policy Specialist
U.S. Department of the Treasury, CDFI Fund
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. Seedco Financial Services, Inc. ("Seedco Financial") strongly supports the program and we urge the CDFI Fund to implement it as quickly as possible.

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.

Seedco Financial believes that a program structure allowing for pooled loans/investments to CDFIs would be most instrumental for small- to mid-sized CDFIs that primarily engage in small business lending given the average size of their loans and loan portfolios. A trust or special purpose entity ("SPE") would issue a guaranteed bond of at least $100 million backed by a pool of loans to or investments in CDFIs. This structure would allow a wide range of small business-oriented CDFIs to access the CBGP.

**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

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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.

Eligible entities that would issue a guaranteed bond should not be limited to CDFIs and should include other types of institutions that can demonstrate relevant experience in bond financing and a strong commitment to community development and to the provision of affordable capital. Non-CDFI issuers should be pre-approved by the U.S. Department of Treasury, and have issuer and servicing fees set at modest levels.

With regard to minimum eligibility criteria for CBGP participation, participants should be certified by the U.S. Department of the Treasury's CDFI Fund for at least three years and be in good standing, or they should be related entities of a CDFI that fulfills these criteria. Participants should also demonstrate a significant and sustained track record of investing in low-income communities consistent with eligible community and economic uses as defined by the CDFI Fund.

**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.

Specifically, Seedco Financial recommends that the capital distribution plan requirements of "not less than 90 percent of the principal amount of guaranteed bonds or notes (other than the cost of issuance fee) are used to make loans for any eligible community or economic development purpose, measured annually, beginning at the end of the one-year period beginning on the issuance date of such guaranteed bonds or notes" be applicable only to the trust or special purpose entity ("SPE") that would issue a guaranteed bond of at least $100 million backed by a pool of loans to or investments in CDFIs. Requirement should be deemed met upon receipt of bond proceeds by a CDFI.

Alternatively, if the 90 percent deployment requirement is extended to participating CDFIs in addition to the trust or SPE, this requirement should count closed loans and investments, loan loss reserves and unfunded commitments to accommodate small business-oriented CDFIs that need to continually revolve funds. Small business loan terms typically range from 1 to 5 years and are, therefore, typically significantly shorter in duration than real estate loans. In addition, repayments should be counted as deployed capital for purposes of the 90% deployment requirement.

### 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).

Seedco Financial recommends that the risk-share pool be apportioned among participants. No participant should be responsible for losses beyond the funds that it manages. If losses exceed the risk-share pool, participating CDFIs should only be responsible for their losses.

### 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.

Seedco Financial recommends that the U.S. Department of the Treasury's, CDFI Fund disseminate data collected from CBGP participants to help establish industry standards.

### 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 priori, 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 CBGP.

Thank you for your consideration of these recommendations.

Sincerely,

Edwin Hong
Interim President