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Dear Ms. Jones and Director Gambrell:

Re: Comment on CDFI Bond Guarantee Program

Thank you for the opportunity to comment on the CDFI Bond Guarantee Program (CBGP) which was authorized in section 1141 of the Small Business Jobs Act of 2010. We believe that this is a significant opportunity for the Treasury to capitalize and fund the growth of all types of CDFIs and hence foster flow of capital into low and moderate income communities creating high quality jobs. We would like to offer some comments to ensure that the program meets and exceeds your objectives.

About National Community Investment Fund ("NCIF"; www.ncif.org)

NCIF is a national non-profit private equity trust fund set up in 1996 to invest capital in CDFI banks around the country. It has $150 million of assets under management including $128 million in new markets tax credits allocations. Over the years, it has lent to or invested capital in 44 financial institutions (banks and credit unions) that have generated approximately $5.8 billion in loans in LMI communities. Today NCIF is the largest investor in the CDFI banking community with investments in 17 banks out of a total of 88 certified CDFI banks. Apart from investing, NCIF helps these financial institutions raise deposits from mainstream and socially responsible investors. It also runs 'The NCIF Network' which is a national network of CDFI banks, Minority Depository Institutions ("MDI") and some low income credit unions. This network provides best practices to strengthen and grow the sector, thereby aligning NCIF's mission with that of the CDFI Fund. Finally, NCIF pioneered its Social Performance Metrics that are now being used by some investors and other stakeholders for supporting CDFI and other banks.

As a social investor, NCIF has extensive knowledge of the needs of, and the work done by, CDFI/MDI Banks and their investors as well as expectations of regulators relating to "safety and soundness" and consumer protection. NCIF was a member of the Consumer Advisory Council of the Federal Reserve Board and the Minority Depository Institution Advisory Council of the Office of Thrift Supervision.

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About CDFI Banks

CDFI Banks serve the toughest markets in the country and are affected by the growing wave of foreclosures and deep recession in these areas. As is evident from Table 1 below, the median home lending by CDFI Banks in low- and moderate-income areas (Development Lending Intensity-HMDA[1]) is 2.5-times that of the median home lending by all banks in the country (49.72% vs. 16.38%); similarly the median number of branches located in these areas (Development Deposit Intensity[2]) is 4.5-times that of all banks (66.67% vs. 14.55%). CDFI Banks and mission-focused MDI Banks continue to make responsible loans to consumers and small businesses despite the adverse impact that the crisis has had on their financial condition.

Table 1: 2011 NCIF Social Performance Metrics for Bank Subsectors (Median)

Peer Group	#	DLI-HMDA	DDI
CDFI Banks	88	47.10%	66.67%
All Domestic Banks	7,092	16.30%	16.67%
"Top-Ten" Banks by Assets	10	14.40%	30.50%
Banks ≤ $2 Billion	6,687	16.60%	14.30%
Minority Depository Institutions	184	44.00%	50.00%

Due to their impact in LMI communities along with their inherent ability to leverage capital, providing equity capital to the CDFI Banking sector is crucial to the long-term health of distressed communities. Unlike other organization types, each dollar of equity capital invested in CDFI Banks will be leveraged up to ten times with customer deposits to maximize the community development potential. As a result, $1 of equity invested becomes $11 of loanable funds directed towards small businesses, nonprofits and individuals in LMI communities.

As a result of the recent recession and increasing regulatory requirements, equity capital is of increasing need within the sector. NCIF estimates potential demand within the sector as the amount of capital that may be realistically absorbed by the 88 existing CDFI Banks throughout the country. By our calculations based on 12/31/2012 data, 20 of the 88 CDFI Banks require additional capital to get to the 8% Tier 1 leverage ratio that is required by regulators. These 20 banks need $75.8 million of capital to reach that mark, and this figure does not include the capital required by these, and other CDFI Banks, to prepare for future growth opportunities, nor does it include the impact of the removal of capital treatment for Trust Preferred Securities held at the holding company level. Finally, the need for capital in the sector will only grow in the near term as many institutions face the need to refinance the preferred equity issued to these banks under the Community Development Capital Initiative (CDCI) of the US Department of Treasury.

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[1] Development Lending Intensity –HMDA ("DLI-HMDA") is the percentage of HMDA reported loans purchased or originated in LMI areas as a ratio of total HMDA reported loans purchased or sold by the institution during the year. HMDA data used in this analysis is as of 12/31/09.

[2] Development Deposit Intensity ("DDI") is the percentage of branches located in LMI areas as a ratio of total branches of the institution. Branch data provided by FDIC is as of 6/30/2009.

Collaboration with the Industry

We have been working with the industry to formulate responses to assist the CDFI Fund in creating a program that will be most effective in creating impact in LMI communities. NCIF has been part of the Bond Policy Working group of the Opportunity Finance Network and fully support their perspectives on the program. In this context, we suggest some principles:

1. The program be only made available to seasoned CDFIs that have been actively demonstrating their mission orientation, including situations where the parent or sponsor CDFI has been seasoned for this period.

2. The Fund use of definitions, reporting requirements and other program implementation features consistent with the CDFI Fund's existing programs.

   Given the long term nature of these bonds we recommend that the Fund work with the industry and create reporting standards that are outcome based and provide a longitudinal view of the social and financial performance of the industry. An example of such a standard would be the NCIF Social Performance Metrics that has already created a 17-year perspective (since 1996) on the lending and deposit intensities of all banks in the country. Building on these core methodologies will help strengthen the sector and leverage work already being done in the industry.

   Again, given the long term nature of the CBGP, standards for long term compliance should be strengthened – during the currency of the program the institution must (a) remain certified; and (b) meet minimum outcome based impact criteria (say, by the above metrics).

Specific Responses relating to the CDFI Banking Sector

Our specific responses are in addition to the general comments and relate to the CDFI Banking Sector. As mentioned above, our perspectives are based on knowledge of the sector given that we are the largest investor.

1. Limited Recourse Special Purpose Entities (SPEs)

The most important comment that we have is around the need to create limited recourse special purpose entities. Intermediaries like NCIF can then partly use their balance sheet to do bond issues in round amounts of $100 million to support the sector as a whole. Full recourse to the Eligible CDFI (like NCIF) will make it very difficult for them to raise such a substantial amount of debt and hence will be a limiting factor in the implementation of the program. These SPEs will still provide enough management and financial strength to solve for the zero cost to tax payer calculation.

2. Eligible Secondary Loans & Collateral

We note the regulations allow for loans to or investments in other CDFIs as the Secondary Borrowers by the Eligible CDFI issuer. In this context, we suggest that the following uses should be considered as eligible secondary borrowing:

a. Borrowing by Bank Holding Companies as bank stock loans – these are loans taken by the holding company for the specific purpose of investing in common equity of the subsidiary banks. The equity issued by the CDFI bank is then pledged to the lender as collateral.
    a. Equity issued by CDFI Banks in this context should be considered eligible collateral for the Federal Financing Bank.
b. Borrowing by the CDFI Bank as debt – many banks raise long term debt from the Federal Home Loan Bank (FHLB) system by pledging mortgage loans as collateral. The CBGP could serve as a useful alternative to FHLB funding, as an important source of liquidity for banks.
    a. Commercial real estate loans, small business loans and other forms of loans should be considered as eligible collateral for the Federal Financing Bank.

c. Preferred Stock issued by the Bank or the Bank Holding Company – it is conceivable that Eligible CDFIs could support capital raising efforts of CDFI Banks by investing into either the Bank or the Bank Holding Company in the form of preferred stock., For this to be successful, it is important that these institutions be allowed by their regulator to borrow at the bank or the bank holding company level.

    a. Preferred stock issued by the bank or the bank holding company should be acceptable collateral for the Federal Financing Bank.

3. Proceeds of Bond Loans must be used for Eligible Purposes.

Eligible Purposes are defined to consist primarily of "financing or refinancing for community of economic development purposes . . ., including but not limited to community or economic development in Low-Income Areas or Underserved Rural Areas." While very broad, this definition may leave open the question of whether the use of funds *indirectly* for the above purposes would be permissible. In particular, under the New Markets Tax Credit program, funds are commonly loaned to special-purpose investment fund entities owned by tax credit investors (through so-called "leverage loans"), and such loan proceeds are combined with tax credit equity to make qualified equity investments in CDEs, who in turn use the funds to make loans to qualified businesses that would generally be located in Low-Income Areas or Underserved Rural Areas.

We ask that the regulations clarify that "leverage loans" made to fund qualified equity investments in CDEs would be deemed to be made for Eligible Purposes, provided such CDEs use substantially all of such qualified equity investments to make qualified low-income community investments in Low-Income Areas or Underserved Rural Areas.

4. Bond Tranches

The regulations do not indicate whether, within any given Bond Loan, an Eligible CDFI would be permitted to designate different series of bonds that would have different maturities, or alternatively, whether a given Eligible CDFI, if it were to apply and qualify for Bond Loans in excess of the $10 million minimum, could at least designate portions thereof as different Bond Loans that would have different maturities.

Because the Bond program provides long-term, low-cost capital for CDFIs, it is likely to be beneficial for them to borrow for as long a term as they can. At the same time, CDFIs are likely to use substantial portions of the Bond Loans they obtain to make Secondary Loans with shorter maturities.

The regulations require that any excess payments of principal under Secondary Loans be set aside in a Relending Account. Once the balance in the Re-Lending Account reaches the prescribed maximum amount, failure to re-lend any excess funds within six months results in a mandatory prepayment on the bonds. CDFIs bear the interest cost on funds that sit idle in the Relending Account and may incur prepayment premiums as a result of any mandatory prepayments.

Depending on the relative maturities of the Bond Loans relative to the Secondary Loans, the amounts of excess principal repayments may accumulate either slowly (such as where the Secondary Loan maturities are closer to the Bond Loan maturities, as would be the case with 20-year amortization on Secondary Loans vs. 30-year amortization on the Bond Loan), or they may accumulate intermittently in larger increments (such as where Secondary Loans have balloon payments). The amount permitted to accumulate in the Relending Account is comparatively small (effectively 7% or less of the amount of the Bond Loans), and the time period for re-lending any excess funds is quite short (6 months).

Eligible CDFIs may find it difficult to redeploy small amounts. For example, an Eligible CDFI might have obtained Bond Loans totaling $30 million, which it has used primarily to make Secondary Loans averaging $5 million in size, many of which might amortize over 15 to 20 years. The maximum accumulation in the Relending Account would be only $2.1 million -- considerably smaller than the Eligible CDFI's typical loan size. Alternatively, some of its Secondary Loans might be loans that have a 30-year amortization but that have balloon payment in 10 years. In that case the amounts received would be larger, but the time to get the money re-deployed is comparatively short.

If an Eligible CDFI anticipates making different types of loans that would have different maturities and/or that would amortize on different schedules, it could plan for that by requesting different series of bonds with different maturities, so that it could match those maturities more closely with the maturities and amortization schedules that its Secondary Loans are expected to have. This would lessen the amounts that would need to accumulate in the Relending Account, reducing both the risk of forced prepayments on the Bonds and the cost of accumulating and holding excess relending funds.

Of course, this could involve additional complexity, particularly if an Eligible CDFI could designate a large number of different maturities. The burden of administering a Bond Loan with, say, a dozen or more different series, could be considerable. But if there were a maximum number of such series for any Bond Loan (e.g., three or four), this would limit the degree of added complexity while still providing a reasonable amount of flexibility to Eligible CDFIs.

5. Loan Loss Reserves

The regulations indicate that Eligible CDFIs may establish loan loss reserves of up to 5% of the amount of any Bond Loan, as an Eligible Purpose for the use of Bond Loan proceeds. However, they indicate that Eligible CDFIs would need to have a separate Principal Loss Collateral Provision for such reserves. We believe that this requirement is unnecessary and inconsistent with the basis on which Bond Loans are intended to be underwritten.

A key feature of the CDFI Bond Guaranty Program is that Bond Loans are approved on the basis of the credit of the Eligible CDFIs. Eligible CDFIs have full recourse liability on all Bond Loans, and they must qualify as sufficiently creditworthy to be deemed eligible for a Bond Loan and the related federal guaranty. Although there will be Secondary Loan Requirements, it is our understanding that the assessment of the credit quality of Secondary Loans rests exclusively with the Eligible CDFIs.

If we assume two Eligible CDFIs, both of which have the same credit quality and make similar loans with similar credit loss experiences, whether or not they establish a loan loss reserve has no real effect on the risk exposure of the bondholder or bond guarantor. If one of these CDFIs does not establish any loan loss reserve but experiences a 5% loss on its Secondary Loans, it would be responsible for any shortfall in repayment on the Bond Loans, and the bondholder/ guarantor would be dependent upon the credit of the Eligible CDFI to cover that shortfall.

If the second CDFI establishes a 5% loan loss reserve and experiences the same 5% loss on its Secondary Loans, the loan loss reserve would be available to cover the shortfall. While it is true that eventually that CDFI would have to make up the shortfall in Bond Loan repayments that would arise from this use of the loan loss reserve, this is exactly the same shortfall that the first CDFI above with no loan loss reserve would have had to make up. Because neither the CDFI Fund nor the bondholder or guarantor will assess or control the credit quality of Secondary Loans, the potential for losses on the Bond Loans ultimately depends on the credit of the Eligible CDFI.

While an Eligible CDFI that has not established a loan loss reserve will have made more Secondary Loans, an Eligible CDFI that has established such a reserve will have cash rather than receivables to the extent of the loan loss reserve. As long as the funds in the loan loss reserve also constitute security for repayment of the Bond Loan, the amount of collateral for the Bond Loans is essentially the same. Thus, whether the Eligible CDFI chooses to establish a loan loss reserve or not does not impact the ultimate repayment of the Bond Loans.

We request that the regulations be revised to provide that, so long as the loan loss reserve funds are placed in an account in the name of the Eligible CDFI and pledged to secure the Bond Loan, this will satisfy the Principal Loss Collateral Provision. It should also be stipulated that the Eligible CDFI will be entitled to draw on those funds if and to the extent that the payments received under Secondary Loans are not sufficient to enable the Eligible CDFI to meet its current payment obligations under the applicable Bond Loan. This will ensure both that the Eligible CDFI will have access to the reserve funds when needed and that the reserve funds are applied to Bond Loan obligations.

6. First Loss Guarantees

First loss guarantees from another investor should be taken into account while evaluating the creditworthiness of the pools and in making the zero cost to taxpayer calculation. These models should be discussed with the industry to ensure that the models accurately reflect the industry credit risk, loss given default and other risk characteristics.

7. Risk Share Pool

Given the minimum size of each Bond Issue, it is expected that multiple CDFIs will need to join together to apply for Bond Loans through a single Qualified Issuer, and different Eligible CDFIs involved in a particular Bond Issue might apply for and receive Bond Loans of different maturities. Moreover, as a result of actual repayment and re-lending (or not re-lending) of Secondary Loans, different Eligible CDFIs involved in the same Bond Issue may fully repay their Bond Loans before other Eligible CDFIs have done so.

The Risk Share Pool for any given Bond Issue is not permitted to be returned to any Eligible CDFI until all Bond Loans involved in that Bond Issue are paid in full. This means that an Eligible CDFI that has fully repaid its Bond Loan (i) must wait until the last Bond Loan is repaid to recover its share of the Risk Share Pool, and (ii) remains subject to the risk of non-payment of all of the Bond Loans of other Eligible CDFIs that remain unpaid. This creates burdens that could impede the willingness of CDFIs to join with one another in applying for Bond Issues.

As a solution to this, all of the Eligible CDFIs participating in any Bond Issue might agree among themselves that, as each Eligible CDFI repays its Bond Loan in full (a "Repaid CDFI"), the other Eligible CDFIs whose Bond Loans remain unpaid ("Remaining CDFIs") would acquire from the Repaid CDFI all of the latter's rights in the Risk Share Pool funds. Since (a) the Remaining CDFIs will continue to benefit from the all of the funds in the Risk Share Pool, and (b) any Repaid CDFI no longer receives any benefit from those funds, it is entirely reasonable that the Remaining CDFIs should "buy out" the shares of each Repaid CDFI.

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This is primarily a matter of private agreement among Eligible CDFIs. However, it would be helpful if the regulations would specifically recognize the rights of Eligible CDFIs to transfer their interests in the Risk Share Pool in this manner and would provide for formal recognition of such transfers (upon submission of written evidence of each transfer signed by all Eligible CDFIs in the pool). This would ensure that, once the Remaining CDFIs have acquired the Risk Share Pool rights of any Repaid CDFI, the Risk Share Pool would belong only to the Remaining CDFIs, and the Repaid CDFI would no longer have any claims against the Risk Share Pool.

8. Capital Distribution Plan

A key feature of the Guaranty Application, which will presumably be incorporated into the Bond Documents, is the Capital Distribution Plan. As noted above, because the bond program provides long-term, low-cost capital for CDFIs, it is likely to be beneficial for them to borrow for as long a term as they can. At the same time, CDFIs are likely to use substantial portions of the Bond Loans they obtain to make Secondary Loans with shorter maturities, and in so doing they will need to re-lend funds perhaps many times over many years and even decades.

Lending programs and practices are likely to change, perhaps significantly, over so long a period of time. It would be helpful if the regulations recognized that such changes may be necessary from time to time and provided a process for seeking such changes. Such provisions would need to address to whom requests for any such changes would need to be submitted, who would have authority to approve them, and perhaps how often such requests would be permitted.

We look forward to working with you in making the program a success in bringing in significant capital and liquidity to the CDFI sector, in general and CDFI Banks in particular.

Sincerely Yours,

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