



NEW JERSEY
COMMUNITY
CAPITAL



Via electronic and first class mail

December 8, 2014

David Meyer
Program Manager
Certification, Compliance Monitoring, and Evaluation
Community Development Financial Institutions Fund
U.S. Department of the Treasury
1500 Pennsylvania Avenue NW
Washington, DC 20020

Dear Mr. Meyer:

Community Loan Fund of New Jersey, Inc. (CLFNJ) is a CDFI serving the entire state of New Jersey. CLFNJ also has several wholly owned affiliates, subsidiaries and special purpose entities that are outside of the CDFI entity, but share and contribute to attainment of the mission of the CDFI. CLFNJ was part of a 4 member group of CDFIs that submitted an application for the 2014 round of the CDFI Bond Guarantee Program (BGP). While the application has been remanded over to the next round of the BGP, we appreciate the opportunity to provide comments on the Fund's CDFI certification criteria.

In the nearly twenty years since the Fund began certifying CDFIs, the CDFI industry has matured and grown in sophistication. CDFIs increasingly use affiliates, subsidiaries, and other organizational structures to manage off-balance-sheet, limited and non-recourse financing activity, and engage in innovative financing strategies. Further, CDFIs often form subsidiaries and other structured finance vehicles to conduct specialized lending initiatives and segregate capital sources that have differing collateral or covenant requirements. These strategies and structures help manage risk and enhance a CDFIs overall ability to meet its mission. However, these strategies can also complicate access to CDFI Fund resources.

The Fund's current certification practice examines the "track record" of the entity applying for CDFI certification. However, this "track record" is narrowly defined and does not allow for consideration of the "track record" of parent or sister entities. This practice effectively precludes CDFIs from using affiliated entities to participate in many of the CDFI Fund's own programs (such as the BGP), as the affiliate might not have its own established track record and would need to rely on its parent's.

CLFNJ believes that the Fund should adopt policies and practices to streamline the certification of affiliates and subsidiaries of certified CDFIs in order to better reflect the innovative ways that CDFIs are currently doing business. Such a change would only enhance the CDFI "brand" that includes a true commitment to create opportunities for people and communities rich in ideas but with limited access to capital to execute them.

Streamlining the CDFI certification process would render programs like the BGP more effective. As CDFIs have gained knowledge of and experience with the BGP, it has become clear that the current

processes for certifying CDFIs are incompatible with effective use of the program and fulfillment of Congressional intent to deploy the BGP proceeds through CDFIs. The following example illustrates the current challenges:

Nearly all of CLFNJ's existing debt is unsecured and contains covenants that prevent CLFNJ from entering into secured lending agreements without the lender's consent. Because the BGP requires pledging of collateral, CLFNJ will be required to negotiate waivers from over 35 existing lenders in order to participate in the BGP. While CLFNJ expects to be successful in obtaining the waivers once its application is approved, this inefficient process will be extremely time and resource-intensive.

CLFNJ has an affiliated, wholly-owned lending entity with a limited number of capital providers (currently six) who are likely to agree to the subordination. This affiliate has slightly more stringent underwriting criteria that would closely fit with those of the BGP. However, the process of using this affiliated entity for the BGP is currently very challenging:

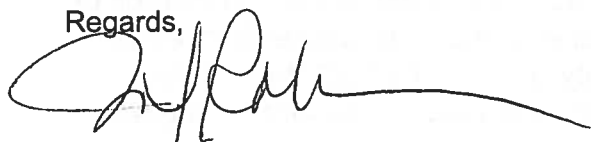
1. CDFI to Financing Entity: The BGP contains a "CDFI to Financing Entity" asset class whereby CLFNJ would apply for the BGP and subsequently lend the bond proceeds to its own affiliated entity. This structure added an unnecessary layer of complexity to the BGP application and program implementation.
2. Affiliated Entity Certified as a CDFI: CLFNJ's affiliated entity has a limited number of investors and limited leverage ratio. Thus, it would be difficult to certify this entity without considering the financials and track record of the parent.

CLFNJ could also establish a new subsidiary to be the BGP applicant, however, similar to #2 above, a new subsidiary entity would be very difficult to certify as a CDFI given the narrow interpretation of organizational "track record" and a less robust leverage ratio.

To fulfill the potential of the BGP, we urge the Fund to streamline the certification criteria and consideration for wholly-owned subsidiaries of existing certified CDFIs. The Fund should look "through" to the track record and mission of the parent CDFI in certifying such entities. If the Fund has concerns about the overall implications of this approach for its programs, it could use this process immediately with the BGP as a "pilot" before adopting it for other Fund programs or allowing the newly-certified subsidiaries to participate in other programs. A certification process that recognizes CDFIs' routine use of affiliates and subsidiaries is important to modernizing the Fund's practices, is absolutely crucial for the success of the BGP, and must be implemented in that program as soon as possible.

In 2011, as the CDFI Fund developed the Bond Guarantee Program, a group of CDFIs then called the "Bond Policy Group" offered suggestions on the participation of newly-formed CDFIs in the BGP. The recommendations we made then are consistent with the proposal in this letter for the streamlined consideration of CDFI subsidiaries. Those comments called for the Fund to look closely at the mission, track record, and target market accountability of potential certified entities using the parent CDFI. This methodology would ensure that newly certified entities would meet all compliance criteria and would significantly improve BGP program effectiveness and impact.

Regards,



Jacqueline D. Robinson
Chief Financial Officer