



AEO *Association for
Enterprise Opportunity*
THE VOICE OF MICROBUSINESS

April 8, 2013

Lisa M. Jones
Manager, CDFI Bond Guarantee Program
CDFI Fund
U.S. Department of the Treasury
1500 Pennsylvania Avenue
Washington, DC 20220

Submitted via email

RE: Comment on CDFI Bond Guarantee Program Interim Rule

Dear Ms. Jones,

The Association for Enterprise Opportunity (AEO) is pleased to comment on the Interim Rule for the Community Development Financial Institutions Bond Guarantee Program, which was authorized by the Small Business Jobs Act of 2010 (P.L. 111-240).

AEO is the national member organization and voice of microbusiness in the United States. For more than two decades, AEO and its members have helped more than two million entrepreneurs contribute to economic growth as they support themselves, their families, and their communities. Our member organizations provide capital and services to underserved business owners in every state, Washington, DC and Puerto Rico. More than 140 AEO member organizations are certified Community Development Financial Institutions (CDFIs). All of these CDFIs underwrite loans for business purposes; some are also involved in financing other community development activities.

We believe that the bond guarantee program represents a critical opportunity to secure and expand access to capital for underserved entrepreneurs as well as other lower-income Americans. We are concerned, however, that several provisions of the program defined in the Interim Rule may preclude these funds from flowing to business lenders especially for small dollar, or microloans.

Main Street businesses are credit constrained. In a given year, the major US commercial banks turn down roughly one million applications for small business financing.¹ In fact, nearly 40% of small businesses surveyed by the New York Federal Reserve Bank in May 2012 were denied credit.² A national survey undertaken in September 2012 by AEO and The Small Business Majority reported

¹ AEO analysis based on interviews with banks and market share

² Small Business Borrowers Poll <http://www.newyorkfed.org/smallbusiness/2012/#keyfindings>

similar findings. Some entrepreneurs are even less likely to get the capital they need to grow and to hire. Smaller firms are less likely to access credit. Microbusinesses are 40% less likely to access credit than larger small businesses.³ Fewer than half of businesses with revenues of less than \$100,000 – about 9 million businesses – access any credit products.⁴ This means that more than 40% of black-owned, Hispanic-owned and women-owned businesses do not access credit.⁵ If these businesses are going to grow and hire, they will need fairly priced capital (and high impact services) to support management and growth. For many of these business owners, CDFIs – and by extension this bond guarantee program-- represent their most promising option to access capital.

At the same time, we acknowledge the challenging current fiscal environment and the imperative that the design and implementation of the CDFI Bond Guarantee program balance the urgent need to get capital to underserved entrepreneurs and appropriately manage the risks to government guarantors.

AEO has prepared these comments in consultation with our members and partners across the country. AEO is concerned that the structure of the program will make it difficult to fund business lending. We have three primary concerns:

- 1) The proposed collateral requirements effectively preclude microlending and put other business lending at risk.
- 2) The Relending Account requirements make it difficult for CDFIs to use the bond proceeds for business lending.
- 3) The design of the application process may inadvertently favor other asset classes.

To address these concerns, AEO encourages the CDFI Fund to consider a separate carve out for business lending (including microlending). AEO encourages the CDFI Fund to work with CDFIs that engage in business and microlending to overcome these potentially insurmountable barriers.

As the CDFI fund proceeds with the implementation of the CDFI Bond Guarantee Program, we hope that you effectively balance tradeoffs so that underserved entrepreneurs and other Americans will access capital throughout the life of the pilot program and over time.

On behalf of our members and the underserved entrepreneurs we all serve, we thank you for the opportunity to provide these comments.

Sincerely,



Connie E. Evans
President & CEO



Office 202.650.5580
Fax 202.650.5599

³ Federal Reserve Bulletin, October 2006

⁴ Federal Reserve Bulletin, October 2006

⁵ AEO analysis of US Census data

1111 16th Street, NW Suite
410 Washington, DC 20036