



May 13, 2013

VIA ELECTRONIC MAIL

Mr. Robert E. Feldman
Executive Secretary
Federal Deposit Insurance Corporation
550 17th Street NW
Washington, DC 20429
Attention: Comments

Re: Community Reinvestment Act: Interagency Questions and
Answers Regarding Community Reinvestment Act

Dear Mr. Feldman:

The Puerto Rico Housing and Human Development Trust Fund (“FIDEVI” by its Spanish acronym) respectfully submits to the the Federal Deposit Insurance Corporation (“FDIC”) this letter with its comments to the revision of the Interagency Questions and Answers Regarding Community Reinvestment Act proposed by the Board of Governors of the Federal Reserve System, the FDIC and the Office of the Comptroller of the Currency (collectively, the “Agencies”). Specifically, FIDEVI’s comments relate to the new question and answer that addresses the quantitative consideration given to a certain type of community development investment § __.12 (T)-9 (the “New Q&A”).

In connection with the New Q&A, the Agencies have requested comments particularly in regards to:

- Whether the proposed New Q&A is sufficiently clear.
- Whether the proposed New Q&A will encourage or discourage investments or loans in organizations with a community development mission.
- Whether the proposed New Q&A provide the flexibility necessary to encourage

community development activities, whether direct, indirect or through the provision of capital investments, in connection with an organization with a primary purpose of community development.

We believe that a brief background regarding FIDEVI and the community development purposes for which it was created is in order before our specific comments on the New Q&A are provided.

1. Organization and Purposes of FIDEVI.

FIDEVI was constituted as a charitable trust pursuant to Deed No. 135 dated on May 5, 2004 before Notary Josecorlando Mercado Gely (the “Deed of Trust”). The Deed of Trust specifically states that FIDEVI is the product of a collaborative alliance between Puerto Rico’s banking industry and the homeless population advocacy community with the commitment of the Government of Puerto Rico. As such, the Board of Trustees of FIDEVI is composed of a member appointed by the Governor of the Commonwealth of Puerto Rico, the President of the Puerto Rico Bankers Association, the President of the Puerto Rico Mortgage Bankers Association, a member representing the private sector and three members representing the homeless advocacy community.

According to the Deed of Trust, the purpose for which FIDEVI was created is to devote its corpus and income to the promotion and support for the development, rehabilitation and preservation of adequate, affordable and accessible housing for people of limited, scarce or no economic resources in the Commonwealth of Puerto Rico.

FIDEVI commenced operating in December, 2008, after going through a period of administrative organization. In accordance with such mandate, FIDEVI has established its mission and vision as follows:

“Mission Statement

The mission of the Puerto Rico Housing & Human Development Trust is to combine the public and private efforts in the constitution of a permanent and irrevocable fund. This fund will be devote its efforts to promote and support the development of adequate, affordable and accessible housing for individuals of scarce or no resources, such as homeless people, mental patients, single mothers and elderly people. In executing this mission the Trust shall not be restricted in use to people of any race, faith, color, or creed and will be administered on a non-discriminatory basis.”

“Vision

Attain an effective impact through advocacy and facilitating the conditions in order that those persons with scarce or no resources in Puerto Rico might have adequate, affordable and accessible housing to meet their basic needs.

The above might be attained through the generation and channeling of funds, knowledge exchange and the establishment of relationship with related organization that further the housing and human development areas.”

Following the purposes for which it was created, since November, 2010, FIDEVI has been able to assist eleven (11) not for profit organizations through grants that amount to \$1,024,231 in the aggregate. Furthermore, FIDEVI has commitment for \$452,757 in additional disbursements that would benefit 5 organizations.

2. FIDEVI’s Funding Model.

FIDEVI’s organizers had a clear understanding that the best funding model for the Trust would be a source income mechanism (“Income Transactions”). At the time FIDEVI was created, there existed at least one similar non-profit organization in Puerto Rico that had been extremely successful in achieving its funding goal by establishing an Income Transaction model. In order to attract investors who would be willing to invest in FIDEVI, the government provided those investing in FIDEVI with certain tax benefits through legislation specifically allowing Income Transactions that have made possible the funding for FIDEVI’s operations. Furthermore, since its inception, the organizers had

intended these transactions to be CRA qualified so as to ensure that commercial banks would become target investors. This would ensure FIDEVI with a continuous and stable source of income with which to achieve its community related goals.

The mechanism used for a typical Income Transaction of FIDEVI may be summarized as follows:

1. FIDEVI issues its Notes (the “Notes”) to be sold to the investor (the “Investor”).
2. FIDEVI receives proceeds from the sale of the Notes.
3. FIDEVI uses the proceeds from the sale of the Notes to purchase certain securities that will serve as the underlying collateral of the Notes (“Collateral”). In the case of CRA related transactions, the securities used as Collateral may directly or indirectly be CRA qualified.¹
4. FIDEVI receives interest and principal prepayments on the Collateral.
5. FIDEVI keeps a spread on the interest portion of the payment and remits the remaining portion of interest and the full principal payment to the Investor. The interest rate on the Collateral is higher than the interest rate on the Notes thereby allowing FIDEVI to lock-in a fixed spread.
6. When the Collateral is delivered to the Investor in payment of the Note, net spread is sent by the Investor to FIDEVI.

As a result of this mechanism, FIDEVI receives a monthly, quarterly or semiannual fixed spread during the term of the transaction based on the interest

¹ For example, with respect to certain transactions, FIDEVI has used FNMA certificates as collateral. The underlying mortgage products used with respect to such certificates, present an across the board industry peculiarity; most of these transactions occurred during a time segment where the majority of transactions involved lower value properties and low and moderate income households.

frequency of the Collateral.

FIDEVI's original funding model involved three (3) categories of investors:

- Individuals and corporations with certain philanthropic requirements.
- Puerto Rico based mutual funds which in order to comply with PR Treasury Department requirements must invest a portion of their portfolio in Puerto Rico qualified investments which FIDEVI fully qualifies.
- Lenders willing to invest in FIDEVI debt.

After the perfect economic storm that has hit Puerto Rico over the last decade, the first group of investors has totally disappeared from the market. Evidence of this is the recent modification of the tax treatment of philanthropic donations in Puerto Rico which intended to impact the not for profit sector in a more positive way. To date the response has been extraordinarily limited well under government expectations. Another compounding factor has been the lack of interest in FNMA and Freddie Mac collateral as both have lost their luster and desirability for this group. What remains are GNMA's which due to pricing it is practically impossible to generate a spread to make Income Transactions viable.

The second group, PR mutual funds which have been participating in FIDEVI Income Transactions, as an industry, is circumscribed to Puerto Rico in terms of firms and customers. A finite group with three (3) or four (4) players. Customer growth is dependent on supportive economic growth trends something which has not materialized to date in Puerto Rico.

During 2009, FIDEVI conducted eight (8) non-CRA Income Transactions involving PR Funds with different institutions. See Exhibit A. Since then, no other transaction has materialized primarily due to market saturation. Income projections for

2012 to 2020 of these non CRA related transactions evidence a declining balance of funds available for distribution from \$746,770 in 2013 to \$481,097 in 2019 and only \$6,090 in 2020. See Exhibit B. It is critical to accept the fact that it will be years before this pool of investors strengthens enough to generate additional transactions and income.

This leaves the third type of investors. In order to sustain a volume of activity after payment of minimal operating costs, FIDEVI had to resort to lending institutions willing to invest in FIDEVI notes. Access funds generated through lenders investment activity in FIDEVI has become an absolute necessity at this time and the foreseeable future. In the event that the Agencies opt for limiting the quantitative qualification of investments in FIDEVI, the trust will be forced to cease operations and abort its extraordinary mission.

After due consideration, six (6) transactions have been successfully entered involving five (5) local commercial banks over a three (3) year period. See Exhibit C. These transactions have provided FIDEVI with an aggregate of \$535,769 in funding and have been more advantageous for FIDEVI from a financial point of view.

FIDEVI has found in these CRA related transaction a consistent and stable funding source which has allowed the organization to do short and medium term planning for achieving its mission.

It should be noted that, as mentioned before, due to the current adverse economic conditions prevailing on the island, there are no alternative sources of funding for FIDEVI, other than the CRA related Income Transactions with the financial institutions. Any event affecting the possibility of FIDEVI reaching out to this source of funding, will have a devastating effect not only on FIDEVI but also on the communities it serves.

During years 2009 through 2012, FIDEVI has been able to assist more than eleven (11) community based housing organizations by providing grants for up to \$100,000. for diverse low income housing related projects. FIDEVI has become a strong funding source for the low income housing organizations and is committed with this sector to continue supporting the needs of this less advantageous community.

3. Specific Comments to the New Q&A.

In light of the foregoing, FIDEVI respectfully addresses the specific aspects of the New Q&A, for which the Agencies have requested comments.

a. Whether the proposed New Q&A is sufficiently clear.

FIDEVI respectfully submits that the proposed New Q&A is sufficiently clear. However, we note that the New Q&A as, as drafted, does not provide flexibility to accommodate Income Transactions with community development organizations such as FIDEVI, that depend almost exclusively of these transactions to fund its operations.

b. Whether the proposed New Q&A will encourage or discourage investments or loans in organizations with a community development mission.

Because of the financial structure chosen for FIDEVI by its founders, and due to its non for profit nature, FIDEVI would not qualify for a regular loan or credit by a financial institution. Due to the economic conditions prevailing on the island, the receipt by FIDEVI of grants or donations sufficient in amount to be able to achieve its purposes, is highly remote or non-existent. Thus, FIDEVI's only viable alternative is the funding mechanism described hereinabove.

Having FIDEVI's Income Transactions being CRA qualified in their entirety is crucial for attracting the financial institutions to invest in FIDEVI.

As stated before, should financial institutions be discouraged from entering into Income Transactions with FIDEVI, the result would be devastating for the organization to the extent that it will lose its only source of funding. Market and economic conditions on the island are such that there may not be other investors that may be interested in investing in FIDEVI.

c. **Whether the proposed New Q&A provide the flexibility necessary to encourage community development activities, whether direct, indirect or through the provision of capital investments, in connection with an organization with a primary purpose of community development.**

FIDEVI respectfully submits that the effect of the New Q&A would be detrimental to community development organizations such as FIDEVI that depend on Income Transaction mechanisms for its funding needs.

Financial institutions have demonstrated an appetite for investments in organizations such as FIDEVI due to their CRA responsibilities coupled with the fact that there are limited investment opportunities to satisfy the CRA investment requirements on the island. Undoubtedly, in connection with FIDEVI's transactions, the investing financial institution's capital is at risk for the total value of the investment, even if the Agencies perceive that only the income received by FIDEVI from the transaction is actually invested in community development activities. If it were not for the total amount invested by the financial institution in FIDEVI, it would not be allowed to receive the income used by FIDEVI for its funding needs. This is the nature of the funding mechanism chosen by FIDEVI's founders.

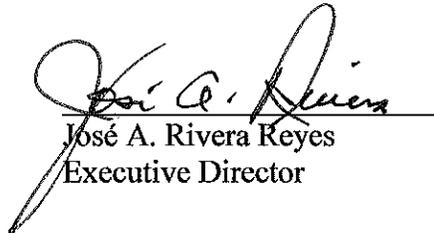
4. Conclusion.

Finally, it is respectfully submitted that the New Q&A will definitely discourage investments by financial institutions in FIDEVI with the unintended result of leaving FIDEVI with scarce or no funding for its operations. This will have the unintended consequence of leaving the organizations that service the homeless community in Puerto Rico without a formidable source of support during a period of economic recession.

We hereby urge the Agencies to consider the devastating effect that the New Q&A will have on FIDEVI directly and indirectly on the homeless community in Puerto Rico.

FIDEVI appreciates the FDIC consideration of these comments. Should any question arise in connection with these comments, please do not hesitate to contact the undersigned.

Sincerely,



José A. Rivera Reyes
Executive Director



Puerto Rico Housing and Human Development Trust Fund

EXHIBIT A

NON - CRA TRANSACTIONS

<u>Date</u>	<u>Entity</u>	<u>Amount</u>	<u>Collateral</u>	<u>Spread</u>
1. 9-9-09	UBS	\$210,000,000	\$75,000,000 Popular Inc. Senior Unsecured Notes \$25,000,000 Popular Inc. Senior Unsecured Notes \$35,000,000 Triple S Senior Unsecured Notes \$75,000,000 3,000,000 shares Universal Group-Preferred	.20 bp
2. 10-30-09	Santander Securities	\$94,019,903	\$40,000,000 1,600,000 shares Universal Group-Preferred \$54,019,903 CMO Portfolio	.20 bp (40,000,000) .25 bp (54,019,803)
3. 11-12-09	Santander Securities	\$63,560,000	\$30,500,000 State of California GO Bonds \$25,060,000 NYC Fin. Authority Future Tax Bonds \$8,000,000 NYC Fin. Authority Future Tax Bonds	.25bp
4. 11-19-09	Santander Securities	\$29,500,000	\$20,000,000 State of California GO Bonds \$9,500,000 FL. Dept. of Management Services	.29 bp
5. 12-3-09	Santander Securities	\$14,000,000	\$4,000,000 Anchorage Senior Electric Rev. Bonds \$10,000,000 NH Turnpike Rev. Bonds	.29 bp
6. 12-10-09	Santander Securities	\$4,200,000	\$4,200,000 North Texas Municipal Water District	.29 bp
7. 12-17-09	Santander Securities	\$16,900,000	\$14,500,000 The Regents (Univ. of Cal.) Medical Pooled Rev. Bonds \$2,400,000 California Various Purposes Gen. Oblig. Bonds	.29 bp
8. 12-22-09	Santander Securities	\$45,250,000	\$17,000,000 Fla. State Board of Education \$9,000,000 Fla. State Board of Education \$19,250,000 DC Income Tax Secured Rev. Bonds	.29 bp



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Exhibit B Income Projection 2013-2020

	2013	2014	2015	2016	2017	2018	2019	2020
UBS - SSS - Universal	170,000	99,166	-	-	-	-	-	-
Santander CMOs - Universal	131,437	120,827	114,027	108,270	103,340	99,239	95,764	
Santander - State of Cal	9,944	9,944	9,944	9,944	9,944	9,944	9,944	
NY Fin Autho								
NY Fin Autho	82,650	82,650	82,650	82,650	82,650	82,650	82,650	
Santander - City of Cal	58,000	58,000	58,000	58,000	58,000	58,000	58,000	
F/A Dept. of Manag	19,966	19,966	19,966	19,966	19,966	19,966	19,966	
Santander City Anchorage	8,743	8,743	8,743	8,743	8,743	8,743	8,743	
NH Turnpike	21,851	21,851	21,851	21,851	21,851	21,851	21,851	
Santander - North Texas	12,180	12,180	12,180	12,180	12,180	12,180	12,180	6,090
Sant. Univ of Cal.	33,814	33,814	33,814	33,814	33,814	33,814	33,814	
Cal. G.O.	6,960	6,960	6,960	6,960	6,960	6,960	6,960	
Santander - F/A Board of Ed.	131,225	131,225	131,225	131,225	131,225	131,225	131,225	
F/A Board of Ed.								
DC - Inc. Tax Revenue								
Scotiabank - CRA notes	60,000	60,000	30,000	-	-	-	-	-
TOTAL	746,770	665,326	529,360	493,603	488,673	484,572	481,097	6,090



Puerto Rico Housing and Human Development Trust Fund

EXHIBIT C

CRA NOTES TRANSACTIONS

<u>Date</u>	<u>Entities</u>	<u>FIDEVI Notes</u>	<u>Collateral</u>	<u>FIDEVI Income</u>	<u>Spread</u>
12-16-10	BPPR Doral	\$7,500,001 5,000,000	4% FNMA Cert 4% FNMA Cert.	\$49,218.75 32,812.50	.20 bp
3-1-11	Scotiabank	\$15,000,000	4% GDB Notes	95,999.90 on a monthly basis until prepaid 3-2012	.40 bp
4-19-11	Oriental	\$ 6,000,000	3.5% FNMA Cert.	59,729.87 pre-paid	.40 bp
3-9-12	Scotiabank	\$15,000,000	3.448% GDB Notes	53,666.67 received-semi annually <u>120,000</u> expected to be received 173,666.67	.40 bp
12-31-12	BPRR	\$ 8,295,000	6.25% Goldman Sach Notes	124,342.05 pre-paid	.30 bp
		\$56,735,000			
			Received	415,769.74	
			Expected	<u>120,000</u>	
				535,769.74	