Overview of Allocations

New Markets Tax Credit Program: Recovery Act Highlights (2008 Applicants)

The Community Development Financial Institutions Fund (CDFI Fund) was authorized by the American Recovery and Reinvestment Act of 2009 (Pub. L. No. 111-05) (Recovery Act) to make additional allocation awards to Community Development Entities (CDEs) that had applied under the 2008 round of the New Markets Tax Credit (NMTC) Program.

The CDFI Fund selected 32 additional CDEs to receive allocations under this authority. These CDEs are authorized to issue to their investors a combined total of $1.5 billion in equity for which NMTCs can be claimed. Initially, under the 2008 NMTC allocation round, the CDFI Fund made awards totaling $3.5 billion to 70 CDEs. With the addition of the 32 Recovery Act awardees, the Fund has made awards to 102 CDEs, totaling $5 billion in allocation authority, in the 2008 Round.

The CDFI Fund will allocate $5 billion in NMTCs under the 2009 NMTC allocation round, comprising of $3.5 billion that was authorized by Tax Extenders and Alternative Minimum Tax Relief Act of 2008 (Pub. L. No. 110-343), and $1.5 billion authorized by the Recovery Act. These awards are expected to be announced in October 2009.

How does the NMTC Program work?

The NMTC Program stimulates economic and community development and job creation in the nation's low-income communities by attracting investment capital from the private sector.

The NMTC Program provides tax credits to investors who make "qualified equity investments" (QEIs) in investment vehicles called CDEs. CDEs are required to invest the proceeds of the qualified equity investments in low-income communities. Low-income communities are generally defined as those census tracts with poverty rates of greater than 20 percent and/or median family incomes that are less than or equal to 80 percent of the area median family income.

The credit provided to the investor totals 39 percent of the investment in a CDE and is claimed over a seven-year credit allowance period. In each of the first three years, the investor receives a credit equal to five percent of the total amount paid for the stock or capital interest at the time of purchase. For the final four years, the value of the credit is six percent annually. Investors may not redeem their investments in CDEs prior to the conclusion of the seven-year period.

Who was eligible for a Recovery Act allocation?

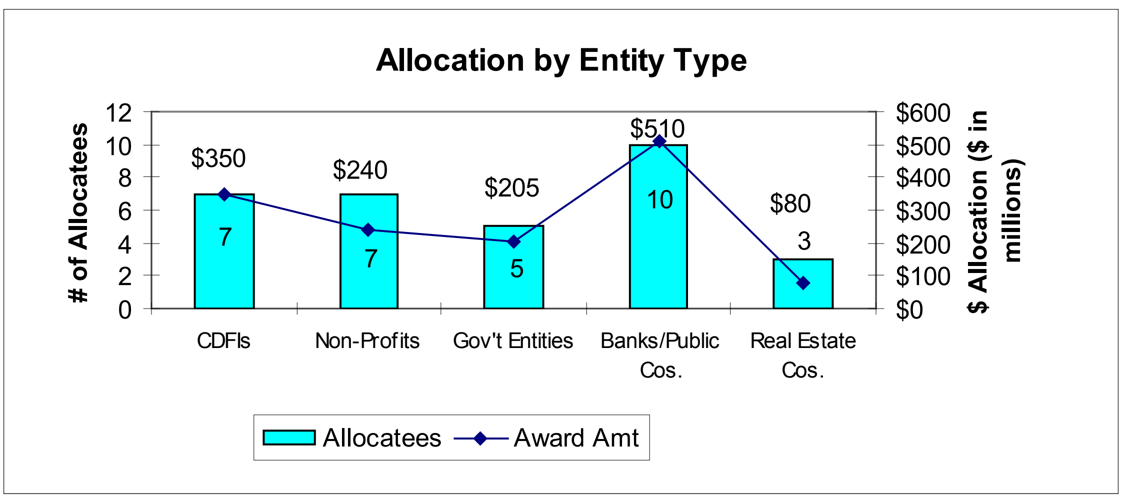
The CDFI Fund made allocation awards to CDEs that applied in the 2008 Round and were highly-rated, but which did not receive awards due to the limited availability of allocation authority. These CDEs were reviewed in descending order of score from a previously ranked list of highly-rated applicants, in accordance with the review policies and procedures that were applied to all applicants under the 2008 round (the review process is described further at the end of this document). These CDEs were required to make certifications to the Fund that their businesses strategies, operational capacity, etc., had not materially changed since the time of the initial application, and in some cases, CDEs were asked to provide additional clarifying information.

What is the distribution of Recovery Act allocations in the 2008 round?

- 32 CDEs were provided with allocation awards.
- The average allocation award amount is $46.9 million.
- Allocation awards range in size from $10 million to $95 million. The median allocation award amount is $50 million.

What are some of the characteristics of the 32 awardees?

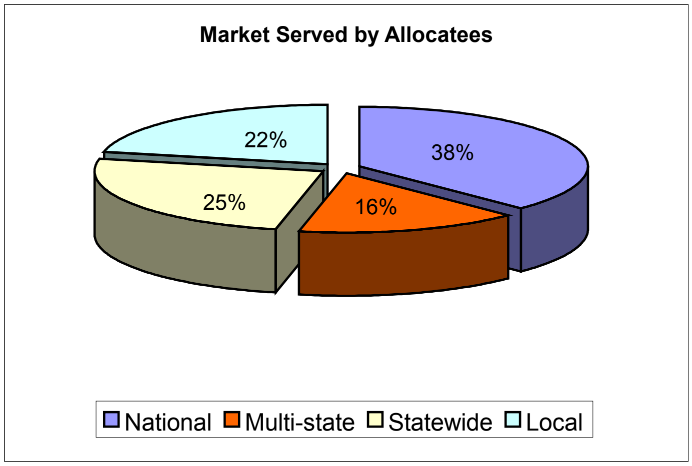
- Seven of the awardees (or 22 percent) are non-profit organizations or subsidiaries of non-profit organizations. They received allocations totaling $350 million.
- Seven of the awardees (or 22 percent) are certified CDFIs or subsidiaries of certified CDFIs. They received allocations totaling $240 million.
- Five of the awardees (or 16 percent) are governmentally-controlled entities or subsidiaries of such entities. They received allocations totaling $205 million.
- In all, 16 of the awardees (or 50 percent) are CDFIs, non-profit organizations, governmentally-controlled entities, or subsidiaries of such organizations. They received allocations totaling $715 million.
- Ten of the awardees (or 31 percent) are banks or bank holding companies; or subsidiaries of such entities. They received allocations totaling $510 million.
- Three of the awardees (or 9 percent) are real estate development companies or subsidiaries of such entities. They received allocations totaling $80 million.



Note: Even though the number of awardees represented in the chart above totals 32, this chart does not necessarily capture all 32 awardees. Some awardees are classified in more than one entity type category (e.g. some CDFIs are also counted as non-profits), and some awardees do not fall under any of the categories identified.

Where will the investments be made?

- The 32 awardees are headquartered in 20 different states, but anticipate making investments in 33 different states, as well as Puerto Rico and the District of Columbia. The remaining states as well as the U.S. territories are eligible to be served by awardees that have a national service area.



- Twelve of the awardees (or 38 percent) will focus investment activities on a national service area; five of the awardees (or 16 percent) will focus on a multi-state service area; eight of the awardees (or 25 percent) will focus activities on a statewide service area; and seven of the awardees (or 22 percent) will focus on local markets (e.g., a citywide or countywide area).

How did the CDFI Fund ensure that a proportional amount of investments would be made in rural communities?

- As announced in the 2008 Notice of Allocation Availability, the CDFI Fund ensured that: (i) an appropriate proportion of awards were provided to "Rural CDEs" (i.e., CDEs that provide at least 50 percent of activities to non-metropolitan counties); and (ii) that at least 20 percent of all dollars invested by awardees under the 2008 allocation round would be invested in non-metropolitan counties.

- The CDFI Fund considered the aggregate activities of the entire 2008 awardee pool (i.e., the 32 Recovery Act awardees, as well as the 70 initial awardees) to ensure that these two objectives were met with respect to the 2008 NMTC allocation round.

- With respect to the second objective, all applicants were required to indicate both a "minimum" and a "maximum" percentage of their activities that could be directed into non-metropolitan counties. In order to achieve the objective of steering 20 percent of investments into non-metropolitan counties, each Recovery Act awardee (with few exceptions) will be required to achieve the mid-point between the minimum and maximum percentages identified by the awardee in its application materials.

Will investments be made in particularly economically distressed communities?

- While all awardees are required to invest substantially all (generally 85 percent) of the qualified equity investments they receive in low-income communities, most applicants committed to make investments in areas characterized by more severe economic distress (i.e., areas that have significantly higher poverty rates and lower median family incomes than those minimally required under the NMTC Program; areas that have unemployment rates at least 1.5 times the national average; and/or areas that have been designated for economic development through other governmental programs such as Brownfields, Empowerment Zones and Renewal Communities).

- All 32 of the awardees indicated that at least 80 percent of their activities will be provided in areas of higher economic distress than are minimally required under NMTC Program rules and/or in areas targeted for development by other government programs, including 25 that indicated that 100 percent of their activities would be provided in such areas.

- All 32 awardees committed to providing at least 75 percent of their investments in areas characterized by: 1) multiple indicia of distress; 2) significantly greater indicia of distress than required by NMTC Program rules; or 3) high unemployment rates.

- The CDFI Fund will require these awardees, through their allocation agreements, to meet the benchmarks identified in their applications.

What types of eligible investment activities do awardees plan to make?

- NMTC investments may be used to finance a wide variety of activities, including:

    - Loans to or equity investments in businesses. Approximately $634 million (42 percent) of NMTC proceeds will likely be used to finance and support loans to or investments in businesses in low-income communities. Awardees have proposed strategies ranging from microenterprise lending to multi-million dollar venture capital investments.

    - Loans to or equity investments in real estate projects. Approximately $796 million (53 percent) of NMTC proceeds will likely be used to finance and support real estate projects in low-income communities. Most real estate projects, with the general exception of projects consisting mainly of residential rental housing, are permissible under program regulations. Awardees have indicated that they intend to make investments in commercial, retail, industrial, mixed-use and homeownership projects, as well as in community facilities such as daycare centers, healthcare centers, and charter schools.

    - Capitalization of other CDEs. Approximately $65 million (4 percent) of NTMC proceeds will likely be used to provide capitalization for other CDEs. Awardees may make direct loans to or investments in other CDEs to finance NMTC-eligible activities, or may purchase NMTC-eligible loans originated by other CDEs. This will help ensure continued availability of capital in low-income communities.

    - Financial Counseling and Other Services. Approximately $6 million (1%) of NMTC proceeds will likely be used to provide advice or counseling in support of businesses, including non-profits, operating in low-income communities.

What types of products do awardees intend to offer?

- All 32 of the awardees have committed to offering preferential rates and terms.
- Twenty-nine of the 32 awardees indicated that 100 percent of their investment dollars would be made either in the form of equity, equity equivalent financing, or debt that is at least 50 percent below market and/or is characterized by at least five concessionary features; with all of the remaining awardees committing to providing debt that is at least 33 percent below market and/or characterized by at least four concessionary features. Such features include, among other things, subordinated debt, reduced origination fees, higher than standard loan-to-value ratios, lower than standard debt service coverage ratios, non-traditional collateral, and longer than standard amortization periods.
- The Fund will require these awardees, through their allocation agreements, to meet the benchmarks identified in their applications.

Will awardees invest more than is minimally required in low-income communities?

- NMTC Program regulations generally require that at least 85 percent of QEI proceeds be invested in Qualified Low Income Community Investments (QLICIs).
- All 32 of the awardees indicated that they would invest at least 94 percent of QEI dollars into QLICIs, and 24 of the 32 awardees indicated that at least 97 percent of their QEI dollars would be invested into QLICIs.
- In real dollars, this means at least $195.5 million above and beyond what is minimally required by the NMTC Program regulations will be invested in low-income communities.
- The Fund will require these awardees, through their allocation agreements, meet the benchmarks identified in their applications.

Have the awardees from prior allocation rounds begun raising investor dollars?

Since program inception, over $13.4 billion in qualifying equity investments have been made into CDEs. This represents almost 69 percent of the $19.5 billion in allocation authority issued to CDEs through the first six allocation rounds (excluding the 2008 Recovery Act awards). In addition, while awardees are by statute allowed up to five years to raise investor dollars, each of the awardees has committed to make a substantial portion of their investments within 3 years.

Despite recent slowdowns in the credit markets, NMTC investments have continued to flow into low-income communities. Since January of 2008, almost $3.9 billion in qualifying equity investments have been made into CDEs.

How have the awardees from previous rounds been investing these dollars?

Reports covering transaction-level data are due to the CDFI Fund, along with audited financial statements, 180 days after the end of each awardee's fiscal year – which in most cases is December 31st. Reports covering fiscal year 2007 have been received by the CDFI Fund. Analysis shows that:

- Over 96 percent of the transactions offered preferential rates and terms to the borrowers.

The most common features were below market interest rates (83 percent of transactions), lower origination fees (57.5 percent of transactions), and longer than standard periods of interest-only payments (55 percent of transactions).

- Approximately 93 percent of the projects financed with NMTCs were located in designated areas of higher economic distress. Over 75 percent of projects were located in census tracts with: 1) a poverty rate of at least 30 percent; 2) a median family income at or below 60 percent of the applicable area median family income; or 3) an unemployment rate at least 1.5 times the national average.

Some NMTC transactions that have been financed to date include:

- An emergency worker training facility in Lafayette, LA, developed in the aftermath of Hurricane Katrina, which will train more than 240 students per year and provide more than 60 permanent jobs.
- A mixed use development of housing and retail, anchored by a national chain grocery store, located on a vacant military site in a severely distressed community in Washington, D.C.
- A loan to a Native American business woman, who operates a pharmacy in western Montana, will enable her to own her business facility for the first time, and create jobs in a high poverty rural community.
- The development of a high-tech business incubator in Detroit that will provide opportunities for minority and women business owners.
- A 161,000 square-foot manufacturing facility in rural Iowa that manufactures parts for wind turbines.
- The development of a charter school, serving 650 middle school and high school students, in the Crenshaw neighborhood of south Los Angeles.

The NMTC Program Application Evaluation Process

In this sixth Round of allocations, the Fund was authorized to allocate to CDEs the authority to issue up to $5 billion in equity for which NMTCs may be claimed, including the $1.5 billion in Recovery Act allocation authority. In this Round, for the first time, Congress required the Fund to ensure that a proportionate amount of the authority would be directed toward Non-metropolitan Counties. The Fund received 239 applications that together totaled over $21.3 billion in NMTC requests. The review process used to select NMTC allocation recipients is summarized below:

Phase I: Initial Application Scoring:

- The review process required three reviewers to independently review and evaluate each application. The reviewers included private sector members of the community development finance community, federal agency staff working in other community development programs, and Fund staff. Reviewers were selected on factors such as their knowledge of community and economic development finance and experience in business or real estate finance, business counseling, secondary market transactions, or financing of community-based organizations.

- The CDFI Fund screened each reviewer to identify any potential conflicts of interest with applicants. The CDFI Fund provided each reviewer with detailed descriptions of what constituted a conflict of interest, and each reviewer was required to sign a certification that they had disclosed all conflicts of interest to the Fund. Reviewers were further required to sign a confidentiality agreement stating that they would not reveal any information obtained from the CDFI Fund during the review process.

- Once selected, the reviewers underwent training to prepare them for the review process and were provided guidelines to assist them in scoring each application.

- Reviewers rated each of the four evaluation sections (Business Strategy, Community Impact, Management Capacity and Capitalization Strategy) as follows: Weak (0-5 points); Limited (6-10 points); Average (11-15 points); Good (16-20 points); and Excellent (21-25 points).

- In addition, reviewers rated applicants with respect to two statutory priorities: (i) 1-to-5 points for demonstrating a prior record of serving disadvantaged businesses or communities; and (ii) 5 points for committing to invest substantially all of the proceeds from their qualified equity investments into unrelated entities (i.e., entities that are generally not controlled or owned by the awardee or its investors).

Phase 2: Panel Review:

- An Allocation Recommendation Panel comprised of Fund staff reviewed the recommendations made by reviewers in step one.

- In order to be considered for an allocation, an application had to achieve an aggregate base score (without including priority points) that was minimally in the “good” range based on a scoring scale of weak, limited, average, good and excellent. In addition, an applicant had to achieve an aggregate base score minimally in the “good” range in each of the four application evaluation criterion. Thus, an application with scores in the “good” range in three of the four criteria, but an “average” score in the fourth criterion, could not advance to the panel phase of the review process.

- A statistical review was conducted to identify inconsistent scores. In some cases where there was an inconsistent first phase reviewer score, the comments and recommendations of a fourth independent reviewer were used to determine whether the inconsistent score should be replaced.

- For each application, panelists reviewed the applicants in the rank order of their scores, and considered the comments and recommended allocation amounts provided by each of the first phase reviewers. Due to the large number of applications that were ranked highly by first phase reviewers, and given the CDFI Fund’s desire to expedite the flow of capital into low-income communities, panelists were instructed to determine an allocation amount for each qualified applicant that reflected the applicant’s needs over a 2-year period (a 2-year allocation amount), as opposed to a 5-year allocation amount.

- This 2-year allocation amount was then used as the basis for the final award amount. The Fund determined that awarding allocations based upon the 2-year recommended allocation amounts would be the most effective way to ensure a fair distribution of allocations to as many of the most qualified candidates as possible.

- The panel also reviewed a variety of compliance, eligibility, due diligence and regulatory matters. Included in this review were (i) checks to determine whether any applicants that have been awarded funds through other Fund programs were compliant with the award and disbursement eligibility requirements; (ii) checks to determine whether prior-year awardees successfully issued the minimum requisite amount of Qualified Equity Investments from prior awards; and (iii) checks to determine whether prior-year awardees have made effective use of their previous awards.

- As stated in the application materials, applicants that were recommended for an award amount that was lower than the minimum acceptable award amount specified by the applicant in the allocation application were not provided with a NMTC allocation.

Preliminary Award Determinations:

- After the second stage of the review process, both the rank order list of applicants and the recommended 2-year allocation amounts were forwarded to the Selecting Official (NMTC Program Manager) for an allocation determination.

- In the event the Selecting Official's decision varied substantially from the panel's recommendation, the Reviewing Official reviewed the application file and made the allocation determination.

Final Award Determinations:

- Prior to finalizing the award amounts, the Selecting Official and Reviewing Official reviewed the preliminary allocation amounts to determine whether: (i) the proportion of awardees that are "Rural CDEs" (i.e., CDEs that provide at least 50 percent of activities to Non-Metropolitan counties) was, at a minimum, equal to the proportion of applicants deemed eligible for Phase II of review that are Rural CDEs; and (ii) at least 20 percent of all QLICIs made by awardees under the 2008 allocation round would be invested in Non-Metropolitan Counties, based upon commitments made by awardees in their applications.

- The CDFI Fund reserved the right to make adjustments to the awardee pool to ensure these two objectives were met. With respect to the first objective, the Fund reserved the right to add additional Rural CDEs to the final awardee pool. However, it was not necessary to make this adjustment.

- With respect to the second objective, the CDFI Fund reserved the right to require applicants to achieve up to their stated "maximum", as opposed to their stated "minimum", investment targets in non-metropolitan counties. With respect to the awards announced in October 2008, with only limited exceptions, the Fund was able to achieve the 20 percent benchmark without having to hold organizations to achieving higher than their minimum stated commitments. As a result, most of these applicants are being held to achieving their "minimum" stated commitment to invest in non-metropolitan counties. With respect to the 32 Recovery Act applicants, the CDFI Fund will generally hold CDEs to a mid-point percentage between the minimum and maximum percentage commitment indicated on the 2008 application.

Final Review:

- The CDFI Fund's Grants Management unit checked the General Services Administration's list of debarred organizations to confirm that neither the awardees nor their parent companies have been debarred from participating in any federal programs.

- The CDFI Fund's Grants Management unit also reviewed the file to confirm that the award determinations were consistent with the applicable application review policies and procedures.

Award Notification:

- All applicants will be informed via e-mail of the CDFI Fund's decisions. Shortly thereafter, awardees will enter into allocation agreements with the Fund. An allocation is not effective until the CDFI Fund and the awardee have signed the allocation agreement.

- Applicants that were not selected for an allocation as announced in October 2008 received specific reviewer comments pertaining to their application through a debriefing document prepared by Fund staff. Applicants that were considered for but did not receive a Recovery Act award will not receive an additional debriefing document.