

## **NMTC 2002 ALLOCATION ROUND: GENERAL INFORMATION**

On March 14, 2003, the Community Development Financial Institutions Fund (Fund) announced that 66 community development entities (CDEs) had been selected to receive allocations of New Markets Tax Credits (NMTCs) through the 2002 round of the NMTC Program. These 66 CDEs are authorized to issue to their investors, on the aggregate, \$2.5 billion in equity as to which NMTCs can be claimed. Throughout the life of the NMTC Program, the Fund is authorized to allocate to CDEs the authority to issue to their investors up to the aggregate amount of \$15 billion in equity as to which NMTCs can be claimed.

### ***How does the program work?***

The \$15 billion NMTC Program has the potential to stimulate economic and community development and job creation in the nation's low-income communities by attracting capital from the private sector.

The NMTC Program provides tax credits to investors who make "qualified equity investments" in privately managed investment vehicles called "community development entities," or "CDEs." CDEs are required to invest the proceeds of the qualified equity investments in low-income communities. Low-income communities are 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.

### ***What was the distribution of allocations in the 2002 round?***

- 66 CDEs received allocation authority totaling \$2.5 billion.
- The average allocation award is approximately \$38 million per allocatee.
- Allocation awards range in size from \$500,000 to \$170 million. The median allocation award is \$18 million.
- Six organizations each received allocation awards of \$100 million or more, and 24 organizations each received allocation awards of \$10 million or less.

### ***Where will the investments be made?***

- The 66 allocation recipients anticipate making investments in at least 40 different states and the District of Columbia.
- Twenty-seven (or 41 percent) of the allocation recipients will focus on local markets (e.g., a citywide or countywide area) within one state (22 allocatees) or multiple states (5 allocatees).
- Seventeen (or 26 percent) of the allocation recipients will focus investment activities within a statewide service area.

- Twenty-two of the allocation recipients (or 33 percent) will invest nationally or in a multi-state area.
- Twenty-one of the 66 allocation recipients (more than 30 percent) indicate that they will target investments predominantly to rural communities.

***What types of eligible investment activities do allocatees plan to make?***

- The allocatees are required to invest the proceeds of the qualified equity investments they receive in low-income communities. NMTC proceeds may be used to finance a wide variety of activities, including:
  - *Loans to or equity investments in businesses.* Allocatees have proposed strategies ranging from microenterprise lending to multi-million dollar venture capital investments.
  - *Loans to or equity investments in real estate projects.* Most real estate projects---with the general exception of residential rental housing---are permissible under program regulations. Allocatees have indicated they intend to make investments in commercial, retail, industrial, mixed-use and homeownership housing projects, as well as in community facilities such as daycare centers, healthcare centers, and charter schools.
  - *Capitalization of other CDEs.* Allocatees 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.* Allocatees are permitted to use NMTC proceeds to provide counseling in support of business activities.
- Most allocatees plan to engage in more than one NMTC-related activity. For example, many will offer financial counseling as part of their real estate or business investments.

***Was geographic diversity a consideration in the evaluation process?***

No. The statute establishing the NMTC Program does not provide Treasury with the authority to consider geographic diversity when making the allocation selection decisions. The most qualified applications were selected for allocations based on the evaluation process described below without regard to the geographic distribution of the allocation authority. As noted above, however, the CDEs that were selected for an allocation are geographically diverse.

***Please explain the evaluation process.***

The Fund is authorized over a seven-year period to allocate to CDEs the authority to issue up to \$15 billion in equity for which NMTCs may be claimed. In calendar year 2002, the Fund was authorized to allocate to CDEs the authority to issue up to \$2.5 billion in equity for which NMTCs may be claimed. The Fund reviewed 345 applications that together totaled almost \$26 billion in NMTC requests.

The review process used to select NMTC allocation recipients is summarized below:

*Step One:*

- The review process required three reviewers to independently review and evaluate each application. The reviewers included Fund staff, other federal agency staff working in other community development programs, and private sector members of the community development finance community. The private sector 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 Fund screened each reviewer to identify any potential conflicts of interest with applicants. The 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 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, Capitalization Strategy, Management Capacity and Community Impact) 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 allocatee or its investors).
- In addition to evaluating and scoring each application, reviewers were required to recommend an allocation amount, based on information provided in the application. Reviewers were instructed to recommend both three-year and five-year allocation amounts, based on the amount of capital the reviewer determined the applicant could reasonably raise and invest over three-year and five-year periods, respectively.

*Step Two:*

- An Allocation Recommendation Panel comprised of Fund staff reviewed the recommendations made by reviewers in Step One.
- The most qualified applications were deemed to be those applications with an aggregate base score (without including priority points) that was in the "good" range based on a scoring scale of weak, limited, average, good and excellent. In addition, each of the most qualified applications had to achieve an aggregate base score in the "good" range in each of the four application evaluation criteria. 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.

- For each application, panelists reviewed the scores and comments assigned during Step One and the recommended 3-year allocation amounts provided by each of the Step One reviewers. Given the significant interest in the NMTC Program this year, the Fund determined that providing applicants with 3-year as opposed to 5-year allocation amounts was the most effective way to ensure a fair distribution of allocations to as many of the most qualified candidates as possible.
- 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.
- The panel also reviewed a variety of compliance, eligibility, due diligence and regulatory matters. Included in this review were:
  - checks to determine whether any applicants that have been awarded funds through other Fund programs were compliant with the award requirements;
  - verification that the applicants' investor letters were consistent with the capitalization information provided in their applications; and
  - consultation with the IRS with respect to any applicant that proposed a business strategy that may not be permitted under the NMTC Program regulations.

Step Three:

- After the second stage of the review process, both the rank order list of applicants and the recommended 3-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 (Deputy Director) reviewed the application file and made a final determination, helping to ensure a thorough set of checks and balances.

Step Four:

- The Fund's Awards Management unit checked the GSA's list of debarred organizations to confirm that neither the allocatees nor their parent companies have been debarred from participating in any federal programs.

***What are the next steps in the selection process and for the next allocation round?***

- All applicants will be informed via e-mail of the Fund's decision. Shortly thereafter allocatees will enter into allocation agreements with the Fund.
- Applicants that were not selected for an allocation will be able to review details of the application elements that contributed to successful and unsuccessful applications. An electronic debriefing process will describe (in an aggregated format) the strengths of successful applications in each of the four evaluation criteria.

- Following an internal evaluation of the NMTC application and selection process the Fund will determine whether any modifications are needed for the application and applicant guidance materials.
- It is expected that the application for the next round will be available in the summer of 2003, and that allocation decisions will be made in the first quarter of 2004.
- For the next allocation round, the Fund is considering issuing up to \$3.5 billion in NMTC allocation authority by combining the calendar years 2003 and 2004 NMTC allocation authority.