Highlights of 2009 Round

New Markets Tax Credit Program Seventh Round (2009) Highlights

On October 30, 2009, the Community Development Financial Institutions Fund (CDFI Fund) announced that 99 community development entities (CDEs) had been selected to receive allocations of New Markets Tax Credits (NMTCs) through the 2009 round of the NMTC Program. These 99 CDEs are authorized to issue to their investors a combined total of $5 billion in equity for which NMTCs can be claimed, including $1.5 billion in investment authority (allocated amongst 24 CDEs) authorized by the American Recovery and Reinvestment Act of 2009 (Pub. L. No. 111-05) (Recovery Act). In the seven rounds to date, the CDFI Fund has made 495 allocation awards totaling $26 billion in tax credit authority, including $3 billion in Recovery Act awards and $1 billion that was specifically set aside for recovery and redevelopment in the wake of Hurricane Katrina.

How does the NMTC Program work?

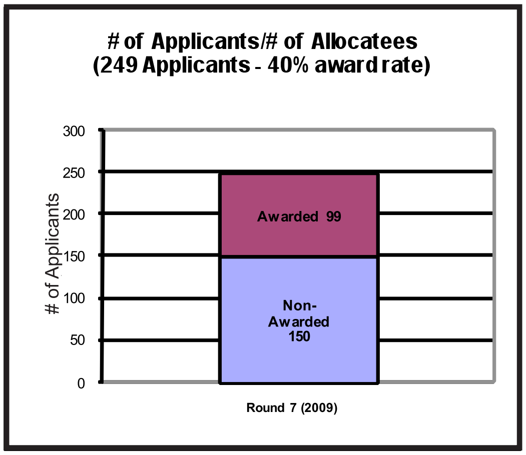
The NMTC Program stimulates economic and community development and job creation in the nation's low-income communities by attracting investment capital from the private sector.

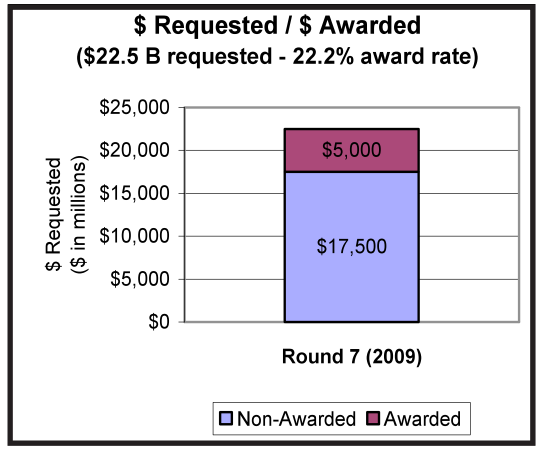
The NMTC Program provides tax credits to investors who make "qualified equity investments" (QEIs) in investment vehicles called CDEs. CDEs are required to invest the proceeds of the qualified equity investments in low-income communities. Low-income communities are generally defined as those census tracts 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.

What is the distribution of allocations in the 2009 round?

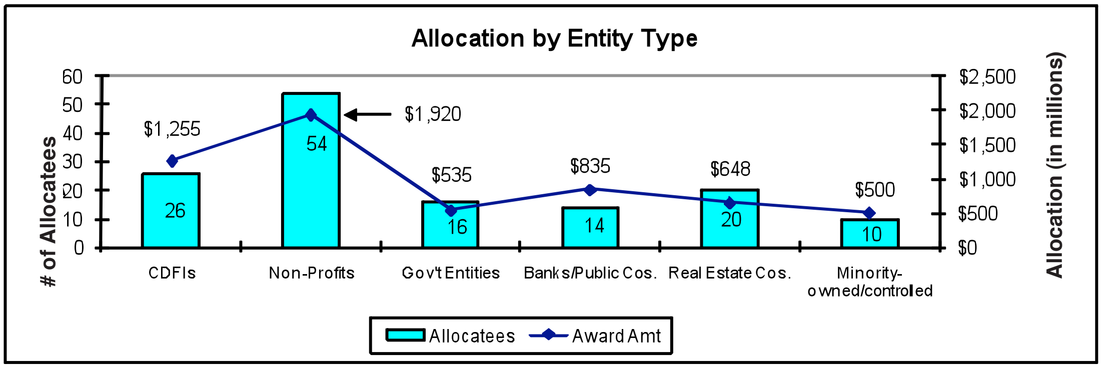
- 249 CDEs applied for allocations, requesting a total of approximately $22.5 billion in allocations. The CDFI Fund made allocation awards totaling $5 billion, or 22 percent of the total amount requested by applicants.
- 99 CDEs (or 40 percent of the total applicant pool) were provided with allocation awards.
- Allocation awards range in size from $4 million to $125 million. Both the average and the median allocation award amounts are about $50 million.





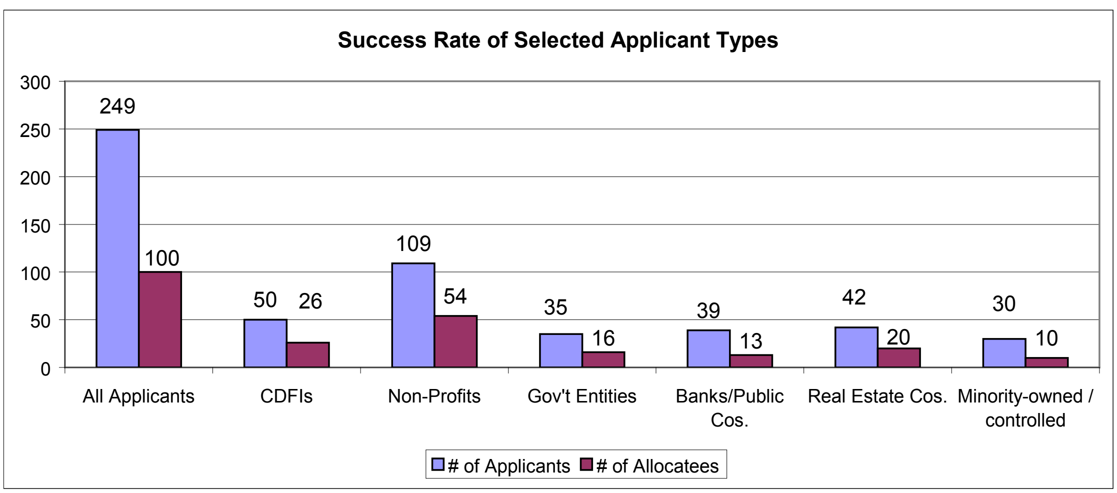
What are some of the characteristics of the 99 allocatees?

- Fifty-three of the allocatees (or 52.5 percent) are non-profit organizations or subsidiaries of non-profit organizations. They received allocations totaling $2.655 billion.
- Twenty-five of the allocatees (or 25.3 percent) are certified CDFIs or subsidiaries of certified CDFIs. They received allocations totaling $1.247 billion.
- Sixteen of the allocatees (or 16.2 percent) are government-controlled entities or subsidiaries of such entities. They received allocations totaling $790 million.
- Ten of the allocatees (or 10.1 percent) are minority-owned or controlled entities. They received allocations totaling $500 million – a 55 percent increase over the total amount awarded to minority-owned or controlled entities in the 2008 allocation round.
- In all, 60 of the allocatees (or 60.6 percent) are CDFIs, non-profit organizations, governmentally controlled entities, minority-owned or controlled entities, or subsidiaries of such organizations. They received allocations totaling $3.025 billion.
- Fourteen of the allocatees (or 14.1 percent) are banks or bank holding companies; publicly traded institutions; or subsidiaries of such entities. They received allocations totaling $835 million.
- Eighteen of the allocatees (or 18.2 percent) are real estate development companies or subsidiaries of such entities. They received allocations totaling $598 million.



Note that the number of allocatees represented in the chart above does not total 100, since some allocatees are classified in more than one entity type category (e.g. some CDFIs are also counted as non-profits) and some allocatees do not fall under any of the categories identified..

The chart below shows the success rate of receiving an allocation for the entire applicant pool and six different applicant types. Overall, about 40 percent of all applicants were awarded an allocation. CDFIs had a success rate of 50 percent; non-profits had a success rate of 49 percent; real estate development companies had a success rate of 43 percent; government-controlled entities had a success rate of 46 percent; banks and publicly-traded companies had a success rate of 36 percent, and minority-owned/controlled entities had a success rate of 33 percent.

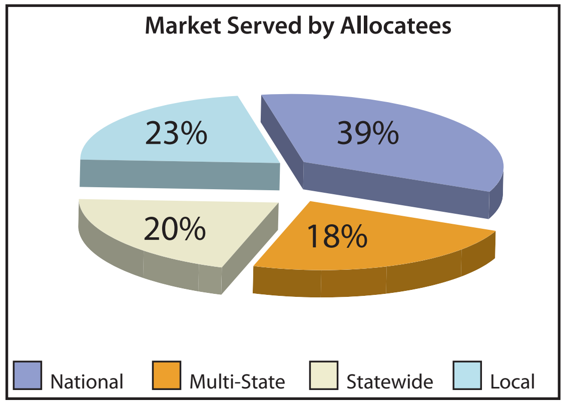


Note that the number of applicants represented in the chart above does not total 249, since some applicants are classified in more than one entity type category (e.g. some CDFIs are also counted as non-profits) and some applicants do not fall under any of the categories identified. Real Estate Companies includes for-profit, non-profit, and publicly-controlled developers.

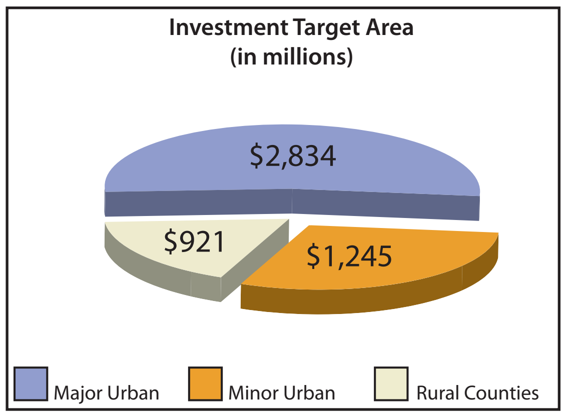
Where will the investments be made?

- The 99 allocatees are headquartered in 30 different states, the District of Columbia and Puerto Rico, but anticipate making investments in 49 different states, as well as the District of Columbia and Puerto Rico. The remaining state, Wyoming, and other U.S. territories are eligible to be served by allocatees with a national footprint.

- 38 of the allocatees (or 38.4 percent) will focus investment activities on a national service area; 18 of the allocatees (or 18.2 percent) will focus on a multi-state service area; 20 of the allocatees (or 20.2 percent) will focus activities on a statewide service area; and 23 of the allocatees (or 23.2 percent) will focus on local markets (e.g., a citywide or countywide area).



- Based on initial estimates of allocatees, it was anticipated that approximately $2.834 billion (or 56 percent) will be invested in major urban areas; approximately $1.245 billion (or 25 percent) will be invested in minor urban areas; and approximately $921 million (or 19 percent) will be invested in rural areas. Notwithstanding these initial estimates, the CDFI Fund will require awardees to invest over $965 million in non-metropolitan counties, as discussed further below.



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

- As detailed in the 2009 Notice of Allocation Authority, the CDFI Fund sought to ensure 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 allocatees under the 2009 allocation round are invested in non-metropolitan counties. When calculating the requirements for non-metropolitan deployment, the CDFI Fund excludes CDE administrative expenses (i.e., retained Qualified Equity Investments).

- With respect to the first objective, seven allocatees met the criteria for "Rural CDE" designation. These seven Rural CDEs received allocations totaling $470 million.

- With respect to the second objective, forty-nine allocatees (or about 50 percent) will be required to deploy some or all of their investments in non-metropolitan counties. These CDEs received allocations totaling over $3 billion. Based upon their stated commitments, and after taking into account CDE administrative expenses, they will be required to deploy approximately $965 million in non-metropolitan counties. This amount is $41 million higher than the initial rural deployment estimate of the allocatees.

Will investments be made in particularly economically distressed communities?

- While all allocatees 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).
- 95 of the allocatees indicated that at least 90 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 91 that indicated that 100 percent of their activities would be provided in such areas.
- Ninety-eight of the allocatees committed to providing at least 75 percent of their investments in areas characterized by: 1) multiple indices of distress; 2) significantly greater indices of distress than required by NMTC Program rules; or 3) high unemployment rates.
- The CDFI Fund will require these allocatees, through their allocation agreements, to meet the benchmarks identified in their applications.

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

- NMTC investments may be used to finance a wide variety of activities, including:
    - Loans to or equity investments in businesses. ***Approximately $2.07 billion (41.4 percent) of NMTC proceeds will likely be used to finance and support loans to or investments in businesses in low-income communities.*** Allocatees have proposed strategies ranging from microenterprise lending to multi-million dollar equity investments.
    - Loans to or equity investments in real estate projects. ***Approximately $2.85 billion (57 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. Allocatees 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 $79 million (1.6 percent) of NTMC proceeds will likely be used to provide capitalization for 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.

What types of products do allocatees intend to offer?

- All 99 of the allocatees have committed to offering preferential rates and terms.
- 96 of the 99 allocatees 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 allocatees committing to providing debt that is at least 33 percent below market and/or characterized by at least three 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 CDFI Fund will require these allocatees, through their allocation agreements, to meet the benchmarks identified in their applications.

Will allocatees 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).
- 96 of the allocatees indicated that they would invest at least 95 percent of QEI dollars into QLICIs.
- In real dollars, this means at least $630 million above and beyond what is minimally required by the NMTC Program will be invested in low-income communities.
- The CDFI Fund will require these allocatees, through their allocation agreements, to meet the benchmarks identified in their applications.

How much capital has been invested into Community Development Entities?

Over $14.3 billion in qualified equity investments have been made into CDEs since the NMTC Program's inception. This figure represents over 73.3 percent of the $19.5 billion in allocation authority issued to CDEs through calendar year 2008. In addition, while allocatees are by statute allowed up to five years to raise investor dollars, each of the allocatees has committed to make a substantial portion of their investments within three years.

How have the allocatees 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 allocatee's fiscal year – which in most cases is December 31st. Reports covering fiscal year 2008 have been received by the CDFI Fund. Analysis shows that:

- Over 98 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 (61 percent of transactions), and longer than standard periods of interest-only payments (56 percent of transactions).
- Over 91 percent of the projects financed with NMTCs were located in designated areas of higher economic distress. Over 81 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:

- On the site of an abandoned aerospace manufacturing facility, a grocery-anchored shopping center in San Diego, California owned in part by community residents, which produced 200 jobs and allows residents to shop in their own neighborhood.
- A charter school in Newark, New Jersey serving a low-income population with a 100 percent college acceptance rate, with 90 percent of graduates the first family member to apply to attend college.
- An emergency worker training facility in Lafayette, Louisiana, developed in the aftermath of Hurricane Katrina, which will train more than 240 students per year and provide more than 60 permanent jobs.
- A town's purchase of an ecologically important forest in Errol, New Hampshire, facilitating sustainable forestry and recreation in a rural community.
- A loan to a Native American businesswoman, 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 NMTC Program Application Evaluation Process

In the 2009 round of allocations, the CDFI Fund was authorized to allocate to CDEs the authority to issue up to $5 billion in equity for which NMTCs may be claimed, including $1.5 billion in allocation authority as a result of the Recovery Act. The CDFI Fund received 249 applications that together totaled over $22.5 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 CDFI 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, and provided each reviewer with detailed descriptions of what constituted a conflict of interest. Each reviewer was required to sign a certification that they had disclosed all conflicts of interest to the CDFI 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 allocatee or its investors).

Phase 2: Panel Review:

- An Allocation Recommendation Panel comprised of CDFI 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 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.
- 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 two-year period (a two-year allocation amount), as opposed to a five-year allocation amount.
- This two-year allocation amount was then used as the basis for the final award amount. The CDFI Fund determined that awarding allocations based upon the two-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 CDFI Fund programs were compliant with the award and disbursement eligibility requirements; (ii) checks to determine whether prior-year allocatees successfully issued the minimum requisite amount of Qualified Equity Investments from prior awards; and (iii) checks to determine whether prior-year allocatees 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 Question 61 of 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 two-year allocation amounts were forwarded to the Selecting Official 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 allocatees under the 2009 allocation round would be invested in non-metropolitan counties, based upon commitments made by allocatees in their applications.
- The CDFI Fund reserved the right to make adjustments to the awardee pool to ensure that these two objectives were met. With respect to the first objective, the CDFI Fund reserved the right to add additional Rural CDEs to the final awardee pool. However, it was not

necessary to make this adjustment, since the percentage of awardees that were rural CDEs (7 percent) already exceeded the percentage of Phase-2 eligible applicants that were rural CDEs (5.7 percent).

- 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. This round, most allocatees were held to a requirement above the minimum investment target.

Award Notification:

- Applicants are informed via e-mail of the CDFI Fund's decisions. Shortly thereafter, allocatees will enter into allocation agreements with the CDFI Fund. An allocation is not effective until the CDFI Fund and the allocatee have signed the allocation agreement.

- Applicants that were not selected for an allocation will be able to review specific reviewer comments pertaining to their application through a debriefing document. This document will be distributed in advance of the next allocation round.