

One North LaSalle, Suite 700
Chicago, Illinois 60602
Telephone 312 629 0060
Fax 312 629 0061

911 Washington, Ave., Suite 203
St. Louis, Missouri 63101
Telephone 314 588 8840
Fax 314 588 2170

215 N. Water Street, Suite 225
Milwaukee, Wisconsin 53202
Telephone 414 563 1100
Fax 414 223 0133



CC:PA:LPD:PR (REG-114206-11)
Room 5205, Internal Revenue Service
PO Box 7604
Ben Franklin Station
Washington, DC 20044

September 6, 2011

To Whom It May Concern:

IFF is pleased to comment on IRS REG-114206-11 on how the New Markets Tax Credit (NMTC) program may be amended to encourage non-real estate investments.

IFF is the largest CDFI in the Midwest exclusively serving nonprofit corporations. We provide below-market rate, long-term loans to nonprofits serving low-income and special needs populations. Since 1988, we have made 881 loans totaling \$330 million, which have supported more than \$971 million in total community investment and created or maintained some 43,000 jobs. We have total assets of more than \$200 million and a current outstanding loan portfolio of \$170 million.

Historically, IFF has supported amendments to the NMTC program that will make it more responsive to high-performing, mission-driven, nonprofit Community Development Entities (CDEs), particularly those that are also certified by the U.S. Department of the Treasury as Community Development Financial Institutions (CDFIs). We believe that the nation's CDFIs are best able to target the NMTC to smaller projects in very low-income areas that are most in need of its subsidy, but that CDFIs remain underrepresented in the NMTC program.

In this letter, we strongly encourage the Internal Revenue Service (IRS) to use the authority it has to simplify the substantiation requirements for unrelated second tier CDEs—not only to encourage non-real estate investments—but to promote investments in certified CDFIs generally by streamlining the process by which CDEs may invest in unrelated CDEs that are also CDFIs. Such a change would not only achieve the IRS' stated goal of encouraging more non-real estate investments, it would also address the constraints that prevent CDFIs from using NMTC-raised capital to make other smaller but still high-impact investments, such as community development and community facility projects in very low-income and hard-to-reach rural areas, and increase the overall reach and impact of the NMTC.

By mission and by law, CDFIs must primarily serve low-income communities. If they do not, they can lose access to both public and private sources of equity capital, including grants from the Department of the Treasury's CDFI Fund. Thus, requiring CDFIs to bear the additional costs associated with the substantiation requirements does not necessarily result in NMTC capital being better targeted to low-income communities. In fact, we would argue the opposite: that the current substantiation requirements drive up administrative expenses and prevent CDFIs from deploying NMTC capital to support small businesses, community facilities, and rural development projects in very low-income areas.

As to the specific questions on substantiation requirements included in Section A (we have no comments on Section B covering the reasonable expectations test), our responses are:

1. **On simplifying the substantiation requirements.** Yes, as per our comments above, we believe simplifying the substantiation requirements would promote more non-real estate loans. More importantly, however, we believe the IRS can have an even larger impact—and increase the reach of the NTMC to very low-income and hard-to-reach rural areas—by applying any simplification of these requirements to all certified CDFIs.
2. **On capping transactions to which the simplified requirements would apply.** No, we do not believe the IRS should cap transaction sizes for investments that qualify for simplified substantiation requirements at \$250,000, especially if this simplified treatment is extended to CDFIs. IFF's average loan size is about \$500,000, and our experience is that it is simply not economical to use NMTC capital to finance projects of about \$2 million or less, though—as a mission-driven lender—we have made small NMTC investments. If a cap were necessary, we would suggest that it be at least \$1 million, which would allow for the financing of community facilities and development projects in very low-income and rural areas.
3. **On establishing appropriate minimum requirements.** Yes, if the substantiation requirements are simplified, we believe it is appropriate to establish some other type of minimum requirements. If a new simplified substantiation requirement applied to CDFIs, we would recommend that the minimum requirement be the “Target Market” that each individual CDFI has agreed to serve under the terms of its certification.
4. **On further limiting second tier CDEs eligible for simplified requirements.** No, we would not recommend any additional limits to the second tier CDEs that could benefit from streamlined substantiation requirements, and, as per our fundamental comment, we would recommend that any such simplification be extended to include all certified CDFIs in good standing. We would observe that even if the IRS were to approve simplified substantiation requirements for all certified CDFIs, other CDEs and NMTC investors would still have to be willing to underwrite these transactions for them to take place.

Thank you for this opportunity to comment on IRS REG-114206-11. If you have any questions about our letter, please do not hesitate to contact me at 312-629-0060 or jcerda@iff.org.

Sincerely,



Jose Cerda III
Vice President for Public Policy