

July 6, 2007

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RE: Request for Public Comments, New Markets Tax Credit Program

The Enterprise Corporation of the Delta and Hope Community Credit Union (ECD/HOPE) appreciate the opportunity to comment on the New Markets Tax Credit (NMTC) program in rural communities. Since the inception of the NMTC program ECD/HOPE has closed 46 transactions for a total of \$13.8 million. Well over half of ECD/HOPE's Qualified Low Income Community Investments (QLICI's) by number and dollar have been made in rural areas throughout the Mid South.

The comments below address the issues raised in the Federal Register concerning strategies to increase NMTC assisted investments in rural areas.

1) What strategies should the CDFI Fund use to ensure that non-metropolitan areas receive a proportional allocation of Qualified Equity Investments?

In the Federal Register request, the CDFI Fund lays out four potential strategies to ensure that rural areas benefit from the New Markets Tax Credit program. Based on the experience of ... ECD/HOPE, the most critical factor affecting the flow of capital to rural areas through the NMTC program includes the location of the QLICI's. QLICI's into Qualified Active Low Income Community Businesses represent the tangible benefit to rural communities and ultimately result in the development of jobs and leveraged investment. Hence, the CDFI Fund should strongly endeavor to ensure that a proportion of QLICI's be to businesses located in non-metro counties and parishes.

The second most important factor affecting access to capital through the NMTC program in rural areas includes the principal service area. Community Development Entities with a stated mission of "principally serving" non-metro areas are likely to make QLICI's in rural areas. If the service area criterion is adopted as a strategy, principally serving should be defined as over half of the QLICI's made by a CDE occurring in non-metro areas.

Location of investors and location of allocatees are not as important if the above mentioned criteria are enforced in the order mentioned above.

2) How should the CDFI Fund Define Proportionality?

The Federal Register request offered two ways of defining proportionality:

- By population – (17.4% of the population lives in rural areas)
- By low-income population – (~ 25% of the low-income population lives in rural areas)

Based on the experience of ECD/HOPE, the two suggestions represent an upper and lower bound for allocating a portion of the NMTC to non-metro areas. The Economic Research Service (ERS) of the United States Department of Agriculture reports that 21% of the population lives in rural areas. ECD/HOPE is of the opinion that the ERS data represent a defensible compromise between the two bounds.

With respect to the QLICI and service area strategies for proportionally allocating NMTC's, a proportion of the total credits available in a given year by dollar should be awarded to CDE's that will make QLICI's in rural areas. For example, approximately \$780 million of the current allocation round (20% of \$3.9 billion) would be available for CDE activities that result in QLICI's in non-metro areas.

3) What modifications should the CDFI Fund make to ensure that there is a proportional allocation of QEI's in non-metropolitan areas?

ECD/HOPE recommends two strategies to ensure a proportional allocation of QEI's in non-metro areas:

- Provide up to 15 priority points for both:
 - i. Demonstrated track record of making QLICI's or other types of small business development investments in underserved rural areas (up to 5 points);
 - ii. Stated goal of making QLICI's in underserved rural areas (up to 10 points).
 1. While past performance is indicative of capacity to deliver investments in rural areas, given the desired result of more investment, projected activity should be weighted more heavily.
- Set aside 20% of all available credits to fund CDE's with projected QLICI activity in rural areas;
 - i. For example, any CDE's with rural projects would be eligible to receive credits through the rural set aside pool.

4) How should the CDFI Fund ensure compliance if the above changes are made?

Given the goal of increasing investment in rural areas, ECD/HOPE is of the opinion that CDE's should be made to state what percentage of their QEI's will be used in rural areas and that the statement should affect the CDE's overall application score (see comment #3). If a CDE states that a certain percentage of their Qualified Equity Investments (QEI's) will be used to make investments in rural areas, and the CDE receives points for that statement which results in an allocation, then the CDE should be held accountable for making the investments in rural areas through the allocation agreement.

The allocation agreements already contain provisions to ensure that a percentage of QEI's go to areas of higher economic distress (e.g. census tracts with poverty rates of over 30%) or provide for more favorable financing terms to Qualified Low-Income Community Businesses. The addition of a requirement for a percentage of QEI's going to rural communities would be within the spirit of the CDFI Fund's efforts to use the program to stimulate investment in underserved areas to date. Additionally, the allocation agreement and compliance measures are the strongest methods of enforcement available to the fund to achieve any standard of proportionality that is adopted.

Thank you again for the opportunity to comment on this important matter. For more information or if you have any questions, please contact Ed Sivak at 601 944-4174.