

NMTC Allocation Application Q & A Document

Community Development Financial Institutions Fund

(1) How does the New Markets Tax Credit (NMTC) Program work?

The NMTC Program permits taxpayers to claim a credit against Federal income taxes for Qualified Equity Investments (QEIs) made to acquire stock or a capital interest in designated Community Development Entities (CDEs). Designated CDEs must use substantially all of the proceeds from the QEIs to make Qualified Low-Income Community Investments (QLICIs). The tax credit provided to the investor (either the original holder or a subsequent purchaser) is claimed over a seven-year credit period. In each of the first three years, the investor receives a tax 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 tax credit is six percent annually. The Community Development Financial Institutions Fund (the Fund) certifies CDEs on an ongoing basis, and allocates New Markets Tax Credit (NMTC) Allocations annually to select CDEs through a competitive application process.

(2) What is a CDE?

A CDE is any duly organized entity treated as a domestic corporation or partnership for federal income tax purposes that: (a) has a primary mission of serving, or providing investment capital for, low-income communities or low-income persons; (b) maintains accountability to residents of low-income communities through their representation on any governing board of the entity or any advisory board to the entity; and (c) has been certified as a CDE by the Community Development Financial Institutions Fund (the Fund) of the United States Department of the Treasury.

The Fund is currently accepting applications from organizations seeking designation as CDEs. An organization seeking such a designation should review the Fund's CDE Certification Guidance (66 Federal Register 65806, December 20, 2001) and a document titled "CDE Certification Q&A" prior to submitting its CDE Certification Application to the Fund. These documents are available on the Fund's website at www.cdfifund.gov. Community Development Financial Institutions (CDFIs) certified by the Fund and Specialized Small Business Investment Companies (SSBICs) licensed by the Small Business Administration (SBA) are deemed to automatically meet the requirements for certification as a CDE, and need only register on-line at the Fund's website at www.cdfifund.gov.

(3) Who is eligible to apply for an allocation of NMTCs?

In order to be eligible to apply for an allocation of NMTCs from the Fund in the 2002 allocation round, an applicant must: a) be legally incorporated or formed as a domestic corporation or partnership; b) have a valid Employer Identification Number (EIN); and c) be certified as a CDE by the Fund or have a

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CDE Certification Application pending with the Fund. If the applicant is not a certified CDE, its CDE Certification Application must be received by the Bureau of Public Debt (BPD, which has been contracted to handle intake of CDE Certification Applications on behalf of the Fund) **no later than 5:00 pm Eastern Time on July 25, 2002** in order to be eligible to apply for an allocation of NMTCs in 2002. CDFIs and SSBICs will be similarly required to register on-line as CDEs on or before 5:00 pm Eastern Time on July 25, 2002 in order to be eligible to apply for an allocation of tax credits in 2002.

(4) *Is an entity that is a CDFI (or an Affiliate of a CDFI) eligible to apply for an allocation of NMTCs if it has been determined by the Fund that the CDFI has failed to meet the requirements of a current or previous award?*

Such an entity is eligible to apply for an allocation of NMTCs, but the Fund reserves the right to reject any NMTC allocation application in the case of a previous Fund awardee, if such awardee or its Affiliates have failed to comply with the terms and conditions of their previous or existing assistance or award agreements with the Fund. At a minimum, the Fund is likely to reject, without substantive review, any NMTC allocation applications received from previous Fund awardees in circumstances where the previous Fund awardee or its affiliates: a) is not current in its reporting requirements to the Fund; or b) has defaulted with respect to the requirements of a previous Fund assistance or award agreement. The Fund will notify all CDFI Program awardees of their compliance status by August 1, 2002.

(5) *How can my organization apply for an allocation of NMTCs?*

An organization interested in applying for an allocation of NMTCs in the 2002 round must submit its Allocation Application **no later than 5:00 pm Eastern Time on August 29, 2002**. The Fund expects all applicants to submit online Allocation Applications. Applicants that are unable to submit an online application may submit a paper application, provided that they **submit a Paper Application Request Form to the Fund by no later 5:00 pm Eastern Time on August 9, 2002**. This form should be submitted to the attention of the Fund's NMTC Program Manager and should include an explanation of why the applicant is not capable of submitting an online Allocation Application. The Fund will provide information on the procedures for submission of a paper application at that time. (For more information on submitting a paper application, see response to question #7 below.)

The online Allocation Application is not currently available. The Fund anticipates that **the online Allocation Application, with accompanying instructions, will be available not later than July 17, 2002**. Applicants may access the online Allocation Application as soon as it is made available by creating a customized user account on the Fund's website at www.cdfifund.gov.

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In the meantime, applicants should download the PDF version of the Allocation Application, which is currently available on the Fund's website, so that they may begin the process of compiling information required in the application. The PDF version of the Allocation Application is a read-only document, and may not be submitted to the Fund.

(6) *What is the process for submitting an online Allocation Application?*

To apply online, applicants must have Internet Explorer 5.5 or higher or Netscape Navigator 6.0 or higher, at least a 56Kbps internet connection and Windows 98 or higher (or other system compatible with the above Explorer and Netscape software). Before entering narrative information into the website, the Fund advises applicants to type the narrative in another program, such as Microsoft Word. Then they can copy and paste answers into the appropriate sections of the handbook. This will also cut down on the time spent filling out the online application. The textboxes generally allow for 2500 characters plus spaces (approximately ½ page in Word). Applicants will be prevented from exceeding the space provided. Some areas have been expanded based on the expected narrative (questions 16, 17, 23, 26, 38, 39, 41, 44, 50, 55, 58, 59, 62b, 64, 66, 72, 73, 74, 75). All narrative answers must be in text form only and not include any special formatting, charts, tables or other graphics not required in the application. Start filling in the online application early.

(7) *What is the process for submitting a paper application?*

Prior to submitting a paper application, applicants must first submit a Paper Application Request Form (to be posted on the Fund's website after July 17) by no later than 5pm EST on August 9. Organizations that do not submit a request by that date will not be allowed to submit a paper application. The paper format will require the use of Adobe Approval, which can be downloaded from the Adobe website at www.adobe.com. This format will provide the same amount of space for answering questions as the electronic application form (approximately ½ page in Word; expanded space for questions 16, 17, 23, 26, 38, 39, 41, 44, 50, 55, 58, 59, 62b, 64, 66, 72, 73, 74, 75). Applicants will be prevented from exceeding the space provided. All narrative answers should be in text form only and not include any special formatting, charts, tables or other graphics not required in the application.

(8) *What are the advantages to submitting an online application?*

Applicants that apply through an online application will be able to save any data or information into the system, exit and later reenter the application throughout the application period. For the most part, the system will prevent an applicant from entering answers incorrectly, answering questions that do not apply or forgetting to answer questions that are relevant. Applications

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submitted online provide processing, data collection and administrative efficiencies to the Fund that are not provided in a paper application process. Online submissions decrease the cost of mailing the application and provide immediate confirmation of receipt by the Fund. Although a signature sheet will be required for online submissions, it may be faxed to the contact listed in the handbooks rather than mailed. Perhaps most importantly, applicants choosing to submit a paper application may experience delays in notification of allocation decisions and delays in the draw down of tax credits – since these activities will be expedited by the Fund’s ability to retrieve data stored at the time of the submission of an online application. Since the Fund will require organizations that are awarded NMTC allocations to submit compliance and monitoring reports and data via a web-based handbook similar to the online application, an applicant that submits a paper application will be advised to address, in its narrative response to question #64, how it will, if provided an NMTC Allocation, have the resources to comply with the Fund’s future web-based reporting requirements.

(9) *What are the important deadlines and dates that I need to know if my organization intends to apply for an allocation of NMTCs in 2002?*

Deadline	Date
Online Allocation Application is available on the Fund’s website (estimated date)	July 17, 2002
CDE Certification Applications due to BPD (for entities not yet certified as CDEs)	5:00 pm Eastern Time on July 25, 2002
Notification of intent to submit a paper Allocation Application (for those applicants that cannot submit an online Allocation Application) due to the Fund	5:00 pm Eastern Time on August 9, 2002
Allocation Application (online or paper version) due	5:00 pm Eastern Time on August 29, 2002

(10) *Can my organization apply for a NMTC Allocation on behalf of Subsidiary entities, as it did with its CDE Certification Application?*

Yes. An organization may apply for a NMTC Allocation with the intention of transferring all or a portion of its NMTC Allocation to one or more for-profit Subsidiary entities. In order to transfer any portion of its NMTC Allocation to a Subsidiary, an applicant must: (a) exercise “Control” over the Subsidiary entity, as such term is defined in the NOAA and glossary of terms that accompanies the Allocation Application; and (b) indicate in its Allocation Application an intent to make a transfer of allocations. Applicants applying for allocations on

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behalf of one or more Subsidiaries are instructed in the Allocation Application to respond to questions collectively on behalf of all entities, to the extent that responses do not vary across different entities.

An applicant and its Subsidiaries may collectively submit only one allocation application per year under the NMTC Program.

(11) *If my organization intends to transfer all or part of an NMTC allocation to one or more Subsidiaries, do the Subsidiaries need to be established and certified as CDEs prior to submission of the Allocation Application?*

No. An applicant will not be required to form and secure CDE certification for Subsidiary entities prior to the submission of its Allocation Application. However, once selected for an allocation, the allocatee will not be permitted to transfer any of its allocation to Subsidiaries unless those Subsidiaries have been: a) certified as CDEs by the Fund; and b) identified by name in the Allocation Agreement. If an allocatee requests, the Fund may, in its sole discretion, amend the allocatee's Allocation Agreement to add Subsidiary entities that were not yet formed and/or certified as CDEs at the time of the allocatee's receipt of a NMTC Allocation.

(12) *Can non-profits apply for a NMTC Allocation?*

Because NMTCs can only be offered to investors that purchase stock or capital in a CDE, only for-profit CDEs may offer NMTCs to their investors. However, a non-profit entity may apply for a NMTC allocation with the intention of transferring the allocation to one or more for-profit Subsidiaries. The for-profit Subsidiaries do not have to be formed at the time the non-profit CDE applies for an allocation of NMTCs, but the Fund will not enter into an Allocation Agreement with a non-profit allocatee until such time that it has established at least one for-profit Subsidiary entity, and certified that entity as a CDE.

(13) *When requesting an allocation of NMTCs from the Fund, should the applicant ask for the total amount of equity it intends to raise through NMTCs, or should it ask for the total value of the tax credits that will be available to its investors?*

The applicant's Allocation Application must be for the amount of Qualified Equity Investments the applicant intends to raise by offering NMTCs as an incentive. For example, if a CDE wishes to raise \$10 million in equity, it would request a \$10 million allocation from the Fund – even though the actual amount of NMTCs available to the investors is \$3.9 million (39% of the investment amount). An allocatee cannot offer NMTCs on equity raised in excess of its NMTC allocation. In the 2002 allocation round, the Fund is

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authorized to allocate to CDEs the authority to issue up to \$2.5 billion in Qualified Equity Investments for which NMTCs may be claimed.

(14) How do I complete the Allocation Application if my organization is a start-up entity?

A start-up organization that does not itself have a track record of raising capital, offering products and services, creating community impact, etc., may reference the track record of its Controlling Entity as appropriate throughout the Allocation Application. The Fund recognizes that, in circumstances where the Controlling Entity is also a start-up, it will be difficult if not impossible for an applicant to respond to certain questions (and complete certain tables) related to prior track record. In such circumstances, the applicant should be sure to emphasize, under the Management Capacity section, the relevant experiences, knowledge base, and skills of its management team to carry out its prospective activities.

(15) How do I complete the Allocation Application if my organization is planning to use its NMTC allocation in support of one specific transaction?

The Fund recognizes that an applicant may propose to use the entirety of its NMTC allocation to fund a single project. To the extent possible, such an applicant should answer all questions posed in the application. The Fund anticipates that single project applicants will be able to take full advantage of the NMTC Program.

(16) What is the purpose of the table in question #33 of the Allocation Application?

Question #33 permits an applicant to identify specific transactions that it anticipates closing prior to 12/31/03. Applicants are encouraged to list all transactions with a reasonable likelihood of closing by 12/31/03 for two reasons: a) applicants with a readily identifiable set of business activities in which they will engage in the near term will be scored favorably; and b) for transactions listed in this table, applicants may utilize either 1990 or 2000 census data for the purpose of demonstrating that the transaction is a Qualified Low-Income Community Investment (for more information on this, see the response to question #22 below). Applicants should use their best business judgment in determining which transactions have a reasonable chance of closing prior to 12/31/03 – keeping in mind that information presented in this table that is not consistent with information reported elsewhere in the application (particularly question #31 and exhibits B-F) could negatively impact how the application is scored by reviewers.

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(17) *Is there a limit to the total NMTC allocation amount that an Applicant may request in the 2002 allocation round?*

No. For the 2002 round, the Fund has not set a cap on the size of NMTC Allocation requests. However, the Fund reserves the right to provide allocations for an amount that is less than the amount requested by the applicant.

(18) *What terms and conditions will be placed upon applicants that receive NMTC Allocations from the Fund?*

Each applicant that is selected to receive a NMTC Allocation must enter into an Allocation Agreement with the Fund before it can offer tax credits to its investors. The terms and conditions set forth in Allocation Agreement may include, but not be limited to, the following:

- (a) The amount of the NMTC Allocation;
- (b) The approved uses of the NMTC Allocation (e.g., loans or equity investments to Qualified Active Low-Income Businesses (QALICBs), loans to or equity investments in other CDEs, purchase of qualifying loans from other CDEs, etc.);
- (c) The approved service area(s) in which the QEI proceeds may be used;
- (d) The CDE's schedule for obtaining QEIs from investors; and
- (e) Reporting requirements for all CDEs receiving NMTC Allocations.

If a CDE has represented in its Allocation Application that it intends to invest substantially all of the proceeds from its investors in QALICBs in which persons unrelated to the CDE hold a majority equity interest, the Allocation Agreement will contain a covenant attesting to such.

(19) *Can a CDE modify its service area after closing an Allocation Agreement with the Fund?*

Yes. If requested by an allocatee, the Fund may, in its sole discretion, amend the allocatee's Allocation Agreement and CDE certification documents as necessary to broaden its service area to include any market that was not identified at the time of the allocatee's receipt of an NMTC Allocation and/or initial certification as a CDE. The Fund will review such requests on a case-by-case basis to ensure that the CDE is appropriately accountable to Low-Income Communities in its amended service area.

(20) *When will the Fund make allocation decisions? Can my organization start to offer NMTCs to investors as soon as it receives an allocation?*

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The Fund expects to announce its NMTC Allocation decisions and execute Allocation Agreements with awardees in late Fall 2002. As soon as an allocatee enters into an Allocation Agreement with the Fund, it may offer NMTCs to its investors. Generally, investors may claim NMTCs beginning in the taxable year in which they make a Qualified Equity Investment in the CDE.

(21) *May I offer NMTCs to investors that made an investment in my organization before it received an allocation of NMTCs?*

Yes. The Temporary and Proposed Income Tax Regulations permit CDEs to utilize NMTC Allocations with respect to certain equity investments in the CDE that are made on or after April 20, 2001, but prior to the receipt of a NMTC Allocation. For purposes of this look-back period, the investor's seven-year credit period begins on the date in which the CDE enters into an Allocation Agreement with the Fund. The CDE is required to invest substantially all of the investor's QEI proceeds in QLICs within one year of the date in which the CDE enters into an Allocation Agreement with the Fund.

(22) *Should I use 1990 or 2000 census data to determine qualifying investment activities?*

The Fund recognizes that 2000 U.S. census data is not likely to be available in sufficient detail prior to the time that an applicant submits its Allocation Application to the Fund, and that applicants are currently relying upon 1990 census data to identify deals and obtain investor commitments. The Fund has determined that an applicant may use 1990 census data for any proposed QLICI: (i) that is closed (meaning all parties are legally committed to funding the investment) by December 31, 2002; or (ii) that is specifically identified in its Allocation Application and closed by the applicant by December 31, 2003. If an applicant uses 1990 census data for a QLICI, it must use 1990 census data for the entire period of the specified investment. Other than in such cases as outlined above, all QLICs must be made using 2000 census data.

Please note that as of the date of the publication of the NMTC Allocation Application, the Fund's Online Helpdesk at www.cdfifundhelp.gov is referencing 1990 census data.

(23) *Are there any limitations with respect to using NMTCs, or the proceeds of QEIs, in conjunction with other CDFI Fund program awards?*

An investor that is an insured depository institution or an affiliate of an insured depository institution may not claim both NMTCs and a BEA Program award for the same investment into a CDE.

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Example 1: If a bank makes a \$1 million equity investment into a CDFI-CDE that has also received an allocation of NMTCs from the Fund, the bank may claim the NMTCs **or** it may claim a BEA Program award – it may not claim both.

Example 2: If a bank makes a \$1 million equity investment into a CDFI-CDE that has also received an allocation of NMTCs from the Fund, and also makes a \$1 million loan to this CDFI-CDE, the bank may claim NMTCs on its \$1 million equity investment and claim a BEA Program award for its \$1 million loan.

There are currently no other specific prohibitions for using NMTCs or the proceeds of QEIs in conjunction with other Fund programs. Any future limitations will be described in the NOFAs and/or NOAAs that accompany those programs.

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More detailed application content requirements are found in the NMTC Allocation Application and NOAA. In the event of any inconsistency between the contents of this Q & A document, the NOAA (67 Federal Register 40112, June 11, 2002), the General Guidance (66 Federal Register 21846, May 1, 2001), the CDE Certification Guidance (66 Federal Register 65806, December 20, 2001), the Allocation Application, the statute that created the NMTC Program (Title I, subtitle C, section 121 of the Community Renewal Tax Relief Act of 2000) (the “Act”), or the IRS Temporary and Proposed Income Tax Regulations (66 Federal Register 66307, December 26, 2001), the provisions of the Act and the Temporary and Proposed Income Tax Regulations shall govern.

All terms and phrases that are Capitalized in this document are defined in the Glossary of Terms contained in the Allocation Application.

If you have any NMTC Program allocation or application questions, please contact the Fund at 202-622-7373. If you have any tax-related questions, please consult your attorney or contact the IRS at 202-622-3040.