NMTC WORKING GROUP™
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April 23, 2024

Mr. Christopher Allison
NMTC Program Manager
Community Development Financial Institutions Fund
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Re: Comments on the CY 2024-2026 NMTC Allocation Application

Dear Mr. Allison:

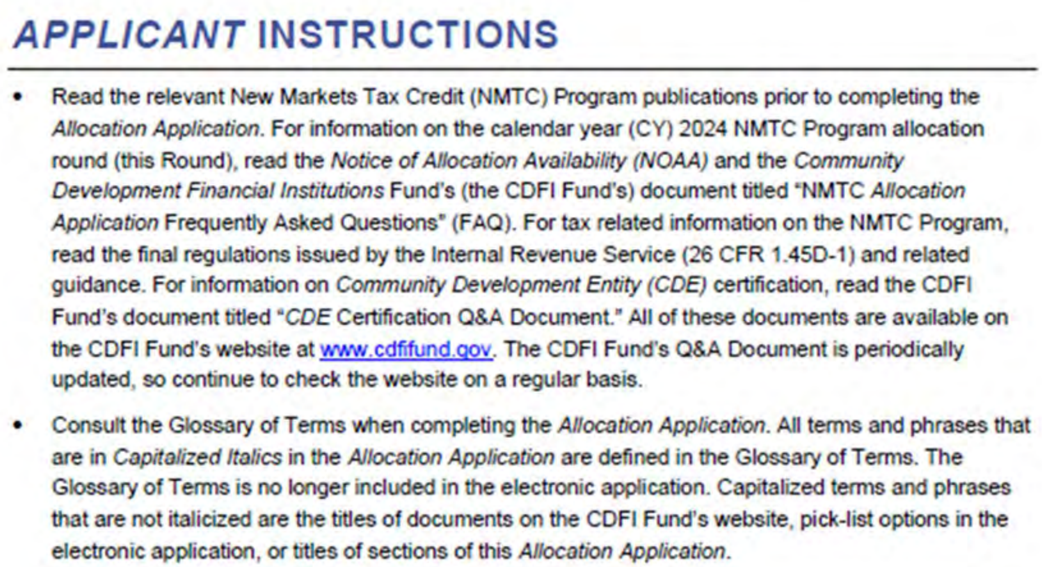
On behalf of the members of the New Markets Tax Credit ("NMTC") Working Group, we submit the following comments, considerations, and recommendations in response to the CDFI Fund's request for public comments on the NMTC Program Allocation Application for the calendar year ("CY") 2024-2026 funding rounds (the "Application") published in the Federal Register on February 23, 2024, which we believe will increase the effectiveness and efficiency in which applicants can apply for NMTC allocation. The members of the NMTC Working Group are participants in the NMTC industry who work together to help resolve technical NMTC Program issues and provide recommendations to make the NMTC Program even more efficient in delivering benefits to qualified businesses located in low-income communities around the country. Our group includes over 75 organizations that are allocatees, nonprofit and for-profit community development entities ("CDEs"), consultants, investors, accountants, and lawyers.

We appreciate the opportunity to comment on ways to further enhance the good being done by the NMTC Program, and we also appreciate the level of commitment, dedication and outreach that has been shown and continues to be shown by the CDFI Fund in implementing and managing the NMTC Program. The CDFI Fund has proven to be a capable manager of the NMTC Program. This is evidenced by the tremendous success the NMTC Program has enjoyed since its inception in 2000. Low-income communities across the country have benefitted from targeted investments of more than $71 billion. We applaud the various offices within Treasury that have worked with all of those involved in these transactions to ensure that those dollars are invested in highly distressed communities as efficiently as possible.

We also believe that the highly competitive nature of the application and evaluation process favors experienced CDEs at the detriment of new and emerging CDEs, and particularly those led by people of color. CDEs embedded in the low-income communities they serve, and with representative leadership from those communities, are best positioned to understand the needs and priorities on the ground. They understand where and why resource gaps exist and how best to close those gaps, by aligning investment decisions to meet those needs. This should include both demographic and geographic representation. In addition to the considerations presented here, we encourage the CDFI Fund to evaluate the administration of the NMTC Program to address structural inequities and barriers to entry.

For your convenience, we have summarized our comments in order of the questions posed in the Application. We would also request that the CDFI Fund release a revised draft after this initial public comment period that includes any changes it accepts from commenters to allow for further public comments, similar to what it did when the CDFI Fund submitted the CY 2021 application for public comment. Publishing an updated draft of the CY 2024 Application will allow prospective applicants to begin preparing for the CY 2024 application round.

APPLICANT INSTRUCTIONS



APPLICANT INSTRUCTIONS

- Read the relevant New Markets Tax Credit (NMTC) Program publications prior to completing the *Allocation Application*. For information on the calendar year (CY) 2024 NMTC Program allocation round (this Round), read the *Notice of Allocation Availability (NOAA)* and the *Community Development Financial Institutions* Fund's (the CDFI Fund's) document titled "NMTC *Allocation Application* Frequently Asked Questions" (FAQ). For tax related information on the NMTC Program, read the final regulations issued by the Internal Revenue Service (26 CFR 1.45D-1) and related guidance. For information on *Community Development Entity (CDE)* certification, read the CDFI Fund's document titled "*CDE* Certification Q&A Document." All of these documents are available on the CDFI Fund's website at www.cdfifund.gov. The CDFI Fund's Q&A Document is periodically updated, so continue to check the website on a regular basis.
- Consult the Glossary of Terms when completing the *Allocation Application*. All terms and phrases that are in *Capitalized Italics* in the *Allocation Application* are defined in the Glossary of Terms. The Glossary of Terms is no longer included in the electronic application. Capitalized terms and phrases that are not italicized are the titles of documents on the CDFI Fund's website, pick-list options in the electronic application, or titles of sections of this *Allocation Application*.

The first bullet instructs applicants to consult the Notice of Allocation Availability ("NOAA") and the NMTC Allocation Application Frequently Asked Questions ("FAQ").

We recommend that the CDFI Fund make the NOAA available within the electronic Application and incorporate guidance from the FAQ into the applicable NOTE section of the Application. This enhancement would reduce the burden of the collection and review of information for accuracy for applicants, and particularly for new applicants.

The second bullet instructs applicants to consult the Glossary of Terms for the definition of certain terms and phrases used throughout the application.

We recommend that the CDFI Fund develop and release a technological enhancement so that the definition of a term is displayed when the applicant hovers over the term within the electronic Application in addition to appending the Glossary of Terms. This enhancement would reduce the burden of the collection and review of information for accuracy for applicants, and particularly for new applicants.

Similar to the last time the Application was released for public comment, the new instructions for CDE certification states that "The CDFI Fund will only consider an Allocation Application as eligible for an NMTC Allocation in this round if the applicant is certified as a CDE as of the Federal Register publication date of the NOAA." Previously, an applicant had a brief period of time after the round opened to submit an application for certification on or before the CDE Certification deadline specified in the NOAA.

We recommend, again, that the CDFI Fund revert, as it did before, to the previous practice of allowing CDEs the ability to apply for certification on or before the CDE certification deadline specified in the NOAA. If the CDFI Fund intends to make the change as proposed, we recommend providing a clearer timeline/deadline for when a CDE must apply for certification to ensure it is able to carefully plan for the timely submission of a CDE certification application. Otherwise, without a known NOAA issuance date, organizations interested in applying may be left out because they were not certified before an unknown issuance date. This would prove to be an unnecessary barrier to entry for first-time applicants.

QUESTION 14(b)

Question Number	Question Text	Response	Question Notes	Field Type
	(b) For each financial product selected in Question 14(a), provide the expected percentage of Allocation for each product and provide a narrative that addresses the following elements: • Indicate whether the product is debt, equity, or some combination of the two. If debt, describe if it will have any equity equivalent features (e.g. convertible debt, debt with warrants, etc.) and which of the following flexible or non-traditional features the *Applicant* intends to include as part of the financial product: • Below market interest rates (or rate of return in the case of *Equity Investments*) • Lower than standard origination fees	FP 1 _____% FP 2 _____% FP 3 _____%	The *Applicant* should base the expected percentage of Allocation for each financial product, on the *Applicant's* intended strategy and planned use. For *Applicants* that plan to offer more than one financial product, the expected percentages of Allocation should add up to 100%. Expected percentages of Allocation will not be subject to reporting or be considered in measuring compliance with the Allocation Agreement. For each product, the *Applicant* should clearly discuss how the product is structured as well as benefits this structure provides to borrowers/investees. A financial product structured with multiple financial notes (e.g., an A and B note, or an A, B, and C note, etc.) must be described as one financial product. In this case, the rates and terms of the financial notes should be discussed on a blended basis. For additional guidance on calculating blended interest rates, see the Application FAQ. The individual financial notes should not be listed as separate products unless they will also be offered on a stand-alone basis. *Applicants* will not be scored as favorably if they do not follow these instructions. The *Applicant* may discuss other flexible or non-traditional features of its financial products in Question 14(b). Only the non-traditional and flexible features listed below are subject to	Numerical - Percentage

	• Longer than standard period of interest-only loan payments • Higher than standard loan-to-value ratio • Longer than standard amortization period • More flexible borrower credit standards • Non-traditional forms of collateral • Lower than standard debt service coverage ratio • Subordination Include a brief description of the rates. terms, and features that will be offered with its NMTC financial product and explain how these rates and terms compare with what is typically offered by other financial institutions or investors in the *Applicant's* service area. Provide an example of how the product will be used (alone or in conjunction with non-NMTC capital) to finance a projected NMTC investment identified in Question 17.	FP 1 Narrative FP 2 Narrative FP 3 Narrative	reporting and only these features will be considered in measuring compliance with the *Allocation Agreement*.	Text box Maximum Response Length: 5,000 characters

We recommend the requirement to list the expected percentages for each product type be removed. Any time a requirement like this is included in the application, it has the potential to discourage CDEs from listing it if the percentage is low. While the percentages are not part of a reporting requirement currently, it still can impact a CDE's decision to include it at all if it is below a certain percentage in fear that it will be viewed poorly.

QUESTION 15(a)

15. Additional Flexibility for Debt	Choose one of the following options. Check only one. The *Applicant* will commit that 100% of its *QLICIs* will:	☐ (a): be provided in the form of equity; equity-equivalent financing; debt with interest; debt with interest rates at least 50% below market; or debt that otherwise satisfies at least 5 indicia of flexible or non-traditional rates and terms, as listed in Question 14. ☐ (b) be provided in the form of equity; equity-equivalent financing; debt with interest rates at least 33% below market; or debt that otherwise satisfies at least 4 indicia of flexible or non-traditional rates and terms, as listed in Question 14. ☐ (c) be provided in the form of equity; equity-equivalent financing; debt with interest	*Applicants* will score better to the extent they commit to provide equity or equity-equivalent financing; interest rate reductions on their debt; and/or a higher number of flexible/non-traditional rates and terms. An *Applicant* may meet this commitment by meeting one or more of the criteria listed above. *Applicants* will not be guaranteed a higher score simply by offering products with a minimal interest rate. An *Applicant* that checks one of the options a-d in Question 15 should be aware that this commitment will be a condition of its *Allocation Agreement* with the CDFI Fund. Please refer to the Application FAQ document for guidance on how to calculate below market interest rates.	Check box

We request the CDFI Fund delete the category "debt with interest" from (a) as it appears to be a typo that duplicates the next phrase “debt with interest rates at least 50% below market”.

QUESTION 19

Question Number	Question Text	Response	Question Notes	Field Type
19. Innovative Investments	1. Does the *Applicant* intend to pursue any of the following innovative investments?	☐ Yes ☐ No	Question 19 <u>will not</u> be evaluated and scored in Phase I of *Allocation Application* reviews. Therefore, this question will not be used to determine whether an *Applicant* scored highly enough to receive consideration for an *NMTC Allocation*. The response to this question will be considered in Phase II of the *Allocation Application* reviews and may affect the size of the *Applicant's NMTC Allocation* (along with other evaluation criteria as discussed in the *NOAA*). For more information on the *Allocation Application* review process, please see the NMTC Program Application Presentation Slides on the NMTC page of the CDFI Fund's website and the *NOAA*. <u>If selecting the innovative *QLICIs* option, note that no particular activity is preferred over another.</u> *Applicants* are required to provide the percentage of total *QLICIs* to be used for each innovative investment type. If the *Applicant* receives an *NMTC Allocation*, it may be required to meet the percentage identified in Question 19 and such requirement may be a term of its *Allocation Agreement*. The CDFI Fund will only consider the activities listed in Question 19 as innovative investments. If the *Applicant* proposes to pursue innovative *QLICIs* by investing in states that have historically received fewer dollars of *QLICIs*, the *Applicant* should refer to the Application FAQ to find the list of 10 states (plus Puerto Rico) that have received the least amount of *QLICI* investments through FY 2022, based on *AMIS Compliance and Performance Reporting System* (ACPR) reporting data.	Dropdown Menu
	2. Please indicate the percentage of total *QLICIs* to be used for each of the following innovative investments:	(a) ____% of loan purchases that the *Applicant* will require the *CDE* to reinvest in *QLICIs* (b) _____% Investing in *Unrelated Minority-owned* or *Native American-owned* or controlled *CDEs* that do not have *NMTC Allocations*; (c) _____% Investing in states identified by the CDFI Fund as having received fewer dollars of *QLICIs* historically (d) _____% Providing *QLICIs* where the total *QLICIs* received by the *QALICB* are $4 million or less (e) _____% Making *QLICIs* with an original term less than or equal to 60 months (f) _____% Providing *QLICIs* for non-*Real Estate Activities*, such as working capital, inventory or equipment purchase (2g) _____% Investing in *Federal Indian Reservations*, *Off-Reservation Trust Lands*, *Hawaiian Home Lands*, and *Alaska Native Village Statistical Areas*		Numerical - Percentage
	3. If the *Applicant* entered a percentage above, discuss the *Applicant's* strategy to deploy *QLICIs* for the innovative investment type(s) selected above. The *Applicant* should reference sample transactions from Question 17(c) and Table A5, as well as its track record of similar activities in the past.	Text Entry		Text box Maximum Response Length: 5,000 characters

The question asks if the applicant intends to pursue any one or more innovative investments from a list of seven with a maximum response length of 5,000 characters. If an applicant is only describing one innovative investment, we believe the current character limit is reasonable. However, if an applicant is describing multiple innovative investments, the character count limits their ability to fully describe their strategy and experience.

We request the CDFI Fund allow at least 2,000 characters per additional innovative use(s) described.

Also, the question currently requires that applicants discuss sample transactions from Question 17(c) and its track record of similar activities for any boxes checked. Based upon the Highly Ranked Application Characteristics in the CDFI Fund's debriefing letter, to score well, at least 70% of the applicant's proposed NMTC investments need to be supported by a track record of similar business types and activity types. While Question 19 is not scored, applicants are required to reference sample transactions from Question 17 that is scored. This would lead CDEs to reasonably conclude that they cannot check any boxes without a track record to support it, or that checking a box may harm their score overall if they don't have a track record of similar investments. Investing in CDEs also requires that applicants adjust their QLICI uses and activities in Question 13(b) which would likely not be supported by a track record (investments in QLICIs and investments in CDEs are reported in separate tables).

We request the CDFI Fund consider changing the language in this question and/or in the Application FAQs to confirm that an applicant's score will not be affected if they do not have a track record to support the percentage of investments committed to investments in, or loans to, other CDEs in Questions 13(b) and 19.

We also propose updating FAQ 46 in the Compliance Monitoring and Evaluation Frequently Asked Questions document to clarify that CDEs will not be evaluated unfavorably if no more than 15% of any allocation award is used to finance investments that are inconsistent with the business strategy described in the Application. For example, if an applicant indicates that its CDE will only deploy QLICIs to QALICBs, the CDE will not be evaluated unfavorably if no more than 15% of the allocation is invested in Unrelated Minority-owned or Native American-owned or controlled CDEs that do not have NMTC allocations. Furthermore, if an applicant indicates that its CDE will only deploy QLICIs to manufacturing QALICBs, the CDE will not be evaluated unfavorably if no more than 15% of the allocation is invested in a high-impact nonprofit that is unable to secure necessary allocation from other CDEs.

We recommend the CDFI Fund add a new FAQ that clarifies that Advanced Loan Purchases will be treated as an investment in, or loan to, a QALICB. This clarification is an important step in encouraging CDEs to utilize their allocation to assist Minority-owned or Native American-owned or controlled CDEs that do not have NMTC Allocations so that they can build the track record necessary to obtain their own NMTC allocation. The CDFI Fund should reiterate that CDEs may utilize Advanced Loan Purchases as an acceptable (and encouraged) strategy when deploying NMTC allocations.

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QUESTION 20(b)

Question Number	Question Text	Response	Question Notes	Field Type
	(b) Provide a narrative discussion of the organization's track record relevant to each type of activity selected (including *FCOS*) in Question 13, referencing data included in Tables B1-B3, as appropriate. *Applicants* that intend to use the *NMTC Allocation* to make loans to or investments in *QALICBs* should describe the similarity between their track record and the types of businesses to which they plan to provide *QLICIs*.	Text Entry	Be as specific as possible with respect to the uses of past financing (e.g. construction, new equipment purchase, etc.). Also indicate which activities were undertaken by the *Applicant*, as opposed to its *Controlling Entity* (including its *Subsidiaries*). If an *Applicant* submits its *Controlling Entity's* track record for Exhibit B, be sure to indicate the dollar amounts that refer to the *Applicant's* track record versus the *Controlling Entity's* (including its *Subsidiaries*) track record of direct financing (i.e., its own capital at risk). Also discuss the *Applicant's* versus the *Controlling Entity's* track record of indirect financing (e.g., loan packaging, project development, etc.). Also, indicate the extent (including the number and dollar amount) that loans or investments were made to Affiliates of the *Applicant* or its *Controlling Entity*. Focus the discussion specifically on the *Applicant's* or its Controlling Entity's experience targeting *Disadvantaged Businesses or Disadvantaged Communities*.	Text box Maximum Response Length: 10,000 characters

The question asks the applicant to "indicate which activities were undertaken by the Applicant, as opposed to its Controlling Entity" and "to provide the dollar amounts in Exhibit B that refer to the Applicant's versus the Controlling Entity's (including its Subsidiaries) direct financing (i.e., its own capital at risk)" if an applicant submits its Controlling Entity's track record for Exhibit B.

In circumstances where the applicant's financing activity is controlled by and coordinated within a discrete division of the Controlling Entity, we request that applicants be allowed to focus only on that division or only on the track record of the Controlling Entity that is related to NMTC activity for the purposes of responding to Question 20 and populating Table B1 rather than having to include ALL of the Controlling Entity activity.

The process of populating Table B1 is quite burdensome and can include substantial activity that is not particularly relevant to the applicant's QLICI financing activities for new applicants or those that don't have a sufficient track record of their own and must use the track record of their Controlling Entity, especially those with large Controlling Entities with many divisions, subsidiaries, and product lines.

Example: Applicant ABC's Controlling Entity has a large amount of "QLICI-like" activity (e.g., traditional loans to businesses or real estate projects) that are not particularly relevant to NMTC activity. However, a meaningful percentage of Applicant ABC's Controlling Entity's activity is community development loans/investments that are highly relevant to Applicant ABC's NMTC strategy. Additionally, these community development activities are concentrated within a division of the Controlling Entity that is also responsible for staffing and operating Applicant ABC.

In this hypothetical situation, Applicant ABC would be required to include a significant amount of non-relevant activity in Table B1 because applicants are required to report all eligible activity of their Controlling Entities. Applicant ABC would also need to devote substantial space in Question 20 to describing the Controlling Entity's less relevant activities if they are technically QLICI-eligible and represent the largest overall volumes of activity.

We believe our proposed change would make the process of documenting the Controlling Entity track record in Question 20 and Table B1 substantially less burdensome and more relevant to the question at hand: whether an applicant and/or its Controlling Entity has a substantial track record of lending/investing that is relevant to the proposed QLICI activities. It would also assist newer applicants who may not have a long history of NMTC lending to have a greater opportunity to present their relevant analogous track records, lowering the significant barriers to entry for new industry participants.

QUESTION 20(c)

	(c) Provide the overall number of years that the *Applicant* or its *Controlling Entity* has provided capital or technical assistance to *Disadvantaged Businesses* or *Disadvantaged Communities*	Numerical		Numerical - Percentage

The field type changed from Numerical to Numerical - Percentage. The text of the question continues to ask for the number of years, so there could be a mismatch between the type of data here. We request the Field Type be changed back to Numerical.

QUESTION 21

21. Track Record (Table B4)	(a) Complete Table B4, if applicable. Does the *Applicant*, or *Controlling Entity*, have a track record of successfully providing loans, *Equity Investments*, and/or financial counseling that do not directly correspond to the selections in Question 13 (e.g. *Restricted NMTC Activities*, loans and/or investments in NMTC investment funds or non-*CDE* financial institutions, personal or consumer loans, and residential mortgages) but are similar to the proposed NMTC activities?	☐ Yes ☐ No	See the Application FAQ for additional guidance on the types of "Financing/Investment Activities that would not qualify as *QLICI* Activities."	Check box
	(b) Referencing Table B4 as appropriate, describe the *Applicant's*, or *Controlling Entity's*, track record over the past five years of successfully providing the loans or *Equity Investments* and financial counseling included in Table B4 and how these activities are similar to the proposed NMTC activities:	Text Entry		Text box Maximum Response Length: 5,000 characters
	(c) Provide the overall number of years that the *Applicant*'s or its *Controlling Entity* has provided capital or technical assistance to *Disadvantaged Businesses* or *Disadvantaged Communities*.	Numerical		Numerical - Percentage

With the current guidance, this question does not allow applicants to discuss the experience of individuals in successfully providing loans, equity investments, and/or financial counseling in order to establish a successful track record of providing products and services that are relevant to the proposed NMTC activities; rather, applicants are advised to discuss individual qualifications in the Management Capacity section of the Application, which is not scored.

We recommend that the CDFI Fund remove this restriction so that new applicants can highlight the relevant deployment experience of staff, principals, board members and other management individuals. This change would support new applicants that do not have a record of prior NMTC loans or investments or non-NMTC loans or investments relevant to the proposed NMTC activities, but have demonstrated a strong, successful track record beyond that of the applicant or Controlling Entity. If this recommendation is implemented, we also request that the character count be increased to 8,000 characters.

Similar to Question 20(c), the field type for Question 21(c) changed from Numerical to Numerical - Percentage. The text of the question continues to ask for the number of years, so there could be a mismatch between the type of data here. We request the Field Type be changed back to Numerical.

QUESTION 25(a)

Question Number	Question Text	Response	Question Notes	Field Type
25. Areas to be Served by the *Applicant*	(a) Will the *Applicant* commit to providing at least 85% of its *QLICIs* (in terms of aggregate dollar amounts) in areas that are either: (1) characterized by at least one of items 1-5 on the list below for each *QLICI*; or (2) characterized by at least two of items 6-12 on the list below for each *QLICI*?	☐ Yes ☐ No	An *Applicant* that checks "Yes" to Question 25(a) will generally score more favorably. If the Applicant receives an NMTC Allocation, it will be required to meet the percentage figure identified, and such requirement will be a term of its *Allocation Agreement*. *Applicants* that check "Yes" are required to answer Question 25(b).	Dropdown Menu
	10. FEDERAL MEDICALLY UNDERSERVED AREAS	☐ Yes ☐ No	Federally designated Medically Underserved Areas (MUA) or geographic Health Professional Shortage Area (HPSA), to the extent *QLICI* activities will support health related services.	Dropdown Menu
	12. LOW-INCOME and LOW-ACCESS TO SUPERMARKETS	☐ Yes ☐ No	Census tracts designated as Low-Income and Low-Access (LILA) to supermarkets, supercenters, or large grocery stores in the Food Access Research Atlas (FARA) by the U.S. Department of Agriculture Economic Research Service (USDA-ERS), to the extent *QLICI* activities will increase access to healthy food.	Dropdown Menu

<u>Distress Factor 10: Medically Underserved Areas</u>

We welcome the proposed change in the Medically Underserved distress criterion to add the concept of Healthcare Professional Shortage Areas (HPSAs) as a path to demonstrate distress. We would recommend clarifying that the project in question must increase the availability of the type of care for which the HPSA designation is relevant (HPSAs are specifically for Primary Care, Dental Care, and Mental Health). For example, a project must include new and/or expanded primary care services if it intends to qualify as distressed based on falling within a HPSA for Primary Care.

We also suggest adding one more path to qualify as distressed under this factor: if a project falls into a geography that has been designated as having a Medically Underserved Population (MUP) by HRSA, and the project will provide meaningful new or expanded health services to that specific population. For example, if the tract is designated as falling into an MUP zone for the homeless population, a homeless-focused healthcare project could qualify as distressed.

Distress Factor 12: Healthy Foods Access

We recommend against the apparent narrowing of the definition of this distress criterion to just include Census tracts designated as LI/LA areas under the USDA-ERS mapping system. We are also aware that the USDA-ERS mapping tool for LI/LA areas uses a dataset from 2019, prior to the COVID-19 pandemic. In low-income areas around the country, recent grocery store closures during and after the pandemic have been widespread and catastrophic, and relying on the LI/LA criteria that is only updated periodically would not necessarily capture some of the real time changes in healthy food access that NMTC investments can address.

The previous wording mirrored the Healthy Food Financing Initiative (HFFI) definition, which provided more ability to address context-specific factors and would create consistency across CDFI Fund programs. In the CDFI Fund's FY 2021 CDFI Program & NACA Program HFFI-FA Supplemental Application Instructions document, Food Deserts are defined as:

> Distressed geographic areas where either a substantial number or share of residents has low access to a supermarket or large grocery store. For the purpose of satisfying this requirement, a Food Desert must either: (1) be a census tract determined to be a Food Desert by the U.S. Department of Agriculture (USDA), in its USDA Food Access Research Atlas; (2) be a census tract adjacent to a census tract determined to be a Food Desert by the USDA, in its USDA Food Access Research Atlas; which has a median family income less than or equal to 120 percent of the applicable Area Median Family Income; or (3) be a Geographic Unit as defined in 12 CFR part 1805.201(b)(3)(ii)(B), which (i) individually meets at least one of the criteria in 12 CFR part 1805.201(b)(3)(ii)(D), and (ii) has been identified as having low access to a supermarket or grocery store through a methodology that has been adopted for use by another governmental or philanthropic healthy food initiative.

Healthy Foods access-related projects are, on average, some of the most difficult to finance with NMTC resources given their low margins and the competitiveness/consolidation of the grocery industry. Additional flexibility to address localized food deserts would be helpful.

Distress Factor – Suggested Addition: Persistent Poverty Counties and Census Tracts

We recommend adding Persistent Poverty Counties and Census Tracts ("PPCCT") to the distress criteria list in Question 25. PPCCTs are counties and census tracts where 20% or more of the population has lived in poverty over the last 30 years, indicating a systemic level of economic distress for these communities and a particular need for additional investment to help lift low-income people out of poverty. The CDFI Fund's proposal to include Persistent Poverty Counties in the definition of Disadvantaged Business demonstrates awareness of the need for investments in these areas. Adding PPCCTs as one of the options in Question 25 would have the direct result of more NMTC investment in PPCCTs in the future. We believe the addition of PPCCTs would be most impactful if it were included in the primary distress criteria categories but, at a minimum, we believe it should be included as a secondary criterion.

<u>Distress Factor – Suggested Addition: Federal/State/Local Zones</u>

We recommend adding Federal/State/Local Zones back to the distress criteria list in Question 25. This criterion was most recently included in the CY 2022 application before it was removed in the CY 2023 application (as shown below):

12. ____	[FEDERAL/STATE/LOCAL ZONES] Federally designated Opportunity Zones, Promise Zones, Base Realignment and Closure areas, State Enterprise zone programs, or other similar state/local programs targeted towards particularly economically distressed communities.

State and local authorities often identify areas within their communities that are particularly distressed for reasons that do not match the other criteria in Question 25(a). There are areas within low-income communities that may be a priority for the federal, state, or local government but that fall outside of the other listed distress criteria. Because the majority of CDEs will only invest in projects that meet the high distress categories that would satisfy Question 25(a), removing this category prevents projects located in high-priority areas that were designated for redevelopment from receiving investment from CDEs. Reinstating this category would enable more qualified projects to be competitive for allocation.

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QUESTION 25(b)

	(b) If the *Applicant* selected "Yes" to Question 25(a), will the *Applicant* commit to providing a percentage of its *QLICIs* (in terms of aggregate dollar amounts) in areas characterized by at least one of four items in the list below for each QLICI?	☐ Yes ☐ No	A *QLICI* that meets this commitment will also automatically meet the commitment made in Question 25(a). An *Applicant* that commits to a higher percentage commitment to Question 25(b) below will generally score more favorably.	Dropdown Menu
	If yes to Q.25(b), then what percentage of *QLICIs*	___% of *QLICIs*	If the *Applicant* receives an *NMTC Allocation*, it will be required to meet the percentage figure identified, and such requirement will be a term of its *Allocation Agreement*.	Numerical - Percentage
	1. DEEP DISTRESS	☐ Yes ☐ No	Census tracts with poverty rates greater than 40%; OR Census tracts, if located within a *Non-Metropolitan Counties*, with a median family income that does not exceed 40% of statewide median family income, or, if located within a *Metropolitan Area*, have a median family income that does not exceed 40% of the greater of the statewide median family income or the *Metropolitan Area* median family income; OR Census tracts with unemployment rates at least 2.5 times the national average	Dropdown Menu
	2. FEDERAL NATIVE AREAS	☐ Yes ☐ No	*Federal Indian Reservations, Off-Reservation Trust Lands, Hawaiian Home Lands*, and *Alaska Native Village Statistical Areas.*	Dropdown Menu
	3. HIGH MIGRATION RURAL COUNTIES	☐ Yes ☐ No	Section 223 of the American Jobs Creation Act of 2004 (P.L. 108-357, 118 Stat. 1418) amended the definition of *LICs* to include census tracts in High Migration Rural Counties with a median family income at or below 85 percent of the applicable area median family income. A High Migration Rural County is any county which, during the 20-year period ending with the year in which the most recent census was conducted, has a net out-migration of inhabitants from the county of at least 10 percent of the population of the county at the beginning of such period.	Dropdown Menu
	4. U.S. TERRITORIES	☐ Yes ☐ No	Island Areas of the United States, as determined by the United States Census Bureau including Puerto Rico, U.S. Virgin Islands, Guam, the Commonwealth of the Northern Mariana Islands, and American Samoa.	Dropdown Menu

With the proposed addition of Question 25(b), an applicant would be required to indicate whether it will commit to providing QLICIs to areas of Deep Distress, Federal Native Areas, High Migration Rural Counties and/or U.S. Territories ("Extremely Distressed Areas"), and the CDFI Fund has indicated such a commitment would result in a more favorable score.

We want to acknowledge that there are multiple opinions on this question among the members of the NMTC Working Group. The majority of our members recommend the CDFI Fund not make any changes to Question 25(b). Rather than removing the current narrative portion of Question 25(b) and incorpoating the changes in the template, the CDFI Fund could revise the question to have applicants provide a clear, compelling narrative description about how they will target investments to populations, geographies, and businesses experiencing deep economic distress based on the CDE's understanding of the issues facing its service area.

However, if the CDFI Fund feels it must make changes to the economic distress aspects of the Application in the next round's Application, the majority of the NMTC Working Group members would suggest an alternative approach by recommending that the CDFI Fund should move Question 25(b) to include

Question 19 – Innovative Investments.

Including Extremely Distressed Areas as a type of innovative investment will enable CDEs to better tailor their business strategies to the needs of their service areas without favoring certain geographic locations over others in the Phase I scoring. The guidance for Question 19 currently states "The response to this question will be considered in Phase II of the Allocation Application reviews and may affect the size of the applicant's NMTC Allocation (along with other evaluation criteria as discussed in the NOAA)." This allows the CDFI Fund to provide higher amounts of allocation based upon the responses to Question 19, which would include allowing applicants to commit to Extremely Distressed Areas if this recommendation is implemented. If an applicant does not commit to making investments in Extremely Distressed Areas as an innovative investment, it still has an opportunity to respond with commitments to other types of innovative investments that are currently included in the question without worrying about the impact on their overall score.

If an applicant answers "Yes" to Question 25(b) as currently proposed, then it is required to identify the percentage of QLICIs to be committed to one or more of these Extremely Distressed Areas. It further states, "An applicant that commits to a higher percentage commitment to Question 25(b) below will generally score more favorably." It is not clear to applicants what "higher percentage commitment" is needed to score more favorably. For example, is a 100% commitment needed to score maximum points or over a 50% commitment?

If Question 25(b) remains as currently drafted, the Extremely Distressed Areas commitment would become a de facto requirement for CDEs to obtain NMTC allocation. While the concept is framed as technically optional for applicants, the guidance states that applicants "will generally score more favorably." As a result, given the very small range of successful scores, history suggests that applicants may feel that it is effectively mandatory to "check the box" if they want to have a chance to be awarded NMTC allocation.

This change will likely cause many CDEs to shift their strategies toward projects in Extremely Distressed Areas in order to get an award. Pursuant to Question 25(a), many CDEs already commit to providing at least 85% of QLICIs to areas of High Distress. Also, these CDEs frequently commit to making innovative investments pursuant to Question 19 and Non-Metropolitan County investments pursuant to Question 22(c)-(d). However, given the competitive nature of the application process, CDEs will likely react to this change based on the assumption that it will be a requirement to commit to a relatively high percentage of investments in Extremely Distressed Areas to compete for allocation. Of course, CDEs that already focus on these geographies would be well positioned to score highly under this section and are supportive of this language as it gives them a competitive advantage over CDEs that do not have an existing business strategy that focuses on these areas specifically.

Most applicants believe you can not score well enough to receive allocation unless they qualify for nearly all the available points. Therefore, it is likely that all applicants may feel pressure to make these additional commitments. For some CDEs, this would mean a shift in strategy in which geographic location would take on greater importance than it has in the past. It would also disadvantage applicants with no Extremely Distressed Areas in their service area (possibly outright precluding them from scoring maximum points and winning an allocation award). The sponsors of high impact projects that do not happen to qualify under the new Extremely Distressed Areas criteria or the other geographic factors in Question 25(b) may find it even harder and more uncertain to secure NMTC resources.

It is also important to note that this change would increase the flow of NMTCs to Native Areas which has been highlighted as a priority by members of Congress, NMTC practitioners, and the CDFI Fund itself through its series of national workshops and recent publications. Native American areas that face structural barriers to accessing capital (as described in detail in the CDFI Fund's recent Community Development in Indian Country—A Market Research Report) would likely get more attention from CDEs who in the past have not focused on Native American projects. We believe the result of adding another commitment within a question that is scored is that CDEs would drive investment toward projects in these geographies at the expense of highly impactful projects outside these geographies. This may be a complication for CDEs whose service area is limited and may not include many or any Extremely Distressed Areas.

While it would increase investment in areas that meet the Extremely Distressed Areas criteria, the criteria as proposed dramatically narrows the geographic focus and will have an immediate impact on the functions of the NMTC Program. It is important to note that only 24% of all Low-Income Communities appear to meet the additional Question 25(b) distress criteria based on 2016-2020 ACS Data. These tracts are home to only 21% of the population that resides in NMTC-eligible tracts nationally. If these additional distress criteria were adopted, certain geographies would be disproportionally impacted. For example, only 15% of all Non-Metropolitan NMTC-eligible tracts would meet these distress criteria. All 10 of the "Identified States" noted in the 2023 NMTC Application have proportionally fewer Extremely Distressed tracts than the overall 24% national average noted earlier. In 38 states, fewer than 10% of all Census tracts would meet any of the Extremely Distressed Area's criteria.

We believe if this commitment is left in Question 25 as currently drafted, it will have a mixed impact on the NMTC Program. Based upon the CDFI Fund's recent series of workshops and publications, it would appear to be in line with an effort to increase investment in Native Areas. It is also possible, however, that it could negatively impact a significant number of impactful projects in distressed communities that would greatly benefit from NMTC investment. Some of these potential side effects could include:

- Encouraging Sub-Optimal Project Location Decisions. Consider a hypothetical example in which a growing Federally Qualified Health Center ("FQHC") is considering two locations. Location A is adjacent to a busy transit station and also co-located with other complementary services such as daycare and a WIC nutrition facility, but the Census tract is only Severely Distressed. Location B falls into an Extremely Distressed Area that is primarily industrial and not well served by transit. In a case like this, it would be hard to argue that Location B produces more community benefit than Location A. Given the importance of NMTCs as a financing tool in certain sectors such as primary healthcare, location decisions may be impacted in ways that reduce benefits to LIPs and LIC residents. The Extremely Distressed Area criteria may also encourage certain types of NMTC-funded projects such as homeless shelters, or substance use recovery facilities to locate in neighborhoods where poverty is already concentrated, exacerbating pre-existing conditions.

- Neglecting "Working Poor" and Transitional Neighborhoods. A preference for Extremely Distressed Areas would likely reduce NMTC investments in neighborhoods where they can often be most impactful. One example is LICs that meet the criteria that has appeared in past versions of Question 25 with many employed residents that still lack key social services, better-quality job opportunities, capital for minority-owned businesses, etc. These "Working Poor" neighborhoods are often among the most diverse in the country from a racial, ethnic, and age standpoint. Another example is disinvested neighborhoods that have some strong core assets (transit, anchor institutions, etc.) but are struggling to rebuild. NMTC investments in these types of neighborhoods can often be the most catalytic because they are a "force multiplier" rather than an isolated initiative.

- Further Discouraging the Use of Already Difficult "Targeted Populations" Rules. The Deep Distress category (which is likely to be the most frequently used of the 3 newly proposed distress criteria because it is less limited geographically) will also have a chilling effect on projects that use the Targeted Populations rule to qualify or to meet current existing distress criteria. Since Targeted Populations is most often utilized due to a census tract not being a qualified census tract but has an AMI that does not exceed 120%, those projects will most likely not be funded as CDEs will instead be concentrating a significant amount of their allocation in areas with AMIs of 40% or below.

- Driving additional allocation to projects located in Extremely Distressed Areas at the risk of over-subsidizing them because CDEs must meet the commitments that they made and there may be a limited number of viable investment opportunities in these areas and in the timeframe required to meet CDFI Fund deployment thresholds.

We believe including Federal Native Areas, for example, in a question that will allow applicants to score more favorably will provide CDEs with a strong incentive to serve some of the most economically distressed communities in the country. For NMTC Working Group members whose primary mission is serving deeply distressed communities, Native Areas, U.S. Territories and struggling rural areas, this change would recognize the unique challenges and barriers that exist in serving these geographies and likely direct much more NMTC investments to these areas.

However, there is also sincere concern from the majority of NMTC Working Group members, especially those CDEs who do not have locations within their service area that meet the Extremely Distress Criteria, regarding the unintended consequences these proposed changes would have for other communities that have similar needs. As mentioned above, we believe the investment decisions should ultimately be left to the CDEs that are accountable to all different types of geographies, populations, and businesses. While we believe that it is laudable to encourage NMTCs to flow into communities with particularly acute needs, we do not believe the framework as proposed would have its desired effect of increasing investments in certain communities without harming the likelihood of investments in other communities. We encourage the CDFI Fund to take additional time to create other ways to achieve its goals related to investments in Extremely Distressed Areas.

QUESTION 26

Question Number	Question Text	Response	Question Notes	Field Type
26. Community Development Outcomes	(a) Select the outcome(s) the *Applicant* expects to achieve as a result of the projected *QEIs* described the Business Strategy section.		Select all that apply and for each outcome selected, please: • Quantify the *Applicant's* projected community outcomes; • Considering the *Applicant*'s planned NMTC financing/investments described in Question #17, explain how the *Applicant* quantified the potential outcomes that would result from receiving an *NMTC Allocation*; • Describe and quantify (to the extent possible) the *Applicant*'s track record of achieving each selected outcome through past financings/investments. Discuss how the track record of achieving outcomes compares with projected outcomes.	

Question Number	Question Text	Response	Question Notes	Field Type
	1. JOB CREATION / RETENTION	☐ Yes ☐ No	Quantify, as best as possible, the number of direct jobs (either in the aggregate or on average for each project financed) that will be created or retained through the *Applicant*'s planned *QEIs*. Be sure to discuss both temporary jobs (e.g., construction) and permanent jobs (*Full-Time Equivalent*).	Dropdown Menu/ Text box Maximum Response Length: 5,000 characters
	2. QUALITY JOBS	☐ Yes ☐ No	Quantify (e.g., provide the number and/or percentage of total jobs) and discuss the extent to which jobs created or retained by the *Applicant*'s planned *QEIs* represent quality jobs. Quality jobs are jobs that provide living wages (e.g., the minimum hourly wage necessary for an individual to meet basic needs, including housing, nutrition, daily living expenses and other incidentals such as clothing, for an extended period of time) and/or employment benefits (e.g., health insurance, retirement benefits, employee stock ownership, etc.). Also, discuss the extent to which jobs created through the *Applicant*'s *QEIs* will provide opportunities for training and advancement (particularly for low-skilled workers). Quantify and describe how temporary and permanent jobs will meet the *Applicant's* criteria for quality jobs.	Dropdown Menu/ Text box Maximum Response Length: 5,000 characters
	3. ACCESSIBLE JOBS	☐ Yes ☐ No	Quantify (e.g., provide the number and/or percentage of total jobs) and discuss the extent to which the jobs created or retained by the *Applicant's* planned *QEIs* will be targeted and/or available to *Low-Income Persons*, residents of LICs, people with lower levels of formal education, and people who face other barriers to employment (e.g., longer term unemployed, displaced workers, ex-convicts, limited language proficiency, etc.). Quantify and describe how temporary and permanent jobs will meet the *Applicant's* criteria for accessible jobs.	Dropdown Menu/ Text box Maximum Response Length: 5,000 characters

	4. COMMERCIAL GOODS OR SERVICES TO *LOW-INCOME COMMUNITIES*	☐ Yes ☐ No	Quantify (e.g., number of residents of *Low-Income Communities* or *Low-Income Persons* expected to be served, square footage built, lower rents provided to tenant businesses, etc.) and describe the extent to which the *Applicant's* planned *QEIs* will result in the provision of and access to commercial goods or services to residents of *Low-Income Communities* or *Low-Income Persons*, the types of commercial goods and services (e.g., access to retail, grocery stores, farmer's markets, restaurants, or pharmacies, etc.) expected to be provided, and how they will benefit residents of *Low-Income Communities* or *Low-Income Persons*.	Dropdown Menu/ Text box Maximum Response Length: 5,000 characters
	5. COMMUNITY GOODS OR SERVICES TO *LOW-INCOME COMMUNITIES*	☐ Yes ☐ No	Quantify (e.g. number of people served, square footage built, lower rents provided to tenant businesses, etc.) and describe the extent to which the *Applicant*'s planned *QEIs* will result in the provision of and access to high quality community goods or services for residents of *Low-Income Communities* or *Low-Income Persons* (e.g., food pantries, healthcare, social services, educational, cultural, etc.).	Dropdown Menu/ Text box Maximum Response Length: 6,000 characters
	6. FINANCING MINORITY BUSINESSES	☐ Yes ☐ No	Quantify and describe the extent to which the *Applicant's* planned *QEIs* will finance Minority-owned or Minority-controlled *CDE*s or businesses, including (in the case of Real Estate Activities) developers, project-sponsors, tenant businesses, or contractors/subcontractors that are Minority-Owned or Minority-Controlled.	Dropdown Menu/ Text box Maximum Response Length: 5,000 characters
	7. FINANCING NATIVE AMERICAN BUSINESSES	☐ Yes ☐ No	Quantify and describe the extent to which the *Applicant's* planned *QEIs* will finance Native American-owned or Native American-controlled *CDE*s or businesses, including (in the case of Real Estate Activities) developers, project-sponsors, tenant businesses, or contractors/subcontractors that are Native American-Owned or Native American-Controlled.	Dropdown Menu/ Text box Maximum Response Length: 5,000 characters
	8. HOUSING UNITS	☐ Yes ☐ No	Quantify (e.g. number of units, percentage of affordable units) and describe the extent to which the *Applicant* will provide housing opportunities for *Low-Income Persons* or residents of *Low-Income Communities*; the extent to which housing will be offered in areas of high affordable housing need, including communities with high concentrations of vacancies or foreclosures or communities where housing costs are high; and/or the extent to which the housing development adheres to principles of "smart growth", including transit-oriented development.	Dropdown Menu/ Text box Maximum Response Length: 5,000 characters
	9. ENVIRONMENTALLY SUSTAINABLE OUTCOMES	☐ Yes ☐ No	Quantify (e.g. amount of reduced energy or water use by QALICB, amount of reduced energy costs by end users, etc.) and describe the extent to which the *Applicant* will finance projects which remediate environmental contamination (including addressing environmental health in *Low-Income Communities*); meet Leadership in Energy & Environmental Design (LEED) certification or similar green building standards; and/or directly support the production or distribution of renewable energy resources (e.g., biomass, hydro, geothermal, solar, wind, etc.).	Check box / Text box Maximum Response Length: 5,000 characters
	(b) Describe the *Applicant's* track record of establishing and monitoring community outcomes. Describe how the *Applicant* will track and document the community outcomes *QALICBs* are expected to achieve as a result of the *Applicant*'s *QLICIs*	Text Entry	An *Applicant* that describes a thorough track record of establishing and documenting past community outcomes and a methodology for tracking future community outcomes will score more highly on this question.	Text box Maximum Response Length: 5,000 characters

In Question 26(a)(2) - Quality Jobs, the CDFI Fund provides a definition of Quality Jobs. FAQ 90 in the CY 2023 NMTC Program Allocation Application FAQs states the applicant should clearly discuss how it defines a "Quality Job". Applicants are unclear about whether they should use the CDFI Fund's definition of Quality Jobs or provide their own definition of Quality Jobs that may differ from the CDFI Fund's definition. We request that with respect to Question 26(a)(2) - **Quality Jobs**, the CDFI Fund provides guidance that an applicant should use its own definition rather than one provided by the CDFI Fund by updating the language in the first sentence to say "Quantify (e.g., provide the number and/or percentage of total jobs) and discuss the extent to which jobs created or retained by the Applicant's planned QEIs represent quality jobs as defined by the Applicant."

We also note that the Quality Jobs definition in Question 26(a)(2) does not include all of the categories in the Job Quality Measure (Measure of Job Quality) (Column AP) Transaction Level Report data field.

On a separate but related topic, we request that applicants not be required to discuss **Quality Jobs** for temporary jobs (i.e., construction). We believe adding temporary jobs indirectly penalizes applicants who target Operating Businesses. Temporary job wage data seems most applicable to large scale construction projects, such as those that include a general contractor, not smaller scale improvements / equipment installation which are frequently the construction jobs created by Operating Businesses QALICBs.

We request that with respect to Question 26(a)(3) - **Accessible Jobs**, the CDFI Fund change the "limited language proficiency" reference to "limited English language proficiency" (if that is in fact the intended meaning).

We request that applicants not be required to provide third-party metrics for Question 26(a)(5) - **Community Goods and Services,** as it is often extremely difficult to identify appropriate metrics that reflect the unique services and space uses of different projects.

For example, some job training centers have multi-purpose rooms for resume and interview preparation, while others have specialized equipment to prepare residents for manufacturing jobs. Some youth centers focus on the arts, while others focus on STEM, while others do most of their programming outside. Because of these unique variances that affect almost all community services projects, the projected impact numbers provided by project sponsors (which are typically guided by their first-hand experience working in their existing space) are usually more relevant and reliable than "standard" metrics. However, applicants often must adjust these sponsor-projected numbers to align with a metric that is not relevant to how the space is actually used.

If metrics remain required, we recommend that applicants that have Multi-Service Community Organization (MSCO) projects in their pipeline not be required to provide third-party metrics. Many applicants are no longer including MSCO projects in their pipelines because each project is so unique that it is virtually impossible to validate them with one single metric. The result is great projects are unable to obtain NMTC financing because of the design of the Application.

We suggest that the wording "percentage of affordable units" pertaining to the **Housing Units** community outcome (Question 26(a)(8)) be broadened to make it clearer that housing units that are specifically affordable at 80% of AMI or less are not the sole type of housing impact relevant for this community outcome. This would help clarify that CDEs can support a more diverse array of housing investments that contribute to holistic community development, including workforce housing, "naturally occurring affordable housing" at 80%-100% of AMI, etc. We believe that these types of housing units, while they may not meet the strict definition of "affordable" in the context of the NMTC Application, are still highly relevant due to their importance to community development strategies to create stable, healthy, mixed-income neighborhoods. These types of projects also directly serve LIC residents by definition since every occupant is an LIC resident.

We recommend adding "**Microlending and Nonprofit Support"** as a new community outcome in Question 26(a). Having this category will allow CDEs to focus on <u>borrowers</u> who lack access to capital, in addition to projects that have a capital gap. Focusing on such borrowers has been a historical priority for the NMTC program but it is increasingly difficult to finance such borrowers due to the structure and design of the Application.

In addition to adding "Microlending and Nonprofit Support" as a new outcome, we recommend adding back **"Other"** as a community outcome category similar to the category that had been included in pre-CY 2018 applications:

> OTHER. In the space provided, please quantify and describe any other community outcomes that the *Applicant* expects to achieve, not included in items 1-10 above. [*Applicants* will be able to enter up to two community outcomes in this section of the electronic *Allocation Application*.]

An "Other" category would allow CDEs to describe new or innovative approaches to community challenges.

QUESTION 27(b) and 27(c)

Question Number	Question Text	Response	Question Notes	Field Type
27. Community Accountability and Involvement	(a) Complete Table C1. List the number and percentage of *Low-Income Community* representatives on the *Applicant's* Advisory and/or Governing Board. Discuss the role these individuals play in formulating the *Applicant's* pipeline of investments, setting investments priorities, and approving the *Applicant's* investment decisions.	Table		Table C1 Text box Maximum Response Length: 3,000 characters
	(b) Describe the *Applicant's* (or *Controlling Entity's*) process for ensuring that *Low-Income Persons* and/or *LIC* residents will benefit from its proposed investments. When answering this question, make sure to specifically discuss: • How the *Applicant* uses data to demonstrate the needs of the communities in which the *Applicant* intends to invest. • How the proposed investments will address the needs identified; and	Text Entry		Text box Maximum Response Length: 3,000 characters

	• How the Applicant will prioritize its investments to benefit *Low-Income Persons* and/or *LIC* residents.			
	(c) Explain how the *Applicant's* investment decisions, including the types of business selected, are informed by its engagement with *Low-Income Persons*, and/or residents of *Low-Income Communities*. Please note that simply consulting with the Advisory Board is not an example of community engagement. Provide 1-2 examples of past investment decisions.	Text Entry	Examples of project-specific community engagement related to past investment decisions include: • Consulting with a local government economic development agency, or local neighborhood organization and/or business association regarding projects; and • Receiving community feedback on projects at local public hearings, charrettes, or through community surveys.	Text box Maximum Response Length: 3,000 characters
	(d) Discuss the portion of the *Applicant's* planned NMTC financings/investments described in Question 17 that align with or contribute to goals identified by a broader community or economic development strategy (e.g., neighborhood revitalization plan, county or state economic development plans, local strategies to remediate environmental contamination or reduce greenhouse gases, strategies to build intergenerational wealth, etc.). Please describe how one or more of the *Applicant's* planned *QLICIs* will contribute to the goals of such strategies or initiatives.	Text Entry		Text box Maximum Response Length: 3,000 characters

The first bullet point of Question 27(b) requires the applicant to discuss "How the applicant uses data to demonstrate the needs of the communities in which the applicant intends to invest." This wording could unintentionally narrow the types of needs that get addressed with NMTC investments and place applicants at a disadvantage whose primary mission is to serve Native communities. Certain community needs such as jobs or health care are readily quantifiable and there are agencies and administrations that publish data that supports this. However, other needs in Low-Income Communities, such as access to after-school programs or opportunities for entertainment and services that improve quality of life, are not as readily supported by official data.

We propose the following alternative language for the bullet point: "How the applicant uses data (including both qualitative and quantitative) to demonstrate the needs of the communities in which the applicant intends to invest."

The NMTC program is extremely competitive. In response to the inclusion of "data" in Question 27, applicants that serve non-Native geographies will have an advantage due to the fact that more extensive government and commercial data exists related to their service areas. To avoid being placed at an unfair disadvantage, we advocate for a more holistic understanding of what constitutes "data" for CDEs whose primary mission is Native communities.

Similarly, many Native communities do not have the same types of official data that other communities have. However, many Native communities have produced their own internal data or partnered with research organizations to describe economic challenges and opportunities. Even communities that have not produced such reports are still in the best position to accurately describe their economic situation in qualitative interviews.

According to the CDFI Fund's August 2023 Community Economic Development in Indian Country Market Research Report, "the lack of accurate, relevant, and precise subject-specific data undercuts the efforts of tribes and Native organizations to promote and sustain community economic development activities. This data is not only necessary for supporting internal community economic development planning efforts, but it is also essential for allowing lenders and investors to assess the opportunities and risks associated with bringing capital to Native lands."

Alarmingly, the report then goes on to explain that Native communities are often excluded from datasets in federally funded economic research. The geographic boundaries of tribal Nations often do not match the non-Tribal political boundaries such as counties and municipalities on which much research is based. The report also explains a number of other factors outside Native communities' control that make it difficult or impossible to gather accurate economic data.

We further request that the Application FAQ makes it clear that qualitative and quantitative data are sufficient to respond to the question and that Application reviewers are given instructions to grant equal weight to the holistic definition of data we propose in this letter.

Also, we recommend against the proposed elimination of Track Record Alignment with Community or Economic Development Strategies previously included in Question 27(c). The template retains Question 27(d), which asks the applicant to discuss how proposed investments align with community or economic development strategies. However, the discussion of track record alignment with community or economic development strategies (Question 27(c) in the CY 2023 Application) has been removed.

Throughout the Application, CDEs are asked to outline planned activities and discuss how they have supported such activities in the past. We believe this structure is logical because it helps hold applicants accountable and supports the credibility of their forward-looking statements. It would make sense to preserve this element of Question 27.

Question 27(c) in the template asks "how the applicant's investment decisions, including the types of businesses selected, are informed by its engagement with Low-Income Persons…". The question also prompts examples of "project-specific community engagement." Are these two components of the question intended to be read together as asking for examples of both (a) how community engagement has informed the applicant's overall investment strategy and prioritization of general business types (e.g. community facilities, retail, industrial, etc.) and/or (b) how such engagement has informed specific investment decisions (i.e. ultimate project selection)?

Also, Question 27(c) asks about engagement with Low-Income Persons and/or residents of Low-Income Communities. However, the examples provided in the Question Notes of project-specific community engagement are not necessarily with Low-Income Persons and/or residents of Low-Income Communities. Rather, they are with Low Income Community stakeholders (i.e., local government economic development agency or a business association). We request that the CDFI Fund clarify if it is only looking for project-specific community engagement from Low-Income Persons and/or residents of Low-Income Communities or if engagement with Low-Income Community stakeholders that are not necessarily Low-Income Persons and/or residents of Low-Income Communities is equally acceptable.

Since community engagement around specific project investments is a meaningfully different concept from engagement around overall strategy, we would request that the CDFI Fund further clarify what it is seeking in this question. We request that the CDFI Fund clarify that the applicant can confirm with the QALICB that the community engagement was conducted for the specific transaction. If it is indicating that applicants must consult with local economic development agencies or obtain community feedback to score well on this question, that can be an undue burden for CDEs with larger service areas, especially for CDEs with a national service area.

QUESTION 28

Question Number	Question Text	Response	Question Notes	Field Type
	(b) Complete Table C2. Identify the *Applicant's* (and *Controlling Entity's*) personnel, including consultants and board members (if applicable) that will have a direct role in: • Providing *QLICIs*– identifying and underwriting transactions; structuring NMTC loans and *Equity Investments*; and/or providing *FCOS*; • Raising Capital from Investors – including raising tax credit equity and leveraged debt if the *Applicant* will use the leveraged investment model; • Asset and Risk Management; and NMTC Program Compliance.	Table	Be sure to identify the *Applicant's* (and *Controlling Entity's*) personnel and any and all consultants that will have a direct role in assisting the *Applicant* in managing an NMTC line of business, including consultants who assisted in preparing the *Allocation Application*. The *Applicant* should limit its personnel to individuals in leadership positions that will have a direct role managing the requested allocation. The *Applicant* should not include the names of subordinate staff that will assist or have a non-leadership role in managing the requested allocation. Also, please note that Table C2 is limited to 15 individuals.	Table C2
	(c) If the *Applicant* has received an Allocation in CY 2021, 2022, or 2023, has there been any notable changes to the *Applicant's* key personnel?	☐ Yes ☐ No ☐ Not Applicable	The most recent funding rounds are CY 2021, 2022, and 2023. *Applicants* should only report any notable changes to key personnel that were included in Table C2 of the previously awarded Allocation Application. *Applicants* must also submit a Material Event Form if required to do so by its Allocation Agreement(s) or Award Agreement(s) with the CDFI Fund.	Dropdown Menu

In Question 28(b), we request that the phrase "the names of subordinate" be removed. The term "subordinate staff" is insensitive and should be removed so that the sentence reads "The Applicant should not include staff that will assist or have a non-leadership role...."

We request that the CDFI Fund provide a definition or description of "key personnel" since it is not currently defined. We recommend that it state, "individuals in leadership positions that have a direct role managing the requested allocation, but not those who will assist or have a non-leadership role."

QUESTION 34(b)

	(b) Description of Table D2: In the narrative below, for each Financial Product identified in Question 14, explain how the *Applicant* determined that the Fee Structure and Average Fee Percentage are appropriate for the investment strategy described in this *Allocation Application*	Text Entry	• Provide a brief description of any and all fees, payments, loans, or other remuneration (type, usage), whether paid or directed to the *CDE*, a *CDE Affiliate*, or other third parties, and describe the timing of such fees in relation to the *QEI*. For example, indicate whether the fee will be reserved, charged when the *Applicant* commits to an NMTC investment, charged prior to, during or after the compliance period; retained from investment fund proceeds, paid from the *QEI* proceeds, paid from *QLICI* proceeds, or retained from the tax credit equity at the end of the NMTC compliance period. • *Applicants* that plan to charge exit fees must quantify the amount and describe the circumstances that determine when such fees will be charged, as well as the frequency these events will occur. *Applicants* that plan to retain all or a portion of the tax credit equity at the end of the NMTC compliance period must	Text box (Maximum Response Length: 4,000 Characters)

The question asks an applicant to explain, for each financial product, how it determined that the fee structure and average fee percentage are appropriate for the investment strategy described in their Allocation Application. We suggest:

- The instructions should clarify that applicants should include any fees the applicant or its affiliates charge that are contingent or conditional. For example, if applicants impose penalties on QALICBs if the NMTC closing occurs after a specific date, these fees should be described and justified.

- Guidance should be provided that more clearly states that fees imposed after the NMTC compliance period are also included in the scope of the question. Transactions do not automatically unwind at Year 7, and it is possible for CDEs to impose fees or cause a portion of the subsidy to be repaid after Year 7.

- In circumstances where the CDE retains all or a portion of the tax credit equity/"B Note" we suggest that the question more clearly ask applicants to clarify how they plan to use such retained proceeds (e.g., distributions/profit/compensation, redeployment of the capital to additional QALICBs, etc.). This would have substantial bearing on how much of the tax credit equity is being recycled to benefit additional low-income communities versus creating other economic benefits for the CDE, its affiliates, or principals.

- Guidance should be provided that more clearly states what happens to any reserves that are held by the CDE and not used during the compliance period. For example, if the CDE keeps the reserve after the NMTC investment is unwound, should it be reported as an exit fee?

QUESTION 35

Question Number	Question Text	Response	Question Notes	Field Type
35. Track Record of Raising Capital	(a) Describe the track record of the *Applicant* (or its *Controlling Entity*) raising capital from third-party sources, particularly equity capital at market or near-market rates between January 1, 2019, and the release date for the *NMTC Allocation Application* . Be sure to quantify the five-year total and subtotals, distinguishing between raising capital from profit-motivated investors; from government or philanthropic sources of capital; or using tax credits as an incentive.	Text Entry	The *Applicant* should only discuss its track (or its *Controlling Entity*) in Question 35. The *Applicant* may also refer to the qualifications and five-year capital-raising track record of individuals (e.g., staff, *Principals*, consultants) listed in Table C1 for organizations other than the *Applicant* (or its *Controlling Entity*) in Question 35. The release date for the *NMTC Allocation Application* is specified in the Application FAQ document.	Text box (Maximum Response Length: 2,000 Characters)
	(b) Discuss the experience of key personnel, consultants, and board members in raising capital from profit-motivated investors; from government or philanthropic sources of capital; using tax credits as an incentive. Reference information provided in Table C2 as appropriate.			Text box (Maximum Response Length: 3,000 Characters)

We recommend against splitting Question 35 into a part (a) focused on applicant track record of raising capital and a part (b) focused on the experience of key individuals raising capital. We believe including both concepts in a single question (as done in previous applications) will provide CDEs with greater flexibility to respond as appropriate to their circumstances without introducing the potential need to repeat similar information across two narratives.

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QUESTION 44(a)

44. Prior NMTC Investments	Have you received previous allocations?*	☐ Yes ☐ No		Dropdown menu
	If the *Applicant* answered Yes to Question 43, briefly explain the current status of its previous allocation award(s). Be sure to address: **(a)** If the *Applicant* has made *QLICIs*, describe the types of transactions that have been financed to date. The *Applicant* must discuss the projects that received the largest *QLICIs* in each of the *Applicant's* three most recent Allocations, as of the *Allocation Application* release date. If a single project received the *QLICIs* from more than one of the past three awards, see the FAQ Document (Information Regarding Previous Awards Section) for more details. If the *Applicant* has received less than three Allocations, it should discuss the three projects that received the largest investments in the last five years. See Application FAQ for additional guidance.	Text Entry	For each project identified, describe how NMTC proceeds were used, including: • How the *CDE* ensured that the NMTCs allocated did not exceed the amount necessary to assure project feasibility. • Efforts to secure alternative sources of capital in the marketplace in order to complete the project. • Any community outcomes or benefits that were generated as a result of the transaction. • The source(s) and amount(s) of leveraged debt from all sources (including the percentage of leverage sources derived from the *QALICB*, *Affiliates* of the *QALICB* and/or *Project Sponsor*), if any. • Any investment-related fees and third-party expenses paid by the *QALICB* or the *QALICB's Affiliates* that were paid either to the *Applicant*, its *Affiliates*, *QEI* investors or directly to any other parties in connection with consideration or receipt of the *QLICI* investment(s) (e.g., *CDE* upfront and on-going fees, fees and expenses associated with leverage debt, accounting, legal, on-going asset management, loan servicing, back-end fees, etc.).	Text Box Maximum Response Length: 10,000 characters

If an applicant answered "Yes" to Question 43, the 5th bullet point under this question asks the applicant (for each project identified) to provide "Any investment-related fees and third-party expenses paid by the QALICB or the QALICB's Affiliates that were paid either to the Applicant, its Affiliates, QEI investors or directly to any other parties in connection with consideration or receipt of the QLICI investment(s) (e.g., CDE upfront and on-going fees, fees and expenses associated with leverage debt, accounting, legal, on-going asset management, loan servicing, back-end fees, etc.)."

We request the CDFI Fund ensure the 5th bullet point matches the guidance it has provided related to what fees should be disclosed to the QALICB as part of a CDE's fee disclosure requirement.

Question 44(a) requires an applicant to discuss the "…largest QLICIs in each of the three most recent Allocations…" We request the CDFI Fund clarify in FAQ 133 that if an applicant has more than one transaction that would be considered the largest transaction from an Allocation, (for example two transactions that are each $10 million, which is the largest single amount invested), then the applicant should explain why it chose the transaction included in its response to Question 44(a).

TABLE A5

TABLE A5: PROPOSED TRANSACTIONS		
	State [Picklist]	
(c) Census Tract (required only if discrete project pipeline is selected; Census Tract number not required for Multi-tract projects)	(11-digit number) (Single-Tract or Multi-Tract)	
(d) Located in a *Non-Metropolitan County*?	[Yes/No]	
(e) Projected *QLICI* Closing Date	[Drop Down: 2025, 2026, 2027, 2028, 2029, 2030]	
(f) Total Project Costs	$	
(g) Total *Applicant QEI*	$	
(h) Total *Applicant QLICIs*	$	
(i) Total Non-*QLICI* Sources	$	
(j) Total *QEIs* from unaffiliated *CDEs*	$	
(k) Total number of unaffiliated *CDE(s)* anticipated		
(l) Activity Type	[Drop Down: Investment in, or loan to, *QALICB*, Investments in, or loans to, other *CDEs*]	
(m) Small Dollar and/or Revolving Loan Fund	[Yes/No]	
(n) Business Type	[Check all that apply]	-Hospitality/Tourism

Row (j) is labeled "Total QEIs from unaffiliated CDEs." We would like to bring attention to the difficulty calculating unaffiliated CDE's QEIs when the applicant does not know the other CDE's fee structure or QEI amount so far ahead of a closing.

We recommend the description of Row (j) be revised to reflect the degree of uncertainty by changing it to, "*Estimated* Total QEIs from unaffiliated CDEs."

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TABLE D2

TABLE D2 – FEE STRUCTURE					
Financial Product 1	Type	Source (Payer)	Recipient (Payee)	Amount in Percent (% of Allocation)	Description of the fee (Required).
	Upfront Fee, Ongoing Fee, Backend Fee, Other.	Investor or Investor *Affiliate*, *QALICB* or *QALICB Affiliate* fee, *QALICB* or *QALICB Affiliate* interest, Other.	*Applicant* or *Applicant Affiliate*, Unaffiliated Third-Party, Investor or Investor *Affiliate*.	0.00%	Additional information to explain the fee. If 'Other' is selected, the *Applicant* must provide an explanation using this space. (Maximum Response Length: 50 characters)
	Average Fee Percentage			0.00%	

We recommend the CDFI Fund expand the number of characters in the "Description of the Fee" field to at least 100 characters to accommodate a full sentence.

GLOSSARY OF TERMS

Disadvantaged Business	A *Disadvantaged Business* meets one of the following. 1. A business that is located in: a. a *Persistent Poverty County;* b. a *NMTC Native Area; or* c. a U.S. Territory 2. A business that is *Low-Income Person-owned or -controlled* 3. A business with annual revenues that do not exceed $100,000 at the time the loan or investment was closed 4. A non-profit business that is primarily serving *Low-Income Community* residents or *Low-Income Persons*

"Disadvantaged Business" In previous versions of the Application, a Disadvantaged Business has been defined as a business that is (a) located in a Low-Income Community; (b) Low-Income Person-owned or -controlled; or (c) a business that has inadequate access to investment capital. We strongly disagree with the proposed change to the Disadvantaged Business definition.

The definition in the proposed Application effectively maintains item (b), but replaces item (a) with:

> A business that is located in:
> a. a Persistent Poverty County;
> b. a NMTC Native Area; or
> c. a U.S. Territory

and replaces item (c) with two new categories that include a business with annual revenues that do not exceed $100,000 at the time the loan or investment was closed, or a non-profit business that is primarily serving Low-Income Community residents or Low-Income Persons.

Many CDEs have deliberately targeted businesses that met the original definition and therefore indicated a high percentage of financing to Disadvantaged Businesses. Changing the definition now will adversely affect these CDEs, which would have to lower the indicated amount of financing to DBCs in Tables B1-4. In fairness to these CDEs, we suggest maintaining the original language. If the CDFI Fund doesn't include "a business that has inadequate access to investment capital" in the new definition, we suggest delaying implementation of the definition change to the CY 2025 allocation application (and grandfathering the previous definition for data through the CY2024 allocation application) to give sufficient time for these CDEs to modify their business strategies to remain competitive.

Or, as an alternative, we recommend a modified definition of "Disadvantaged Business" to replace part (c) of the original definition with "(c) a business that has inadequate access to traditional bank debt or investment capital impaired in its ability to compete in the economic mainstream by inadequate access to traditional bank debt or investment capital because of personal or business factors or historic barriers (e.g. businesses that are owned by minorities, veterans, women, or ex-convicts and rural businesses and communities) excluding them from capital as compared to others in the same or similar line of business which are not so disadvantaged."[1]

The rationale for the proposed modification is based on many CDFIs having as their primary financing activity the provision of flexible capital to small and micro businesses. While many of these businesses are in Low-Income Communities or owned by Low-Income Persons, all of them lack access to flexible capital from traditional lenders. Many of these businesses are excluded from mainstream capital sources because of personal barriers (such as credit history, educational levels, or employment experience) or business factors (such as track record, profitability, collateral, leverage, etc.). In addition, many of these businesses are owned by individuals who have been historically excluded from traditional lending because of prejudice, bias or discrimination stemming from race, ethnicity, gender identity, physical disadvantage, incarceration records, limited language proficiency, or other similar causes. Some businesses that have diminished opportunities due to these other factors may not be in a Low-Income Community or owned by a Low-Income Person, but still struggle to compete on a level playing field. The proposed change to the definition of "Disadvantaged Business" will eliminate those businesses who lack access to capital, but which need the intervention of CDFIs and so should be included. Furthermore, the CDFIs' responses on Table B regarding their loan/equity investment volumes to Disadvantaged Businesses and Communities will drop significantly and may result in lower review scores per past debriefing letters.

Not only would the change to the Disadvantaged Business definition be disruptive, after 19 years of using the current definition, but it could also negatively impact CDEs with long track records of serving Disadvantaged Businesses and could exclude high impact job creation projects, including minority-owned businesses and healthy food grocery projects, in severely distressed LICs that do not fall into these very specific categories. Furthermore, the proposed change does not adequately define a Disadvantaged Business, nor is it consistent with the original intent of the NMTC program, which was to increase access to capital and investment in low-income areas.

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[1] This definition is based upon the Small Business Administration's definition of "economically disadvantaged individuals" and "socially disadvantaged individuals" (13 CFR 124.103, 124.104).

For example, per a May 2023 Census Report, and illustrated on the map below, only 37 states have 1 or more Persistent Poverty Counties. California has only 3 Persistent Poverty Counties (out of 58); there are zero Persistent Poverty Counties in all of New England.[2] Another issue with Persistent Poverty Counties is that the designations change depending on what year of Census data is used. This May 2023 Census Report uses data from 1990, 2000, 2005-2009, & 2015-2019.

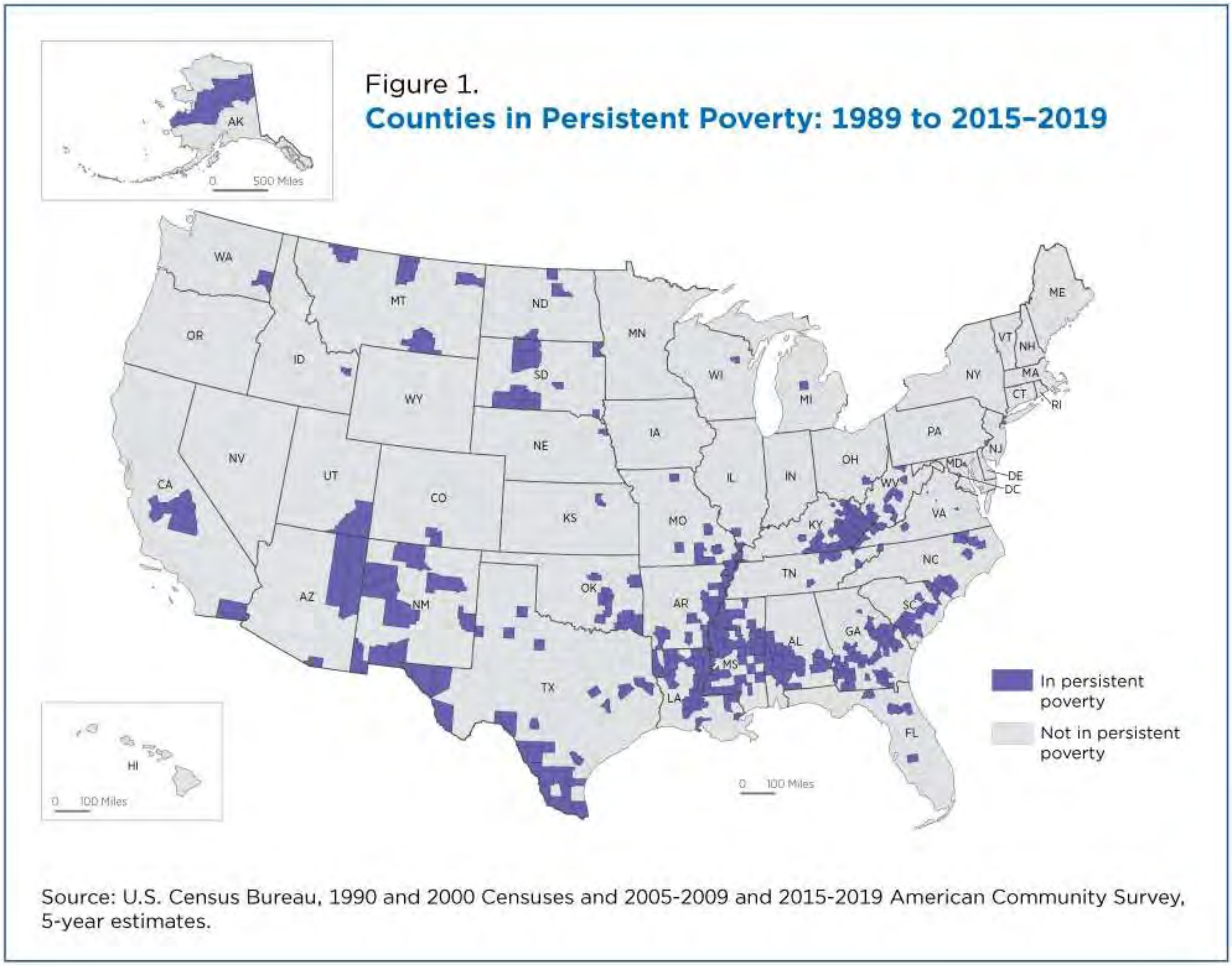

Figure 1.
Counties in Persistent Poverty: 1989 to 2015–2019

Source: U.S. Census Bureau, 1990 and 2000 Censuses and 2005-2009 and 2015-2019 American Community Survey, 5-year estimates.

CDEs already invest in census tracts with poverty rates that well exceed the 20% level for persistent poverty. Per the CDFI Fund's NMTC Public Data Release FY 2003 to FY 2021 Summary Report (August 2023), 78.8% of FY2021 investments were made in areas that met at least one of the primary Severe Distress criterion. Many of these census tracts may very well be tracts with persistent poverty. For example, 35 counties in California have census tracts with persistent poverty (per Census report/link above). For that reason, it would be preferable to add Persistent Poverty Census Tracts as an option, instead of just Persistent Poverty Counties.

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[2] https://www.census.gov/library/stories/2023/05/persistent-poverty-areas-with-long-term-high-poverty.html

We recommend against incorporation of the <$100,000 revenue threshold because annual revenue alone is not a clear indicator of a business's strength or access to capital. For instance, a startup tech firm backed by high-net-worth investors should not be considered a disadvantaged business simply because it is in a pre- or early-revenue stage of development. On the other hand, a small minority-owned business that does not happen to be in a Low-Income Community should not be excluded from consideration as a disadvantaged business simply because it had $150,000 in revenue.

It is also difficult to apply a "one size fits all" revenue metric to define a small or disadvantaged business across industries. This is illustrated by the U.S. Small Business Administration's "Table of Small Business Size Standards," which defines "small business" by NAICS code. On the low end of the SBA standards barber shops, drycleaners, and auto shops are all considered "small businesses" if they have less than $9.5 million in average annual revenue. A home builder, on the other hand, can have up to $45 million in annual revenue and still be considered a "small business".

Different business types have dramatically different operating margins and challenges that are not captured in topline revenue numbers, but nonetheless impact their viability and access to traditional forms of capital.

If the CDFI Fund intends to have criteria that is small business focused, we recommend part 3 of the Disadvantaged Business definition be revised to meet the criteria of Small Disadvantaged Business[3] as set by the SBA:

- The firm must be 51% or more owned and controlled by one or more disadvantaged persons.
- The disadvantaged person or persons must be socially disadvantaged and economically disadvantaged.
- The firm must be small, according to SBA's size standards.

We further recommend adding language for an additional criterion: "A business unable to locate, thrive or grow in a low-income community because it lacked access to traditional commercial bank debt or investor equity in similar amounts or financing terms at the time the loan or investment was closed." We believe this change will better support the desired policy goal of directing additional investment to populations, geographies, and businesses experiencing deep economic distress.

We request the CDFI Fund clarify what "primarily" means in part 4 of the definition: a non-profit business that is primarily serving low-income community residents or low-income persons. We recommend that it means that it is the largest activity of the non-profit business rather than a certain percentage. For example, if 40% of a non-profit's activities served low-income community residents or low-income persons and none of its other activities served more than 40%, it would be deemed to meet part 4 of the definition.

We request the CDFI Fund clarify whether the business needs to be in an LIC before or after the investment is made to count as investing in a Disadvantaged Business.

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[3] This definition is based upon the Small Business Administration's definition of "Small Disadvantaged Business" (13 CFR 124.1001).

Furthermore, we recommend amending part (b) of the original definition "A business that is Low-Income Person-owned or – controlled" to include:

- A nonprofit organization that works to serve low-income communities and/or low-income persons with a board that is comprised of 50% or more of Low-Income Persons; or

- 50% or more owned by a Socially Disadvantaged Person which is defined as "Socially disadvantaged individuals are those who have been subjected to racial or ethnic prejudice or cultural bias within American society because of their identities as members of groups and without regard to their individual qualities. The social disadvantage must stem from circumstances beyond their control." (C.F.R. Title 13 Chapter 1 Part 124 (specifically 124.103)

Enforcement Action	An action or administrative order, including but not limited to, consent order, cease and desist order, Prompt Corrective Action (PCA) directive, safety and soundness order, agreement, memorandum of understanding, commitment letter, taken by a federal regulator or agency (e.g., FDIC, OCC, NCUA, FRB, CFPB) when a regulated financial institution is found to be in an unsatisfactory condition (e.g. violations of laws, rules or regulations, final orders or conditions imposed in writing; unsafe or unsound practices; and for breach of fiduciary duty by institution-*Affiliated* parties).

"Enforcement Action" According to the CDFI Fund's Glossary of Terms, the definition of an Enforcement Action is an action or administrative order, including but not limited to, consent order, cease and desist order, PCA directive, safety and soundness order, agreement, memorandum of understanding, commitment letter, taken by a federal regulator or agency (e.g., FDIC, OCC, NCUA, FRB, CFPB) when a regulated financial institution is found to be in an unsatisfactory condition (e.g. violations of laws, rules or regulations, final orders or conditions imposed in writing; unsafe or unsound practices; and for breach of fiduciary duty by institution-Affiliated parties).

We recommend that this definition be amended "is a formal action or administrative order…" to increase transparency for new applicants that are federally regulated financial institutions by making clear the requirement is to disclose information on formal, publicly available enforcement orders, not informal agreements with federal regulators that have the potential to negatively affect an application score.

Minority-owned or Minority-controlled	A Minority-owned or Minority-controlled entity is a: a. Minority-owned for-profit entity: A for-profit entity that is not a MDI and that has at least 51% of its equity ownership (or the equivalent in limited liability companies) interest being owned by individuals who identify themselves as American Indian or Alaskan Native, Asian, Black or African American, Hispanic or Latino, or Native Hawaiian or Other Pacific Islander; b. Minority-controlled not-for-profit entity: A not-for-profit entity with at least 51% of its Board of Directors (i.e. Governing Board) comprised of individuals who identify themselves as American Indian or Alaskan Native, Asian, Black or African American, Hispanic or Latino, or Native Hawaiian or Other Pacific Islander; or c. Minority Depository Institution (MDIs): An entity that is designated by the FDIC as a Minority Depository Institution. The CDFI Fund will rely on the categories established by the 1997 Office of Management and Budget (OMB) standards to define American Indian or Alaskan Native, Asian, Black or African American, Hispanic or Latino, and Native Hawaiian or Other Pacific Islander.

"Minority-owned or Minority-Controlled" According to the CDFI Fund's Glossary of Terms, the definition of a Minority-owned or Minority-controlled entity is a:

a. Minority-owned for-profit entity: A for-profit entity that is not a MDI and that has at least 51% of its equity ownership (or the equivalent in limited liability companies) interest being owned by individuals who identify themselves as American Indian or Alaskan Native, Asian, Black or African American, Hispanic or Latino, or Native Hawaiian or Other Pacific Islander;

b. Minority-controlled not-for-profit entity: A not-for-profit entity with at least 51% of its Board of Directors (i.e., Governing Board) comprised of individuals who identify themselves as American Indian or Alaskan Native, Asian, Black or African American, Hispanic or Latino, or Native Hawaiian or Other Pacific Islander; or

c. Minority Depository Institution (MDIs): An entity that is designated by the FDIC as a Minority Depository Institution.

We believe the definition of "**Minority-owned**" should be more comprehensive than >51%. It is well understood that in a diverse ownership group, a person with less than 50% ownership may still control the board of that organization. And in fact, the way many businesses grow is by the founder taking on friends and family investments to the point where he or she might be diluted below 50%, yet still effectively control the company given the fragmentation of the remaining ownership.

Furthermore, a for-profit entity may also have a corporate owner and not individuals. In this instance, it would be appropriate to have the same definition as the non-profit entity and look to the composition of the board of directors.

We recommend the definition of "**Minority-owned**" be broadened as follows:

> "A for-profit entity that is not a MDI and that, in the case of an entity owned by one or more individuals, (a) has at least 50 percent of its equity ownership interest being owned by individuals who identify themselves as American Indian or Alaskan Native, Asian, Black or African American, Hispanic or Latino, or Native Hawaiian or Other Pacific Islander, or (b) has at least 30 percent of its equity ownership interest, if said ownership interest is the largest single shareholder or membership interest, being owned by an individual who identifies him or herself as American Indian or Alaskan Native, Asian, Black or African American, Hispanic or Latino, or Native Hawaiian or Other Pacific Islander, or, in the case of an entity owned by a corporation and governed by a Board of Directors, or (c) has at least 50 percent of its Board of Directors (i.e. Governing Board) comprised of individuals who identify themselves as American Indian or Alaskan Native, Asian, Black or African American, Hispanic or Latino, or Native Hawaiian or Other Pacific Islander."

Furthermore, we believe the definition of "**Minority-Controlled**" is too narrow. Having a majority of board members who are minorities is certainly one way to evidence minority control but in most nonprofits the real impact of minority presence is in the Executive Director, who sets the tone for the organization, makes hiring and firing decisions, and is the example in the community. Unfortunately, that minority Executive Director can also bring out the biases in the financial community, thus making that organization important for impact investors.

We propose the following changes to the definition of "**Minority-Controlled**":

> "A not-for-profit entity with either (a) at least 50 percent of its Board of Directors comprised of individuals who identify themselves as American Indian or Alaskan Native, Asian, Black or African American, Hispanic or Latino, or Native Hawaiian or Other Pacific Islander, or (b) an Executive Director or President who identifies as American Indian or Alaskan Native, Asian, Black or African American, Hispanic or Latino, or Native Hawaiian or Other Pacific Islander."

We also request the CDFI Fund consider broadening the list of groups that individuals may identify as to include those that identify as a person of color that is not a U.S. citizen.

PROPOSED BUSINESS STRATEGY QUESTION AND CONCEPT

In response to the CDFI Fund's invitation for comments on various aspects of the NMTC Application, including "(f) whether any additional questions or factors should be considered as part of the NMTC Application and/or review process with regards to the Business Strategy section.", we recommend adding an inquiry to the Business Strategy section about the applicant's strategy and procedures to maximize the efficiency and financial impact of its investments for QALICBs. Currently, these concepts are only addressed in sections of the Application that are not scored by the Round 1 reviewers, such as Question 34(a)-(b) and Question 39, which perhaps undersells their importance.

NMTCs are a scarce and highly sought-after resource that is vital within the fragile capital stacks of many community development projects. Given that they are essentially applying to be a good steward of Federal resources, it would seem important for a CDE to craft a business strategy that includes strong consideration around how to drive maximum benefit to the QALICB.

REPORTING REQUIREMENTS

TABLE 2: QEI ISSUANCE AND QLICI REQUIREMENTS:

Prior Round Allocation	Finalized QEI Requirement	Rural CDE Finalized QEI Requirement	QLICIs
CY 2018	100%	100%	As stated in Schedule 1, Section 3.2(j) of the applicable Allocation Agreement.
CY 2019	90%	90%	
CY 2020	70%	70%	
CY2021	40%	40%	
CY 2022	20%	0%	

We request that the CDFI Fund 1) consider announcing the QEI/QLICI deployment deadlines associated with the CY 2024 round at the same time as the CY 2023 awards are announced, rather than waiting for the CY 2024 NOAA to provide that information; and 2) making the QEI Issuance and QLICI requirements the same for non-Rural CDEs as Rural CDEs by changing the most recent prior round requirement in Table 2 of the NOAA to 0% for all CDEs, rather than just Rural CDEs.

When CDEs receive a new award, they immediately start making deployment decisions and during the window between the award date and the issuance of the NOAA they are doing so in a vacuum based on speculation. CDEs need as much predictability and leeway as possible to plan their deployment, underwrite their robust pipelines and adjust to the shifting needs of projects. Given NMTC closings typically take about 3 months on average to close and the time from the NMTC award announcements to the QEI and QLICI issuance threshold date has recently been less than 6 months, this provides a short window of time for CDEs to underwrite their robust pipelines once their allocation agreement commitments become clear. First-time CDEs are at a particular disadvantage from being eligible to reapply due to the additional time it takes to set up processes to deploy their first allocation. Reducing the QEI Requirement to 0% for the most recent round awards for all CDEs would help alleviate these issues.

SCORING PROCESS

Scores have become increasingly compressed at the highest end of the scoring range, with an applicant's likelihood of success now more likely to be a reflection of which applications were "well written" and/or which reviewers were assigned to read the application, rather than the relative merits of the application. The CDFI Fund should consider a range of changes to the application review process to ensure that outcomes better reflect the relative capabilities of the organizations applying for allocations, rather than the skills of the application writers or the variances of the application reviewers.

In the initial rounds of the NMTC Program, three different reviewers reviewed each application, each of whom could provide a score of up to 110 points (inclusive of 5 bonus points each for the two statutory priorities). Each application could therefore receive a total score of 330 points, and there were minimum overall scores and scores within each section needed for an application to be considered minimally qualified to receive an award. Applications that met the minimum thresholds were advanced to an internal CDFI Fund application review panel, which reviewed applications in descending order of score and provided each with award amounts until the allocations were exhausted.

The CDFI Fund has generally maintained this same approach in ensuing years, with two significant changes along the way. First, it determined that applications would only be scored on the Business Strategy and Community Impact sections; and concurrently, the bonus points would be cut in half. This change lowered the highest possible score from 330 points to 165 points. Second, it subsequently determined to reduce the initial reviewer number from three reviewers to two reviewers, thus lowering the highest possible score from 165 points to 110 points. These two changes effectively meant that applications that were once scored on a range of 330 points are now being scored within a range of 110 points, leaving far less room for reviewer discretion. If you get a reviewer that gives a low score, you have half the opportunity to get a good overall score. In other words, there is only one counterbalance, when there used to be two.

At the same time, the applications submitted have gotten significantly stronger. This can likely be attributable to three factors: (i) greater transparency within the application guidance and in the debriefing guidance; (ii) an increasing reliance on outside consultants to write applications; and (iii) an increasing number of organizations that have received multiple allocation awards, and thus can provide stronger responses to many of the questions, particularly those regarding track record.

All of these dynamics have collectively resulted in an unsustainable clustering of applications at the very highest end of the scoring range. In the CY 2022 application round, 130 of the 197 scored between 104-110 (top 95%), and only 102 of those could be awarded. This meant that 28 different CDEs failed to get awards likely by a point or two, and many more were left out that may have been just three or four points below this threshold. There is likely not a substantive distinction between any of these "runner up" applications from the winners, such that it is quite likely that a different set of reviewers would have led to a different outcome. With so much at stake for each individual application, reviewer variance or how well an application is "written to the test" should not be the primary determinant of which applicants receive awards.

Recommendations on Scoring:

1. **Broaden the range of scoring outcomes.** The CDFI Fund should increase the number of choices a reviewer can select from regarding each scored question and increase the base application score to 100 points, or 50 points for each of the Business Strategy and Community Impact sections. Expanding the range of multiple choices and the points assigned to them by the CDFI Fund will allow for reviewers to better differentiate which applications are excellent vs very good vs good, and hopefully diminish the likelihood of so many applications clustered at the highest end of the scoring range.

2. **Update application questions and reviewer guidance to tease out more nuance in the application strategies.** Application reviewers are reviewing applications in such a way that it is leading them to deem an overwhelming portion of the application pool as extremely highly qualified. While there are quantitative elements to the application questions, many are qualitative – and that is where reviewers should be instructed to better separate out the ones that are truly performing at a higher level than others. Ideally, the final range of scores should be closer to a bell curve than the extreme positive skewing we are currently seeing.

3. **Return to using three reviewers.** In addition to providing a greater range of scoring outcomes (e.g., 165 points vs 110 points under the current scoring model), this will also better enable the CDFI Fund to identify anomalous scores on a given application. With two reviewers that have divergent scores, it is not readily discernable which reviewer is likely anomalous. A third reviewer provides a median score, allowing the CDFI Fund to better identify when a fourth application review may be necessary to remove an anomalous score.

4. **Revise reviewer conflicts of interest policies**. We understand from those who have applied to review applications in recent rounds that the CDFI Fund's reviewer conflict of interest policy makes ineligible any potential reviewer who, on an independent contractor basis, consults with or provides legal or other professional advice regarding an application to any applicant. We believe this policy severely narrows the field of potential reviewers and does a disservice to the program by reducing the number of well-qualified reviewer applicants. We suggest that the CDFI Fund adopt a conflicts of interest policy that would require a potential reviewer to disclose the current round applicants with whom they, or anyone in their organization and its affiliates, have a professional relationship as an independent contractor. If the reviewer does not have any conflicts in the current round, even though they may have provided services to applicants in a prior round, the reviewer would be eligible to review applications in the current round. We would expect that any person who is an employee of any applicant would be ineligible to review Applications on behalf of the CDFI Fund.

5. **Assess which reviewers may be outliers in real time.** If the CDFI Fund maintains its use of only two reviewers, it should consider trying to determine whether any

application pool is being disadvantaged because the two reviewers happen to both be harsh graders. The CDFI Fund could do this by assigning the same application to every single review team, and seeing where each reviewer grades this application. The reviewers would not be made aware of which application is this “test” application. If it is learned that two readers provide much lower scores than the mean have been assigned to the same application pool, that entire pool could be reassigned.

We request the CDFI Fund provide more information related to the scoring process and its preferences in the Application or NOAA. We believe that this quantitative information would allow applicants to better understand the CDFI Fund’s allocation priorities and respond appropriately. Although the CDFI Fund has provided TIPs/NOTEs in the Application they do not adequately explain the CDFI Fund’s priorities. However, many applicants have tried to infer what the CDFI Fund's priorities are based upon the questions they ask or add in subsequent application rounds.

We recommend a debriefing letter that includes the actual score received for each section (as opposed to a range) and overall rankings be sent to each applicant rather than only being sent to applicants that do not receive an allocation. We believe that by revealing more details regarding the scoring process to applicants the administration of the review process will remain manageable for the CDFI Fund while also providing more detailed information to the applicants that will allow them to focus their overall business strategy and application content on the priorities of the CDFI Fund.

We recommend the CDFI Fund clarify what causes successful applicants to receive reductions in their award amounts. The range of award amounts over the past several years would seem to indicate a “tiering” of applicants that we suspect is not based on the score an application received, but rather on other factors that are not transparent to the applicants. Applicants should be made aware of whatever “formula” the CDFI Fund is applying to arrive at the final award amounts for a given application pool; or if it is more of a qualitative determination, the factors that are being taken into consideration when adjusting award amounts.

If an applicant scored high enough in Phase 1 to move on to later phases of the review process but did not receive an award, we recommend the CDFI Fund explain to the applicant the specific reason the applicant did not receive an award. The current debriefing letter describes a myriad of reasons why this outcome could occur, many of which overlap with the Phase 1 scoring. Applicants that find themselves in this situation are left to guess why, after being successful in the highly competitive first phase, they were passed over. As applicants continue to devote considerable time and resources to the application process, they deserve to know why they were not successful so they can analyze whether, and how, they can be successful in future rounds.

CHARACTER COUNT

We do not support any character reductions as this does not allow for an adequate explanation of the complexities of each CDE, which can require more characters for certain responses. We particularly disagree with cutting 5,000 characters from Question 31(b). If a reduction is required, a more gradual approach to 8,000-8,500 is recommended.

Conclusion

We are excited about the positive impact that the New Markets Tax Credit Program is having on the nation's Low-Income Communities and Low-Income Persons. We appreciate the opportunity to submit our comments on the CY 2024-2026 NMTC Allocation Application template. Thank you in advance for your time and consideration. Please do not hesitate to contact us if you have any questions regarding our comments or if we can be of further assistance.

Yours very truly,
Novogradac & Company LLP

by Brad Elphick

Brad Elphick