ADVANTAGE

CAPITAL

PARTNERS

JUL 1 0 2007

July 5, 2007

VIA E-MAIL and US MAIL
NMTC Program Manager
CDFI Fund
U.S. Department of the Treasury
601 13th Street, NW,
Suite 200 South
Washington, DC 20005
cdfihelp@cdfi.treas.gov

Through our affiliate, Advantage Capital Community Development Fund, L.L.C. (the "Fund"), Advantage Capital Partners has been an active participant in the New Markets Tax Credit ("NMTC") Program since its inception. The Fund is a national allocatee and has received $230 million in allocations in three separate allocation rounds. Through both the Fund and our non-NMTC operations, we have made investments in both metropolitan and non-metropolitan areas of the country, primarily in operating businesses. All regions of the country should enjoy the benefits of the NMTC Program, and we support Congress' efforts to ensure that non-metropolitan counties in particular are included.

The Alliance for Economic Development, of which we are a member, has submitted a comment letter to the CDFI Fund which sets forth several principles that it believes should guide the CDFI Fund in structuring its response to Congress' directive. We are in agreement with those principles, but wanted to also offer direct responses to the questions posed in the Request for Comments and to suggest some specific potential allocation mechanisms, all of which, we believe, are consistent with the principles proposed by the Alliance. We appreciate the opportunity to comment on these issues and respectfully submit the following comments.

Generally, it is our opinion that any attempt to drive QEIs to non-metropolitan counties should include an allocation process that focuses on two factors: (i) an applicant's past track record of investment in non-metropolitan counties and (ii) its future commitment to making Qualified Low-Income Community Investments ("QLICIs") in such areas. Specifically, we suggest that an applicant that has a track record of successfully investing in non-metropolitan counties and commits to make a portion of its QLICIs in such communities be granted priority points or higher scoring with respect to allocation awards, without regard to the location of its headquarters or investors. The CDFI Fund should use applicants' commitments to make allocation decisions that will result in non-metropolitan counties receiving a proportionate amount of NMTC activity and hold

NEW ORLEANS 909 Poydras Street, Suite 2230 • New Orleans, LA 70112 • (504) 522-4850 • (504) 522-4950 (fax)
SAINT LOUIS www.advantagecap.com
NEW YORK
TAMPA

each successful applicant to its commitment with respect to non-metropolitan investing through a covenant in its allocation agreement.

With respect to the specific questions raised in the Request for Public Comments published in the Federal Register on May 22, 2007, we offer these more specific comments:

1. *Allocation of QEIs:* It is our opinion that the CDFI Fund's efforts to ensure that a desired proportion of QEIs are allocated to non-metropolitan communities should not focus on the location of a CDE's investors, headquarters or principal service area. Rather, we suggest that allocation decisions focus on an applicant's experience in and commitment to making investments in non-metropolitan counties.

(a) *Location of investors*: Location of a CDE's investors should generally be irrelevant to allocation decisions. It is the ability and knowledge of the applicant CDE in making non-metropolitan investments that should be the paramount concern when making these decisions. A CDE should be free to tap into all available funding sources in order to best execute its business plan.

For a CDE to have the maximum impact on the QALICBs it funds and the communities in which they are located, it must identify the most efficient and low-cost capital providers possible. Doing so increases the portion of the NMTC benefit that can be passed onto the underlying QALICBs in which the CDE invests. Limiting the potential pool of capital which a CDE can access necessarily increases the cost of its capital because competition is reduced. With a higher cost of capital, the CDE has less NMTC benefit to deliver to non-metropolitan businesses. Typical NMTC investors are highly sophisticated entities that are able to analyze the risk and potential for return with respect to investments regardless of their location.

An allocation system that limits a CDE's financing options to investors that are located in non-metropolitan areas might also have the perverse effect of making it more difficult to raise capital for investment in these communities, as CDEs may be unable to identify investors that have sufficient sophistication and size to allow full implementation of their business plans. Further, there is no guarantee that capital raised from a non-metropolitan investor will ultimately be used to make investments in non-metropolitan counties.

(b) *Location of allocatees:* Similarly, the location of a CDE's headquarters is not necessarily a good indicator of its ability or intention to make QLICIs in non-metropolitan counties. For example, Advantage Capital is headquartered in a metropolitan area but has invested quite a significant amount of money in non-metropolitan areas. In fact, by dollar amount, we have been one of the largest investors in rural Louisiana over the last few years. Focusing on CDEs that are headquartered in non-metropolitan counties also artificially limits the pool of potential allocatees and may hinder the CDFI Fund's ability to identify a sufficient number of quality CDEs to ensure that the goal of proportional allocation is met. There simply may not be that many CDEs that are located in such areas that are capable of providing the impact that other CDEs are.

Additionally, focusing on CDEs in non-metropolitan areas may undercut one of the most important goals of the program as a whole: bringing the sophistication of the market as a whole to low-income communities. Often, the most significant impact of a CDE's involvement in a community comes from its bringing the financing tools and management expertise that are available to companies in economically thriving areas available to companies in economically distressed communities. This is unlikely to occur if only non-metropolitan CDEs are making QLICIs in non-metropolitan areas. With its past allocation decisions the CDFI Fund has not limited the program or given priority to CDEs that are headquartered in low-income communities, realizing that one of the most important aspects of the program is connecting the most financially sophisticated investors, regardless of their location, to businesses in these communities. There is no reason to treat non-metropolitan areas any differently.

(c) *Principal service area of allocatees*: In our opinion, a CDE's principal service area is also an arbitrary criterion to use. Many CDEs have varied operations and are active in metropolitan areas as well as non-metropolitan areas. This is particularly true of large, national CDEs. If a CDE's mix of investments are largely (60-75%) metropolitan, it could score badly even if the CDE has a significant track record of rural investing and commits to use a sizeable portion of its allocation in such areas. The current rules prohibit a CDE from filing two separate applications (i.e. one for its metropolitan areas or one for non-metropolitan areas); therefore, for larger, national CDEs with a wide mix of investment activities, there is no way to qualify under the principal service area test.

In our opinion, the CDFI Fund would be better off requiring each applicant to indicate what percentage of its QLICIs will be made in non-metropolitan counties. Applicants that indicate a certain percentage should then be held to that number through a covenant in their allocation agreements. The CDFI Fund can then reach a desired portion of the overall NMTC investments that are made in non-metropolitan areas by aggregating the percentages from all successful applicants. As a further refinement, as we discuss below, priority points should be given to those applicants that can demonstrate a track record of rural investing. By addressing the allocation in this way, the CDFI Fund can ensure that a certain proportion of investments are made in the desired areas, but not create arbitrary categories of CDEs that might result in some of the most qualified CDEs being excluded as they do not fit within the technical parameters of the category.

(d) *Location of QLICIs:* To us, focusing on where the funds will ultimately be invested, and holding applicants to their commitments with respect to rural investment levels, is the best way to produce the desired result of having non-metropolitan counties receive a proportionate amount of the NMTC Program's benefits. The object of the

NMTC Program is job creation and development of low income communities. Thus, it is the location of the QALICBs and the actual job creation and associated economic development that should be the true measurement of the program's reach. Where the money comes from (investor location) is largely irrelevant and, provided it has a track record of successful investing in similar areas, neither the location of a CDE's headquarters nor its principal service area should be an important consideration.

2. *Proportionality:*

(a) As mentioned above, we regard alternative (d) as better than alternative (a) or other alternatives. In implementing alternative (d), it is our opinion that the calculation of "proportional" should be based on the proportion of the U.S. population that resides in non-metropolitan areas. Once again, the objective of the NMTC Program is to assist the citizens that live in low-income communities by creating jobs and wealth and enhancing development. As such, the measure should be the location of the people and not the location of potentially arbitrary political boundaries.

(b) While we do not favor either alternative (b) or (c), we contend that proportionality should be based upon the percentage of allocation that will be focused on non-metropolitan counties as outlined in applications. For example, a small allocatee requesting $10m of allocation that specifies 100% of its investment to be focused on non-metropolitan counties should be viewed the same as a larger allocatee requesting $100m of allocation that specified 10% of its investment will be focused on non-metropolitan counties.

(c) *Measure of percentage of QLICIs:* It is our opinion that the measure of the percentage of QLICIs made in non-metropolitan areas should be based on the total dollar amount of those QLICIs rather than their number. It is far easier for a CDE with multiple lines of business to set aside a certain portion of its overall investment dollar allocation to a particular type of investing than to constantly manage the size of its investments so that it maintains a certain ratio with respect to number of investments.

3. Review Process:

(a) *Priority points:* We believe that a priority point system is best used to identify those applicants that have relevant experience in non-metropolitan counties. The current application process awards priority points for those applicants that have a track record of successful low-income community investing. This makes sense, as the investment experience of a CDE is vital to the analysis of whether it can successfully live up to the commitments in makes in its application and allocation agreement with respect to such investing. This is even more important when the analysis is driven to a more specific level, namely low-income communities in non-metropolitan areas. As the investment parameters become narrower, investment experience within those parameters grows in importance.

We do not believe, however, that there should be priority given with respect to the amount of non-metropolitan investing a CDE commits to do, unless it is necessary to ensure that the overall desired amount of non-metropolitan investing is achieved. Giving a priority to this type of investing may result in CDEs shifting their investment strategies towards this type of investing which is likely to result in a disproportionate (too large) allocation of NMTC activity to these areas. The CDFI Fund should be able to reach the desired percentage of the overall NMTC allocation going to non-metropolitan areas by aggregating the percentages of non-metropolitan investing that its most qualified applicants agree to make. Only in the situation where this process would not result in the desired amount, would we suggest that the level of rural investing to which a CDE commits result in an allocation preference.

(b) *Re-ranking of applicants:* Consistent with our comments above, we believe the answer to this question is no. Applicants should be ranked on overall quality of their applications, including priority points for a past history of non-metropolitan investing. If and only if the levels of investing that the top applicants agree to do in rural areas are insufficient to meet the proportionality goal, would we suggest that lower-scoring applicants get a score boost so that the program, on a whole, can meet the proportionality goal.

4. *Compliance:* As suggested above, applicants should be required to commit to make a certain percentage (which could be zero for certain applicants) of their QLICIs in non-metropolitan counties. Allocatees should be held to the percentages they specify through a covenant in their allocation agreements.

If you would like to discuss these issues further or need any further information about Advantage Capital Partners and its NMTC operations, please do not hesitate to call me or 504-522-4850.

Sincerely,

Michael T. Johnson
Managing Director

MTJ/jht