November 14, 2006

Sent Via Mail, E-Mail and Facsimile

Mr. Matt Josephs
NMTC Program Manager
Community Development Financial Institutions Fund
U.S. Department of Treasury
601 13th Street, N.W., Suite 200 South
Washington, DC 20005

Dear Matt:

Earlier this year, we provided comments on the 2006 New Markets Tax Credit ("NMTC") Program Allocation Application. We appreciate the time and effort the Community Development Financial Institutions Fund (the "CDFI Fund") spent considering our recommendations. As participants in the NMTC industry, we, the undersigned, have again joined together to provide the CDFI Fund our comments on the Draft 2007 NMTC Program Allocation Application (the "Application"). For your convenience, we have summarized our comments below:

Question 17 –Flexibility of QLICI rates and terms

Question 17 requires the Applicant to commit that 100% of its QLICIs will have one of five levels of flexible or non-traditional terms. The current choices available to an Applicant related to debt with below market interest rates are interest rates that are a certain percentage below market. We believe that if an Applicant must commit to interest rates at specific percentage below market, loan products subsidized with NMTCs may become financially infeasible as interest rates change over time.

To illustrate our concern, please consider this example. A CDE is able to offer market rate loans at a 30 Day LIBOR rate + 2%. In Year 1, the 30 Day LIBOR is 2%, so market rate loans would be 4%. The CDE uses the NMTC subsidy to offer a loan product that is 200 basis points below market. With the NMTC subsidy of 200 basis points, the CDE is able to make QLICIs at 2%, which is 50% below market. This would satisfy a 50% below market requirement. In Year 3, the 30 Day LIBOR rate increases to 6% which causes the market rate to be 8%. The amount of NMTC subsidy will remain constant since it will not be affected by changing interest rates over time. Using the 200 basis points of NMTC subsidy, the CDE will be able to make QLICIs at 6%, which is only 25% below market rates. In this scenario, the CDE will be unable to satisfy the 50% below market requirement over time due to the increase in the cost of funds.

We recommend that the options for percentages below market in subsections (a) – (d) of question 17 be changed to a specific amount of basis points below market. We suggest that the amount of basis points below market be for subsection (a) debt with interest rates 300 basis points below market, subsection (b) debt with interest rates 250 basis points below market, subsection (c) debt with interest rates 200 basis points below market, and subsection (d) debt with interest rates 150 basis points below market. We believe that this will allow the Applicant to continue to provide below market loan products without the risk of changing interest rates causing a loan product to be infeasible.

Question 29 – Targeting the Use of QLICIs

We believe that state or local tax-increment districts and CDFI Hot Zones should be added back as areas that could be served by the Applicant. The real measure of local government's focus for economic development is where it puts its money. A tax-increment district is a policy statement by local government that a geographic area is blighted. The classic definition of blight (recently articulated clearly in HUD policy) is that it is a discrete geographic area in which the conditions are causing a disinvestment in real estate that may lead to a slum. One of the key economic characteristics of a low-income community is that it has become an economic island--the businesses located there do not have a flow of capital in and out of its boundaries. Without a microcosm of a positive trade balance, there is no opportunity for growth in the low-income community. As the surrounding economy moves, the residents in the low-income community get left further and further behind, and the area is a pocket of poverty. Once this is established, the lack of economic activity makes it nearly impossible to bring new development into the area, and the conditions are nearly impossible to change.

The presence of a tax-increment district or CDFI Hot Zone means the local government or CDFI Fund has recognized that this pocket-of-poverty problem is present or incipient. The presence of other indicia as well demonstrates the degree to which the area has already slid down this economic continuum. When there are two or more indicia, including a tax-increment district or CDFI Hot Zones, the CDFI Fund can have confidence that its program is addressing real need because the funds are being deployed (i) in an area that is an economic island and is sliding down; and (ii) the degree of the "slide" is severe enough to have triggered another of the indicia.

One of the methods for solving the economic island problem is to create an economic magnet, or unique attractor in the neighborhood. This can be a facility with high retail or commercial traffic, or high employment, or both, that will bring new people--and their new cash--into the area. This unique attractor raises the economic water table of activity, and changes the balance by creating imported currency into the area. The presence of new currency allows residents of the area to create new businesses, and existing business improve because of, the support of increased trade.

The presence of a tax-increment district or CDFI Hot Zone is a substantive statement by the local government or CDFI Fund that they have already researched the census tract and satisfied themselves that blight--the economic island problem--exists. When other indicia exist as well, the two establish that the blighting conditions have advanced and need to be addressed by strong subsidies that will improve commercial activity, such as the NMTC.

Question 58 – Describe the Applicant's fee structures

We applaud the CDFI Fund for adding this question to the application. In addition to describing any front-end and back-end fees, we recommend that the Applicant also be required to describe any ongoing fees that it intends to charge during the compliance period. We recommend the following language, which is in bold and underlined below, be added to the first and third bullet points:

- The types and amounts of fees (front-end, **during the compliance period,** and back-end), residuals, and any other forms of profits that the *Applicant* intends to charge to or receive from its investors or borrowers/investees.

- A description of any formal fee agreements (front-end, **during the compliance period,** and back-end, residuals, and/or profits), and how the *Applicant* will utilize the resources obtained pursuant to those agreements.

Currently, there is a wide range of fee structures being used in the NMTC industry. We believe the Applicant should be given the opportunity in this question to describe why it is using the proposed fee structures it has described in the first bullet point. We believe it would be unfair to consider this question only in the context of a percentage or amount of fee being charged. The fees should be representative of the amount of risk incurred and time spent managing the CDE. Currently, the question doesn't allow an Applicant to qualify the proposed fee structure. We believe that given the opportunity, the reviewers will gain a better understanding for the fee structures when assessing an application. We recommend the following language be added as a new bullet point to the question:

- **Describe the basis for the proposed fee structures for the types and amounts of fees (front-end, during the compliance period and back-end), residuals, and any other forms of profits that the *Applicant* intends to charge to or receive from its investors or borrowers/investees. Include a description of the risk that the *Applicant* will incur and the expenses for which the *Applicant* will be responsible that are to be paid from the fees.**

Typographical errors

We have attached a copy of the Draft 2007 NMTC Program Allocation Application with our comments on typographical errors found for your consideration.

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 NMTC Allocation Application. 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 and Company LLP

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along with the undersigned

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