



## 2012 New Markets Tax Credit Program Application Evaluation Process

Under the 2012 New Markets Tax Credit Program (NMTC Program) Allocation round, the Community Development Financial Institutions Fund (CDFI Fund) made available a total of \$3.5 billion in NMTC Allocation Authority authorized by the American Tax Payer Relief Act of 2012. The CDFI Fund received 282 applications requesting over \$21.9 billion in NMTC Allocation Authority. The policies and procedures used by the Community Development Financial Institutions Fund (CDFI) to evaluate applications and select NMTC Allocation recipients are summarized below.

Please note that the CDFI Fund reserves the right to modify these policies and procedures in future Allocation rounds, consistent with requirements specified in the applicable Notice of Allocation Availability (NOAA) and related application materials.

### Overview of Evaluation Process

#### Step 1: Phase 1 - Initial Application Review and Scoring

- The CDFI Fund's initial review process, for all eligible Applicants, required three reviewers to independently review and evaluate each application. The reviewers consisted of private sector professionals with strong credentials in community and economic development finance. Reviewers were selected based on factors such as their knowledge of community and economic development finance and experience in business or real estate finance, business counseling, secondary market transactions, or financing of community-based organizations.
- The CDFI Fund screened each reviewer to identify any potential conflicts of interest with Applicants. The CDFI Fund provided each reviewer with detailed descriptions of what constituted a conflict of interest, and each reviewer was required to sign a certification that he or she had disclosed all conflicts of interest to the CDFI Fund. Reviewers were further required to sign a confidentiality agreement stating that they would not reveal any information obtained from the CDFI Fund during the review process.
- Once selected, the CDFI Fund's NMTC Program office staff trained the reviewers to prepare them for the review process. The reviewers were provided with instructions and guidance on how to evaluate and score applications.
- Reviewers evaluated and scored each application independently from the other reviewers assessing the same application.
- In scoring each application, reviewers rated each of the four evaluation sections (Business Strategy, Community Outcomes, Management Capacity, and Capitalization Strategy) as follows: Excellent (21-25 points); Good (16-20 points); Average (11-15 points); Limited (6-10 points); and Weak (0-5 points).



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- In addition, reviewers rated Applicants with respect to two statutory priorities: (i) 0 to 5 points for demonstrating a track record of serving disadvantaged businesses or communities; and (ii) 5 points for committing to invest substantially all of the proceeds from Qualified Equity Investments (QEIs) in unrelated entities (e.g., entities in which persons unrelated to the Applicant hold the majority equity interest).
- To ensure consistency with NMTC Program office review and scoring guidelines, each reviewer evaluation form was reviewed by a team leader before final submission. Team leaders consisted of CDFI Fund staff and Federal employees from other agencies. The NMTC Program office staff provided oversight of team leaders throughout the process.
- After each application was reviewed by the three reviewers, an analysis was conducted to identify anomalous scores. An anomalous base score was deemed to have occurred for an application whenever one of the three reviewers' base scores (total score minus priority points) varied significantly from the median of the three reviewers' base scores. An anomalous section score was deemed to have occurred for an application whenever one of the three reviewers' section scores, in one or more of the four sections, varied significantly from the median of the three reviewers' section scores. In cases where there was an anomalous reviewer score that would have negatively impacted the ability of an Applicant (or, in the case of a high score anomaly, any other Applicant that scored below it) to receive an Allocation, the comments and score(s) of a fourth independent reviewer were used to determine whether the anomalous score should be replaced.

### Step 2: Phase 2 - Panel Review and Recommendations

- Applicants that met scoring benchmarks as calculated from the Phase 1 reviewer scores were deemed highly-qualified and eligible for further Allocation award consideration.
- In order to be considered highly-qualified and eligible for further Allocation award consideration, an application had to achieve in Phase 1: 1) an aggregate base score (without including priority points) of at least 232 points, which is in the "High Good" range based on a scoring scale in the chart below; and 2) an aggregate base score of at least 52 points in each of the four application evaluation sections, which is also in the "High Good" range in the chart. Thus, for example, an application with scores in the "High Good" range in three of the four sections, but a score of "Good" or lower in the fourth section, would not be considered highly-qualified and eligible for further consideration. Many Applicants presented strong applications that met the benchmarks to be considered highly-qualified.
- In accordance with the policies set forth in the CY 2012 NOAA, the highly-qualified Applicants were ranked and forwarded to an Allocation Recommendation Panel (Panel) in descending order of their aggregate scores under the Business Strategy and



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Community Outcomes application sections, inclusive of priority points (which were divided in half to retain the same relative weight in Applicant scores as in Phase 1). The Panel recommended Allocation awards comprising the entire \$3.5 billion in Allocation Authority among the most highly ranked, highly-qualified Applicants.

- The Panel was comprised of CDFI Fund staff.
- For each highly-qualified application sent to Panel, panelists reviewed the applications and comments provided by each of the Phase 1 reviewers and provided recommended Allocation award amounts. Due to the large number of highly-qualified applications and given the CDFI Fund's desire to expedite the flow of capital, the panelists were instructed to start with a typical Allocation award recommendation of \$40 million in Allocation Authority (unless the Applicant had a smaller request). Panelists considered, among other things, the Applicant's ability to make NMTC investments, the quality of the Applicant's financial products to QALICBs (e.g., rates, terms, fees, etc.) as compared to market and/or Controlling Entity, the projected outcomes for Low-Income Communities or Low-Income Persons, the ability to deploy capital, the Applicant's financial health, and the fee/compensation structure of the Applicant. Panelists also considered the consistency of the Applicant's NMTC activities with past Allocation applications (if applicable), proposed activities in non-metropolitan counties, and proposed innovative activities. In making recommendations for an Allocation award, panelists were not required to reach consensus and could recommend an Allocation award amount up to the maximum amount requested by the Applicant.
- The CDFI Fund also reviewed a variety of compliance, eligibility, due diligence and regulatory matters. Included in this review were, among other things: (i) checks to determine whether an Applicant or its Affiliates that have been awarded funds through other CDFI Fund programs were compliant with the Award requirements and disbursement eligibility requirements; (ii) checks to determine whether prior-year Allocatees successfully issued the minimum requisite amount of QEIs from prior NMTC Program Awards, as specified in the CY 2012 NOAA; (iii) checks to determine whether prior-year Allocatees were compliant with the requirements in past Allocation Agreements; and (iv) for regulated financial institutions, consideration of information from the Applicant's primary federal regulator. As specified in the CY 2012 NOAA, point deductions were applied in the case of prior CDFI Fund Awardees and Allocatees that failed to meet reporting deadlines in either of the past two fiscal years.
- As stated in the application materials, Applicants that were recommended for an Allocation amount that was lower than the minimum acceptable Allocation amount specified by the Applicant in Question 41 of the application would not be provided with a NMTC Allocation. None of the Applicants considered for an Allocation award had a minimum Allocation request amount higher than the Allocation awarded.



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### Step 3: Initial Allocation Determinations

- After Phase 2 of the review process was completed and all scoring anomalies resolved, the rank order list of Applicants and the Panel recommendations were forwarded to the Selecting Official for an Allocation determination.
- The Selecting Official made Allocation determinations based on the \$3.5 billion in Allocation Authority available for the NMTC Program for the CY 2012 Allocation round, consistent with the CY 2012 NOAA published in the Federal Register on July 24, 2012.
- Applicants that did not receive Allocation recommendations included those deemed to be ineligible based on the CY 2012 NOAA and NMTC Program policies and procedures (e.g., prior-year Allocatees that were unable to meet their minimum QEI issuance requirements), highly-qualified Applicants that did not achieve a high enough rank score, and Applicants that were not highly-qualified.
- In the event that the Selecting Official's decision reversed or varied considerably from the Panel's recommended Allocation amount, the Reviewing Official reviewed the application file and made the Allocation determination.

### Step 4: Final Award Determinations

- Next, as provided for in the CY 2012 NOAA, the CDFI Fund reviewed the initial Allocation determinations to ensure that: (i) the proportion of Allocatees that are "Rural CDEs" (i.e., CDEs that have historically provided at least 50 percent of total direct financing activities to Non-Metropolitan Counties and have committed that at least 50 percent of their projected activities will target Non-Metropolitan Counties) was, at a minimum, equal to the proportion of Applicants deemed eligible for Phase 2 review that were Rural CDEs; and (ii) at least 20 percent of all Qualified Low-Income Community Investments (QLICs) made by Allocatees under the CY 2012 Allocation round would be invested in Non-Metropolitan Counties, based upon commitments made in the applications.
- The CDFI Fund reserved the right to make adjustments to the Allocatee pool to ensure these two objectives were met. With respect to the first objective, the CDFI Fund reserved the right to add additional Rural CDEs to the final Allocatee pool. It was not necessary to add any additional Rural CDEs to the Allocatee pool under the CY 2012 Allocation round, since the percentage of CY 2012 Allocatees that were Rural CDEs (8.24%) was greater than the percentage of Phase 2 eligible Applicants that were Rural CDEs (7.65%).



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- With respect to the Non-Metropolitan Counties objective, the CDFI Fund reserved the right to require Applicants to achieve up to their stated “maximum,” as opposed to their stated “minimum,” investment targets in Non-Metropolitan Counties. For the CY 2012 Allocation round, the CDFI Fund will hold Allocatees to the lesser of either their maximum commitment or 128 percent of their minimum commitment with the exception of a few small awards (commitments would be less than \$2.5MM) in order to achieve the 20 percent goal.
- Based on this evaluation Allocation Awards were deemed final.

### Award Notification

- Applicants were informed via e-mail of the CDFI Fund’s decisions. Shortly thereafter, Allocatees enter into an Allocation Agreements with the CDFI Fund. An Allocation is not effective until the CDFI Fund and the Allocatee have signed the Allocation Agreement.
- Applicants that were not selected for an Allocation were informed via e-mail of the CDFI Fund’s decision, and received a debriefing document.