

COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND

www.cdfifund.gov



New Markets Tax Credit Program

2014 NMTC Allocation Round Application Overview

PREPARED ON
August 4, 2014

The CDFI Fund is an equal opportunity provider.

NMTC Overview



- If you are unfamiliar with the NMTC Program, please review the “Introduction to the New Markets Tax Credit Program” presentation available on the CDFI Fund’s website before continuing with this presentation.

Presentation Roadmap



- **CDFI Fund Overview**
- How to Apply for a 2014 NMTC Allocation
- NMTC Application Overview
- NMTC Application Evaluation Process
- Information on Prior NMTC Allocations
- Contact Information

CDFI Fund Overview



- Created in 1994
- **Mission:** To increase economic opportunity and promote community development investments for underserved populations and in distressed communities in the United States.
- **Vision:** To economically empower America's underserved and distressed communities.

CDFI Fund Overview



- The CDFI Fund achieves its mission by directly investing in and supporting Community Development Financial Institutions (CDFIs), Community Development Entities (CDEs), and other financial institutions through the following programs and initiatives:
 - New Markets Tax Credit (NMTC) Program
 - Bank Enterprise Award (BEA) Program
 - CDFI Program (FA & TA)
 - Native Initiatives (NACA)
 - CDFI Bond Guarantee Program

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How to Apply for a 2014 NMTC Allocation



- **2014 Round Deadlines:**
 - Important dates and deadlines for the 2014 Round are listed in the 2014 Notice of Allocation Availability (NOAA) and the 2014 Application.
 - These dates are also posted on the New Markets Tax Credit Program webpage (www.cdfifund.gov/nmtc).

How to Apply for a 2014 NMTC Allocation



- **Eligibility to apply for an NMTC allocation:**
 - Must be a certified Community Development Entity (CDE).
 - If not yet certified as a CDE but want to apply for an NMTC allocation through the 2014 Round, please refer to the 2014 NOAA for instructions and applicable deadlines.
 - Additional information on CDE certification can be found at www.cdfifund.gov/cde.
 - Organizations certified as Subsidiary CDEs **cannot** submit an Allocation Application.

How to Apply for a 2014 NMTC Allocation



- **Eligibility to apply for an NMTC allocation:**
 - Both for-profit and non-profit entities may apply
 - By statute, only for-profits can exchange tax credits for equity. Thus, a not-for-profit entity must form and have certified at least one for-profit subsidiary CDE prior to closing an Allocation Agreement.
 - Deadlines for this requirement can be found in the 2014 NOAA.
 - Transfer of the entire allocation to one or more for-profit subsidiaries is required.

How to Apply for a 2014 NMTC Allocation



- **Eligibility to apply for an NMTC allocation:**
 - CDEs that have previously received NMTC allocations must meet certain QEI issuance benchmarks as outlined in the 2014 NOAA in order to receive an NMTC allocation in the 2014 Round.
 - CDEs that are prior awardees and/or Allocatees under any CDFI Fund program (or who have Affiliates that meet this criteria) may be deemed ineligible if they fail to meet reporting requirements or otherwise fail to maintain compliance with previous award/allocation agreements. See the 2014 NOAA for more information.

How to Apply for a 2014 NMTC Allocation



- **How to Submit NMTC Application Materials:**
 - All NMTC Application materials must be submitted electronically through myCDFIFund.
 - The print version of the 2014 Allocation Application on the website serves only as a reference.
 - Your organization must have a myCDFIFund account to complete and submit the application. You can create an account by visiting www.cdfifund.gov.
 - Your organization will be able to access the online application/accompanying instructions through myCDFIFund approximately one month before the application due date.

How to Apply for a 2014 NMTC Allocation



- **Tips for Submitting the Online Application:**
 - Ensure you have sufficient internet access.
 - Register as a user through myCDFIFund.
 - Familiarize yourself with the NOAA, print Application, and Application Q&A.
 - See NOAA and Application for submission deadlines.
 - Start constructing your responses in MS Word or other word processing software.
 - **Give yourself enough time to prepare a high-quality application.**

How to Apply for a 2014 NMTC Allocation



- **Tips for Submitting the Online Application:**
 - **Do not wait until the last minute to electronically submit your application.**
 - Before starting the Online Application:
 - Read the 2014 Online Application Instructions.
 - Review questions 14-16 of the NMTC Application Q&A document.
 - Give each attachment a unique file name to ensure you don't accidentally overwrite previously uploaded attachments.

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NMTC Application: Contents



- The NMTC Application has five main sections:
 - Part I: Business Strategy
 - Part II: Community Outcomes
 - Part III: Management Capacity
 - Part IV: Capitalization Strategy
 - Part V: Information Regarding Previous Awards
- Applicants are also required to complete an Applicant Information section and the tables included in Exhibits A – E.
- A glossary of terms is included in the back of the Application for reference.

NMTC Application: General Tips



- **General Tips on the NMTC Application:**
 - Read the questions and tips carefully and provide the information requested.
 - Your responses only need to be long enough to provide the information requested in the question.
 - In your response to each question, avoid providing information not specifically related to the topic of the question.
 - Respond only to the questions that are relevant to your planned NMTC activities. Applicants gain no advantage by responding to all optional questions.
 - Review the Application Q&A for additional guidance on specific questions.

NMTC Application: General Application Changes



- **Tip Language Clarified:** In a number of instances application tips were revised for clarity
- **Part III (Management Capacity) and Part IV (Capitalization Strategy)** and related exhibits will no longer be scored in Phase 1 of the review process – a change from past Application rounds. These sections will now only be evaluated by CDFI Fund staff in Phase 2 of the review process.
- **Glossary:** Additional terms have been added to the glossary to improve clarity in certain parts of the Application.

NMTC Application: Applicant Information



- At the beginning of the Application, Applicants are required to answer several informational questions. These questions are for information purposes only – they are not scored.
- An Applicant may wish to designate a Controlling Entity for the purpose of completing the Application.
 - Applicants may only have **one** Controlling Entity.
 - Individuals cannot be treated as Controlling Entities.
 - The Applicant may use the track record of the Controlling Entity to complete parts of the Application.
 - More guidance on designating a Controlling Entity can be found in the Application tips and Application Q&A.

NMTC Application: Business Strategy Section



- **To score highly in this section, an Applicant (or its Controlling Entity) must:**
 - Clearly describe its products and services and demonstrate that they are significantly more flexible or non-traditional than industry standards.
 - Demonstrate a track record of five years or more of directly providing products and services to LICs and that are highly similar to those it intends to deploy with QEI proceeds.
 - Request an allocation amount that is reasonable given its five year track record of capital deployment.

NMTC Application: Business Strategy Section



- **To score highly in this section, an Applicant (or its Controlling Entity) must:**
 - Clearly and thoroughly describe potential QLICs and demonstrate an ability to begin making QLICs in the near-term.
 - Demonstrate that NMTCs will add significant value to its investment activities by increasing investment volume, risk-taking, and/or representing an innovative use of NMTCs.
 - If notable relationships exist, illustrate how such relationships add significant value to unaffiliated end-users.

NMTC Application: Business Strategy Section



- **Business Strategy Tips:**
 - When describing financing products:
 - Provide a distinct narrative for each product
 - Specifically describe prospective rates and terms and relevant market comparables.
 - Indicate the circumstances under which products or flexible features (rates, terms, DSCR, etc.) will be available.
 - Applicants may want to consider using the track record of an identified Controlling Entity, if the Controlling Entity has a more extensive 5-year track record than the Applicant.
 - The track record of the Controlling Entity must include the financing activities (loans and equity investments) of all subsidiaries of the Controlling Entity.

NMTC Application: Business Strategy Section



- **Business Strategy Tips:**
 - Discuss potential QLICs including, but not limited to:
 - the stage of underwriting,
 - financial products to be provided,
 - the amount of QLICs,
 - total project costs.
 - Projected activities should be consistent with the Applicant's request for an NMTC allocation.
 - Applicants do not need to select multiple options in order to score well under Question 20. No one activity (increase in volume, activities of greater risk or innovative investments) is preferred over any other for scoring purposes.

NMTC Application: Business Strategy Section



- **Business Strategy Notable Changes:**
 - **Question 13 & Exhibit B:** Distinction between Real Estate and Non-Real Estate QALICBs removed and both categories collapsed into the broader category of “Loans in, or investments to, QALICBs.”
 - **Exhibit A:** Reflecting the changes in Q. 13, old Tables A1 and A2 were combined into one table (new Table A1) that requests information on the Applicant’s track record of investing in Real Estate and Operating Businesses.
 - A column was added in Tables A1-A4 to allow for Applicants to provide year-to-date information on total capital deployed between January 1, 2014 and the date the Application was released. Please review Application instructions for what information to enter in this column.

NMTC Application: Priority Points



- Priority points are awarded based on the Applicant's responses to questions in the Business Strategy Section and Exhibit A.
- Priority points are based on two distinct categories outlined in the NMTC authorizing statute:
 - Track record of providing capital or technical assistance to disadvantaged businesses or communities.
 - Intention to use NMTC proceeds to invest in unrelated entities.

NMTC Application: Priority Points – Track Record



- Applicants that demonstrate a track record (or a Controlling Entity's track record) of having successfully provided capital or technical assistance to disadvantaged businesses or communities may earn up to 5 priority points.
- Evaluation of track record based on the information provided in Exhibit A and the responses to Questions 17 and 18.
- The number of priority points awarded is based on the length of the track record and on the proportion of activities directed at disadvantaged businesses and communities.

NMTC Application: Priority Points – Unrelated Entities



- Applicants that commit to using “substantially all” of their QEI proceeds to make investments in one or more businesses in which persons unrelated to the Applicant hold the majority equity interest may earn 5 priority points.
 - Scoring is based on the Applicant’s response to Question 22. A response of “Yes” will receive 5 priority points and a response of “No” will receive 0.
- An Applicant’s response will become a condition of its Allocation Agreement with the CDFI Fund.
- Whether a QALICB is related to a CDE is determined under IRC Sections 267(b) and 707(b)(1).

NMTC Application: Community Outcomes Section



- **To score highly in this section, an Applicant (or its Controlling Entity) must demonstrate:**
 - A commitment to investing in areas of higher distress and a specific and thorough strategy for targeting investment opportunities in these areas.
 - That its investments will generate significant and meaningful community development outcomes in LICs, as supported by both the Applicant’s (or Controlling Entity’s) track record and well-justified forecast of quantitative and qualitative outcome data.
 - The ability to track projected outcomes.

NMTC Application: Community Outcomes Section



- **To score highly in this section, an Applicant (or its Controlling Entity) must demonstrate:**
 - A track record of community engagement around investment decisions
 - The ability to meaningfully engage community stakeholders around planned NMTC investments.
 - A track record and demonstrated ability to finance activities that will catalyze other non-NMTC investments in its low-income communities.

NMTC Application: Community Outcomes Section



- **Community Outcomes Tips:**
 - Provide at least 75% of QLICs to severely economically distressed areas.
 - Demonstrate the Applicant (or Controlling Entity) has a track record of achieving significant and meaningful community development outcomes similar to those it projects to achieve with its allocation.
 - Clearly articulate the methodology and assumptions used in projecting the community outcomes that would be achieved with an NMTC allocation.

NMTC Application: Community Outcomes Section



- **Community Outcomes Tips:**

- Have a clear description of the Applicant's track record of documenting community outcomes and strategy for such data collection going forward.
- Question 24(d) allows the CDFI Fund to track the extent to which Applicants intend to use NMTCs in support of healthy food financing. Responses to Q. 24(d) **will not** affect scoring of the Application.
- Articulate how the Applicant ensures its investments align with community priorities.
- Demonstrate the Applicant has a track record and is likely to spur additional private capital investment in LICs.

NMTC Application: Community Outcomes Section



- **Community Outcomes Notable Changes:**
 - **Areas of Higher Distress (Q. 24)** - The time frame to make investments into FEMA Disaster Areas has been extended from 24 months to 36 months from the time of the initial declaration.
 - **Areas of Higher Distress (Q. 24)** - Promise Zones has been added to the [Federal/State/Local Zones] category as an area of higher distress. For more information about Promise Zones, see the Application Q&A.

NMTC Application: Management Capacity Section



- The Management Capacity section is not scored during the first Phase of the Application review process. It will be evaluated by CDFI Fund staff as part of Phase 2.
- To receive an award, an Applicant must demonstrate the ability to manage an NMTC allocation, including:
 - The ability to deploy QLICs;
 - The ability to manage assets and risk;
 - The ability to maintain NMTC program compliance;
 - Accountability to Low-Income Communities;
 - Sound financial health.

NMTC Application: Management Capacity Section



- **Management Capacity Tips**

- Demonstrate that highly-qualified personnel and systems are in place to manage the NMTC line of business
- CDFI Fund staff will only evaluate the first 15 individuals listed in Table C1.
 - Limit the description of an individual's qualifications to years and activities of experience relevant and applicable to the individual's role in the Applicant's NMTC activities.
- Make sure that responsibilities of staff and/or consultants are clearly described as related to managing an NMTC allocation. *It is not enough to simply discuss individual qualifications.*
- Show that Low-Income Community Representatives are empowered to provide a meaningful role in the Applicant's investment policies and decisions.

NMTC Application: Management Capacity Section



- **Management Capacity Tips:**
 - Demonstrate sound financial health.
 - In Question 34(e), clearly describe the assumptions and calculations used to derive each income and expense line in Table D2, such that its easy to understand, quantify, and evaluate.
 - In Question 34(e), indicate whether Table D2 was completed on a cash or accrual basis.
 - Table D2 must only include income or expenses related to this allocation request.

NMTC Application: Capitalization Strategy Section



- The Capitalization Strategy section is not scored during the first Phase of the Application review process. It will be evaluated by CDFI Fund staff as part of Phase 2.
- To receive an award, an Applicant must demonstrate the ability to raise capital for an NMTC allocation, including:
 - A track record of raising capital from investors;
 - A sound strategy for raising QEIs or investor interest/commitments (if applicable);
 - The appropriate sharing of NMTC benefits between the Applicant, investors, and borrowers/investees.

NMTC Application: Capitalization Strategy Section



- **Capitalization Strategy Tips:**
 - Demonstrate that the Applicant (or Controlling Entity) has a track record of raising capital at market rates at least close to the amount of allocation authority requested.
 - If the Applicant has not, in the past five years, raised QEIs equal to or greater than their NMTC request in Q.1, provide letters of investor commitment or demonstrate a strong strategy for raising capital, including both debt and equity investors if applicable.
 - If using the leveraged model, be sure to include the percent of equity and non-equity investments to be raised at the investment fund level.
 - Quantify and demonstrate that QALICBs and end-users will see a majority of the economic benefits.
 - Commit to deploying greater than 85% of its QEI proceeds into QLICs.

NMTC Application: Capitalization Strategy Section



- **Capitalization Strategy Notable Changes:**
 - Year to Date Column added to Table E1
 - **New Table E2** – Applicants who have raised QEIs equal to or greater than their allocation request (in Q. 1) between January 1, 2009 and the 2014 Application release date are instructed not to submit letters of investor interest/commitment. Instead, they will complete Table E2 with information for investors on past QEIs.
 - If the QEIs raised by the Applicant between January 1, 2009 and the 2014 Application release date total less than their allocation request, Applicants are instructed to provide investor letters (if available) and complete Table E3 (if providing letters).

NMTC Application: Information Regarding Previous Awards



- **Information Regarding Previous Awards Tips:**
 - Must be completed by all Applicants.
 - If the Applicant (or any Affiliates) has never received an award or allocation from the CDFI Fund, the answer to Questions 42 & 43 will be “No” and Question 44 can be skipped.
 - Part V is not scored as part of Phase 1 of the review process. It will only be considered in Phase 2 of the review process.

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NMTC Application Evaluation Process: Flowchart

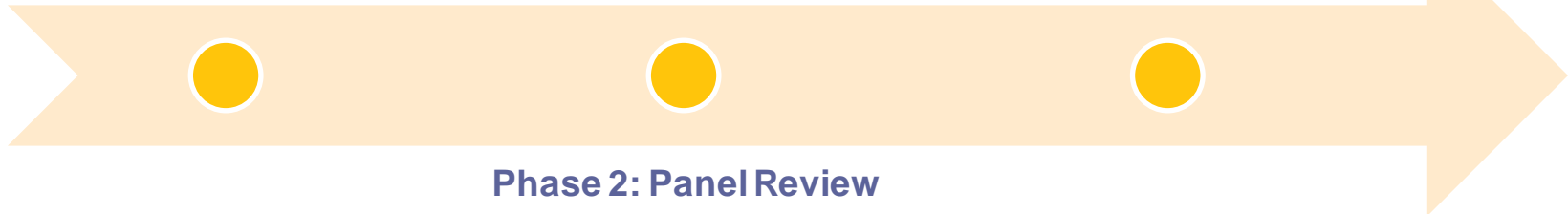


Phase 1: Peer Review

- External reviewers evaluate and score Part 1 and Part 2 of applications.

Selection of Applicants

- Selecting Official makes final determinations based upon panel recommendations.



Phase 2: Panel Review

- Applications that meet minimum scoring thresholds are evaluated, based on rank score, by a CDFI Fund panel.

Detail on the previous round Application Evaluation process can be found on the CDFI Fund's website (www.cdfifund.gov/nmtc).

NMTC Application Evaluation Process: Phase 1 – Peer Review



- Each Reviewer may award an application a maximum of 60 points.
- Two sections of 25 points each:
 - Part I: Business Strategy
 - Part II: Community Outcomes
- Applicants may also earn 10 “priority points.”
- Part III (Management Capacity), Part IV (Capitalization Strategy), and Part V (Previous Awards) are not scored as part of Phase 1 review.

NMTC Application Evaluation Process: Phase 1 – Peer Review



- In Phase 1, each eligible Applicant is reviewed by three independent reviewers.
 - Reviewers consist of private sector professionals with strong credentials in community and economic development finance.
- To ensure consistency with scoring guidelines, each reviewer evaluation form is reviewed by a team leader before it's accepted.
 - Team leaders consist of CDFI Fund staff and other Federal employees.

NMTC Application Evaluation Process: Phase 1 – Peer Review



- After the Business Strategy & Community Outcomes sections of each application are reviewed by three reviewers, an analysis is conducted to identify if there is an anomalous score.
- An anomalous score may be deemed to occur when one of the three reviewers' scores varies significantly from the scores of the other two.
- When an anomalous reviewer score will impact the ability of any Applicant to receive an award, a fourth independent reviewer will be used to determine whether the anomalous score should be replaced.

NMTC Application Evaluation Process: Phase 2 – Panel Review



- Applicants whose scores from Phase 1 reviewers meet scoring benchmarks will be ranked in descending order based on their Phase 1 Rank Score.
 - Phase 1 Rank Score is calculated by adding the Applicant's scores in the Business Strategy and Community Outcomes sections along with half of the total priority points.
- Applicants will be forwarded for Panel Review in descending order of Phase 1 Rank Score.

NMTC Application Evaluation Process: Phase 2 – Panel Review



- The Panel will review the Application contents, Phase 1 reviewer comments, as well as any other relevant compliance, eligibility, due diligence and regulatory matters.
- The Panel will review Sections III (Management Capacity) and IV (Capitalization Strategy)
- Additionally, the Panel will review past transactions from Applicants who are prior Allocatees.
- At the conclusion of Phase 2, the Panel's allocation award recommendations are forwarded to the Selecting Official.

NMTC Application Evaluation Process: Selection of Allocatees



- The Selecting Official makes “preliminary determinations” based on Panel recommendations, review of Phase 1 and application materials, and any additional due diligence undertaken.
 - Adjustments may be made to the final pool of Allocatees based on relevant regulatory (in the case of regulated depository institutions), compliance with award or allocation agreement(s), eligibility, and due diligence checks (e.g. omission of required information, common enterprise), including review of past transactions from Applicants who are prior Allocatees.
 - Adjustments may be made to the final pool to ensure proportional investments in Non-Metropolitan Counties and/or representation of Rural CDEs.

NMTC Application Evaluation Process: Non-Metropolitan Counties



- The CDFI Fund will endeavor to ensure proportional allocation of QLICs in Non-Metropolitan Counties:
 - The proportion of awardees that are Rural CDEs is equal to the proportion of applicants that meet minimum scoring thresholds that are Rural CDEs.
 - A goal of 20 percent of QLICs made using QEI proceeds to be invested in Non-Metropolitan Counties (as defined by OMB Bulletin No. 10–02: Update of Statistical Area Definitions and Guidance on Their Uses).
- Rural CDEs:
 - Have a track record of at least three years of direct financing;
 - Have historically dedicated at least 50 percent of its direct financing activities to Non-Metropolitan Counties; and
 - Commits at least 50 percent of NMTC direct financing activities will be conducted in Non-Metropolitan Counties.

NMTC Application Evaluation Process: Non-Metropolitan Counties



- Applicants will establish minimum and maximum percentage of total QLICs in Non-Metropolitan Counties.
 - The final percentage will be determined by the Selecting Official within the range specified by the Applicant.
- The CDFI Fund will review the distribution of allocations and Allocatees to determine whether:
 - i. Additional “Rural CDEs” need to be added to the Allocatee pool, to ensure a proportional representation from Rural CDEs; and/or
 - ii. Allocatees will be required to meet an amount higher than their minimum projected level of investments in Non-Metropolitan Counties, to achieve 20 percent of QLICs being invested in such counties.

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Information on Prior NMTC Allocations



- The following slides give information on prior NMTC Allocations.
- Results from past rounds illustrate that the NMTC program is highly competitive. Demand for NMTCs far outpaces supply.
- Successful NMTC Applicants have a track record of providing financing to Low-Income Communities and have committed to providing non-traditional and flexible financing products to businesses that result in substantial benefits to Low-Income Communities.

Information on Prior NMTC Allocations: Awards to Date



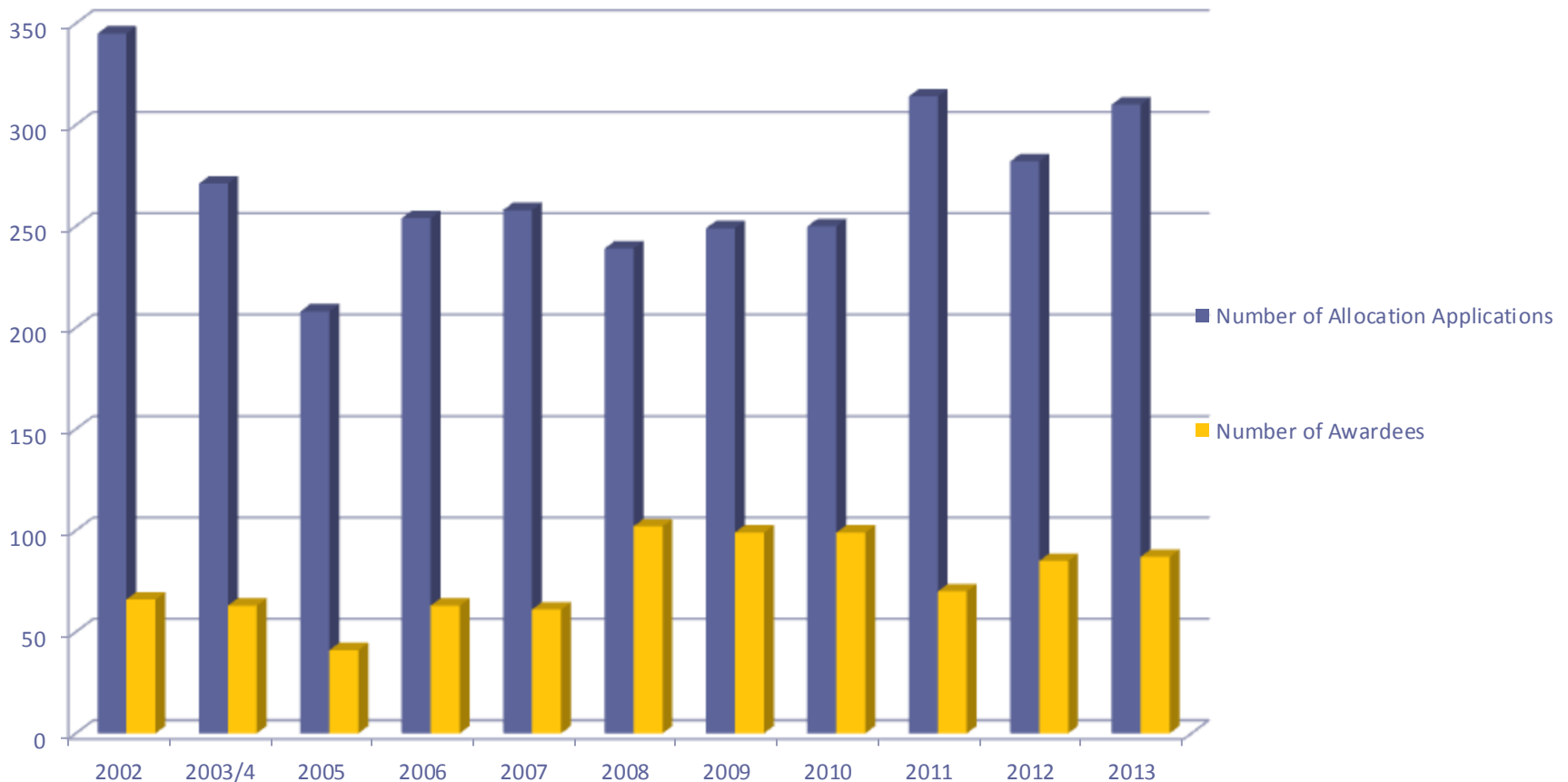
- As of August 1, 2014, over \$35.5 billion in QEIs have been made into CDEs since the NMTC Program's inception.
- Through the fiscal year 2012 reporting period, CDEs have disbursed a total of \$31.1 billion in QEI proceeds to 4,706 Qualified Active Low-Income Community Businesses (QALICBs).
- These investments have financed:
 - Small and large businesses
 - Mixed-use real estate
 - Retail
 - Manufacturing
 - Community facilities
 - Alternative energy

Information on Prior NMTC Allocations: Awards to Date

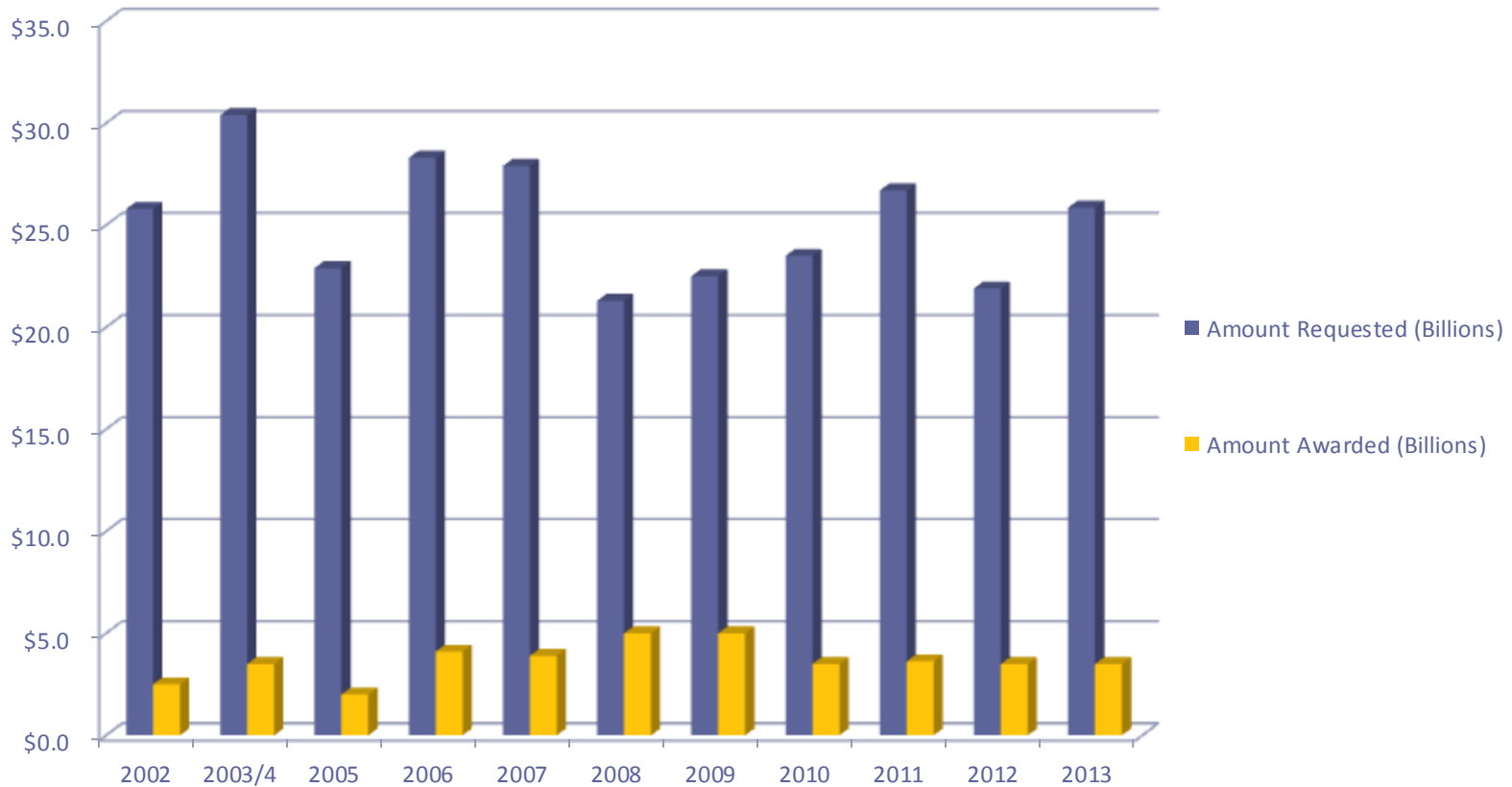


- In allocation calendar year rounds 2002 – 2013, the CDFI Fund received 2,980 NMTC Allocation Applications.
- These entities collectively requested nearly \$277.1 billion in Allocation Authority.
- The CDFI Fund has made a total of 836 Allocation awards totaling \$40 billion in Allocation Authority. This means that 28% of Applications have historically been awarded.

Information on Prior NMTC Allocations: # Applications/Awardees



Information on Prior NMTC Allocations: Amt. Requested/Awarded

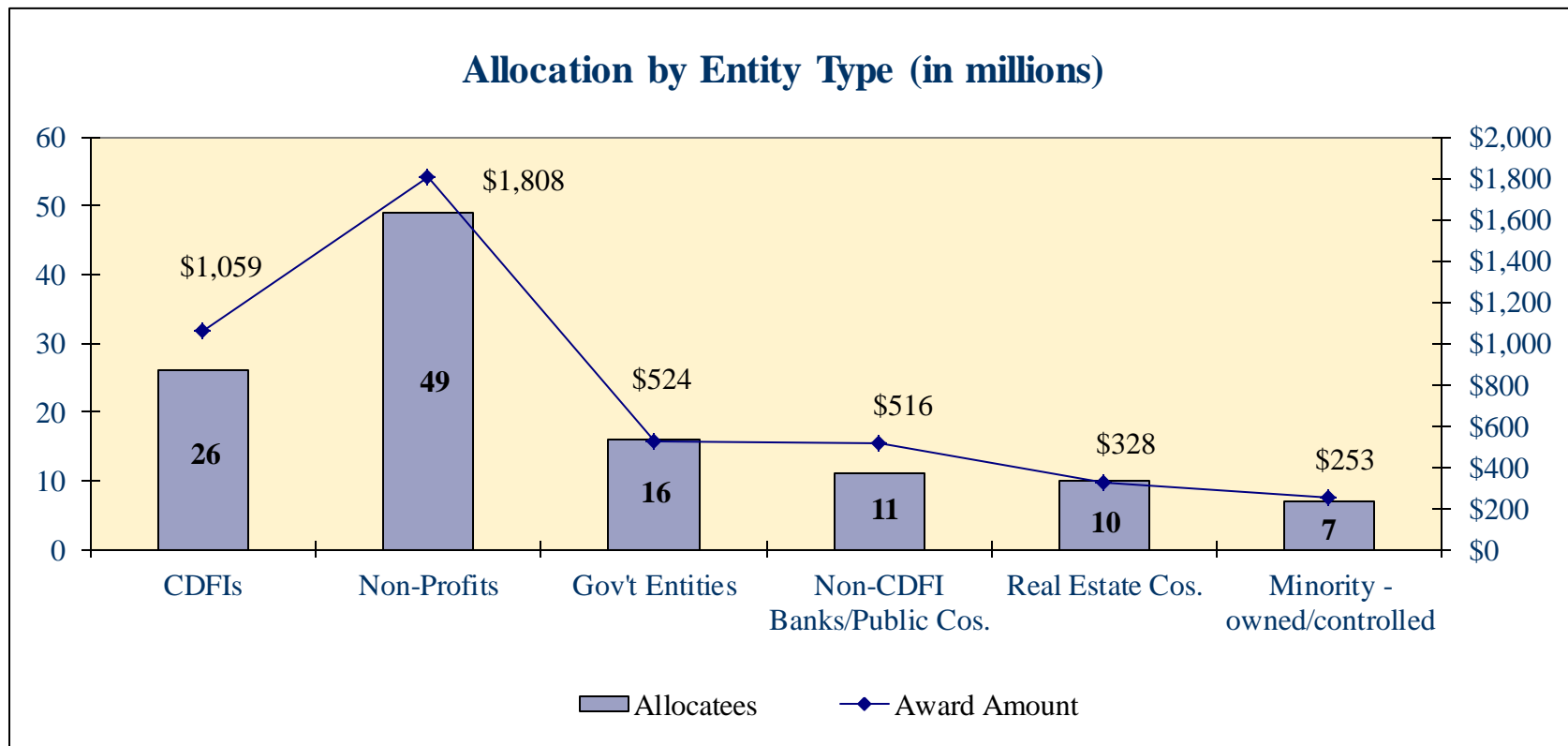


Information on Prior NMTC Allocations: CY 2013 Round Allocatees



- All 87 of the Allocatees committed to offering preferential rates and terms.
- All 87 of the Allocatees indicated that 100 percent of their investment dollars would be made either in the form of equity, equity-equivalent or characterized by at least five concessionary features.
- All 87 of the Allocatees committed to providing at least 75 percent of their investments in areas characterized by more severe economic distress.

Information on Prior NMTC Allocations: CY 2013 Round Allocatees



** Note that the number of Allocatees represented in the chart above does not total 87, as some Allocatees are classified in more than one category and some Allocatees do not fall under any of the categories identified.*

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Contact Information



- Visit the CDFI Fund's NMTC Program website at www.cdfifund.gov/nmtc.
- Contact the CDFI Fund directly:

Program Support	IT Support
Phone: (202) 653-0421 (option 3)	Phone: (202) 653-0300
E-mail: cdfihelp@cdfi.treas.gov	E-mail: ithelpdesk@cdfi.treas.gov

- Contact the IRS via Mallorie Jeong (mallorie.k.jeong@irs.gov) for questions about IRS regulations, eligibility of possible QLICI activities and other tax implications of the program.