

# CY 2018 NEW MARKETS TAX CREDIT PROGRAM

## ALLOCATION APPLICATION REVIEW PROCESS, GENERAL CHARACTERISTICS OF A HIGHLY RANKED APPLICATION, AND APPLICATION RATINGS

[Applicant Name]

[Control Number]

### Overview

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The Community Development Financial Institutions Fund (CDFI Fund) received 214 Allocation applications, requesting an aggregate total of \$14.8 billion in allocation authority, through the calendar year (CY) 2018 Allocation application round of the New Markets Tax Credit Program (NMTC Program). The CDFI Fund awarded \$3.5 billion in allocation authority authorized by the Protecting Americans from Tax Hikes Act of 2015 (PATH Act) and made available for the NMTC program pursuant to the CY 2018 Notice of Allocation Availability (NOAA) published in the Federal Register on May 11, 2018.

This document is organized into three sections. The first section, Part I, describes the review process used by the CDFI Fund to evaluate the CY 2018 NMTC Program Allocation Applications. Part II provides information on the general characteristics of a highly ranked application. The last section, Part III, provides CY 2018 Applicants not selected to receive an allocation with the following information: their scoring ranges for the two scored sections of their application (Business Strategy and Community Outcomes); the scoring range for their Base Score (total score minus priority points); and the scoring range for their Final Rank Score (total score plus one half of the priority points). Part III also includes Figure 1a which indicates whether the Applicant met the minimum scoring threshold required to be considered highly qualified for each scored section (Business Strategy and Community Outcomes), as well as for the Applicant's Base Score. If an Applicant met the minimum scoring threshold for each of the three criteria, the Applicant would be considered highly qualified and eligible for allocation award consideration. (See Step 2 Phase 2 for additional details.) Figure 2 in Part III provides a visual representation of the Final Rank Score distribution for all eligible CY 2018 Applicants.

Please note that although the procedures discussed in this document are applicable for the CY 2018 allocation round, these procedures may not apply to other application rounds. The CDFI Fund reserves the right to modify its policies, procedures, and/or evaluation criteria in future allocation rounds, consistent

with the requirements specified in the corresponding NOAA and related application materials for that round.

## **Part I. Allocation Application Review Process**

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### **Step 1. Phase 1 - Initial Application Review and Scoring**

- The CDFI Fund's Phase 1 review process, for all eligible Applicants, required three reviewers to independently evaluate and score the Business Strategy and Community Outcomes sections of each application.
- Reviewers were professionals with strong credentials in community and economic development finance. Reviewers were selected based on a variety of factors, including 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 all conflicts of interest had been disclosed to the CDFI Fund. Reviewers were also required to sign a confidentiality agreement stating that they would not disclose any information obtained from the CDFI Fund during the review process.
- Reviewers were trained by NMTC Program staff to prepare them for the review process. The reviewers were provided with instructions and guidance on how to evaluate and score applications.
- The reviewers were then randomly assigned to teams of three. Each reviewer evaluated and scored each assigned application independently from the other reviewers assigned the same application. Reviewers evaluated and scored two of the four application sections, the Business Strategy and Community Outcomes sections. The other two sections were evaluated by NMTC Program staff during Phase 2.
- Reviewers also evaluated applications with respect to two statutory priorities that provided Applicants with: (i) up to five additional points for demonstrating a track record of serving disadvantaged businesses or communities; and (ii) five points for committing to invest substantially all of the proceeds from Qualified Equity Investments (QEIs) in unrelated entities.
- To ensure consistency and accuracy with NMTC Program scoring guidelines, the evaluations by reviewers were analyzed by a team leader before submission. Team leaders were CDFI Fund staff. NMTC Program staff provided oversight of team leaders throughout the application review process.
- After each application was reviewed by the three Phase 1 reviewers, an analysis was conducted to identify anomalous base or section scores. An anomalous base score was deemed to have occurred when one reviewer's base score varied significantly from the median of the three reviewers' base scores. An anomalous section score was deemed to have occurred when one

reviewer's section score varied significantly from the median of the three reviewers' scores. To resolve anomalous scores, a fourth independent reviewer was used to evaluate and score the section or sections in order to determine whether the anomalous score should be replaced.

## **Step 2. Phase 2 - Panel Review and Recommendations**

- In order to be considered highly qualified and eligible for further allocation award consideration, an application had to achieve in Phase 1: (i) an aggregate score of at least 60 points in each of the two scored application sections; and (ii) an aggregate base score (excluding priority points) of at least 126.5 points. Thus, for example, an application with a section score of 60 in the Business Strategy application section combined with a score of 58 in the Community Outcomes application section would not be considered highly qualified and therefore, would not receive further consideration.
- Of the highly qualified Applicants, those that were most highly ranked were considered for an allocation. In accordance with the NOAA, section V.C.1, highly qualified Applicants were ranked in descending order based on their aggregate scores under the Business Strategy and Community Outcomes application sections, inclusive of half of the priority points, and forwarded to an Allocation Recommendation Panel (the Panel) comprised of CDFI Fund staff.
- For each highly qualified application sent to the Panel, panelists reviewed application materials, including the Management Capacity, Capitalization Strategy, and Information Regarding Previous Awards sections, which were not scored in Phase 1. The Panel also reviewed information related to prior Allocations (e.g. data from the CDFI Fund's Allocation Tracking System, Community Investment Impact System, Awards Management Information System (AMIS), audited financial statements, supplemental QLICI data requested by CDFI Fund, etc.), if applicable. In determining their award recommendation, Panelists considered, among other things: (i) any issues noted by the Phase 1 reviewers; (ii) the Applicant's capacity to deploy and monitor NMTC investments; (iii) the Applicant's track record of providing loans and/or equity investments; (iv) the existence of notable relationships and how such relationships will create benefits (i.e. cost savings, lower fees) for unaffiliated end-users; (v) whether clear and meaningful community outcomes are likely to occur (e.g. metrics used to support the projected outcomes), based on the Applicant's pipeline projects, including the Applicant's ability to track community outcomes; (vi) the Applicant's investment decisions aligning with community priorities; (vii) the financial health and fee/compensation structure of the Applicant ; (viii) the distribution of benefits among the investor, Community Development Entity (CDE) and Qualified Active Low-Income Community Business (QALICB); and (ix) the Applicant's track record of raising QEIs. Panelists also considered the consistency of the Applicant's past NMTC activities<sup>1</sup> with prior Allocation applications (if applicable), as well as Applicant's proposed commitments to provide Qualified Low-Income Community Investments (QLICIs) in Non-Metropolitan Counties and engage in innovative activities. The Panel recommended Allocation awards totaling \$3.5 billion, the total

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<sup>1</sup>In the case of Applicants (or their Affiliates) that are prior year Allocates, the CDFI Fund reviewed the activities of the prior year Allocates to determine whether the entity: (a) effectively utilized its prior-year allocations in a manner generally consistent with the representations made in the relevant allocation application (including, but not limited to, the proposed product offerings, QALICB type, fees and markets served); (b) issued QEIs and made QLICIs in a timely manner; and (c) substantiated a need for additional allocation authority.

amount of allocation authority available for the NMTC Program for the CY 2018 Allocation round. 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 including, among other things: (i) 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) whether prior-year Allocatees successfully issued QEIs from prior NMTC Allocations, as specified in the NOAA<sup>2</sup>; (iii) whether prior-year Allocatees were compliant with the requirements of past Allocation Agreements; (iv) for regulated financial institutions, information from the Applicant's primary federal regulator; and (v) information related to the Assurances and Certifications section of the application. As specified in the NOAA, point deductions were applied in the case of prior CDFI Fund Awardees and Allocatees (or their Affiliates) that failed to meet reporting deadlines since the last application round.
- As stated in the application materials, any Applicant that was recommended for an Allocation amount that was lower than the minimum acceptable Allocation amount specified by the Applicant in Question 40 of the application would not be provided with an NMTC Allocation.

### **Step 3. Initial Allocation Determinations**

- After all scoring anomalies were resolved and the Phase 2 review process was completed for the most highly ranked Applicants, the Panel's recommended Allocation amount for each application was forwarded to the Selecting Official.
- The Selecting Official made Allocation determinations totaling the \$3.5 billion in allocation authority made available for the NMTC Program under the CY 2018 NOAA. Allocation determinations were made in descending final rank score order until available Allocation authority was exhausted.
- Generally, Applicants that do not receive an Allocation and who scored highly enough to be considered by the Panel, include those found to be ineligible as well as those deemed to have exhibited significant deficiencies. For example, an Applicant may have a track record that did not support an additional allocation, insufficient management capacity, failed to use prior NMTC allocation(s) in a manner that is generally consistent with the business strategy set forth in the allocation application(s) related to such prior allocation(s); and application responses that were contrary to the guidance provided in the Allocation Application materials, including the Application Q&A document.
- 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.

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<sup>2</sup> In this Round, the CDFI Fund did not require a minimum threshold of Qualified Equity Investments (QEIs) be issued as a condition of eligibility. During Phase 2, the CDFI Fund considered prior Round Allocatees' QEI issuance recorded in the CDFI Fund's online systems as of September 24, 2018 and QLICs closed as of November 2018.

#### Step 4. Non-Metropolitan Commitments and Final Award Determinations

- Next, as provided for in the NOAA, the NMTC Program staff reviewed the initial Allocation determinations to ensure that: (i) the proportion of Allocatees that are Rural Community Development Entities (Rural CDEs)<sup>3</sup> was, at a minimum, equal to the proportion of highly qualified Applicants that were Rural CDEs; and (ii) at least 20 percent of all QLICs made by Allocatees under the CY 2018 Allocation round would be invested in Non-Metropolitan Counties, based upon commitments made in their 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 (i), the CDFI Fund added two Rural CDEs to the final Allocatee pool since the proportion of Rural CDEs in the Allocatee pool (12.33%) was less than the proportion of Rural CDEs in the highly qualified pool (14.37%). The addition of two Rural CDEs resulted in a final Allocatee pool with 15.07% Rural CDEs.
- With respect to the objective to have at least 20 percent of all QLICs made in Non-Metropolitan Counties, the CDFI Fund reserved the right to require Applicants to commit up to their stated “maximum,” as opposed to their stated “minimum,” commitment for investing in Non-Metropolitan Counties. For the CY 2018 Allocation round, the CDFI Fund will require Allocatees to invest their minimum commitment in Non-Metropolitan Counties.
- Following this evaluation and methodology for ensuring Non-Metropolitan commitments, the CY 2018 Allocation Awards were deemed final.

## Part II. General Characteristics of a Highly Ranked Application

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In order to receive a score in the highest range in each of the two scored application sections and receive the maximum Priority Points, an Applicant generally needed to demonstrate the following characteristics:

### A. Business Strategy

1. **Products, Services and Investment Criteria (Application Questions 14-16).** The Applicant clearly demonstrated that its products will be significantly more flexible than market standards. When describing financial products, narratives for each product were distinct, described the circumstances under which and how frequently the best rates and terms would be available, and provided examples and comparisons to what is typically offered by the Applicant and offered by other financial institutions or investors in the Applicant’s service area. The Applicant provided an example of how each proposed product will be used to finance a projected NMTC investment. For all Applicants, except those solely offering Financial Counseling and Other Services (FCOS) or purchasing loans from other CDEs, the Applicant indicated (in Question 15) that 100 percent of its QLICs will be provided in the form of equity; equity-equivalent financing; debt with interest rates at least 50 percent below-market; or debt that otherwise satisfies at least five indicia of flexible or non-traditional rates and terms, as specified under Question 14. Applicants investing in other CDEs demonstrated a high likelihood that they will pass favorable rates and terms along to

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<sup>3</sup> A CDE that has a track record of at least three years of direct financing experience, has dedicated at least 50 percent of its direct financing dollars to Non-Metropolitan Counties over the past five years, and has committed that at least 50 percent of its NMTC financing dollars with this Allocation will be deployed in such areas.

the borrowers. Applicants purchasing loans from other CDEs committed to require the selling CDE to re-invest at least 95 percent of these proceeds as QLICs and those loans purchased included rates, terms and/or conditions that would not be possible without the benefit of an NMTC allocation.

2. **Projected Business Activities (Question 17 and Exhibit A).** The Applicant clearly demonstrated its capacity and strategy for deploying QLICs. If the Applicant proposed to fund a single or discrete number of projects, the Applicant demonstrated that it was highly likely that its proposed projects were feasible based on the ability to secure financing, that they would close as planned, that the risks to timely closing were limited and clearly identified, and that a superior risk mitigation plan was presented. If the Applicant proposed to fund a general pipeline in Question 17, the Applicant identified the total number of businesses or CDEs and total dollar amount of NMTC financing/investment to be provided, indicated what portion of the Applicant's pipeline falls into different businesses and activity types, and the extent to which the Applicant intends to invest dividends or interest earned and timeline for doing so. Based upon the details it provided for its pipeline projects in Question 17 and Table A5 (e.g. total QEI and QLICI to be provided by the Applicant, underwriting status, and planned uses of financing), and the credibility and reliability of its projections, the Applicant demonstrated it is likely to be able to begin making NMTC investments in a timely manner. The Applicant's strategy for identifying borrowers, investees, and other customers in LICs is highly likely to result in the types of NMTC investments described in its general pipeline.
3. **Prior Performance (Questions 19-20, and Exhibit B).** The Applicant demonstrated an excellent track record of directly providing, during each of the past five years, products and services similar to those it intends to deploy with the QEI proceeds. An Applicant with a relatively limited track-record of QLICI-type activities could also score highly if it had a very strong five year (or longer) track record of non-QLICI like investments that were clearly relevant to its business strategy. Activities in which the Applicant had placed its own capital at risk were given greater weight over ancillary activities, such as loan packaging or facilitating transactions.
4. **Prior Performance and Projected Business Activity (Questions 13, 17, 19, 20, and Exhibits A and B).** The Applicant's track record included similar financing activities, including business/project types similar to all of the proposed financing activities. The Applicant demonstrated that its most recent 5-year direct financing track record was 90 percent or more of its projected NMTC deployment in Exhibit A.
5. **Notable Relationships (Question 23).** The Applicant either: (i) did not report any notable relationships where the Applicant, its Affiliates or personnel would receive financial benefits from QALICBs financed with the Applicant's QLICs; or (ii) the Applicant did report that notable relationships will exist with the QALICBs it finances (e.g., as an owner, project developer or lessee of a commercial property), and the Applicant demonstrated that these relationships would provide clear benefits and result in significant added value (e.g. cost savings, lower lease rates or fees) for unaffiliated end-users (e.g., QALICBs, tenant businesses, or residents) in Low Income Communities (LICs).

## B. Priority Points

1. **Track Record of Servicing Disadvantaged Businesses and Communities (Questions 19-20 and Exhibit B).** The Applicant demonstrated five or more years of experience providing capital and/or technical assistance to disadvantaged businesses and communities (DBC). The Applicant also demonstrated that at least 70 percent of its total dollar volume of direct financing activities has been provided to DBCs.
2. **Unrelated Entities (Question 22).** The Applicant indicated that it will commit to using substantially all of the proceeds of its QEIs to make QLICs in one or more businesses in which persons Unrelated to the Applicant hold the majority equity interest.

## C. Community Outcomes

1. **Targeting Areas of Higher Distress (Question 24).** The Applicant indicated that it will commit to providing at least 75 percent of its QLICs in specified areas of severe distress and/or areas characterized by multiple indicia of distress. The Applicant also demonstrated that its strategy for locating and prioritizing QLICs in highly distressed communities is highly likely to be effective.
2. **Community Development Outcomes (Question 25).** For each outcome selected in Question 25, the Applicant demonstrated that its planned investments are likely to result in significant community outcomes that would clearly benefit Low-Income Persons and/or residents of LICs. All of the Applicant's projected community outcomes are quantified and supported by sound and clearly explained methods. In addition, the Applicant demonstrated a strong track record of achieving outcomes similar in type and quantity to the projected outcomes.
3. **Tracking Community Outcomes (Question 25b).** The Applicant described a thorough track record and robust methodology for tracking all projected community outcomes.
4. **Community Accountability and Involvement (Question 26).** The Applicant showed that proposed investments are supported by and beneficial to the communities it serves by outlining an effective process, including a significant role for LIC representatives on its Advisory and/or Governing Board, to ensure planned investments align with LIC priorities. The Applicant also demonstrated an extensive track record of project-specific community engagement in past investment decisions and how its proposed investments will contribute to broader (local, regional, or state-wide) community or economic development strategies or plans.
5. **Other Community Benefits (Question 27).** The Applicant demonstrated a high likelihood that its proposed investments will result in additional non-NMTC related private investment in LICs beyond the initial NMTC investment, as supported by specific track record examples of financing catalytic projects that have spurred additional private investment.

## Part III. Application Ratings

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This section provides: (i) the score range for the two scored sections of the application, the Business Strategy and Community Outcomes sections, as well as the score range for the base score; (ii) determination of eligibility for further allocation award consideration in Phase 2; (iii) the score range for the Final Rank Score (defined below); and (iv) a visual representation of the Final Rank Score distribution for all CY 2018 Applicants deemed eligible under the criteria set forth in the CY 2018 NOAA.

**Figure 1a. Applicant Score Ranges** provides Phase 1 score ranges for the Business Strategy and Community Outcomes sections, as well as the base score. An Applicant is eligible for consideration for an Allocation Award in Phase 2 if it met the minimum highly qualified score threshold for both the Business Strategy and Community Outcomes sections (at least 60 points in each section), as well as for the base score (at least 126.5 points).

**Figure 1a. Applicant Score Ranges and Highly Qualified Thresholds**

Section	Score Range	Minimum Highly Qualified Threshold Score Met
Business Strategy	[Score Range]	[Yes/No]
Community Outcomes	[Score Range]	[Yes/No]
Base Score <sup>4</sup>	[Score Range]	[Yes/No]
<b>Eligible for Allocation Award Consideration in Phase 2</b>		<b>[Yes/No]</b>

**Figure 1b. The Final Rank Score** is the sum of the total scores from the two scored sections (Business Strategy and Community Outcomes) and one half the value of the total priority points earned. The Final Rank Score is used to rank Applicants in descending order for award consideration in Phase 2.

**Figure 1b. Final Rank Score Range**

	Score Range
Final Rank Score <sup>5</sup>	[Score Range]

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<sup>4</sup> The Base Score is the sum of the Business Strategy and Community Outcomes section scores.

<sup>5</sup> The Final Rank Score as shown does not include any point deductions that were applied after Phase 1 in the case of prior CDFI Fund Awardees and Allocatees (or their Affiliates) that failed to meet reporting deadlines as specified in the NOAA.



**Figure 2. Final Rank Score Distribution** shows the Final Rank Score distribution for all CY 2018 Applicants who received a Phase 1 score.

**Figure 2. Final Rank Score Distribution**

