



DIRECTOR

DEPARTMENT OF THE TREASURY
COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND
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WASHINGTON, DC 20005

April 23, 2009

Mr. Michael Brostek
Director, Strategic Issues
United States Government Accountability Office
441 G Street, NW
Washington, DC 20548

Dear Mr. Brostek:

Thank you for providing the Community Development Financial Institutions (CDFI) Fund, an office within the U.S. Department of the Treasury, with an opportunity to comment on the draft Government Accountability Office (GAO) report pertaining to participation by minority entities under the New Markets Tax Credit (NMTC) Program.

As you note in your report, the NMTC application process is extremely competitive. Historically, only one out of four applicants has received an award, and in any given application round, requests for tax credit authority have been between six and nine times greater than what is available to award. As a result, in each round, many qualified applicants have not received awards, or received awards in amounts much smaller than their requests.

The CDFI Fund agrees with your conclusions that, within this competitive environment, minority-owned and minority-controlled Community Development Entities (CDEs) have not received awards in proportion to their representation in the application pool. The CDFI Fund does not believe that this lower success rate is attributable to any biases in the application review or selection process, but rather, as you point out in your report, is likely due to other factors. Most notably:

1. **Relatively few minority CDEs have applied for allocation awards.** In the past four allocation rounds, only 88 out of 934 applicants, or just over 9 percent of the total application pool, were identified as minority CDEs.
2. **Minority CDEs tend to be smaller, and smaller CDEs as a class do not fare as well.** Over 34 percent of minority CDEs fall in the smallest 20 percent of CDEs by asset size. The smallest 20 percent of CDE applicants by asset size have a success rate of 14 percent, which is much smaller than the overall success rate of 25 percent.
3. **Minority CDEs do not tend to apply in multiple rounds, which may put them at a competitive disadvantage.** As noted in the GAO report, applying in multiple rounds significantly increases a CDE's likelihood of success. The percentage of organizations that receive awards on their first try is 10.7 percent, but the percentage jumps up to 29.5 percent for applicants that have applied at

least two times and to 67 percent for applicants that have applied at least three times. However, only 23 percent of the minority CDEs have submitted multiple applications, compared with 41 percent of the non-minority CDEs

Similarly, the CDFI Fund does not believe that the title of the report accurately reflects the conclusions that were drawn in your study. Most notably, the GAO noted in its study that its analysis does not exclude the fact that there may be other factors outside the entity's status as a minority CDE which account for the lower probability that it will receive an award (page 35 of the draft report). In light of this fact, we strongly encourage the GAO to change the title to "New Markets Tax Credits -- Multiple Factors Contribute To Fewer Awards for Minority Entities", or a similar title that more accurately describes the findings contained within your evaluation.

Despite the application challenges faced by minority CDEs, the CDFI Fund believes that the NMTC Program is bringing tremendous benefits to communities with large minority populations. As noted in your report, a 2008 study that was jointly sponsored by the CDFI Fund and the Federal Reserve Board of San Francisco found that, on average, NMTC-eligible census tracts have non-white populations of 42 percent, compared with an average of 26 percent in all census tracts; and the census tracts that have received NMTC investments have, on Average, non-white populations of 47 percent. This strongly suggests that NMTC awardees are targeting areas with higher minority concentrations when making their investments.

Investments in these communities bring numerous benefits to minority residents in the form of jobs, housing, and valuable goods and services. In Washington DC, for example, NMTC investments have financed charter schools with student populations that are 100 percent minority; minority-owned businesses; a community center in a community where 93 percent of residents are African-American; and, in that same community, a national chain grocery store that supports over 200 jobs for community residents. Many other NMTC-financed projects throughout the country have focused exclusively on serving other minority populations, including Hispanic populations and Native American populations. It would have been beneficial if the scope of the GAO report had also included an evaluation of the impact of NMTC investments in communities with high minority populations, so that projects like these could have been analyzed and included in the final report.

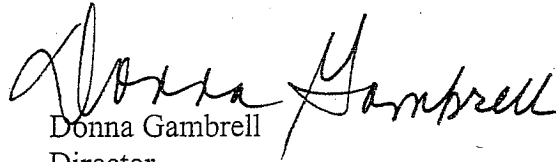
The CDFI Fund notes, as did the GAO in its report, that neither the NMTC authorizing statute, nor any documents regarding the legislative history of the program, indicate that a desired program outcome is success by minority CDE applicants. Nonetheless, the Fund has been actively seeking to promote participation by minority CDEs since the program's inception. Most notably, we have conducted multiple outreach sessions with the National Banker's Association, a trade association of minority-owned financial institutions, and with the Federal Deposit Insurance Corporation's Minority Depository Institution Program. These efforts have included webinars, workshops, panel presentations, conference booths, and keynote speeches at their major conferences.

The National Bankers Association has praised, in writing, the CDFI Fund's outreach efforts to their members.

More recently, we have developed a relationship with the Department of Commerce's Minority Business Development Agency that we hope will also lead to additional applications from minority CDEs. We will be presenting information about the NMTC Program, and other CDFI Fund initiatives, at their National Capital Access Forum in May of 2009. And in July of 2009, we will be participating in the FDIC's Interagency Minority Depository Institution National Conference. These efforts are in addition to the outreach we conduct on a regular basis with other Federal agencies, the banking regulatory agencies, trade associations and other industry representatives.

Thank you again for the opportunity to review and comment upon your draft report. We appreciate your efforts and the collaborative relationship that you fostered during the course of your review.

Sincerely,


Donna Gambrell
Director