

# **NMTC Allocation Application Q & A Document**

## **Community Development Financial Institutions Fund**

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***If you are already familiar with the previous Allocation Application Q&A Document dated July 1, 2002, Questions #3, 5-7, 9, 16, and 19 have been amended. Questions #24-34 are new questions that were asked most frequently during the NMTC outreach sessions held in July.***

**(1) *How does the New Markets Tax Credit (NMTC) Program work?***

The NMTC Program permits taxpayers to claim a credit against Federal income taxes for Qualified Equity Investments (QEIs) made to acquire stock or a capital interest in designated Community Development Entities (CDEs). Designated CDEs must use substantially all of the proceeds from the QEIs to make Qualified Low-Income Community Investments (QLICIs). The tax credit provided to the investor (either the original holder or a subsequent purchaser) is claimed over a seven-year credit period. In each of the first three years, the investor receives a tax credit equal to five percent of the total amount paid for the stock or capital interest at the time of purchase. For the final four years, the value of the tax credit is six percent annually. The Community Development Financial Institutions Fund (the Fund) certifies CDEs on an ongoing basis, and allocates New Markets Tax Credit (NMTC) Allocations annually to select CDEs through a competitive application process.

**(2) *What is a CDE?***

A CDE is any duly organized entity treated as a domestic corporation or partnership for federal income tax purposes that: (a) has a primary mission of serving, or providing investment capital for, low-income communities or low-income persons; (b) maintains accountability to residents of low-income communities through their representation on any governing board of the entity or any advisory board to the entity; and (c) has been certified as a CDE by the Fund.

The Fund is currently accepting applications from organizations seeking designation as CDEs. An organization seeking such a designation should review the Fund's CDE Certification Guidance (66 Federal Register 65806, December 20, 2001) and a document titled "CDE Certification Q&A" prior to submitting its CDE Certification Application to the Fund. These documents are available on the Fund's website at [www.cdfifund.gov](http://www.cdfifund.gov). Community Development Financial Institutions (CDFIs) certified by the Fund and Specialized Small Business Investment Companies (SSBICs) licensed by the Small Business Administration (SBA) are deemed to automatically meet the requirements for certification as a CDE, and need only register on-line at the Fund's website at [www.cdfifund.gov](http://www.cdfifund.gov).

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**(3) *Who is eligible to apply for an allocation of NMTCs?***

In order to be eligible to apply for an allocation of NMTCs from the Fund in the 2002 allocation round, an applicant must: (a) be legally incorporated or formed as a domestic corporation or partnership; (b) have a valid Employer Identification Number (EIN); and (c) be certified as a CDE by the Fund or have a CDE Certification Application pending with the Fund. The deadline for receipt of CDE Certification Applications from entities seeking a 2002 NMTC Allocation was 5:00 pm Eastern Time July 25, 2002. **Entities whose CDE Certification Applications were not received by BPD by that date are not eligible to apply for a 2002 NMTC Allocation.**

**(4) *Is an entity that is a CDFI (or an Affiliate of a CDFI) eligible to apply for an allocation of NMTCs if it has been determined by the Fund that the CDFI has failed to meet the requirements of a current or previous award?***

Such an entity is eligible to apply for an allocation of NMTCs, but the Fund reserves the right to reject any NMTC Allocation Application in the case of a previous Fund awardee, if such awardee or its Affiliates have failed to comply with the terms and conditions of their previous or existing assistance or award agreements with the Fund. At a minimum, the Fund is likely to reject, without substantive review, any NMTC Allocation Applications received from previous Fund awardees in circumstances where the previous Fund awardee or its affiliates: (a) is not current in its reporting requirements to the Fund; or (b) has defaulted with respect to the requirements of a previous Fund assistance or award agreement. The Fund will notify all CDFI Program awardees of their compliance status by August 1, 2002.

**(5) *How can my organization apply for an allocation of NMTCs?***

An organization interested in applying for an allocation of NMTCs in the 2002 round must submit its Allocation Application **no later than 5:00 pm Eastern Time on August 29, 2002**. The Fund expects all applicants to submit online Allocation Applications. Applicants may access the online Allocation Application by creating a customized user account on the Fund's website at [www.cdfifund.gov](http://www.cdfifund.gov). (For more information on submitting an online Allocation Application, see response to question #6 below.)

Applicants that are unable to submit an online Allocation Application may submit a paper application, provided that they **submit a Paper Application Submission Form to the Fund no later 5:00 pm Eastern Time on August 9, 2002**. This form is available on the Fund's website at [www.cdfifund.gov](http://www.cdfifund.gov). It should be submitted to the attention of the Fund's NMTC Program Manager and should include an explanation of why the applicant is not capable of submitting an online Allocation Application. The Fund will provide information on the procedures for submission of a paper application at that time. (For more

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information on submitting a paper application, see response to question #7 below.)

**(6) *What is the process for submitting an online Allocation Application?***

To apply online, applicants must have: (1) Internet Explorer 5.5 or higher or Netscape Navigator 6.0 or higher, and (2) Windows 98 or higher (or other system compatible with the above Explorer and Netscape software). Ideally, applicants should have a 56Kbps Internet connection, however, applicants can use the online Allocation Application with a slower Internet connection.

Before entering narrative information into the website, the Fund advises applicants to type the narrative in another program, such as Microsoft Word. Then they can copy and paste answers into the appropriate sections of the handbook. This will also cut down on the time spent filling out the online application. The textboxes generally allow for 2500 characters including spaces (approximately ½ page in MS Word). Applicants will be prevented from exceeding the space provided. The textboxes for certain questions (questions 16, 17, 23, 26, 31, 38, 39, 41, 44, 50, 55, 56, 58, 59, 60, 62b, 64, 66, 72, 73, 74, 75) have been expanded to allow for lengthier narrative entries. However, the Fund encourages applicants to be brief and concise in their responses -- the vast majority of responses need not be more than a paragraph or two, and no response should be more than two or three pages at the most. All narrative answers must be in text form only and not include any special formatting (e.g., bolding or underlining), charts, tables or other graphics not required in the application.

Start filling in the online application early. Once you have submitted your online Allocation Application, the system will provide instructions for submitting the signature page. The authorized representative must sign the unmodified, signature page and fax it to the number provided by no later than **5:00 pm Eastern Time on September 3, 2002**. If your signature page is not received by this deadline, your online Allocation Application will be considered incomplete and will be rejected without further review.

**(7) *What is the process for submitting a paper application?***

Prior to submitting a paper application, applicants must first submit a Paper Application Submission Form no later than 5:00 pm Eastern Time on August 9, 2002. Organizations that do not submit a form by that date will not be allowed to submit a paper application. The paper format will require the use of Adobe Approval, which can be downloaded from the Adobe website at [www.adobe.com](http://www.adobe.com).

The paper format will provide the same amount of space for answering questions as the electronic application form. The textboxes generally allow for 2500 characters including spaces (approximately ½ page in MS Word).

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Applicants will be prevented from exceeding the space provided. The textboxes for certain questions (questions 16, 17, 23, 26, 31, 38, 39, 41, 44, 50, 55, 56, 58, 59, 60, 62b, 64, 66, 72, 73, 74, 75) have been expanded to allow for lengthier narrative entries. However, the Fund encourages applicants to be brief and concise in their responses -- the vast majority of responses need not be more than a paragraph or two, and no response should be more than two or three pages at the most. All narrative answers must be in text form only and not include any special formatting (e.g., bolding or underlining), charts, tables or other graphics not required in the application.

**(8) *What are the advantages to submitting an online application?***

Applicants that apply through an online application will be able to save any data or information into the system, exit and later reenter the application throughout the application period. For the most part, the system will prevent an applicant from entering answers incorrectly, answering questions that do not apply or forgetting to answer questions that are relevant. Applications submitted online provide processing, data collection and administrative efficiencies to the Fund that are not provided in a paper application process. Online submissions decrease the cost of mailing the application and provide immediate confirmation of receipt by the Fund. Although a signature sheet will be required for online submissions, it may be faxed to the contact listed in the handbooks rather than mailed. Perhaps most importantly, applicants choosing to submit a paper application may experience delays in notification of allocation decisions and delays in the draw down of tax credits – since these activities will be expedited by the Fund’s ability to retrieve data stored at the time of the submission of an online application. Since the Fund will require organizations that are awarded NMTC allocations to submit compliance and monitoring reports and data via a web-based handbook similar to the online application, an applicant that submits a paper application will be advised to address, in its narrative response to question #64, how it will, if provided an NMTC Allocation, have the resources to comply with the Fund’s future web-based reporting requirements.

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- (9) ***What are the remaining deadlines and dates that I need to know if my organization intends to apply for an allocation of NMTCs in 2002?***

<b>Deadline</b>	<b>Date</b>
Notification of intent to submit a paper Allocation Application (for those applicants that cannot submit an online Allocation Application) due to the Fund	5:00 pm Eastern Time on August 9, 2002
Allocation Application (online or paper version) must be received by	5:00 pm Eastern Time on August 29, 2002
Faxed signature page due for applicants that submitted an online Allocation Application	5:00 pm Eastern Time on September 3, 2002
Request to modify service area due to the Fund (see question # 19 below)	5:00 pm Eastern Time on September 11, 2002

- (10) ***Can my organization apply for a NMTC Allocation on behalf of Subsidiary entities, as it did with its CDE Certification Application?***

Yes. An organization may apply for a NMTC Allocation with the intention of transferring all or a portion of its NMTC Allocation to one or more for-profit Subsidiary entities. In order to transfer any portion of its NMTC Allocation to a Subsidiary, an applicant must: (a) exercise "Control" over the Subsidiary entity, as such term is defined in the NOAA and Glossary of Terms that accompanies the Allocation Application; and (b) indicate in its Allocation Application an intent to make a transfer of allocations. Applicants applying for allocations on behalf of one or more Subsidiaries are instructed in the Allocation Application to respond to questions collectively on behalf of all entities, to the extent that responses do not vary across different entities.

An applicant and its Subsidiaries may collectively submit only one Allocation Application per year under the NMTC Program.

- (11) ***If my organization intends to transfer all or part of an NMTC Allocation to one or more Subsidiaries, do the Subsidiaries need to be established and certified as CDEs prior to submission of the Allocation Application?***

No. An applicant will not be required to form and secure CDE certification for Subsidiary entities prior to the submission of its Allocation Application. However, once selected for an allocation, the allocatee will not be permitted to transfer any of its allocation to Subsidiaries unless those Subsidiaries have been: (a) certified as CDEs by the Fund; and (b) identified by name in the allocatee's Allocation Agreement. If an allocatee requests, the Fund may, in its

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sole discretion, amend the allocatee's Allocation Agreement to add Subsidiary entities that were not yet formed and/or certified as CDEs at the time of the allocatee's receipt of a NMTC Allocation.

**(12) *Can non-profits apply for a NMTC Allocation?***

Because NMTCs can only be offered to taxable investors that purchase stock or capital in a CDE, only for-profit CDEs may offer NMTCs to their investors. However, a non-profit entity may apply for a NMTC Allocation with the intention of transferring the allocation to one or more for-profit Subsidiaries. The for-profit Subsidiaries do not have to be formed at the time the non-profit CDE applies for an allocation of NMTCs, but the Fund will not enter into an Allocation Agreement with a non-profit allocatee until such time that it has established at least one for-profit Subsidiary entity, and certified that entity as a CDE.

**(13) *When requesting an allocation of NMTCs from the Fund, should the applicant ask for the total amount of equity it intends to raise through NMTCs, or should it ask for the total value of the tax credits that will be available to its investors?***

The applicant's Allocation Application request must be for the amount of QEIs the applicant intends to raise by offering NMTCs as an incentive. For example, if a CDE wishes to raise \$10 million in equity, it would request a \$10 million allocation from the Fund – even though the actual amount of NMTCs an investor may claim over 7 years is \$3.9 million (39% of the investment amount). An allocatee cannot offer NMTCs on equity raised in excess of its NMTC Allocation. In the 2002 allocation round, the Fund is authorized to allocate to CDEs the authority to issue up to \$2.5 billion in QEIs for which NMTCs may be claimed.

**(14) *How do I complete the Allocation Application if my organization is a start-up entity?***

A start-up organization that does not itself have a track record of raising capital, offering products and services, creating community impact, etc., may reference the track record of its Controlling Entity as appropriate throughout the Allocation Application. The Fund recognizes that, in circumstances where the Controlling Entity is also a start-up, it will be difficult if not impossible for an applicant to respond to certain questions (and complete certain tables) related to prior track record. In such circumstances, the applicant should be sure to emphasize, under the Management Capacity section, the relevant experiences, knowledge base, and skills of its management team to carry out its prospective activities. (For more information about who is considered a Controlling Entity, see response to question #26 below.)

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**(15) How do I complete the Allocation Application if my organization is planning to use its NMTC Allocation in support of one specific transaction?**

The Fund recognizes that an applicant may propose to use the entirety of its NMTC Allocation to fund a single project. To the extent possible, such an applicant should answer all questions posed in the application. The Fund anticipates that single many project applicants will apply to the Fund under the NMTC Program.

**(16) What is the purpose of the table in Question #33 of the Allocation Application?**

Question #33 permits an applicant to identify specific transactions that it anticipates closing prior to 12/31/03. Applicants are encouraged to list all transactions they plan to close by 12/31/03 for two reasons: (a) applicants with a readily identifiable set of business activities in which they will engage in the near term will be scored favorably; and (b) for transactions listed in this table, applicants may utilize either 1990 or 2000 census data for the purpose of demonstrating that the transaction is a QILCI (for more information on this, see the response to question #22 below). Applicants should use their best business judgment in determining which transactions have a reasonable chance of closing prior to 12/31/03 – keeping in mind that information presented in this table that is not consistent with information reported elsewhere in the application (particularly question #31 and exhibits B-F) could negatively impact how the application is scored by reviewers.

**(17) Is there a limit to the total NMTC Allocation amount that an Applicant may request in the 2002 allocation round?**

No. For the 2002 round, the Fund has not set a cap on the size of NMTC Allocation requests. However, the Fund reserves the right to provide allocations for an amount that is less than the amount requested by the applicant.

**(18) What terms and conditions will be placed upon applicants that receive NMTC Allocations from the Fund?**

Each applicant that is selected to receive a NMTC Allocation must enter into an Allocation Agreement with the Fund before it can offer tax credits to its investors. The terms and conditions set forth in an Allocation Agreement may include, but not be limited to, the following:

- (a) The amount of the NMTC Allocation;

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- (b) The approved uses of the NMTC Allocation (e.g., loans or equity investments to Qualified Active Low-Income Businesses (QALICBs), loans to or equity investments in other CDEs, purchase of qualifying loans from other CDEs, etc.);
- (c) The approved service area(s) in which the QEI proceeds may be used;
- (d) The CDE's schedule for obtaining QEIs from investors; and
- (e) Reporting requirements for all CDEs receiving NMTC Allocations.

If a CDE has represented in its Allocation Application that it intends to invest substantially all of the proceeds from its investors in QALICBs in which persons unrelated to the CDE hold a majority equity interest, the Allocation Agreement will contain a covenant attesting to such.

**(19) *In Question #12 of the Allocation Application, can I designate a service area that is different than the service area that I was certified for in my CDE Certification Application? Similarly, can a CDE modify its service area after closing an Allocation Agreement with the Fund?***

The service area designated in Question #12 must be consistent with the service area that the applicant was certified for in its CDE Certification Application. In the event that an applicant would like to amend its CDE certification service area prior to submitting its Allocation Application, it may do so by sending an email to the CDFI Fund's Helpdesk at [cdfihelp@cdfi.treas.gov](mailto:cdfihelp@cdfi.treas.gov), with the subject line, "NMTC Program: Revision of Service Area." In this email, a CDE should include, for itself and any Subsidiary CDEs for which it is seeking to amend a service area: (1) the CDE certification control number; (2) the initial service area designated by the CDE, as well as the revised service area that the organization intends to serve; and (3) a revised Accountability Chart, indicating the most current list of board members and how they are representative of Low-Income Communities in the revised service area.

**Organizations that would like an amended service area to be considered in the context of their 2002 NMTC Allocation Application must submit this information to the Fund no later than 5:00 pm Eastern Time on September 11, 2002.**

Subsequent to closing an Allocation Agreement with the Fund, an allocatee may request to modify its Allocation Agreement and CDE certification documents as necessary to broaden its service area to include any market that was not identified at the time of the allocatee's receipt of an NMTC Allocation and/or initial certification as a CDE. The Fund will review such requests on a case-by-case basis to ensure that the CDE is appropriately accountable to Low-Income Communities in its amended service area.

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- (20) *When will the Fund make allocation decisions? Can my organization start to offer NMTCs to investors as soon as it receives an allocation?***

The Fund expects to announce its NMTC Allocation decisions and execute Allocation Agreements with allocatees in late Fall 2002. As soon as an allocatee enters into an Allocation Agreement with the Fund, it may offer NMTCs to its investors. Generally, investors may claim NMTCs beginning in the taxable year in which they make a QEI in the CDE.

- (21) *May I offer NMTCs to investors that made an investment in my organization before it received an allocation of NMTCs?***

Yes. The Temporary and Proposed Income Tax Regulations permit CDEs to utilize NMTC Allocations with respect to certain equity investments in the CDE that are made on or after April 20, 2001, but prior to the receipt of a NMTC Allocation. For purposes of this look-back period, the investor's seven-year credit period begins on the date in which the CDE enters into an Allocation Agreement with the Fund. The CDE is required to invest substantially all of the investor's QEI proceeds in QLICIs within one year of the date in which the CDE enters into an Allocation Agreement with the Fund.

- (22) *Should I use 1990 or 2000 census data to determine qualifying investment activities?***

The Fund recognizes that 2000 U.S. census data is not likely to be available in sufficient detail prior to the time that an applicant submits its Allocation Application to the Fund, and that applicants are currently relying upon 1990 census data to identify deals and obtain investor commitments. The Fund has determined that an applicant may use 1990 census data for any proposed QLICI: (i) that is closed (meaning all parties are legally committed to funding the investment) by December 31, 2002; or (ii) that is specifically identified in Question #33 of its Allocation Application and closed by the applicant by December 31, 2003. If an applicant uses 1990 census data for a QLICI, it must use 1990 census data for the entire period of the specified investment. Other than in such cases as outlined above, all QLICIs must be made using 2000 census data.

Please note that as of the date of the publication of the NMTC Allocation Application, the Fund's Online Helpdesk at [www.cdfifundhelp.gov](http://www.cdfifundhelp.gov) is referencing 1990 census data.

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- (23) *Are there any limitations with respect to using NMTCs, or the proceeds of QEIs, in conjunction with other CDFI Fund program awards?***

An investor that is an insured depository institution or an affiliate of an insured depository institution may not claim both NMTCs and a BEA Program award for the same investment into a CDE.

Example 1: If a bank makes a \$1 million equity investment into a CDFI-CDE that has also received an allocation of NMTCs from the Fund, the bank may claim the NMTCs or it may claim a BEA Program award – it may not claim both.

Example 2: If a bank makes a \$1 million equity investment into a CDFI-CDE that has also received an allocation of NMTCs from the Fund, and also makes a \$1 million loan to this CDFI-CDE, the bank may claim NMTCs on its \$1 million equity investment and claim a BEA Program award for its \$1 million loan.

There are currently no other specific prohibitions for using NMTCs or the proceeds of QEIs in conjunction with other Fund programs. Any future limitations will be described in the NOFAs and/or NOAAs that accompany those programs.

### NEW QUESTIONS AS OF AUGUST 5, 2002

- (24) *My organization submitted its CDE Certification Application prior to the July 25, 2002 deadline, and I received a confirmation that it was in fact received. Will the Fund be able to make a determination regarding my certification status prior to August 29, 2002? If not, how will this affect my ability to submit an NMTC Allocation Application to the Fund?***

Due to the volume of CDE Certification Applications that were submitted right before the July 25<sup>th</sup> deadline (approximately 400 applications were received between July 15<sup>th</sup> and July 25<sup>th</sup>), the Fund may not complete reviews on all CDE Certification Applications prior to the August 29<sup>th</sup> Allocation Application due date. However, the Fund will review Allocation Applications from organizations that have not yet received a certification determination, provided their CDE Certification Applications were received by July 25, 2002. The Fund will not make allocation awards to organizations until such time as they have been certified as CDEs, which the Fund anticipates doing in late fall or early winter. Accordingly, organizations will likely know their certification status in advance of the award decisions.

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**(25) Will the information that I provide in my Allocation Application be accessible by the general public?**

The CDFI Fund will not publicly post any proprietary information submitted by an individual applicant. However, any information submitted by an applicant in its Allocation Application is subject to the Freedom of Information Act (5 U.S.C. 552) and/or other Department of Treasury regulations or other laws. In general, FOIA makes a federal agency record available to the public, unless the information requested is exempt from disclosure. Trade secrets and commercial or financial information submitted by an applicant, that are privileged or confidential, are generally exempt from disclosure pursuant to the FOIA. Applicants should consult their own attorneys for further guidance on this matter.

**(26) Who can be considered a Controlling Entity, for purposes of demonstrating an organizational track record in the Business Strategy section and in Exhibit A. Can an individual be considered a Controlling Entity? Can an applicant have more than one Controlling Entity? Can an applicant identify the parent of its parent company as a controlling entity?**

Any organization may be designated as a Controlling Entity by an applicant in Question #2 of its Allocation Application, provided that the organization meets the definition of "Controlling Entity" pursuant to the NOAA and the Glossary of Terms. Individuals cannot be treated as Controlling Entities for the purposes of demonstrating an organizational track record in the Business Strategy section of the Allocation Application. However, an applicant may describe such individuals' experience and track record in the Management Capacity section.

With regard to multiple controlling entities, the 2002 NMTC Allocation Application is not equipped to accept more than one Controlling Entity. Therefore, entities applying for a 2002 NMTC Allocation will need to select one controlling entity in Question #2 to use throughout the Business Strategy section to assist in demonstrating track record and in completing related exhibits. The Fund recommends that an applicant identify the entity that has the power to control the management and investment decisions of the applicant. An applicant may identify the parent of its parent as its Controlling Entity to demonstrate an organizational track record, provided that the relationship between the "grandparent" and the applicant conforms to the Fund's definition of "Controlling Entity".

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- (27) *If I provide Financial Counseling and Other Services (FCOS) as a “discrete line of business,” separately from my lending/investing activities, how should I complete the Business Strategy section?***

If an entity provides FCOS as a “discrete line of business” separate from its lending/investing activities, an applicant should: (1) describe these services in Question #23; (2) provide the number of businesses/entrepreneurs to which the Applicant has provided counseling or other service in the last 5 years in Question #24; and (3) complete Exhibit F in response to Question #30. For these purposes, “discrete line of business” is one which the entity operates as a separate division or profit center, as opposed to services which are an inseparable part of the entity’s lending or investing activities. When the online Allocation Application was first released, only those applicants engaging exclusively in FCOS could complete Question #23 and Exhibit F in response to Question #30. The online Allocation Application has since been revised to permit applicants providing FCOS as a “discrete line of business” to complete these questions.

- (28) *In Exhibit A, Tables 1-4, can I include loans that are approved/committed but not yet disbursed? Similarly, should these tables include only loans provided from my own capital or should I also include loans that I originated or serviced using funds provided, in whole or in part, by other entities (e.g., loan participations and loan packages)?***

Applicants should only provide information about loans that are closed (meaning all parties are legally committed to funding the investment). In completing the tables, the full amount of the loan should be counted, not just the portion that has been disbursed, and applicants should only include the portion of the loan that was funded by the applicant.

- (29) *What is a non-real estate versus real estate QALICB?***

Real estate QALICBs refer to those businesses that develop, construct, manage, and/or finance real estate projects as their primary business purpose. Transactions with businesses that are involved in all other types of business activities should be classified as non-real estate QALICB transactions for the purpose of completing the Business Strategy section and all relevant exhibits. This holds true regardless of how the business intends to use the proceeds of the transaction (even if the business intends to use any real estate owned as collateral for a business loan. For example, if an applicant provided a loan to a childcare provider for the purpose of purchasing the property where the childcare center would be housed, the applicant would categorize this loan as a non-real estate QALICB transaction. However, if the CDE provided a loan to a development company for the purpose of building a childcare center, and the organization’s primary business is the development of community facilities, this loan would be considered a real estate QALICB transaction.

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- (30) *In Exhibits B-F, should I include all my organization's activities or just NMTC related activities?***

Applicants should only include those activities expected to be carried out by the applicant and its subsidiaries relating to equity raised with NMTCs.

- (31) *In Exhibit G, Table 3, should I identify of all of my previous investors, or only those whom I plan to approach for NMTC-related investments?***

Applicants should only identify those previous investors whom they plan to approach for NMTC related funding. Tables 1-3 in Exhibit G pertain only to NMTC related equity-raising activities, whereas Table 4 should describe all capital raising activities, including any non-NMTC capital.

- (32) *In Exhibit H, should I include all of my activities, NMTC activities only, or all NMTC-eligible activities (whether or not tax credits will actually be issued for those activities)? Additionally, what is the time frame for Exhibit H? A year? The 5 years within which I have to exchange my NMTC allocation for QEIs? Or some other time period?***

Exhibit H should only include sources and uses related to NMTC activity, including any non-NMTC equity, grants, loans, etc., that will support an applicant's NMTC strategy throughout the 5 year period in which an allocatee has to exchange NMTCs for QEIs. For example, if a CDE receives a philanthropic or government grant to supplement its NMTC proceeds, the applicant should include such grants in the sources listed in Exhibit H Table 1. The CDE should describe how it intends to use these sources in Exhibit H Table 2. For example, in Table 2 the CDE should indicate the amount of its overall sources from Table 1 that it intends to use for operating expenses.

- (33) *There are some activities that are not clearly prohibited by the IRS Temporary and Proposed Income Tax Regulations, but that are also not clearly allowed. If my business strategy falls within one of these more undefined areas, how will my application be scored by the Fund?***

The Fund will evaluate each Allocation Application on a case-by-case basis to ensure that the activities proposed are within the guidelines set forth in the IRS Temporary and Proposed Income Tax Regulations. If an applicant's proposed activities are not clearly allowable per the limitations set forth in the Temporary Regulations, the Fund may not consider such applications for a competitive allocation award.

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- (34) How should a CDE that itself does not engage in transactional activities (e.g., a bank holding company) complete the Allocation Application if its sole intended use of the QEI proceeds is to capitalize a subsidiary CDE (e.g., a bank) so that it may carry out its business strategy?**

Such an Applicant must be sure to:

- a) Indicate under question #15c in the Allocation Application that it intends to capitalize another CDE;
- b) Check-off all other boxes in question #15 that pertain to the types of activities in which the Subsidiary CDE will engage; and
- c) Identify in question #16 that the Applicant's business strategy consists solely of capitalizing the Subsidiary CDE. An Applicant that intends to capitalize more than one Subsidiary CDE (e.g., a CDE bank holding company that intends to capitalize multiple Subsidiary CDE banks) should identify each such Subsidiary CDE.

As for completing the remainder of the Allocation Application, the Applicant should answer all questions (and complete all tables and exhibits) as if the Subsidiary CDE were itself applying for the allocation of tax credits. An Applicant that intends to capitalize more than one Subsidiary CDE should consolidate the activities of its Subsidiaries when completing tables and exhibits, but should use the narrative portions of the application to distinguish between the respective roles and activities of each Subsidiary organization.

Finally, an Applicant CDE that intends to use its QEI proceeds solely to capitalize a Subsidiary CDE may not claim the 5 priority points for investing in an Unrelated entity – even if the Subsidiary CDE intends to use substantially all of the proceeds to invest in Unrelated entities.

- (35) In Question #34 of the Allocation Application, can an applicant earn the 5 priority points if at the time of initial investment the business was unrelated, but subsequent to making its investment, the applicant holds a majority interest in the business?**

The Fund recognizes the importance of this issue, and is currently working on developing a concrete answer to this question, within the guidelines of the Temporary and Proposed Income Tax Regulations.

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**More detailed application content requirements are found in the NMTC Allocation Application and NOAA. In the event of any inconsistency between the contents of this Q & A document, the NOAA (67 Federal Register 40112, June 11, 2002), the General Guidance (66 Federal Register 21846, May 1,**

# **NMTC Allocation Application Q & A Document**

## **Community Development Financial Institutions Fund**

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*2001), the CDE Certification Guidance (66 Federal Register 65806, December 20, 2001), the Allocation Application, the statute that created the NMTC Program (Title I, subtitle C, section 121 of the Community Renewal Tax Relief Act of 2000) (the "Act"), or the IRS Temporary and Proposed Income Tax Regulations (66 Federal Register 66307, December 26, 2001), the provisions of the Act and the Temporary and Proposed Income Tax Regulations shall govern.*

*All terms and phrases that are Capitalized in this document are defined in the Glossary of Terms contained in the Allocation Application.*

*If you have any NMTC Program allocation or application questions, please contact the Fund at (202) 622-7373. If you have any tax-related questions, please consult your attorney or contact the IRS at (202) 622-3040.*