

# NEW MARKETS TAX CREDIT COALITION

By mail and e-mail

Mr. Matthew Josephs  
Manager, NMTC Program  
CDFI Fund  
601 13<sup>th</sup> St. NW, Suite 200 South  
Washington, D.C. 20005

October 2, 2009

Dear Matt:

The NMTC Coalition is writing in response to the CDFI Fund's August 3, 2009 request for public comment on the New Markets Tax Credit (NMTC) application. The New Markets Tax Credit Coalition's (NMTC Coalition) mission is to ensure that the New Markets Tax Credit can effectively be used to attract private capital and generate economic development in poor communities. Formed in 1998, the NMTC Coalition is a national membership organization that advocates on behalf of the NMTC Program. The Coalition membership includes Community Development Entities (CDEs), investors, and other community development professionals using the NMTC to revitalize distressed urban neighborhoods and rural areas.

The Coalition led the effort to create and sustain the NMTC. Since the Credit became law, the NMTC Coalition has worked with the Administration on implementation of the Credit and has established itself as the principal policy voice for the NMTC in Washington. The Coalition works closely with the Department of Treasury – with the Internal Revenue Service, the Office of Tax Policy, and the Community Development Financial Institutions Fund – to ensure that CDEs are heard and are able to provide input as Treasury issues rulings and regulations on the Credit. We appreciate the opportunity to respond to the CDFI Fund's request for comment on the NMTC application.

The Fund requests comments on the following matters:

Whether the collection of information required by the application is necessary for the proper performance of the functions of the agency, including whether the information shall have practical utility;

The NMTCC believes the Fund generally is collecting the right kind of information and that such information is necessary to evaluate the relative strengths of applicants and the relative value and impact of their proposed business strategies. We suggest later in our comments, in connection with specific questions or sections, ways in which the Fund could collect the information in a more efficient manner from applicants which we believe would reduce the amount of time needed to prepare and application and would assist reviewers in evaluating the information and scoring an application.

The accuracy of the agency's estimate of the burden of the collection of information;

The NMTCC members indicate that there is a wide variety of experiences in preparing the application. Estimates range from 160 to almost 500 hours to gather and review information and prepare narratives and accompanying charts.

Ways to enhance the quality, utility, and clarity of the information to be collected;

Information in one question or section is often related to that in another question or section, even though the point of the question or section is different. We are proposing changes to the application to make both the input and the use of the information to the reviewer scoring the application more efficient and transparent. Moreover, applicants have little information on how reviewers will assess their responses, other than what is gleaned from prior years' debriefing letters. To the extent practicable, making the review process more transparent would enable applicants to better frame their responses.

Ways to minimize the burden of the collection of information on respondents, including through the use of technology;

The CDFI Fund has done an excellent job making use of technology by creating a web-based application. Technology enhancements that would be beneficial include the ability to work in the document for longer periods without being timed out, and the ability to work in each question in a fashion similar to the CDFI Financial Assistance Application, which is in effect a fillable form compatible with Word. In addition, we recommend the NMTC application adopt limitations on the numbers of pages in a section, not characters in a fashion similar to the requirements of the CDFI FA application, including similar rules on the font requirement and the ability to use all Word features, such as underscoring, bolding, and tables. Our comments propose changes to various components of the application format to better enable the reviewers to score the information..

Estimates of capital or start-up costs and costs of operation, maintenance and purchase of services required to provide information.

Members of the NMTCC report a wide range of experiences in the use of services required to provide information both for the application, and to meet ongoing reporting requirements. With respect to the application, CDEs typically need the services of accountants, lawyers or compliance specialists to help them set up their business structures, internal systems to manage NMTC allocations, to locate qualifying potential investments and to enable them to attract and provide requisite services to investors. The costs for such services vary widely by market and by the level and complexity of the work required. Many applicants also feel they must employ accredited experts on the projection of economic outcomes to have a competitive application, and they bear the costs to generate those reports. Applicants may use internal staff resources, or outside writers and program experts to review their application narrative. Application writing assistance may range from editorial services for organizations whose staff have the time write the applications, to significant drafting responsibilities. The costs for these services vary.

1. Whether the information the application requests is the right information and whether improvements could be made that would make the process more efficient;

See individual question comments below.

2. Whether the thresholds for committing to flexible rates and terms (Question 17) should be adjusted in light of the current economy;

While the current economy is having an impact on the underwriting of NMTC transactions, nonetheless, compared to what is available in the market, we believe NMTC applicants can be expected to meet the benchmarks set forth in Question 17, and that successful applicants should be expected meet those requirements. We also recommend that the Fund consider the merits of setting a threshold for the number of basis points below market rates of interest in addition or as alternative to committing to interest rates which are, for example, at least 50% below market.

3. Whether the Fund should change the way in which it applies the unrelated party rules and apply it before rather than after the investment is made;

The statute authorizes the Secretary to give priority to any applicant “(B) which intends to satisfy the requirement under subsection (b)(1)(B) by making qualified low-income community investments in 1 or more businesses in which persons unrelated to such entity (within the meaning of section 267(b) or 707(b)(1)) hold the majority equity interest.” The NMTCC urges the Fund to approach the “related party test” so that it promotes private sector investing in low-income communities while also preventing entities from obtaining a federal tax credit to reduce the costs of expanding or building upon their existing businesses. For that reason, we believe that the related party test should focus on the relationship between the investor and the qualified business.

Thus, Widget Factory, Inc. should not be able to be an NMTC investor in Widget Factory #2 because Widget Factory, Inc. is effectively lowering its costs of opening a new factory through the Credit. The test, per the language of the statute, should center on the relationship of the investor to the intended QALICB before or after the NMTC transaction and would examine any existing or expected ownership or occupied leasehold arrangements between the investor and the proposed QALICB without regard to the NMTC investment.

Accordingly, if Community Development CDE, is an Allocatee of NMTC and it forms a subsidiary CDE (subCDE) to finance the construction and ownership of a retail shopping center, selling a 99% interest in the subCDE to ABC Bank in exchange for a Qualified Equity Investment of \$X, the related party test does not look at the Allocatee CDE’s relationship to the QALICB at all. Rather, the test looks at whether, before or after ABC Bank makes a Qualified Equity Investment ABC Bank was an owner of or an occupant in one of the buildings in the retail center. If, using this example, ABC Bank has no ownership interest in and does not occupy any portion of the leasable square footage in the retail center before its investment in the QALICB, it would not be a related party. We recognize that the language of the statute could be read as applying only to the case in which Widget Factory, Inc. forms its own CDE, but the NMTC Coalition believes that the goal of the provision should extend to any QEI or QLICI in which there are prior interests in the QALICB by the investor. If the investment is made through an investor partnership, it would be the entity which holds the equity interest in the investor partnership to which the test would be applied.

We understand from a variety of Coalition members that this change would have multiple benefits, including increasing the ability to invest equity in an NMTC transaction, enabling non-profit organizations to more effectively use grant funds as part of an NMTC transaction, eliminate a barrier for venture capital investments, and make NMTC investments consistent in format to historic tax credit investments.

Given the wide variety of investment structures and timing issues, we believe this issue is deserving of a round table discussion that includes legal, accounting, and NMTC practitioner experts. The NMTC Coalition has agreed to host such a round table before the end of the year, and will invite the CDFI Fund to participate.

4. Whether the Fund should make changes in how it measures economic outcomes and impacts, including whether there are other outcomes/impacts for which the Fund should be collecting information, such as whether more emphasis should be put on community development outcomes;

Yes, we recommend a number of ways in which the Fund might improve the questions regarding impact. Please see our comments on Questions 29 and 30 of the NMTC application, below.

5. Whether Question 56 and Table F1 of the current application captures all sources of compensation and profits that the applicant and its affiliates receive in connection with NMTC transactions and whether fees should be included in the Allocation Agreement;

We recommend that Questions 55 and 56 be combined. Please see our discussion below.

6. Whether, when looking at a prior applicant's use of previous allocations, the QEI issuance test should be replaced with data on the transactions completed;

The NMTC Coalition recommends that the Fund change the QEI issuance test to a test based on the dollar amount of QLICIs committed by the CDE rather than the amount of QEIs issued by the CDE. Many investments proceed from a commitment for a total amount followed by incrementally putting the funds into the investment as benchmarks are met. Because of the QEI issuance requirements as currently adopted by the CDFI Fund, investment of the total NMTC amount may be front ended, at significant expense to the QALICB, if it is borrowing funds before it can use them. Accordingly, it is recommended that the CDFI Fund change its tracking system to permit an allocatee to indicate the amount of its QEIs that are committed as well as invested.

At a minimum, we recommend measuring the amount of cash that a CDE has been able to deploy, which is a stronger barometer of success than the CDE's ability to secure investors. Recasting the test would also create a level playing field for CDEs that are affiliated with an investor and those that are not since affiliated investors can self issue QEIs just to meet the CDFI threshold even if they have not yet identified a QLICI.

7. Whether the Fund should consider much larger awards, for example \$250 million, in return for an agreement an applicant would not apply again for some period of time;

We recommend that the Fund test the feasibility of a 3-year award of what an applicant requests, up to a maximum of \$300 million. The Fund could take a percentage, for example 20%, of each annual allocation amount, and use it to fund such 3 year awards. The Coalition would not recommend using more than \$2 billion of the \$5 billion in allocation authority for multi-year awards in either the pilot program or going forward. Successful 3 year allocatees would be prohibited from applying for further allocations during the period of the allocation. There are many issues that would have to be addressed in the pilot. One question is whether there needs to be a minimum size of allocation requested. A three year award might be very helpful to allocatees requesting smaller amounts, as they would not incur the costs of preparing applications each year. Another question is whether only previously successful allocatees could participate. This would seem to make sense, as they would present less risk of not carrying out their strategy. Annual minimum transaction commitments would also be a good idea, which would make the 3 year award conditional to some extent, but enable the CDFI Fund to ensure before the end of the 3 years that investments are being made.

8. What steps the Fund should take to increase the number of minority CDEs applying for and receiving the Credit, based on the recent GAO report;

We recommend that the Fund require all applicants to self-identify as to whether they are minority CDEs. We also recommend that the definition be modified to require 1) a majority of the board of directors be a member of a minority population in the case of a not-for-profit organization that controls a CDE, or in the case of a for-profit organization that controls a CDE, a majority of the stock be held by individuals who are members of minority groups, and 2) 50% or more of the applicant's and controlling entity's activities be targeted to low and moderate

income minority populations and/or low income census tracts which are majority minority. Last, we suggest eliminating the race/ethnicity of the Executive Director as a qualifying factor.

We hope the Fund will analyze application and allocation success patterns of minority CDEs against the larger applicant/allocattee pool, taking into account such factors as size, operational longevity and level of experience in the proposed NMTC business strategy. The NMTC Coalition will urge that Congress fund a separate Technical Assistance Program to be administered by the CDFI Fund.

In addition, the Coalition recommends that the Fund amend Question 30 to include within the projected economic impacts the investment with or in Minority CDEs by applicants.

9. Whether there are steps the Fund could take to diversify the uses of the credit to a broader set of investments, such as small business lending, loan purchases, investments in other CDEs, including CDFIs, and so forth; and

The NMTC Coalition members, and allocatees generally, have used the NMTC to fund a broad array projects and businesses that have had a great deal of impact in low income communities, ranging from health facilities and charter schools, to grocery stores and manufacturing plants and a variety of office, retail and mixed use projects. As the NMTC program was intended to attract private sector capital to low income communities, the range of uses reflects the willingness of investors to fund particular types of transactions. The Coalition believes that addressing an increase in investments in, for example, business lending, would require either statutory changes, changes to IRS regulations or revenue rulings, and could not be accomplished simply through changes to the application.

10. Whether there are other sources of data, that is more current than the decennial census, that the Fund should use to verify what census tracts are “severely” distressed.

We agree that applicants with access to more current sources of census data be able to use them to identify qualifying census tracts.

In addition to the questions posed above by the CDFI Fund, the NMTC Coalition offers additional suggested changes to the NMTC application as follows:

**Application Submission Instructions:**

It would improve applicant efficiency if no paper submissions were required. To the extent practicable, we encourage the Fund to allow applicants to upload attachments as PDFs, and to sign the Signature Page electronically and/or submit it as an uploadable PDF as well.

**Applicant Information Section:**

We recommend that the request for identification as a Minority CDE become a mandatory response, together with other changes, as noted in Question 8 above.

**Demographic Questions:** As CDEs are generally pass through entities, the applicant’s total assets is not a relevant data point and could be eliminated.

**Question 8:** This question contains two segments, both of which request information to create a profile of the applicant. The two parts of the question could be combined to request a single response with a limitation on the size of the response.

**Part I: Business Strategy**

**Question 15:** We recommend that applicants be asked to describe briefly how their overall strategy relates to that of their controlling entity, if they have a controlling entity. In addition, we think it would help the reader better understand an applicant’s business strategy if the applicant were asked to describe briefly a typical intended transaction and the role the NMTC will play in the overall financing. This would elicit, for example, the following type of response, which would frame the applicant’s business strategy for the reviewers: Applicant intends to make subordinated debt available to charter school facilities. We expect that such transactions will average \$3 million in total financing/development costs, of which 50% would be provided through our subordinated debt product. In most cases we expect that a third party senior lender will provide additional debt financing of approximately 40% of total development costs to the project. The charter schools to which we lend will work with us to locate another source of funds for the remaining 10%, including private donations or gifts, city or bond program financing and other such sources.

**Question 16:** Most applicants have more than one type of financing product. Accordingly, it is confusing for both the applicant and perhaps the reviewer to sort through which terms go with which financial products. We recommend that the applicant describe each financial product, together with the rates and terms that apply to that product. For example, the applicant would fill out a chart for each of the possible financial products from a drop down box and supply information as follows: Please describe each financial product you will offer in the table provided below, and the rates and terms that you will offer in conjunction with that product. You may describe as many products as you plan to offer by copying the table below:

Type of Financial Product	Applicant selects, e.g., Subordinated Debt from the drop down box
Describe the Financial Product in one or two sentences;	Example: One of our products will be a Subordinated Debt product which will be used in cases where senior debt can be Obtained from conventional lenders for a minimum of 60% of total project costs. Together with
Briefly describe whether this Financial product will include Any of the following terms And if so provide a range Or the specific terms:	
Term of the Financial Product	
Warrants, Puts, Options at the End of the Term	
Below Market Interest Rates	
Lower Than Standard Origination Fees	
Description of other fees, charges Or profit sharing payable by the QLICI to the CDE or its affiliates Over the life of the term As well as how transaction costs will Be paid	
Longer Than Standard Amortization Period	
Interest Only Repayment Term	



Lower than Standard Debt Service Coverage	
Higher than Standard Loan To Value Ratio	
Less than Standard Loan Loss Reserves	
More flexible borrower credit standards	
Non-traditional forms of collateral	
Other Features not included above	

**Question 19:** We recommend that an Applicant whose Controlling Entity also has a track record serving distressed communities be able to combine its own track record with that of its parent entity. Accordingly, Table A would permit an Applicant to use an Applicant-only, a Controlling Entity or a combined track record.

There is now a great deal of executive talent with NMTC experience. The current preference for an organizational track record, by relegating individual track records to the Management Section, effectively reduces the chances that new entities with experienced individuals can be successful. Accordingly, we also propose that the Fund allow newly formed CDEs to respond to Table A either on the basis of the Applicant organization or on the previous NMTC investment experience of the principals/management team.

**Question 20:** This question relates to an applicant’s Track Record in non-QLICIs. We recommend re-wording the question slightly to clarify what the Fund means by a non-qualifying activity, to add in sub-question (a) the reference to *Controlling Entity*, which is implied by the question, and to allow an applicant to discuss the relationship between its track record and its proposed NMTC strategy.

Does the *Applicant*, or *Controlling Entity*, have a track record of successfully providing products and services that would not qualify as *QLICI* activities (either because the type of investment does not qualify, e.g., financing residential rental housing, or the location of the investment does not qualify, e.g., retail development in a non-low income census tract)? Yes\_\_ No\_\_  
if yes, describe the *Applicant* or *Controlling Entity’s* track record with such transactions and whether, or how, the track record relates to the proposed *QLICI* activities.

**Question 23:** Most applicants have particular projects in their pipeline that typify the size, format and locations in which they plan to make investments with an NMTC allocation. We believe reviewers would find it helpful to understand how the financing products described earlier in the Business Strategy section could be expected to be implemented in connection with the proposed pipeline the applicant has planned. We recommend the Fund add a subsection to this question as follows:

How the financial product(s) described in Question16 are anticipated to be used as part of the financing of the pipeline of QLICIs together with any financing outside of the NMTC that have been or will have to be secured.

**Question 24:** In this question the applicant is asked to describe whether and how it will increase the volume of its activities and in a separate section, whether it will undertake activities of greater financial risk. We recommend that the first part of the question be re-worded slightly to elicit information not simply on volume, but to find out whether NMTC allows the applicant to undertake types of projects that might be related to what they have done in the past, but perhaps at a different scale or investment size, whether larger or smaller.

In the second section, regarding increased financial risk, we believe that the question may work to the disadvantage of non-profit or otherwise mission-driven organizations which regularly assume more risk than for-profit organizations. Such CDEs generally engage in higher risk lending in the normal course of their business. The current formulation of the question makes it possible that a for profit CDE applicant could receive a higher score in its response to Question 24 than a CDE applicant affiliated with a mission-driven nonprofit, because it could show that the NMTC would significantly increase the risk profile of its portfolio while the mission-driven organization might be proposing to pursue high risk transactions similar to what it already undertakes..

We recommend that reviewers be instructed to score non-profit or mission driven organizations which are incurring at least as much risk in their proposed NMTC investing as in their other financing activities, at the same level as for-profit organizations that demonstrate they are taking a significantly increased risk.

**Question 25** – The question regards an applicant’s work in rural areas. First, we recommend that 25(a) be amended to read a. “Have at least 50 percent of the *Applicant’s* or the *Controlling Entity’s* total activities (financing or otherwise) over the past five years been directed to *Non-Metropolitan Counties*.” This change would make 25a consistent with 25d.

**Question 27** – The question contains 18 elements of higher distress in qualified census tracts, and in 27a the applicant is asked to designate the percentage of its QLICIs that will be made in one or more of them. The Coalition recommends that the CDFI Fund consider adjusting its list to take into account the fact that there are now a number of low income communities with significant concentrations of foreclosures, or significant deterioration of home values from periods prior to the recession, and the wave of subprime mortgage foreclosures. We recommend that the CDFI Fund elevate the importance of attracting investment capital to these areas by adding a new #4 distress criteria and amending (b) to ask whether an applicant will commit to investing at least 75% of its QLICIs in areas that are “(1) characterized by at least one of items 1-4” on the list.

The recommended new distress criteria should provide a benchmark of foreclosure concentrations or excessive loss of home values in the census tract in which the NMTC investments will be made. We have found a federal source of data on these issues in HUD’s Neighborhood Stabilization Program: [http://www.huduser.org/datasets/nsp\\_target.html](http://www.huduser.org/datasets/nsp_target.html). The HUD data assigns a 1-10 risk of foreclosure calculation, and determines the percentage of home values lost since the peak period, as well as providing other data or calculations. We recommend that language along the following lines would target these areas of distress.

- [CONCENTRATIONS OF FORECLOSURES/EXCESSIVE LOSS OF HOME VALUES]  
Census tracts with a foreclosure or abandonment rating of X or more, or a loss of home value since peak of at least XX% according to the most recent HUD – NSP data. .

Item ( c ) from Question 27 could be moved to Question 28

**Question 28** – This question asks about the track record of transactions in the locations checked in Question 14. A CDE applicant is awarded priority points if it, or its controlling entity, can demonstrate a successful track record providing the types of QLICI activities it plans to pursue with an allocation of NMTCs. The CDFI fund allows a newly established CDE to point back to its controlling entity when demonstrating a track record for its allocation application. This is clearly necessary since a newly established CDE without an allocation has no track record to draw on. However, when a CDE applies for a subsequent allocation of Credits it is forced to make the decision as to whether it continues to rely on the established track record of its parent or whether it refers to the more limited track record of the CDE.

Throughout the narrative sections of the application a CDE is permitted to reference the track record of both its controlling entity as well as the CDE itself, but in filling in the Tables an applicant must choose to reference either the controlling entity or the CDE. In reading a variety of debriefing letters received by CDEs that were not awarded allocations, it seems clear that readers give significantly more weight to the



information recorded in the Tables than they do to an applicant's narrative responses. Therefore, we recommend that the Tables, particularly those in Exhibits A and C, be amended to allow an applicant to report on the track record and the community impact history of its controlling entity and of its CDE separately. Collecting data from both entities will give reviewers a more well-rounded view of the applicant.

Moreover, as the NMTC Program has matured, there are now numerous individuals with established experience selecting, underwriting and managing investments. The current application requires that individual track records be described in the Management Section. Again, since reviewers give great weight to the Track Record reported in the Tables, highly experienced individuals may be unable to receive appropriate credit for the level of experience they have. We further recommend that the Tables in Exhibits A and C be amended to allow an applicant to report on the track record and the community impact history of its controlling entity, its CDE or the principals of a newly formed CDE.

We have attached proposed revisions in the attachments to this letter.

**Questions 29 and 30.** We recommend that the Fund provide more specific guidance on the nature of the quantification and statistical data needed and request that applicants provide more information on the types of markets to which they are targeting their investments to ensure that those applicants who are successful are committed to the highest levels of community and economic development impact.

We specifically recommend that the Fund balance the estimate of jobs likely to be created by future activity, or that may have been created in the past with the community development impact created. The jobs projection and calculation of past jobs created has caused an over emphasis on producing an accurate jobs number, without any particular ability to make a meaningful comparison between one applicant and another on the basis of a particular outcome and why that outcome is important in the market. There are many industry standards that predict the relative number of jobs, both construction and otherwise, based on construction budgets, square footage, type of use, and the like. Accordingly, as the number and types of jobs is fairly predictable based on the type or size of the intended investment, it is not clear whether reviewers can or do compare how many jobs one applicant's strategy to invest in retail shops will produce versus another application in determining who should be funded.

The reliance on jobs as a proxy for meaningful improvement or impact can also lead to unintended results. For example, charter schools are relatively small projects from a construction perspective and they produce a relatively small number of full time jobs for administration and teachers, and they may not have a strong ripple effect in the community, i.e., the students are not going to be spending a lot of money at other establishments in the neighborhood. By contrast a hotel, for example, may be quite large, and it would have a lot of construction jobs as well as permanent jobs, once completed. We recommend that the Fund focus, as you suggest, on the community development impact of a charter school or the demand for such schools based on market characteristics, or the critical need for a hotel to complete a neighborhood plan, more than the number of jobs created by one or another type of investment. In addition to collecting information on economic outcomes and impacts, we agree that the Fund should collect information on community development impacts and outcomes. Among the outcomes that we recommend the Fund consider as most important would be investment in projects/transactions that have:

- increased access to quality, cost effective and healthy food products;
- increased access to medical care;
- increased supply of day care for poor families;
- increased access to educational or training to improve life and job skills;
- increased the livability of a low income neighborhood or community through mixed-income/ mixed- use neighborhoods, that have not displaced the poor;
- Activities that have created employment proximate to residents of low income neighborhood;

- Investments that have increased the housing, including affordable housing and retail component in transit-oriented developments; and introduced environmentally sustainable or energy reduction features in the investment in a low income community.

While the Fund distinguishes the purposes of the two questions, we believe that Questions 29 and 30 could be combined into a single question with multiple parts that could make it more efficient for applicants and reviewers alike.

We propose adding additional Economic Impacts to this question, including the ability to make venture capital and small business investments, and we believe current impact number 5 should specifically state that CDFIs are considered community benefit businesses. Last, we recommend that the Economic Impact currently listed as number 4 in Question 30 be amended to read: “4. [Finance or Assist Minority or Women-owned Businesses] Finance or assist minority or women-owned business, or businesses owned by Low-Income Persons, or finance or assist Minority CDEs.” We further recommend that reviewers award more points if an applicant is investing in or with Minority CDEs.

We have also proposed changes to Table C 1 to allow an applicant to respond to the chart with data based on either the Controlling Entity, the Applicant or the Principals of the applicant. which is attached to this letter.

Proposed new Question 29:

Complete Table C2 and check below the impacts the QLICs described in the Business Strategy Section are expected to achieve.

- What are the assumptions underlying your projections (e.g., 5 charter schools with an average of XXX square feet, with ZZZ clients (students) served.)
- As you describe each particular impact, discuss if data related to it is reflected in Table C2, and discuss why you are confident of achieving the impact, describing similar results from previous transactions, if applicable.
- Discuss how you plan to collect data regarding the impacts you have checked over the course of the investment.
- If the Applicant’s activities include using NMTC dollars to finance projects that would result in developing or rehabilitating rental or for-sale housing, describe whether there is a percentage that is being set aside as affordable housing.

Yes \_\_\_ No \_\_\_

If yes, state percentage \_\_%

If no, please explain why there is no set aside for affordable housing, whether the planned housing development may lead to displacement of low income residents, and how the applicant has planned to prevent or respond to such a risk.

### **Management Capacity:**

Questions 33-37 regarding experience of personnel deploying capital, raising capital, in asset and risk management and program compliance. These questions require completion of the accompanying Tables D 1- D4. Each of those Tables require an estimation of the hours per week the persons will spend on the tasks. Applicants often feel they have no place to describe the totality of how their personnel are being deployed. We recommend that a single D Table be created that permits an applicant to list all personnel that will be involved in any of these activities and the percentage of their time on an annual basis. We have prepared a composite spreadsheet as an attachment.

### **Capitalization Strategy:**

It is important that questions in the Capitalization Strategy section of the application are crafted to ensure that a CDE applicant with a related investor is not given an unfair advantage over a CDE applicant that plans to issue its QEIs to unrelated investors. It goes without saying that a CDE related to an investor has an effective guarantee that it is committed to make the investment. CDEs that must secure an investment commitment from an unrelated investor is at a distinct disadvantage. While investor interest in the NMTC market has grown over the last seven years, it is more difficult for independent CDEs to secure exclusive or definitive letters of commitment without pricing discounts as investors hedge their bets in a competitive NMTC allocation environment. Such discounts in turn make an independent CDE less competitive in the terms and conditions it can offer.

**Question 44:** In this question prior allocates report on their previous Allocation awards. We recommend that the Fund ask in subquestion (c) for information on the disposition of any transactions that have reached their 7 year compliance period whether they successfully refinanced or otherwise were able to continue to operate and the relationship between the CDE and its affiliates to the investment following the completion of the compliance period.

**Question 47:** In this question the applicant describes its track record of raising capital. We recommend that the Table E1 and the question allow for the principals of the CDE to respond to the question and that the Applicant be permitted to respond both for itself and its Controlling Entity.

**Question 53:** In this question the Fund asks how the economic benefit of the NMTC will be shared. We think it might be easier for applicants and reviewers to have a common presentation format for the first part of the question. For the second part of the question, applicants could be asked the extent to which they have made previous similar NMTC investments which have produced such benefits, or how the expected NMTC benefit compares with similar non-NMTC transactions in which they have been involved.

**Questions 55 and 56 and Table F-1:** Together, these questions request that a CDE applicant describe how it will finance the cost of its NMTC operations and disclose its compensation structure. Our recommendation is that part of this information be collected in relationship to each financial product, in Question 16. We recommend that the 2 questions here be combined to enable the applicant to indicate in one place both its costs and revenues. The applicant should also include net interest revenue in this response, as Question 16 does not cover the level of net income of the interest rates the applicant will charge, which is a source of compensation to any lender or investor.

We are available to discuss any of the matters raised in this letter further. Again, thank you for the opportunity to comment.

Sincerely,

Robert A. Rapoza

CC: Donna Gambrell, Director, CDFI Fund

Attachments:

July 24, 2008 NMTC Coalition Comment Letter

Proposed A Chart

Proposed C Chart

Proposed D Chart

