2020 APPLICATION FAQS

NEW MARKETS TAX CREDIT PROGRAM

NMTC PROGRAM

ALLOCATION APPLICATION FREQUENTLY ASKED QUESTIONS

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U.S. DEPARTMENT of the TREASURY
CDFI FUND
Community Development Financial Institutions Fund

The CDFI Fund is an equal opportunity provider.

UPDATES & CLARIFICATIONS TO 2020 NMTC PROGRAM ALLOCATION APPLICATION

The following Updates and Clarifications have been provided in response to questions and comments received via Email, Service Request and during Application Conference Calls.

1. **Update to TIP on page IV of the *Allocation Application*:** This TIP included an incorrect date for the last day to contact the CDFI Fund with questions about the *Allocation Application*. It has been updated with the correct date from the *NOAA*, which is November 12, 2020 by 5 pm ET.
2. **Question 14(b):** When answering Application Question 14(b), Applicants are required to provide the interest rate or range of interest rates for the proposed financial product(s). The TIP clearly states that Applicants should describe what circumstances would dictate the specific rates or terms, and how often the best rates and terms would be offered. The CDFI Fund understands that there are a number of factors that may affect interest rates offered. Applicants should discuss the factors that affect the interest rates offered in their response to Question 14(b) (including factors such as sources of capital, risk, etc.) when describing the circumstances and explaining a range of interest rates. See FAQ # 39 for additional information on reporting interest rates in Question 14(b),
3. **Question 19:** In Question 19 Applicants are asked to describe the similarity between their track record in Exhibit B and the types of businesses to which they plan to provide *QLICI*s. The CDFI Fund was asked how a change in business strategy would be considered given the impact of the COVID-19 pandemic.

   The CDFI Fund understands that some portion of an Applicant's proposed business strategy may shift, compared to an Applicant's track record, to respond to the COVID-19 pandemic and changing community priorities. Such changes in business strategy may lead an Applicant to propose to invest a portion of its requested allocation in activity types or *QALICB* types that it may not have recent experience with based on the activity in Exhibit B. An Applicant will score more favorably to the extent that at least 70% of the Applicant's pipeline is supported by a track record of loans and/or investments that include similar activity types and *QALICB* types in Q.19 and Exhibit B. If the Applicant proposes to shift a portion of its business strategy due to COVID-19, then the Applicant must explain how the COVID-19 pandemic affected the activity types or *QALICB* types it intends to pursue in Q.17.
4. **Question 25(a):** When answering Application Question 25(a), applicants are required to explain how their track record of achieving outcomes compares with their projected outcomes. Applicants should note that the track record of Community Outcomes does not have to be of an equivalent quantity to the projected Community Outcomes in order to score well on this question. Additional information on answering Application Question 25(a) can be found in FAQ #73,
5. **Question 25(a):** Applicants should base their track record of Community Outcomes on the 5 year Track Record of Activities reported in Exhibit B when answering Application Question 25(a) in the Community Outcomes Section. Applicants should note that the following guidance is already included in FAQ # 73, "When discussing their quantified track record of achieving community outcomes, *Applicants* should provide a similar level of detail on the aggregate track record based on financing activities in Exhibit B." The CDFI Fund also notes that the first Track Record Example specifically refers to Exhibit B and the other Track Record Example refers to the last five years.

6. **Table D1:** When completing Table D1, applicants are not required to report an outstanding loan or investment as delinquent if the loan or investment has been formally restructured or the Applicant and borrower have agreed on a formal strategy for addressing any late payments. For example, if the Applicant and the borrower have formally agreed on a deferred payment whereby the missed payments will be added to the principal or will be paid on a date after the original term ends, the loan or investment does not need to be reported in Table D1 as delinquent. The Applicant should generally describe such restructuring or formal agreements in Q.30(c), if applicable. Additional information on Table D1 can be found in FAQ #97.

The CDFI Fund added or significantly modified the highlighted questions in this document as compared to the "2019 NMTC Program *Allocation Application* Frequently Asked Questions."

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I. QUESTIONS ON KEY DATES

1) What are the deadlines and dates that I need to know if my organization intends to apply for *NMTC Allocations* in the current round?

Table 1: CY 2020 Allocation Round NMTC Program Critical Deadlines for Applicants			
Description	**Deadline/Date**	**Time (Eastern Time)**	**Submission Method**
CY 2020 NMTC Allocation Application Release Date	September 22, 2020	Not Applicable	Not Applicable
Community Development Entity (*CDE*) Certification Application	October 6, 2020	11:59 p.m. ET	Electronically via the Awards Management Information System (AMIS)
Request to modify *CDE* certification service area	October 6, 2020	11:59 p.m. ET	Electronically via AMIS
Subsidiary *CDE* Certification Application for meeting Qualified Equity Investment (QEI) issuance thresholds	October 6, 2020	11:59 p.m. ET	Electronically via AMIS
CY 2020 Application Registration	October 9, 2020	5:00 p.m. ET	Electronically via AMIS
Last date to contact CDFI Fund staff	November 12, 2020	5:00 p.m. ET	Electronically via AMIS
CY 2020 *Allocation Application* (including required Attachments)	November 16, 2020	5:00 p.m. ET	Electronically via AMIS
Amendment request to add *Subsidiary CDEs* to *Allocation Agreements* for meeting *Qualified Equity Investment (QEI)* issuance thresholds	December 4, 2020	11:59 p.m. ET	Electronically via AMIS
QEI Issuance and making Qualified Low Income	January 15, 2021	11:59 p.m. ET	Not Applicable

Table 1: CY 2020 ALLOCATION ROUND NMTC PROGRAM CRITICAL DEADLINES FOR APPLICANTS			
Description	**Deadline/Date**	**Time (Eastern Time)**	**Submission Method**
Community Investments (*QLICIs*) by:			
Reporting *QEIs* and *QLICIs* closed as of January 15, 2021	January 29, 2021	11:59 p.m. ET	Electronically via AMIS

II. QUESTIONS ON ELIGIBILITY AND *CDE* CERTIFICATION

2) Who is eligible to apply for *NMTC Allocations*?

In order to be eligible to apply for *NMTC Allocations* from the CDFI Fund in the Allocation Round, an *Applicant* must: (a) be certified as a *CDE* at the time the CDFI Fund receives its NMTC Program *Allocation Application*; or (b) have submitted a *CDE Certification Application* in AMIS by the deadline in Table 1. If your organization is not a Certified *CDE*, you may obtain information regarding *CDE* certification and the *CDE Certification Application* process on the CDFI Fund's website at https://www.cdfifund.gov/programs-training/certification/*CDE*/Pages/default.aspx.

3) Is an entity that previously received an *NMTC Allocation*, a CDFI Program award or a BEA Program award (or an *Affiliate* of such an awardee) eligible to apply for *NMTC Allocations*?

Prior awardees of any component of the CDFI Fund's CDFI Program, Bank Enterprise Award (BEA) Program, Capital Magnet Fund (CMF), CDFI Bond Guarantee Program, or any other CDFI Fund program, and prior *Allocatees* under the NMTC Program, are generally eligible to apply for an *NMTC Allocation* under the Allocation round. However, if certain circumstances exist with respect to prior awards or allocations made to the *Applicant* or its *Affiliates* (e.g., previous incidents of noncompliance or default; failure to meet reporting requirements), the *Allocation Application* may be deemed ineligible. Please refer to Section III of the *NOAA* for a complete description of this eligibility criteria.

The CDFI Fund will also consider the extent to which the *Applicant* (and *Affiliates*, as determined by the CDFI Fund) has complied with the terms and conditions and other requirements of any previous or existing assistance, award or *Allocation Agreements* with the CDFI Fund.

Accordingly, *Applicants* that are prior award recipients or *Allocatees* under any other CDFI Fund program are advised to:

a) Submit all required reports by the deadlines specified in the assistance, award or *Allocation Agreements* governing said prior awards or Allocations and to comply with all requirements found therein; and

b) Confirm that any *Affiliate* that is a prior CDFI Fund awardee or *Allocatee*, has submitted all required reports to the CDFI Fund.

4) Are *CDEs* with prior allocation awards required to issue a minimum amount of *QEIs* and close a minimum amount of *QLICIs* in order to be eligible for a subsequent award?

Yes. *Applicants* that have previously received an *NMTC Allocation* (or whose *Affiliates* have previously received an *NMTC Allocation*) are required to demonstrate that they have issued a requisite minimum amount of *QEIs* and closed a minimum amount of *QLICIs* from their prior allocation(s) in order to be eligible. Specifically, *Applicants* that are *Allocatees* under the CY 2014 to the CY 2019 rounds must finalize at least the percentage of *QEIs* noted in Table 2 of the NOAA for each NMTC Allocation round and use at least the percentage of those *QEIs* designated in Schedule 1, section 3.2(j) of their Allocation Agreements to make *QLICIs* by January 15, 2021. Please refer to Section III of the *NOAA* for a complete description of these and other eligibility thresholds. The eligibility thresholds may require *QEIs* and *QLICIs* earlier than otherwise required under the relevant *Allocation Agreement*.

Note: The CDFI Fund will only consider as "issued" those *QEIs* that have been recorded and finalized (as opposed to listed as "pending") in AMIS.

Detailed instructions on recording *QEIs* and *QLICIs* in AMIS is available at https://www.cdfifund.gov/Pages/amisreporting.aspx

5) How will the CDFI Fund determine that an Applicant has met the minimum QEI issuance thresholds and has use at least the percentage of those QEIs designated in Schedule 1, section 3.2(j) of their Allocation Agreements to make QLICIs by the deadline in Table 1?

The CDFI Fund will review *QEI* and Transaction Level Report (TLR) data recorded in AMIS to determine whether the *Applicant* has met the *QEI* and *QLICI* thresholds described in Section III of the NOAA. *Applicants* must report their *QEI* issuance and *QLICIs* closed in AMIS no later than the deadline in Table 1.

The CDFI Fund will only consider as "closed" those *QLICIs* where the *Allocatee* (or *Subsidiary Allocatee)* has made an initial disbursement and the borrower has signed a loan agreement. If the *Allocatee* (or *Subsidiary Allocatee)* provides a *QLICI* in the form of an equity investment, a *QLICI* will be considered "closed" if the *Allocatee* (or *Subsidiary Allocatee)* has made an initial disbursement and:

a) The investee has issued an amended and restated operating agreement showing the *Allocatee* (or Subsidiary *Allocatee*) as a new member, if the investee is a Limited Liability Company (LLC); or

b) The investee has issued equity shares to the *Allocatee* (or Subsidiary *Allocatee*), if the investee is a corporation.

*Applicant*s should be aware that minimum *QEI* and *QLICI* threshold requirements are used to determine an *Applicant's* eligibility for an *NMTC Allocation* award. Meeting such requirements, however, does not guarantee an *NMTC Allocation* award.

6) How will the CDFI Fund calculate whether an *Applicant* meets the QEI issuance and QLICI closing thresholds in the NOAA?

Using the example of an *Applicant* that has received a single *NMTC Allocation* award of $50 million in the Calendar Year (CY) 2015-2016 combined allocation round: In order to meet the QEI issuance threshold, the *Applicant* is required to finalize a minimum of $45 million (90% of $50 million) in *QEIs* by the deadline in the NOAA in order to remain eligible for a 2020 *NMTC Allocation*. This deadline can also be found in FAQ #1. In addition, if Schedule 1, Section 3.2(j) of the *Applicant's* CY 2015-2016 *Allocation Agreement* indicates that 96% of *QEIs* will be used to make *QLICIs*, then in order to meet the *QLICI* closing threshold in the *NOAA*, the *Applicant* is required to close *QLICIs* totaling $43.2 million (96% of the $45 million in *QEIs*) by the same deadline.

7) What is the effect for my organization if I have reports outstanding for another CDFI Fund program award (e.g. CDFI Program's Financial Assistance award) at the time of the deadline for the current *Allocation Application* or if there is a record of late reporting on such other awards? Will this affect the eligibility or scoring of our *Allocation Application*?

In the case of an *Applicant*, or *Affiliates*, that have previously received an award or allocation from the CDFI Fund through <u>any</u> CDFI Fund program, the CDFI Fund will deduct (up to 5) points for the *Applicant*'s (or its *Affiliate's*) failure to meet the reporting deadlines set forth in any assistance, award or *Allocation Agreement*(s) with the CDFI Fund during the period from October 29, 2019 to the *Allocation Application* deadline in the NOAA (TBD).

8) 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 obtain *CDE* certification for anticipated *Subsidiary* entities prior to the submission of its *Allocation Application*. However, once selected for an *NMTC Allocation*, the *Allocatee* will not be permitted to transfer any of its *NMTC Allocation* to *Subsidiaries* unless those *Subsidiaries* have been: (a) certified as *CDEs* by the CDFI Fund; and (b) enjoined by name in the *Allocatee*'s *Allocation Agreement as Subsidiary Allocatees*. Such *Subsidiaries* either must be signatories to the *Allocation Agreement* at the time of closing or added to the *Allocation Agreement* via amendment after the initial closing. *Allocatees* must submit such request for amendments as an AMIS Service Request for approval and processing.

9) Can a non-profit entity apply for an *NMTC Allocation*?

Yes. A non-profit *CDE* may apply for an *NMTC Allocation* with the intention of transferring the Allocation to one or more for-profit *Subsidiary Allocatees*. Only a for-profit *CDE* may offer NMTCs to investors because the investors must purchase stock or capital interests in the *CDE*. If a non-profit *CDE* is selected for an Allocation, at least one for-profit *Subsidiary* must be enjoined to the *Allocation Agreement*. The for-profit *Subsidiaries* do not have to be formed at the time that the non-profit *CDE* applies for an *NMTC Allocation*. However, the non-profit *CDE* must submit a *CDE Certification Application* to the CDFI Fund for at least one for-profit *Subsidiary* within 45 days of receiving notification from the CDFI Fund of its *NMTC Allocation* award. Such *Subsidiary* must be certified as a *CDE* prior to being enjoined to the *Allocatee's Allocation Agreement* with the CDFI Fund. The transfer of the *NMTC Allocation* from the Non-profit *Allocatee* to one or more for-profit *Subsidiary Allocatees* must be pre-approved by the CDFI Fund, and will be a condition of the *Allocation Agreement*.

10) Can a *Subsidiary CDE* apply for an *NMTC Allocation* in the Allocation Round?

No. An organization that is certified as a *Subsidiary CDE* to a certified *CDE* is not eligible to apply for an *NMTC Allocation*.

11) What happens if an *Applicant* fails to respond accurately to a question in the *Allocation Application* Assurances and Certifications and/or fails to submit the required written explanation?

In its sole discretion, the CDFI Fund may deem the *Applicant*'s *Allocation Application* ineligible, if the CDFI Fund determines that the *Applicant*:

a) Inaccurately responded to a question, with respect to the *Allocation Application* Assurances and Certifications; or

b) Failed to submit any required written explanation, with respect to the *Allocation Application* Assurances and Certifications; or

c) Fails to notify the CDFI Fund of any changes to the information submitted, with respect to the *Allocation Application* Assurances and Certifications, between the date of application and the date that the *Applicant* executes the *Allocation Agreement*, if selected for an allocation award.

If the *Applicant* cannot certify to one or more questions, the *Applicant* must provide a written narrative explaining why the *Applicant* cannot make the certification, the circumstances, and what the entity is doing to address it. See the "CY 2020 NMTC Application – AMIS Navigation Guide" for details on how to provide a narrative explanation. The *Applicant* should identify the existence of any related regulatory orders in its written explanation to the Assurances and Certifications. The CDFI Fund may request additional information, such as copies of any applicable regulatory orders, after the *Allocation Application* deadline as part of its review.

The CDFI Fund will review the information submitted and the *Applicant's* responses to the Assurances and Certifications, to determine the *Applicant's* continued eligibility for an *Allocation* award. In making the determination, the CDFI Fund will take into consideration, among other factors, the substance of any supplemental responses provided, and whether the information in the *Applicant*'s supplemental responses will have a material adverse effect on the *Applicant*, its financial condition or its ability to perform under an *Allocation Agreement*, should the *Applicant* receive an *NMTC Allocation*.

12) If there are changes to the Assurances and Certifications after the *Allocation Application* is submitted to the CDFI Fund, what steps is an *Applicant* required to take to remain eligible for consideration?

If there are changes to any of the *Applicant's* responses to the *Allocation Application* Assurances and Certifications, including the narrative explanations or supplemental documentation provided, between the date the *Applicant* submits an *Allocation Application* and the date the *Allocatee* executes the *Allocation Agreement,* the *Applicant* must report such changes by submitting a service request in AMIS to the NMTC Program. The NMTC Program will review those changes to determine the *Applicant's* continued eligibility for an *NMTC Allocation* award.

III. QUESTIONS ON THE PROCESS OF APPLYING FOR AND RECEIVING AN NMTC ALLOCATION

13) How can my organization apply and submit an application for *NMTC Allocations*?

An organization interested in applying for *NMTC Allocation*s in the current round must submit its *Allocation Application* by the CY 2020 *Allocation Application* deadline provided in the NOAA and FAQ #1**.** The CDFI Fund requires all *Applicant*s to submit online *Allocation Application*s through the CDFI Fund's AMIS. Please review the "CY 2020 NMTC Application – AMIS Navigation Guide" for a step-by-step guide to submit an application.

*Applicant*s that have not already done so are encouraged to register a user account through AMIS at amis.cdfifund.gov as soon as possible. Please contact the CDFI Fund's IT Help Desk at amis@cdfi.treas.gov or (202) 653-0422 if you are having problems registering in AMIS.

Only the AMIS user designated as the Authorized Representative in Question 5 of the *Allocation Application* will be eligible to sign the *Allocation Application*. To be able to sign the *Allocation Application*, the Authorized Representative listed in Question 5 must be logged in with a username that: 1) is listed in the "Contacts" (not "External Contacts") section of the Organization Detail page, 2) is designated as an "Authorized Representative" under "Type," and 3) has a valid email address associated with it.

14) What is the Application Registration referenced in the NOAA?

The NMTC Application Registration is a section within the AMIS *Allocation Application* that contains certain Applicant information such as Applicant Name, *Controlling Entity* Name, etc.

Applicants must complete and save the NMTC Application Registration by the deadline in Table 1.

After the NMTC Application Registration Deadline:

a) Applicants will not be allowed to save their responses to the NMTC Application Registration.

b) Only those Applicants that completed and saved their NMTC Application Registration by the specified Application Registration deadline will be allowed to submit the remaining sections of the *Allocation Application* by the Application Deadline.

c) No new *CY 2020 Allocation Applications* can be created. Therefore, potential *Applicants* that did not start a *CY 2020 NMTC Allocation Application* before the Application Registration deadline will not be able to create a new *CY 2020 NMTC Allocation Application*.

15) How can an Applicant change the Authorized Representative and Application Contact Person after the NMTC Application Registration is completed?

Should the Applicant's Authorized Representative change after the Applicant completes the NMTC Application Registration, the Applicant will need to submit an AMIS service request titled "[Applicant Name] and [AMIS Application Number] – Authorized Representative Change" so that the new Authorized Representative is able to sign the *Allocation Application* at the time of submission. As stated in the *NOAA*, the CDFI Fund reserves the right to reject an *Allocation Application* if the Authorized Representative does not sign the Application in AMIS. Any service requests submitted via AMIS should be directed to the NMTC program.

16) What attachments am I required to submit with my *Allocation Application*, and how do I submit them?

All *Applicants* will be required to submit attachments electronically through AMIS. You will be able to upload the attachments only prior to the electronic submission of the *Allocation Application*. The attachments requested by the CDFI Fund in the CY 2020 *NMTC Allocation Application* are as follows:

- Organizational charts as requested in Question 28.
- Investor letters to support data provided in Table E3 (if applicable).
- Attachments to support explanations provided in the Assurances and Certifications section of the *Allocation Application* (if applicable).
- *Controlling Entity* signature page (if applicable).

Please review the "CY 2020 NMTC Application – AMIS Navigation Guide" for a step-by-step guide on how to upload attachments.

Attachments must be submitted by the CY 2020 *Allocation Application* deadline provided in FAQ #1. **Only those attachments requested by the CDFI Fund will be considered as part of the review process.** Furthermore, the CDFI Fund will not accept any revisions or amendments to an *Allocation Application* or accept attachments once the Application is submitted. All required documents must be submitted in AMIS. The CDFI Fund will not review any materials only accessible through hyperlinks in submitted materials. As stated in the *NOAA*, the CDFI Fund reserves the right to reject an *Allocation Application* if the *executed Controlling Entity Representative* (if applicable) signature page has not been uploaded in AMIS by the stated deadline.

17) Will the information that I provide in my *Allocation Application* be accessible to the general public?

The CDFI Fund does not publish proprietary or confidential information submitted by *Applicant*s as a general practice. However, any information submitted by *Applicant*s in *Allocation Application*s is subject to the Freedom of Information Act (FOIA) (5 U.S.C. 552) and other federal laws and regulations. In general, FOIA makes federal agency records available to the public, unless the information requested is exempt from disclosure under the FOIA. Trade secrets and commercial or financial information submitted by *Applicant*s may be exempt from disclosure pursuant to the FOIA. *Applicant*s should consult their legal counsel for further guidance on this matter.

Should the *Applicant* be selected to receive an *NMTC Allocation*, the CDFI Fund reserves the right to publish the *Applicant*'s response to select questions in the *Applicant* Information and Business Strategy sections. This information may include the *Controlling Entity* Name (Q. 3(a)), City and State of *Applicant* Headquarters (Q. 4), *Public Contact Person* Information (Q. 5(d)), Service Area (Qs. 7 & 8), Percentage of major urban vs. minor urban vs. rural (Q. 9), Predominant Financing Activity (Q. 10), commitments to innovative investments (Q. 18), and required percentage of activities in Non-Metropolitan counties (Q. 21).

18) Can more than one *Affiliate* or member of a Common Enterprise submit an *Allocation Application*?

No. Entities that are *Affiliate*s or members of a Common Enterprise may only collectively submit one *Allocation Application* per year under the NMTC Program. An *Affiliate* is an entity that *Control*s, is *Controlled* by, or is under common *Control* with another entity (as determined by the CDFI Fund). Both the terms "*Affiliate*" and "*Control*" are defined in the Glossary of Terms that accompanies the *Allocation Application*. As an example, entity ABC is *Controlled* by entity XYZ. XYZ also *Control*s entity DEF, which in turn *Control*s entity HIJ. ABC, XYZ, DEF and HIJ are all considered *Affiliate*s. Only one of these entities can submit an *Allocation Application* in any given round. An *Applicant* may, however, under certain circumstances submit a consolidated *Allocation Application* on behalf of one or more *Affiliates*.

The CDFI Fund will also evaluate whether each *Applicant* is operated or managed as a "Common Enterprise" using the following indicia, among others: (i) whether different *Applicants* have the same individual(s), including the Authorized Representative, staff, board members and/or consultants, involved in day-to-day management, operations, and/or investment responsibilities; (ii) whether the *Applicants* have business strategies and/or proposed activities that are so similar or so closely related that, in fact or effect, they may be viewed as a single entity; and (iii) whether applications submitted by separate *Applicants* contain significant narrative, textual or other similarities such that they may, in fact or effect, be viewed as substantially identical applications. In such cases, the CDFI Fund will reject all applications received from such entities.

The CDFI Fund reserves the right to examine all facts and circumstances in determining whether multiple entities may constitute a "Common Enterprise." In evaluating whether multiple entities constitute a Common Enterprise, the CDFI Fund will consider, among other things, whether such entities share: (i) principal or senior management staff or governing or advisory board members or consultants; (ii) investments and projects or businesses; (iii) investors or other funding sources; (iv) marketing and advertising; or (v) office space or other physical resources.

In the case of State-owned or State-controlled governmental entities, the CDFI Fund may accept applications submitted by different government bodies within the same State, but only to the extent the CDFI Fund determines that business strategies and/or activities described in such applications, submitted by separate entities, are distinctly dissimilar and/or are operated and/or managed by distinctly dissimilar personnel, including staff, board members or identified consultants. In such cases, the CDFI Fund reserves the right to limit award amounts to such entities to ensure that the entities do not collectively receive more than the $100 million cap. If the CDFI Fund determines that the applications submitted by different government bodies within the same State are not distinctly dissimilar and/or are not operated and/or managed by distinctly dissimilar personnel, it will reject all such applications.

Example 1 [not permissible]: ABC and DEF are separate entities, and each applies for an allocation of tax credits. John Doe is the Chief Executive Officer (CEO) of ABC. In this role, John Doe is involved in the day-to-day management, operations, and investment decisions of ABC. For example, as CEO of ABC, John Doe manages the business and affairs of ABC and approves or disapproves all investments over $500,000. He is also the *Authorized Representative* of DEF, which grants him authority to sign the 2020 *Allocation Application* and make representations on behalf of DEF. Since the same individual, John Doe, has substantial involvement with both ABC and DEF, it could be determined that both entities constitute a Common Enterprise. Therefore, the CDFI Fund would reject both *Allocation Application*s.

Example 2 [not permissible]: ABC and DEF are separate entities, and each applies for an allocation of tax credits. ABC and DEF each receive an *NMTC Allocation* award, and each enters into an *Allocation Agreement* with the CDFI Fund. Subsequently, both organizations contract with a management company (GHI) and, in its role as manager, GHI *Controls* the general management, operations and investment decisions of ABC and DEF. ABC and DEF would be considered *Affiliate*s and part of a Common Enterprise due to the common management *Control* of GHI, and ABC and DEF would be in violation of their *Allocation Agreement*s and subject to all of the remedies available to the CDFI Fund therein.

Example 3 [permissible]: ABC and DEF are separate entities, and each applies for an allocation of tax credits. ABC and DEF each receive an *NMTC Allocation* award, and each enters into an *Allocation Agreement* with the CDFI Fund. Subsequently, each organization contracts with GHI to provide discreet and specific consulting and/or management services (e.g., compliance monitoring), but at no time will GHI assume *Control* over the day-to-day management, operations or investment decisions of ABC or DEF. In addition, the parties do not share any of the other items enumerated as indicia of a Common Enterprise, as set forth above. ABC, DEF and GHI would not be considered *Affiliate*s or part of a common enterprise.

Example 4 [permissible]: ABC and DEF are separate entities, and each applies for an allocation of tax credits. ABC and DEF each receive an *NMTC Allocation* award of $1,000,000, and each enters into an *Allocation Agreement* with the CDFI Fund. JKL is an investor. JKL makes a $990,000 *QEI* into an ABC's *Subsidiary Allocatee* and a $990,000 *QEI* into DEF's *Subsidiary Allocatee*, and receives a 99% ownership interest in each of the two *Subsidiary Allocatees*. JKL was not an *Affiliate* of either ABC or DEF prior to making the *QEIs* in each entity's subsidiaries. In addition, except for a common investor (JKL), the parties do not share any of the other items enumerated as indicia of a Common Enterprise, as set forth above. ABC, DEF and JKL would meet the requirements for the exception to the general prohibition on multiple *Allocatees* becoming *Affiliate*s or part of a Common

Enterprise, since the common *Controlling Entity* (JKL): (i) was not an *Affiliate* of either entity prior to making its *QEIs* in ABC and DEF and (ii) obtained *Control* of ABC's *Subsidiary* and DEF's *Subsidiary* solely due to its common ownership by making a *QEI* in each entity.

19) 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 in a *CDFI or CDE*.

Example 1: If a bank makes a $1 million *Equity Investment* into a *CDFI-CDE* that has received *NMTC Allocation*s from the CDFI Fund, the bank may use the *Equity Investment* for purposes of claiming NMTCs **or** it may use the *Equity Investment* to apply for 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 received *NMTC Allocation*s from the CDFI Fund, **and** the bank also makes a $1 million loan to the *CDFI-CDE*, the bank may claim NMTCs on its $1 million *Equity Investment* **and** use its $1 million loan to apply for a BEA Program award.

The CDFI Bond Guarantee Program and Capital Magnet Fund may also have restrictions about combining NMTCs with those program funds, so Recipients should check the requirements of those programs.

Any future limitations on the use of NMTCs or the proceeds of *QEIs* in conjunction with other CDFI Fund programs will be described in the applicable Notices of Funds Availability (NOFAs), Notices of Guaranty Authority (NOGAs), Notices of Allocation Availability (NOAA), program agreements, and/or other program guidance documents.

20) Can my organization start to offer NMTCs to investors as soon as it receives notice of an *NMTC Allocation award*?

A *CDE* that receives an *NMTC Allocation* may, in certain circumstances, offer NMTCs to investors that make *QEIs* before the *CDE*'s *Allocation Agreement* is finalized. For purposes of this look-back period, the investor must have made its *QEI* on or after the date that the *NOAA* for the current round was published; and the investor's seven-year credit period begins on the date that the *CDE* enters into an *Allocation Agreement* with the CDFI Fund. The *CDE* is required to invest substantially all of the investor's *QEI* proceeds in *QLICIs* within one year of the date that the *CDE* enters into an *Allocation Agreement* with the CDFI Fund.

21) What terms and conditions will be placed upon *Applicants* that receive *NMTC Allocation*s from the CDFI Fund?

Each *Applicant* that is selected to receive an *NMTC Allocation* must enter into an *Allocation Agreement* with the CDFI Fund before it can designate *QEIs* and 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*;

b) The approved uses of the NMTC Allocation (e.g., loans or Equity Investments to Qualified Active Low-Income Community Businesses (QALICBs), loans to or Equity Investments in other *CDEs*, purchase of qualifying loans from other *CDEs*);

c) The approved service area(s) in which the QEI proceeds may be used;

d) List of enjoined Subsidiary *Allocatees*;

e) Commitment to invest in Unrelated Entities;

f) Requirements for *QLICIs* to offer flexible features;

g) The *CDE*'s schedule for obtaining *QEIs* from investors;

h) The level of required activity in Non-Metropolitan Counties, committed to by the CDE in the *Allocation Application*;

i) Commitment to invest at least 75% of *QLICIs* in highly distressed communities;

j) Percentage of proceeds from loan purchases required to be re-invested as *QLICIs*;

k) Percentage of *QEIs* required to be invested as *QLICIs*;

l) Requirement to ensure at least 20% of any housing units developed and/or rehabilitated as a result of *QLICIs* are affordable to Low-Income Persons;

m) Innovative investments or specific transactions, committed to by the CDE in the *Allocation Application*;

n) Any restrictions on the use of the *NMTC Allocation*;

o) Reporting requirements for all *CDEs* receiving *NMTC Allocatio*ns; and

p) Other information, often identified in the "Tips" in the *Allocation Application*.

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

IV. QUESTIONS ON THE NMTC *ALLOCATION APPLICATION* CONTENTS

A. Selecting an Amount of NMTCs to Request

22) When requesting *NMTC Allocations* from the CDFI 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 *NMTC Allocation* from the CDFI Fund – even though the actual amount of NMTCs an investor may claim over seven years is $3.9 million (39% of the investment amount). An *Allocatee* cannot offer NMTCs on equity raised in excess of its *NMTC Allocation*.

23) Is there a limit to the total *NMTC Allocation* amount that an *Applicant* may request in the current *Allocation* round?

While there is no limit on the amount of *NMTC Allocations* that an *Applicant* may request, the CDFI Fund does not anticipate issuing more than $100 million in general allocation authority to any one *Allocatee*.

Please note that *Applicants* will be evaluated on whether the requested *NMTC Allocation* amount is consistent with the *Applicant's* track record of direct financing or otherwise facilitating financing activities that would qualify as or are substantially similar to *QLICIs*, based on the narrative provided in Q.19 and Tables B1-B3; as well as financing activities that would not qualify as *QLICIs*, based on the narrative provided in Q. 20 and Table B4. See FAQ #61 for additional details on direct financing versus indirect or facilitated financing. See FAQ #63 for additional information on which types of activities should be included in Question 20 and Table B4.

Note: Prior NMTC *QLICI* experience is not required to score favorably if an *Applicant* has a demonstrated track record of making loans or investments that are substantially similar to NMTC *QLICIs*.

24) If an *Applicant* indicates a minimum *NMTC Allocation* amount (Question 40), will the *Applicant* receive at least its minimum request if the *Applicant* receives an *NMTC Allocation* award?

No. There is no guarantee that an *Applicant* will receive its minimum *NMTC Allocation* amount request. An *Applicant* that indicates a minimum *NMTC Allocation* amount may not receive an *NMTC Allocation* if the *Applicant* is recommended for an *NMTC Allocation* amount that is less than its minimum request. An *Applicant* should indicate a minimum *NMTC Allocation* amount request <u>only</u> if that amount is critical for it to execute its business strategy, and the *Applicant* can communicate a compelling need for the request.

B. General Questions on the Contents of the *Allocation Application*

25) The *Allocation Application* includes several "Tips" informing *Applicants* that responses to certain questions may be used to populate fields in their *Allocation Agreements*, should they receive an *NMTC Allocation*. Are these the only application-specific items that will be included in the *Allocation Agreements* for current round *Allocatees*?

No, not necessarily. While responses to certain questions identified in the "Tips" in the *Allocation Application* will become a requirement in the *Allocation Agreement*, the CDFI Fund reserves the right to add other specific requirements or restrictions to the *Allocation Agreements* as necessary to further programmatic goals. For example, if it appears any of the proposed transactions in an *Allocation Application* violate the NMTC statute or regulations, the CDFI Fund may include explicit restriction language in the *Allocation Agreement* to prohibit such transactions.

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

A start-up entity that does not itself have a track record of raising capital, offering products and services, creating community outcomes, etc., may reference the track record of its *Controlling Entity (*if the *Applicant* designated a *Controlling Entity)* as appropriate throughout the *Allocation Application*. (For more information about who is considered a *Controlling Entity*, see response to FAQ #28 below and tips in the *Allocation Application*.)

27) How can *CDEs* identify whether potential NMTC investments are located in NMTC-eligible *Low-Income Communities (LICs)*?

Applicants should use the CDFI Information Mapping System v.3 (CIMS3) to geocode addresses, map census tracts and counties, and determine whether potential *QLICIs* are located in NMTC eligible *Low-Income Communities*. For more information on accessing CIMS3, please visit https://www.cdfifund.gov/Pages/mapping-system.aspx. Additional information on *Low-Income Community* eligibility is available on the Research and Data webpage of the CDFI Fund's website (www.cdfifund.gov/research) under the heading "Program Eligibility Guidance."

C. *Applicant* Information Section

28) Who can be considered a *Controlling Entity* for purposes of demonstrating an organizational track record? 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*?

All *Applicant*s designating a *Controlling Entity* must identify the entity that has, and is expected to continue to maintain, a controlling influence over the day-to-day management and operations (including investment decisions) of the *Applicant* <u>and of any *Subsidiary CDEs* to which the *Applicant* may transfer its *NMTC Allocation*</u>. Should the *Applicant* receive an *NMTC Allocation* in this round, the *Controlling Entity Representative* will be required to sign the *Allocation Agreement* and the entity that is designated as the *Controlling Entity* will need to continue in that capacity throughout the term of the *Allocation Agreement.* Any changes must be approved in advance and in writing by the CDFI Fund *(e.g.* merger, acquisition, bankruptcy, or similar legal action involving the initial *Controlling Entity*). If the *Applicant* receives an *NMTC Allocation* in this round, the *CDE*'s *Allocation Applications* in future rounds must designate the same *Controlling Entity* as the entity designated in this *Allocation Application*.

Individuals, such as principals or the board of directors, cannot be treated as *Controlling Entities* for the purposes of demonstrating an organizational track record under relevant sections of the *Allocation Application* and Exhibits. However, an *Applicant* may describe such individuals' experience and track record in the Management Capacity section.

An *Applicant*, in Question 3 of its *Allocation Application*, may designate only one organization as a *Controlling Entity*, provided that the organization meets the definition of a "*Controlling Entity*" pursuant to the Glossary of Terms included in the current round *Allocation Application*. *Applicant*s may use their *Controlling Entity* to assist in demonstrating an organizational track record and in completing related exhibits.

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" organization and the *Applicant* conforms to the CDFI Fund's definition of *Controlling Entity* in the *Allocation Application* Glossary of Terms.

If the *Applicant* does not properly fill out the *Controlling Entity* question or continually references more than one entity as its *Controlling Entity* in the narrative for the Business Strategy section (including track record of serving *Disadvantaged Businesses or Communities*), Community Outcomes section, or the Exhibits, the *Applicant's* score may be adversely affected in the review of its *Allocation Application*.

29) Can I submit an *Allocation Application* with a different *Controlling Entity* from my previous *Allocation Applications*? If an *Applicant* previously applied with a *Controlling Entity*, can it apply without one in this round?

An *Applicant* that received an *Allocation* in a prior round and designated a *Controlling Entity* in that *Allocation Application,* may not submit an *Allocation Application* with a different *Controlling Entity* or without a *Controlling Entity* except where there has been a merger, acquisition, bankruptcy, or similar legal action involving the initial *Controlling Entity* and the *Allocatee* has submitted a *Material Event Form* informing the CDFI Fund of the merger, acquisition, bankruptcy or similar legal action or the CDFI Fund has approved a change or removal of a *Controlling Entity* (i.e. an amendment to the *Allocation Agreement*(s)). If an *Applicant* identified a *Controlling Entity* in a prior round and received an *NMTC Allocation* in a prior round, the *Controlling Entity* may not submit a separate *Allocation Application* in this round.

If the *Allocation Agreement* is in effect (within the compliance period) and the *Applicant* and the *Controlling Entity* both apply separately in this round, they will be considered a Common Enterprise and such *Allocation Applications* will be rejected. See NOAA section III.A.6 for additional details regarding Common Enterprise. Also see FAQ #18.

Applicants that have received *NMTC Allocations* in the CY2014, Combined CY2015-16, CY2017, CY2018, and CY2019 rounds are required to maintain the same *Controlling Entity* throughout the terms of ***all*** existing and future *Allocation Agreements* with the CDFI Fund, as set forth in section 6.13 of the *Allocation Agreement.* Failure to do so could result in the CDFI Fund declaring the *Applicant* in default of its *Allocation Agreement*.

30) If an Applicant has a multi-state, statewide, or local service area, can it use *Allocation Application* Question 8 to identify specific states or counties it intends to serve?

No, only *Applicants* with a national service area should use *Allocation Application* question 8 to identify states where they expect to deploy the largest amount of *QLICIs*. The specific states or counties an *Applicant* may serve is based on the *CDE* certification data contained in AMIS. If the *Applicant* has submitted a service area amendment in accordance with guidance provided in the *NOAA*, then that information will be taken into account during the review process.

31) How should an *Applicant* approach the *Allocation Application* if it submits a request to modify its *CDE* service area but will not know the outcome of the request before the *Allocation Application* is due?

If the *Applicant* has submitted a service area amendment in accordance with guidance provided in the *NOAA*, then that information will be taken into account during the review process. The *Applicant* may submit its *Allocation Application* assuming the amendment request will be approved. The only exception is the response to Question 7, which asks for the service area already approved by the CDFI Fund. If the *Applicant* receives an *NMTC Allocation* and its service area amendment request is approved, the updated service area will apply to the allocation awarded and all future allocations. If the *Applicant* is awarded an *NMTC Allocation* and its service area amendment request is not approved or the *Applicant* did not meet the deadline for requesting a service area amendment in the *NOAA*, then the existing service area will apply to the allocation awarded.

32) How can an *Applicant* change the *Authorized Representative* and *Application Contact Person* after the *Allocation Application* is submitted?

If the *Applicant* wishes to change the *Authorized Representative*, the *Applicant* will attach to an AMIS service request a letter on the organization's letterhead providing the following information, as applicable:

- If the individual identified as the Authorized Representative at the time of *Allocation Application* submission was involved in New Markets Tax Credits activities (e.g. Management Capacity and Exhibit C), the Applicant will provide the name, experience and roles and responsibilities of the individual(s) undertaking these activities going forward.
- A certification that the individual selected to be the new Authorized Representative is not the Authorized Representative for another *CDE* applying in the same Allocation Round.

- A certification that the individual selected to be the Authorized Representative has the actual authority of the Governing Board (or equivalent) of the Applicant to sign for and make representations on behalf of the Applicant.

If the *Applicant* wishes to change the *Application Contact Person,* only an AMIS service request is required. The *Application Contact Person* is the individual that the CDFI Fund may contact—jointly with the *Authorized Representative*—during the course of the *Allocation Application* review with questions or requests for additional information regarding the *Allocation Application*.

33) If an *Applicant* is planning to finance predominantly facilities for Operating Businesses, what option should they select in Question 10?

If the facilities being predominantly financed will be owned (either directly or through an *Affiliate*) by an *Operating Business*, the *Applicant* should select *Operating Business* financing in Question 10. If the *Applicant* intends to <u>predominantly</u> finance the development (including construction of new facilities and rehabilitation/enhancement of existing facilities), acquisition, management or leasing of real estate that will be sold or leased to third parties, the *Applicant* should select one of the real estate financing options.

The information in Question 10 is used in the CDFI Fund's public releases about *Allocatees*, including the *QEI* Issuance Report. **An *Applicant*'s response to Question 10 will not impact the scoring or evaluation of its *Allocation Application*.** If the *Applicant* indicates in Question 10 that it proposes to predominantly finance *Operating Businesses*, it would be generally expected that the *Applicant* will devote the majority of its *QALICB* financing to Non-*Real Estate Activities* or *Real Estate Activities* where the real estate will be owned (either directly or through an *Affiliate*) and principally occupied by an *Operating Business* as shown in Question 13.

Note: When answering *Allocation Application* Question 18 (Innovative Investments), refer to FAQ #57 for what specifically qualifies as Non-Real Estate innovative investments.

D. Business Strategy Section

34) Will an *Applicant* be advantaged in the *Allocation Application* scoring if they select to pursue certain eligible activities over others in Question 13(b) of the *Allocation Application*?

No, *Applicant*s will not receive any advantage in the *Allocation Application* scoring by simply selecting (or not selecting) any eligible activity in Question 13(b) of the *Allocation Application*.

*Applicant*s are evaluated on the similarity of past activities to projected *QLICI* activities. For example, an *Applicant* whose track record has been <u>primarily</u> investing in *Real Estate Activities* may in fact be disadvantaged in the *Allocation Application* scoring if it indicates it plans to use a <u>significant portion</u> of their *QEI* proceeds to invest in non-*Real Estate Activities*, unless they present a compelling rationale for this shift in their business strategy.

35) In Question 14, will the *Applicant* receive any advantage by offering more than one financial product?

No, *Applicants* receive no advantage in the evaluation of the *Allocation Application* by selecting and describing more than one financial product. *Applicants* that use the same narrative text for different financial products will not be scored as favorably as those that provide a distinct and unique narrative for each product.

36) How should an *Applicant* respond to Question 14 if it will offer multiple financial notes to a single *QALICB*?

Question 14 of the CY 2020 *NMTC Allocation Application* asks *Applicants* to describe up to three financial products that will be offered with capital raised from its *NMTC Allocation*. Each financial product described by the *Applicant* must be a stand-alone financial product. For each product, the *Applicant* should clearly discuss how the product is structured, as well as the benefits this structure provides to borrowers/investees. A single financial product may contain multiple financial notes offered together. For example, the *Applicant* will offer a financing package that includes a senior loan (A note) and a subordinate loan (B note) to *QALICBs*. *This financing package should be described as a single financial product to the extent that the individual loans will not be offered individually*.

Applicants that will offer multiple financial notes in a single financial product should describe the rates and terms of the financial notes on a blended basis. To determine the blended interest rate for two or more financial notes, the *Applicant* should calculate the weighted interest rate for each financial note (see FAQ #39). To the extent different financial notes have different flexible features (e.g., the A-note has a 30-year term and the B-note has a seven-year term), *Applicants* should clearly describe the flexible features of each financial note.

37) In Question 14(b), what does subordination mean as a flexible feature?

Subordinated debt is NOT a specific type of debt product for the purposes of this question. Per the TIP to Question 14(b) and FAQ #36 above, a financial product with multiple financial notes (e.g., an A and B note, or an A, B, and C note) must be described as one product. The *Applicant* may describe subordination as a flexible feature for the product(s) described in Question 14(b). For example, the *Applicant* is offering a product with an A and B note where the B note is subordinate to the A note. The *Applicant* may also discuss subordination in relation to the financing provided to the *QALICB* by other sources (e.g. other *CDEs* in multi-*CDE* transactions; or in relation to non-NMTC financing provided to the *QALICB)*.

38) In Question 14(b), the *Applicant* is asked to describe how the rates and terms of its proposed *QLICIs* compares to the financial products typically offered by the *Applicant*. What information should the Applicant provide, if the *Applicant's* only line of business is NMTC *QLICIs*?

If the *Applicant's* only line of business is NMTC *QLICIs* and it has not provided non-NMTC financial products on its own, the *Applicant* must provide the rates and terms of the financial products typically offered by its *Controlling Entity* as a comparison to the rates and terms of the *Applicant's proposed QLICIs*. The Applicant must also provide the rates and terms typically offered in the *Applicant*'s service area.

For example, *Applicant* ABC New Markets Fund only offers NMTC loans to QALICBs in the state of Kansas, and its *Controlling Entity*, XYZ Investments, provides various types of business financing in this state. In this case, ABC New Markets Fund must compare the rates and terms of its proposed loans to QALICBs to the rates and terms of the business financing typically offered by XYZ Investments in the state of Kansas. ABC New Markets Fund must also provide the rates and terms of loans provided by other financing entities in its service area, which is the state of Kansas.

If the *Applicant's Controlling Entity* has not offered financial products to for-profit or non-profit businesses, the *Applicant* must explain the activities of the *Controlling Entity*. For example, if the *Controlling Entity* provides financial counseling and loan packaging, the Applicant must describe these activities in its response to Q. 14(b)

If the *Applicant* only provides NMTC investments and has no *Controlling Entity*, the *Applicant* should explicitly state in its response to Q. 14(b) that it has no *Controlling Entity* and compare the rates and terms of its proposed *QLICIs* with the rates and terms offered by other financing entities serving the *Applicant*'s service area.

39) For the purposes of answering Questions 14 and 15, how is the interest rate calculated for NMTC investments made through the A-B leverage structure?

The interest rate should be calculated by taking the weighted average of the interest rate on the A loan and on the B loan, provided these transactions are offered as one financial product. For example, if the interest rate on a $7 million Note A in the leverage structure is 7.0% and the interest rate on a $3 million Note B is 1.0%, then the weighted average interest rate will be 5.2%. If the market interest rate was 8.0%, then the interest rate on the NMTC financing would be 35% below market.

For additional guidance on compliance with this requirement, please see the "NMTC Program Compliance Monitoring Frequently Asked Questions" document.

40) The 2020 *Allocation Application* clearly states that *Applicants* may not include information about investments closed after the release date of the *CY 2020 NMTC Allocation Application*. Where may a prior *Allocatee* discuss its plans to close additional *QLICIs* after this date?

An *Applicant's* responses to questions related to its track record must not include loans and/or investments closed after the release date of the 2020 *Allocation Application*. *Applicants* are to include information about future NMTC investments they plan to close using prior allocations in response to Question 17(d). In addition to providing the information requested in Question 17(d), an *Applicant* must also clearly indicate in its narrative which of its planned investments will use the requested allocation and which planned investments will use allocation awarded in prior rounds. If the *Applicant* has committed *QEIs*/*QLICIs* from prior allocations to specific projects, the *Applicant* should provide the name of the business, city, state, QALICB type (community facility, industrial, mixed-use, etc.), and the amount of QEI/QLICI committed. If the *Applicant* intends to use *QEIs/QLICIs* from prior allocations to fund a small *QLICI* loan fund, the *Applicant* should provide the status of such loan fund (e.g. *QEIs* issued, the amount *QEI/QLICIs* it plans to use, the number of businesses/borrowers identified).

*Applicant*s may ***not*** discuss NMTC investments closed after the release date of the *CY* 2020 *Allocation Application* in Questions 19, 20, 21(d), 25 (when discussing the track record of community outcomes), 26 (track record of community accountability and involvement), 27 (track record of additional private investment), 34, and 43, as well as Exhibits B and Tables E1-E2. Reviewers will be directed to disregard any investments made after the release date of the *Allocation Application* for the evaluation of these questions and exhibits.

41) How will the CDFI Fund evaluate if a prior *Allocatee* has utilized its prior allocations in a manner that is generally consistent with the representations made in the relevant prior year *Allocation Applications*?

The CDFI Fund expects that the *Applicant* will provide *QLICIs* to projects or businesses that are generally consistent with the business strategy articulated in the *Allocation Application* that was awarded, including but not limited to, the proposed product offerings, QALICB type, fees and markets served. As described in the *NOAA*, the CDFI Fund reserves the right to reject or reduce the *Allocation* award amount of any NMTC *Allocation Application* in the case of a prior *Allocatee*, if such *Applicant* has failed to use its 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 *NMTC Allocations*.

For example, if *CDE* XYZ Community Investments' pipeline for a prior year *Allocation Application* includes investments in *QALICB* types consisting of retail-anchored mixed-use real estate as well as community facilities, the CDFI Fund expects that *CDE* XYZ Community Investments will provide *QLICIs* to these types of businesses. If, subsequently, *CDE* XYZ Community Investments provided a *QLICI* to a hotel (i.e. hospitality business), which was not discussed as a project or *QALICB* type in Q.17 (and Table A5, as applicable), this divergence from the *Applicant's* proposed business strategy will be considered during evaluation of whether the *Applicant* used its prior *NMTC Allocation* in a manner generally consistent with business strategy in its prior *Allocation Application*.

The CDFI Fund will consider whether the *Allocatee* used *QEIs* to finance one or more projects or businesses that are not generally consistent with the business strategy of the *Allocation Application* that was awarded. If so, the CDFI Fund will determine whether the amount of QEIs so used exceeds 15% of any one Allocation awarded to the Allocatee..

CY 2020 *Allocatees* that use an amount of *QEIs* greater than 15% of their CY 2020 *NMTC Allocation* to finance one or more projects or businesses that are not generally consistent with their CY 2020 *Allocation Application* (i.e., QALICB types in Q. 17 and Table A5) may be denied an *NMTC Allocation* in future allocation rounds.

42) What information will the CDFI Fund evaluate to determine whether a prior *Allocatee* has utilized its prior allocations in a manner that is generally consistent with the representations made in the relevant prior year *Allocation Application*s?

The CDFI Fund will evaluate whether a prior *Allocatee* has provided *QLICIs* that are generally consistent with prior business strategies by reviewing transaction-level data submitted to the CDFI Fund by prior *Allocatees*, as well as narratives provided in Q.43 of the *Allocation Application*. The CDFI Fund will review transaction-level data related to prior Allocations and compare it to prior successful *Allocation Applications*.

43) How will the CDFI Fund evaluate changes in an *Allocatee's* business strategy in response to the COVID-19 pandemic in terms of compliance with and future eligibility for the NMTC Program?

To mitigate the impact of the COVID-19 pandemic on compliance with existing *Allocation Agreements* and eligibility in future *Allocation Rounds*, the CDFI Fund will consider whether the *Allocatee* used an amount of *QEIs* greater than 30% of any one *NMTC Allocation* to finance one or more projects or businesses that are not generally consistent with the business strategy (specifically the *QALICB* types) of the *Allocation Application* that was awarded. This COVID-19 pandemic exception only applies to CY 2017, 2018, and 2019 *NMTC Allocations*.

An *Allocatee* that wishes to change their business strategy, such that an amount of QEIs greater than 30% of any one *NMTC Allocation* will be used to finance one or more projects or businesses that are not generally consistent with the business strategy in the *Allocation Application* (specifically the *QALICB* types), must submit an AMIS service request seeking formal pre-approval from the CDFI Fund. The request, at a minimum must:

1. Identify the name and control number of the *Allocatee*;
2. State the reasons why the *Allocatee* is making the request;
3. Explain how the revised business strategy is a substantive departure from the business strategy proposed in the initial *Allocation Application*; and
4. Demonstrate that any changes in business strategy address the economic impact of COVID-19 and clearly benefit *QALICBs* and *LICs.*

44) Will the *CDE* be required to make innovative investments it committed to in the *Allocation Application* if the *Allocation Agreement* does not explicitly require it in Schedule 1?

A *CDE* that proposes to pursue an innovative investment of an *NMTC Allocation* in its *Allocation Application* is only required to make such innovative investments if Schedule 1 of the *Allocation Agreement* so indicates. If Schedule 1 does not require an *Applicant* to make innovative investments, the *Applicant* may choose whether to engage in such innovative investments consistent with the terms and conditions of its *Allocation Agreement*; such an *Applicant*'s failure to make innovative investments will not negatively affect the CDFI Fund's assessment of whether the *Applicant* remained 'generally consistent' with its application in carrying out its *NMTC Allocation*.

45) If awarded an Allocation, will the *CDE* be required to invest in all the businesses identified in Q17 and Table A5?

The purpose of Question 17 and Table A5 is for the *Applicant* to illustrate the types of projects or businesses it intends to finance with its *NMTC Allocation*, to demonstrate an understanding about the types of projects or businesses that are compatible with the intent of the NMTC program and to indicate how NMTC financing fits into the overall capital stack of the projects or businesses it undertakes. Question 17 and Table A5 also allow the *Applicant* to demonstrate that it is able to identify and underwrite viable NMTC projects or businesses.

The CDFI Fund recognizes that some projects or businesses may become infeasible and new opportunities may arise between the time the *Allocation Application* is submitted and allocation awards are announced. The CDFI Fund also recognizes that most *Applicants* who receive an allocation will be awarded an amount below their allocation request. Therefore, the CDFI Fund does not expect an *Applicant* to invest in all of the projects listed in Question 17 and Table A5. However, all *QLICIs* made by *Allocatees* must be clearly consistent with the overall strategy, including the QALICB or business types (e.g. community facilities, industrial, etc.), listed in Question 17 and Table A5.

Applicants are cautioned against repeating the same pipeline projects or businesses from past successful *Allocation Applications* without explaining in Question 17 why the projects or businesses have not progressed. Should the *Applicant* make it to Phase 2 panel review, the CDFI Fund may not consider those projects in its award determinations should the *Applicant* fail to explain why the project(s) or business(es) have not progressed.

46) How many pipeline projects or businesses should an *Applicant* include in its response to Question 17?

In its narrative for the general pipeline of activities, the *Applicant* should address:

- Total number of businesses or *CDEs* already identified, including the total dollar amount of NMTC financing (e.g. QEI and QLICI amount) to be provided (Total QEI needs should be equivalent to the *Applicant's* allocation request in Question 1);
- What portion of the *Applicant's* pipeline falls into different business types (e.g. community facilities, retail, industrial, etc.) and activity types (e.g. loans to QALICBs, investments in *CDEs*, loan purchases from *CDEs*, etc.); and
- *Applicant's* strategy for identifying potential borrowers, investees, or other customers in Low-Income Communities.

With the addition of Table A5, *Applicants* should not provide detailed descriptions of sample transactions in Question 17. However, *Applicants* should <u>use Question 17 to describe fully the types of smaller transactions they plan to make using a loan fund or loan pool structure</u>. See FAQ #49 for more information on describing transactions associated with a loan fund/pool structure.

The CDFI Fund has reduced character limits in Q. 17, to ensure that *Applicant*s only provide the required information without duplicating information provided in Table A5. See the "CY 2020 NMTC Application – AMIS Navigation Guide" for additional details.

Please also refer to FAQ #40, which provides details on what to include in the response to Question 17 regarding planned *QLICIs* that will close after the release date of the *Allocation Application*.

47) Should the projects and activities listed in Table A5 match the projects and activities listed in Question 17?

For both "single or discrete number of investments" and "general pipeline of activities", the projects and activities listed in Table A5 should be consistent with the information presented in Question 17. However, for Question 17, *Applicants* should not provide details of the sample transactions described in Table A5. The total *Applicant QEIs* for the projects and activities listed in Table A5 should match the *Applicant's* allocation request in *Allocation Application* Question 1. In cases where the Applicant anticipates using a portion of their Allocation to invest in a small dollar (equal to or less than $4MM) and/or revolving loan or equity fund, the *Applicant* may, in Table A5, indicate "Small Dollar Fund" or "Revolving Loan Fund" as a single project. See FAQ #49 for more information on describing transactions associated with a loan fund/pool structure.

48) In Table A5, how should an *Applicant* respond if one QLICI will finance several business types (Row L), the financing will be used for different purposes (Row M), or produce several community outcomes (Row N)?

Applicants should check all options that apply to the transactions. *Applicants* are encouraged to select a category, which most closely aligns with the *Applicant's QLICI*. However, if the *QLICI* does not align with the pre-existing categories, the *Applicant* has the option to select "Other" and briefly define the characteristic in Business Name and Description (Row A). The CDFI Fund does not provide preference on one selection over another. However, the CDFI fund will evaluate how the *QLICIs* the *Applicant* intends to finance align with the overall business strategy described in the *Applicant's Allocation Application*.

49) Does an *Applicant* that is planning to use its *NMTC Allocation* to finance one or more loan fund or loan pool structures need to complete Table A5? What information is to be provided in Table A5?

Yes, *Applicants* that plan to use NMTC to finance one or more loan funds or loan pool structures must complete Table A5.

Applicants that plan to use $15 million or less of the requested allocation to provide *QLICIs* through a loan fund or loan pool structure may aggregate the loan fund or loan pool transactions into one or more entries in Table A5. *Applicants* must make sure to fully describe the types of transactions, the types of businesses it intends to finance, the total number of businesses identified, and their strategy for identifying potential borrowers in the narrative for Q.17(d).

Applicants that plan to use more than $15 million of the requested allocation to provide *QLICIs* through one or more loan fund or loan pool structures, must provide distinct representative pipeline projects in Table A5 for all planned *QLICIs* of more than $4 million that will be funded through a loan fund/pool structure. For planned loan fund or loan pool structures with *QLICIs* that are equal to or less than $4 million, the *Applicant* should provide distinct representative pipeline projects in Table A5 for at least 50% of the requested allocation to be used for this purpose. For the remaining percentage of allocation used for this purpose, the *Applicant* may aggregate the remaining *QLICIs* of $4 million or less into one entry in Table A5 and describe the types of transactions, the types of businesses it intends to finance, the total number of businesses identified, and their strategy for identifying potential borrowers in the narrative for Q.17(d).

For example, if an *Applicant* is requesting $100 million allocation and plans to use a loan pool structure for all of its *QLICIs*, with $80 million for *QLICIs* greater than $4 million and $20 million for *QLICIs* of $4 million or less targeting non-profit community organizations, light manufacturing/ food processing plants and retail: In Table A5, the *Applicant* will enter $80 million of distinct transactions. In addition, the *Applicant* will enter in Table A5 distinct pipeline business or projects for at least $10 million consisting of light manufacturing and community facilities and one entry for $10 million aggregating the remaining *QLICIs* of $4 million or less. In Q. 17 the *Applicant* will describe that the $10 million small dollar loan pool entered in Table A5 will consist of community facilities (childcare, job training and multi-service community organizations, light manufacturing and retail).

50) Can NMTCs be used to finance broadband infrastructure or related activities?

Broadband infrastructure and related activities are eligible for NMTC investments provided that those activities meet the IRS Regulations related to a business qualifying under the NMTC program. For additional details, please see IRC 45D and related IRS guidance.

51) There are some activities that are not clearly prohibited by the IRS Tax Regulations, but that are also not clearly allowed. If my business strategy falls within one of these more undefined areas, how will my *Allocation Application* be scored by the CDFI Fund?

The CDFI Fund will evaluate each *Allocation Application* on a case-by-case basis, and consult with the IRS as necessary during Phase 2 of the review process, to ensure that the activities proposed are within the guidelines set forth in the IRS Tax Regulations. If some or all of the *Applicant*'s proposed activities are not allowable pursuant to the IRS Tax Regulations, the CDFI Fund may reduce the recommended amount of an *NMTC Allocation* as appropriate, or deny the *Applicant* an *NMTC Allocation* entirely. Please see the third Tip in Part I, Section A of the *Allocation Application* for certain CDFI Fund eligibility requirements and to ensure that your business strategy falls within those guidelines.

52) Is an *Applicant* required to specify the amount of its *QLICIs* that will be directed to innovative investments? Can the *Applicant* propose an innovative investment of an *NMTC Allocation* that is not listed in Q.18?

Applicants are required in Q. 18 to provide the percentage of total *QLICIs* to be used for each innovative investment type. The CDFI Fund will only consider the activities listed in

Question 18 as innovative investments of an *NMTC Allocation*. While an *Applicant* cannot propose an innovative investment not listed in Q. 18, the CDFI Fund does not prefer one innovative investment type over another.

53) If an *Applicant* commits in Question 18 to invest in *Unrelated CDEs* that do not have *NMTC Allocations*, how would it determine if a prior *Allocatee* is eligible to receive a *QLICI* under this commitment?

In order for an *Applicant* to make a QLICI in an *Unrelated CDE* and qualify to meet the innovative investment requirements, the *CDE* receiving the QLICI must not have received an *NMTC Allocation* in the CY 2017, CY2018, or CY 2019 rounds. To determine which CDEs received such allocations, the *Applicant* may consult the CDFI Fund's award database: https://www.cdfifund.gov/awards/state-awards/Pages/default.aspx. In addition, the *Unrelated CDE* receiving the investment cannot also apply for a CY 2020 Allocation.

54) If an *Applicant* commits in Question 18 to invest a percentage of *QLICIs* in states identified by the CDFI Fund as having historically received fewer dollars of *QLICIs*, will it be held to the specific subset of states identified in the *Applicant's* strategy to deploy these *QLICIs* (for example, three states of the ten listed in FAQ #55)? Or will it simply be held to any of the CDFI Fund identified states?

The *Applicant* can invest in any of the states identified by the CDFI Fund that are within the *Applicant's* service area. The terms of the *Allocation Agreement* will hold the *Allocatee* with a national service area to investing a designated percentage in any of the identified states or U.S. Island Areas listed in FAQ #55. *Applicant*s that do not have a national service area will be required to invest in any of the identified states or U.S. Island Areas that are within the *Applicant's* service area.

55) What are the states identified by the CDFI Fund that have historically received fewer dollars of *QLICIs*, referenced in Question 18?

Since the inception of the NMTC Program, *QLICIs* have been made in all 50 states, the District of Columbia, Puerto Rico, and Guam. However, the CDFI Fund has identified Puerto Rico along with the following 10 states as areas that have received fewer dollars of *QLICIs* in proportion to their statewide population residing in *Low-Income Communities*: Florida, Georgia, Kansas, Nevada, New Mexico, Tennessee, Texas, Virginia, West Virginia, and Wyoming.

The above states are identified by dividing the total dollars of *QLICIs* invested (FY2003-FY2017) in each state by the population residing in *LIC*s in that state. Total dollars of *QLICIs* are based on the NMTC Public Data Release updated in December 2019. The population residing in *LICs* by state is established using data listed as "population for whom poverty is determined" in the 2011-2015 American Community Survey (ACS) NMTC eligibility data (and 2006-2010 ACS NMTC eligibility data for Island Areas).

The CDFI Fund also considers additional Island Areas of the United States (American Samoa, Guam, Northern Mariana Islands, and US Virgin Islands) to have received lower levels of NMTC investment, as these four territories have only received minimal amounts of *QLICIs*.

While investment in the geographies listed above is considered an innovative investment of NMTCs for the purposes of Question 18, the CDFI Fund does not give preference to this innovative investment type over any other innovative investment type.

56) If the *Applicant* commits in Q. 18 to provide *QLICIs* where the total *QLICIs* received by the *QALICB* are $4 million or less, does that include *QLICIs* made into multi-*CDE* transactions?

Yes. In order to qualify as an innovative investment, total *QLICIs* received by the *QALICB*, from all *CDEs* involved in the transaction, must be $4 million or less. For more information about how this activity will be monitored, please see the NMTC Program Compliance Monitoring Frequently Asked Questions.

57) If the *Applicant* commits to provide *QLICIs* for non-*Real Estate Activities* as an innovative investment in Q. 18, can *QLICIs* financing both *Real Estate* and non-*Real Estate Activities* count toward this commitment?

No. In order for the *Applicant's QLICIs* to count toward the innovative investment commitment, any financial note provided by the *Allocatee* to a *QALICB* must be used entirely for non-*Real Estate Activities*. For example, if the *Applicant* provides two financial notes (i.e. an A Note and a B Note) to a *QALICB* and a portion of one note is financing R*eal Estate Activities*, then none of the financial notes to that *QALICB* can be counted towards its commitment for non-Real Estate innovative investments.

With respect to multi-*CDE* transactions, the financing activities of other *CDEs* are not considered in the *Applicant's* commitment to Non-*Real Estate Activities*. In effect, in such transactions, other *CDEs* may provide financing for *Real Estate Activities*. In multi-*CDE* transactions, the *Applicant*'s *QLICIs* will count toward its non-Real Estate commitment as long as these *QLICIs* finance ONLY non-*Real Estate Activities*, notwithstanding the financing provided by other *CDEs*.

Non-Real Estate innovative investments are defined as "*QLICIs* made for non-*Real Estate Activities*, such as working capital, inventory or equipment purchase, as long as no part of the *QLICI* was used for *Real Estate Activities*." Per the CY2020 *Allocation Application* Glossary of Terms, *Real Estate Activities* "refers to the development (including construction of new facilities and rehabilitation/enhancement of existing facilities), acquisition, management or leasing of real estate by a business." Financing for activities not considered *Real Estate Activities* are considered non-*Real Estate Activities*.

58) If the *Applicant* commits to investing in *Federal Indian Reservations, Off-Reservation Trust Lands, Hawaiian Home Lands, and Alaska Native Village Statistical Areas,* how can the *Applicant* identify whether potential NMTC investments are located in these areas?

Applicants should use the CIMS3 to geocode addresses and determine whether potential *QALICBs* are located in *Federal Indian Reservations, Off-Reservation Trust Lands, Hawaiian Home Lands, and Alaska Native Village Statistical Areas.*

To determine whether a proposed *QALICB* is located in one of these areas, first access CIMS3 by clicking https://www.cims.cdfifund.gov/preparation/?config=config_nmtc.xml.

Then, click on the Layers button in upper right of the screen. De-select 2011-2015 LIC Census Tract and Qualified Opportunity Zone Tract, and instead select Federal Indian Reservation. Put in the address of the proposed *QALICB* in the Search bar at the top right of the screen and press Enter. Click on the search result that matches the address you are looking for and zoom in to the address. If the address pin is located in the shaded area per the Legend, then the proposed *QALICB* is located in one of these areas stated above and consequently can be considered an innovative investment. Click on the area around the address pin to obtain the specific name of the area (e.g. Fort Apache Reservation; Kalamaula Hawaiian Home Land). Lastly, click on the Layers button and de-select the Federal Indian Reservation layer and instead select 2011-2015 LIC Census Tract to determine whether the proposed *QALICB* is located in an *NMTC*-eligible census tract. Note that the determination of whether a proposed *QALICB* is located in one of these areas and in an *NMTC*-eligible census tract has to be conducted separately.

59) How should an *Applicant* respond to Questions 19, 20, and Exhibit B tables based on the activities in Question 13(b)?

The activities in Q.13(b) represent the types of NMTC activities that would generally qualify as *QLICIs*. The *Applicant* should use the types of activities in Q.13(b) as a guide for responding to Q.19, and Tables B1-B3. If the *Applicant* has a track record of providing loans or equity investments different than those described in Q.13(b), the *Applicant* should include these activities in Q.20 and Table B4.

Table B1 should include, and Q.19 should discuss, the *Applicant*'s (or its *Controlling Entity's*) track record of directly providing or otherwise facilitating loans or *Equity Investments* to Real Estate and *Operating Businesses* (including any *QLICIs* to *QALICBs*). Table B2 should include, and Q.19 should discuss, the *Applicant's* (or *Controlling Entity's*) track record of providing loans or *Equity Investments* in other *CDEs*. Exhibit B3 should include, and Q. 19 should discuss, *Applicant's* (or *Controlling Entity's*) track record of purchasing loans from other *CDEs*. *Financial Counseling and Other Services* (*FCOS)* should be described in the narrative to Q.19.

For example, if the *Applicant* indicated that it would provide “investments in, or loans to, *QALICBs*” in Q.13(b), then in each of the annual columns in Table B1 it should provide data on the *Applicant's* or *Controlling Entity*'s track record of directly providing loans and/or equity investments to real estate businesses and *Operating Businesses* (excluding Restricted NMTC Business Activities) and record these in row 2(a) or 2(b). The *Applicant* may also quantify its (or its *Controlling Entity*'s) track record of facilitating loans or *Equity Investments* (e.g. loan packaging, project development) to real estate businesses and *Operating Businesses* and record these in row 3. The track record included in Tables B1-B3 may include both past NMTC loans/investments and non-NMTC loans/investments.

Exhibit B4 should include, and Q.20 should discuss, any loans, *Equity Investments*, and/or financial counseling that does not correspond to the types of activities listed in Q.13 (b). This may include Restricted NMTC Activities, loans and/or *Equity Investments* in NMTC investment funds or non-*CDE* financial institutions, personal or consumer loans, and residential mortgages among other types of loans and/or Equity Investments. *Applicant*s should explain the dollar amount of each type of activity included in Table B4.

60) What should I consider when completing the tables in Exhibit B?

When completing a given table, for each annual column, *Applicant*s should report on the totality of historical loans and equity investments for the period 2015-2020 YTD. Please be aware of the allowable financing activities for each table in Exhibit B. In the column "Totals to DBCs (2015-2020)," *Applicants* should report the amount of their overall loans or *Equity Investments* that were directed to businesses that: a) are located in *Low-Income Communities*; b) are owned by *Low-Income Persons*; or c) otherwise have inadequate access to investment capital.

In addition to the Tips in Q.19 and the instructions in Exhibit B, you should also consider the following:

a) In Row 3 of Table B1 and Row 2 of Table B4, an *Applicant* may indicate the financial contributions of others. This will enable the *Applicant* to include projects or businesses in which it engaged in financing-related activities such as loan packaging, project management/development, etc.

b) An *Applicant* (or *Controlling Entity*) may describe their track record of providing FCOS (for NMTC-related activities) in *Allocation Application* Question 19. However, FCOS should not be included in Tables B1-B3. Per the 2020 *Allocation Application* glossary, FCOS is advice provided by a *CDE* relating to the organization or operation of a trade or business. See 26 CFR 1.45D-1(d) (7) for additional guidance.

c) An *Applicant* (or *Controlling Entity*) may describe their track record of financial counseling for Restricted NMTC Business Activities (e.g. counseling for residential mortgages) in *Allocation Application* Question 20, but this should not be included in Table B4. See FAQ #63 below on what types of financial counseling should only be included in *Allocation Application* Question 20.

d) *Applicant*s may not include direct expenditures on project costs (e.g. paying a contractor for infrastructure work) as financing. Only loans and/or Equity Investments may be included in Exhibit B.

e) *Applicants* are required to complete the column Totals to Non-Metropolitan Counties (2015-2020) indicating their track record of direct loans/investments and/or facilitating loans/investments provided by other sources, which will enable the CDFI Fund to determine the reasonableness of the *Applicant's* commitments to invest in Non-Metropolitan Counties, as well as whether the entity should receive special consideration as a "Rural *CDE*" (see FAQ #123 below).

61) What is the difference between direct financing and indirect financing for the purposes of Exhibit B?

Direct financing consists of loans and *Equity Investments* that the *Applicant* (or *Controlling Entity*) financed with its own capital and that capital is at risk. *QLICIs* made with an *Applicant*'s previous *NMTC Allocation*s should be listed as direct financing.

Indirect financing consists of loans and *Equity Investments* provided by third-party sources that were facilitated by the *Applicant* (or *Controlling Entity)*. In effect, the *Applicant's* (or *Controlling Entity's*) capital was not at risk. Examples of indirect or facilitated financing include loan packaging, project development, and structuring transactions for unrelated entities.

Note: An *Applicant* may **not** include in Exhibit B income earned by the *Applicant (*or *Controlling Entity*) for providing services (e.g. structuring NMTC transactions, project development, etc.) to other *CDEs*.

62) In Exhibit B, can an *Applicant* select "*Applicant*" for Tables B1-B3 and "*Controlling Entity*" for Table B4?

No, the online *Allocation Application* does not allow an *Applicant* to select "*Applicant*" for Tables B1-B3 and "*Controlling Entity*" for Table B4. All tables in Exhibit B, Table D1 and Table E1 must be completed with information for the same entity – either the *Applicant* or the *Controlling Entity* – by selecting the appropriate entity in Question 3. If the *Applicant* would like to include non-*QLICI* activities of the *Controlling Entity* in Table B4, the *Applicant* must select "*Controlling Entity*" in Question 3, which will carry over to Tables B1-B3, Table D1 and Table E1 as well. *Applicants* should, however, be sure to address the extent to which the *Applicant* has itself engaged in these activities in the narrative responses to Questions 19 and 20.

63) What types of activities should be included in Question 20 and Table B4? For example, can an *Applicant* report consumer loans or mortgages in Table B4?

Responses to Question 20 and Table B4 are not required. Applicants should consider responding to Q. 20 and completing Table B4 if the Applicant has less than five years of track record in QLICI-like financing activities to report in Table B1-B3. Applicants may use Question 20 and Table B4 to report direct loans or equity investments that would not qualify as or are not substantially similar to QLICI activities, and therefore cannot be included in Tables B1-B3.

Applicants can report activities such as consumer loans or mortgages in Table B4. Other examples of activities that can be reported in Table B4 include: loans/investments to real estate properties where 80% or more of the gross income is derived from renting residential dwelling units,

- loans/equity investments to NMTC investment funds or non-*CDE* financial institutions,
- personal or consumer loans,
- residential mortgages,
- investments in other NMTC prohibited businesses (e.g. certain farming businesses, gambling businesses, massage parlors, country clubs, etc.), and
- financial counseling related to any of the above products that do not align with activities listed in Question 13 and should not be included in Question 19.

<u>All types of business lending, except for *Restricted NMTC Business Activities*, should be listed in Tables B1-B3, regardless of the size of the investment or geographic location of the</u>

investment. Similarly, the *Applicant's* track record of *Financial Counseling and Other Services (FCOS)* provided to businesses should be described in the narrative response to Question 19. Per the 2020 *Allocation Application* glossary, *FCOS* is advice provided by a *CDE* relating to the organization or operation of a trade or business. See 26 CFR 1.45D-1(d)(7) for more guidance.

Please be advised that "financing activities" consist solely of the provision of loans or *Equity Investments*. The provision of grants to entities, including businesses and/or *CDEs*, by the *Applicant* (or *Controlling Entity*) cannot be reported in Exhibit B and should not be referenced in the narrative responses to Questions 19 and 20.

64) Will the CDFI Fund view prior *Allocatees* that have invested smaller amounts of their past *NMTC Allocation(s)* into multiple projects with other *CDEs* more favorably than prior *Allocatees* that have invested larger amounts into fewer projects with their own *NMTC Allocation*?

No scoring preference or other consideration is given based on the number of investments made or the size of the investments made with prior *NMTC Allocation*s.

Applicants with a track record of investing smaller amounts of *QEIs* into more projects are not favored over *Applicant*s who invest a larger amount of *QEIs* into fewer projects. *Applicants* with previous allocations are evaluated based on the quality (e.g. below-market financial products, reasonable transaction costs) of their past NMTC investments and whether their past NMTC investments were generally consistent with the business strategies (including, but not limited to, the proposed product offerings, QALICB type, fees and markets served) presented in past successful *Allocation Application*s, among other considerations.

The CDFI Fund recognizes that investing smaller amounts of *QEIs* into a project may increase the number of *CDEs* involved in the project, which may drive up transaction costs. The CDFI Fund strongly encourages *CDEs* to continue to explore ways to minimize transaction costs on NMTC transactions.

65) What cutoff date should *Applicants* use when describing their track record of past investment activities in *Allocation Application* Questions 19, 20, 21(d), 25 (when discussing the track record of community outcomes), 26 (track record of community accountability and involvement), 34, and 43, as well as Exhibits B and Tables E1-E2?

In describing their track record, *Applicants* may include loans and/or investments closed prior to or the release date of the CY 2020 *Allocation Application*. The *Applicant* **may not** enter information on capital raised or previous financing activities that occurred after release date of the CY 2020 *Allocation Application*. Please review FAQs #40, 116, and 120 for more details.

66) How can an *Applicant* earn the five priority points for providing capital or technical assistance to *Disadvantaged Businesses or Communities*?

Applicants that demonstrate a track record (or a *Controlling Entity*'s track record) of having successfully provided capital or technical assistance to *Disadvantaged Businesses or Communities* may earn up to 5 priority points. Evaluation of track record is based on the information provided in Exhibit B and the responses to Questions 19 and 20.

67) In Question 22 of the *Allocation Application*, how can an *Applicant* earn the five priority points for investing in *Unrelated Entities*?

Beginning in the Combined 2015-16 NMTC application round, an *Applicant* may earn 5 priority points if it intends to invest in and commits to use "substantially all" of its *QEI* proceeds to make investments in one or more businesses in which persons *Unrelated* to the *Applicant* and the *Subsidiary Allocatee* hold the majority equity interest ("*Unrelated Entities*") during and after the NMTC compliance period. Whether a *QALICB* is related to a *CDE* is determined pursuant to IRC Sections 267(b) and 707(b)(1).

An *Allocatee* investing in *Unrelated Entities* will be in compliance with its *Allocation Agreement* only if persons *Unrelated* to the *Allocatee* and *Subsidiary Allocatee* (if the *Subsidiary Allocatee* makes the *QLICI*) will hold a majority equity interest in the *QALICB* after a *QEI* is made in the *Allocatee or Subsidiary Allocatee*, but before the *Allocatee or Subsidiary Allocatee* uses the proceeds of that *QEI* to make its initial *QLICI* in the *QALICB*. The *Allocatee* must determine whether such persons are related to the *Allocatee and Subsidiary Allocatee* (within the meaning of IRC §267(b) and §707(b)(1)) in consultation with its own tax advisors. The CDFI Fund will assess compliance with the *Unrelated Entities* requirement at the *Allocatee* level, and also at the *Subsidiary Allocatee* level if the *Subsidiary Allocatee* makes the QLICI. This requirement applies to all *QLICIs* made with *Allocations* awarded in the 2020 round.

Anti-Abuse Provision: The CDFI Fund may review any subsequent changes in the *QALICB*, *Allocatee*, or *Subsidiary Allocatee* ownership resulting in common ownership between the *Allocatee* (and *Subsidiary Allocatee*) and the *QALICB* on a case-by-case basis to determine whether a principal purpose of a transaction or a planned series of transactions is to achieve a result that is inconsistent with the purpose of this rule.

68) If an *Applicant* intends to combine historic tax credits with NMTCs and use a lease pass-through structure in which the *CDE* will be the 100%owner of the Master Tenant and, therefore, a lessee of the *QALICB* and/or a member of the *QALICB*, does the *Applicant* need to describe this relationship in its response to Question 23(d)?

Yes, the *Applicant* should disclose this relationship in Question 23(d). The *Applicant* may discuss how this relationship adds value to the *QALICB* both in the response to Question 23(d) and in the response to Question 23(f). The scoring criteria do not penalize the *Applicant* for using a lease pass-through structure to twin New Markets Tax Credits with Historic Tax Credits, provided the *Applicant* articulates how this structure adds notable added value to the *QALICB*.

69) What notable relationships is the *Applicant* required to disclose and describe in Question 23?

In addition to the information identified in FAQ #68 the *Applicant* must disclose relationships such as instances where the *Applicant*, its *Affiliates* (including the *Controlling Entity*) or its personnel listed in Exhibit C:

a) Own more than a one percent interest in the *QALICB*,

b) Provide professional services (developer, real estate agent, property manager, or general contractor, etc.) for the *QALICB*,

c) Are lessees at property developed with the *QLICI*,

d) Are parties to a business transaction financed with the *QLICIs*, or

e) Receive other financial benefits not included above.

Such relationships must be disclosed and described in Question 23 (a) – (e).

E. Community Outcomes Section

70) What are some examples of permissible and non-permissible activities for organizations that answer "yes" to Question 24(a)?

In Question 24(a) of the *Allocation Application*, an *Applicant* can commit to targeting 75% of the aggregate dollar amount of its *QLICIs* within *Low-Income Communities* that are characterized by at least one of the following items: a) Severe Distress, *Non-Metropolitan Counties*, or *Targeted Populations*; OR b) at least two of items 4-14 in Question 24.

Example 1 [permissible]: An *Allocatee* invests $90 million (90%) of its $100 million *QLICI* activities in areas characterized by census tracts with poverty rates greater than 30% (item 1 in Question 24). This example satisfies the "at least one of items 1-3" in Question 24 requirement, so this qualifies as permissible.

Example 2 [permissible]: An *Allocatee* invests $75 million (75%) of its $100 million *QLICI* activities in two transactions. One *QALICB* is in a federally designated Brownfields development area (item 6 in Question 24) and in a Federal Native Area (item 8 in Question 24); while the other *QALICB* is in a HOPE VI redevelopment area (item 7 in Question 24) and in a Federal Medically Underserved Area (item 11 in Question 24). In this example, both of the transactions satisfy the "at least two of items 4-14" requirement in Question 24, so this qualifies as permissible.

Example 3 [permissible]: An *Allocatee* invests $50 million (50%) of its $100 million *QLICI* activities in an area of severe distress with high poverty rates (30% or greater) (item 1 in Question 24). It also invests $25 million (25%) of *QLICIs* in census tracts that are within both a Colonias area (item 10 In Question 24) and in a *Food Desert* (item 14 in Question 24). In this example, 50%of the *QLICI* dollars satisfy the "at least one of items 1-3" requirement, and 25% of the *QLICI* dollars satisfy the "at least two of items 4-14" requirement. A total of 75% of the *QLICI* dollars meet the requirements of Question 24. Therefore, this qualifies as permissible.

Example 4 [not permissible]: An *Allocatee* invests 100%of its *QLICIs* in an area that is not characterized by any of items 1-3, and is only characterized by one of the criteria in items 4-14 in Question 24. Although the *Allocatee* invested 100% of its *QLICIs* in a *Low-Income Community*, it failed to satisfy either of the tests in Question 24(a), since its *QLICIs* were made in areas that had only one (as opposed to two or more) of the criteria listed in items 4-14 of Question 24.

71) Question 24 (which asks *Applicants* to identify areas where they propose to target the use of *QLICIs*), item 12 [Federal/State/Local Zones] includes Promise Zones and Opportunity Zones. What are Promise Zones? What are Opportunity Zones?

Federally designated Promise Zones are geographic areas defined by the Department of Housing and Urban Development (HUD). Promise Zone designation enables the Federal government to partner with local leaders who are addressing multiple community revitalization challenges in a collaborative way. More detailed information on what constitutes a Promise Zone, which communities have been selected, and other guidance on the initiative can be found at the following HUD website: **https://www.hudexchange.info/programs/promise-zones/promise-zones-overview/**.

Opportunity Zones are economically distressed census tracts where new investments, under certain conditions, may be eligible for preferential tax treatment. Localities qualify as Opportunity Zones if they have been nominated for that designation by the state and that nomination has been certified by the Secretary of the U.S. Treasury. More information on Opportunity Zones, including a list of designated Qualified Opportunity Zones, is available on the CDFI Fund's website: https://www.cdfifund.gov/Pages/Opportunity-Zones.aspx.

Not all Promise Zones or Opportunity Zones are *Low-Income Communities* eligible for NMTC investment. Prior to making any NMTC investment decisions, you should check the NMTC eligibility of the census tract in the CDFI Fund's mapping system (CIMS3). The CDFI Fund only guarantees the accuracy of information in its own mapping system (CIMS3).

Please note that the CDFI Fund does not give preference to *Applicants* proposing to target *QLICIs* in Promise Zones, Opportunity Zones, or any other area of higher distress listed in Question 24. Per the *Allocation Application* TIP, an *Applicant* that checks "Yes" to Question 24(a) will generally be scored more favorably, but *Applicants* are not evaluated based on selecting any specific one of the 14 areas of higher distress listed. Note that if the *Applicant* receives an *NMTC Allocation,* it will be required to meet the percentage figure identified in Question 24(a), and such requirement will be a term of its *Allocation Agreement*.

72) What portion of my pipeline should I use to project potential community development outcomes in Question 25 of the *Allocation Application*?

Applicants should base their community development outcome projections in Question 25 on the "priority pipeline" identified in Question 17 and Table A5. ***Applicant*s must use the same set of pipeline projects as a basis for projecting all of the selected community development outcomes.**

73) What information should an *Applicant* provide when quantifying both its projected and track record of community outcomes in Question 25(a)?

To score highly in the Community Outcomes section, an *Applicant* must quantify both its projected and track record of community outcomes in Question 25(a).

When projecting the outcomes to be achieved with their *NMTC Allocation*, *Applicants* must clearly explain, for each of the outcomes selected in Question 25(a):

- the total number of the quantifiable community outcome(s) (e.g. number of LIC residents served, number of square feet of community space constructed) projected to be generated by NMTC investments;
- the total number of NMTC *QALICB*s the above figure is based on;
- the aggregate total dollar amount of project costs;
- what portion of these investments will be in collaboration with other *CDEs* (i.e. multi-*CDE* transactions);
- the total dollar amount of *QEIs*/*QLICIs* the *Applicant* will use for projected *QALICB*s listed in Table A5 and the dollar amount of total financing provided to similar borrowers or investees from its track record in Exhibit B; and
- the total dollar amount of *QEIs*/*QLICIs* that other unrelated *CDEs* will contribute to projected QALICBs in Table A5 as well as the total dollar amount of financing (including *QEIs*/*QLICIs*) that other unrelated *CDEs* have contributed to borrowers or investees from its track record in Exhibit B.

Example 1 - Projections: XYZ *CDE* projects that a $100 million allocation will allow it to create 1,400 direct jobs. This job creation figure is based on the *Applicant* investing in 10 pipeline *QALICB*s. These *QALICB*s have a total estimated project cost of $250 million with $175 million in *QLICI* needs. XYZ *CDE* plans to provide $100 million in *QLICIs* to finance these projects. The remaining $75 million in *QLICIs* are projected to come from other *CDEs*.

Example 2 - Projections*:* The 10 priority pipeline businesses to be supported with the *Applicant*'s allocation request have total estimated project costs of $90MM, of which the *Applicant* plans to provide $70MM. No other *CDEs* will be providing allocation. The 10 businesses represent 300,000 SF in newly constructed or renovated space and will serve an estimated 150,000 LIC residents.

When discussing their quantified track record of achieving community outcomes, *Applicants* should provide a similar level of detail on the aggregate track record based on financing activities in Exhibit B.

Example 1 - Track Record: Based on XYZ *CDE*'s financing track record in Exhibit B, its loans and investments to 15 manufacturing businesses resulted in a total of 5,000 direct jobs. These 15 manufacturing businesses had combined total project costs of $300 million. XYZ *CDE* provided $150 million in aggregate financing. Of the 15 businesses, five businesses with total project costs of $100MM, received a total of $25 million in *QLICIs* from other *CDEs* along with $60 million in *QLICIs* provided by XYZ *CDE*. These five businesses created/retained a total of 1,600 jobs.

Example 2 - Track Record: In the last five years, HIJ *CDE* provided $65 million in *QLICIs* to ten non-profit borrowers to develop or rehabilitate a total of 22,000,000 square feet of community facilities providing healthcare, social services, and childcare to LIC residents. These non-profit organizations served an aggregate of 30,000 patients, 20,000 clients, and 200 children. These community facilities had total project costs of $80 million. No other *CDEs* provided allocation to these organizations.

Each community outcome listed in Question 25 is defined and includes examples of how each outcome may be quantified. These examples are illustrative and not meant to be exhaustive. *Applicants* can elect to use other units of measurement they find relevant. *Applicants* are expected to quantify all community outcomes selected (projected and track record).

74) When quantifying its projected community outcomes in Q. 25(a), is it sufficient for the *Applicant* to state the number of projects that will result in the selected outcome?

No. The *Applicant* will not score favorably if it only states the number or percent of pipeline projects that will result in the selected outcome without quantifying the specific outcomes of those projects. As an example, for Community Goods or Services, it is not adequate if the *Applicant* merely states that three pipeline projects are community healthcare centers. Instead, in order for the *Applicant* to score favorably, it must quantify the outcomes resulting from these healthcare centers, such as number of low-income patients or patients from *Low-Income Communities* expected to be served by the centers, the total square footage of the healthcare centers, etc. Note that *Applicant*s must describe the method used for its projections of the selected Community Outcomes. See FAQ #76 for additional details on methods.

<u>The only exception is (7) Financing Minority Businesses in which the number of QALICBs or contractors that are *Minority-owned or Minority-controlled* is considered an appropriate quantification of this outcome</u>.

75) What details should be provided to support the quantification of projected community outcomes?

*Applicant*s should provide the necessary detail on how the projected community outcomes were estimated. An *Applicant* will be evaluated on its ability to quantify the projected community outcomes, such as its methods and metrics used to project those outcomes. See FAQ #76 for additional details on methods and metrics. The *Applicant* should also discuss the extent that it has a track record of achieving similar outcomes based on past investments in Exhibit B. The *Applicant* will not be evaluated simply on the sheer number of outcomes projected.

76) When supporting community outcome(s) projections, what is the difference between a method and a metric?

To score highly in the Community Outcomes section, the *Applicant* must support its projections with sound methods and metrics. **Methods and metrics are not the same.**

A method is **the procedure** the *Applicant* used **to obtain the numbers** for quantifying its projections for each selected community outcome. Examples include:

- Obtaining projected outcome data (e.g. square feet, jobs, clients served, savings in energy or water usage from LEED certification) from the borrower (i.e. project sponsor);
- Using XYZ economic impact modeling software to estimate the number of construction jobs;

- Calculating projections (e.g. square feet, jobs, clients served) based on similar projects previously financed by the *Applicant*; or
- Analyzing a QALICB pro-forma to determine projections (e.g. lease rates, number of patient visits, number of minority businesses).

A metric is **the basis** the *Applicant* used **to validate the reasonableness** of the quantified projections for each selected outcome. It is the function or ratio used to verify the *Applicant's* projections are reasonable. Examples of metrics include:

- X jobs per Y square feet of manufacturing space;
- X square feet of commercial real estate will result in the creation of Y full-time construction jobs;
- Charter schools create X Full Time Equivalent jobs for every Y students;
- X square feet of health care space will result in Y patient visits per year;
- X% reduction in lease rates results in Y number of non-profit social service providers;
- X number of classrooms with an average Y children per classroom results in Z number of children served by early education programs; or
- X environmental remediation costs will result in Y square feet of reusable space in LIC.

Additionally, *Applicants* should include the source of the metric (e.g. name of the industry trade group, name of governmental entity, based on *Applicant's* prior loans to similar businesses, etc.) *Applicants* will score more favorably if metrics are obtained from or informed by third-party sources rather than relying solely on the *Applicant's* own track record.

Note: Metrics are not required for (3) Accessible Jobs, (7) Financing Minority Businesses, and (9) Housing Units.

77) What are examples of third-party sources that an *Applicant* can use for its metrics?

As noted in FAQ #76, *Applicants* will score more favorably if metrics are obtained from or informed by third-party sources rather than relying solely on the *Applicant's* own track record. A third-party source is an independent entity and is not a party to or consultant to the transaction. Potential sources include: a federal, state, or local government agency; industry trade group; peer-reviewed journal article; or independent market analysis report.

Note: The CDFI Fund does not have any preferred third-party source or economic impact modeling software.

Example 1 – Metrics (Job Creation/Retention): ABC *CDE* validated its job creation projections by utilizing a metric of 9.7 construction jobs per $1 million in construction costs (source of metric: Associated General Contractors of America).

Example 2 – Metrics (Community Goods or Services to LICs): The 5 pipeline healthcare centers will create an aggregate of 200 additional full time equivalent medical staff positions.

XYZ *CDE*'s estimate of 189,200 aggregate clinic visits per year of operation is validated by the metric of 946 clinic visits per medical staff personnel (source of metric: Health Resources & Services Administration's 2019 Health Center Program National Awardee Data).

Example 3 – Metrics (Community Goods or Services to LICs): Using census data on the number of households residing in the food bank's service area, HIJ *CDE* validated its projections for the number of "food insecure" households to be served by the food bank using the metric of 35.5% of households with annual incomes below the official poverty line are "food insecure" (source of metric: USDA Economic Research Service report "Household Food Security in the United States in 2019).

78) Does the number of community outcomes selected in Question 25(a) affect how the *Applicant* will be evaluated?

No. The *Applicant* will not be evaluated simply on the sheer number of outcomes selected in *Allocation Application* Question 25(a). The *Applicant* should only select those community outcomes that directly apply to the investments described in *Allocation Application* Question 17 and listed in Table A5. Additionally, *Applicant*s should select outcomes where they can:

- confidently quantify the projected outcome;
- provide clear and sound methods and metrics;
- demonstrate how the projected outcome will clearly benefit Low-Income Persons and/or residents of LICs; and
- describe how the projected quantity for each selected outcome compares to the quantities in its track record.

79) Should an *Applicant* complete a Community Outcome narrative for each Targeted Community Outcome selected in Table A5?

Yes. For each community outcome selected in Table A5, the CDFI Fund expects *Applicant*s to select and complete narratives in *Allocation Application* Question 25(a). For selected outcomes, the narrative must include all required information noted in the *Allocation Application* and FAQs #72 to 78 above. For example, if an *Applicant* selects "Community Goods or Services" as a Targeted Community Outcome in Row N for one of its proposed projects in Table A5, it must select "Community Goods or Services" and provide a narrative in Q. 25(a).

80) Can the *Applicant* discuss indirect or induced jobs in its response to Question 25(a) (1), Job Related – Job Creation/Retention?

No, only direct jobs created or retained as a result of the *Applicant*'s proposed *QLICIs* or track record of loans or equity investments may be discussed in response to all the job related questions – Job Creation/Retention, Quality Jobs, and Accessible Jobs. Indirect jobs can be discussed in *Allocation Application* Question 27 as evidence of additional private investment. See FAQ #90 below for more information on *Allocation Application* Question 27

81) What distinct information should the *Applicant* provide in each of the three job-related questions in Question 25?

The CDFI Fund provides no preference in scoring or evaluating *Applicant*s based solely on outcomes selected in Question 25. However, if the *Applicant* selects one of the Job related outcomes in Q. 25(a), it must provide a narrative response for all three Job related outcomes. The *Applicant* will score higher if it can successfully quantify that the jobs created/retained represent high quality jobs and is able to quantify the number or percentage of jobs that are accessible to *Low-Income Persons* or residents of *Low-Income Communities*. Each sub-category in Question 25(a) gives the *Applicant* an opportunity to discuss unique aspects of their potential job creation outcomes. ***Applicants should not repeat the same information in each narrative for (1)-(3).***

For (1) Job Creation/Retention, the *Applicant* should quantify the number of direct jobs that will be created or retained as a result of the *Applicant's QLICIs* in Table A5, as well as direct jobs created/retained as a direct as a result of the *Applicant*'s financing track record in Exhibit B. (see FAQ #73 above for required narrative details).

For (2) Quality of Jobs, the *Applicant* should quantify the number or percentage of the jobs created/retained that will provide opportunities to build wealth, receive living wages and/or employment benefits, as well as provide opportunities for training and career advancement for *Low-Income Persons* or residents of *Low-Income Communities*. The *Applicant* should clearly discuss how it defines a "quality job" (see FAQ #73 above for required narrative details).

Note: Community Outcomes resulting from a *QALICB* that provides only job training **but does not provide employment** is to be included and discussed under (2) Community Goods and Services.

For (3) Jobs Accessible, the *Applicant* should quantify the number or percentage of jobs created/retained that will be targeted and/or available to *Low-Income Persons,* residents of *Low-Income Communities,* people with lower levels of education, and/or people who face other barriers to employment (e.g. longer term unemployed, ex-convicts, etc.). In addition to the narrative details described in FAQ #73 above, the *Applicant* should also describe the *QALICB*'s strategy for placing these individuals in accessible jobs (e.g. partnerships with community agencies, listing with state/local government employment divisions).

82) What are some examples of commercial goods and services that would be included in Question 25(a)(4)? How does commercial goods and services differ from community goods and services to *Low-Income Communities*?

*QALICB*s that provide commercial goods and services to *LIC* residents and *Low-Income Persons* may include both for-profit and non-profit *QALICB*s. Examples of commercial goods and services include, but are not limited to:

- Restaurants,
- Movie theaters, theme parks, and other entertainment venues (excluding NMTC prohibited activities),

- Retail shopping, or
- Pharmacies.

Examples of <u>community</u> goods and services to *Low-Income Persons* or *LIC* residents include, but are not limited to:

- Schools,
- Healthcare, childcare, job training or social service facilities,
- Libraries, or
- Shelters, supportive services (e.g. drug treatment, mental health, etc.)

In describing commercial and/or community goods and services, *Applicant*s will be scored more favorably if they can quantify how residents of *Low-Income Communities* and/or *Low-Income Persons* will be served as a result of the *Applicant's QLICIs*.

- Example of LIC benefits of commercial goods and services: the *QLICI* will finance a new pharmacy that will provide X number of LIC residents within Y radius with access to prescription and over-the-counter drugs accessible by walking or public transportation.
- Example of LIC benefits of community goods and services: the *QLICI* will finance a multi-service facility that provides after-school programs for X number of low-income at risk youth and mental health services to Y number of individuals that are homeless or are at risk of being homeless.

83) What are other examples of how *Applicants* can demonstrate that projected community outcomes will clearly benefit *Low-Income Persons* and residents of *LICs*?

Some examples are as follows:

- Healthy Food Financing: the *QLICI* will finance a new grocery store in a USDA-designated food desert that will provide X number of LIC residents with access to affordable healthy foods (fresh meat, vegetables, and fruits).
- Financing Minority Businesses: *QLICIs* will finance expansion of a minority-owned manufacturing plant, which will result in the hiring of X number of Low-Income Persons. A *QLICI* to a minority developer of an entertainment complex will provide 100% of the X jobs to LIC residents. A minority-controlled non-profit organization will provide temporary housing and social services to 500 Low-Income clients per year.
- Flexible Lease Rates: *QLICI* will result in reduced rental rates for a nonprofit social service provider, and the lease savings will allow the nonprofit to serve X LIC residents.
- Housing Units: *QLICI* will finance construction of mixed-use development that will include X number of apartments, of which Y will be affordable to Low-Income Persons

- Environmentally Sustainable Outcomes: *QLICI* will finance remediation of a brownfield site that will be repurposed for a distribution center, which will result in X employees that will not be exposed to environmental hazards.

Note that these examples are not exhaustive as there are many other ways to demonstrate how projected community outcomes will clearly benefit *Low-Income Persons* and residents of *Low-Income Communities (LICs).* **Also, remember that solely indicating that the location of a project is in a *LIC* is not sufficient to demonstrate benefit to *LIC* residents/*LIPs*; specific community outcomes must be identified.**

84) If an *Applicant* selects Flexible Lease Rates in Question 25(a), should it only discuss Real Estate Activities between a *QALICB* and a third party?

Yes, the *Applicant* should only include *Real Estate Activities* where the tenant/lease arrangement is between a *QALICB* and a third party. A *QALICB* offering a favorable lease rate to an *Affiliate* is not an acceptable example of offering Flexible Lease Rates in Question 25(a)(8).

85) What are some examples of how I can quantify Environmentally Sustainable Outcomes in Q. 25(a)?

Examples of quantifying Environmentally Sustainable Outcomes include providing the amount or percentage in reduced energy or water usage by the *QALICB, the* reduced cost of energy or water to businesses leasing space, the amount of contaminants (e.g. oil spills, stored chemicals) removed from a brownfield, the square feet of contaminated real estate that was remediated, the number of housing units for which lead abatement was performed, the number of *Low-Income Persons* or residents of *Low-Income Communities* no longer exposed to a specific environmental or health hazard, the number of tons of building materials that are re-used, among others. Of importance, it is not sufficient for the *Applicant* to state merely the number of pipeline projects that will produce specific environmental outcomes.

Also, *Applicant*s must demonstrate how projected environmentally sustainable outcomes will clearly benefit Low-Income Persons and residents of Low-Income Communities (LICs). For example, a shuttered manufacturing facility was remediated and repurposed into a mixed-use development with affordable housing units, a homeless shelter, and Federally Qualified Health Center serving X number of LIPs. Alternatively, a new community facility was constructed to reduce energy consumption by X%, saving non-profit tenants Y dollars on utility bills, allowing them to serve Z additional LIC residents.

86) Which community outcomes may be discussed by the *Applicant* in Q. 25 when NMTC financed only a portion of the facility?

Only outcomes related to the portion of the facility financed by the *Applicant's NMTC Allocation* should be discussed. For example, for a mixed-use development where the commercial portion is financed using NMTC and the housing is financed by Low Income Housing Tax Credits, only the outcomes related to the commercial portion financed by the *Applicant's QLICIs* should be discussed.

87) What requirements will be in the *Allocation Agreement* if an *Applicant* uses its *NMTC Allocation* to make *QLICIs* resulting in housing units?

Beginning in the CY 2017 Round, if an *Applicant* receives an Allocation and its *QLICIs* are used to finance housing units, it will be required to ensure that at least 20% of the aggregate housing units that the *Allocatee* financed are affordable housing units (e.g. affordable to persons with income less than 80% of AMI) for the seven-year compliance period, and such requirement will be a term of its *Allocation Agreement*.

Guidance on how the CDFI Fund evaluates whether 20% of housing units financed are affordable is found in the NMTC Program Compliance Monitoring Frequently Asked Questions.

88) In Question 26(b), what are examples of project-specific community engagement related to past investment decisions?

Examples of project-specific community engagement related to past investment decisions include:

- Consulting with a local government economic development agency, or local Chamber of Commerce regarding projects; and
- Receiving community feedback on projects at local public hearings, charrettes, or through community surveys.

89) In Question 26(c), what are examples of broader community and economic development strategies?

Community and economic development strategies are often outlined in a formal plan approved and adopted by a neighborhood, community group, local government, or state government. To the extent such plans exist, the Applicant should discuss how its projects fit into the priorities and goals outlined by those plans. If the Applicant intends to make NMTC investments in areas that do not have a formal plan or planning process, the Applicant should discuss other methods it used to ensure alignment with the community's strategic priorities. For example:

- An *Applicant* that is providing a QLICI to an operating business that will lease space in an industrial park may check with the local economic development agency to determine whether the municipality has identified that area as a priority for redevelopment or attracting new businesses.
- Some rural communities may not have a formal plan, but the *Applicant* can demonstrate alignment with the community's priorities by meeting with local business and civic leaders, attending town council meetings, and partnering with local organizations, among other methods.

90) In Question 27, how does the CDFI Fund want *Applicants* to discuss additional private investment as a result of the proposed *QLICIs* described in the Business Strategy section (Questions 17, 18, and 21(e))?

Applicants should discuss the extent that projected *QLICIs* will stimulate additional private investment and examples of past investments that have stimulated additional private investment. Examples of additional private investment include, but are not limited to:

Example 1: If the *Applicant*'s pipeline investments are part of or coordinated with local economic development plans, the *Applicant* may discuss the expected additional private investments (e.g., new businesses opened, new housing developed, etc.) included in such plans.

Example 2: *Applicant*s may discuss the projected number of indirect jobs or additional dollar value of economic activity projected to be created as a result of the NMTC investment based on economic impact modeling software. The *Applicant* should state the impact modeling software used.

Example 3: *Applicants* may also discuss the ability of *Operating Businesses* financed to attract subsequent private investment from other sources after the initial *QLICI* was made.

Example 4: *Applicants* may discuss supply chain impacts (e.g. a *QLICI* in a rural food processing plant will lead to $X in purchases from local farmers).

Private investment does not include additional local, state, or federal subsidies (government grants, bond financing, tax-increment financing, historic tax credits, etc.).

F. Management Capacity Section

91) What details should be on the organizational chart requested in Question 28(a)?

In addition to the information requested in Question 28(a) *Applicants* should include:

- Names of staff members that will have responsibilities managing an *NMTC Allocation*;
- names of *Applicant's* Governing and Advisory Board members;
- any entities with an ownership interest in the *Applicant*;
- names of staff members shared with *Affiliate*s, including *Controlling Entity*, and
- the *Controlling Entity* and names of *Controlling Entity*'s Governing Board members

Note that an Organizational chart is a required document and failure to provide the required information may negatively impact the evaluation of the *Allocation Application*.

92) How many individuals should an *Applicant* list in Table C2?

Please list no more than 15 individuals in Table C2. CDFI Fund staff will only evaluate the initial 15 individuals listed in Table C2. Focus on the individuals who are most important to managing the organization's New Markets Tax Credit Program (e.g. capital deployment, raising capital from investors, asset management, and compliance) and application preparation. Be sure to clearly explain the roles and responsibilities of key personnel related to managing an *NMTC Allocation* (include personnel from the *Controlling Entity*, if applicable). If the *Applicant* relies on consultants for certain services (e.g. legal, accounting, compliance, application writing/review, deal structuring, etc.), please review FAQ #96 below as well.

93) Should the *Applicant* include the *Controlling Entity*'s personnel that have/will have a role in carrying out key NMTC functions?

Yes. In Table C2 as well as *Allocation Application* Questions 29, 30 and 31, the *Applicant* should include the *Controlling Entity's* personnel if they will play a role in managing the *Applicant*'s New Markets Tax Credit Program, including capital deployment, raising capital from investors, asset management, and compliance. **If the *Applicant* were to receive an allocation, misrepresentations later identified in Table C2 and/or Questions 29, 30, and 31 may place the *Applicant* in violation of its *Allocation Agreement* in addition to affecting eligibility for future NMTC rounds.**

94) How should *Applicants* disclose the current roles and responsibilities of its personnel (including staff from its *Controlling Entity*, if applicable)?

For *Allocation Application* Questions 29(a) and 30(a), the *Applicant* should describe the CURRENT roles and responsibilities of the *Applicant's* (and *Controlling Entity's*) key personnel, consultants and board members in carrying out key NMTC functions. Be sure these descriptions accurately reflect the individual's current role(s) and responsibility(ies) as of the submission date of the *Allocation Application*. If additional staff would need to be hired and/or the roles described in Questions 29(a) and 30(a) would change with a new *NMTC Allocation*, the *Applicant* must describe these changes in Questions 29(b) and 30(b).

95) Table C2 includes a column heading "Years with (or years providing services to) the *Applicant*." In completing this information, may a start-up entity refer to the years of service that an individual provided to its *Controlling Entity*?

Yes, provided that the *Applicant* has consistently referred to the track record of its *Controlling Entity* throughout its *Allocation Application*. Also, the *Applicant* should be sure to indicate, in the Management Capacity and Capitalization Strategy sections of its application, that the information provided in Tables C1 and C2 refers to the individual's track record of service to the *Controlling Entity*.

96) How should *Applicants* disclose the use of consultants in the *Allocation Application*?

*Applicant*s must identify key consultants in Table C2, indicating the general area of work conducted by each consultant (e.g. Raising/Deploying Capital, Asset/Risk Management, etc.). *Applicant*s <u>will not</u> be penalized in the *Allocation Application* scoring for the use of consultants, since the Management Capacity section is not scored in Phase 1. The CDFI Fund recognizes that *CDEs* may gain greater efficiencies by outsourcing certain functions (e.g. asset management functions, compliance reporting, etc.) for their NMTC transactions to organizations that have already built the capacity to efficiently manage these processes. The CDFI Fund also acknowledges that a *CDE* without prior NMTC experience may wish to retain outside expertise, including that related to structuring NMTC transactions, *Allocation*

Application preparation, etc. However, *CDEs* must disclose these individuals/firms in Table C2 and discuss their roles and responsibilities in Questions 29-31.

If the *Applicant* will be receiving consulting services from multiple employees of one firm, they should only list the main contact or principal from this firm as well as list all activities the firm will support. An *Applicant* should also provide, in the narratives for Questions 29-31, an estimate of the percentage of work to be performed by the consultant(s). *An Applicant* must also identify any consultant(s) contracted to read or write either portions or the entirety of their *Allocation Application* in Table C2.

97) What financing activities should be included in Table D1 (Investment Portfolio)? Should the *Applicant* include non-*QLICI* activities in Table D1?

When completing Table D1, please include any financing activities that are referenced in Question 19, Question 20 and Exhibit B as part of your track record. In fact, Table D1 should closely reflect the direct financing indicated in Exhibit B. For example, if you discuss a multi-family residential real estate track record in Question 20 and Table B4, you must include these activities as "Real Estate Business Loans & *Equity Investment*s" in Table D1. You may also want to discuss the performance of certain types of investment activities (e.g. business loans, commercial real estate, and residential multi-family) in the narrative to Question 30(d). If you did not describe a track record of non-*QLICI* activities in Question 20, then you should not include these activities in Table D1.

Even if the *Applicant* has experienced zero delinquencies and write-offs in the past three years, it still needs to complete Table D1. In this case, the *Applicant* should simply list the number and dollar amount of loans & equity investments outstanding at each fiscal year end and enter "0" for the delinquency rates and write-offs. ***Applicants* should not select "N/A" for Table D1 in this scenario.**

98) In Table D2, how should an *Applicant* report a recurring fee or a fee that will be charged incrementally?

An *Applicant* with recurring fees or fees that will be charged incrementally should select 'Ongoing Fee' as the fee type in Table D2 and report the total, in the aggregate, that will be charged over the 7-year compliance period.

For example, an *Applicant* that expects to charge 50 basis points per year in Asset Management fees over the 7-year compliance period should select 'Ongoing Fee' as the fee type and report the 'Amount in Percent' as 3.50%. The *Applicant* should indicate in the 'Description' that the 'Amount in Percent' represents a 7-year total.

99) The instructions for Table D2 indicate that an *Applicant* should select 'Upfront Fee' for any fee that is expected to be charged before the *QLICI* is closed and that this includes any fee that will be charged before the *QEI* is made. Does this mean that an *Applicant* is required to report a fee charged at the investment fund level or outside of the *NMTC* structure?

Yes. *Applicant*s are required to report in the 'Upfront Fee' category any fees charged before the *QLICI* is closed, which includes any fee charged from the *QEI* or before the *QEI* is made. This includes fees charged at the investment fund level or outside of the *NMTC* structure.

100) How should an *Applicant* report an 'Upfront Fee' when a portion of the fee is charged before the QEI is made and the other portion is charged from the QEI?

How to report this depends on whether the 'Recipient (Payee)' is the same for the portion of the fee charged before the *QEI* is made and the other portion charged from the *QEI*. If the 'Recipient (Payee)' is the same entity, the *Applicant* should report this as a single item and provide the total, in the aggregate, that will be charged in the 'Amount in Percent' field.

If, however, there is more than one 'Recipient (Payee)', the *Applicant* should report the fee as separate items. The *Applicant* should select the appropriate 'Recipient (Payee)' for each item and report the total for each item separately in the 'Amount in Percent' field.

For example:

> An *Applicant* expects to charge a total 'Upfront Fee' of 3.00% as follows: 1.00% before the *QEI* is made; and 2.00% charged from the *QEI*. If the *Applicant* is the 'Recipient (Payee)' of both the 'Upfront Fee' of 1.00% charged before the *QEI* and the 2.00% charged from the *QEI*, this should be reported as a single item. The *Applicant* would select 'Upfront Fee', the appropriate 'Source (Payer)', indicate that it is the recipient by selecting '*Applicant* or *Applicant Affiliate*', and report the 'Amount in Percent' as 3.00%. The *Applicant* should make sure that it describes in the 'Description' field how the fee is charged.
>
> Using the same example, if the 'Recipient (Payee)' of either portion of the total 'Upfront Fee' of 3.00% is a different entity, the *Applicant* must report the fees as separate items. If, for example, the 'Recipient (Payee)' of the 'Upfront Fee' of 1.00%, charged before the *QEI* is made, was an '*Unaffiliate*d Third-Party' and the Recipient (Payee)' of the 2.00% charged from the *QEI* is the '*Applicant* or *Applicant Affiliate*', this should be reported as two separate items.

101) Does the *Applicant* need to include fees charged by or paid to an *Unaffiliate*d Third Party such as a consultant contracted by the *Applicant* (or an *Affiliate*)?

Yes, the *Applicant* should include fees charged by, or paid to an *Unaffiliate*d Third-Party, including any consultants contracted by the *Applicant* (or an *Affiliate*) in Table D2. In order to do so, the *Applicant* must first select the appropriate 'Type' and then indicate the source of the fee in the 'Source (Payer)' column. The *Applicant* should then select '*Unaffiliate*d Third Party' in the 'Recipient (Payee)' column, provide the 'Amount in Percent' and a description of the services that the recipient will be providing the *Applicant*.

Applicants should note that fees charged by, or paid to *Unaffiliate*d Third-Parties should be reported this way regardless of whether the *Unaffiliate*d Third Party is directly compensated or whether the *Applicant* initially receives the fee and subsequently compensates the *Unaffiliate*d Third-Party. *Applicants* should use as many entries as needed to accurately reflect the recipients for each portion of its overall fee. To avoid double counting, each line in Table D2 should be mutually exclusive.

102) Does the *Applicant* need to include fees charged by consultants contracted by the *Applicant* (or an *Affiliate*) and charged directly to investors or the QALICB in Table D3?

Yes, the *Applicant* should include fees charged by, or paid to consultants contracted by the *Applicant* (or an *Affiliate*), but that are paid directly by investors or *QALICBs*. An offsetting expense equaling the amount paid to the contractor should be recorded as an expense of the *CDE* and the amount paid directly by the investor or *QALICB* to the contractor should be reported as Income in the appropriate field in Table D3. Also, the *Applicant* must disclose and discuss these payments in the narrative response to Question 33(f), and clearly state the amount of the fee charged to the *QALICB* or investor.

103) How should an *Applicant* that expects to charge a fee as interest above what is required to service the QLICI debt report it in Table D2?

Applicants that will charge a fee as interest above what is required to service *QLICI* debt (i.e. the leveraged loan) should report it as an 'Ongoing Fee' and provide an 'Amount in Percent' total that reflects the total, in the aggregate, that will be charged over the seven year compliance period.

For example, an *Applicant* that expects to charge a fee as interest of 25 basis points per year over the 7-year compliance period, should select 'Ongoing Fee' as the fee type and report the 'Amount in Percent' as 1.75%. The *Applicant* should indicate in the 'Description' that the 'Amount in Percent' represents a 7-year total.

104) If an *Applicant* is offering two or more different products (e.g. leveraged A/B structure, revolving loan fund) with different fee structures, which fee structure should the *Applicant* report in Table D2?

Regarding Table D2, the *Applicant* should report the fee structure associated with the product for which it will use the majority (or plurality, if offering more than two products) of its requested *NMTC Allocation*. The *Applicant* would describe the other fee structures in *Allocation Application* Question 33(e). To illustrate, if an *Applicant* is requesting $100MM in allocation and plans to use 10% for a revolving loan fund and the rest for the leveraged A/B structure, in Table D2 the *Applicant* would report only the fee structure associated with the leveraged A/B structure, but would then describe the fee structure for the revolving loan fund in Question 33(e).

105) How should *Applicants* complete Question 33(f) and Table D3?

Table D3 asks *Applicants* to complete a multi-year operating budget for administering their requested *NMTC Allocation*. *Applicants* are asked to detail the sources of income and the expenses associated with administering the requested *NMTC Allocation*. In completing Table D3, *Applicant*s should be sure to include all of the costs associated with sustaining its NMTC line of business (including both transaction and operating costs), and have identified all sources of income attributable to its NMTC line of business.

In Question 33(f), *Applicants* should clearly explain the assumptions that underlie their entries in Table D3. The *Applicant* should provide details on the key expenses and sources of income. If the *Applicant* will be receiving income by retaining a portion of the capital at the investment fund level and/or *QEI*, receiving fees or other form of compensation from the QALICB/project sponsor, the type and amount of the income should be clearly explained. Additionally, please be sure to address all of the bullets beneath Question 33(f) in your narrative response to the question.

Please provide a sufficient level of detail such that the CDFI Fund will be able to align the information provided in Table D3 with the information provided in Question 33(f) and Table D2. Any ambiguity between the responses to Question 33(f), Table D2, and Table D3 could negatively impact the CDFI Fund's evaluation of the *Allocation Application*.

Applicants must complete Table D3 based on the projected NMTC activity shown in Exhibit A. For example, ABC *CDE* requests a $100 million *NMTC Allocation* and projects in Exhibit A that they will deploy $70 million in six investments in 2020 and $30 million in four investments in 2021. In this case, the *Applicant* should base income and expense projections on making six *QLICIs* totaling $70 million in 2020 and four *QLICIs* totaling $30 million in 2021.

When completing Table D3, *Applicant*s should assume they will not receive any subsequent *NMTC Allocation*s over the seven-year credit period. However, they may include fee income from past *NMTC Allocation*s under "Other" income if that fee income will support operations related to managing their requested *NMTC Allocation*.

Income

*Applicant*s are given space to report income from a variety of sources. Income from investors (Row 1a) includes the dollar amount of funds retained from the investment fund and/or the *QEI,* by the *Applicant* or its *Affiliates*, fees charged by the *Applicant* or its *Affiliates* at the investment fund level (e.g. syndication fees), etc. Income from the *QALICB* (Row 1b) includes interest income, any on-going or one-time fees charged to the *QALICB* by either the *Applicant* or its *Subsidiary Allocatee(s)*, etc. Income from *Affiliates* (Row 1c) includes any income from *Subsidiary Allocatee(*s), the *Controlling Entity*, or any other *Affiliate*. Income from other sources (Row 1d), includes grants, revenue from other lines of business, etc. *Applicant*s should list any income from **previous** *NMTC Allocations* that will be used to support operations related to managing their requested *NMTC Allocation* in the "Other Sources" category. *Applicants* must also include the projected value of any income from exit fees charged or residual value of the *QLICI* retained by the *Applicant* (either directly or through an *Affiliate*) in the appropriate row, even if the actual receipt of that income is at-risk and uncertain. This income should be listed in the year the value is most likely to be received or in the "After 2025" column.

If an *Affiliate* receives any income from a *QALICB* or Investor and then passes this income through to the *Applicant*, this income must be listed in either Row 1a or Row 1b, based on the initial source of the income. This income should not be listed in Row 1c. Additionally, any income that is received at the *Subsidiary Allocatee* level and is not passed up to the *Applicant* must still be reported as income in Table D3.

Operating Expenses

The *Applicant*'s operating expenses for the NMTC program include the NMTC-related expenses of the *Applicant* as well as any *Subsidiaries* and *Affiliate*s. For example, annual audits of *Subsidiary Allocatees* may be considered an expense of the *Applicant* and should be listed in Table D3, if the audits are paid for directly by the *Subsidiaries*. Also, if the *Applicant* uses its *Controlling Entity's* staff to manage the NMTC program, these staff expenses should be listed in Table D3.

Table D3 provides two categories of expenses. The first category – fixed expenses – should include any expenses that are unlikely to change based on how many investments an *Applicant* makes. These expenses include items like staff costs, facilities/overhead, annual *CDE* audit, etc. The second category – variable expenses – includes expenses that vary based on the number of investments an *Applicant* makes or has under management in a given year. These expenses may include transaction closing expenses, *Subsidiary Allocatee* audit expenses, etc.

Profit/(Loss)

Table D3 will calculate Profit/Loss for each year automatically based on Total Income minus Total Expenses.

106) If the *Applicant* requires a *QALICB*, as a condition of NMTC financing, to make a contribution or donation to one or more organizations identified by the *Applicant* (or *Affiliate* of the *Applicant*), how should the *Applicant* disclose the contribution in the *Allocation Application*?

In instances when an *Applicant* requires a *QALICB* to make a contribution (either using *QLICI* proceeds or outside of the *NMTC* financing) to the *Applicant's* (or *Affiliate's*) chosen beneficiary(ies), the *Applicant* must include such uses in Table D3, discuss these contributions in the narrative response to Question 33(f), and clearly state the amount of contribution required by the *QALICB* in Table D3. In Table D3, the amount of the contribution must be reported as Income to the *CDE* in the appropriate field and an offsetting expense equaling the amount of the contribution must be recorded as an Expense of the *CDE*.

107) How should the *Applicant* record expenses to the *CDE* that are reimbursed by the QALICB, investor, or third parties in Table D3?

If a *CDE* has an obligation to pay a consultant, advisor, etc. or expects to pay the costs attributable to other transaction participants (such as investors), it should be treated as an operating expense of the *CDE* associated with sustaining its NMTC line of business and should be reported in Table D3 as either a fixed or variable expense, even if the *CDE* will use funds from another source to pay those expenses.

For example, the *Applicant* expects to hire ABC Legal Counsel to prepare loan and other closing documents in connection with a *QLICI*. In addition, the tax credit investor for this transaction will require the *CDE* to pay the tax credit investor's legal costs in connection with its *QEI* investment. To pay these expenses, the *CDE* will pass both expenses along to the *QALICB*. In this example, both the *CDE* and tax credit investor's costs are obligations of the *CDE* and should be reported as expenses. The *CDE* should also report as income from the *QALICB* the anticipated payments made by the *QALICB* to the *CDE*.

108) How should the *Applicant* record interest expense and interest income associated with a leveraged loan?

The *Applicant* should record these items in Table D3 consistent with the *Applicant*'s customary accounting practices. The narrative response to Question 33(f) must explain how these items are currently being recorded in the applicable financial statements. If the *Applicant* does not have an *NMTC Allocation*, it should explain how it is currently recording expenses and interest income associated with its current loan products.

109) How should *Applicant*s that have received past NMTC Allocations complete Table D3?

Applicants should complete Table D3 based solely on their current allocation request. Thus, *Applicants* <u>should not include the costs of administering prior *NMTC Allocations*</u> in Table D3. If an *Applicant*'s plan involves the use of income from past allocations to pay for expenses related to this *NMTC Allocation*, it should list this income under the 'Other Sources' income category in Table D3 and describe in the narrative to Question 33(f).

The CDFI Fund recognizes that *Applicants* may have certain fixed expenses (e.g. staff costs) that are associated with administering multiple *NMTC Allocations*. *Applicants* may elect to treat these expenses one of two ways in Table D3:

a) Include the full amount of the fixed expense in Table D3 and then include the portion that will be paid for by income from previous NMTC Allocations in the "Other Sources" income category; or

b) Record only the prorated portion of the fixed expense that would be directed towards administering an allocation as an expense in Table D3. Please be sure to explain the method for recording these expenses in Question 33(f).

110) My *CDE* earns the bulk of its revenue on the front end at the time the QLICI is made. I'm concerned that I will show large surpluses in the early years and deficits in later years. How should I represent this in Table D3?

The CDFI Fund recognizes that income and expenses may fluctuate from year-to-year. If you plan to use surpluses in one year to cover expenses in subsequent years, please explain this in Question 33(f). Additionally, *Applicant*s may complete Table D3 on an accrual or cash basis, depending on what is consistent with its normal accounting practices. Your narrative response to Question 33(f) must clearly describe the approach (accrual or cash basis) used to populate Table D3.

111) Should a *CDE* show Profit in Table D3 if any surpluses will be used to make other investments in Low-Income Communities?

Yes. If a *CDE* earns a profit (or surplus) from NMTC activities, it must be shown in Table D3, even if the *CDE* uses the profit to make other investments in *LICs* by the *Applicant*, *Controlling Entity*, or any *Affiliates*. In Question 38(c), *Applicant*s have an opportunity to explain how profits from an NMTC line of business are used by the *Applicant*, the *Controlling Entity*, or any *Affiliate*s.

112) What information should be included in the "After 2027" column in Table D3?

An *Applicant* should put the sum of all anticipated income and expenses in 2028 and beyond in the column ("After 2027"). This would include any income or expenses associated with on-going compliance, unwinding of NMTC transactions, any back-end sources of compensation (such as exit fees) for the *Applicant* or its *Affiliates*, etc. <u>Even if these back-end sources of compensation are at-risk and uncertain, they should still be disclosed in Table D3 at their face value. *Applicants* must also disclose any projected residual value of the QLICI they will acquire/retain at the end of the seven-year credit period.</u>

For example, assume that the *Applicant* projects in Exhibit B it will close $30 million in NMTC investments in 2021 and $10 million in 2022. These investments will have a 0.5% annual asset management fee (charged annually for seven years) and a 1% success fee charged at the transaction exit after the seven-year credit period. Thus, for the first investment, the *Applicant* would anticipate realizing a $150,000 asset management fee in 2027 and a $300,000 exit fee in 2027. For the second investment, the *Applicant* would anticipate realizing a $50,000 asset management fee in 2027, a $50,000 asset management fee in 2028 and a $100,000 exit fee in 2028. Thus, they would report the total amount of "After 2027" income as $150,000.

113) Staff from our *Controlling Entity* will administer the *Applicant's* NMTC program. How should I record this in Table D3?

Staff, office space, or other items that are contributed from the *Controlling Entity* to the *Applicant* are considered in-kind contributions, and should be recorded in Table D3 as an expense (based on the dollar value of the services and other contributions received from the *Controlling Entity*) and as offsetting income from *Affiliates* (item 1(c) in Table D3). Be sure to describe the *Applicant*'s progress in securing firm commitments to provide these in-kind contributions in the response to Question 33(f).

G. Capitalization Strategy Section

114) How should an *Applicant* reflect past *QEIs* raised using the leverage structure in Table E1? Specifically, should the leverage debt portion of the QEI be reflected as debt or equity in Table E1?

The "leverage structure" refers to combining debt and equity in an NMTC investment fund that then makes a *QEI* into a *CDE*. In this situation, the *Applicant* should reflect the total debt contributed to the NMTC investment fund as either "below market rate loans" or "market rate loans" as appropriate in Table E1. The tax credit equity contributed to the NMTC investment fund should be recorded as "*Equity Investments*" in Table E1.

Example: XYZ *CDE* has raised $100 million in *QEIs*. Using the "leverage structure," the *CDE* has raised $30 million in equity from tax credit investors and $50 million in below market rate debt and $20 million in market rate debt for those *QEIs*. When completing Table E1, the *Applicant* should record the $50 million in below market rate debt in Rows 5 and 6 and $20 MM in market rate debt in Rows 7 and 8. The $30 million in tax credit equity should be recorded in Rows 9 and 10.

115) Can an *Applicant* (or *Controlling Entity*) that is a depository institution list its increase in deposits in Table E1 as capital raised?

Yes, an *Applicant* (or *Controlling Entity*) that is a depository institution may list year over year increases in deposits with a maturity of 12 months or greater (e.g. Certificates of Deposit) in Table E1. As there is no clear category in the Table E1 for this capital, *Applicant*s are instructed to enter it in the "below market rate loans" category. The dollar amount listed in each year should equal the net increase in deposit instruments with a maturity of 12 months or greater over the course of the calendar year (e.g. Balance of deposits with a maturity of 12 months or greater at the end of the calendar year, less balance of deposits with a maturity of 12 months or greater at the beginning of the calendar year).

If the *Applicant* is including net increase in deposits as a source of capital raised in Table E1, it should clearly explain in the narrative response to Question 34 how this information was included in Table E1. Please be aware that Table E1 may only include information for the *Controlling Entity*, if the *Applicant* has designated a *Controlling Entity* and is using *Controlling Entity* information for Table D1 and Exhibit B.

116) When should an *Applicant* complete Table E2 versus Table E3?

<table>
<tr><th>Step 1</th><th>Step 2</th><th>Step 3</th></tr>
<tr><td rowspan="3">Answer Question 36(a)</td><td>If YES to Question 36(a), complete Table E2 and Question 36(c). Do not respond to Question 36(b), 36(d), or Table E3.</td><td></td></tr>
<tr><td rowspan="2">If NO to Question 36(a), answer Question 36(b)</td><td>If YES to Question 36(b), complete Question 36(c) and Table E3. Do not respond to Table 36(d) or Table E2.</td></tr>
<tr><td>If NO to Question 36(b), only complete Question 36(d). Do not respond to Question 36(c). Do not complete Table E2 or Table E3.</td></tr>
</table>

If the *Applicant* or its *Affiliates*, either directly or through *Subsidiary Allocatees*, have received *QEI(s)* from investor(s) in amounts equal to or greater than the allocation requested in Question 1 between January 1, 2015 and the release date for the *CY 2020 NMTC Allocation Application*, the *Applicant* should respond "Yes" to Question 36(a) and complete Question 36(c) and Table E2. The *Applicant* should not complete Question 36(b) or Question 36(d).

Applicants that have not received *QEI*(s) during this time period or received less than the amount requested in Question 1 should respond "No" to Question 36(a). Such *Applicant*s are required to respond to Question 36(b). If *Applicant* responds "Yes" to Question 36(b), it must respond to Question 36(c) and complete Table E3. If the *Applicant* responded "No" to

Question 36(b), it is required to answer Question 36(d).This *Applicant* should not respond to Question 36(c) or complete Table E3.

Only one table (either Table E2 or Table E3) will be evaluated by the CDFI Fund. The *Applicant* should complete only the appropriate table based on its response to Q. 36(a) and Q. 36(b). *Applicants* should **not** complete both Table E2 and Table E3. Any information not requested will be disregarded.

117) How should *Applicants* present leveraged lenders in Table E2?

Per the instructions to Table E2, if the *Applicant* used the leverage structure to raise *QEIs*, it must provide separate information in Table E2 on the equity and non-equity (e.g. debt, grant dollars) investors who provided capital to the NMTC investment fund or partnership. If an *Affiliate* of the *QALICB* is aggregating multiple sources of capital and acting as a single leverage lender into the investment fund, only the *Affiliate* of the *QALICB* should be listed in Table E2 as an investor - not the multiple sources of capital.

If the *Applicant* has raised leverage capital from *Affiliate*s of multiple different *QALICB*s, it may aggregate these sources into one row in Table E2 where the Name of Investor is listed as "*Affiliate* of the *QALICB*."

If the *Applicant* plans to raise *QEIs* using an arrangement where the leverage debt at the time of *QLICI* closing is provided by a third-party source that will, in turn, be taken out by a leverage lender *Affiliated* with the *QALICB* during the seven-year credit period, this arrangement should be noted as leverage debt provided by the *QALICB* or *Affiliate*s of the *QALICB*.

118) What documents are considered acceptable to demonstrate investor Commitments for Table E3?

An *Applicant* who enters information into Table E3 is required to submit attachments validating the following information for each investor: name of investor, dollar amount of equity (or debt, in the case of investments into a pass-through entity) sought or obtained, status of the investment request (e.g., funds received, *Commitment* of funds, and *Letter of Interest/Intent*). If an *Applicant* answers "Yes" to Question 35(a), indicating that it intends to use a pass-through partnership entity to secure investments, the *Applicant* is expected to list (if applicable) both the debt and equity providers in Table E3; and to submit attachments evidencing the interest of the Equity investors and debt providers into the partnership entities.

Example: The *Applicant* has a *Commitment* for a $1 million *QEI* from ABC Partnership LP, which is using the leveraged *QEI* structure. ABC Partnership LP will receive $600,000 in debt from 123 Bank and $400,000 in equity from XYZ Corporation. To describe this *Commitment* in its *Allocation Application*, the *Applicant* should respond "Yes" to Question 35(a). In addition:

Scenario #1 – The *Applicant* or its *Affiliates*, either directly or through *Subsidiary Allocatees*, have received *QEI(s)* from investor(s) in amounts equal to or greater than the allocation requested in Question 1 between January 1, 2015 and the release date of the *CY 2020 NMTC Allocation Application*:

- *Applicant* responds “Yes” to Question 36(a).
- Discusses in Question 36(c) the structure of the QEI from ABC Partnership LP as well as the Commitments from 123 Bank and XYZ Corporation.
- However, the *Applicant* should not list the $600,000 debt investment from 123 bank and the $400,000 Equity Investment from XYZ Corporation in Table E2.
- Finally, the *Applicant* is not required to submit documentation.

Table E2 should ONLY include *QEIs* raised on or before the release date of the *CY 2020 NMTC Allocation Application*. Information on planned *QEIs* or *QEIs* projected to close should not be entered in Table E2.

Scenario #2 – The *Applicant* has not received *QEI*(s) during this time period or received less than the amount requested in Question 1:

- *Applicant* responds “No” to Question 36(a)
- Responds “Yes” to Question 36(b) as *Applicant* will be providing investor Commitments.
- Lists the $600,000 debt investment from 123 bank and the $400,000 Equity Investment from XYZ Corporation in Table E3;
- Discusses in Question 36(c) the structure of the QEI from ABC Partnership LP as well as the Commitments from 123 Bank and XYZ Corporation; and
- Submits documentation evidencing the Commitment of (i) 123 Bank to provide the $600,000 debt investment, and (ii) XYZ Corporation to provide the $400,000 Equity Investment.

If the documentation evidencing the *Applicant's* Commitments from Investors is missing, or do not contain information to validate the information entered in Table E3, the *Applicant* will not receive credit for such *Commitments*. Acceptable documents for a *Commitment* include a signed and dated investment agreement or a letter indicating that the investor has made such a *Commitment*. Likewise, a letter indicating that the investor has demonstrated a level of interest (as opposed to a stated *Commitment*) in making an investment shall suffice as a *Letter of Interest/Intent*.

119) In Question 37(b), does the *Applicant* need to indicate that it will be receiving *QEIs* from an *Affiliate* if the *Applicant* or an *Affiliate* is also a managing or non-managing member of the investment fund created as part of the leverage structure with an ownership interest of less than 1%?

No, the *Applicant* does not need to indicate that they will be receiving *QEIs* from *Affiliate*s if they are receiving the *QEIs* through an investment fund in which the *Applicant* or an *Affiliate* is a managing or non-managing member with ownership interest of less than 1%. The *Applicant* only needs to answer “Yes” if an *Affiliate* is either a debt or an equity investor in the investment fund itself.

H. Information Regarding Previous Awards

120) Question 43(a) asks previous *Allocatees* to discuss the largest transaction from each of its three most recent Allocations. How should a previous *Allocatee* select the three transactions to report?

An *Applicant* that has received three or more Allocations should select the largest transactions from its three most recent Allocations. For example, an *Applicant* that received Allocation 2019, 2018 and 2017 should report the largest transaction closed with each Allocation and not the three largest transactions overall. In this example, the *Applicant* would report the largest transaction for each allocation award (2019, 2018 and 2017).

An *Applicant* that has received two Allocations, should select two transactions from the most recent Allocation and the other transaction from the other Allocation. For example, an *Applicant* that received Allocation in 2019 and 2018 should select the two largest transactions from the 2019 Allocation and the other transaction should be the largest transaction from the 2018 Allocation. This is the same regardless of how much time has passed between the Allocations. For example, an *Applicant* that received two Allocations that are several years apart (e.g., 2019 and 2009), will still report the two largest transactions from the most recent Allocation (2019) and the largest transaction from the older Allocation (2009).

An *Applicant* that has received one Allocation, should report the largest transactions closed with that Allocation.

An *Applicant* that used more than one Allocation to fund one of its largest transactions, should report that transaction as one of its largest transactions and select the other two transactions based on the criteria described above.

For example:

An *Applicant* that received a 2019 and 2018 Allocation and used a combination of $5 Million in 2019 and $10 Million in 2018 Allocation to fund a $15 Million transaction, should report this as one of its largest transactions. The *Applicant* would then select the largest transaction funded exclusively with 2019 and 2018 Allocation as the other two to report.

121) Can a previous *Allocatee* use a transaction from its CY 2019 Allocation as one of the transactions discussed in its response to this question?

Previous *Allocatees* may use a closed transaction from its CY 2019 Allocation if the transaction closed on or before the release date of the 2020 *Allocation Application* and it anticipates that the transaction will represent its largest transaction for its CY 2019 allocation. If the *Applicant* closed a transaction using its CY 2019 allocation after the release date of the 2020 *Allocation Application*, the *Applicant* should discuss the largest project financed from each of the *Applicant's* three most recent *NMTC Allocations*, excluding the CY 2019 Round.

V. QUESTIONS ON PROPORTIONAL ALLOCATIONS OF *QEIS* TO NON-METROPOLITAN COUNTIES

122) What is the definition of a Non-Metropolitan County?

For the purposes of the current *NMTC Allocation Application, Non-Metropolitan Counties* are counties not contained within a Metropolitan Statistical Area (MSA), as defined in OMB Bulletin No. 15-01 ("Revised Delineations of Metropolitan Statistical Areas, Micropolitan Statistical Areas, and Combined Statistical Areas, and Guidance on Uses of the Delineations of These Areas") with respect to Census data. This data can be readily accessed on the CDFI Fund's website: https://www.cims.cdfifund.gov/preparation/?config=config_nmtc.xml. To determine whether proposed investments using the 2020 Round allocation are NMTC-eligible and located in *Non-Metropolitan Counties*, first select the data layer "2011-2015 LIC Census Tract" in the mapping system and then click on the census tract the prospective project is located in to see the Metro Designation. Non-metropolitan status is also available in the tabular form of the data, which can be accessed here: https://www.cdfifund.gov/Documents/NMTC%202011-2015%20LIC%20Nov2-2017-4pm.xlsx

123) What is a Rural *CDE*?

A *Rural CDE* is one that has a track record of at least three years of direct financing experience, has dedicated at least 50% of its direct financing dollars to *Non-Metropolitan Counties* over the past five years, and has committed that at least 50% of its NMTC financing dollars with this Allocation will be deployed in such areas. The CDFI Fund determines whether an *Applicant* qualifies as a *Rural CDE* based on the information contained in Exhibit B and in Question 21 of the *Allocation Application*.

124) Question 21(a) requires the *Applicant* to indicate whether at least 50% of the *Applicant*'s (or its *Controlling Entity*'s) direct financing activities over the past five years have been directed to Non-Metropolitan Counties. What activities are eligible to be used as the basis for calculating the 50% figure?

Activities will be considered eligible if they are the *Applicant*'s (or its *Controlling Entity*'s) direct financing activities (as shown in Exhibit B) and these activities occurred in *Non-Metropolitan Counties* as defined in OMB Bulletin No. 15-01. Activities in areas considered rural (as defined in Section 520 of the Housing Act of 1949) that do not lie in *Non-Metropolitan Counties* cannot be included for the purposes of demonstrating a track record of investment in *Non-Metropolitan Counties* in Exhibit B.

125) If the *Applicant* is committing to investments in *Non-Metropolitan Counties*, in Question 21(e) does the *Applicant* need to repeat all the details (e.g. projected closing date, business type) for the sample transactions in its Non-Metropolitan pipeline that it has already provided in response to Table A5?

No. In Question 21(e), the *Applicant* can reference the specific projects in Table A5 rather than repeating the same details in Q. 21(e). For instance, in Q. 21(e) the *Applicant* can state, "Please refer to Project XYZ in Table A5." However, since Table A5 is scored by Phase 1 Reviewers, but Q. 21 will not be scored by the Phase 1 Reviewers, *Applicant*s must provide all necessary details for its sample pipeline projects in Table A5. In responding to Table A5, *Applicant*s cannot reference pipeline projects that are fully described only in Q. 21(e). The *Applicant*'s score could be adversely affected if the *Applicant* does not provide the necessary details in Table A5 for all sample transactions in its pipeline and instead provides these details in Q. 21(e).

126) How will the CDFI Fund ensure a proportional allocation of *QEIs* to Non-Metropolitan Counties?

Pursuant to Section 102(b) (6) of the Tax Relief and Health Care Act of 2006, the CDFI Fund is required to ensure that a proportional allocation of *QEIs* will be provided in *Non-Metropolitan Counties*. As detailed in the *NOAA*, the CDFI Fund will: (i) endeavor to ensure that 20% of the *QLICIs* to be made using *QEI* proceeds are invested in *Non-Metropolitan Counties*; and (ii) ensure that the proportion of *Allocatees* that are *Rural CDEs* is, at a minimum, equal to the proportion of *Applicant*s in the highly qualified pool that are *Rural CDEs*.

If, after initial *NMTC Allocation* determinations are made, there is not an appropriate proportion of *Rural CDEs* in the awardee pool, the CDFI Fund will provide *NMTC Allocations* to additional *Rural CDEs* (in descending order of final rank score) until the appropriate balance is achieved. In order to accommodate the additional *Rural CDEs* in the *Allocatee* pool within the available allocation limitations, a formula reduction will be applied as uniformly as possible to the allocation amount for all *Allocatees* in the pool that have not committed to investing a minimum of 20% of their *QLICIs* in *Non-Metropolitan Counties*.

Question 21 also asks all *Applicant*s to indicate both the minimum anticipated amount of *QLICIs* that will be deployed in *Non-Metropolitan Counties*, and the maximum amount of *QLICIs* that they are willing to commit to deploy in *Non-Metropolitan Counties*. The CDFI Fund will first apply the "minimum" commitment stated in the *Allocation Application*. If, after the initial *NMTC Allocation* determinations are made, this "minimum" commitment results in less than 20% of the dollars being invested in *Non-Metropolitan Counties*, then the CDFI Fund will consider requiring any or all of the *Allocatees* to direct up to the "maximum" percentage of *QLICIs* to *Non-Metropolitan Counties* in an effort to meet the 20% threshold. The CDFI Fund will take into consideration the *Allocatees'* track record and ability to deploy dollars in *Non-Metropolitan Counties*. *Applicant*s should be careful to select a "maximum" percentage that they will be prepared to meet regardless of the size of their final award.

127) **My organization is focused on an urban market. It does not intend to make any investments in Non-Metropolitan Counties. Will it be disadvantaged in the application round?**

No. As described above, all adjustments to the awardee pool will be made AFTER the initial *NMTC Allocation* determinations have been made. All organizations initially selected to receive *NMTC Allocations* will receive allocations regardless of geographic focus. The adjustments described above may result in an across-the-board percentage reduction in award amounts for potential awardees with Non-Metropolitan commitments of less than 20%, but under no circumstances will an *Applicant* fall out of consideration due to its geographic focus.

Additionally, Question 21 will not be evaluated and scored in Phase 1 of *Allocation Application* reviews. Therefore, this question is not used to determine whether an *Applicant* scored highly enough to receive consideration for an *NMTC Allocation*. The response to this question will be considered in Phase 2 of the *Allocation Application* reviews and may affect the size of the *Applicant*'s *NMTC Allocation* (along with other evaluation criteria as discussed in the 2020 *NOAA*). An *Applicant* that: i) makes a minimum commitment of 20% or greater in response to Question 21(b), ii) has a track record of at least three years of serving *Non-Metropolitan Counties* and a strong strategy for deploying NMTC investments in these communities; iii) and is ranked highly enough to be considered for an *NMTC Allocation* may receive a larger *NMTC Allocation* than would otherwise be the case, regardless of designation as a *Rural CDE*.

VI. CONTACT INFORMATION

128) Whom can I contact if I have more specific questions?

Topic of Question	Contact
Tax/compliance aspects of the IRS Tax Regulations	IRS Jian Grant and James Holmes, Office of the Chief Counsel (Passthroughs and Special Industries) Telephone: (202) 317-4137 Fax: : 855-591-7867
Allocation Application criteria or process	CDFI Fund NMTC Program Staff AMIS: Send Service Request via AMIS to NMTC Phone: (202) 653-0421 Email: cdfihelp@cdfi.treas.gov
CDE certification criteria or process; Compliance with previous award, *Assistance* or *Allocation Agreements*	CDFI Fund CCME Staff AMIS: Send Service Request via AMIS to CCME Email: ccme@cdfi.treas.gov
Technology problems	CDFI Fund IT Staff AMIS: Send Service Request via AMIS Phone: (202) 653-0422 Email: Amis@cdfi.treas.gov

You may contact the CDFI Fund with questions until two days before the CY 2020 *Allocation Application* deadline which can be found in the Table included in FAQ #1. After such time, the CDFI Fund will no longer respond to questions until after the *CY 2020 NMTC Allocation Application* deadline has passed.

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More detailed application content requirements are found in the *CY 2020 NMTC Allocation Application* and *NOAA*. In the event of any inconsistency between the contents of this

Q & A document, the *NOAA*, the General Guidance, the *CDE* Certification Guidance, 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 *NMTC Program Income Tax Regulations*, the provisions of the Act and the *NMTC Program Income Tax Regulations* shall govern.

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