Community Development Financial Institutions Fund (CDFI Fund)
New Markets Tax Credit Program (NMTC Program)

Self-Assessment Guide for Native Organizations

Introduction

This Self-Assessment Guide is part of a larger project supporting the Community Development Financial Institutions (CDFI) Fund's New Markets Tax Credit (NMTC) Program Native Initiative. Big Water Consulting (BWC) is conducting this project for the CDFI Fund. The NMTC Native Initiative supports efforts by the CDFI Fund to explore opportunities to increase NMTC investment in *Federal Indian Reservations, Off-Reservation Trust Lands, Hawaiian Home Lands, and Alaska Native Village Statistical Areas* (NMTC Native Areas) and expand Native communities' access to capital via the tax incentives allocated through the NMTC Program.

The purpose of this Self-Assessment Guide is to help Native entities determine how they can best take advantage of the NMTC program. The Self-Assessment Guide has been informed by the findings of the Community Economic Development in Indian Country: Market Research Report and the New Markets Tax Credit Investments in Native Areas: Selected Case Studies and Best Practices, which will be published on the CDFI Fund's website, as well as by the NMTC Technical Workshops conducted by Big Water Consulting, as part of the NMTC Program Native Initiative.

Native owned or controlled community development organizations may participate in the NMTC program in several roles:

1. Community Development Entity (CDE)

Several tribes and Native-controlled organizations have created CDEs with the goal of providing NMTC capital to Native-controlled or Native-serving projects and in NMTC Native Areas. There is a unique role for Native participation in transactions because of the need for cultural and Indian Law competencies. This need can be met by Native-controlled CDEs that have allocation, Native CDFIs and other Native lenders with NMTC expertise, or NMTC consultants with strong Native cultural, law, and practices expertise.

A Community Development Entity (CDE) is defined as:

Under IRC §45D(c)(1), any domestic corporation or partnership if:

(1) The primary mission of the entity is serving, or providing investment capital for, *Low-Income Communities* or *Low- Income Persons*;

(2) The entity maintains accountability to residents of *Low- Income Communities* through their representation on any governing board of the entity or on any advisory board to the entity; and

(3) The entity is certified by the CDFI Fund as a *CDE*. *Specialized Small Business Investment Companies (SSBICs)* and *Community Development Financial Institutions (CDFIs*) are deemed to be *CDEs* in the manner set forth in Guidance published by the CDFI Fund (66 Federal Register 65806, December 20, 2001).

a) Allocatee CDE

(A CDE that receives a competitive award of NMTC allocation authority, enabling it to designate Qualified Equity Investments in amounts up to that authority and use the capital to make Qualified Low-Income Community Investments (QLICIs) in Qualified Active Low-Income Community Businesses (QALICBs).) [1]

An organization must be certified as a CDE[2] by the CDFI Fund to receive an allocation of NMTC allocation authority. Successful applicants receive a designated amount of allocation authority, which they use to provide subsidized capital for projects the allocatee CDE selects. The tax credits allow the CDE to attract equity capital through Qualified Equity Investments (QEIs) from an investor with federal tax obligations. In exchange for these QEIs, investors receive New Markets Tax Credits (NMTC). The credits offset the investors' taxes.

Community Development Entities (CDEs) that receive allocation authority receive fee revenue when they deploy tax credit authority, and they have several responsibilities:

(i) Maintain Low-Income Community accountability to the CDE's targeted low-income service area for the duration of the NMTC compliance period.

(ii) Solicit and structure capital from the NMTC Tax Credit Investor and one or more Leverage Lenders.

[1] The following is a list of commonly used NMTC terms and acronyms:

QEI – Qualified Equity Investment

QLICI – Qualified Low-Income Community Investment (loan or equity)

QALICB – Qualified Active Low Income Community Business (borrower)

Tax Credit Investor – provider of NMTC equity into an NMTC project through a QEI

Leverage Lender – provider of leverage debt through a loan to the entity that makes a QEI

[2] *See:* Federal Register/Vol. 66, No. 245/Thursday, December 20, 2001/Notices for CDE certification requirements.

(iii) Build and maintain a pipeline of NMTC-eligible projects and businesses (Qualified Active Low-Income Community Business(es), or QALICBs).

(iv) Select QALICBs that are consistent in type and purpose with what the CDE proposed in its Allocation Application, and then underwrite those QALICBs based on their financial and operational capacity and need for subsidy.

(v) Underwrite, measure, and monitor community outcomes the financed QALICBs generate.

(vi) Perform loan servicing, asset management, and portfolio management during the seven (7)-year NMTC compliance period.

(vii) Collect interest and other payments from QALICBs and distribute those funds through the NMTC financial structure to the leverage lenders.

(viii) Receive, synthesize, and report financial, compliance, and community outcome data to all interested parties, including investors and the CDFI Fund.

(ix) Manage default situations, including investor relations and redeployment of capital if necessary.

(x) Facilitate the wind-up of transactions when each NMTC investment's compliance period is over.

Organizations may choose to become CDEs even if they do not intend to apply for allocation authority. A non-allocatee CDE can participate in the NMTC program in several other ways:

b) Secondary CDE

(Sometimes referred to as Intermediary CDE; a CDE that receives an investment from another CDE that has been awarded allocation authority and then deploys that investment in a Qualified Low-Income Community Investment (QLICI) to a Qualified Active Low-Income Community Business (QALICB)).

A Secondary CDE is a CDE that does not have its own allocation awarded directly from the CDFI Fund, but that receives capital in the form of a Qualified Low-Income Community Investment (QLICI) from an Allocatee CDE and deploys the QLICI to a qualifying project or business. In effect, the Secondary CDE partners with the Allocatee CDE and serves as a pass-through entity for the NMTC investment. The Secondary CDE is not a Subsidiary or Sub-CDE of the Allocatee CDE; it is an unrelated third-party entity.

An Allocatee CDE will work with a Secondary CDE when it wishes to finance projects in certain markets or business types but lacks the expertise that the Secondary CDE can offer in those areas. From the Secondary CDE's perspective, such a partnership can be beneficial in building first-hand experience with the NMTC program and earning fees on the transaction. The Allocatee and the Secondary CDE negotiate roles, responsibilities, and revenue allocation.

c) CDE without Allocation

(A CDE that has not been awarded allocation authority but may otherwise participate in NMTC activities – e.g., as a QALICB, financial adviser, project manager, lender, community advocate, or member of Advisory Board.)

CDEs that do not receive an allocation can participate in NMTC projects as project developers, advisors, and other facilitators to build a pipeline of qualifying projects, develop partnerships and expertise, and support community development.

d) Loan Seller

(*A CDE that uses other funds to make community development loans can recapitalize its loan funds by selling qualified loans to a CDE with allocation. The allocation can result in a lower cost of capital and, therefore, higher proceeds for the seller.)*

Please refer to Appendix 1 of this guide for a definition of eligible loan sales/purchases in the NMTC program.

While few Allocatee CDEs have used their NMTC allocation authority for this purpose, it is possible that a CDE would have an interest in buying certain community development loans. The purchased loans would have to meet the requirements of an eligible Qualified Low-Income Community Investment (QLICI), including financing a Qualified Active Low Income Community Business (QALICB) located in an NMTC-eligible area.

The selling CDE may receive higher proceeds from the loan sale than it would in an unsubsidized transaction because the NMTC-enhanced equity effectively reduces the Allocatee CDE's overall cost of capital. The Allocatee CDE might impose some requirements on the use of the sale proceeds, such as mandating that the sale proceeds be used to capitalize additional loans that benefit QALICBs in NMTC-eligible communities. The Allocatee CDE is required to commit that the selling CDE will invest at least 85% of the proceeds in QLICIs to score favorably in the Business Strategy section of the NMTC application. If the CDE commits, it would be a condition of the allocation agreement.

CDEs can buy or sell loans independent of any award of allocation authority; a CDE could elect to purchase and hold another CDE's loan(s) outside of the NMTC program.

2. Leverage or Source Lender[3]

A leverage lender makes a loan to the Investment Fund in a leveraged New Market Tax Credit (NMTC) transaction. A source lender provides a loan to the project sponsor or its affiliate, which then uses those proceeds to make a leverage loan to the Investment Fund.

Most NMTC transactions are funded with capital raised through the so-called leverage structure. In this approach, the Tax Credit Investor combines its equity with loan capital from other sources. The collective monies go into a "leveraged investment fund," which then uses the entire amount to make a QEI in an Allocatee CDE (or in one of its project-specific subsidiary CDEs). The leveraged investment fund receives NMTCs on the full amount of that Qualified Equity Investment (QEI), and then passes those credits through to the fund's owner, the Tax Credit Investor.

Most of the pooled capital in the leveraged investment fund typically consists of loans made to the fund. The lenders may be conventional banks, CDFIs, public or quasi-public entities, the Tax Credit Investor's affiliated commercial lender, tribal entities, or the project sponsor (or one of its affiliates). It is common in NMTC transactions for the project sponsor to contribute some capital in support of its transaction. The sponsor frequently obtains grants or "source loans" from third parties and then uses those dollars to capitalize a "Leverage Loan" into the leverage investment fund.

Most Leverage Loans are structured with terms that reflect the NMTC program's seven (7)-year investment period. They usually have maturities of at least seven years. For lenders that are not affiliated with the project (such as Community Development Financial Institutions (CDFIs) or commercial lenders), the rates and terms usually match those for similar commercial loans. (The borrowing Qualified Active Low-Income Community Business (QALICB) makes the loan payments to the CDE, which passes them through to the leverage investment fund and then back to the lender.)

Leverage Loans generally differ in the terms, conditions, and security available to the lender. For example, a source lender typically collateralizes its loan to the project sponsor with the sponsor's physical property or other tangible assets. In contrast, because the Leverage Loan is made to the leveraged investment fund – whose assets consist solely of its equity investment in the CDE – the Leverage Loan is unsecured by any real property. It is typical for Leverage Lenders to enter into an inter-creditor agreement with the Tax Credit Investor and the CDE, committing to a standstill in default situations for the duration of the NMTC compliance period.

Tribal entities frequently serve as Source or Leverage Lenders in NMTC transactions that finance projects and businesses located in Native Areas.

[3] See Exhibit A for the diagrams of leverage and self-leverage models.

3. Tax Credit Investor

The tax credit investor places equity capital into the Investment Fund in an NMTC leveraged transaction, or in the Community Development Entity (CDE) in a direct investment, and receives New Markets Tax Credits in exchange.

A tax credit investor is a taxable entity that funds one or more Qualified Equity Investment (QEIs). In exchange for its investment, the investor receives New Markets Tax Credits that it uses over seven tax years to offset its cash tax liability for federal income taxes. The investor typically realizes its entire economic return from the tax credits, particularly if it participates in the leveraged investment structure described above.

The tax credit investor receives credits based on the amount of the QEI, which is comprised of its equity investment plus the amount of the accompanying leveraged debt. The investor typically invests equity in an amount less than the par value of the tax credits – recent pricing has ranged from 70 to 85 cents of investment per dollar of credits. For most investors, the value of the credits generates a sufficiently large economic return and yield to eliminate the need for the invested principal to be repaid at the end of the compliance period. That invested principal effectively creates a subsidy for the financed Qualified Active Low-Income Community Business (QALICB) or the financing CDE.

Because tribal entities are not generally subject to federal income taxes, it is unlikely that they would benefit from being an NMTC investor. They can still benefit from the project in other ways, however, as described in other sections.

4. Project Sponsor (often the QALICB)

A project sponsor is the operating entity seeking capital to finance its business or project (the Qualified Active Low-Income Community Business (QALICB)).

The project sponsor and its business/project benefit from the subsidy and more favorable terms associated with the NMTC financing. To attract the financing, the sponsor makes the case to an Allocatee CDE for the financial and operational viability of its business/project, the community outcomes the project/business will generate, and the importance of NMTC-subsidized financing to realize those community outcomes.

Becoming an Allocatee Community Development Entity (CDE)

This section is designed to help you determine whether:

1) Your organization would benefit from applying for New Market Tax Credit (NMTC) allocation authority yourself, and if so,

2) Whether your organization has the capacity

a. To submit a competitive allocation application, **and**

b. (If awarded) to deploy NMTC capital in ways that meet program requirements and achieve meaningful community outcomes.

Overview

An NMTC application is essentially a business plan that will be implemented if your application is successful. The critical sections of the application address:

1) The CDE's strategy for using the requested allocation authority;

2) The anticipated community outcomes that will result from the proposed activities;

3) The CDE's management capacity for carrying out the proposed activities; and

4) The CDE's strategy for attracting NMTC-related capital.

The threshold question is whether receiving an NMTC allocation would strengthen your organization's ability to fulfill its mission. An Allocatee CDE supports businesses or projects that create positive outcomes for low-income people and residents of low-income communities. It does so by providing these businesses/projects with financing that comes with below-market costs and favorable terms.

A successful CDE identifies prospective borrowers/investees through its connections with project sponsors, government or tribal entities, peer networks, and other resources. Its list of prospective borrowers/investees is likely to grow and change over time.

Successful NMTC applicants have experience delivering direct financing (i.e., loans or equity) to borrowers/investees. This financing may cover a variety of costs associated, among other things, with commercial, retail, industrial, mixed-use, or community facility real estate transactions. It also may provide working capital for those types of for-profit or nonprofit businesses.[4]

The following questions are designed to help your organization assess its current capacity to apply for an allocation. They are based on characteristics of successful past applicants. In general, entities that answer (a) or (b) more frequently tend to be better positioned to apply. Note that these questions are not intended to be an application roadmap; the application itself provides various notes with guidance for how to answer different questions and what is required to score favorably.

1. **Are there NMTC-eligible projects or businesses that a) are unrelated to your CDE and b) need capital that is unavailable or unaffordable from existing sources?**

    a. Our CDE has identified and underwritten NMTC-qualifying projects whose capital needs are more than twice the amount of the allocation authority our CDE is contemplating. The projects simply need to fill a lending or equity gap to close and move forward.

    b. Our CDE has identified NMTC-qualifying projects requiring more than twice the amount of allocation authority our CDE is contemplating. They need both NMTC funding and other capital.

    c. Our CDE has identified NMTC-qualifying projects requiring aggregate total capital approximately equal to the amount of allocation authority our CDE is contemplating. Some of them need predevelopment help.

    d. Our CDE has identified some NMTC-qualifying projects but has not underwritten them. Some or all the projects may be related to our CDE.

    e. Our CDE is aware of high-need projects and businesses in our service area that are likely to move forward, but their timetable and capital needs are unclear.

2. **How well does providing NMTC financing align with your current CDE's mission and business plan?**

    a. Our mission is focused on lending or making equity investments in real estate or operating businesses in low-income communities.

    b. Our mission is focused on directing capital to low-income communities.

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[4] For the full list of eligible costs, see the NMTC Allocation Application Frequently Asked Questions, or FAQ; https://www.cdfifund.gov/sites/cdfi/files/2022-12/CY2022_NMTC_Application_Supplemental_FAQs_Document_FINAL_12152022.pdf

c. Our mission is focused on economic and community development in low-income communities.

d. Our mission is focused on community development policy and advocacy in low-income communities.

e. Our mission is delivering social or other services in low-income communities.

3. **How well does your past lending track record align with the scale and volume (in both number and dollar amount) of your proposed NMTC transactions?**

   a. Our CDE has a five (5)+ year track record of making loans or equity investments (i.e., direct financing), and our five (5)-year activity exceeds the amount of allocation authority we would request as a CDE.

   b. Our CDE has a five (5)+ year track record of direct financing, and our five (5)-year activity is approximately equal to the amount of allocation authority we would request as a CDE.

   c. Our CDE has a track record of less than five (5) years of direct financing, and the amount of our five (5)-year track record of financing activity exceeds the amount of allocation authority we are contemplating as a CDE.

   d. Our CDE has a track record of less than five (5) years of direct financing, and our five (5)-year track record activity is approximately equal to the amount of allocation authority we are contemplating as a CDE.

   e. Our CDE has a track record of less than five (5) years of direct financing, and our five (5)-year track record activity is substantially less than the amount of allocation authority we are contemplating as a CDE.

   f. We do not provide direct financing, but we provide other community services in low-income communities.

4. **Have you developed strategic relationships that would support an NMTC strategy?**

   a. Our CDE is connected to a network of community development project sponsors and funders, including local and tribal governments, with whom we regularly participate in project funding through co-lending, loan participations, or other arrangements.

   b. Our CDE works with organizations that are involved in community development lending and are contacts we can use to identify potential projects.

c. Our CDE has provided funding for a few projects, but we do not have relationships to help us build a larger pipeline of projects.

d. Our CDE has done most of our financing to date with related entities only (and thus most of our relationships are with related entities).[5]

5. **Do you have experience identifying and documenting community outcomes generated by the businesses/projects you have financed?**

   a. Our CDE has a multi-year track record of documenting quantifiable outcomes such as the number and quality of jobs associated with our borrowers and the goods/services they have created for the benefit of low-income people and communities. We have a systematic methodology for tracking these outcomes.

   b. Our CDE recently began documenting the community outcomes associated with our financed businesses and projects. We have tracked a mix of quantitative and qualitative measures.

   c. Our CDE has not rigorously documented the community outcomes associated with our financed businesses and projects. We have anecdotal reports of the projects' importance and benefits.

   d. Our CDE has not focused on documenting project outcomes. We primarily report on the amount of financing we have provided and the characteristics of our borrowers.

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[5] According to the Glossary of Terms in the NMTC Program 2022 Allocation Application, the term "Unrelated" means "persons who are not related within the meaning of IRC §267(b) or IRC §707(b)(1)." https://www.cdfifund.gov/sites/cdfi/files/2022-11/CY_2022_NMTC_Program_Application.pdf

6. **Does your CDE have Governing or Advisory Board members who are qualified low-income community representatives and add substantive expertise, and can contribute to program/product development, refining social investment criteria, and establishing community outcome goals?[6]**

    a. Our CDE has an established Advisory Board of qualified low-income community representatives who provide substantive advice about our policies and review our loans as part of the approval process. They are integrally involved in tracking our community outcomes.

    b. Our CDE has existing relationships with people who are qualified low-income community representatives in the geographic areas we plan to serve as a CDE.

    c. Our CDE has worked with peer organizations whose executives would be likely board members for our CDE.

    d. Our CDE is aware of the people and organizations that we can approach to recruit board members.

    e. Our CDE will have to reach out to others to identify potential board members.

7. **What is your CDE's experience soliciting and incorporating input from community stakeholders and seeking community engagement on your programs and services?**

    a. Our CDE has a longstanding practice of working with local government representatives, community organizations, residents, and peer and community advisors to develop our programs, products, and services, and to monitor our work.

    b. Our CDE frequently convenes peer and community advisors as we develop programs, products, and services, and to comment on our community impacts.

    c. Our CDE has occasionally convened peer and community advisory groups for input about our work.

    d. Our CDE has frequently convened service organizations, stakeholders, and community leaders to discuss community development policy and program issues.

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[6] Governing Board – A group of people legally responsible for overseeing and running an institution. It operates under limited board terms, so there is regular turnover within the board. The governing board's decisions and votes guide the CEO and staff of the organization. https://www.onboardmeetings.com/blog/governing-board

Advisory Board – A group of experts who lend their skills, guidance, and knowledge to an organization (corporation or nonprofit) but does not have voting rights and cannot make financial decisions on the organization's behalf. https://www.onboardmeetings.com/blog/what-is-an-advisory-board

e. Our CDE is involved in but does not manage community discussions about community and economic development.

8. What is your CDE's experience/current capacity in raising capital from entities likely to participate as NMTC tax credit investors?

a. Our CDE's five (5)-year total of capital raised from all sources is equal to or greater than the amount of allocation for which our CDE is likely to apply.

b. Our CDE has received loans, philanthropic grants, or equity investments from national or regional banks that are also NMTC investors, in amounts similar to those investors are likely to provide in an NMTC transaction ($3.5 million or more). The aggregate amount we have received is less than the amount of allocation we are likely to request.

c. Our CDE has received market-rate or below-market loans or grants from national or regional banks that are likely to be NMTC investors.

d. Our CDE has raised mostly grant capital from mission-oriented organizations for operating and lending.

e. Our CDE has participated as a lender in structured financing that includes capital from a national or regional bank and other sources.

f. Our CDE has not raised loans and only raised grant capital.

If, after answering these questions, you are interested in considering an application, review the more detailed application-related questions in Appendix 2.

Becoming a Secondary Community Development Entity (CDE)

If your CDE determines that you do not wish to or do not have the capacity/track record to apply for your own allocation of NMTC authority, but you still wish to use New Market Tax Credits (NMTCs) to finance one or more specific projects, you may want to serve as a Secondary CDE. A Secondary CDE works with an Allocatee CDE. The Allocatee makes a Qualified Low-Income Community Investment (QLICI) in the Secondary CDE, which passes the investment to the project. Secondary CDEs gain experience in NMTC capital-raising, investment, and compliance processes. The following characteristics would support an organization's role as a Secondary CDE:

Lending/Investing Track Record

a. Our CDE has experience financing the types of projects we are targeting for NMTC capital. We have experience directly financing projects or businesses, or indirectly financing them by working with providers of financial services operating in the markets we are targeting for NMTC activity, and this experience includes expertise with projects in Native Areas.

b. Our CDE has a track record of successful lending (i.e., limited delinquencies and write-offs, few restructurings, consistent repayment of principal on schedule) to borrowers that would not qualify for NMTCs, such as residential mortgages, business loans in non-qualifying census tracts, or credit builder loans. The CDE's total dollar amount of loans or equity investments over the past five years is similar to the total amount of NMTC Allocation to be requested.[7]

c. Our CDE has experience managing a loan portfolio that includes funding from programs or lender sources requiring periodic reporting of community outcomes. This experience is mostly with small loans made to borrowers that would not qualify under the NMTC program.

d. Our CDE has experience supporting financial institutions making loans and equity investments in Native Areas.

e. Our CDE has unique local expertise, such as knowledge of local market conditions, development issues, community priorities, and specific tribal approval and other political processes.

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[7] Most NMTC transactions use $5 million or more of allocation because a stand-alone NMTC funding of less than that amount is impractical because of transaction and related costs and their impact on the final net subsidy received by the project. Some CDEs use a single tax credit investment to fund a lending pool and make smaller subsidized loans. Either approach is permissible.

Local Relationships

a. Our CDE has strong relationships with the sponsors of the projects/businesses we are targeting for financing throughout our proposed NMTC service area.

b. Our CDE has a strong understanding of the NMTC service area's local market dynamics, community priorities, and the needs and concerns of key community stakeholders.

c. Our CDE has skills and relationships that would be valuable to an Allocatee CDE wishing to work in Native Areas.

d. Our CDE has a strong understanding of community development issues in Native Areas.

Identified Projects

Most/all of the following apply to our CDE:

a. Our CDE has identified specific projects/businesses/transactions that would be eligible for NMTC financing (i.e., they are in an NMTC-qualified geography/serve an NMTC-eligible population and meet the criteria of a QALICB). These projects/businesses have capital needs of $5 million or more[8] and will create community outcomes that align with those highlighted in the NMTC application:
   - Generating quality jobs that are accessible to disadvantaged populations;
   - Providing commercial goods or services such as grocery, pharmacy, or retail;
   - Providing community goods or services such as medical care or education; and
   - Remediating brownfields.

b. These projects/businesses are located in census tracts that meet the CDFI Fund's criteria for higher distress (30% poverty, 60% or lower area median income, 150% of national unemployment, non-metropolitan county, etc.).

c. These projects/businesses have outcomes that are clearly defined, quantifiable, and measurable; will directly benefit low-income people or residents of low-income communities; and are aligned with local priorities.

d. The identified projects/businesses will be economically viable with an NMTC subsidy.

[8] While some Allocatee/Secondary CDEs focus on smaller transactions below $5 million, this is less common.

Management Capacity

a. Our CDE is an established lender and has existing policies and procedures for asset and portfolio management. We could take on those functions if the Allocatee CDE prefers that we do so.

b. Our CDE regularly documents community outcome measures similar to those in the NMTC Program Application and reports them to third parties. We have the capacity to do this as a Secondary CDE if requested by the Allocatee CDE.

c. Our CDE has the capacity to work with the borrowers to track and document the projected community outcomes.

How to Become a Secondary Community Development Entity (CDE)

For CDEs that would like to build their track record and experience by acting as a Secondary CDE, it is important to build relationships with Allocatee CDE(s) and NMTC Investors. If your CDE does not have an existing relationship with one or more Allocatee CDEs and NMTC investors, those relationships can be created in several ways:

1. Attend NMTC conferences. Seek out investors and Allocatees interested in Native Areas. Talk with them about your goals, service area needs, and desire to be a Secondary CDE. The CDFI Fund website includes reports that identify CDEs that list Native Areas as (part of) their targeted market. Contact information for Allocatees with existing allocations can be found in the Qualified Equity Investment (QEI) Issuance Report on the CDFI Fund's website: https://www.cdfifund.gov/programs-training/programs/new-markets-tax-credit. The report is updated monthly and contains contact information.

2. Most Allocatees and investors schedule appointments to take place during conferences, so it is best to introduce your CDE by phone or email at least two (2) weeks before the conference.

3. Work with tribes in your service area that are likely to sponsor projects in the next year or two. Ask them to consider asking the CDEs and investors to include your CDE as a Secondary CDE.

4. Work with sponsors to provide predevelopment or other capital that might be treated as a source loan (made to the project sponsor to be used for project costs, or the proceeds used by a sponsor affiliate as a leverage lender) in an NMTC transaction. You could provide such financing solely by yourself or in participation with another lender.

5. Have a plan for the services your CDE can provide and the fees for those services. The Allocatee CDE may be hesitant to provide a significant share of its revenues to a Secondary CDE unless the Secondary CDE brings quantifiable value, for example loan servicing, community outcome tracking, etc.

Becoming a Leverage or Source Lender

Leverage Lender

A "leverage lender" provides cash in the form of a loan to the Investment Fund. The Investment Fund uses the proceeds of the leverage loan to make an *equity investment (the Qualified Equity Investment or QEI)* in the Allocatee CDE or its subsidiary.

The CDE uses that investment to make a loan to the project.[9] It does not assign its loan documents back to the leverage lender, however. This means the leverage lender's security is a pledge of the Investment Fund's equity interest in the CDE. Regulators generally view the leverage lender's loan as unsecured (risk) capital. Leverage lenders are usually subject to a standstill agreement in which the tax credit investor must give permission before the leverage lender can exercise creditor's rights.

When considering whether to become a leverage lender, ask yourselves if you can meet the following criteria:

a. Our lending entity has the capacity to make loans that will likely be classified as unsecured or as risk capital.

b. Our lending entity has the capacity to make leverage loans, either solely or with one or more other lenders, in transactions frequently involving more than $5 million of aggregate leverage debt.
    - If your internal policies limit the amount of unsecured financing you could provide, you will likely need to partner with one or more other entities to meet the project/business's aggregate leverage debt needs.

Source Lender

A "source lender" makes a loan directly to the project sponsor or its affiliate, and usually receives standard lender security for its loan. The sponsor or its affiliate uses the proceeds to make a leverage loan.

Some entities may not have the appetite or capacity to make leverage loans due to their nonconventional collateral or the complexity of the NMTC closing process. They may still wish to support the underlying Qualified Active Low-Income Community Business (QALICB) and help facilitate the NMTC transaction. Being a source lender, in which the entity makes a loan directly to the

[9] Equity investments are also permissible but uncommon because of regulatory and other compliance issues.

QALICB or its project sponsor outside of the NMTC transaction, is a way of achieving those objectives. The loan may be unsecured, or it may be collateralized by assets of either the QALICB or the sponsor.

Some leverage lenders also make a small source loan, giving them a direct relationship with the project sponsor.

When considering whether to become a source lender, ask yourselves if you can meet one of the following criteria:

a. Our lending entity has the internal capacity to make large enough loans to participate meaningfully in transactions that require $3 million or more of debt financing, or to act as lead lender to facilitate financing in Native Area projects with participation from other lenders.

b. Our lending entity has the internal capacity to underwrite and monitor the type of projects/businesses financed by NMTCs, and our mission is to provide capital in Native Areas.

c. Our lending entity has low loan limits, but we can participate in lending led by others and contribute Native Area expertise.

<u>Becoming a New Market Tax Credit (NMTC) Project Sponsor or Qualified Low-Income Community Business (QALICB)</u>

A project sponsor is an entity that operates a business or develops a real estate project that receives New Market Tax Credit (NMTC) financing. The sponsor will usually create an affiliated legal entity to be the Qualified Low-Income Community Business (QALICB).

A sponsor may be an operating business (for-profit or nonprofit) that finances the acquisition, construction, or rehabilitation of its facilities. Sponsors may also be developers who will lease real estate to unrelated, third-party operating businesses. Sponsors may also be operating businesses that receive working capital. In any case, the sponsor's development team identifies the project site, raises leverage capital, oversees construction (if applicable), and conducts ongoing operations.

Sponsors identify Allocatee Community Development Entities (CDEs) willing to provide allocation, and work with them to structure financing and recruit a tax credit investor. Sponsors also raise money from lenders, donors, and grants, or use their own cash to finance their projects, either directly or for use as leverage debt in the NMTC transaction.

This section is designed to help organizations determine whether sponsoring an NMTC project is a role they can play, and if so, how they need to prepare the project for NMTC funding. A more detailed discussion of key QALICB issues can be found in Appendix 3.

Can you answer Yes to each of these questions about your project/business?

1. **Does the project/business meet the criteria for a QALICB?**

    a. Is it located in an NMTC-qualifying census tract?
        i. Ideally, it will be located in an area that qualifies as more highly distressed (see Appendix 3).

    b. If it is not located in an eligible census tract, can it document that it serves primarily low-income people, or that it primarily does/will employ people who are low-income at the time of hire?

    c. Does it involve any prohibited activities, as set forth in the NMTC regulations and Appendix 3? If so, are those prohibited activities a small part of the project (such as a wine department that sells packaged alcohol in a much larger full-service grocery store)?

   d. Are the proposed uses of NMTC financing eligible (i.e., property acquisition & development, renovation, working capital, equipment purchases)?

2. **Does the project/business have the approval of key community stakeholders?**

   a. Does it align with stated local goals and priorities?

   b. Can the project receive evidence of community support (e.g., letters from the government officials and local businesses, add more examples)?

3. **Do you or the project/business have control of the site, or a clear path for obtaining such control?**

   a. Have necessary site approvals been obtained from the relevant entities (tribal/government/other)?

   b. If the project is on trust or tribally owned fee land, can a leasehold mortgage be provided?

4. **Are there clear, tangible community outcomes that will result from the project's completion?**

   a. Have they been identified/documented?

   b. Can they be quantified?

   c. Do those outcomes specifically benefit Low-Income Persons or residents of Low-Income Communities?

5. **Is there a realistic budget for the project/business?**

   a. Does the budget account for any environmental remediation and necessary infrastructure improvements to the site?

   b. Does the budget clearly show both the need for and the use of the NMTC subsidy?

6. **Do you have experience shepherding similar projects/businesses to completion?**

    a. If not, have you identified an experienced/qualified development/project team?

    b. Do you have the capacity to track the use of project funds, document community outcomes associated with the project, and ensure the project's continued compliance with QALICB requirements?

7. **Will you be able to close on NMTC financing within six (6)-twelve (12) months?**

    a. Do you have support from your project/business's Board to take on the NMTC funding?

    b. Have you identified sources of funding for the leverage loan?

    c. Have you identified qualified experts to facilitate property acquisition/construction/rehabilitation and to attract CDE allocations within this timeframe?

Methods for identifying potential Allocatee CDEs include:

a. Attending national NMTC conferences to meet CDE representatives and present the project to them.

b. Reviewing the CDFI Fund's Monthly QEI Issuance Report (https://www.cdfifund.gov/programs-training/programs/new-markets-tax-credit) to identify CDEs that have remaining allocation, are investing in NMTC Native Areas and for which the project is a good match, considering the CDE's service area, priorities, and commitments (for instance, to finance Native businesses or place capital in non-metropolitan counties).

c. Contact investor representatives to inform them about the project and ask for their help in finding Allocatee CDEs.

d. Work with an NMTC consultant who can help identify Allocatee CDEs, negotiate placement, structure the transaction, recruit an investor, and assist the sponsor through the closing process.

It is helpful to build relationships with multiple CDEs. Not all CDE applicants receive allocation authority, and your project may require the participation of more than one CDE. Working with several CDEs is typical within the industry.

Exhibit A – Diagrams of Leverage and Self-Leverage Models: Leveraged NMTC Financing Structure

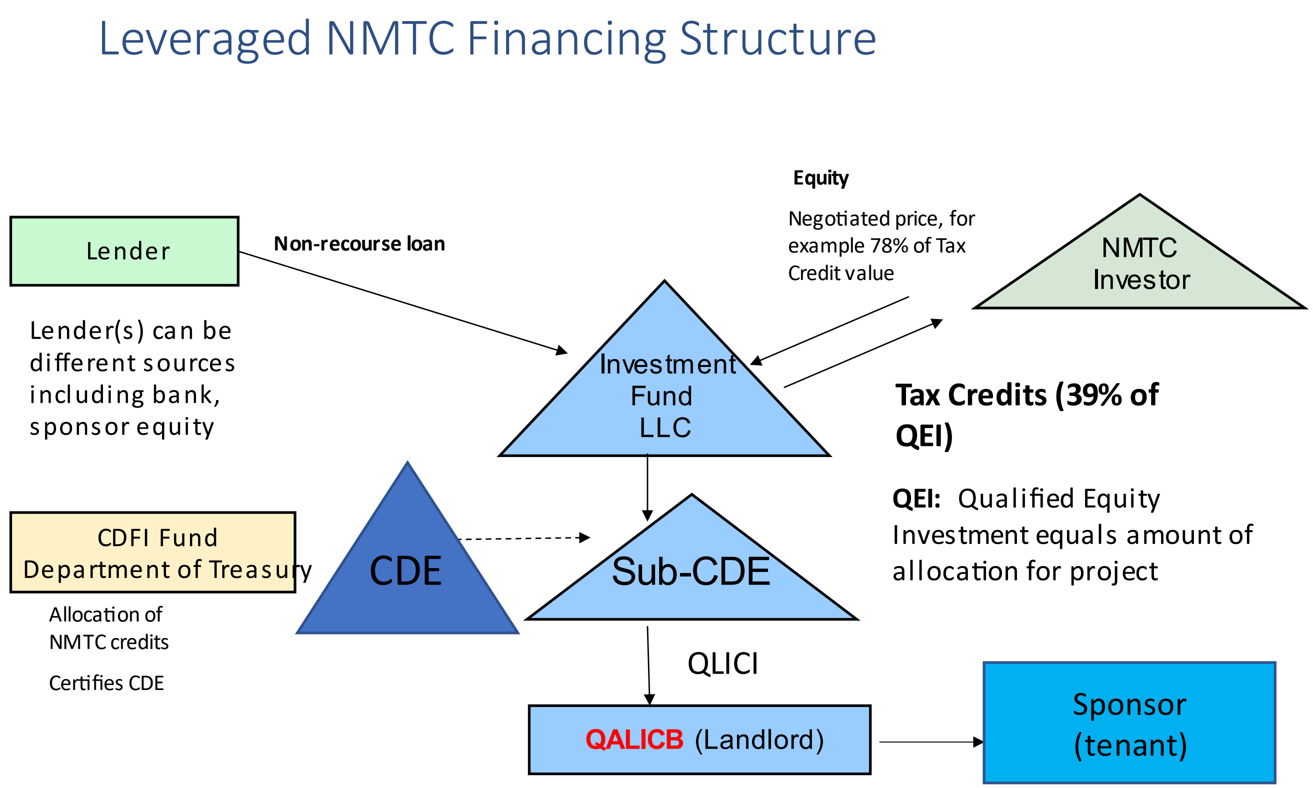
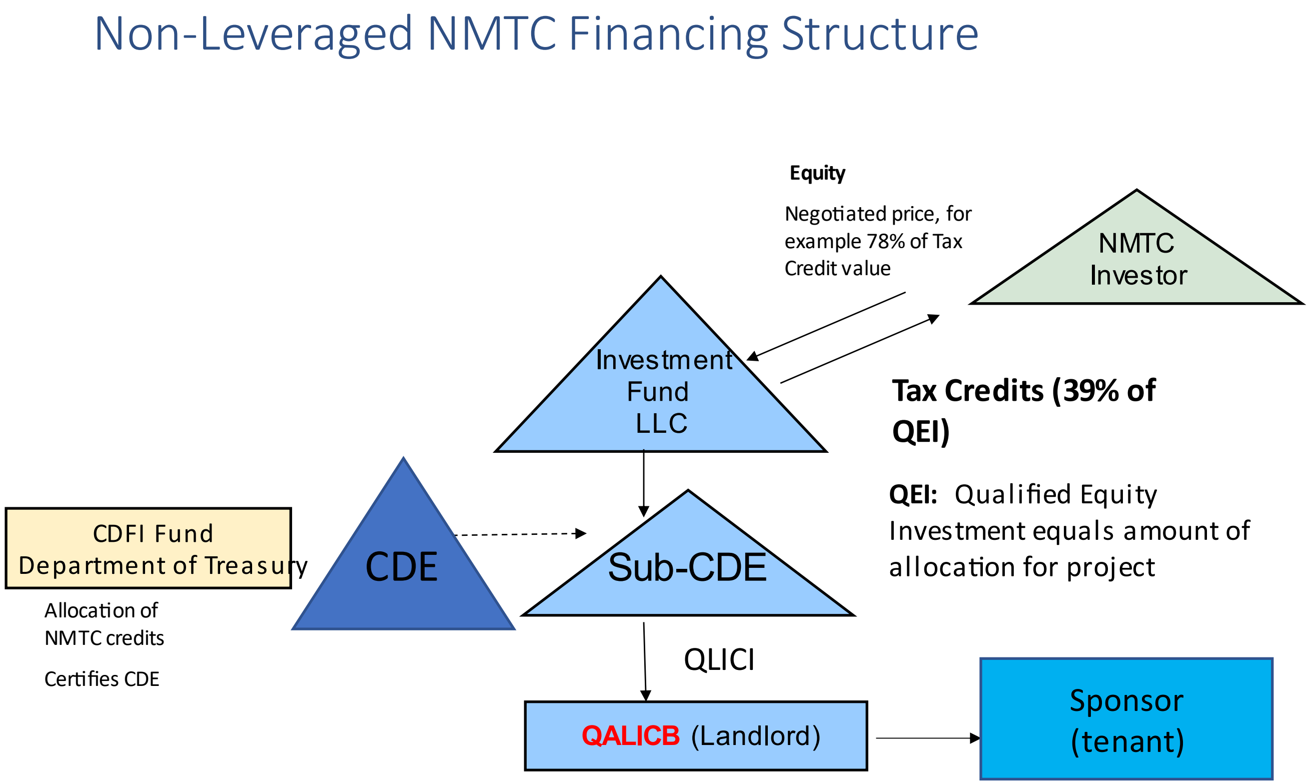


Exhibit B – Diagrams of Leverage and Self-Leverage Models: Non-Leveraged NMTC Financing Structure



Appendix 1 – NMTC Qualifying Loan Purchases

(26 CFR § 45D(d)(1))

(d) *Qualified low-income community investments*—

(1) In general, the term *qualified low-income community investment* means any of the following:

(i) *Investment in a qualified active low-income community business.* Any capital or equity investment in, or loan to, any qualified active low-income community business (as defined in paragraph (d)(4) of this section).

(ii) *Purchase of certain loans from Community Development Entities (CDEs)*—

(A) *In general.* The purchase by a CDE (the ultimate CDE) from another CDE (whether or not that CDE has received an allocation from the Secretary under section 45D(f)(2)) of any loan made by such entity that is a qualified low-income community investment. A loan purchased by the ultimate CDE from another CDE is a qualified low-income community investment if it qualifies as a qualified low-income community investment either—

(*1*) At the time the loan was made; or

(*2*) At the time the ultimate CDE purchases the loan.

(B) *Certain loans made before CDE certification.* For the purposes of paragraph (d)(1)(ii)(A) of this section, a loan by an entity is treated as a loan made by a CDE, notwithstanding that the entity was not a CDE at the time it made the loan, if the entity is a CDE at the time it sells the loan.

(C) *Intermediary CDEs.* For the purposes of paragraph (d)(1)(ii)(A) of this section, the purchase of a loan by the ultimate CDE from a CDE that did not make the loan (the second CDE) is treated as a purchase of the loan by the ultimate CDE from the CDE that made the loan (the originating CDE) if—

(*1*) The second CDE purchased the loan from the originating CDE (or from another CDE); and

(*2*) Each entity that sold the loan was a CDE at the time it sold the loan.

(D) *Examples.* The following examples illustrate an application of this paragraph (d)(1)(ii):

Example 1. X is a partnership and a CDE that has received a New Markets Tax Credit allocation from the Secretary. Y, a corporation, made $500,000 loan to Z in 1999. In January of 2004, Y is certified as a CDE. On September 1, 2004, X purchases the loan from Y. At the time X purchases the loan, Z is a qualified active low-income community business under paragraph (d)(4)(i) of this section. Accordingly, the loan purchased by X from Y is a qualified low-income community investment under paragraphs (d)(1)(ii)(A) and (B) of this section.

Example 2. The facts are the same as in *Example 1* except that on February 1, 2004, Y sells the loan to W and on September 1, 2004, W sells the loan to X. W is a CDE. Under paragraph (d)(1)(ii)(C) of this section, X's purchase of the loan from W is treated as the purchase of the loan from Y. Accordingly, the loan purchased by X from W is a qualified low-income community investment under paragraphs (d)(1)(ii)(A) and (C) of this section.

Example 3. The facts are the same as in *Example 2* except that W is not a CDE. Because W was not a CDE at the time it sold the loan to X, the purchase of the loan by X from W is not a qualified low-income community investment under paragraphs (d)(1)(ii)(A) and (C) of this section.

26 CFR § 45D(d)(1)

Appendix 2 – Considerations for Completing a New Market Tax Credit (NMTC) Allocation Application

The following sections correspond to the sections of the NMTC allocation application. The sub-parts lay out the different questions you'll need to be able to answer to develop a competitive application. Collectively, they provide a means of assessing your current competitiveness. They align with the specific questions set forth in the application.

A. Developing a Competitive Business Strategy

1. Identifying the Targeted Geography to be Served

- How narrow/broad is it? (Is it local/statewide/multi-state/national?)
- How much of the area qualifies as NMTC-eligible? How much meets one or more of the characteristics of higher distress? *Applicants tend to be more competitive if they are financing projects/businesses located in more distressed communities.*

2. Identifying the Types of Projects/Businesses to be Financed through NMTC

- Do they correspond with the size and types of asset classes funded with NMTCs?
- Do they align with the size and asset classes you have funded in prior activities? *Ensuring this alignment will help build an effective pipeline.*

3. Identifying the Targeted Projects'/Businesses' Capital Gaps

- How large are the gaps? *This will help decide the size of your NMTC products.*
- What is precluding the projects/businesses from obtaining the capital they need at a price they can afford (e.g., issues of collateral, insufficient underlying project value, insufficient sponsor track record, etc.)? *This will help you determine how you need to structure your products.*

4. Determining/Designing NMTC Products to Address the Gaps

- Is the product straight debt, straight equity, or a mix of debt/convertible debt? *Most allocatees offer A/B debt packages, where all or part of the B component can convert to project equity after seven (7) years.*

- How does the product compare to what's otherwise available in the market (from conventional banks, other CDFIs, and from your organization's "normal" financial offerings)? *It should be more favorable/flexible than what's otherwise available.*
- Can you show how the product(s) will enable the targeted project/business to go forward? Will it save the borrower a certain amount in financing costs, for instance? *The more clearly you can show/document the benefits of the product for the QALICB, the more favorably you will be scored.*
- Does the product meet any of the CDFI Fund's "innovative uses" criteria? *Organizations that promise more "innovative" uses of the NMTC proceeds often receive larger allocations than comparable applicants that do not commit to "innovative" uses.*
    - If you plan to offer small QLICIs (so that the aggregate amount of QLICIs going to a single QALICB is $4 million or less), do you have a structure that will minimize the transaction costs associated with those loans – e.g., an agreement with the investor not to require a separate legal opinion for each transaction?
    - If you plan to apply for innovative uses, do you have a pipeline of projects that will ensure the prompt deployment of capital committed to those purposes?

5. Economic Underwriting Approach

- Does the borrower's business plan show a likelihood of successful and ongoing operations, particularly when factoring in expenses associated with the necessary debt service? What financial information/documents will you require from the borrower (or its contractors) to underwrite the business and, if applicable, the construction project?
- Will the borrower be able to refinance any remaining third-party debt at the end of the seven (7)-year NMTC compliance period?

6. Developing an NMTC Pipeline

- What is your strategy for finding NMTC-qualifying projects/businesses for potential financing? Do you have key partners or customer relationships that can help in the process? Are you targeting certain types of borrowers, industry sectors, or certain geographies?
- Do you have a process for assessing the viability and fit of a potential transaction within the NMTC program?
- What are your community outcome priorities when looking for potential transactions? Are you focusing on a project/business's ability to create substantial numbers of quality jobs, its likelihood of generating clean energy, its likelihood/track record of educating low-income students, or other outcomes?
- Assuming you have more demand than available allocation, what criteria will you use to choose among projects? For instance, are there certain outcomes that you would prioritize? Would you give preference to projects that directly support earlier investments or are a part of

future community revitalization plans? Would you focus on projects/businesses in the most distressed areas, or those with more economic vitality?

- Will your NMTC financing go entirely to projects/businesses that are owned, operated, and sponsored by unrelated parties?
    - As an applicant, you receive five (5) bonus points if you commit to financing only unrelated entities. *Given the competitiveness of the application process and the extremely narrow score distinction (one (1) point or less) between successful and unsuccessful applicants, receiving the five (5) bonus points is essentially a pre-requisite for success.*
    - If your CDE is a Related Party to a tribe that would sponsor projects, will you be willing and able to set up a Qualified Low-Income Community Business (QALICB) consisting partially of independent shareholders, or to fund only projects of unrelated entities? For instance, a third-party manufacturer or retailer that leases from a tribe could receive an allocation from the same tribe's CDE to subsidize its improvements without violating the Related Party constraint.

7. Describing Your Track Record

- How much direct financing – including participations – have you (or the controlling entity) provided in the past few years? Such financing is defined as loans requiring repayment or equity investments in a separate entity (as opposed to grants or forgivable loans).
    - *Typically, NMTC allocation applicants receive less in allocation than the aggregate amount they have loaned/invested in the past three (3)-five (5) years.*
- What experience do you (or your controlling entity) have financing the types of *projects* you are targeting for NMTC capital by asset class, size, uses, etc.?
- What experience do you (or your controlling entity) have financing projects/businesses in the *markets* you are targeting for NMTC activity (both NMTC-eligible and non-NMTC-eligible)? In what ways are those borrowers similar to the Qualified Low-Income Community Businesses (QALICBs) you'll be targeting with NMTC? How would that prior experience translate into an ability to provide the proposed NMTC products to the targeted QALICBs?
- Do you or your controlling entity have any experience providing financing that is similar to the products you are proposing to offer through the NMTC program, e.g., loans with higher LTV ratios, below-market interest rates, extended terms, or non-traditional collateral?
- If you have had comparatively limited lending experience to date, what have been the reasons for that limited activity? What factors suggest that you could deploy the requested NMTC allocation?

B. Defining/Quantifying Community Outcomes

1. Targeting Investments to Areas of High Distress

- To what extent are you planning to invest in QALICBs located in severely distressed communities, non-metropolitan areas, brownfields, Native Areas, food deserts, or other areas of documented high need?
- What is your strategy for finding and targeting QALICBs in these areas? Do you have any partnerships with agencies/organizations focused on these areas, for instance?

2. Estimating Likely Community/Social Outcomes of Targeted Projects/Businesses

- What are the likely outcomes to result from these investments (e.g., quality jobs, enhanced access to quality goods & services, affordable housing, environmental remediation, or renewable energy)?
- How and to what extent will low-income people, residents of low-income communities, or other disadvantaged populations benefit directly from these projects/businesses?
- What's the basis for the outcome projections? Do the prospective QALICBs have a track record of achieving similar activities/outcomes?
- How do the projected outcomes compare to those of similar types of projects/businesses you have supported in the past?
- How do the projected outcomes compare to accepted benchmarks in the respective industry? How do you know that the projected outcomes are realistic?
- How will you document the number of people directly benefiting from the project/business?

3. Ensuring Appropriateness of the Targeted Projects/Businesses for Their Communities

- Do the targeted projects align with and support the goals and aims of existing community development, anti-poverty, or other revitalization efforts/plans? Can you document the relationship between each project and an existing strategy?
- If there aren't any formal revitalization plans, how do you know the projects align with local priorities?
- Will you need evidence of local support as a pre-requisite for financing approval?
- What role(s) will your governing or advisory board play in maintaining awareness of community goals and needs?

C. Ensuring Sufficient NMTC Management Capacity

1. Determining Who Takes Responsibility for Different Aspects of NMTC Program

The management team's resumes and experience should help the CDE assign the following areas of responsibility within the organization:

- Executive oversight of the program;
- Identification and vetting of prospective Qualified Low-Income Community Businesses (QALICBs), including underwriting, structuring, approving, closing, and deploying the Qualified Low-Income Community Investments (QLICIs);
- Assessment of the community/social outcomes of prospective investments;
- Monitoring of the performance of the QLICIs and coordination of responses to any problems that occur;
- Documentation, measurement, and reporting of community/social outcomes associated with the QLICIs; and
- Program compliance and other reporting (including tracking and documenting the use of the NMTC proceeds).

2. Ensuring Qualifications for the Different Roles

- Does the CDE have experienced staff to conduct the roles outlined above?
- If not, can existing staff members develop those abilities?
- Does the CDE need to hire additional staff members to conduct these tasks and if so, how many people and for what tasks?
- Does it make sense for the CDE to contract out certain tasks/responsibilities to third parties with relevant expertise for a period of time, such as until a second or third allocation is received?

3. Developing/Refining Key Internal Processes

The CDE should have or be prepared to develop the following:

- Established policies and procedures for underwriting, structuring, approving, and closing transactions;
- A process for deciding whether a potential borrower/investee meets the criteria to be a QALICB;
- Policies and procedures for monitoring loans and investments once they are closed;

- Procedures in place to ensure transactions meet the various NMTC program regulations and that funds are used as intended; and
- A system for tracking and documenting the community outcomes associated with its loans/investments.

4. Ensuring Organizational Financial Capacity

The CDE and its controlling entity, if applicable, should have a track record of strong financial performance and sustainability.

- Has it generated consistent annual surpluses/profits? Has it received clean, unqualified audits?
- To the extent that the CDE/controlling entity's auditor has found weaknesses in financial controls, have those weaknesses been addressed to the auditor's satisfaction?
- If the CDE/controlling entity has experienced annual losses/deficits, does it have a good explanation? Has it addressed, or does it have a realistic plan for addressing/resolving, the factors that have caused the losses/deficits?
- Will the operation/instigation of an NMTC program distract from or enhance other programs that the CDE/controlling entity offers?

5. Developing NMTC Financial Projections

- What are the likely expenses associated with administering the NMTC program? *Be sure to factor in staff, contractor/consultant, and legal costs; travel and other underwriting/asset management costs; any conferences; general operating costs, and any loss reserve allowances.*
- How will those expenses vary in each year of an allocation agreement? For instance, will consulting fees be paid only at closing, and will they be paid by the CDE or the QALICB?
- Which of these expenses are fixed v. variable (i.e., depending on the amount of NMTC allocation received and the number of QALICBs financed)?
- What are the sources of NMTC-related revenue, and when will those revenues be realized? Will the CDE:
    - Take an up-front (placement) fee and if so, how much?
    - Require annual fee payments, keep some of the interest paid on the QLICI, or both? *Aggregate CDE fees typically total 6.5% - 10% of the QEI and are collected over the course of the seven (7)-year compliance period.*
- To what extent will the NMTC program be self-sufficient?
- If the NMTC program generates a surplus/profit, how will that surplus/profit be used?

E. Attracting NMTC Capital

1. Documenting a Capital-Raising Track Record

- What is the CDE/controlling entity's track record of raising capital from unaffiliated third parties, particularly within the past five (5) years?
- Which source(s) raised the capital, and for how much?
- How much of that capital has come in the form of equity, grants, market-rate debt, and concessionary-rate debt?
- Who have been the principal individuals responsible for raising this capital?

2. Strategy for Raising NMTC Equity Capital

- NMTC tax credit investors are almost always major depository banks. Does the CDE or its principals or managers have relationships with any of these entities?
  If your CDE's track record of raising capital is less than the amount of allocation you're planning to request, you will need a letter of support from one or more NMTC investors.

3. Strategy for Raising Leverage Loan Capital

The following questions are likely to have different answers for each project, depending on the sources of capital raised by the sponsor, whether the sponsor is a tribal entity, and the type of business being financed. These questions should be considered as part of your underwriting for each project but don't necessarily have to be answered to complete an application.

- Who are likely/potential sources of leverage debt?
  - How much do you predict receiving from the project sponsor?
  - Can/will the tribe contribute capital to the transaction?
  - Are you expecting to attract debt from the equity investor?
  - Will you be seeking debt from financial institutions (banks or CDFIs)?
  - Is there any public money that you can use in the transaction?
  - Which potential lenders are going to be appropriate/available for which potential projects/QALICBs?
- What relationships do you have with these potential debt providers?
- How will you address/manage lender issues specific to Native Areas (sovereign immunity, tribal decision-making, leasehold security, BIA issues, etc.)?

F. Preparing the NMTC Application

- Who will be the primary drafter/writer of the application? Will different people be responsible for different sections, and if so, will there be a single point person to coordinate the process and ensure stylistic continuity throughout the final document?
- Do you predict needing outside (consulting) assistance in the structuring, drafting, or review of the application? If so, where can that third party (or parties) provide the most useful help?
    - Have you found individual(s)/entities that might be options?
    - How will you manage the consultant’s role and activity?

Appendix 3 – Considerations for Becoming a Qualified Low-Income Community Business (QALICB)/Sponsor

A. Ensuring the Project/Business Qualifies as New Market Tax Credit (NMTC)-Eligible

A Qualified Active Low-Income Community Business (QALICB) must meet the following criteria. Many sponsors prefer not to be a QALICB because doing so could constrain their future business activities, such as fundraising for an endowment.

- At least 40% of services are performed by employees are in NMTC-eligible census tracts;
- At least 50% of gross income derives from conducting qualified business in NMTC-eligible census tracts;
- At least 40% of the tangible property used is located in NMTC-eligible census tracts;
- Less than 5% of the QALICB's property is collectibles, other than those held for sale to customers; and
- Less than 5% of assets are *nonqualified financial property*.

The standard practice is for the Sponsor to create a special-purpose entity to be the QALICB at closing. The QALICB leases the project site from the Sponsor, receives the NMTC capital, constructs the project, and leases the project back to the Sponsor. Since tenants of the QALICB do not have to meet the above criteria, this solution works well for many projects.

Other considerations for potential QALICBs and project sponsors include:

- Is the project/business located in an NMTC qualified census tract?
    - If the project/business is not in a qualified census tract, will it primarily serve or employ a (Low-Income) Targeted Population? Can you document that at least 60% of persons served, or at least 60% of employees at the time of hire, earn 80% or less of the area median income (AMI)?
- Does the project/business involve any of the following prohibited activities?
    - Golf course;
    - Country club;
    - Massage parlor;
    - Hot tub facility;
    - Suntan facility;
    - Racetrack or other gambling facilities;
    - Store where principal business is sale of package liquor;
    - Certain farming activity (assets exceed $500,000); or

    - Development or holding of intangible assets for sale or license?

  If yes to any of these, are the prohibited activities a small enough part of the project/business that they could be financed separately with non-NMTC sources?

- Are the proposed uses of NMTC financing eligible?
    - Land Acquisition (if there is subsequent significant improvement);
    - Predevelopment/Site Preparation – including predevelopment expenses incurred up to 24 months prior to the QLICI closing;
    - Construction/Rehabilitation;
    - Equipment Purchase/Installation;
    - Working Capital; and
    - Inventory Purchase?

B. Location in an Area of Higher Distress

The Community Development Financial Institution (CDFI) Fund gives Community Development Entities (CDEs) applying for allocation authority more points if they finance projects/businesses located in areas characterized by greater distress. Projects in the following census tracts are most likely to be appealing to organizations with NMTC allocations:

- Tracts with poverty rates >30%;
- Tracts whose median family income <60% of the MSA or statewide median;
- Tracts whose unemployment rate >1.5x national rate; and
- NMTC-eligible tracts located in a non-metropolitan area.

Similarly, the following publicly designated revitalization areas qualify as areas of higher distress:

- Non-metropolitan counties;
- Federal Native areas;
- FEMA-designated Disaster Areas;
- Food Deserts; and
- Brownfields.

C. Project Readiness

Some projects come together quickly, while others take a long time to get to a point where they can realistically expect to attract third-party financing. Before seeking NMTC allocation, the sponsor should address each of the following issues:

1. Community Approval

Successful NMTC projects are those that have the support of key local stakeholders. This is one of the key components of any underwriting process; CDEs and the NMTC investor want to see evidence of the community support for the project. Be sure to be able to document the following:

- How the sponsor engaged community in making milestone decisions about this project;
- Any letters of community support; and
- Any public approvals of support for the project (declarations, policy statements, funding, etc.).

2. Site Control

- Does the sponsor have site control with the ability to collateralize?
  - Is there a clear title to the site?
  - If the project is on trust land, what is the approval process for the long-term lease held by the QALICB entity? How long will that process take?
  - Is there a Helping Expedite and Advance Responsible Tribal Home Ownership (HEARTH) Act lease that will allow a leasehold mortgage?
  - What leasehold provisions does a leasehold mortgage need?
  - Are there alternative means of providing security, such as pledges of other enterprise revenue, or tribal or other guarantees?
- Is there an applicable law or community engagement process that needs to be considered for the project site? If so, what approvals do tribal or other entities (e.g., business activities, permits, easements) require?
  - Is it possible to obtain a limited waiver of sovereign immunity (if necessary)?
  - Is there an acceptable environmental report?
  - Have relevant Geotech and other surveys been done on the site?

3. Project Budget

- Is the development budget complete, or has a GMP estimate been provided?
- Does the budget include sufficient contingencies?
- Are there significant costs incurred over the past two (2) years that might be recognized as leverage loan funds and reimbursed at closing?

- Is there suitable infrastructure for the project (transportation, utilities), and are any related needs reflected in the budget?

4. Project Timeline

The likelihood of obtaining NMTC capital increases considerably if the project's timeline aligns with the NMTC funding round. Ideally, the project will be far enough along so that an applicant CDE can describe the project in its NMTC application, and the project can close on financing within four (4)-six (6) months of allocation award notification. Typically, the time between the submission of an NMTC application and announcement of awards is nine (9)-ten (10) months. Key questions to consider are:

- When is the project expected to begin construction—the time when it will need most of its capital?
- How long is construction expected to take? Ideally, it will be complete within 18 months of closing the NMTC funding.
- When will the project begin operations? When will it be fully operational?
- Does the sponsor/project have the necessary contracts, permits, and licenses in place for generating revenue? If not, does the timing of their expected acquisition align with a) the projected timing of the closing of project funding and b) the timing of the required debt service? Examples of key agreements are:
    - IHS agreements for health care;
    - Revenue agreements for charter school; and
    - Customer purchase agreements or letters of intent for manufacturing.

Most NMTC transactions involve a single closing and disbursement. The CDE will close on the Qualified Equity Investment (QEI) and then use those monies to make a Qualified Low-Income Community Investment (QLICI) to the Qualified Active Low-Income Community Business (QALICB). All the NMTC-related leveraged debt and equity needs to be available at the time.

- How much capital has been committed? How much of that money is in hand?
- Has sufficient leverage debt been identified and committed?
- Are bridge loans needed to bridge capital raise, grants, or other public funding?
- Is there a capital gap and how will it be addressed?

5. Project Team

Working with a committed, culturally competent, and experienced project team can make a difference for the successful closing. This is especially relevant for projects involving substantial amounts of construction.

- Has an architectural firm been engaged?
- Has an experienced contractor been found? Is there a GMP or an estimate available?
- Has the sponsor hired/named a project manager and (if necessary) someone to coordinate the capital raising process?
- Does the sponsor have the internal capacity to oversee the process, or does it need to hire knowledgeable and experienced staff/consultants?

D. Defining Likely Community Outcomes

Community outcomes are central to every NMTC project. The sponsor is required to collect information documenting these outcomes and report it to the CDEs and the NMTC investor. Examples of community outcomes include, but are not limited to:

- Quality jobs that are accessible to economically disadvantaged populations such as:
  - Jobs that pay a living wage, have benefits, training, opportunities for advancement; and
  - Accessible jobs are available to unemployed or underemployed persons, or those who are difficult to employ (such as previously incarcerated individuals);
- Quality consumer goods/services (retail, groceries, pharmacies) accessible to low-income individuals or residents of low-income communities;
- Quality education, health, or human services accessible to low-income individuals or residents of low-income communities;
- Development or support of Native American or Minority owned or controlled business;
- Quality housing affordable to Low-Income households, noting that:
  - Development of owner-occupied housing is an eligible use of NMTC proceeds. Development of rental housing is eligible only if the housing is part of a mixed-use project where more than 20% of project revenues come from non-residential activity; and
- Remediation of environmental blight, development of clean energy, or other tangible ecological improvements.

Community outcomes need to:

- Address/respond to a clear and identified community need – one that has been documented through a market analysis, resident or business survey, government plan, or other means;
- Contribute to the realization of expressed community goals and priorities;
- Align with existing community economic development strategies, initiatives, or adopted plans; and
- Have support of various key local stakeholders (community residents, elected officials, business/community leaders).

CDEs with allocation authority are more likely to consider projects looking for NMTC financing if the community outcomes are easily quantifiable. Some examples of quantifiable measures include:

- Number of people directly benefiting from the project, such as:
    - Jobs created/preserved;
    - Students enrolled;
    - Patients served; and
    - Customers accessing consumer goods/services;
- Number of affordable housing units;
- Extent of contracting going to Native American or minority-owned firms; and
- Reduction in harmful emissions, amount of renewable energy generated.

A substantial part of the community benefits need to go to people earning low incomes or to residents of the surrounding low-income community(ies). Those benefits include:

- Quality jobs – livable wages, health insurance & other benefits, opportunities for career advancement;
- Better health – preventive care, immunizations, managed illnesses, reduced substance abuse;
- Better educational outcomes – higher graduation/attendance rates;
- More job placements; and
- Wealth generation (e.g., housing cost savings, equity building).

The most appealing projects will be those that demonstrate clear increases in opportunities and /or improved conditions for economically disadvantaged individuals – such as:

- A meaningful proportion of jobs associated with the project are accessible to less educated or skilled individuals, and the sponsor makes clear efforts to help connect those individuals to the positions;
- Most of the students/patients/households that benefit directly from the enhanced programs/services qualify as low-income; and
- Any environmental benefits (closed landfills, re-use of brownfields, clean energy, etc.) primarily go to low-income people through lower energy costs, cleaner water, improved public health, etc.).

Projected community outcomes need to be realistic and feasible:

- There is a logical connection between the proposed activities and the predicted outcomes.
- The outcomes are consistent with those of similar types of projects elsewhere and industry standard metrics.
- The sponsor has a track record of generating similar types of outcomes.

- The operating pro formas, revenues, budgets, staffing plans, etc. support the staffing and other necessary costs of sustainably providing the targeted programs/services over time.

E. Project Financing

The NMTC financing is designed to be a one-time infusion of low-cost capital; it is not an ongoing source of operating revenues. CDEs typically assess a project in terms of its long-term financial viability and the amount of initial NMTC capital necessary to help it achieve that sustainability.

- How much capital has been a) identified and b) raised or legally committed? This includes:
    - Private loan dollars;
    - Sponsor equity;
    - Tribal equity or loan dollars;
    - Public/philanthropic grants or concessionary-rate loans;
    - Capital campaign receipts; and
    - Other potential sources.
    - Consider: is debt service for any loan sources supported by reliable revenue sources and affordable considering other budget demands?

- How much capital remains to be obtained – i.e., what is the amount of the funding gap?
    - Can the project go forward without the NMTC-subsidized capital?
    - Would the absence of NMTC capital threaten the financial viability of the sponsor or its ability to continue delivering important goods/services?
    - Can the sponsor make the case for why the cost of otherwise available capital makes the project less feasible; how would the infusion of NMTC-subsidized capital meaningfully reduce the project expenses?

F. Obtaining an NMTC Allocation

Obtaining an NMTC allocation requires time and persistence. It is important to find one or more CDEs that have or are likely to obtain allocation authority, are interested and willing to serve your geographic area and your type of project, offer reasonable pricing, and have people with whom you can work comfortably.

The amount of NMTC-related financing in each project typically ranges from $5 million to about $50 million.[10] The amount of NMTC financing needed often determines the number of CDEs likely to be involved in the project:

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[10] Allocatees have also structured NMTCs to provide QLICIs for less than $5 million, which has often taken the form of a smaller dollar loan fund.

- If > $10 million in NMTC capital is required, the project will likely need to obtain QLICIs from multiple CDEs.
- If < $10 million is needed, it may be able to finance the full amount with only one (1) CDE.

The sooner a prospective borrower can identify potential CDE partners, the better. Ideally, a CDE will be interested enough in the project to include it in its application for allocation authority. While that is not a guarantee of subsequent financing, it does show a high level of interest and commitment to the project.

Sponsors can contact CDEs through investors, NMTC consultants, or by going through the Monthly Qualified Equity Investment (QEI) Report published by the CDFI Fund. Attending NMTC conferences is a very good way to network with potential CDEs, source lenders, and investors. It is advisable to start this process at least a year before the anticipated financial closing because of the NMTC calendar. Applications are filed about 12-14 months before closing for the projects listed in the application. While it is not mandatory to be included in an application to be funded, it is advisable because many CDEs feel an obligation to fund the projects in their applications before entertaining others.