

## CY 2013 NEW MARKETS TAX CREDIT (NMTC) PROGRAM Application Evaluation Process

Under the 2013 NMTC Program Allocation round, the Community Development Financial Institutions Fund (CDFI Fund) received 310 applications requesting \$25.8 billion in Allocation Authority. The CDFI Fund awarded \$3.501 billion in Allocation Authority to 87 Allocatees. The \$3.501 billion in Allocation Authority available for the CY 2013 Allocation round includes \$3.5 billion in Allocation Authority authorized by the American Taxpayer Relief Act of 2012 and made available for the NMTC Program under the CY 2013/2014 Notice of Allocation Availability (NOAA) published in the Federal Register on July 29, 2013 as amended and published in the Federal Register on May 4, 2014 and approximately \$1.4 million in rescinded Allocation Authority from prior Allocation rounds.

Please note that the CDFI Fund reserves the right to modify these policies and procedures in future Allocation rounds, consistent with requirements specified in the applicable NOAA and related application materials.

### Overview of Review Process

#### **Step 1: Phase 1 - Initial Application Review and Scoring**

- The CDFI Fund's initial review process, for all eligible Applicants, required three reviewers to independently review and evaluate each application. The reviewers consisted of private sector professionals with strong credentials in community and economic development finance. Reviewers were selected based on factors such as their knowledge of community and economic development finance and experience in business or real estate finance, business counseling, secondary market transactions, or financing of community-based organizations.
- The CDFI Fund screened each reviewer to identify any potential conflicts of interest with Applicants. The CDFI Fund provided each reviewer with detailed descriptions of what constituted a conflict of interest, and each reviewer was required to sign a certification that he or she had disclosed all conflicts of interest to the CDFI Fund. Reviewers were further required to sign a confidentiality agreement stating that they would not reveal any information obtained from the CDFI Fund during the review process.
- Once selected, the CDFI Fund's NMTC Program office staff trained the reviewers to prepare them for the review process. The reviewers were provided with instructions and guidance on how to evaluate and score applications.
- Reviewers evaluated and scored each application independently from the other reviewers assessing the same application.

- In scoring each application, reviewers evaluated each of the four application sections (Business Strategy, Community Outcomes, Management Capacity, and Capitalization Strategy).
- In addition, reviewers rated Applicants with respect to two statutory priorities: (i) 0 to 5 points for demonstrating a track record of serving disadvantaged businesses or communities; and (ii) 5 points for committing to invest substantially all of the proceeds from Qualified Equity Investments (QEIs) in unrelated entities (e.g., entities in which persons unrelated to the Applicant hold the majority equity interest).
- To ensure consistency with NMTC Program office scoring guidelines, each reviewer evaluation was reviewed by a team leader before final submission. Team leaders consisted of CDFI Fund staff and Federal employees from other government agencies. The NMTC Program office staff provided oversight of team leaders throughout the application review process.
- After each application was reviewed by the three reviewers, an analysis was conducted to identify anomalous scores. An anomalous base score was deemed to have occurred for an application whenever one of the three reviewers' Base Scores (total score minus priority points) varied significantly from the median of the three reviewers' Base Scores. An anomalous section score was deemed to have occurred for an application whenever one of the three reviewers' section scores, in one or more of the four application sections, varied significantly from the median of the three reviewers' application section scores. In cases where there was an anomalous reviewer score that would have negatively impacted the ability of an Applicant (or, in the case of a high score anomaly, any other Applicant that scored below it) to receive an Allocation, the comments and score(s) of a fourth independent reviewer were used to determine whether the anomalous score should be replaced.

## **Step 2: Phase 2 - Panel Review and Recommendations**

- In order to be considered highly-qualified and eligible for further Allocation award consideration, an application had to achieve in Phase 1: 1) an aggregate Base Score (without including priority points) of at least 232 points; and 2) an aggregate score of at least 52 points in each of the four application sections. Thus, for example, an application with section scores of 52 in three application sections, but a score of 51 or lower in the fourth application section, would not be considered highly-qualified and eligible for further consideration. Many Applicants presented strong applications that were considered highly-qualified and therefore eligible for further Allocation award consideration.
- In accordance with the policies set forth in the CY 2013/2014 NOAA, highly-qualified Applicants were ranked in descending order of their aggregate scores under the Business Strategy and Community Outcomes application sections, inclusive of priority points (which were divided in half to retain the same relative weight in Applicant scores as in

Phase 1) and forwarded to an Allocation Recommendation Panel (Panel) comprised of CDFI Fund staff.

- For each highly-qualified application sent to Panel, panelists reviewed the applications and provided recommended Allocation award amounts. Due to the large number of highly-qualified applications and given the CDFI Fund's desire to expedite the flow of capital, the panelists were instructed to start with an Allocation award recommendation of \$40 million in Allocation Authority (unless the Applicant had a smaller allocation request). Panelists considered, among other things, comments provided by each of the Phase 1 reviewers, the Applicant's ability to make NMTC investments, the quality of the Applicant's financial products to QALICBs (e.g., rates, terms, fees, etc.) as compared to market and/or its Controlling Entity, the projected outcomes for Low-Income Communities and/or Low-Income Persons, the Applicant's financial health, and the fee/compensation structure of the Applicant. Panelists also considered the consistency of the Applicant's NMTC activities with past Allocation applications (if applicable), proposed activities in non-metropolitan counties, and proposed innovative activities. All of these factors impacted the Panelists' award recommendations.
- The Panel recommended Allocation awards of approximately \$3.501 billion, the total amount of Allocation Authority available for the NMTC Program for the CY 2013 Allocation round, among the most highly ranked, highly-qualified Applicants. In making recommendations for an Allocation award, panelists were not required to reach consensus and could recommend an Allocation award amount up to the maximum amount requested by the Applicant.
- The CDFI Fund also reviewed a variety of compliance, eligibility, due diligence and regulatory matters. Included in this review were, among other things: (i) checks to determine whether an Applicant or its Affiliates that have been awarded funds through other CDFI Fund programs were compliant with the Award requirements and disbursement eligibility requirements; (ii) checks to determine whether prior-year Allocatees successfully issued the minimum requisite amount of QEIs from prior NMTC Program Awards, as specified in the CY 2013/2014 NOAA; (iii) checks to determine whether prior-year Allocatees were compliant with the requirements in past Allocation Agreements; (iv) for regulated financial institutions, consideration of information from the Applicant's primary federal regulator; and (v) information related to the Assurances and Certification section of the Application. As specified in the CY 2013/2014 NOAA, point deductions were applied in the case of prior CDFI Fund Awardees and Allocatees (or its Affiliate's) that failed to meet reporting deadlines in either of the past two fiscal years.
- As stated in the application materials, Applicants that were recommended for an Allocation amount that was lower than the minimum acceptable Allocation amount specified by the Applicant in Question 41 of the application would not be provided with a NMTC Allocation.

### **Step 3: Initial Allocation Determinations**

- After Phase 2 of the review process was completed and all scoring anomalies resolved, the rank order list of Applicants, with Panel recommendations, were forwarded to the Selecting Official for an Allocation determination.
- The Selecting Official made Allocation determinations based on the \$3.501 billion in Allocation Authority available for the NMTC Program for the CY 2013 Allocation round which includes \$3.5 billion authorized by the American Taxpayer Relief Act of 2012 and made available for the NMTC Program under the CY 2013/2014 NOAA published in the Federal Register on July 29, 2013 as amended and published in the Federal Register on May 4, 2014 and approximately \$1.4 million in rescinded Allocation Authority from prior Allocation rounds.
- Applicants that did not receive Allocation recommendations included those deemed to be ineligible based on the CY 2013/2014 NOAA and NMTC Program policies and procedures (e.g., prior-year Allocatees that were unable to meet their minimum QEI issuance requirements), highly-qualified Applicants that did not achieve a high enough rank score, and Applicants that were not highly-qualified.
- In addition, Applicants that did not receive an award included those deemed to exhibit material deficiencies that would preclude the Applicant from effectively managing an allocation. Areas where Applicants exhibited material deficiencies included: management controls, track record in providing financial products, or deployment of prior NMTC allocations.
- In the event that the Selecting Official's decision reversed or varied considerably from the Panel's recommended Allocation amount, the Reviewing Official reviewed the application file and made the Allocation determination.

#### **Step 4: Final Award Determinations**

- Next, as provided for in the CY 2013/2014 NOAA, the CDFI Fund reviewed the initial Allocation determinations to ensure that: (i) the proportion of Allocatees that are "Rural CDEs" (i.e., a CDE that has a track record of at least three years of direct financing experience, has dedicated at least 50 percent of its direct financing dollars to Non-Metropolitan Counties over the past five years, and has committed that at least 50 percent of its NMTC financing dollars with this Allocation will be deployed in such areas) was, at a minimum, equal to the proportion of Applicants deemed eligible for Phase 2 review that were Rural CDEs; and (ii) at least 20 percent of all Qualified Low-Income Community Investments (QLICs) made by Allocatees under the CY 2013 Allocation round would be invested in Non-Metropolitan Counties, based upon commitments made in their applications.

The CDFI Fund reserved the right to make adjustments to the Allocatee pool to ensure these two objectives were met. With respect to the first objective, the CDFI Fund added three Rural CDEs to the final Allocatee pool since the proportion of Rural CDEs deemed highly qualified and eligible for further Allocation award consideration of 13.12% was

greater than the proportion of Rural CDEs in the preliminary Allocatee pool of 10.71%. With the addition of three Rural CDEs, the final Allocatee pool consisted of 13.79% Rural CDEs.

- With respect to the Non-Metropolitan Counties objective, the CDFI Fund reserved the right to require Applicants to achieve up to their stated “maximum,” as opposed to their stated “minimum,” investment targets in Non-Metropolitan Counties. For the CY 2013 Allocation round, the CDFI Fund will require Allocatees to invest the greater of its minimum percentage of Non-Metropolitan commitment or 80 percent of its maximum percentage of Non-Metropolitan commitment.
- Based on this evaluation and methodology for making Non-Metropolitan commitments, CY 2013 Allocation Awards were deemed final.