

CY 2014 NEW MARKETS TAX CREDIT PROGRAM

ALLOCATION APPLICATION REVIEW PROCESS AND GENERAL CHARACTERISTICS OF A HIGHLY RANKED APPLICATION

Overview

The Community Development Financial Institutions Fund (CDFI Fund) received 263 Allocation applications, requesting an aggregate total of \$19.9 billion in Allocation authority, through the calendar year (CY) 2014 Allocation application round of the New Markets Tax Credit Program (NMTC Program). The CDFI Fund awarded \$3.5 billion in Allocation authority authorized by the Tax Increase Prevention Act of 2014 and made available for the NMTC Program pursuant to the CY 2014 Notice of Allocation Availability (NOAA) published in the Federal Register on August 5, 2014, and approximately \$12.35 million in rescinded Allocation authority from prior application rounds.

This document is organized into two sections. The first section, Part I, describes the review process used by the CDFI Fund to evaluate CY 2014 NMTC Program Allocation applications. Part II provides information on the general characteristics of a highly ranked application.

Please note that the procedures discussed in this document were applicable for the CY 2014 Allocation application round. The CDFI Fund reserves the right to modify its policies, procedures, and/or evaluation factors in future Allocation rounds, consistent with the requirements specified in the corresponding NOAA and related application materials.

Part I. Allocation Application Review Process

Step 1. Phase 1 - Initial Application Review and Scoring

- The CDFI Fund's Phase 1 review process, for all eligible Applicants, required three reviewers to independently evaluate and score the Business Strategy and Community Outcomes sections of each application.
- Reviewers were professionals with strong credentials in community and economic development finance. Reviewers were selected based on a variety of factors, including 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 all conflicts of interest had been disclosed to the CDFI Fund. Reviewers were also required to sign a confidentiality agreement stating that they would not reveal any information obtained from the CDFI Fund during the review process.

- Reviewers were trained by NMTC Program staff to prepare them for the review process. The reviewers were provided with instructions and guidance on how to evaluate and score applications.
- The reviewers were then randomly assigned to teams and each reviewer evaluated and scored each application independently from the other reviewers assigned the same application. Reviewers evaluated and scored two of the four application sections, the Business Strategy and Community Outcomes sections. The other two sections were evaluated by NMTC Program staff during Phase 2.
- Reviewers also evaluated applications with respect to two statutory priorities that provided applicants with: (i) up to five additional points for demonstrating a track record of serving disadvantaged businesses or communities; and (ii) five points for committing to invest substantially all of the proceeds from Qualified Equity Investments (QEIs) in unrelated entities.
- To ensure consistency and accuracy with NMTC Program scoring guidelines, the evaluations by reviewers were analyzed by a team leader before submission. Team leaders were CDFI Fund staff and Federal employees from other government agencies. NMTC Program 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 base or section scores. An anomalous base score was deemed to have occurred when one of the three reviewer's 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 when one of the three reviewer's section score, in one of the two application sections scored, varied significantly from the median of the three reviewers' scores in either section. To resolve anomalous scores, a fourth independent reviewer was used to evaluate and score the section or sections in order 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: (i) an aggregate Base Score (without including priority points) of at least 132 points; and (ii) an aggregate score of at least 60 points in each of the two scored application sections, the Business Strategy and Community Outcomes sections. Thus, for example, an application with a section score of 60 in the Business Strategy application section combined with a score of 59 or lower in the Community Outcomes application section would not be considered highly-qualified and therefore, would not receive further consideration.
- In accordance with the policies set forth in the CY 2014 NOAA, highly-qualified Applicants were ranked in descending order based on their aggregate scores under the Business Strategy and Community Outcomes application sections, inclusive of half of the priority points and forwarded to an Allocation Recommendation Panel (Panel) comprised of CDFI Fund staff.
- For each highly-qualified application sent to Panel, panelists reviewed application materials, including the Management Capacity, Capitalization Strategy, and Information Regarding Previous Awards sections, which were not scored in Phase 1. The Panel also reviewed information related to prior Allocations (e.g. ATS, CIIS, etc.), if applicable. In determining their award recommendation, Panelists considered, among other things: any panel issues noted by the Phase 1 reviewers; the Applicant's track record of providing loans and/or equity investments, its

capacity to make and monitor NMTC investments; the existence of notable relationships and how such relationships will create benefits (i.e. cost savings, lower fees) for unaffiliated end-users; the reasonableness of projected community development outcomes for Low-Income Communities, (LICs) residents, and/or Low-Income Persons; the financial health and fee/compensation structure of the Applicant; and the distribution of benefits among the investor, CDE and QALICB. Panelists also considered the consistency of the Applicant's past NMTC activities with past Allocation applications (if applicable), proposed commitments to provide QLICs in non-metropolitan counties and engage in innovative activities. The Panel recommended Allocation awards of approximately \$3.512 billion, the total amount of Allocation Authority available for the NMTC Program for the CY 2014 Allocation application 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 including, among other things, whether: (i) 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) prior-year Allocatees successfully issued the minimum requisite amount of QEIs from prior NMTC Program Awards, as specified in the CY 2014 NOAA; (iii) prior-year Allocatees were compliant with the requirements of 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 2014 NOAA, point deductions were applied in the case of prior CDFI Fund Awardees and Allocatees (or its Affiliates) that failed to meet reporting deadlines the reporting deadlines that occurred during the period from September 18, 2013 to the application deadline in the CY 2014 NOAA (October 1, 2014).
- As stated in the application materials, any Applicant that was 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 an NMTC Allocation.

Step 3. Initial Allocation Determinations

- After all scoring anomalies were resolved and Phase 2 of the review process was completed, the rank order list of Applicants, with Panel recommendations, was forwarded to the Selecting Official for an Allocation determination.
- The Selecting Official made Allocation determinations based on the \$3.512 billion in Allocation Authority available for the NMTC Program for the CY 2014 Allocation application round which includes \$3.5 billion authorized by the Tax Increase Prevention Act of 2014 and made available for the NMTC Program under the CY 2014 NOAA published in the Federal Register on August 5, 2014 as well as approximately \$12.35 million in rescinded Allocation Authority from prior Allocation rounds.
- Applicants that did not receive a Phase 2 Panel Review Allocation recommendation included those deemed to be ineligible based on the CY 2014 NOAA and NMTC Program policies and procedures (e.g., applications submitted by common enterprises, prior-year Allocatees that were unable to meet their minimum QEI issuance requirements, etc.), highly-qualified Applicants that did not achieve a high enough rank score including those that received lower scores as a result of points deductions for late reporting, and Applicants that were not highly-qualified.

- In addition, Applicants that did not receive an Allocation recommendation included those deemed to exhibit material deficiencies that would preclude the Applicant from effectively managing an Allocation. Areas in which Applicants exhibited material deficiencies included financial health, management capacity, or track record of providing loans or equity investments.
- 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 2014 NOAA, the CDFI Fund reviewed the initial Allocation determinations to ensure that: (i) the proportion of Allocatees that are Rural Community Development Entities (CDEs)¹ 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 2014 Allocation application 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. The CDFI Fund did not need to add Rural CDEs to the awardee pool, since the proportion of Rural CDEs in the awardee pool (15.8 percent) exceeded the proportion of Rural CDEs in the highly qualified pool (11.0 percent).
- With respect to the objective related to have at least 20 percent of all Qualified Low-Income Community Investments (QLICs) made in Non-Metropolitan Counties, 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 2014 Allocation application round, in order to reach a minimum of 20 percent Non-Metropolitan QLICs of the total projected QLICs, each Allocatee shall be required to invest the larger of its (1) minimum percentage of Non-Metropolitan commitment or (2) 87 percent of the maximum percentage of Non-Metropolitan commitment. Of the 76 Allocatees selected to receive an award, 31 committed to making a maximum of Non-Metropolitan investments of more than 0 percent. Of those 31 Allocatees, 17 are required to invest 87 percent of their maximum commitment and 14 were held to their minimum commitment, because 87 percent of the maximum resulted in amounts less than their minimum commitment. As result, these Allocatees were required to invest \$689,184,500 or 20.04 percent of QLICs in Non-Metropolitan counties.
- Based on this evaluation and methodology for making Non-Metropolitan commitments, CY 2014 Allocation Awards were deemed final.

Part II. General Characteristics of a Highly Ranked Application

In order to receive a score in the highest range in each of the two scored application sections and receive the maximum Priority Points, an Applicant generally needed to demonstrate the following characteristics:

A. Business Strategy

¹ 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.

1. **Products, Services and Investment Criteria (Questions 14-16).** In offering investments in underserved markets, the Applicant clearly demonstrated that its products will be non-traditional or significantly more flexible than market standards. When describing financial products, narratives for each product were distinct, described the circumstances under which and how frequently the best rates and terms would be available, and provided examples and comparisons to typical market financial products. For all Applicants, except those solely offering Financial Counseling and Other Services (FCOS) or purchasing loans from other CDEs, the Applicant indicated (in Question 15) that 100 percent of its QLICs will be provided in the form of equity; equity-equivalent financing; debt with interest rates at least 50 percent below-market; or debt that otherwise satisfies at least five indicia of flexible or non-traditional rates and terms, as specified under Question 14. Applicants investing in other CDEs demonstrated a high likelihood that they will pass favorable rates and terms along to the borrowers. Applicants purchasing loans from other CDEs committed to require the selling CDE to re-invest at least 85 percent of these proceeds as QLICs.
2. **Prior Performance (Questions 17-18, and Exhibit A).** The Applicant demonstrated an excellent track record of directly providing, during each of the past five years, products and services similar to those it intends to deploy with the QEI proceeds. Applicants with a relatively limited track-record of QLICI-type activities could also score highly if they had a very strong five year or longer track record of non-QLICI like investments that were clearly relevant to its business strategy. Activities in which the Applicant had placed its own capital at risk were given greater weight over ancillary activities such as loan packaging or facilitating transactions.
3. **Projected Business Activities (Question 19, and Exhibit B).** The Applicant demonstrated its capacity and strategy for deploying QLICs in a timely manner. The Applicant demonstrated that its direct financing track record was 80 percent or more of the projected NMTC deployment listed in Exhibit B. If the Applicant proposed to fund a single or discrete number of projects, the Applicant demonstrated that it was highly likely that its proposed pipeline projects were feasible based on the ability to secure financing, that they would close as planned, that the risks to timely closing were limited and clearly identified, and a superior risk mitigation plan was presented. If the Applicant proposed to fund a general pipeline in Question 19, the Applicant clearly demonstrated that, based upon its progress-to-date in identifying deals and the credibility and reliability of its projections, it is likely to be able to begin making NMTC investments by June 2016.
4. **Value Added and Innovative Investments (Question 20).** The Applicant demonstrated that an Allocation will add value to the Applicant's investments that would not otherwise occur. For each response provided in Question 20 (a-c), if provided by the Applicant, the Applicant demonstrated added value in the form of: (a) a significant increase in the volume of the Applicant's overall activities; (b) enabling the Applicant to undertake activities with significantly greater financial risk than without NMTCs; and/or (c) enabling the Applicant to engage in clearly quantified, specific innovative uses of an Allocation. (Only those value added responses offered by the Applicant were evaluated and any non-response was treated as not applicable for scoring purposes).
5. **Notable Relationships (Question 23).** The Applicant either: (i) did not report any notable relationships where the Applicant, its Affiliates or personnel would receive financial benefits from QALICBs financed with the Applicant's QLICs; or (ii) the Applicant did report that notable relationships will exist with the QALICBs it finances (e.g., as an owner, project developer or lessee of a commercial property), and the Applicant demonstrated that these relationships would provide clear benefits and result in significant added value (e.g. cost savings, lower lease rates or

fees) for unaffiliated end-users (e.g., QALICBs, tenant businesses, or residents) in Low-Income Communities.

B. Priority Points

1. **Track Record of Servicing Disadvantaged Businesses and Communities (Questions 17-18 and Exhibit A)** The Applicant demonstrated five or more years of experience providing capital and/or technical assistance to disadvantaged businesses and communities (DBC). The Applicant also demonstrated that at least 60 percent of its total dollar volume of direct financing activities has been provided to DBCs.
2. **Investments in Unrelated Entities (Question 22).** The Applicant indicated that it will use substantially all of the proceeds of its QEIs to make QLICs in one or more businesses in which persons unrelated to the Applicant hold the majority interest.

C. Community Outcomes

1. **Targeting Areas of Higher Distress (Question 24).** The Applicant indicated that it will commit to providing at least 75 percent of its activities in specified areas of severe distress and/or areas characterized by multiple indicia of distress. The Applicant also demonstrated one or more specific and thorough strategies for locating and prioritizing investments in highly distressed communities.
2. **Community Development Outcomes (Question 25).** For each outcome selected in Question 25, the Applicant demonstrated that its planned investments are likely to result in significant quantitative and qualitative community outcomes that would clearly benefit Low-Income Persons (LIPs) or residents of Low-Income Communities. The Applicant's projections were supported by a clearly articulated methodology and assumptions. In addition, the Applicant demonstrated a strong track record of achieving outcomes similar in type and quantity to the selected outcomes. It also had a clear strategy or track record for tracking and documenting outcomes, as demonstrated through a clear and well-supported narrative.
3. **Community Accountability and Involvement (Question 26).** The Applicant showed that potential investments are supported by and beneficial to the communities it serves by having a comprehensive process for analyzing community benefits and for determining that investments align with community priorities. The Applicant also demonstrated an extensive track record of community engagement in past investment decisions.
4. **Additional Investment (Question 27).** The Applicant demonstrated a high likelihood that its proposed investments will result in additional private investment in LICs beyond the initial NMTC investment, as supported by a significant track record of financing catalytic projects that have spurred additional private investment. Also, the Applicant demonstrated that proposed investments will significantly contribute to the goals of broader (local, regional or state-wide) community or economic development strategies or initiatives.