



U.S. Department of Treasury  
New Markets Tax Credit (NMTC) Program  
Minority CDE Training & Technical Assistance  
Contract # TFSACDF15C0004

# TRAINING CURRICULUM

## Module 3

# Module #3

## *Strategic Planning for the CDE / Allocatee*

**Goal:** Creating a business strategy that is consistent with the CDE mission.

# The Purpose Driven CDE

- A Community Development Entity (CDE) is a domestic corporation or partnership that is an intermediary vehicle for the provision of loans, investments, or financial counseling in Low-Income Communities.
- To become certified as a CDE, an organization must submit a CDE Certification Application to the CDFI Fund for review. The application must demonstrate that the applicant meets each of the following requirements to become certified:
  - Be a legal entity at the time of application;
  - Have a primary mission of serving LICs; and
  - Maintain accountability to the residents of its targeted LICs.

<https://www.cdfifund.gov/programs-training/certification/cde/Pages/default.aspx>

# The Purpose Driven CDE

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**Community Development Entities must use...**

**Substantially All of the proceeds from...**

**Qualified Equity Investments to make...**

**Qualified Low-Income Community Investments in...**

**Qualified Active Low-Income Community Businesses located in...**

**Low-Income Communities.**

# What Is My Story?

- What is unique about my CDE?
  - Relationships
  - Product/Service Niche
  - Familiarity with Area
- How can I uniquely or more effectively offer financial resources to my targeted communities?

From This...



...To This!



# CDE Story

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## What do customers expect from the CDE?

- Financial Support – Gap Financing / Financing Terms not available through traditional financing sources
- Expertise – Utilizing / Combining specialty tax financing and other sources of capital
- Information – Knowledge of area dynamics, planned development, and regulatory and political considerations
- Performance – Timely and effective execution of contemplated financing

# Who Are Key Stakeholders?

## Key Stakeholders:

- Tax Payers – Ultimately bear the cost of the NMTC subsidy
- IRS – Issues Regulations and monitors compliance with the tax code (IRC)
- CDFI Fund – Certifies CDEs and awards tax credits through a competitive process
- Investors – Invest equity in the CDE in exchange for tax credits
- Leverage Lenders – are the primary economic investors
- CDE – Uses NMTC dollars to invest in LIC businesses.
- QALICB – Utilizes NMTC dollars to finance gaps in funding community projects (“but for”).
- Low-Income Community – Ultimate beneficiary of NMTC proceeds

# Who Are Key Stakeholders?

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## At the CDE Level

- Working with people and businesses with ties to the community.
- Local Alliances- coalitions and alliances with community members, developers, and local political leaders.
- QALICBs – Those currently capable, and those “capable of becoming capable” with appropriate capital.
- Community members that can contribute to success of the CDE, and therefore, to the success of the community.



# Who Should be LIC Representatives?

- What advice/input do I need to make my CDE effective?
  - Community development master plan
  - Relationship with community “movers & shakers”
- How can my Advisory/Governing Board help me:
  - By identifying projects beneficial to the LIC and its residents?
  - By gaining LIC insights?
  - Through project feedback from community stakeholders?
  - Improving the capacity of my CDE with expertise?

# What is the Risk?

- None or sparse allocations
  - Time and energy spent that don't result in an allocation
  - Sparse allocation: inadequate, unsustainable revenue
- Loss of key personnel
- Failure to timely deploy
  - Pipeline changes, project unreadiness, other financing sources not ready/available
  - Leads to CDE default of Allocation Agreement;
  - Jeopardizes reputation in the industry with Investors, other CDEs & QALICBs
- Recapture – Discussed earlier in Module One

# What Is the Reward?

## CHANGE

in <b>Financial Resources:</b>	Debt & Equity
in <b>Employment Status:</b>	New/Quality Jobs
in <b>Environment:</b>	New/Renovated Buildings, Brownfields Remediated
in <b>Communities:</b>	Life – Thriving Business and Residential Activity
in <b>Lives:</b>	Access: to Jobs, Health Care, Education, Capital – Hope.

# What Do I Need?

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- What does success look like and how do I get there?
  - Business Strategy consistent with CDE's past performance and capabilities
  - Appropriate product design – Traditional or Innovative
  - Capital Raising – Various sources
  - Balancing financial results and community outcomes
  - Administrative skills and capacity to underwrite, close, and monitor community development projects
  - Receive an NMTC Allocation – Write a successful NMTC application
- There could be other roles that you may consider in lieu of seeking an allocation

# Defining Geographic Service Area

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- What area have we served successfully in the past?
- Is that geography large enough to be NMTC viable?
  - Is there sufficient need for NMTC in the area?
  - Are there multiple projects needing NMTC financing?
  - Will the area support reinvestment, if necessary?
  - How does it fit into my organization's current long term strategy?
- If not, what can we do to expand our service area and still be effective?

# Defining CDE's Financial Products

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- Products that meet NMTC Program compliance
- Community relevance – Products appropriate for community needs
- Understanding NMTC complexity
- How do the proposed financial products match with track record in type, scale, volume?
- Managing revenue (fees) and competitiveness

# Financial Products

- Debt – Contractual obligation to repay
- “Equity-like” Debt – e.g. *Debt with Warrants*
- Equity – “Patient Capital” – Distributions based upon profitability
- “Debt-like” Equity e.g. *Preferred Equity; Preferred Equity Investments (PEI)*
  - Sits Lower than Debt, Higher than Equity
  - No Maturity; No Dilution of Ownership, Payments are not required
  - PEIs typically earn a higher rate of return than debt, and may earn a share of cash flow. The preferred **equity investor generally has consent over “major decisions”**, may have buy-sell or put rights, and removal rights (remove the managing member or general partner).

# Defining Financial Products

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Flexible or non-traditional features as part of the financial product:

- Below market interest rates (or rate of return in the case of Equity Investments)
- Lower than standard origination fees
- Longer than standard period of interest-only loan payments
- Higher than standard loan-to-value ratio
- Longer than standard amortization period
- More flexible borrower credit standards
- Non-traditional forms of collateral
- Lower than standard debt service coverage ratio
- Subordination



## WIIFM? What is in it for Me?

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- Change agent – creating positive community change
- Build relationships
- Build capacity
- What about income?
  - How much is too much?
  - How much is not enough?

# Strategic Business Plan

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- How am I Unique?
- What are my Strengths?
- Matching Community Needs with CDE Resources
- Pipeline – Creating & Prioritizing – LIC Representatives
- Community Outcomes – Differentiation
- Relevance – Multiple Services
- Sustainability - Multiple Streams of Income

## Other NMTC Related Activities

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- Leverage Lender in an NMTC transaction – Sufficient capital?
- Become an Investor in an NMTC transaction – Federal tax liability?
- Be a Secondary CDE in financing an NMTC project – Capability?

## In Summary

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- CDE Mission – must receive CDFI Fund certification
- My Story – How is my CDE Unique?
- What are my Strengths?
- Recognizing Key Stakeholders
- Key Risks
- Key Rewards
- Next Steps to Success
- Defining Financial Products
- Strategic Business Plan
- Other NMTC-Related Activity