CY 2022 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 197 Allocation Applications, requesting an aggregate total of $14.8 billion in allocation authority, through the calendar year (CY) 2022 Allocation Application round of the New Markets Tax Credit Program (NMTC Program). The CDFI Fund awarded $5 billion in allocation authority pursuant to the Taxpayer Certainty and Disaster Tax Relief Act of 2020, and made available for the NMTC program pursuant to the CY 2022 Notice of Allocation Availability (NOAA) published in the Federal Register on November 18, 2022.

This document is organized into two sections. The first section, Part I, describes the review process used by the CDFI Fund to evaluate the CY 2022 NMTC Program Allocation Applications. Part II provides information on the general characteristics of a highly ranked application.

Please note that although the procedures discussed in this document are applicable for the CY 2022 allocation round, these procedures may not apply to other allocation rounds. The CDFI Fund reserves the right to modify its policies, procedures, and/or evaluation criteria in future allocation rounds, consistent with the requirements specified in the corresponding NOAA and related application materials for that round.

Part I. Allocation Application Review Process

Step 1. Initial Application Review and Scoring (Phase 1)

- The CDFI Fund's Phase 1 review process, for all eligible Applicants, required two 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; experience in business or real estate finance; experience with business counseling or secondary market transactions; experience financing community-based organizations; knowledge of NMTC or other tax credit programs (Low-Income Housing Tax Credit, Historic Tax Credit, etc.).
- 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 disclose 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 of two. Each reviewer evaluated and scored each assigned application independently from the other reviewer 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. NMTC Program staff provided oversight of team leaders throughout the application review process.
- After each application was reviewed by the two Phase 1 reviewers, an analysis was conducted to identify anomalous base or section scores. An anomalous base score was deemed to have occurred when the difference between the two reviewer base scores, divided by the higher of the two base scores, was significant. An anomalous section score was deemed to have occurred when one reviewer's section score varied significantly from the other reviewer's section score. To resolve anomalous scores, a third 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. Panel Review and Recommendations (Phase 2)

- 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 score of at least 40 points in each of the two scored application sections; and (ii) an aggregate base score (excluding priority points) of at least 85 points. Thus, for example, an application with a section score of 40 in the Business Strategy application section combined with a score of 38 in the Community Outcomes application section would not be considered highly qualified and therefore, would not receive further consideration.
- Of the highly qualified Applicants, those that were most highly ranked were considered for an allocation. In accordance with the NOAA, section V.C, 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 (the Panel) comprised of CDFI Fund staff.

- For each highly qualified application sent to the 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., data from the CDFI Fund's Awards Management Information System, known as AMIS, audited financial statements, supplemental information requested by the CDFI Fund, etc.), if applicable. In determining their award recommendation, Panelists considered, among other things: (i) any issues noted by the Phase 1 reviewers; (ii) the Applicant's capacity to deploy and monitor NMTC investments; (iii) the Applicant's track record of providing direct loans and/or equity investments; (iv) the existence of notable relationships and how such relationships will create benefits (i.e. cost savings, lower fees) for Qualified Active Low-Income Community Businesses (QALICBs) or unaffiliated end-users; (v) whether clear and meaningful community outcomes are likely to occur and benefit Low-Income Persons and/or residents of Low-Income Communities, based on the Applicant's pipeline projects; (vi) the financial health and fee/compensation structure of the Applicant; (vii) the distribution of benefits among the investor, Community Development Entity (CDE) and QALICB; and (ix) the Applicant's track record of raising QEIs. Panelists also considered the consistency of the Applicant's past NMTC activities[1] with prior Allocation Applications (if applicable), as well as the Applicant's proposed commitments to provide Qualified Low-Income Community Investments (QLICIs) in Non-Metropolitan Counties and engage in innovative investments. The Panel recommended allocation awards based on $5,000,000,000 of allocation authority available for the NMTC Program for the CY 2022 allocation round. 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: (i) whether an Applicant or its Affiliates that have been awarded funds through other CDFI Fund programs were compliant with the assistance or award agreement; (ii) whether prior-year Allocatees successfully issued the minimum requisite QEIs and made the minimum requisite QLICIs from prior NMTC Allocations as specified in the NOAA; (iii) whether prior-year Allocatees were compliant with the requirements of past Allocation Agreements; (iv) for regulated financial institutions, information from the Applicant's primary federal regulator; and (v) information related to the Assurances and Certifications section of the application. As specified in the NOAA, point deductions were applied in the case of prior CDFI Fund Awardees and Allocatees (or their Affiliates) that failed to meet reporting deadlines since the last application round.
- 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.

[1] In the case of Applicants (or their Affiliates) that are prior year Allocatees, the CDFI Fund reviewed the activities of the prior year Allocatees to determine whether the entity: (a) effectively utilized its prior-year allocations in a manner generally consistent with the representations made in the relevant allocation application (including, but not limited to, the proposed product offerings, QALICB type, fees and markets served); (b) issued QEIs and made QLICIs in a timely manner; and (c) substantiated a need for additional allocation authority.

Step 3. Initial Allocation Determinations

- After all scoring anomalies were resolved and the Phase 2 review process was completed for the most highly ranked Applicants, the Panel's recommended allocation amount for each application was forwarded to the Selecting Official.
- The Selecting Official made allocation determinations totaling the $5 billion in allocation authority made available for the NMTC Program under the CY 2022 NOAA. Allocation determinations were made in descending final rank score order until available allocation authority was exhausted.
- Generally, Applicants who scored highly enough to be considered by the Panel but did not receive an allocation were either found to be ineligible or deemed to have exhibited significant deficiencies. For example, an Applicant may have misrepresented the Applicant's (or Controlling Entity's) track record of direct loans and/or equity investments, had a track record that did not support an allocation, demonstrated significant deficiencies in management and/or internal controls, failed to use prior NMTC allocation(s) in a manner that is generally consistent with the business strategy set forth in the Allocation Application(s) related to such prior allocation(s); or provided application responses that were contrary to the guidance provided in the Allocation Application materials, including the Application Frequently Asked Questions (FAQ) document.
- 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. Non-Metropolitan Commitments and Final Award Determinations

- Next, as provided for in the NOAA, the NMTC Program staff reviewed the initial allocation determinations to ensure that: (i) the proportion of Allocatees that are Rural Community Development Entities (Rural CDEs)[2] was, at a minimum, equal to the proportion of highly qualified Applicants that were Rural CDEs; and (ii) at least 20% of all QLICIs made by Allocatees under the CY 2022 allocation round would be invested in Non-Metropolitan Counties, based upon commitments made in their applications.
- The CDFI Fund reserved the right to adjust the Allocatee pool to ensure these two objectives were met. With respect to the first objective (i), the CDFI Fund did not need to add any Rural CDEs to the Allocatee pool to ensure that the percentage of Rural CDEs that received NMTC allocations was equal to or greater than the percentage of Rural CDEs in the "highly qualified" applicant pool. Overall, 21 Rural CDEs received NMTC allocations (20.59%), which exceeded the percentage of Rural CDEs in the highly qualified pool (19.3%).
- With respect to the objective to have at least 20% of all QLICIs made in Non-Metropolitan Counties (ii), the CDFI Fund reserved the right to require Applicants to commit up to their stated "maximum," as opposed to their stated "minimum," commitment for investing in Non-Metropolitan Counties. For the CY 2022 allocation round, the CDFI Fund will require Allocatees to invest their "minimum" commitment into Non-Metropolitan Counties.

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[2] A CDE that has a track record of at least three years of direct financing experience, has dedicated at least 50% of its direct financing dollars to Non-Metropolitan Counties over the past five years, and has committed that at least 50% of its NMTC financing dollars with this allocation will be deployed in such areas.

- Following this evaluation and methodology for ensuring Non-Metropolitan commitments, the CY 2022 NMTC 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. ***Products, Services and Investment Criteria (Application Questions 14-16).*** The Applicant clearly demonstrated that its products will be significantly more flexible than market standards. For each product, the Applicant clearly described the circumstances under which and how frequently the best rates and terms would be available, and provided examples and comparisons to what is typically offered by the Applicant and offered by other financial institutions or investors in the Applicant's service area. The Applicant provided an example of how each proposed product will be used to finance a projected NMTC investment. For all Applicants, except those solely offering Financial Counseling and Other Services or purchasing loans from other CDEs, the Applicant indicated (in Question 15) that 100% of its QLICIs will be provided in the form of equity; equity-equivalent financing; debt with interest rates at least 50% 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 95% of these proceeds as QLICIs and those loans purchased included rates, terms and/or conditions that would not be possible without the benefit of an NMTC Allocation.
2. ***Projected Business Activities (Question 17, 18, and Exhibit A).*** The Applicant clearly demonstrated its ability to deploy QLICIs commensurate with the allocation request. For the proposed general pipeline in Question 17, the Applicant identified the total number of businesses or CDEs and total dollar amount of NMTC financing/investment to be provided, indicated what portion of the Applicant's pipeline falls into different business types ((e.g., community facilities, retail, industrial, etc.) and activity types (e.g. loans to QALICBs, investments in CDEs, loan purchases from CDEs, etc.). Based upon the details it provided for its pipeline projects in Question 17 and Table A5 (e.g., identified businesses, total QEI and QLICI to be provided, planned uses of financing, and projected closing date), and the credibility and reliability of its projections, the Applicant demonstrated it is likely to be able to begin making NMTC investments in a timely manner. The Applicant's strategy for identifying borrowers, investees, and other customers in Low-Income Communities (LICs) is highly likely to result in the types of NMTC investments described in its general pipeline. The applicant also clearly addressed the four key areas of analysis described in FAQ #58, that it conducts as part of its due diligence related to QALICB financial and operational viability, prior to making a QLICI.
3. ***Prior Performance (Questions 20-21, and Exhibit B).*** The Applicant demonstrated a track record of directly providing, during each of the past five years, products or services similar to

those it intends to deploy with the QEI proceeds. An Applicant with a relatively limited track record of QLICI-type activities could also score highly if it 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. At least 70% of the Applicant's proposed NMTC investments were supported by a track record of similar business types and activity types.

4. ***Prior Performance and Projected Business Activity (Questions 13, 17, 20, 21, and Exhibits A and B).*** The Applicant's track record included providing loans or investments to similar business types. The Applicant demonstrated that its most recent 5-year direct financing track record was 90% or more of its projected NMTC deployment in Exhibit A.

B. Priority Points

1. ***Track Record of Servicing Disadvantaged Businesses and Communities (Questions 20-21 and Exhibit B).*** The Applicant demonstrated five or more years of experience providing capital and/or technical assistance to disadvantaged businesses and communities (DBCs). The Applicant also demonstrated that at least 70% of its total dollar volume of direct financing activities has been provided to DBCs.
2. ***Unrelated Entities (Question 23).*** The Applicant indicated that it will commit to using substantially all of the proceeds of its QEIs to make QLICIs in one or more businesses in which persons Unrelated to the Applicant hold the majority equity interest.

C. Community Outcomes

1. ***Targeting Areas of Higher Distress (Question 25).*** The Applicant indicated that it will commit to providing at least 85% of its QLICIs in specified areas of severe distress and/or areas characterized by multiple indicia of distress. The Applicant also demonstrated that its strategy for locating and prioritizing QLICIs in highly distressed communities is highly likely to be effective.
2. ***Community Development Outcomes (Question 26).*** For each outcome selected in Question 26, the Applicant demonstrated that its planned investments are likely to result in significant community outcomes that would clearly benefit Low-Income Persons and/or residents of LICs. All of the Applicant's projected community outcomes are quantified and supported by sound and clearly explained methods. The Applicant demonstrated that it validated the reasonableness of the quantified projections with metrics obtained from or informed by third party source(s), where required based on the outcomes selected. In addition, the Applicant demonstrated a strong track record of achieving outcomes similar in type and quantity to the projected outcomes.
3. ***Tracking Community Outcomes (Question 26b).*** The Applicant described a thorough track record and robust methodology for tracking all projected community outcomes.
4. ***Community Accountability and Involvement (Question 27).*** The Applicant showed that proposed investments are supported by and beneficial to the communities it serves by outlining an effective process, including a significant role for LIC representatives on its Advisory and/or Governing Board, to ensure planned investments align with LIC priorities. The Applicant also demonstrated an extensive track record of project-specific community engagement in past

investment decisions and how its proposed investments will contribute to broader (local, regional, or state-wide) community or economic development strategies or plans.