Combined CY 2015 – CY 2016 NEW MARKETS TAX CREDIT PROGRAM

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

Overview

On October 21, 2015, the CDFI Fund released the CY 2015 Round New Markets Tax Credit Program (NMTC Program) Allocation Application and related materials, including the Notice of Allocation Authority (NOAA) pending Congressional reauthorization of the New Markets Tax Credit (NMTC). On December 16, 2015, the Community Development Financial Institutions Fund (CDFI Fund) received 238 Allocation applications, requesting an aggregate total of $17.6 billion in allocation authority. After receipt of the CY 2015 Round applications, the Protecting Americans from Tax Hikes Act of 2015 (PATH Act) reauthorized the NMTC for CY 2015 through CY 2019 providing tax credit authority at $3.5 billion per year. The CDFI Fund amended the CY 2015 NOAA to combine the CY 2015 and the CY 2016 NMTC authority into one allocation round (herein referred to as the "combined CY 2015 - CY 2016 allocation round"). The combined CY 2015 – CY 2016 allocation round enables the CDFI Fund to "catch up" and award allocations during the calendar year of the authorization. [1]

This document is organized into three sections. The first section, Part I, describes the review process used by the CDFI Fund to evaluate the CY 2015-2016 NMTC Program Allocation applications. Part II provides information on the general characteristics of a highly ranked application. The last section, Part III, provides CY 2015-2016 applicants not selected to receive an allocation with their scoring ranges for the two scored sections of their Application and the scoring range for their Base Score and Final Rank Score (Figure 1a and 1b, respectively). Figure 1a also indicates whether the Applicant met the minimum scoring threshold required to be considered highly qualified for each scored section (Business Strategy and Community Outcomes), as well as for the Applicant's Base Score. If an Applicant met the minimum scoring threshold for each of the three criteria, the Applicant would be considered for a Phase 2 Panel Review. Figure 2 provides a visual representation of the Final Rank Score distribution for all eligible CY 2015-16 Applicants.

Please note that although the procedures discussed in this document are applicable for the combined CY 2015 – CY 2016 allocation round, these procedures may not apply to other application rounds. The CDFI Fund reserves the right to modify its policies, procedures, and/or evaluation factors in future allocation

[1] As a result of delays in Congressional reauthorization over several years, the CDFI Fund's schedule for awarding NMTC allocation authority has shifted from awarding NMTC allocations in the calendar year for which they were authorized.

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 reviewer's base score (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 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 score of at least 60 points in each of the two scored application sections; and (ii) an aggregate Base Score (without including priority points) of at least 126.5 points. Thus, for example, an application with a section score of 60 in the Business Strategy application section combined with a score of 58 in the Community Outcomes application section would not be considered highly-qualified and therefore, would not receive further consideration.
- In accordance with the NOAA, section V.C.1, 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. ATS, CIIS, etc.), if applicable. In determining their award recommendation, Panelists considered, among other things: any panel issues noted by the Phase 1 reviewers; its capacity to make and monitor NMTC investments; the Applicant's track record of providing loans and/or equity 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), LIC residents, and/or Low-Income Persons; the Applicant's investment decisions aligning with community priorities; the financial health and fee/compensation structure of the Applicant; the distribution of benefits among the investor, CDE and QALICB; and the Applicant's track record of raising QEIs. Panelists also considered the consistency of the Applicant's past NMTC activities with prior Allocation applications (if applicable), proposed commitments to provide QLICIs in Non-Metropolitan Counties and engage in innovative activities. The Panel recommended Allocation awards of $7.0 billion, the total amount of allocation authority available for the NMTC Program for the combined CY 2015 – CY 2016 Allocation round, among the 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 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 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 its Affiliates) that failed to meet reporting deadlines in either of the past two fiscal years.

- 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 40 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 $7.0 billion in allocation authority available for the NMTC Program for the combined CY 2015 – CY 2016 Allocation round which includes $7.0 billion authorized by the PATH Act of 2015 and made available for the NMTC Program under the amended CY 2015-16 NOAA published in the Federal Register on April 20, 2016.
- In addition, Applicants that did not receive an award included those deemed to exhibit a critical deficiency, such as misrepresenting facts in the Application or in subsequent communication with the CDFI Fund; or the Application responses were contrary to the guidance provided in the Allocation Application materials, including the Application Q&A 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. Final Award Determinations

- Next, as provided for in the NOAA, the CDFI Fund 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 percent of all Qualified Low-Income Community Investments (QLICIs) made by Allocatees under the combined CY 2015 – CY 2016 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. The CDFI Fund did not need to add Rural CDEs to the awardee pool, since the proportion of Rural CDEs in the awardee pool (11.7%) was greater than the proportion of Rural CDEs in the highly qualified pool (11.5%).
- With respect to the objective to have at least 20 percent of all Qualified Low-Income Community Investments (QLICIs) made in Non-Metropolitan Counties, the CDFI Fund reserved the right to

[2] 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.

require Applicants to commit up to their stated "maximum," as opposed to their stated "minimum," commitment for investing in Non-Metropolitan Counties. For the combined CY 2015 – CY 2016 Allocation round, the CDFI Fund will require Allocatees to invest their maximum commitment in Non-Metropolitan Counties.

- Following this evaluation and methodology for ensuring Non-Metropolitan commitments, the combined CY 2015 – CY 2016 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 (Questions 14-16).*** In offering investments in underserved markets, the Applicant clearly demonstrated that its products will be 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 what is typically offered by the Applicant and offered by other financial institutions or investors in the Applicant's service area. 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 QLICIs 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 QLICIs.

2. ***Projected Business Activities (Question 17 and Exhibit A).*** The Applicant demonstrated its capacity and strategy for deploying QLICIs. If the Applicant proposed to fund a single or discrete number of projects, the Applicant demonstrated that it was highly likely that its proposed 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 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 businesses and activity types, and the extent to which the Applicant intends to invest dividends or interest earned and timeline for doing so. Based upon the details it provides for its pipeline projects (e.g. total QEI and QLICI to be provided by Applicant, underwriting status, and planned uses of financing), 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 is highly likely to result in the type of NMTC investments described in its general pipeline.

3. ***Prior Performance (Questions 19-20, and Exhibit B).*** 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.

4. ***Prior Performance and Projected Business Activity (Questions 17-20 and Exhibits A and B).*** An Applicant's track record includes serving businesses and activity types similar to all of the projected QLICI activities. The Applicant demonstrated that its most recent 5-year direct financing track record was 90 percent or more of its projected NMTC deployment in Exhibit A.

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 QLICIs; 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 19-20 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 percent of its total dollar volume of direct financing activities has been provided to DBCs.

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 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 25).*** For each outcome selected in Question 25, 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 Low-Income Communities. The Applicant's projections are quantified and supported by sound and clearly explained methods and metrics. 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 25b).*** The Applicant described a thorough track record and robust methodology for tracking all projected community outcomes, through a clear and well-supported narrative.

4. ***Community Accountability and Involvement (Question 26).*** The Applicant showed that proposed investments are supported by and beneficial to the communities it serves by outlining an effective process, including the role of Low-Income Community (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 it's proposed investments will significantly contribute to broader (local, regional, or state-wide) community or economic development strategies or plans.

5. ***Other Community Benefits (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.