PARTNERS FOR THE COMMON GOOD

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June 29, 2001

Mr. Jeffrey Berg
Acting Director
Community Development Financial Institutions Fund
U.S. Department of the Treasury
601 – 13th Street, N.W., Suite 200 South
Washington DC 20005

Dear Mr. Berg:

I am writing to submit formal comments on the New Market Tax Credit (NMTC) Guidance published in the Federal Register by the Community Development Financial Institutions (CDFI) Fund on Tuesday, May 1, 2001.

I. Who is Partners for the Common Good?

I am the Executive Director of Partners for the Common Good (PCG), Inc. ("PCG"). PCG is a 501(c)(3) non-profit socially responsible investment fund that seeks to apply the ethical principles of the "common good" to investment choices as a means of promoting economic justice and social change. PCG's mission is to aggregate capital from religious institutions and invest them in high impact socially responsible ventures. PCG makes loans, deposits or other investments in certified Community Development Financial Institutions and other community-based intermediaries that provide access to capital to, or promote economic opportunities for low-income people or others left out of the economic mainstream.

PCG was incorporated as a 501(c)(3) in May 2000. However, the PCG program of alternative lending has been in place since 1989 in the form of two successive limited partnerships, all of the limited partners of which were non-profit religious organizations. These two limited partnerships were affiliated with Christian Brothers Investment Services, Inc. (CBIS). CBIS is an investment advisory company that operates several investment programs for Catholic institutional investors. CBIS serves 1,100 Catholic institutions worldwide and has approximately $2.6 billion in assets under management. CBIS is currently playing a sponsorship role for PCG by providing financial and technical support during its start-up period. However, PCG operates independently of CBIS, having its own separate board of directors.

II. PCG's Model for Leveraging Non-Profit Investor Resources

The Fund's Guidance does not address the potential role that could be played by non-profit investors in using the New Market Tax Credit to leverage the resources of for-profit investors that have not traditionally supported community investing.

PCG is proposing to create an investment model that will utilize the resources of non-profit investors and the New Market Tax Credit to bring new investors and resources into the field of socially responsible investing and support community investments (see Attachment). It is our hope that this model can fit within the requirements of the NMTC Program. PCG's goal is to expand the overall pool of investment dollars in the community development field – rather than compete among other CDEs for the current limited pool of investors. PCG will seek to build a replicable model for CDEs to solicit investments from a broader segment of the financial services industry.

PCG proposes to create a subsidiary as a for-profit limited liability company which will apply for designation as a Community Development Entity (CDE), as well as submit an application to the CDFI Fund for NMTC allocation authority. The LLC will solicit direct investments from for-profit investors.

As discussed above, PCG has a substantial base of non-profit investors interested in maximizing their impact in promoting economic justice and social change. As non-profits, PCG's investor base is ineligible to receive the NMTC because they are exempt from taxation. These religious investors could, however, earn the tax credit indirectly by investing in another for-profit organization who, in turn, uses their investment proceeds to invest in a CDE. Thus, PCG is proposing to create a second for-profit subsidiary called the PCG Social Impact Fund ("SIF").

SIF would seek capitalization of $7-10 million and use the investment proceeds received from its non-profit investors to make a Qualified Equity Investment in the CDE. Assuming PCG's CDE is selected to receive an allocation, SIF would be eligible to receive the tax credit for its investment in the CDE. It is proposed that, as part of the LLC subscription agreement, SIF would assign, sell or otherwise transfer the rights to its tax credit benefits to be distributed to other investors in the limited liability company. The LLC could use the transferred tax credit benefits to target investors that have traditionally not engaged in community investing by enhancing their "return" with additional tax credits. In exchange for the transferred tax credit benefits, SIF would receive the first 3-5% of LLC earnings. SIF would distribute the earnings to its non-profit investors. Thereafter, SIF would receive distributions of earnings from the LLC on the same basis as other LLC investors. SIF and its non-profit investors would be required to hold their investments for a minimum period of seven years. Thus, although SIF would transfer its rights to the tax credit benefits, it would commit to holding its Qualified Equity Investment for the entire seven years to ensure that the other for-profit investors would be able to receive the redistributed tax credits.

The key question is: Can an NMTC recipient transfer his/her tax credit rights to another investor without transferring the actual equity investment if all investors agree to hold their investments for the minimum seven year period? If so, how?

As the Department works to finalize its regulations for the NMTC Program, we strongly urge you to permit the type of activity described above. The policy reasons for permitting such activity are compelling. PCG has a significant base of religious investors that wish to enhance their social impact "return" by leveraging and tapping new markets of investors. PCG is seeking to create a new mechanism for community-based intermediaries to access investment dollars from capital markets. By enhancing the return on a tax credit investment, PCG will seek to target investors motivated principally by profit maximization – rather than the Community Reinvestment Act. While banks play a critical role in supporting community-based intermediaries and promoting access to capital in low-income communities, their resources alone are insufficient given the magnitude of poverty in urban and rural America. PCG will seek to target:

- Socially Responsible Investment (SRI) funds that manage monies for individual and institutional investors using social screens. Generally, most SRI funds seek to achieve market or near-market returns. A 1999 study by the Social Investment Forum estimated that approximately $2.16 trillion is invested using some form of social criteria – of which only $5.4 billion -- one-quarter of one percent (0.25%) -- is in community investments. As a leading advisor and manager of funds for faith-based institutions, CBIS (PCG's sponsor) has strong ties to the SRI community. In fact, CBIS has been a strong proponent of the Social Investment Forum's "One Percent in Community" initiative which is designed to help move a total of one-percent of actively managed social investment dollars into community investing by the year 2005.

- Mutual funds and mutual fund managers that have significant business relationships with CBIS. As of 12/31/00, CBIS had approximately $2.6 billion of capital under management. In carrying out its investment programs, CBIS works through a series of investment management firms (e.g. Dodge & Cox, Dresdner RCM Global, Mellon Equity). With assistance from CBIS, PCG will seek to leverage these significant business relationships into investments into the LLC. The CDFI industry has been generally unable to tap into this market of investors at a significant scale. This is principally due to two factors: (1) mutual funds focus on maximizing returns for investors (CDFIs do not offer competitive investment opportunities); and (2) without an affirmative obligation to invest in communities, as required of banks and thrifts under the Community Reinvestment Act, mutual funds generally do not seek out relationships with CDFIs. Through its relationship with CBIS, PCG believes it has a strategic opportunity and advantage in soliciting investment from this sector.

The tax credit provides a tool for PCG to solicit investments from an untapped sector of investors. However, the 5- to 6-percent annual credit alone is insufficient to make community investments an attractive opportunity. If SIF is permitted to transfer its

NMTC rights to other for-profit investors, it will be able to offer such investors a higher return (e.g. 10-13% annually) and attract investors that otherwise would not consider community investing. Hence, the feasibility of PCG's strategy to tap new markets of investors will be significantly enhanced if it can offer a more competitive return via the NMTC benefits transferred from SIF.

I believe the model outlined above holds significant potential to tap new markets of investors and greatly enhance the impact of the NMTC Program. I strongly urge the Department give consideration to this model or other strategies that can use of the leverage of non-profit investors to bring private investment capital to under served markets.

Thank you for consideration of my comments.

Sincerely,

Jeannine S. Jacokes

Jeannine S. Jacokes
Executive Director