PHFA
PENNSYLVANIA HOUSING FINANCE AGENCY

Commonwealth Cornerstone Group

January 25, 2012

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Thank you for providing an opportunity to comment on the NMTC Program.

The Pennsylvania Housing Finance Agency ("PHFA") is a statewide agency, created by the Commonwealth of Pennsylvania to expand affordable housing opportunities, to fund community related and supportive programs, to provide specialized capital for lending programs, to expand opportunities in underserved markets and populations. As a sponsoring entity, PHFA facilitated the formation and qualification of the Commonwealth Cornerstone Group ("CCG") as a Community Development Entity (CDE) in 2004. CCG provides a natural nexus to support and foster economic and community development activities throughout the Commonwealth of Pennsylvania, and builds upon PHFA's considerable investments to affordable housing and community development. PHFA, in existence since 1972, has considerable knowledge and commitment to lower income communities and has designed programs throughout the years to expand economic opportunities and provide specialized financing for affordable housing and related investments and programs. The NMTC Program, and CCG's numerous successful allocations through the program beginning in 2006, have augmented these efforts.

As a strong advocate and supporter of the goals and opportunities created through the NMTC program, and on behalf of CCG, a successful allocatee in the program, we have reviewed the invitation to provide comment on some of the operational issues affecting the program.

The program has had enormous impact in Pennsylvania communities where investments have been made and we urge you to exercise caution in adjusting criteria that may affect the efficacy of the program. Bearing that in mind, there are certain areas where we urge you not to make changes suggested in your request for comments. As set forth in detail below, changes in fee/program costs are too fraught with peril for public-supported entities. On the other hand, we do suggest you consider ways to create more symmetry with other federal programs (by revising the definition of what constitutes a "rural" community) and by giving more- not less- flexibility to qualify community accountability representatives. Specific comments follow:

Comment 1- Low-Income Communities and Areas of Higher Distress

1(a) Consideration of different census tracts/methodologies for low income communities We encourage you to consider using the designations of "rural" communities set forth under the other federal programs. The rural designations currently found in the CDFI system are not consistent with those census tracts and definitions used in other federal programs, most notably, the US Department of Agriculture Rural Housing Program. The criteria used to define an area as "rural" by the US Department of Agriculture's Rural Housing Program (USDA RHP) provides significantly different results than those utilized by the CDFI Fund's current application of MSA county guidelines. In fact, the USDA RHP enables areas which recognize themselves as rural based on distance to urban areas and amenities, to qualify as rural under the program definition. In many cases, areas qualify that would not do so on the basis of qualifying only non-MSA counties as rural areas. Thus, utilizing the USDA RHP definition would make it easier to fund into these truly rural areas based on mission and allocation requirements. It is difficult to apply incongruent standards and to explain to folks with a good project in rural Pennsylvania that this federal program does not recognize their community as "rural". We urge you to review these disparate definitions and to consider the benefits of modifying the current CDFI standard for what constitutes "rural".

1(b) Increase in commitment to investments made in areas of higher distress- We support this increase, assuming the current number and categories of distress indicators remains.

Comment 2- Treatment of Certain Businesses

2(a) We offer no comment on this.

2(b) We do not favor a change in the allocation award process which would score certain business types over others. This program is intended to provide tools for local communities to address their needs. Flexibility is crucial to allow low income communities to use the most appropriate investment and business type to address their needs.

2(c) We offer no comment on this.

Comment 3- Community Accountability-Qualifications for an Entity to Qualify as a CDE

We urge you to consider revising these standards with a more holistic approach to allow mission-driven entities to qualify people who can truly offer insight and interest of the low income populations and communities in which they serve. While we recognize that there has been some concern about how accountable representatives are to the low income communities they are serving in some non-mission driven CDEs, this is not the case in a mission driven entity like CCG. In fact, we encourage you to use this opportunity to reevaluate how you determine true accountability, especially of public officials and entities.

3(a) No. The CDFI seems to be inadvertently favoring one particular model of CDE. In our particular experience, PHFA created a CDE to leverage the experience and knowledge gathered after many years of providing capital throughout low income communities and targeting investment opportunities for lower income households. The NMTC program is a natural extension to PHFA's efforts to enrich lower income communities and to create stronger economic opportunities in many areas where we have strategic housing investments and long-term knowledge of community. When we were qualifying our CDE's governing and advisory boards, we tried to ensure a broad representation of knowledgeable and engaged individuals with helpful skill-sets and information about lower income communities, populations and lending opportunities, and to inform the CDE's investment and operation as a statewide entity. Our goal was to develop boards which would have the capacity and depth of experience to provide significant input regarding the needs of the communities to be served.

We were successful in establishing a talented group of individuals to serve on our advisory board. In qualifying our members, however, we noted a certain rigidity regarding CDFI's qualification as a designee of low income communities. Specifically, certain statutory officials within the Commonwealth of Pennsylvania were not recognized by CDFI as representative of low income communities. For example, the Secretary of Public Welfare in the Commonwealth of Pennsylvania, a member of our advisory Board was not eligible to meet the low income representative. Likewise, the Secretary of Banking, a statewide official charged with increasing safe lending and economic banking practices statewide, was not deemed to meet the low income community representative designation. And finally, the Secretary of Community and Economic Development, a statewide agency designed to stimulate community and economic development throughout the state did not qualify. Each of these state officials is truly accountable to constituencies- their state cabinet positions require them to host public meetings within all of the lower income communities of the state, to address public concerns, and to be directly accountable for the policies and practices of low income communities. DPW represents the interests and administers programs targeting only lower income Pennsylvanians, the safety net for food stamps, low income household emergency energy weatherization funding programs, community protective services for frail elderly, homeless, persons with disabilities and very low income constituent groups. Banking is charged with ensuring financial access to lower income constituents, fair credit opportunities and consumer protection in all financial instruments and state regulated financial entities. Community and Economic Development administers programs which target funding activities to improve conditions and opportunities in lower income communities. These officials have superior knowledge of the opportunities, challenges and impediments facing lower income communities and lower income households. These officers are the public faces which are accountable at public meetings throughout the state to address these issues. We urge you to reconsider how the qualifications of acceptable lower income community representatives are determined.

3(b) No. The manner in which community accountability is achieved should not matter.

3(c) No. This has a grave risk of politicizing the internal operations of boards.

3(d) No. This too is fraught with too much uncertainty as to control and possible penalization of CDE operations for "fuzzy" standards, inconsistently applied.

3(e) No. This would add additional expense to the program, and the end goals are not clear.

3(f) No. The controlling entity may be a creature of state law, with membership determined by statute. We would not be able to meet the standards without having our state law amended. If these changes are adopted, please grandfather in existing entities and /or please change the standards to accommodate the public agency models, such as PHFA.

3(g) No.

3(h) Perhaps if CDFI explains what goals are trying to be achieved by suggesting enhancement to this category. Please consider providing examples of how CDEs are not serving in a way which is accountable to their service areas. In our experience, we have never been challenged regarding our investments, our program solicitation or in our evaluation of needs and community goals. We try to actively communicate throughout the entire state and solicit input and feedback. These very things should not be regulated, though. Overly regulating may simply create a "check the box" mentality, where there is no true improvement, but much more paperwork. Each CDE may have a unique mission and methodology for achieving that would be stymied by a one size fits all approach.

Comment 4. Transaction costs.

4(a) We urge you to be extremely cautious about unintended consequences if you attempt to apply limits on transaction costs. Fees and costs may be buried in different places when you have allocatees with related lending arms. It is not fair to other CDEs, particularly public CDEs such as CCG, which do not have these capital pockets across the aisle at the bank. The loans provided by the banks may be made with terms which escape scrutiny of the CDFI, yet they are indirectly being supported by the NMTC when there is a related party lender. Direct party loans made by the bank outside of the NMTC program or structure may bear higher fees and interest rates. In addition, the use of interest reduction notes enables a bank to structure the benefit so that what is seen is the reduced rate to the QALICB and not the increased yield to the lender through the advantage of being both lender and credit investor. It is also to keep in mind that many leveraged transactions, even with the higher costs to close, provide greater benefit to the QALICB when viewed as a whole, based on the combination of reduced interest rates and the conversion of all or a portion of the B Note at the end of the compliance period.

4(b) Again, there is too great a risk that bank-related CDEs will gain an unfair advantage.

4(c) Until the program is made permanent, it will be serviced by a small bar of qualified attorneys and accounting entities. These entities can dictate high fees for the highly specialized work they do. There is no incentive to standardize contract forms or structures. And the level of tax driven analysis required for the investors and the partnership structures does mandate a highly specialized professional effort. These specializations demand compensation.

Comment 5. Financial product evaluation

We urge you to leave enough flexibility for CDEs to design specific products based on the level of risk and underlying credit. Again, do not create a structure that will inadvertently allow bank based CDEs to gain advantage by manipulating the CDEs product offering here and then providing onerous credit lending standards on the loan underwriting.

Also, we urge you not to dictate a specific benchmark such as LIBOR since there may be changes in the level of confidence in the marketplace with such indices over time. (For instance, LIBOR rate setting during certain periods has been the subject of federal scrutiny.)

Comment 6. Leveraging other programs

No to all of these suggestions. It is hard enough now. Unless you think entities are "cheating", gaining unfair advantage, or double- dipping, there should be no limits on creating leverage with other competitive resources. It is important to recognize that those resources are also usually competitive and scarce, so only projects meeting their qualifications will be eligible. CCG works diligently to finance projects that are closely aligned to community planning efforts. In most cases, it takes considerable time and effort to piece together the required capital to fund the targeted transactions. This means a coordinated effort with groups who rely on access to federal and/or state resources to provide the requisite amount of capital to support the conventional debt which, when combined with the NMTC resource, makes the deal viable. These are not huge amounts from any one source of funding. Rather it is the coordination of various pools of funds to fill the remaining gaps that conventional debt cannot support.

One other important thing to note is that having more than one funding source and program participation often makes a stronger project for the entire community. Partnerships enhance confidence. More partners may become involved when they feel comfortable in sharing risk and reward, rather than in facing the project financing structure alone. These partnerships often lead to new lending, financial commitments, and social networking within the community.

Sincerely,

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