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Capital for Communities—
Opportunities for People®

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February 6, 2012

Mr. Robert Ibanez
NMTC Program Manager
Community Development Financial Institutions Fund
U.S. Department of the Treasury
601 13th Street NW., Suite 200 South
Washington, DC 20005

RE: CRF NMTC Comment Letter

Dear Bob:

On behalf of Community Reinvestment Fund, USA, ("CRF"), I appreciate this opportunity to share my views on the New Market Tax Credit Program in response to the Community Development Financial Institutions Fund's ("CDFI Fund") request for public comment published in the Federal Register on November 7, 2011.

BACKGROUND

CRF is a national, non-profit CDFI, and the nation's leader in channeling resources from the capital markets to support community development financing activities. Our mission is to transform the community development finance system by accessing capital markets on behalf of local lending organizations to promote long-term sustainable economic growth in low-income communities. Since 1988, CRF and its affiliates have delivered over $1.3 billion in capital, primarily to small businesses located in more than 750 communities across the country. CRF's New Markets Tax Credit ("NMTC") lending has been a critical piece of how we have delivered significant benefits to residents and workers in low-income communities. In all, more than 302,000 people have been employed or directly served because of NMTC loans, including:

- 17,450 jobs at the time of loan origination. Over 4,300 construction jobs.
- 8,000 student slots at educational facilities, including charter schools.
- 1,900 slots per year at job training centers.
- 500 child care slots.
- 17,200 people served annually at community health centers.
- 253,000 people served at other community facilities serving low-income communities/disadvantaged people.

CRF was founded on a vision of improving the lives of people living and working in economically distressed communities by creating investment tools that provide access to private sector capital. Over the years, we pioneered a number of innovative tools that enable institutional investors to participate in community development finance activities. We are best known for developing a secondary market for small business and affordable housing loans. Using mainstream securitization techniques, CRF became the first non-profit financial intermediary to issue securities collateralized by community economic development assets. Since 1989, we have issued nineteen series of Community Reinvestment Fund Revenue Notes totaling $325.3 million and three securities backed by affordable housing loans. We broke new ground for community development securities by issuing four rated debt offerings – all of which included a senior tranche rated "AAA" by Standard & Poor's.

Our securitization efforts were clearly path-breaking, but the true hallmark of CRF is our ability to adapt our financing tools to meet the "market need". We continually seek to connect underserved communities to new sources of capital. After the financial markets collapsed, a new tool was needed to help small businesses access financing. As a result, CRF acquired a national SBA 7(a) lending license to again provide access to capital for business borrowers, so many of whom are struggling to obtain credit in today's market.

In much the same way, CRF pioneered the use of the NMTC Program to deliver private sector capital to operating businesses in distressed communities. CRF was an early and passionate proponent of the NMTC Program. We were instrumental in shaping this new program because we saw the potential of the tax credit to support the credit needs of business borrowers and to induce market-rate capital to invest in low-income communities. Using our very first allocation, we developed a NMTC loan product that provides long-term, flexible, credit at below-market interest rates for businesses and community facilities seeking long-term fixed-rate financing. Since the inception of the NMTC Program in 2000, CRF has established a powerful and proven track record of originating and managing tax credit investments to underserved businesses located in low-income communities across the country. Together with its affiliate, National New Markets Tax Credit Fund, Inc., ("NNMTCF"), CRF has become one of the largest Allocatees in the country, receiving tax credit allocations in six of the eight funding rounds totaling $674.5 million and investing $52.5 million on behalf of other Allocatees. Working through our local lending partners, CRF has used tax credit resources to make flexible loans to businesses and community facilities located in highly distressed low-income communities.

GENERAL COMMENTS

Before addressing specific questions raised by the CDFI Fund, we would like to offer general comments on the New Market Tax Credit Program. We are dedicated to the success of this program and believe that the highest priority for the CDFI Fund and all stakeholders in the NMTC community should be the multi-year/permanent extension of the tax credit. Such an extension would not only provide additional certainty for investors, but it would also strengthen the ability of NMTC Allocatees to deliver the benefits of this financing to borrowers in low-income communities across the country. We realize extending the NMTC Program requires legislative action; however, we stand ready to assist the CDFI Fund in whatever way possible to achieve this goal.

We also wish to support the public comments submitted by the NMTC Coalition and the Novogradac NMTC Working Group. As active and engaged members of both organizations, we have helped to shape their respective comment letters. In general, we concur with the recommendations of each of these organizations. Our comments are intended to highlight areas where our role as a national, non-profit, CDFI organization can inform and support the industry.

SPECIFIC COMMENTS

The CDFI Fund is seeking comments on the following issues related to the NMTC Program:

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1. **Low-Income Communities and Areas of Higher Distress**

The NMTC Program targets Low-Income Communities (LICs), including Targeted Populations, as defined in 12 U.S.C. 4702(20). To encourage investment in areas experiencing greater economic distress, the CDFI Fund also provides an opportunity for applicants to score more highly by committing to making investments in Areas of Higher Distress. The CDFI Fund welcomes comments on the definition of "Low Income Community" and designation as an Area of Higher Distress. Specifically:

LICs are generally defined by statute as census tracts with a poverty rate of at least 20 percent or a median family income at or below 80 percent of the area median income. The CDFI Fund has relied upon decennial census data in determining whether census tracts meet these qualifications, and deems as eligible those census tracts which meet the statutory criteria, provided that the decennial census data shows that the "population for which poverty is determined" is greater than zero.

(a) Should the CDFI Fund consider using different standards or methodologies for determining whether census tracts meet the statutory definition of low-income communities? For example, could using different census data or a different methodology appropriately include census tracts that are currently excluded? Conversely, could using different census data or a different methodology appropriately exclude census tracts that are currently eligible (e.g., census tracts with low populations)? Please cite specific examples of census tract types (not individual census tracts) and sources of national census tract-level data the CDFI Fund could use to both map eligibility and monitor compliance.

CRF supports the response submitted by the Novogradac NMTC Working Group and the NMTC Coalition. Like our colleagues at these industry organizations, we applaud the CDFI Fund's efforts to work towards the adoption of the American Community Survey ("ACS") data with the 2010 decennial census data as way to determine the eligibility of census tracts. In the present economic environment, it is important to be able to identify census tracts that are distressed and eligible for investment based on current indicators rather than those that may have qualified nearly 10 years ago. These changes will help Allocatees to deploy the NMTC to areas that are suffering as a result of the Great Recession.

We also wish to commend the Internal Revenue Service ("IRS") for finalizing the regulations regarding Targeted Populations. The finalization of these regulations strengthens the ability of Allocatees to deliver the benefits of NMTC financing to low-income targeted populations outside of qualified low-income census tracts and provide additional certainty to investors that their investments comply with the requirements of the NMTC Program.

(b) In the allocation award process, should the CDFI Fund increase the commitment percentage from 75 percent of investments made in Areas of Higher Distress in order to receive the highest scores for this sub-section of the Community Impact score (See question 25(a) of the 2011 application)? Should the CDFI Fund include additional distress indicators, alter or eliminate any existing indicators?

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We recommend that the commitment percentage for investing in Areas of Higher Distress should remain at 75%. The NMTC Application process creates strong incentives for Allocatees to exceed the targeting requirements in Question 25(a), if they wish to secure an allocation of tax credits. The success of the NMTC Program has been its flexibility in how and which types of projects are financed. Keeping the commitment level at 75% allows more flexibility for CDEs in their project selection process and business operations. Many times there are higher impact projects that do not necessarily meet the criteria for Areas of Higher Distress. The difficulty with the requirement is that it may create an artificial barrier to funding excellent qualified projects. If the percentage was increased, these projects would be overlooked because they do not fit within the current list of Areas of Higher Distress indicia.

We would also like to comment on the standards used to determine whether non-metro (or rural) census tracts meet the eligibility criteria. A number of organizations, including CRF, have voiced concerns about the challenges associated with ensuring that NMTC financing is available for investments in rural or non-metro areas. Specifically, some definitions of "rural areas" inadvertently exclude certain communities making it very difficult for them to access this program.

CRF strongly urges the CDFI Fund to consider using a new system called Rural-Urban Commuting Area Codes, ("RUCAs"), developed collaboratively by the Health Resources and Service Administration's Office of Rural Health Policy, ("ORHP"), and the Department of Agriculture's Economic Research Service, ("ERS"). The rural-urban commuting area ("RUCA") codes classify U.S. census tracts using measures of population density, urbanization, and daily commuting patterns. This system more accurately characterizes geographic areas as urban or rural.

Using a definition based on RUCAs would make it easier for "rural areas" to access resources under programs like the NMTC, and avoid the recurring problem of inappropriately classifying many rural counties as "urban" or "metropolitan". St. Louis County in MN illustrates the problem many rural areas face when trying to apply for federal resources. Although vast portions of this county are federal wilderness areas and other areas are sparsely populated and should certainly be considered rural, under a county-based definition of rural, St. Louis is not classified as a rural area because it is in the MSA of the City of Duluth. Adopting a definition based on the RUCA codes would allow the NMTC Program to capture all areas that are rural and more effectively deliver tax credit resources to businesses and residents of these areas.

2. **Treatment of Certain Businesses**

The NMTC Program statute (at Internal Revenue Code § 45D (d)(2)) provides the definition of a Qualified Low-Income Community Business (QALICB), including certain types of businesses that cannot qualify based upon the nature of their operations (i.e., any trade or business consisting of the operation of any private or commercial golf course, country club, massage parlor, hot tub facility, suntan facility, racetrack or other facility used for gambling, or any store the principal business of which is the sale of alcoholic beverages for consumption off premises).

(a) Are there certain other types of businesses that should be discouraged or barred from receiving NMTC investments? If so, what types of businesses, and what administrative means could be utilized to discourage such investments?

We do not recommend that the CDFI Fund discourage or bar any other types of businesses from receiving NMTC investments. We are strong proponents of encouraging greater use of New Markets Tax Credits to support the financing needs of operating businesses. With unemployment at 8.3% and many businesses having difficulty accessing credit, it is vital that programs like the New Market Tax Credit be available to assist businesses that create jobs and serve as the engines of economic growth in our economy. We offer specific recommendations below as to how to facilitate greater use of the credit by operating firms. (See our comments below in section (c)).

(b) Should the CDFI Fund provide additional opportunities in the allocation award process for applicants to score more highly by committing to invest in certain business types over others (e.g., small business or rural investment, operating businesses vs. real estate projects, etc.)?

We do not recommend that the CDFI Fund provide opportunities in the allocation award process for applicants that commit to invest in certain types of businesses. The strength of the NMTC Program lies in its flexibility and the diverse range of projects and investments it finances. Creating incentives to invest in specific types of businesses could distort use of this highly effective and flexible credit.

However, we have outlined specific regulatory changes in two public comment letters[1] to the Internal Revenue Service ("IRS") that would encourage greater tax credit investment to finance operating businesses located in low-income communities. As noted above, we believe operating businesses are critical to stimulating our economy and jumpstarting job creation in underserved communities. We have included our recommendations from earlier comment letters in section (c) below.

(c) Are there specific administrative or regulatory changes that would facilitate the financing of specific types of businesses while preserving public policy objectives and safeguards?

CRF appreciates the opportunity to suggest administrative and regulatory changes to facilitate the financing of specific types of businesses while preserving public policy objectives and safeguards. Our comments focus on ways to enhance the ability of CDEs to make more investments in non-real estate or operating businesses.

First, we would like to thank you for issuing the September 22, 2011 Amendment to Section 3.3(h) of the Allocation Agreement. With the adoption of this language, the CDFI Fund provided clarification that allows operating companies to qualify as a Non-Real Estate ("NRE") Qualified Active Low-Income Community Business ("QALICB") if they hold their assets in a special purpose entity.

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[1] See CRF NMTC Comment Letter on Non-Real Estate Investments Reg. 101826-11 and CRF NMTC Comment Letter on Encouraging Non-Real Estate Investments Reg. 114206-11 both dated September 2, 2011.

We think there are two additional points that the Internal Revenue Service ("IRS") should consider making that would substantially increase the ability of CDEs to finance Non-Real Estate ("NRE") Qualified Active Low Income Community Businesses ("QALICB") with NMTC.

Non Qualified Financial Property / Reasonable Working Capital:

We support further regulatory clarification around the "non-qualified financial property" limitation -- particularly in regard to what is (and is not) "reasonable working capital". In addition, we support that extending the safe harbor period for funds held for construction from 12-months to 18-months is a "reasonable working capital". We believe that the 18-month timeframe is reasonable for an operating business involved in a construction project as the construction is secondary to running their primary focus, the business operations.

Substantially All / Principal Repayments:

In September 2011, CRF prepared a response to the Internal Revenue Service's request for comment on business lending. We recommended that the IRS provide a safe harbor protection for any CDE specifically organized to make QLICIs in operating businesses. CRF supports the Novogradac NMTC Working Group and NMTC Coalition's position that a safe harbor proposal designed to address investor concerns about the recapture risk associated with investing in CDEs that provide flexible debt and equity financing to non-real estate QALICBs. The 7-year term of the NMTC coupled with reinvestment and 'substantially all' requirements are the principal barriers that prevent more NMTC investment in operating businesses. Investors are well aware of the severe recapture penalties that are triggered if a CDE falls short of its 'substantially all' requirements at any point during the 7-year compliance period.

3. **Community Accountability**

The authorizing statute (Title I, subtitle C, Section 121 of the Community Renewal Tax Relief Act of 2000 (P.L. 106-554), as amended) and the CDFI Fund require certain community accountability and primary mission standards be met in order for an entity to qualify as a Community Development Entity (CDE). Moreover, the CDFI Fund evaluates CDE Applicants on certain community accountability dimensions. The CDFI Fund welcomes comments on the community accountability of CDEs. Specifically:

(a) Should the CDFI Fund increase the community accountability standards for an entity to qualify as a CDE? For example, (1) increase the minimum percentage of Low-Income Community Representatives required on the board (governing or advisory) that is providing accountability for the CDE; or (2) require some minimum of Low-Income Community Representatives to be locally based, such as local residents and/or government officials?

CRF recommends an increase in the minimum percentage of Low-Income Community Representatives from 20% to 30%. We understand the importance of community accountability, but also realize that an increase may have unintended administrative consequences that could fundamentally change the dynamics of the business operations of a CDE and increase the risk of NMTC recapture. Further, we recommend that any changes to Low-Income Community Accountability are made in the CDE Certification Application rather than through the NMTC Allocation Application and that the changes are applied prospectively, or that a reasonable transition period be provided to allow existing CDEs adequate time to make changes to their advisory/governing boards. Implementing a change like this will have consequences for CDEs with small advisory boards where the addition or subtraction of a single member can have a profound effect on whether the CDE meets the Low-Income Community Representation requirements and maintains its status as a certified CDE, one of the three events of NMTC Recapture.

If the CDFI Fund decides to raise the percentage of Low-Income Representatives on the governing or advisory board, we would also urge Staff to put into place an on-going cure period in addition to the initial transition period to allow CDEs to appropriately ensure continued compliance during the 7-year NMTC compliance period as the advisory board members may change over time. We would also like to highlight the current safeguards that exist to ensure that CDEs comply with community accountability standards. These requirements include, but are not limited to:

- CDE Certification Criteria. Many active CDEs request new certifications on an annual basis for newly created Sub-CDEs;
- The responsibility of governing and/or advisory boards to establish and implement community impact criteria for evaluating the benefits of potential projects and/or investments for low-income communities and their residents;
- On-going monitoring by the CDFI Fund which requires CDEs to certify annually that they comply with all NMTC/certification requirements or face losing their certification;
- CDFI Fund reserves the right to inspect and audit an Allocatee under Section 6.3 of the Allocation Agreement;
- Oversight by investors who request Agreed Upon Procedure Reports ("AUPs") - third-party verification that a CDE is in compliance with CDE status - in order to protect their investments against possible recapture;
- Investor Reporting and Certification requirements; and
- The highly competitive nature of the NMTC Program that awards allocations to applicants that demonstrate they will deploy the tax credit to support high community impact projects.

We do not recommend that the CDFI Fund require a minimum number of Low-Income Community representatives be locally based as part of the community accountability standards. This requirement would be impractical, especially for nationally-based CDEs, and likely drive up transaction costs. Imposing such a requirement could mean that for every project, a CDE would need to recruit new locally based members since it's unlikely that their national board members would meet these qualifications.

The role of an advisory board is to provide feedback about the needs of communities, guide strategic thinking and make recommendations related to specific investments. To be an effective advisory board, members must bring a diverse set of skills and expertise in a number of disciplines. An advisory board with qualified members is critical to helping the governing board makes good investment decisions and analyze the quality of the community benefits of a transaction.

(b) Should CDE community accountability standards differ for CDEs depending on whether they use governing or advisory boards to demonstrate accountability?

We do not believe that community accountability standards should differ for CDEs depending on whether they use governing or advisory boards to demonstrate accountability.

(c) Should the CDE be required to have Low-Income Community Representatives approve of investments made by the CDE?

While we agree that the Low-Income Community Representatives should be actively involved in providing feedback on potential NMTC investments, we do not recommend that the CDFI Fund impose any additional requirements regarding how an advisory or governing board approves investments. Advisory boards that provide accountability to low-income communities are charged with soliciting input from its members and providing guidance to the governing board as to how a project will benefit a particular community. It is the responsibility of the governing board and the management team to maintain control of the investment decisions and manage day-to-day operations of the CDE.

(d) Should CDE activities be required to be coordinated with community stakeholders? If so, how should this coordination be conducted and demonstrated?

We do not believe that a CDE should be required by the CDFI Fund to coordinate its activities with community stakeholders. We believe that any requirements imposed upon a CDE will provide little additional benefit compared to what is already a common practice among CDEs. Additional requirements will likely increase overall transaction costs, reducing the net benefit to qualified businesses. Often the project sponsor will coordinate activities with community stakeholders, and generally, the CDEs are already tracking whether the QALICB has engaged the community and received its support for a particular project. Also, it is very common for NMTC projects to be financed, in part, with municipal resources, indicating local support for the project. The competitive nature of the allocation process for NMTCs provides sufficient incentives for CDEs to work with community stakeholders when deciding which projects to approve to ensure that they are serving the needs of the low-income community.

(e) Should the CDFI Fund implement measures to increase the transparency of CDE activities? For example, should it (i) require CDE board meetings to be open to the public and require advance public notice of such meetings; (ii) require CDEs to keep and publish minutes of board meetings; or (iii) require CDEs to make board member contact information readily available to the public?

We do not recommend the CDFI Fund implement any measures to increase the transparency of CDE activities by requiring it to conduct its activities in public and/or require published board meeting minutes. We believe the CDFI Fund already has the systems in place to ensure CDE compliance. The CDFI Fund holds CDEs to a high level of transparency through provisions in the Allocation Agreement, annual/quarterly CIIS reporting, and CDE engagement with their advisory and/or governing boards. CDEs must be actively engaged to meet the "control" provisions required by the CDFI Fund. This means that each CDE's governing board maintains overall *control* of investment decisions, allocation agreement compliance, and day-to-day management of the CDE. CDEs are required to report annually/quarterly on the CDE organizational performance, as well as, individual QLICI data on over 100+ input fields in the transactional level report. CDEs are subject to site visit reviews by the CDFI Fund and most investors require third-party verification reports to document a CDE's ongoing compliance with program requirements to guard against recapture. The competitive nature of the NMTC application process provides for sufficient incentives for CDEs to work with the interests of a local community and ensure that they are serving the needs of the low-income community.

(f) If a CDE has a Controlling Entity, should the CDFI Fund require that the Controlling Entity of the CDE also meets community accountability requirements? If so, what requirements should be applied?

We do not recommend the CDFI Fund impose any accountability requirements on a CDE's controlling entity. The CDE certification process allows a controlling entity to create an affiliate that can fulfill the requirements of a CDE without having to change its current organizational structure. Requiring such changes may result in an additional burden both in terms of time and financial resources. This burden would duplicate the efforts of the CDE and is not necessary to ensure community accountability.

(g) Should CDE community accountability requirements differ for Allocatee CDEs and Non-Allocatee CDEs?

We do not recommend the CDFI Fund impose additional or different requirements for Allocatee CDEs and non-Allocatee CDEs.

(h) Are there other ways in which CDEs can enhance their accountability to the Low-Income Communities in their respective service areas?

We recommend that the CDFI Fund not impose additional requirements, as discussed throughout this letter, but encourage additional recommended "best" practices to enhance the current effort CDEs already undertake to ensure community accountability. Accountability and stakeholder involvement is difficult to standardize because of the wide range of investments and the diverse geographic areas served by CDEs. The existing system of allocating NMTCs based on a competitive application process to accountable CDEs ensures the subsidy and benefits of the program go to the most deserving areas.

4. **Transaction Costs**

The CDFI Fund requests comments on whether additional rules, restrictions, and requirements should be imposed related to fees and expenses charged by CDEs. Specifically:

(a) Should there be greater disclosure of (and perhaps limitations on) the fees and other sources of compensation and profits that NMTC applicants propose and NMTC Allocatees and their affiliates charge to (or receive from) their borrowers, investors or other parties involved in NMTC transactions? Should such information be made available by applicants and Allocatees directly or through the CDFI Fund to the public or should it remain excluded from disclosure as proprietary business information?

(b) Should the CDFI Fund provide an opportunity for CDEs that commit to limit fee and other forms of compensation to earn a higher score in the allocation award process? If so, please provide specific standards that could be used.

(c) Are there specific administrative or regulatory changes that would reduce transaction costs while preserving public policy objectives and safeguards?

CRF supports the comments submitted by the Novogradac NMTC Working Group and the NMTC Coalition. Both industry groups have requested clarification on key tax structuring concerns raised by NMTC participants over the last several years. We believe additional clarification and guidance on these issues will lower transactions costs associated with structuring and monitoring NMTC transactions at closing and during the 7-year NMTC compliance period.

The NMTC Program is a flexible tool that can be used to finance a range of asset classes and types of borrowers by allowing non-profits and for-profit entities to create products that support greater investment in low-income communities. CRF has been a participant in the NMTC industry since its inception. We have witnessed first-hand the positive and lasting community impacts created by the NMTC. We have worked with our industry colleagues to improve transaction efficiencies, articulate the need for greater clarification of technical issues and to partner with like-minded Allocatees to deliver the NMTC to operating companies that produce compelling job opportunities in low-income communities. We would expect this positive trend to continue if the NMTC is reauthorized under a multi-year or permanent extension. An extension would provide additional certainty for current investors and increase the participation of new investors strengthening the resource pool dedicated to the NMTC Program, recognized by Harvard University as one of the Top 50 government innovations.

5. **Evaluation of Financial Products**

The CDFI Fund provides an opportunity in the allocation award process for applicants to earn a higher score in the Business Strategy section by committing to providing equity, equity equivalent financing, debt with below-market interest rates, or debt with certain flexible terms (question 15 of the 2011 application). The CDFI Fund welcomes comments on the CDFI Fund's evaluation of the quality of an applicant's financial products. Specifically:

(a) Should the CDFI Fund adopt the use of a defined Effective Annual Percentage Rate for purposes of the application and compliance measurement? Should the CDFI Fund alter the flexible rates and terms question (question 15 of the 2011 application) to base the scoring preference on a basis point reduction from a market benchmark determined by the CDE (or a standard metric such as LIBOR) instead of a percentage? Should the benchmarks be raised?

We do not recommend that the CDFI Fund adopt the use of a defined Effective Annual Percentage Rate for purposes of the application and compliance measurement. As discussed throughout this comment letter, the flexibility of the NMTC Program fosters creative solutions for financing projects that would otherwise not receive funding. Because every deal is unique, it is difficult to establish a standard benchmark to provide a meaningful basis to evaluate CDEs and their performance.

(b) Should the CDFI Fund alter the flexible rates and terms question (question 15 of the 2011 application) to base the scoring preference on a basis point reduction from a market benchmark determined by the CDE (or a standard metric such as LIBOR) instead of a percentage? Should the benchmarks be raised?

CRF supports the comments of the Novogradac NMTC Working Group and NMTC Coalition.

(c) Are there specific administrative or regulatory changes that would facilitate the provision of specific financial products while preserving public policy objectives and safeguards?

CRF supports the comments of the Novogradac NMTC Working Group and NMTC Coalition.

6. **Use of other federally subsidized financing in conjunction with NMTCs**

CRF strongly supports the use of other federally subsidized financing in conjunction with NMTCs. The ability to use the NMTC in conjunction with other tax credits or federal, state or local resources makes it a much more effective financing tool.

(a) Should there be any additional restrictions in the allocation award process regarding the use of NMTCs with other sources of federally-subsidized financing? If so, are there certain types of federal financing that should be disallowed? Should it matter whether the financing is made as part of the QEI investment (e.g., through the leveraged debt structure) or at the project level?

We strongly urge the CDFI Fund not to impose any additional restrictions on "twinning" NMTCs with other sources of subsidized financing. Nor should it matter whether the financing is made as part of the QEI investment or at the project level. As noted in the Novogradac NMTC Working Group and NMTC Coalition Letter, the limited subsidy necessitates the use of the credit in conjunction with other sources of subsidy including loans, grants and other tax credits, to make transactions feasible. Allowing CDEs to consider different sources of capital is essential to supporting high impact projects and borrowers in low-income communities. But for this aspect of the credit, many community development projects simply would not get done.

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(b) Assuming that it is appropriate for any other source of federally-subsidized financing to be used in conjunction with NMTC investments, would it be prudent for the CDFI Fund to limit, as part of the allocation process, the overall amount of QEI dollars or project level investments that may be supported with other sources of federal financing?

We do not favor limiting the overall amount of QEI dollars or project level investments that may be supported with federal financing. It is critical to maintain the ability to "twin" the NMTC with other types of federal (and/or state) tax credit programs to allow CDEs to provide creative financing structures that support projects and businesses in low-income communities. Certain types of transactions may need additional or greater levels of subsidy that can only be achieved if the NMTC can be used in conjunction with other federal or tax credit resources. Two powerful examples of successful guarantee programs are the SBA 7(a) and the USDA's Business & Industry Guarantee Program. Both of these federal programs help local lenders make loans to small businesses that, in turn, can be pooled and securitized as a means of attracting private sector capital. At present, institutional investors lack effective investment vehicles through which to support small businesses in low-income communities. Encouraging the "twinning" of these programs with NMTCs is an effective strategy for delivering more credit to the "economic engines" of our economy that can create new jobs at a time when employment growth is so desperately needed.

(c) Are there specific administrative or regulatory changes that could facilitate the coordination of other federally subsidized financing in conjunction with NMTCs while preserving public policy objectives and safeguards?

We support the comments of the Novogradac NMTC Working Group and NMTC Coalition.

CONCLUSION

We appreciate this opportunity to share our views and recommendations on the NMTC Program. We commend the CDFI Fund for their dedication and commitment to enhancing this program to meet the needs of non-real estate business borrowers. Please do not hesitate to contact me with any questions regarding comments included in this letter.

Sincerely,

Frank Altman
President and CEO