

Keynote remarks by  
**Tony T. Brown, Director**

Community Development Financial  
Institutions Fund (CDFI)

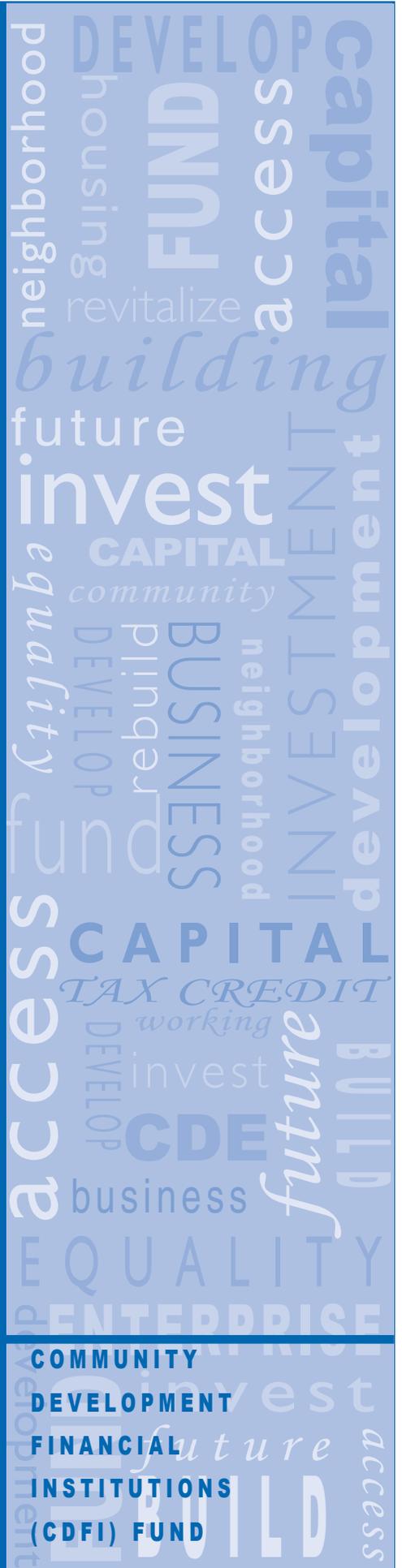
at the

Novogradac & Company's  
New Markets Tax Credit Investors  
Conference

Gaylord Opryland Resort &  
Convention Center  
Nashville, TN

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**CDFI**  
*fund*



COMMUNITY  
DEVELOPMENT  
FINANCIAL  
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**Remarks by Tony T. Brown, Director  
Community Development Financial Institutions Fund  
U.S Department of the Treasury  
to  
Novogradac & Company's  
New Markets Tax Credit Investors Conference**

**Gaylord Opryland Resort & Convention Center  
Nashville, TN**

Good afternoon! Thank you Bill Einstein, for your kind introduction and for Meridian Investments' sponsorship of this afternoon's luncheon. I'd also like to thank Michael Novogradac for inviting me to share with you the Administration's thoughts on the New Markets Tax Credit (NMTC) Program.

The timing for this conference is perfect. As you know, the 2003 - 2004 application round for the NMTC Program closed just over one month ago.

Before I get into the CDFI Fund policy discussions, I'd like to publicly acknowledge our Treasury partners at the Office of Tax Policy. Novogradac is one of the nation's leading authorities on federal tax programs that apply to housing and community development. I would be remiss if I didn't address tax policy concerns.

IRS and Treasury's Office of Tax Policy are working diligently to provide clarifications to the temporary regulations published in December of 2001. This summer, they addressed three key issues of concern to the industry:

- 1) They announced that CDEs that receive allocations in the 2003 round could offer tax credits to investors that made investments in the CDE on or after July 18, 2003 - so that deals that are ready to close quickly will not need to be put on hold until the CDE enters into an allocation agreement with the Fund.
- 2) They indicated that Allocatees can tier investments through up to three additional CDEs before the money is traced to a qualifying low-income investment. This was a big area of concern for bank holding companies that wish to use the NMTC to raise equity.
- 3) They announced that CDEs may sell loans that they did not originate, provided that the loan was originated by another CDE. This change should help facilitate secondary market transactions.

The Fund will continue to work in collaboration with the Office of Tax Policy and the IRS to ensure that the most important issues are addressed, and that CDEs and investors have clear guidance going forward.

Now, let me get a feel about the audience and where everyone is relative to the NMTC Program. By a show of hands, please let me know:

1. Who in the audience is largely hearing about NMTCs for the very first time?
2. Who applied last year or this year for an allocation?
3. Who received an allocation in March - part of the inaugural 66! I understand from my Legal staff that 63 allocatees have received their draft allocation agreements and are in various stages of negotiation and closing.
4. How many of the organizations represented here today are certified as CDEs, or have applications pending for CDE certification? We have a large backlog of CDE application pending certification - about 162 at last count. We will have all CDE certifications processed well before we are ready to make award announcements. We now have certified 1,200 CDEs, more than the double the number over this time last year. We ask your patience as my staff is working very diligently to process this increased volume.
5. Who in the audience represents investor interests and is looking at the NMTC Program as a vehicle to make investments? Please keep your hands in the air as we want to make sure the CDEs in the audience know who you are!

Thanks for taking my second annual NMTC Program Exit Poll. Now, let's talk about the program and some of our policies.

As you likely now know, we received 271 applications seeking over \$30 billion in NMTC allocation authority for the 2003 - 2004 round. We have \$3.5 billion to allocate this round. I have prepared my policy updates around some key statistics in this applicant pool.

- The number of applications the Fund received this year is 27 percent less than the 345 applications we processed last year. We geared up to process as many as 500 applications this round.
- I heard from some applicants that applied independently last year that they decided to consolidate their efforts with other CDEs this year.
- I also heard that investors were being very selective with their pledges and commitments, which may also have caused CDEs to put forth consolidated applications.
- Thirty-eight percent (102 of 271) of this year's applicant pool sought an allocation of New Market Tax Credits last year. So this round includes a number of repeat applicants.

### **Policy Decisions**

- We still mobilized enough outside readers as if we had to process 500 applications. Like you, we are anxious to get this round completed so that these dollars can go to work in the communities that need this economic stimulus most.
- Each application is reviewed by three independent reviewers. Reviewers are not permitted to build or reach consensus among themselves. We are thus assured of each reviewer's assessment of the applications they read.
- An internal process evaluates the quality of reviews and checks for scoring anomalies. Any detected anomalies are re-scored.



- The reviewers include Fund staff, other federal agency staff working in other community development finance programs, and private sector members of the community development finance community. The Fund carefully screens each reviewer to identify any potential conflicts of interest with applicants.
- The private sector reviewers are selected on factors such as 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 Fund screens the proposed business activities of each application (e.g., business finance, real estate finance, loan purchases, etc.) and assigns them to readers with corresponding skill sets.
- Our goal is to announce allocations in the early Spring 2004.

\$30 billion in NMTC allocation authority is 17 percent greater than the \$25 billion requested last year.

- First let me say that the numbers I am about to share are based on my staff giving me data on a blind pool - no names, addresses or geographies.
- Now that I have made my disclaimer, let me share some facts.
- The largest request for an allocation of NMTCs amounted to \$1.5 billion, and the smallest request is \$670,000.
- The applicant pool is very diverse. The average NMTC request is approximately \$113 million. The median request size is approximately \$72 million.
- 10 applicants have requested \$500 million or more each, while 108 applicants have requested \$50 million or less each.
- Twenty-eight applicants (10 percent of the pool) were allocatees in the last round. These allocatees were awarded \$1.4 billion in the last round and are now requesting \$5.1 billion in NMTC authority for 2003.

### **Policy Decisions**

- Congress did not set limits on the amounts to allocate to any one entity.
- Recommendations for allocation amounts are made by reviewers based on guidance given regarding the business strategy and the evaluation of projections based on three- and five-year scenarios, as well as an assessment of the applicant's ability to raise capital and close transactions.
- In this round, we required any applicant that received an allocation of NMTCs in the last round to have at least 50 percent of its QEIs issued (cash on hand) by March 5, 2004. We set, what we thought at the time, was a very high threshold. Interestingly, however, 42 percent of last year's allocatees are again applying. What's remarkable in this number is that these allocatees plan to have \$700 mil-

lion in cash vested as early as March and are asking to put an additional \$5.1 billion to use.

Applicant information by controlling entity and type show an interesting mix of applicants. Based on information self-reported by the applicants in their applications:

- 38 percent of the applications were submitted by non-profit organizations, or by entities that are subsidiaries of non-profit organizations;
- 19 percent of the applications were submitted by banks, thrifts or bank holding companies, or subsidiaries of such institutions;
- 15 percent of the applications were submitted by CDFIs, or by entities that are subsidiaries of CDFIs;
- 8 percent of the applications were submitted by publicly-traded companies, or by subsidiaries of publicly-traded companies;
- 6 percent of the applications were submitted by governmentally-controlled entities, or by subsidiaries of governmentally-controlled entities; and
- Three applications were submitted by faith-based institutions or subsidiaries of faith institutions.

### **Policy Decisions**

- Let me say, with great emphasis, that allocation decisions are based solely on merit. This is a process about who can perform the best in helping to create jobs and economic opportunity in low-income communities. This is a process about who can forge the best public/private partnerships focused on improving America.
- We have properly given weight and priority in the allocation review process to those applicants with a track record of successfully providing capital or technical assistance to disadvantaged businesses or communities as Congress required.
- The demonstration of track record and exemplary service to assisting disadvantaged businesses and communities is not exclusive to mission driven entities, such as CDFIs or CDCs, as many profit-driven companies also demonstrated a track record of service in the last round.
- The goal of the NMTC Program is to increase the flow of private capital in low-income communities - it is community -based and not based on the type of institution that applies for the tax credits. None of the questions that are scored depend on the type of institution.
- To the extent that the applicant merits it, we have established a policy that will award allocations in such amounts, to such entities and in such numbers that measurable impacts can be determined and success can be reasonably anticipated.
- The NMTC Program presents us with a unique opportunity to put a variety of institution types under one program - folks with cash and folks with deals. The list of nearly 1,200 CDEs validates this. The current group of CDEs includes CDCs, CDFIs, thrifts, banks, community development venture capitalists, SSBICs and government-controlled business development boards.
- The list of CDEs include diverse organizations. From publicly-traded institutions to longstanding community-based organizations to faith-based organizations - all organizations that can demonstrate their effective work in communi-



ties.

- We are proud to say that the President need look no further than the CDFI Fund's website to find his compassionate army of social entrepreneurs and see a list of the organizations who are financing them.
- I have heard a number of instances where the network of CDEs is coming together to improve America. Whether you are mission-driven or profit-driven, the mere fact that you have come together makes this program a big winner!
- This Administration is not concerned with the applicant type. We are most interested in the product types and the types of impacts that improve America and help the President achieve his mission for a more prosperous America that reaches every corner in America.

The President is serious about promoting economic prosperity and stability for all Americans and all communities and he understands that gaps in financial service and credit availability must be addressed. The Treasury Department recognizes the unique role of community development finance and supports it.

We have embarked on a vision of a national policy to strengthen and sustain the nation-wide network of over 1,800 certified CDEs and CDFIs that serve our nation's most distressed areas.

This Administration is investing several million dollars to build an electronic database to link these institutions so that they can tell their stories and show how billions of dollars in loans and investments impact our nation's most economically distressed areas and low-income people.

The network of certified institutions and entities at the Fund will have the nation's leading economic financing tracking tool: the "Community Investment Intelligence System" (CIIS). CIIS will be used by CDFIs and CDEs to demonstrate the results of their investments to Congress, the Administration, other investors and the public. We hope to have CIIS fully operational by February 2004.

### **Implementation of CIIS**

CIIS is the vehicle through which the Fund will collect compliance and performance data from CDE allocatees and CDFIs. For the first time, the Fund will collect detailed data on each loan or equity investment a CDE or CDFI makes.

To ensure that CIIS is a high-quality system that all CDEs and CDFIs can communicate with, the Fund has contracted EF Kearney, a technology firm based in northern Virginia, to design and develop the system. Kearney's approach to development includes user involvement.

Kearney conducted telephone interviews with 92 CDFIs and CDEs and held three User-Centered Design sessions at its offices. Seventeen CDFIs and six NMTC Allocatees participated in these hands-on sessions where they were able to provide feedback on the software application and provide valuable input on the collection of transaction-level data. [The CDEs that attended were: CRF, Wachovia, National Trust for Historic Preservation, Key Bank, Phoenix, Advantage Capital and CEI. CEI is a CDFI/CDE and attended a User Centered Design session for CDFIs.]

In addition, later this month, Kearney and the Fund will hold a Software Developers Conference for developers who provide or are interested in providing loan monitoring, client intake, and impact tracking systems to CDEs and CDFIs. The Conference is an opportunity for these developers to learn how they need to upgrade their software so that it collects and transmits to the Fund all of the data CIIS requires. We expect representatives from Commercial off-the-shelf vendors, as well as CDFIs and CDEs that have custom-designed systems that they want to adapt and possibly sell to other financing entities.

The Fund plans to make data collected through CIIS available to the public, while protecting financing entities' and their client's identities. We believe this data will be an invaluable resource to CDEs and CDFIs that want to measure their performance against their peers; to potential investors who want to know more about loan performance before making an investment decision; and to researchers analyzing all aspects of the community development finance industry.

We will also make this data available to the Government Accounting Office, which has been tasked with producing three evaluation reports on the NMTC Program over a period of six years, as well as the Fund's own independent NMTC Program evaluator whom we plan to hire in the coming year.

One of the President's top priorities for the nation is to strengthen our economic security. President Bush will not be satisfied until every American who wants a job can find one, until every business has a chance to grow, and until we create lasting prosperity that reaches every corner of America. President Bush believes in the work you do to improve America.

Thank you for your interest in the NMTC Program. This program, and your success with it, is very important to this Administration. Good luck!

