Overview of Allocations

New Markets Tax Credit Program Sixth Round (2008) Highlights

The Community Development Financial Institutions Fund (CDFI Fund) selected 70 Community Development Entities (CDEs) to receive allocations of New Markets Tax Credits (NMTCs) through the 2008 round of the NMTC Program. These 70 CDEs are authorized to issue to their investors a combined total of $3.5 billion in equity for which NMTCs can be claimed. This is the sixth NMTC allocation round. In the six rounds to date, the CDFI Fund has made 364 allocation awards totaling $19.5 billion in tax credit authority, including $1 billion that was specifically set aside for recovery and redevelopment in the wake of Hurricane Katrina.

How does the NMTC Program work?

The NMTC Program stimulates economic and community development and job creation in the nation's low-income communities by attracting investment capital from the private sector.

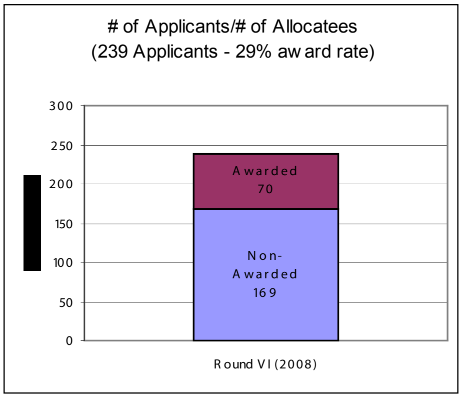
The NMTC Program provides tax credits to investors who make "qualified equity investments" (QEIs) in investment vehicles called CDEs. CDEs are required to invest the proceeds of the qualified equity investments in low-income communities. Low-income communities are generally defined as those census tracts with poverty rates of greater than 20 percent and/or median family incomes that are less than or equal to 80 percent of the area median family income.

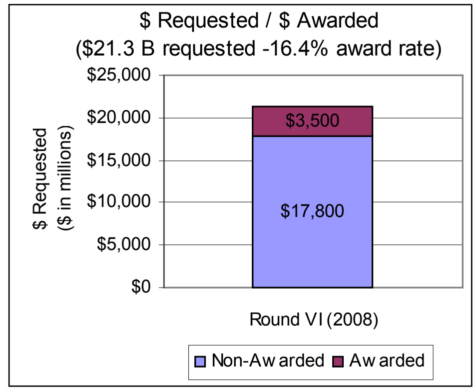
The credit provided to the investor totals 39 percent of the investment in a CDE and is claimed over a seven-year credit allowance period. In each of the first three years, the investor receives a credit equal to five percent of the total amount paid for the stock or capital interest at the time of purchase. For the final four years, the value of the credit is six percent annually. Investors may not redeem their investments in CDEs prior to the conclusion of the seven-year period.

What is the distribution of allocations in the 2008 round?

- 239 CDEs applied for allocations, requesting a total of $21.3 billion in allocations. The Fund made allocation awards totaling $3.5 billion, or 16.4 percent of the total amount requested by applicants.
- 70 CDEs (or 29 percent of the total applicant pool) were provided with allocation awards.
- The average allocation award amount is $50 million.

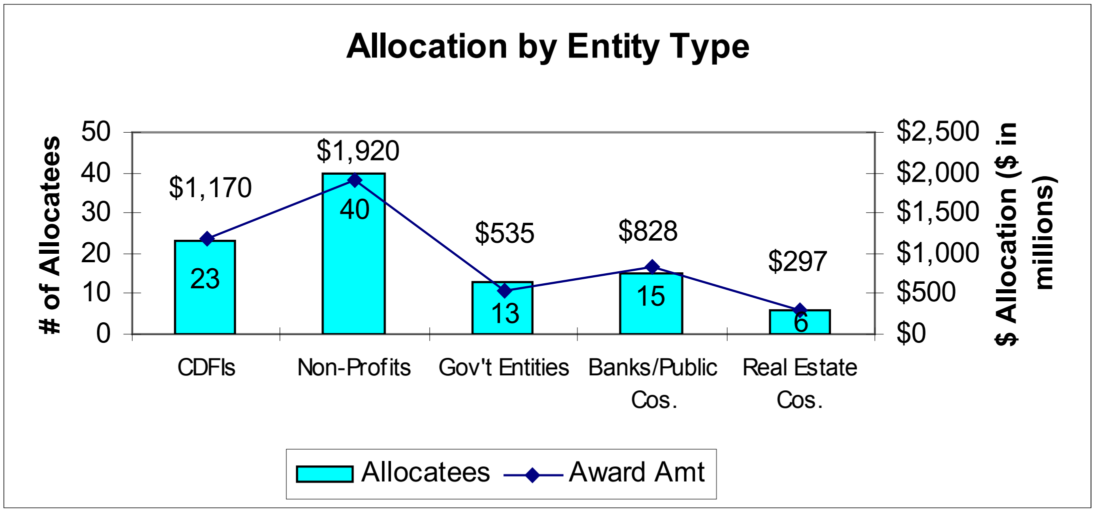
Allocation awards range in size from $6.25 million to $112 million. The median allocation award amount is $45 million.





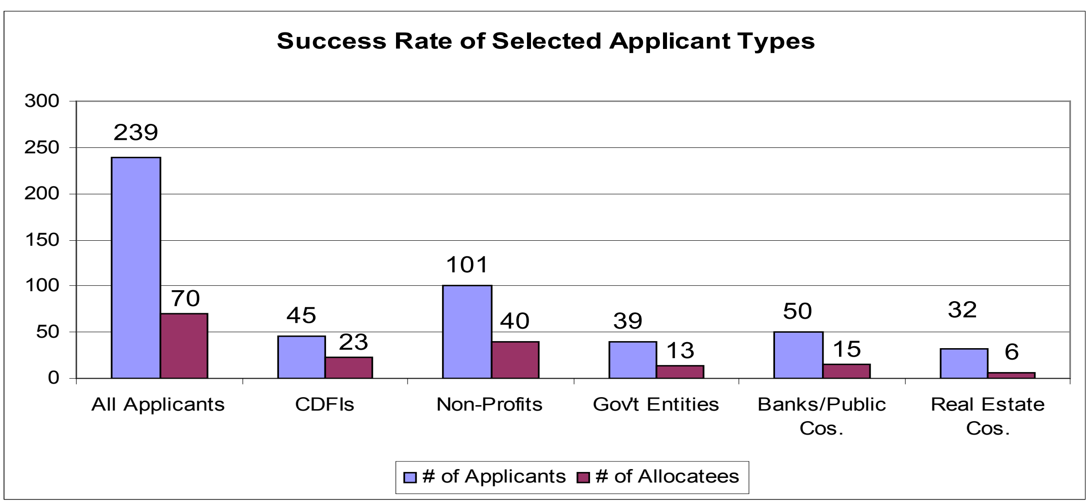
What are some of the characteristics of the 70 allocatees?

- Forty of the allocatees (or 57 percent) are non-profit organizations or subsidiaries of non-profit organizations. They received allocations totaling $1.92 billion.
- Twenty-three of the allocatees (or 33 percent) are certified CDFIs or subsidiaries of certified CDFIs. They received allocations totaling $1.17 billion.
- Thirteen of the allocatees (or 17 percent) are governmentally controlled entities or subsidiaries of such entities. They received allocations totaling $535 million.
- In all, 45 of the allocatees (or 64 percent) are CDFIs, non-profit organizations, governmentally controlled entities, or subsidiaries of such organizations. They received allocations totaling $2.16 billion.
- Fifteen of the allocatees (or 21 percent) are banks or bank holding companies; publicly traded institutions; or subsidiaries of such entities. They received allocations totaling $828 million.
- Six of the allocatees (or 9 percent) are real estate development companies or subsidiaries of such entities. They received allocations totaling $297 million.



Note that the number of allocatees represented in the chart above does not total 70, since some allocatees are classified in more than one entity type category (e.g. some CDFIs are also counted as non-profits) and some allocatees do not fall under any of the categories identified.

The chart below shows the success rate of receiving an allocation for the entire applicant pool and five different applicant types. Overall, 29 percent of all applicants were awarded an allocation. CDFIs had a success rate of 51 percent; non-profits had a success rate of 40 percent; governmentally-controlled entities had a success rate of 33 percent; banks and publicly-traded companies had a success rate of 30 percent; and real estate development companies had a success rate of 19 percent.

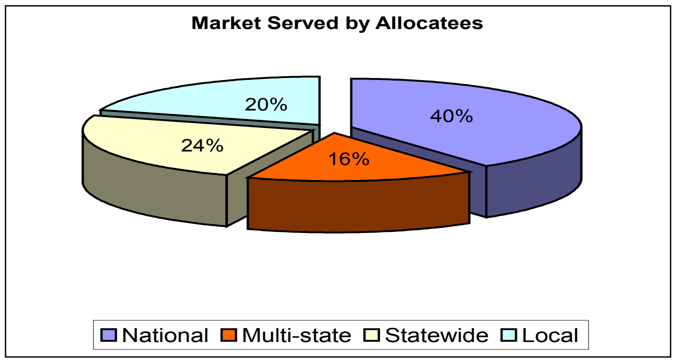


Note that the number of applicants represented in the chart above does not total 239, since some applicants are classified in more than one entity type category (e.g. some CDFIs are also counted as non-profits) and some applicants do not fall under any of the categories identified.

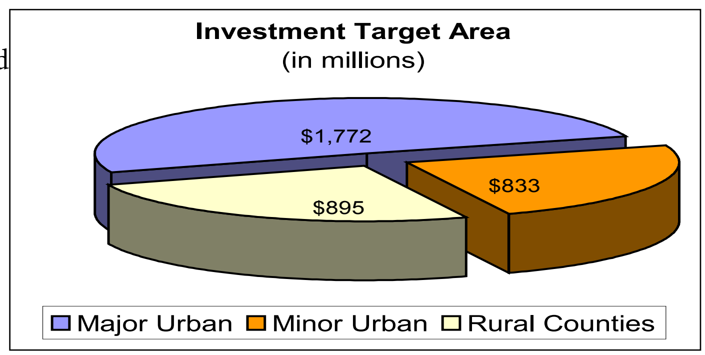
Where will the investments be made?

- The 70 allocatees are headquartered in 29 different states and the District of Columbia, but anticipate making investments in 46 different states, as well as the District of Columbia. The remaining four states as well as the U.S. territories are eligible to be served by allocatees with a national footprint.

- Twenty-eight of the allocatees (or 40 percent) will focus investment activities on a national service area; eleven of the allocatees (or 16 percent) will focus on a multi-state service area; seventeen of the allocatees (or 24 percent) will focus activities on a statewide service area; and fourteen of the allocatees (or 20 percent) will focus on local markets (e.g., a citywide or countywide area).



- Based on information reported by the allocatees, it is anticipated that approximately $1.772 billion (or 51 percent) will be invested in major urban areas; approximately $833 million (or 24 percent) will be invested in minor urban areas; and approximately $895 million (or 26 percent) will be invested in rural areas.



How did the CDFI Fund ensure that a proportional amount of investments would be made in rural communities?

- As detailed in the 2008 NOAA, and discussed later in this document, the CDFI Fund sought to ensure that: (i) an appropriate proportion of awards were provided to "Rural CDEs" (i.e., CDEs that provide at least 50 percent of activities to non-metropolitan counties); and (ii) that at least 20 percent of all dollars invested by allocatees under the 2008 allocation round are invested in non-metropolitan counties.

- With respect to the first objective, nine allocatees (or about 13 percent) met the criteria for "Rural CDE" designation. These nine Rural CDEs received allocations totaling $532 million.

- With respect to the second objective, thirty-eight allocatees (or 54 percent) indicated that they would be willing to deploy some or all of their investments in non-metropolitan counties. These CDEs received allocations totaling over $2.27 billion. Based upon their stated commitments, they will be required to deploy, at a minimum, at least $722.1 million in non-metropolitan counties (20.6 percent of the $3.5 billion available this round.)

Will investments be made in particularly economically distressed communities?

- While all allocatees are required to invest substantially all (generally 85 percent) of the qualified equity investments they receive in low-income communities, most applicants committed to make investments in areas characterized by more severe economic distress (i.e., areas that have significantly higher poverty rates and lower median family incomes than those minimally required under the NMTC Program; areas that have unemployment rates at least 1.5 times the national average; and/or areas that have been designated for economic development through other governmental programs such as Brownfields, Empowerment Zones and Renewal Communities).

- All 70 of the allocatees indicated that at least 85 percent of their activities will be provided in areas of higher economic distress than are minimally required under NMTC Program rules and/or in areas targeted for development by other government programs, including 60 that indicated that 100 percent of their activities would be provided in such areas.

- All 70 allocatees committed to providing at least 75 percent of their investments in areas characterized by: 1) multiple indicia of distress; 2) significantly greater indicia of distress than required by NMTC Program rules; or 3) high unemployment rates.

- The CDFI Fund will require these allocatees, through their allocation agreements, meet the benchmarks identified in their applications.

What types of eligible investment activities do allocatees plan to make?

- NMTC investments may be used to finance a wide variety of activities, including:

  - Loans to or equity investments in businesses. ***Approximately $1.66 billion (47 percent) of NMTC proceeds will likely be used to finance and support loans to or investments in businesses in low-income communities.*** Allocatees have proposed strategies ranging from microenterprise lending to multi-million dollar venture capital investments.

  - Loans to or equity investments in real estate projects. ***Approximately $1.81 billion (52 percent) of NMTC proceeds will likely be used to finance and support real estate projects in low-income communities.*** Most real estate projects, with the general exception of projects consisting mainly of residential rental housing, are permissible under program regulations. Allocatees have indicated that they intend to make investments in commercial, retail, industrial, mixed-use and homeownership projects, as well as in community facilities such as daycare centers, healthcare centers, and charter schools.

  - Capitalization of other CDEs. ***Approximately $26 million (1 percent) of NTMC proceeds will likely be used to provide capitalization for other CDEs.*** Allocatees may make direct loans to or investments in other CDEs to finance NMTC-eligible activities, or may purchase NMTC-eligible loans originated by other CDEs. This will help ensure continued availability of capital in low-income communities.

What types of products do allocatees intend to offer?

- All 70 of the allocatees have committed to offering preferential rates and terms.
- Sixty-three of the 70 allocatees indicated that 100 percent of their investment dollars would be made either in the form of equity, equity equivalent financing, or debt that is at least 50 percent below market and/or is characterized by at least five concessionary features; with all of the remaining allocatees committing to providing debt that is at least 25 percent below market and/or characterized by at least three concessionary features. Such features include, among other things, subordinated debt, reduced origination fees, higher than standard loan-to-value ratios, lower than standard debt service coverage ratios, non-traditional collateral, and longer than standard amortization periods.
- The Fund will require these allocatees, through their allocation agreements, to meet the benchmarks identified in their applications.

Will allocatees invest more than is minimally required in low-income communities?

- NMTC Program regulations generally require that at least 85 percent of QEI proceeds be invested in Qualified Low Income Community Investments (QLICIs).
- All 70 of the allocatees indicated that they would invest at least 95 percent of QEI dollars into QLICIs, and 56 of the 70 allocatees indicated that at least 97 percent of their QEI dollars would be invested into QLICIs.
- In real dollars, this means at least $449 million above and beyond what is minimally required by the NMTC Program will be invested in low-income communities.
- The Fund will require these allocatees, through their allocation agreements, meet the benchmarks identified in their applications.

Have the allocatees from the first five allocation rounds begun raising investor dollars?

Over $11.75 billion in qualifying equity investments have been made into CDEs since the program's inception. This represents over 73 percent of the $16 billion in allocation authority issued to CDEs through the first five allocation rounds. In addition, while allocatees are by statute allowed up to five years to raise investor dollars, each of the allocatees has committed to make a substantial portion of their investments within 3 years.

How have the allocatees from previous rounds been investing these dollars?

Reports covering transaction-level data are due to the CDFI Fund, along with audited financial statements, 180 days after the end of each allocatee's fiscal year – which in most cases is

December 31st. Reports covering fiscal year 2006 have been received by the CDFI Fund. Analysis shows that:

- Over 98 percent of the transactions offered preferential rates and terms to the borrowers. The most common features were below market interest rates (83 percent of transactions), lower origination fees (59 percentof transactions), and longer than standard periods of interest-only payments (54 percent of transactions).
- Approximately 95 percent of the projects financed with NMTCs were located in designated areas of higher economic distress. Over 75 percent of projects were located in census tracts with: 1) a poverty rate of at least 30 percent; 2) a median family income at or below 60 percent of the applicable area median family income; or 3) an unemployment rate at least 1.5 times the national average.

Some NMTC transactions that have been financed to date include:

- An emergency worker training facility in Lafayette, LA, developed in the aftermath of Hurricane Katrina, which will train more than 240 students per year and provide more than 60 permanent jobs.
- A mixed use development of housing and retail, anchored by a national chain grocery store, located on a vacant military site in a severely distressed community in Washington, D.C.
- A loan to a Native American business woman, who operates a pharmacy in western Montana, will enable her to own her business facility for the first time, and create jobs in a high poverty rural community.
- The development of a high-tech business incubator in Detroit that will provide opportunities for minority and women business owners.
- A 161,000 square-foot manufacturing facility in rural Iowa that manufactures parts for wind turbines.
- The development of a charter school, serving 650 middle school and high school students, in the Crenshaw neighborhood of south Los Angeles.

The NMTC Program Application Evaluation Process

In this sixth round of allocations, the Fund was authorized to allocate to CDEs the authority to issue up to $3.5 billion in equity for which NMTCs may be claimed. In this round, for the first time, Congress required the Fund to ensure that a proportionate amount of the authority would be directed toward Non-metropolitan Counties. The Fund received 239 applications that together totaled over $21.3 billion in NMTC requests. The review process used to select NMTC allocation recipients is summarized below:

Phase I: Initial Application Scoring:

- The review process required three reviewers to independently review and evaluate each application. The reviewers included private sector members of the community development finance community, federal agency staff working in other community development programs, and Fund staff. Reviewers were 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 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 they had disclosed all conflicts of interest to the Fund. Reviewers were further required to sign a confidentiality agreement stating that they would not reveal any information obtained from the CDFI Fund during the review process.

- Once selected, the reviewers underwent training to prepare them for the review process and were provided guidelines to assist them in scoring each application.

- Reviewers rated each of the four evaluation sections (Business Strategy, Community Impact, Management Capacity and Capitalization Strategy) as follows: Weak (0-5 points); Limited (6-10 points); Average (11-15 points); Good (16-20 points); and Excellent (21-25 points).

- In addition, reviewers rated applicants with respect to two statutory priorities: (i) 1-to-5 points for demonstrating a prior record of serving disadvantaged businesses or communities; and (ii) 5 points for committing to invest substantially all of the proceeds from their qualified equity investments into unrelated entities (i.e., entities that are generally not controlled or owned by the allocatee or its investors).

Phase 2: Panel Review:

- An Allocation Recommendation Panel comprised of Fund staff reviewed the recommendations made by reviewers in step one.

- In order to be considered for an allocation, an application had to achieve an aggregate base score (without including priority points) that was minimally in the "good" range based on a scoring scale of weak, limited, average, good and excellent. In addition, an applicant had to achieve an aggregate base score minimally in the "good" range in each of the four application evaluation criterion. Thus, an application with scores in the "good" range in three of the four criteria, but an "average" score in the fourth criterion, could not advance to the panel phase of the review process.

- A statistical review was conducted to identify inconsistent scores. In some cases where there was an inconsistent first phase reviewer score, the comments and recommendations of a fourth independent reviewer were used to determine whether the inconsistent score should be replaced.

- For each application, panelists reviewed the applicants in the rank order of their scores, and considered the comments and recommended allocation amounts provided by each of the first phase reviewers. Due to the large number of applications that were ranked highly by first phase reviewers, and given the CDFI Fund's desire to expedite the flow of capital into low-income communities, panelists were instructed to determine an allocation amount for each qualified applicant that reflected the applicant's needs over a 2-year period (a 2-year allocation amount), as opposed to a 5-year allocation amount.

- This 2-year allocation amount was then used as the basis for the final award amount. The Fund determined that awarding allocations based upon the 2-year recommended allocation amounts would be the most effective way to ensure a fair distribution of allocations to as many of the most qualified candidates as possible.
- The panel also reviewed a variety of compliance, eligibility, due diligence and regulatory matters. Included in this review were (i) checks to determine whether any applicants that have been awarded funds through other Fund programs were compliant with the award and disbursement eligibility requirements; (ii) checks to determine whether prior-year allocatees successfully issued the minimum requisite amount of Qualified Equity Investments from prior awards; and (iii) checks to determine whether prior-year allocatees have made effective use of their previous awards.
- As stated in the application materials, applicants that were recommended for an award amount that was lower than the minimum acceptable award amount specified by the applicant in the allocation application were not provided with a NMTC allocation.

Preliminary Award Determinations:

- After the second stage of the review process, both the rank order list of applicants and the recommended 2-year allocation amounts were forwarded to the Selecting Official (NMTC Program Manager) for an allocation determination.
- In the event the Selecting Official's decision varied substantially from the panel's recommendation, the Reviewing Official (Deputy Director) reviewed the application file and made the allocation determination.

Final Award Determinations:

- Prior to finalizing the award amounts, the Selecting Official and Reviewing Official reviewed the preliminary allocation amounts to determine whether: (i) the proportion of awardees that are "Rural CDEs" (i.e., CDEs that provide at least 50 percent of activities to Non-Metropolitan counties) was, at a minimum, equal to the proportion of applicants deemed eligible for Phase II of review that are Rural CDEs; and (ii) at least 20 percent of all QLICIs made by allocatees under the 2008 allocation round would be invested in Non-Metropolitan Counties, based upon commitments made by allocatees in their applications.
- The CDFI Fund reserved the right to make adjustments to the awardee pool to ensure these two objectives were met. With respect to the first objective, the Fund reserved the right to add additional Rural CDEs to the final awardee pool. However, it was not necessary to make this adjustment, since the percentage of awardees that were rural CDEs (13 percent) already exceeded the percentage of Phase-2 eligible applicants that were rural CDEs (10 percent).
- With respect to the second objective, the CDFI Fund reserved the right to require applicants to achieve up to their stated "maximum", as opposed to their stated "minimum", investment targets in non-metropolitan counties. However, with only limited exceptions,

the Fund was able to achieve the 20 percent benchmark without having to hold organizations to achieving higher than their minimum stated commitments. As a result, most applicants will only be held to achieving their "minimum" stated commitment to invest in non-metropolitan counties.

Final Review:

- The CDFI Fund's Grants Management unit checked the General Services Administration's list of debarred organizations to confirm that neither the allocatees nor their parent companies have been debarred from participating in any federal programs.
- The CDFI Fund's Grants Management unit also reviewed the file to confirm that the award determinations were consistent with the applicable application review policies and procedures.

Award Notification:

- All applicants will be informed via e-mail of the CDFI Fund's decisions. Shortly thereafter, allocatees will enter into allocation agreements with the Fund. An allocation is not effective until the CDFI Fund and the allocatee have signed the allocation agreement.
- Applicants that were not selected for an allocation will be able to review specific reviewer comments pertaining to their application through a debriefing document that will be prepared by Fund staff. This document will be distributed in advance of the next allocation round.