New Markets Tax Credit Program
Fifth Round (2007) Highlights[1]

On October 5th, 2007, the Community Development Financial Institutions Fund (Fund) announced that 61 community development entities (CDEs) had been selected to receive allocations of New Markets Tax Credits (NMTCs) through the 2007 round of the NMTC Program. These 61 CDEs are authorized to issue to their investors a combined total of $3.909[2] billion in equity for which NMTCs can be claimed, including $400 million that was authorized by the Gulf Opportunity Act of 2005 for specific use in the recovery and redevelopment of the Hurricane Katrina Gulf Opportunity Zone (GO Zone).

Throughout the life of the NMTC Program, the Fund is authorized to allocate to CDEs the authority to issue to their investors up to the aggregate amount of $19.5 billion in equity as to which NMTCs can be claimed, including $1 billion (which has been fully allocated) for use in the GO Zone. This is the fifth allocation round. In five rounds to date, the Fund has made 294 allocation awards totaling $16 billion in tax credit authority.

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 2007 round?

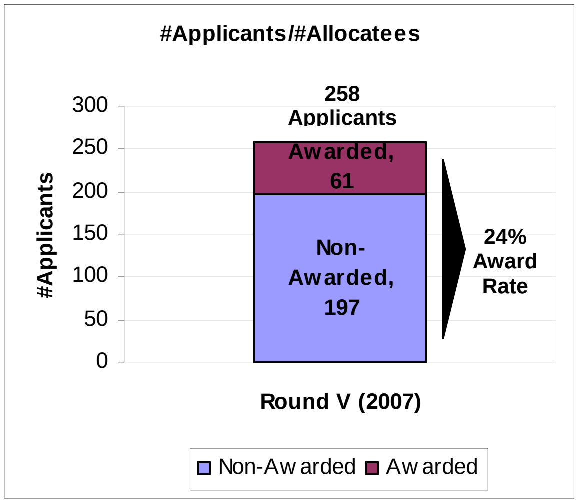
- 258 CDEs applied for allocations, requesting a total of $27.9 billion in allocations.

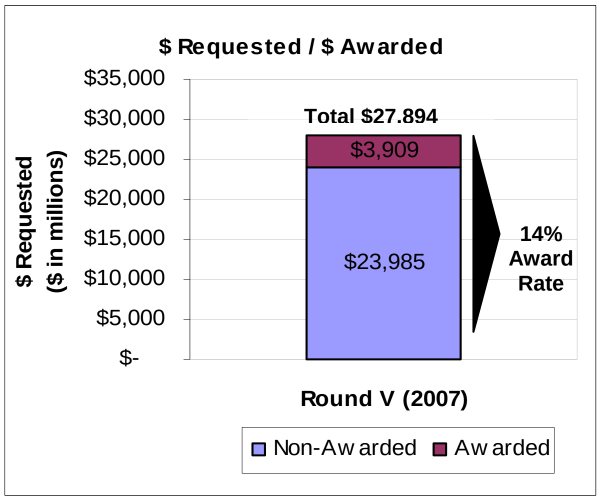
[1] This document was modified in August of 2008, to reflect award adjustments that were made when one of the initial GO Zone awardees determined that it would not be able to utilize a $25 million allocation award. Consequently, the CDFI Fund rescinded and then re-allocated this allocation authority to other eligible GO Zone applicants from the 2007 allocation round.
[2] This figure includes $9 million in allocation authority that was rescinded by the CDFI Fund from prior-year allocatees and re-allocated in the 2007 allocation round.

- 61 CDEs (or 24% of the total applicant pool) have received $3.909 billion of allocation authority, including 11 CDEs which have received $400 million of allocation authority dedicated for use in the GO Zone.

- The average allocation award is approximately $64 million per allocatee.

- Allocation awards range in size from $15 million to $133 million. The median allocation award amount is $60 million.





What are some of the characteristics of the 61 allocatees?

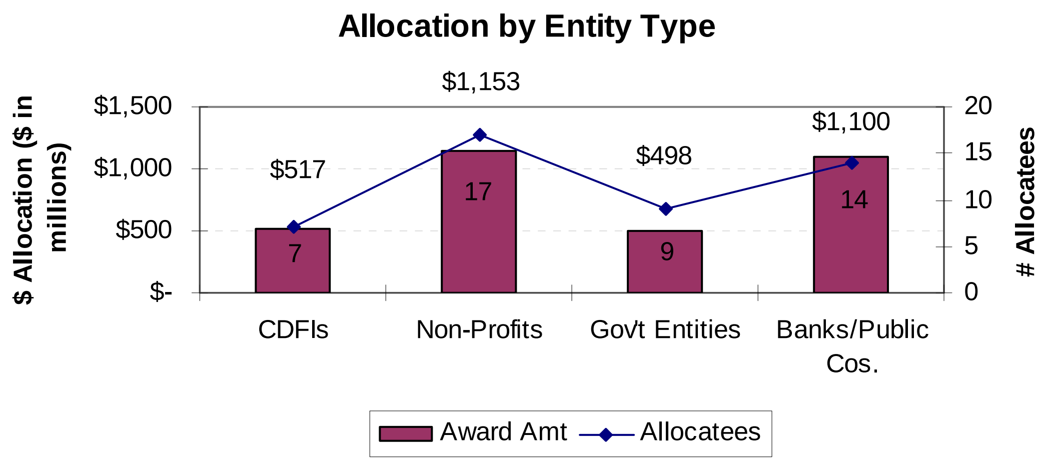
- Seventeen of the allocatees (or 28%) are non-profit organizations or subsidiaries of non-profit organizations. They will receive allocations totaling $1.15 billion.

- Seven of the allocatees (or 11 %) are certified CDFIs or subsidiaries of certified CDFIs. They will receive allocations totaling $517 million.

- Fourteen of the allocatees (or 23 %) are non-CDFI banks or bank holding companies; publicly traded institutions; or subsidiaries of such entities. They will receive allocations totaling $1.1 billion.

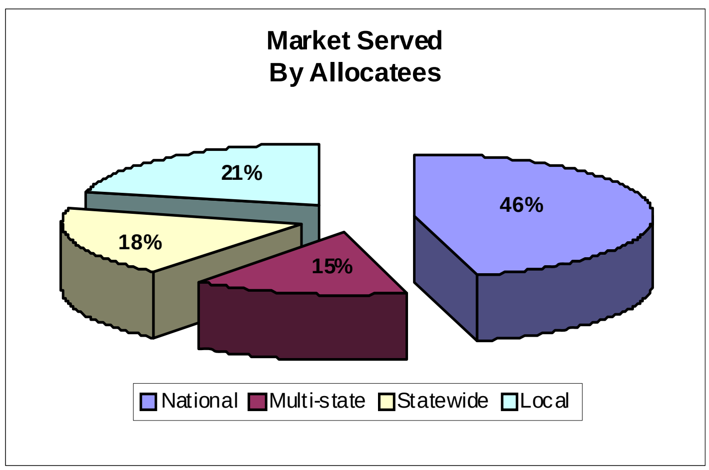
- Nine of the allocatees (or 15 %) are governmentally controlled entities. They will receive allocations totaling $498 million.

- In all, 24 of the allocatees (or 39 %) are CDFIs, non-profit organizations, governmentally controlled entities, or subsidiaries of such organizations. They will receive allocations totaling $1.495 billion.



Please note that the number of allocatees represented in the chart above does not total 61, 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.

Where will the investments be made?



- The 61 allocatees are headquartered in 24 different states and the District of Columbia, but anticipate making awards in 45 different states, as well as D.C. and Puerto Rico. The remaining five states as well as U.S. territories are eligible to be served by allocatees with a national footprint.

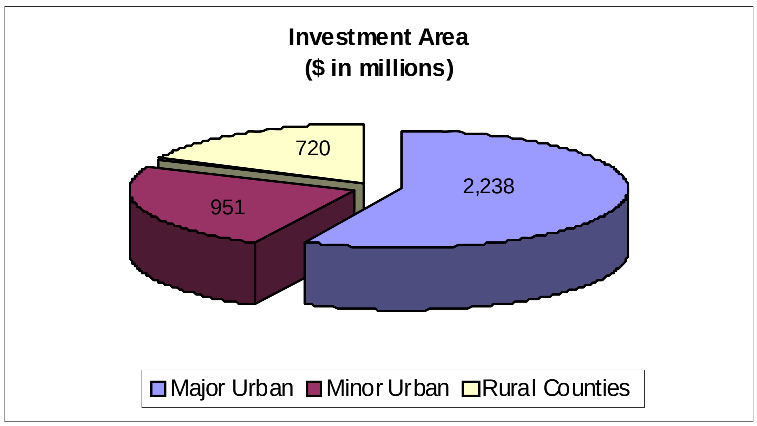
- Twenty-eight of the allocatees (or 46%) will focus investment activities on a national service area; nine of the allocatees (or 15%) will focus on a multi-state service area; eleven of the allocatees (or 18%) will focus activities on a statewide service area; and thirteen of the allocatees (or 21%) will focus on local markets (e.g., a citywide or countywide area).

- Twenty of the allocatees (or 33%) intend to dedicate some or all of their activities to the GO Zone. They have received allocations totaling $987 million.

- Based on information reported by the allocatees, it is anticipated that approximately $2.24 billion (or 57.3%) will be invested in major urban areas; approximately $951 million (or 24.3%) will be invested in minor urban areas; and approximately $720 million (or 18.4 %) will be invested in rural areas.

Will investments be made in particularly economically distressed communities?

- While all allocatees are required to invest substantially all (generally 85%) 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 61 of the allocatees indicated that at least 80% 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 47 that indicated that 100% of their activities would be provided in such areas.

- All 61 allocatees committed to providing at least 75% of their investments in areas characterized by: 1) multiple indicia of distress; 2) significantly greater indicia of distress than required by NMTC Program rules; 3) high unemployment rates; or 4) devastation in the wake of a natural disaster.

- The Fund will require these allocatees, through their allocation agreements, to 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 $1.26 billion (32.3 %) 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 $2.43 billion (62.2 %) 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 $211 million (5.4 %) 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 61 of the allocatees have committed to offering preferential rates and terms.

- Fifty-two of the 61 allocatees indicated that 100% of their investment dollars would be made either in the form of equity, equity equivalent financing, or debt that is at least 50% below market and/or is characterized by at least five concessionary features; with the remaining nine allocatees committing to providing debt that is at least 33% below market and/or characterized by at least four 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% of QEI proceeds be invested in Qualified Low Income Community Investments (QLICIs).

- All 61 of the allocatees indicated that they would invest at least 90% of QEI dollars into QLICIs, and 49 of the 61 allocatees indicated that at least 97% of their QEI dollars would be invested into QLICIs.

- In real dollars, this means at least $501 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, to meet the benchmarks identified in their applications.

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

Over $8.3 billion in qualifying equity investments have been made into CDEs since the program's inception. This represents over 68% of the $12.1billion in allocation authority issued to CDEs through the first four 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 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. Preliminary analysis shows that:

- 132 allocatees reported closing approximately $5.7 billion in QLICIs through 2006.
- Approximately 65 percent of activities (by dollar amount invested) were directed towards commercial real estate, including retail, mixed-use, industrial/manufacturing and community facilities, such as charter schools, day care centers and health care facilities.
    - It is projected that these real estate transactions will help to develop or rehabilitate over 46 million square feet of real estate in low-income communities, and create approximately 146,000 construction jobs.
- Approximately 30 percent of transactions were fixed asset and working capital loans and investments to operating businesses in low-income communities.
    - These loans and investments are projected to help create or retain approximately 20,000 full time equivalent jobs.

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.***
- Investment in a sustainable forest project in ***rural Maine*** that will restore operations to a formerly closed mill, preserving and/or re-activating over 600 jobs.

- 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 call center facility, located in a formerly vacant department store building in ***Sioux City, Iowa,*** that will create 330 new jobs with competitive wages and excellent benefits.

- The expansion of a family-owned, iron and steel manufacturing facility in ***Milwaukee, Wisconsin*** to almost double its original size**.**

- 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

The Fund is authorized over an eight-year period to allocate to CDEs the authority to issue up to $19,5 billion in equity for which NMTCs may be claimed, including $1 billion that was authorized by the Gulf Opportunity (GO) Zone Act of 2005 for specific use in the recovery and redevelopment of the Hurricane Katrina GO Zone. In this fifth round of allocations, the Fund was authorized to allocate to CDEs the authority to issue up to $3.9 billion in equity for which NMTCs may be claimed, including $400 million in the Katrina GO Zone. The Fund received 258 applications that together totaled over $27.9 billion in NMTC requests. The review process used to select NMTC allocation recipients is summarized below:

<u>Step One:</u>

- 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 Fund screened each reviewer to identify any potential conflicts of interest with applicants. The 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 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).

- In addition to evaluating and scoring each application, reviewers were required to recommend an allocation amount, based on information provided in the application. Reviewers were instructed to recommend both two-year and five-year allocation amounts, based on the amount of capital the reviewer determined the applicant could reasonably raise and deploy over these time periods.

Step Two:

- 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 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 requirements, 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) consultation with the IRS with respect to any applicant that proposed a business strategy that may not be permitted under the NMTC Program regulations.

- 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 Question 61 of the allocation application were not provided with a NMTC allocation.

Step Three:

- 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 a final determination.

Step Four: GO Zone Allocations

- The $400 million of additional allocation authority to be dedicated to the GO Zone required adding an additional dimension to the application and panel review process. Those applicants that applied for consideration for the special GO Zone allocation authority were required to answer certain question in the application pertaining to the applicant's prior and projected activities in the GO Zone. Fund staff reviewed and rated these questions, giving each applicant a priority ranking score of 0 to 3 (with 3 being the highest score) based on the extent to which the applicant could demonstrate a significant mission of recovery and redevelopment in the GO Zone. Applicants could also receive up to two additional points, for a total GO Zone ranking score of up to five points, based upon their commitment to serve communities that suffered the most damage in the wake or Hurricane Katrina.

- After the panel made allocation determinations for the unrestricted $3.5 billion of allocation authority (50 organizations were selected), the panel then considered whether applicants would be able to receive awards under the special GO Zone allocations.
- As specified in the NOAA, first priority in this review was given to organizations that had not yet received allocations under the initial $3.5 billion and could demonstrate the most significant mission of recovery and redevelopment in the GO Zone (i.e., those with a GO Zone priority ranking score of five).
- As a result of this process, an additional 11 applicants were selected to receive the $400 million in special allocations for use in the GO Zone.

<u>Step Five:</u>

- The Fund's Awards Management unit checked the GSA's list of debarred organizations to confirm that neither the allocatees nor their parent companies have been debarred from participating in any federal programs.

Final Steps of the Selection Process

- All applicants will be informed via e-mail of the Fund's decisions. Shortly thereafter, allocatees will enter into allocation agreements with the Fund. An allocation is not effective until the 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.