

April 2009

# NEW MARKETS TAX CREDIT

## Minority Entities Are Less Successful in Obtaining Awards Than Non-Minority Entities



G A O

Accountability \* Integrity \* Reliability



Highlights of [GAO-09-536](#), a report to congressional requesters

### Why GAO Did This Study

The Community Development Financial Institutions (CDFI) Fund in the Department of the Treasury has awarded \$19.5 billion of the \$26 billion in New Markets Tax Credits (NMTC) it is authorized to award through 2009 to encourage investment in low-income communities. The NMTC allows investors to claim a tax credit in exchange for investing in Community Development Entities (CDE) that reinvest the funds in qualified communities. Recent congressional interest has focused on participation by minority CDEs.

As requested, this report (1) identifies the number of minority and non-minority CDEs that have applied to the CDFI Fund and received NMTC awards, (2) explains the process by which the CDFI Fund makes NMTC awards and summarizes application scores, (3) describes challenges, if any, minority and non-minority CDEs face in applying for and receiving NMTC awards and (4) identifies efforts the CDFI Fund and others are taking to assist minority CDEs in applying for NMTC awards. GAO analyzed CDFI Fund application data and interviewed minority and non-minority CDE officials, the CDFI Fund, and industry groups.

### What GAO Recommends

GAO makes no recommendations, but summarizes options Congress could consider, such as providing certain preferences or technical assistance to minority CDEs. The CDFI Fund did not comment on GAO's options, but agreed with GAO's key conclusion.

View [GAO-09-536](#) or key components. For more information, contact Michael Brostek at (202) 512-9110 or [brostekm@gao.gov](mailto:brostekm@gao.gov).

## NEW MARKETS TAX CREDIT

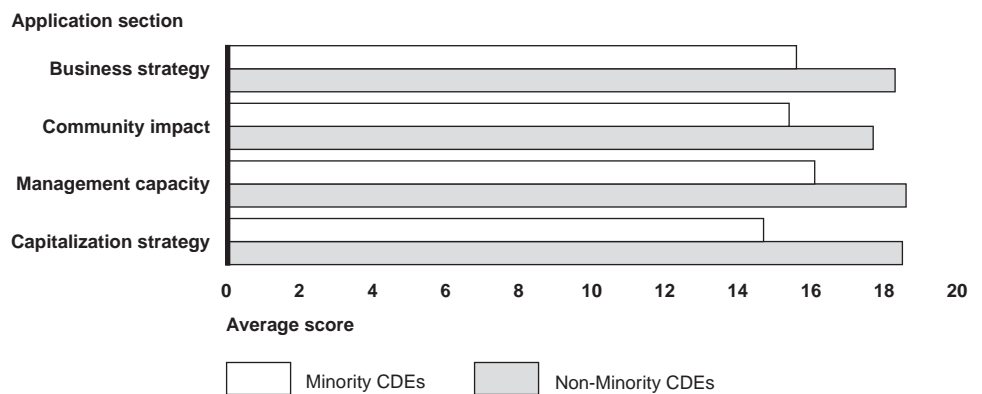
### Minority Entities Are Less Successful in Obtaining Awards Than Non-Minority Entities

#### What GAO Found

From 2005 through 2008, minority-owned CDEs were successful with about 9 percent of the NMTC applications that they submitted to the CDFI Fund and received about \$354 million of the \$8.7 billion for which they applied, or about 4 percent. By comparison, non-minority CDEs were successful with about 27 percent of their applications and received \$13.2 billion of the \$89.7 billion for which they applied, or about 15 percent.

The CDFI Fund relies primarily on application scores to determine which CDEs receive awards. As the figure shows, minority CDEs received lower scores than non-minority CDEs in each of the four application sections.

Minority and Non-Minority CDE Application Scores, 2005 through 2008



Source: GAO analysis of CDFI Fund Data.

Although a CDE's resources and experience in applying are important factors in a CDE's success rate with the NMTC program, when controlling for factors that GAO could measure, minority status is associated with a lower probability of receiving an allocation. It is not clear from our analysis why this relationship exists or whether any actions taken or not taken by the Department of the Treasury contributed to minority CDEs' lower probability of success. Characteristics associated with minority status of some CDEs for which data are unavailable may affect this relationship. If Congress views increased participation by minority CDEs as a goal for the NMTC program, policy options, such as providing certain preferences in the application process that may benefit minority CDEs, could be considered.

The CDFI Fund provides assistance that is available to all CDEs applying for awards, including a written debriefing to CDEs that do not receive awards detailing some of the weaknesses in the applications. Other stakeholders, including industry associations and consultants, hold conferences and offer services to help CDEs submit competitive applications. Should Congress view additional assistance to minority CDEs as important to increasing minority CDEs' participation in the NMTC program, it could consider requiring the CDFI Fund to provide targeted assistance to minority CDEs.

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## Abbreviations

CDE	Community Development Entity
CDFI	Community Development Financial Institutions
FDIC	Federal Deposit Insurance Corporation
NBA	National Bankers Association
NMTC	New Markets Tax Credit
QALICB	qualified active low-income community business
QEI	qualified equity investment
QLICI	qualified low-income community investment

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**Contents**

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United States Government Accountability Office  
Washington, D.C. 20548

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April 30, 2009

The Honorable Barney Frank  
Chairman  
Committee on Financial Services  
House of Representatives

The Honorable Charles B. Rangel  
Chairman  
Committee on Ways and Means  
House of Representatives

The Honorable Melvin L. Watt  
Chairman  
Subcommittee on Domestic Monetary Policy and Technology  
Committee on Financial Services  
House of Representatives

The Honorable Richard Neal  
Chairman  
Subcommittee on Select Revenue Measures  
Committee on Ways and Means  
House of Representatives

Congress established the New Markets Tax Credit (NMTC) program as part of the Community Renewal Tax Relief Act of 2000<sup>1</sup> to encourage investors to make investments in low-income communities that traditionally lack access to capital. Conventional access to credit and investment capital for developing small businesses, retaining jobs, and revitalizing neighborhoods is often limited in economically distressed communities or in communities with large low-income populations. The NMTC provides investors (financial institutions, individuals, corporations, etc.) with a tax credit for investing in a Community Development Entity (CDE) that, in turn, reinvests the funds in qualified low-income communities. CDEs are domestic partnerships or corporations with a primary mission of serving or

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<sup>1</sup>Pub. L. No. 106-554 (2000).

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providing investment capital for low-income communities or low-income persons.<sup>2</sup>

The NMTC program is administered by the Community Development Financial Institutions (CDFI) Fund in the Department of the Treasury which allocates tax credit authority—the amount of investment for which investors can claim a tax credit—to CDEs that apply for and obtain allocations. As of April 2009, the CDFI Fund had allocated \$19.5 billion out of \$26 billion in total available NMTC allocation authority. At the time of this report's publishing, the NMTC is set to expire following the 2009 allocation round, if Congress does not extend the program.

Recent congressional interest in the NMTC has focused on minority CDEs' participation in the NMTC program. Based on consultations with your offices, as requested, this report (1) identifies how many minority-owned or controlled and non-minority-owned or controlled CDEs have applied for and received allocations and how much they have applied for and received from 2005 through 2008; (2) explains the NMTC application process and summarizes NMTC application scores for minority and non-minority-owned or controlled CDEs by CDE type from 2005 through 2008; (3) describes the challenges, if any, minority-owned or controlled and non-minority-owned or controlled CDEs have faced in applying for and receiving NMTC allocations; and (4) identifies efforts the CDFI Fund and others are taking to assist minority-owned or controlled CDEs in applying for NMTC allocations. As agreed, where appropriate, we identify potential policy options which Congress may wish to consider based on its interpretation of our results.

To accomplish these reporting objectives, we obtained documentation on the NMTC application process and NMTC application data from 2005 through 2008 from the CDFI Fund and interviewed CDFI Fund officials and representatives from a range of CDEs. To identify the number of minority-owned or controlled and other types of CDEs that applied for and received NMTC allocations and the amounts for which they applied and received, we analyzed NMTC application data from the CDFI Fund for the period from 2005 through 2008. We limited our analyses to the 2005 through 2008 NMTC allocation rounds because the CDFI Fund did not begin collecting

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<sup>2</sup>CDEs are required to maintain accountability to residents of low-income communities by filling at least 20 percent of the organization's governing or advisory board positions with low-income community residents.

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data on minority-owned or controlled CDE participation in the NMTC program until 2005. To describe the NMTC application process, we obtained and reviewed documents from the CDFI Fund and interviewed CDFI Fund officials. We relied on NMTC application data from the CDFI Fund to summarize application scores for minority and non-minority-owned or controlled CDEs by CDE type from 2005 through 2008.

We interviewed representatives from a nongeneralizable sample of 13 minority-owned or controlled CDEs and 12 similarly-sized non-minority-owned CDEs that applied for NMTC awards from 2005 through 2008 to identify challenges, if any, that CDEs face in obtaining NMTC awards, using the frequency of their responses as the criterion for identifying challenges. We interviewed officials from randomly selected minority CDEs that obtained and did not obtain NMTC awards, including, minority banks and CDEs that did not identify themselves as banks. For each minority CDE we contacted, we attempted to interview officials from a similarly sized non-minority CDE, based on the asset size of the CDE as reported in the CDFI Fund's NMTC application data.

We conducted statistical analysis on the 2005 through 2008 NMTC allocation rounds to measure the association between certain CDE characteristics (e.g., asset size, minority status, CDE type, and project characteristics) and the probability that a CDE will receive a NMTC allocation. To identify efforts the CDFI Fund and other stakeholders are taking to help minority-owned or controlled CDEs be competitive for NMTC allocations, we interviewed CDFI Fund officials and other stakeholders, including industry association representatives from organizations such as the New Markets Tax Credit Coalition and the National Bankers Association. Appendix I provides more details on our scope and methodology.

We interviewed CDFI Fund officials with knowledge of the NMTC application data about the steps they take to ensure its accuracy. We determined that the data we use in this report were sufficiently reliable for our purposes. We conducted this performance audit from October 2008 through March 2009 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.



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## Background

The CDFI Fund in the Department of the Treasury is authorized to allocate \$26 billion<sup>3</sup> in tax credit authority to CDEs that manage NMTC investments in low-income community development projects.<sup>4</sup> Eligible organizations may apply for and receive NMTC allocations once they have been certified as a CDE by the CDFI Fund (a CDE that receives an allocation is often referred to as an allocatee).<sup>5</sup> Since the first round of NMTC allocations in 2003, demand for the NMTC has exceeded available allocation authority by at least six times in each allocation round. As of April 2009, the CDFI Fund had awarded \$19.5 billion in NMTC authority through 2008, with only the 2009 allocation round and recently provided allocation authority under the American Recovery and Reinvestment Act of 2009<sup>6</sup> remaining. Congress has expressed interest in the implementation and effectiveness of the

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<sup>3</sup>The original legislation that authorized the program allowed for \$15 billion in tax credit authority for the NMTC program through 2007. However, the Gulf Opportunity Zone Act of 2005, Pub. L. No. 109-135 (Dec. 21, 2005), authorized an additional \$1 billion of NMTC equity for qualified areas affected by Hurricane Katrina over a period of 3 years: \$300 million in 2005, \$300 million in 2006, and \$400 million in 2007. Pub. L. No. 109-432 (Dec. 20, 2006) and Pub. L. No. 110-343 (Oct. 3, 2008) extended the amount of NMTC authority available by \$3.5 billion for 2008 and 2009, respectively. The American Recovery and Reinvestment Act of 2009, Pub. L. No. 111-5 (Feb. 17, 2009), added an additional \$3 billion of NMTC allocation authority to be split equally between the 2008 (retroactively) and 2009 allocation rounds.

<sup>4</sup>A low-income community is defined as a census tract (1) in which the poverty rate is at least 20 percent or (2) outside a metropolitan area in which the median family income does not exceed 80 percent of median statewide family income or within a metropolitan area in which the median family income does not exceed 80 percent of the greater statewide or metropolitan area median family income. After October 22, 2004, the Secretary of the Treasury was authorized to issue regulations designating targeted populations that may be treated as low-income communities and procedures for determining which entities are qualified active low-income community businesses with respect to such populations. In addition, the definition of a low-income community included certain areas not within census tracts, tracts with low population, and census tracts with high migration rural counties.

<sup>5</sup>Community Development Financial Institutions and Specialized Small Business Investment Companies automatically qualify as CDEs and only need to register as CDEs rather than apply for certification.

<sup>6</sup>Pub. L. No. 111-5 (Feb. 17, 2009).

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NMTC and mandated that we report to Congress by the end of January 2004,<sup>7</sup> 2007,<sup>8</sup> and 2010.

As figure 1 illustrates, after the CDFI Fund makes allocations to CDEs, investors make equity investments by acquiring stock or a capital interest in the CDEs, called qualified equity investments (QEIs), in exchange for the right to claim tax credits on a portion of their investment. The CDEs, in turn, are required to invest “substantially all” of the proceeds they receive into qualified low-income community investments (QLICIs).<sup>9</sup> Qualified low-income community investments include (but are not limited to) investments in businesses, referred to as qualified active low-income community businesses (QALICBs), to be used for residential, commercial and industrial projects, and other types of investments such as purchasing loans from other CDEs.

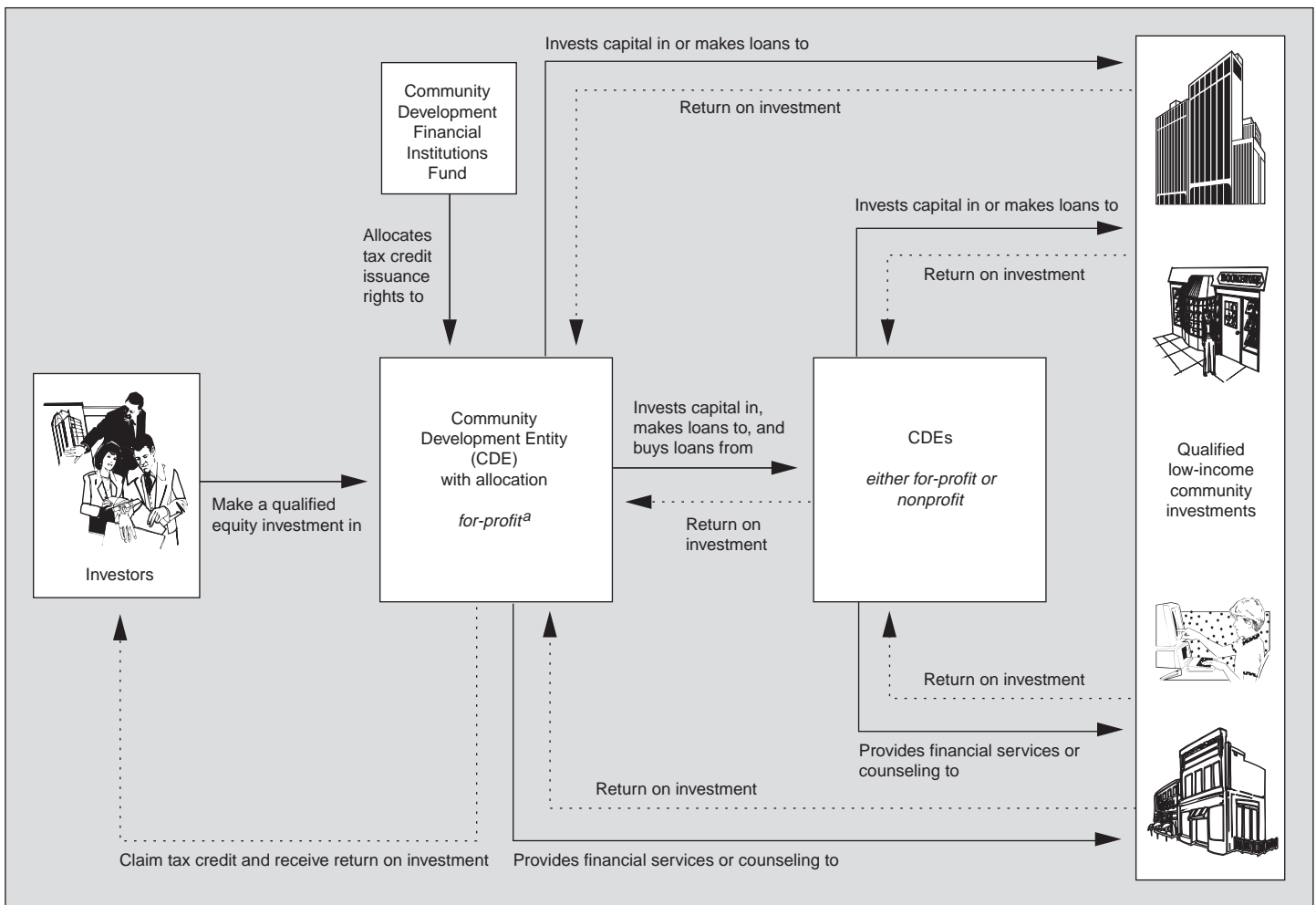
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<sup>7</sup>GAO, *New Markets Tax Credit Program: Progress Made in Implementation, but Further Actions Needed to Monitor Compliance*, GAO-04-326 (Washington, D.C.: Jan. 30, 2004).

<sup>8</sup>GAO, *Tax Policy: New Markets Tax Credit Appears to Increase Investment by Investors in Low-Income Communities, but Opportunities Exist to Better Monitor Compliance*, GAO-07-296 (Washington, D.C.: Jan. 31, 2007).

<sup>9</sup>“Substantially all” means that CDEs must use (within 12 months) at least 85 percent of investor proceeds in years 1 through 6 and 75 percent in year 7 of the investment. CDEs can satisfy this requirement by two methods: (1) direct tracing of investments to specific qualified low-income community investments or (2) showing that at least 85 percent of their aggregate gross assets (75 percent in year 7) are invested in qualified low-income community investments.

**Figure 1: NMTC Process for Using Allocated Tax Credits to Make QLICIs**



Source: GAO.

<sup>a</sup>Only a for-profit CDE can receive qualified equity investment from NMTC investors. These CDEs can then make investments in other CDEs that could be for-profit CDEs or nonprofit CDEs or they can directly invest the NMTC funds in low-income communities. However, both for-profit and nonprofit CDEs can receive allocations from the CDFI Fund. If a nonprofit CDE receives a NMTC allocation from the CDFI Fund, it must transfer the allocation authority to a for-profit CDE before NMTC investments can be made.

Although for-profit and nonprofit CDEs can apply for and receive NMTC allocations, only for-profit CDEs can offer NMTCs to investors, because, by definition, nonprofit organizations generally do not have access to equity investment. When a nonprofit CDE receives a NMTC allocation, it must

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transfer the allocation to one or more of its for-profit subsidiaries. The for-profit subsidiaries do not have to be formed when the nonprofit CDE applies for an allocation. However, the subsidiary must submit a CDE certification application to the CDFI Fund within 30 days of receiving a Notification of Allocation from the CDFI Fund and must be a certified CDE prior to entering into an allocation agreement.

Once a CDE with an allocation has obtained a qualified equity investments from NMTC investors and the CDE has invested the funds in an eligible low-income community, an investor can claim NMTCs over a period of 7 years totaling 39 percent of their original QEI.<sup>10</sup> The NMTC is a nonrefundable tax credit, meaning taxpayers do not receive payments for tax credits that exceed their total tax liability. Investors can cease to qualify for the NMTC, and can trigger a recapture event if the CDE (1) ceases to be a certified CDE, (2) does not satisfy the “substantially all” requirement, or (3) redeems the investment. A recapture event means that an investor will no longer be able to claim the credit, and that the investor that originally purchased the equity investment and subsequent holders of the investment are required to increase their income tax liability by the credits previously claimed plus interest for each resulting underpayment of tax.<sup>11</sup>

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## Different Types of CDEs Participate in the NMTC Program

The NMTC application includes an “Applicant Information” section, where CDEs categorize their respective organizations into several categories. The 2008 NMTC application included CDE categories such as for-profit entities, nonprofit entities, certified Community Development Financial Institutions,<sup>12</sup> publicly traded companies, thrift or bank holding companies, government-controlled entities, minority-owned or controlled entities, and

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<sup>10</sup>Beginning in the year in which the investment is made, investors are entitled to claim the credit for a 7-year period with 5 percent of the investment claimed in each of the first 3 years and 6 percent in each of the last 4 years. Investors are allowed to carry the credit back 1 year and carry the credits forward for a 20-year period.

<sup>11</sup>For a more detailed explanation of the NMTC investment process, see GAO-07-296.

<sup>12</sup>CDFIs include organizations certified by the CDFI Fund as meeting the criteria set forth in section 103 of the Community Development Banking and Financial Institutions Act of 1994 (Pub. L. No. 103-325, September 1994). Certified CDFIs are eligible to apply for and receive federal funds to provide financial and technical assistance to low-income communities.

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several other categories.<sup>13</sup> The CDFI Fund directs CDEs to classify themselves as minority, if more than 50 percent of the CDE is owned or controlled by members of a minority ethnic group. In the case of a for-profit CDE, more than 50 percent of the CDEs' owners must be minorities; if the entity applying is a nonprofit organization, more than 50 percent of its board of directors must be minorities (or its Chief Executive Officer, Executive Director, General Partner, or Managing Member must be a minority).<sup>14</sup>

The CDE classification categories are not mutually exclusive, meaning that CDEs may identify themselves as more than one type of CDE. For example, a minority-owned bank applying as a CDE could also be a for-profit organization and a certified CDFI. In addition, partnerships formed between different types of organizations to apply for the NMTC could cause CDEs to place themselves in a number of different categories. For example, a minority-owned bank could form a partnership with a state economic development authority, or another organization, to apply for a NMTC allocation. In such a case, a CDE might classify itself as being part of both a government-controlled entity and as minority owned.

Controlling entities—entities that control applicant CDEs and essentially act as parent companies—also regularly create CDEs for the purposes of applying for allocation authority. In these instances, the CDE may be established specifically to apply for and make use of the NMTC, but the track record and characteristics of the controlling entity may better reflect the capacity of a CDE to complete NMTC transactions than the CDE itself. For example, a nonprofit organization may be the controlling entity of a for-profit subsidiary formed to apply for a NMTC allocation. In such a case, the mission and goals of the nonprofit controlling entity may provide a better indication of the applicant's intended use of the NMTC than the for-profit subsidiary formed specifically to apply for the NMTC. The CDFI Fund also collects information on certain characteristics, including the asset size, of the controlling entities of CDEs that apply for NMTC authority.

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<sup>13</sup>Other CDE types include: Small Business Investment Companies, Specialized Small Business Investment Companies, New Markets Venture Capital Companies, credit unions, faith based organizations, and tribal organizations.

<sup>14</sup>For the purposes of the remainder of this report, we generally refer to minority-owned or controlled CDEs as “minority CDEs” and non-minority-owned or controlled CDEs as “non-minority CDEs.”

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## Minority Populations and Minority CDEs May Benefit from the NMTC in Multiple Ways

Representatives from several minority-owned entities and industry associations that we interviewed indicated that minority CDEs and other locally based, community lending organizations may have a better understanding of the economic conditions and availability of capital in the communities they serve than other investment organizations serving those same communities. However, in addition to minority CDEs obtaining NMTC authority and making investments in low-income communities, minority populations may benefit from the NMTC in other ways. For example, non-minority CDEs have also made investments in minority businesses that serve residents in low-income communities. Minority-owned businesses located in eligible NMTC census tracts may hire or provide services to minority residents in low-income communities. According to CDFI Fund officials, it is frequently the case that non-minority owned businesses located in NMTC-eligible census tracts with highly concentrated minority populations could provide economic and other benefits for minority residents.

Recent analysis completed for the Federal Reserve Bank of San Francisco indicates that NMTC-eligible census tracts and census tracts in which NMTC investments were made through 2006 had higher non-white populations than census tract averages across the entire United States. For example, on average, non-white residents account for nearly 42 percent of residents in NMTC-eligible census tracts across the United States, compared to an average of about 26 percent in all U.S. census tracts. In addition, on average, non-white residents account for nearly 47 percent of residents living in census tracts in which CDEs have made NMTC investments through 2006.<sup>15</sup>

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<sup>15</sup>Lauren Lambie-Hanson, "Addressing the Prevalence of Real Estate Investment in the New Markets Tax Credit Program," Federal Reserve Bank of San Francisco, Fall 2008. Working Paper 2008-04.

## Minority CDEs Received Proportionally Fewer NMTC Allocations and Lower Dollar Amounts Than Non-Minority CDEs

From 2005 through 2008, non-minority CDEs that applied for NMTC allocations received about 27 percent and 15 percent of the NMTC allocations and dollar amounts for which they applied, respectively. As the bottom of table 1 illustrates, by comparison, minority CDEs were successful with about 9 percent of their applications and received about 4 percent of allocation dollars that they requested.

**Table 1: NMTC Applications and Dollars for Which CDEs Applied and Received Allocations by CDE Type, 2005 through 2008**

CDE type	Applications			Dollar amounts		
	Number	Number successful	Percentage successful	Applied for	Awarded	Percentage awarded
<b>For-profit</b>						
Non-minority	518	130	25.1%	\$58,198,243,339	\$7,881,750,000	13.5%
Minority	60	4	6.7%	\$6,468,858,125	\$182,000,000	2.8%
<b>Nonprofit</b>						
Non-minority	319	94	29.5	30,742,464,063	5,199,250,000	16.9
Minority	28	4	14.3	2,228,600,000	172,000,000	7.7
<b>Certified CDFIs</b>						
Non-minority	117	54	46.2	10,382,929,719	3,069,000,000	29.6
Minority	29	3	10.3	2,357,500,000	82,000,000	3.5
<b>Publicly traded company</b>						
Non-minority	89	30	33.7	12,627,300,000	2,262,250,000	17.9
Minority	3	0	0.0	300,000,000	0	0.0
<b>Government-controlled</b>						
Non-minority	125	30	24.0	13,838,812,183	1,472,000,000	10.6
Minority	6	1	16.7	486,600,000	100,000,000	20.6
<b>Thrift or bank holding company</b>						
Non-minority	154	47	30.5	17,907,596,839	3,443,250,000	19.2
Minority	18	2	11.1	1,705,500,000	80,000,000	4.7
<b>Other<sup>a</sup></b>						
Non-minority	18	2	11.1	1,400,736,700	110,000,000	7.9
Minority	11	1	9.1	976,600,000	30,000,000	3.1

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CDE type	Applications			Dollar amounts		
	Number	Number successful	Percentage successful	Applied for	Awarded	Percentage awarded
<b>All applicants<sup>b</sup></b>						
Non-minority	846	227	26.8%	\$89,672,707,402	\$13,155,000,000	14.7%
Minority	88	8	9.1%	\$8,697,458,125	\$354,000,000	4.1%

Source: GAO Analysis of CDFI Fund Data

Note: Application data is self-reported by CDEs to the CDFI Fund.

<sup>a</sup>This category includes application data from the CDFI Fund for the following additional CDE types: Small Business Investment Companies, Specialized Small Business Investment Companies, New Markets Venture Capital Companies, credit unions, faith-based organizations, and tribal organizations. Each of these categories accounts for less than 1 percent of the total population of applicants.

<sup>b</sup>The sum of the individual categories is not equal to the summary numbers for the entire applicant pool because the CDE categories are not mutually exclusive. For example, in addition to a CDE classifying itself as a bank, it could also categorize itself as a for-profit organization or in other applicable categories.

Table 1 also shows that minority CDEs generally received a smaller percentage of the allocations and dollar amounts for which they applied than similar types of non-minority CDEs. Minority CDEs received a larger percentage of the dollars for which they applied in only the government controlled category, a CDE type in which relatively few minority CDEs applied. Appendix III shows the number of NMTC applications and allocation dollars for which minority and non-minority CDEs applied and received by year from 2005 through 2008.

Since 2005, the first year in which the CDFI Fund collected data on minority CDEs, CDFI Fund application data indicate that 68 minority CDEs have applied for NMTC allocations from the CDFI Fund for a total of 88 applications. Fifteen minority CDEs applied for NMTC allocations in multiple years. From 2005 through 2008, the CDFI Fund received 934 NMTC applications from 566 different CDEs. The 88 applications that minority CDEs submitted account for about 9 percent of the total number of NMTC applications that the CDFI Fund received from 2005 through 2008. Of the 68 minority CDEs that applied, 6 CDEs received a total of eight



NMTC allocations (2 minority CDEs each received two separate allocations).<sup>16</sup>

As table 2 shows, minority applicants received about \$354 million in allocation authority from 2005 through 2008, which was about 4 percent of the allocation dollars for which they applied. Allocations awarded to minority CDEs accounted for about 2.6 percent of the \$13.5 billion in total NMTC allocation authority that the CDFI Fund awarded during this period. Minority CDEs received the largest dollar amount of NMTC allocation authority for which they applied in 2008, the most recent NMTC award round, owing in large part to a \$100 million allocation that went to a single CDE.

**Table 2: Applications and Dollar Amounts for Which Minority CDEs Applied and Received NMTC Allocations, 2005 through 2008**

Year	Applications			Dollar amounts		
	Number	Number successful	Percentage successful	Applied for	Awarded	Percentage awarded
2005	13	0	0.0%	\$1,652,000,000	\$0	0.0%
2006	22	3	13.6	2,281,000,000	92,000,000	4.0
2007	23	1	4.3	2,250,358,125	75,000,000	3.3
2008	30	4	13.3	2,514,100,000	187,000,000	7.4
<b>Total</b>	<b>88</b>	<b>8</b>	<b>9.1%</b>	<b>\$8,697,458,125</b>	<b>\$354,000,000</b>	<b>4.1%</b>

Source: GAO analysis of CDFI Fund data.

<sup>16</sup>Analysis of CDE participation in the NMTC program is limited to reviewing information about CDEs that applied for NMTC allocations. Other investment organizations would potentially be able to obtain certified CDE status and apply for NMTC allocations. This could include minority-owned banks and other minority organizations with the primary mission of serving low-income communities.

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## In the NMTC Two-Phase Application Process, Minority CDEs Received Lower Application Scores Than Non-Minority CDEs

The CDFI Fund's process for making NMTC awards takes place in two phases. Under the first phase, NMTC applicants submit standardized application packages in which they respond to a series of questions about the CDE's track record, the dollar amount of allocated tax credits requested, and the organization's plans for using the credits to support activities in low-income communities. NMTC applications are first reviewed and scored by a group of external reviewers selected by the CDFI Fund who have demonstrated experience in business, real estate, or community development finance.<sup>17</sup> Reviewers receive an applicant's entire NMTC application, including applicant information that identifies the applicant CDE's type and the amount of total assets held by the CDE. If the applicant has a controlling entity, similar information is provided to the reviewers about the controlling entity.

Each application is reviewed by three external reviewers, and, if the CDFI Fund identifies a scoring anomaly by one of the reviewers, a fourth reviewer also reviews and scores the application. Applications are scored based on a range of criteria and applicants can receive scores of up to 25 points by each reviewer in each of the following four sections: (1) business strategy, (2) community impact, (3) management capacity, and (4) capitalization strategy. Applicants can also receive up to 10 "priority" points by demonstrating a record of successful investment in disadvantaged communities or businesses (up to 5 points) and by investing in businesses unrelated to the applicant (up to 5 points). However, priority points are not included in calculating an applicant's score until the second phase of the application review process. Table 3 summarizes the four areas under which the applications are scored.

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<sup>17</sup>The CDFI Fund requires reviewers to disclose any conflicts of interest related to applicants with whom they have or had a relationship.

**Table 3: NMTC Application Sections and Subcategories**

<b>Application section</b>	<b>Subcategories</b>
Business strategy <sup>a</sup>	Reviewers score applications in the following subcategories: (1) products, services, and investment criteria, (2) prior performance, (3) projected business activity, and (4) value added.
Community impact	Reviewers score applications in the following subcategories: (1) targeting areas of high distress, (2) prior performance, (3) economic development impacts, (4) community development impacts, and (5) other community benefits.
Management capacity	Reviewers score applications in the following subcategories: (1) experience deploying capital or services, (2) experience raising capital, (3) financial capacity and asset management, (4) program compliance experience, and (5) community accountability.
Capitalization strategy	Reviewers score applications in the following subcategories: (1) track record of raising investor capital, (2) strategy for raising investor capital, (3) relationship with investors, (4) NMTC economic benefit, and (5) sources and uses of capital.

Source: GAO analysis of CDFI Fund data.

<sup>a</sup>Applicants may also receive a total of 10 “priority” points for demonstrating a track record of investing in low-income communities (up to 5 points) and for demonstrating that the CDE will make NMTC investments in one or more businesses in which persons unrelated to the applicant CDE hold the majority equity interest (up to 5 points). These priority points do not count toward an applicant’s score in the first phase of the NMTC review process.

CDEs that meet or exceed an overall scoring threshold and a threshold in each of the four application sections advance to a second phase of the application process in which CDFI Fund officials determine—based on a final ranking score—which CDEs will receive allocations and how much they will receive.<sup>18</sup> The final ranking score is the sum of the aggregate business strategy score, the community impact score, and half of the priority points that a CDE received for demonstrating a track record of investing in low-income communities or investing in unrelated entities.

To determine how much allocation authority a CDE will receive, CDFI Fund staff review the amount of allocation authority that the CDE requested and, based on the information in the application materials, award allocation amounts in the order of CDEs’ final ranking scores. When recommending allocation amounts, CDFI Fund staff members are

<sup>18</sup>Applicants that meet or exceed minimum scoring thresholds (48 out of 75 aggregate points—each of the 3 reviewers assign a score out of 25 for each application section—in each of the four application sections and an overall aggregate base score of 216 out of 300 points) are assigned Final Rank Scores, which determines the order by which the CDFI Fund reviews CDEs for awards. This means that CDEs receiving average scores of 16 out of 25 or higher in each application section and average scores of at least 72 out of 100 points overall advance to the second phase of the application process.

instructed to consider the amount of equity investment the CDE can expect to raise in 2 years, the amount of NMTC investment in low-income communities that can be deployed within 3 years, the quality of the financial products being offered, and the projected impact on low-income communities or low-income persons. Not all of the CDEs that satisfy the minimum application score thresholds receive allocations. Allocation authority is generally awarded in order of final ranking scores until the allocation authority is exhausted.

### Minority CDEs' Average Scores Generally Do Not Meet the CDFI Fund's Minimum Thresholds for Advancing to the Second Phase of the Review Process

On average for the four year period from 2005 through 2008, minority CDEs do not meet the minimum threshold for advancing past the first phase of the NMTC review process (an average score of 16 points) in three of the four application sections, as table 4 illustrates. Overall, from 2005 through 2008, minority CDEs on average met this minimum threshold in the management capacity section of the application only. However, in 2008, minority CDEs' average application scores met or exceeded the minimum threshold in three sections—(1) business strategy, (2) management capacity, and (3) capitalization strategy. In addition, minority CDEs' average application scores fell short of the minimum threshold for the community impact section of the application by only one-tenth of a point in 2008. In general, minority CDEs scored lowest on average in the capitalization strategy section of the application and highest in the management capacity section of the application from 2005 to 2008.

**Table 4: Minority CDEs Average NMTC Application Scores by Application Section, 2005 through 2008**

Year	Business strategy	Community impact	Management capacity	Capitalization strategy	Average total
2005	13.5	13.8	15.2	13.4	<b>55.9</b>
2006	16.4	15.4	16.2	14.0	<b>62.0</b>
2007	15.4	15.7	15.8	14.7	<b>61.6</b>
2008	16.0	15.9	16.6	16.0	<b>64.4</b>
Average, all years <sup>a</sup>	15.6	15.4	16.1	14.7	<b>61.8</b>

Source: GAO analysis of CDFI Fund application data.

<sup>a</sup>The scores for each year consist of the average score in each section for applications submitted to the CDFI Fund in that year. The average for all years consists of the average score in each category for all CDEs that applied from 2005 to 2008 combined, not the average of the scores for each year.

According to our analysis of NMTC application data, of the 88 applications submitted by minority CDEs, 31 applications met the minimum threshold

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scores to advance to the second phase of the NMTC review process from 2005 to 2008. By comparison, during this same time period 518 of the 846 applications submitted by non-minority CDEs met the minimum thresholds to advance to the second phase of the review process. Eight minority CDE applications that advanced to the second phase of the review process, or about 26 percent of minority CDE applications that met minimum scoring thresholds, received allocations. By comparison, 227, or about 44 percent, of non-minority CDEs that advanced to the second phase of the review process received allocations.

While most minority CDEs that applied for NMTC allocations did not advance past the first phase of the application process from 2005 through 2008, minority CDEs' total average application scores increased by about 15 percent during this period.<sup>19</sup> Average scores also generally increased in each of the four main application sections. Minority CDEs that were also classified as banks scored higher in the NMTC application than all minority CDEs that applied for allocations. For example, minority-owned banks had an average total application score of 70.2 while all minority CDEs had average total application scores of 61.8.

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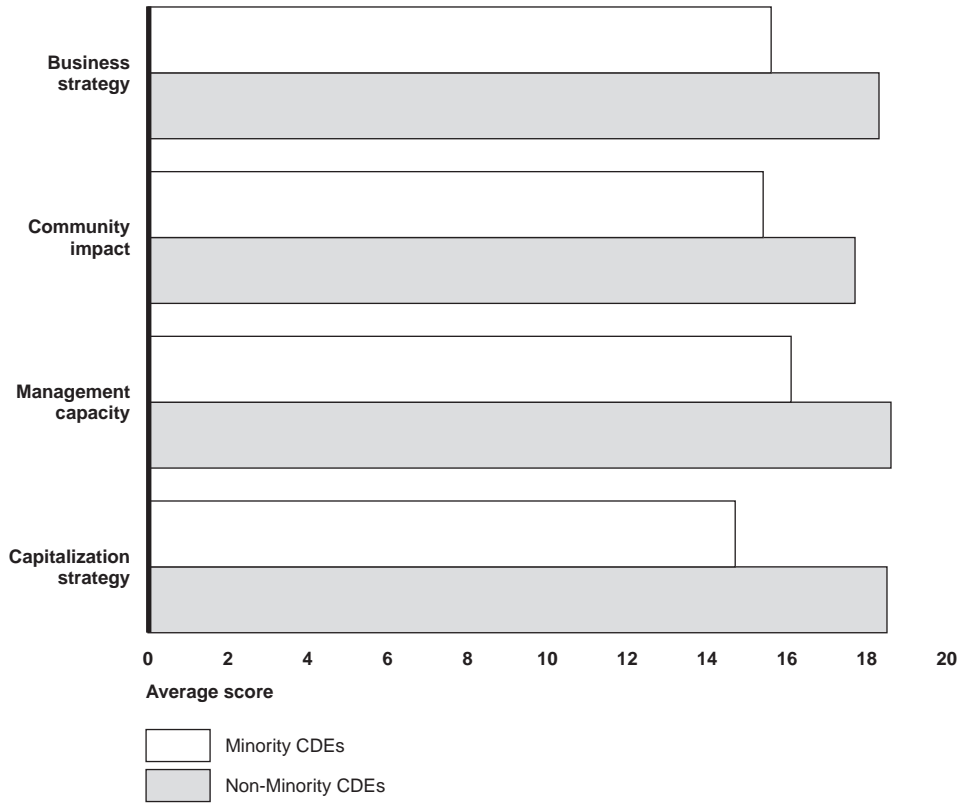
### Minority CDEs Scored Lower Than Non-Minority CDEs

Minority CDEs have generally received lower application scores overall and in each of the four NMTC application sections than non-minority CDEs. As figure 2 shows, non-minority CDEs scored higher on their NMTC applications in each of the four application sections than minority CDEs for all years with available data. Overall, non-minority CDEs scored about 11 points higher than minority CDEs on NMTC applications from 2005 through 2008. Minority CDEs' scores differed the most from non-minority CDEs' scores in the capitalization strategy section of the application, where non-minority CDEs scored 25 percent higher than minority CDEs. Non-minority CDEs scored between 15 percent and 17 percent higher than minority CDEs in the business strategy, community impact, and management capacity sections of the application.

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<sup>19</sup>By comparison, non-minority CDEs' scores were more constant from 2005 through 2008, with 2008 average scores increasing by about 8 percent over 2005 scores.

**Figure 2: Minority and Non-Minority CDEs Application Scores, 2005 through 2008**  
Application section

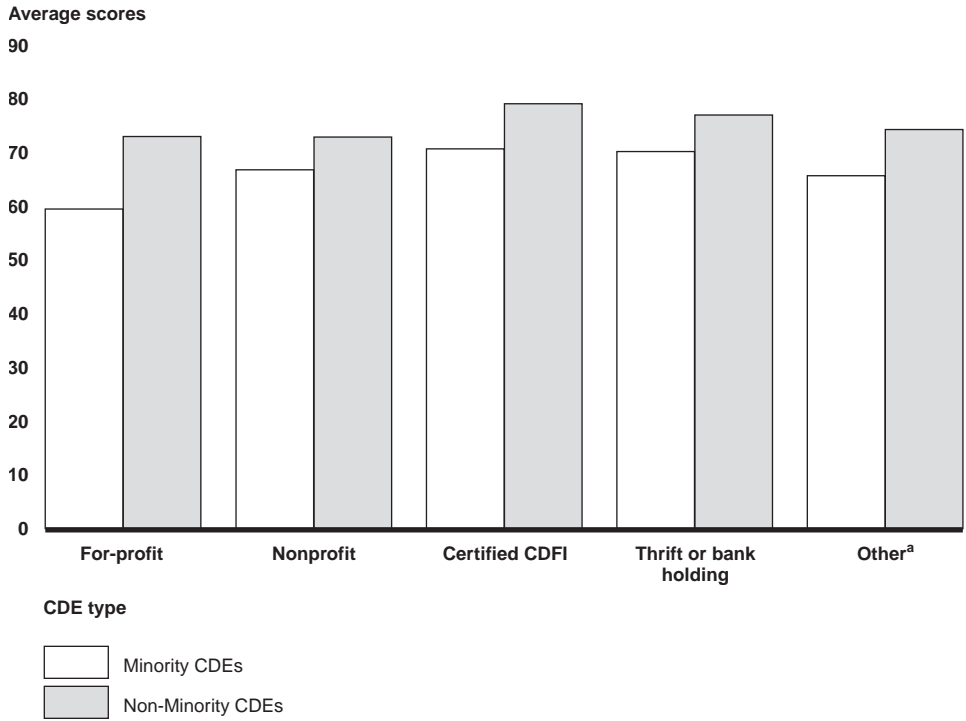


Source: GAO analysis of CDFI Fund Data.

Note: The average scores presented above reflect the average aggregate application scores for each section divided by three—the number of reviewers scoring the applications.

Lower application scores for minority CDEs also varied by CDE type. For example, as figure 3 shows, minority CDEs that reported being for-profit organizations, nonprofit organizations, certified CDFIs, and thrift or bank holding companies all had lower application scores than non-minority CDEs of the same type. Minority and non-minority CDEs scores differed the most in for-profit organizations. On average, non-minority-owned for-profit organizations scored about 14 points higher than minority-owned for-profit organizations between 2005 and 2008. Appendix IV provides further details on CDE application scores by CDE type and year from 2005 through 2008.

**Figure 3: Overall NMTC Average Application Scores for Minority and Non-Minority CDEs by CDE Type, 2005 through 2008**



Source: GAO analysis of CDFI Fund data.

Note: Application data are self-reported by CDEs to the CDFI Fund.

<sup>a</sup>This category includes application data from the CDFI Fund for the following additional CDE types: Small Business Investment Companies, Specialized Small Business Investment Companies, New Markets Venture Capital Companies, credit unions, faith-based organizations, and tribal organizations. Each of these categories accounts for less than 1 percent of the total population of applicants. This category also includes publicly traded companies and government-controlled entities. We did not report these categories separately because only three minority CDEs reported being publicly traded companies and only six government-controlled entities also reported being minority controlled.

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## Multiple Factors Appear to Be Associated with Whether a CDE Receives a NMTC Allocation, Including Minority Status

To identify challenges minority and non-minority CDEs face in obtaining NMTC allocations, we obtained testimonial evidence from representatives from minority and non-minority CDEs, and we analyzed CDFI Fund application data. While both our testimonial evidence and statistical analysis have limitations, they generally show that a CDE's capacity, measured by asset size in this case, is associated with an increased probability of obtaining an award. Our statistical analysis, among other significant factors, indicates that the minority status of a CDE is associated with a lower probability of obtaining an allocation.

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## Representatives from Minority and Non-Minority CDEs We Interviewed Identified Similar Challenges to Receiving Allocations

Officials from minority and non-minority CDEs we interviewed to identify challenges to receiving allocations generally identified similar challenges in applying for and receiving NMTC allocations, and representatives from minority CDEs we interviewed generally did not identify minority status as an impediment to receiving an allocation. Specifically, they said it can be difficult in the NMTC application to demonstrate the capacity to effectively use the NMTC and the experience in investing in low-income communities necessary to obtain allocations. According to officials from several CDEs we interviewed, demonstrating the relative impact of NMTC projects through the NMTC application may be particularly difficult when smaller, community-based CDEs compete for allocations against large banks and financial institutions that may have the capacity to undertake larger projects with more easily identifiable economic impacts.

Based on the most frequent responses provided, officials from minority and non-minority CDEs we interviewed identified the following challenges that CDEs may face in applying for NMTC allocations:

- Some CDEs, particularly smaller CDEs, may have difficulties demonstrating the ability to use the amount of NMTC capital for which they apply.
- Some CDEs may have difficulty demonstrating a track record for both making investments in low-income communities and investing in large projects that would appear to generate significant impacts.
- Smaller CDEs may have a difficult time demonstrating that they have the capacity to complete proposed projects that will have community



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impacts that compare favorably to the impacts described by larger CDEs.

- The complexity of the NMTC can result in relatively high transaction costs, which may favor larger CDEs that typically undertake larger projects. Specifically, NMTC transactions can involve multiple stakeholders, including lawyers and consultants. Increasingly complex transactions also generally mean that transaction costs, to the extent that they are largely fixed costs, account for a greater percentage of an overall project's cost for smaller projects as opposed to larger projects.
- Although CDEs do not submit an application fee to apply, external costs associated with applying for NMTC allocations, such as consulting fees and staff time dedicated to completing the application, deter some CDEs from applying.

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### CDEs with Lower Asset Value and Less Experience in Applying May Be Less Likely to Obtain NMTC Allocations

Because our interviews with minority and non-minority CDE officials had identified the CDEs' overall capacity to apply for and use NMTC and its ability to demonstrate through the NMTC application that it can effectively use the tax credit as factors that may lead to successful applications, we analyzed CDFI Fund application data by CDE asset size and experience in submitting NMTC applications. The asset size of a CDE, or the CDE's controlling entity when one exists, may serve as an indication of its overall capacity and resources available to dedicate to applying for a NMTC allocation and to execute NMTC transactions once the CDE receives an allocation. CDE experience with the application process may reflect how much CDE officials learn from CDFI Fund feedback in previous application rounds (e.g., newly proposed projects may have reduced transaction costs in comparison to previously proposed projects, more data may be collected on potential community impacts).

Smaller CDEs applying for allocations between 2005 and 2008, particularly those in the bottom 40 percent of asset size, received fewer allocations and received lower application scores than larger CDEs. Table 5 shows that NMTC applicants in the smallest two quintiles of asset size received only about 13.1 percent and 5.8 percent of the allocation dollars for which they applied. Applicants in the three largest quintiles by asset size received closer to 16 percent of the allocation dollars for which they applied. Similarly, allocation dollars for which CDEs applied and received decrease as CDEs become smaller.

**Table 5: NMTC Applications for Which CDEs Applied and Received Allocations by Asset Size, 2005 through 2008**

Quintile <sup>a</sup>	Applications			Dollar amounts		
	Number	Number successful	Percentage successful	Applied for	Awarded	Percentage awarded
Largest	187	54	28.9%	\$25,010,875,000	\$3,962,250,000	15.8%
Second largest	187	52	27.8	20,785,475,000	3,260,000,000	15.7
Middle	187	56	30.0	18,157,630,000	2,974,000,000	16.4
Second smallest	187	47	25.1	18,007,254,467	2,365,000,000	13.1
Smallest	186	26	14.0	16,408,931,060	974,750,000	5.8
<b>All applicants</b>	<b>934</b>	<b>235</b>	<b>25.2%</b>	<b>\$98,370,165,527</b>	<b>\$13,509,000,000</b>	<b>13.7%</b>

Source: GAO analysis of CDFI Fund data.

<sup>a</sup>CDEs report the asset size for the applicant CDE and the controlling entity of the applicant CDE. In cases where a controlling entity reported its asset size we used the controlling entity's asset size as long as it was greater than the applicant's asset size. In cases where no controlling entity was present, we used the applicant's reported asset size for this analysis. The asset size ranges for each of the five quintiles are as follows: (1) largest quintile, \$2,182,706,000,000 to \$2,378,496,000, (2) second largest quintile, \$2,378,495,999 to \$226,832,000, (3) middle quintile, \$226,831,999 to \$35,779,943, (4) second smallest quintile, \$35,779,942 to \$3,740,000, and (5) smallest quintile, \$3,739,999 to \$0.

As expected, given that the top three quintiles in asset size received more NMTC allocations than the bottom two quintiles, CDEs with larger amounts of assets generally received higher application scores in all four areas of the NMTC application than smaller CDEs. Appendix V shows NMTC application scores by CDE asset size and CDE type over the same time period.

In general, minority CDEs that applied for NMTC allocations from 2005 through 2008 had relatively few assets when compared to non-minority CDEs that applied for allocations. For example, half of the minority CDEs that applied for NMTC allocations from 2005 through 2008 were among the smallest 40 percent of NMTC applicants, and, of those applicants, only two received allocations. As table 6 illustrates, the remaining six successful NMTC applications by minority CDEs went to minority CDEs in the largest 40 percent of all CDEs.

**Table 6: NMTC Applications for Which Minority CDEs Applied and Received Allocations by Asset Size, 2005 through 2008**

Quintile <sup>a</sup>	Applications			Dollar amounts		
	Number	Number successful	Percentage successful	Applied for	Awarded	Percentage awarded
Largest	2	1	50.0%	\$245,000,000	\$100,000,000	40.8%
Second largest	27	5	18.5	3,095,000,000	222,000,000	7.2
Middle	15	0	0.0	1,260,600,000	0	0.0
Second smallest	14	0	0.0	1,149,358,125	0	0.0
Smallest	30	2	6.7	2,947,500,000	32,000,000	1.1
<b>All applicants</b>	<b>88</b>	<b>8</b>	<b>9.1%</b>	<b>\$8,697,458,125</b>	<b>\$354,000,000</b>	<b>4.1%</b>

Source: GAO analysis of CDFI Fund data.

<sup>a</sup>CDEs report the asset size for the applicant CDE and the controlling entity of the applicant CDE. In cases where a controlling entity reported its asset size we used the controlling entity's asset size as long as it was greater than the applicant's asset size. In cases where no controlling entity was present, we used the applicant's reported asset size for this analysis. The asset size ranges for each of the five quintiles are as follows: (1) largest quintile, \$2,182,706,000,000 to \$2,378,496,000, (2) second largest quintile, \$2,378,495,999 to \$226,832,000, (3) middle quintile, \$226,831,999 to \$35,779,943, (4) second smallest quintile, \$35,779,942 to \$3,740,000, and (5) smallest quintile, \$3,739,999 to \$0.

As table 6 shows, larger minority CDEs that applied for allocations (those in the top 40 percent of asset size) had more success in obtaining allocations than smaller minority CDEs. However, in comparing table 5 to table 6, minority CDEs also received proportionally fewer allocations and dollar amounts in each quintile than all CDEs that applied (with the exception of the largest quintile in which only two minority CDE applicants fell). Analysis of different types of CDEs, such as for-profit CDEs, nonprofit CDEs, and certified CDFIs, shows a similar pattern.<sup>20</sup> Larger CDEs in those categories generally experienced greater success in obtaining NMTC allocations and minority CDEs generally received a proportionally smaller share of NMTC allocations than non-minority CDEs when comparing CDE types. Appendix VI shows NMTC applications by CDE type, including the dollar amounts for which CDEs applied and received allocations from 2005 through 2008.

<sup>20</sup>These categories are not mutually exclusive CDE types. For example, a for-profit CDE could also be publicly traded and be a bank holding company.

As table 7 shows, CDEs that applied multiple times obtained more NMTC allocations than CDEs that only applied one time. For example, CDEs that applied only once received an allocation 10 percent of the time, while CDEs that applied twice received at least one award about 30 percent of the time and were successful in both allocation rounds 9 percent of the time.

**Table 7: Success Rate of CDEs That Applied for and Received One or More NMTC Allocations, 2005 through 2008**

Number of applications	Percentage receiving at least one award	Percentage receiving at least two awards	Percentage receiving at least three awards	Percentage receiving four awards
One	10.7%	Not applicable	Not applicable	Not applicable
Two	29.5	9.3%	Not applicable	Not applicable
Three	67.2	41.4	6.9%	Not applicable
Four	90.2	70.7	34.1	4.9%

Source: GAO analysis of CDFI Fund data.

### Analysis Indicates That After Controlling for Measurable Characteristics, Minority Status Is Associated with a Lower Probability of Obtaining an Allocation

As the analysis above shows, the size of the CDE, how often it applies, and its minority status are associated with the frequency with which it receives a NMTC allocation. However, this analysis does not isolate the separate effects of these characteristics. For example, we cannot say whether it is the tendency of minority CDEs to be smaller that accounts for their lower success rate rather than their minority status alone. We conducted additional statistical analysis to control for certain CDE characteristics, including some of those that we identified through our interviews as being challenges to CDEs receiving allocations. We also control for other characteristics using available NMTC application data (e.g., CDE type, asset size, minority status, and other factors such as the characteristics of proposed projects).<sup>21</sup>

Our additional statistical analysis of all CDEs that applied from 2005 to 2008 demonstrates that the probability that a NMTC applicant will receive an award is associated with certain factors. For example, after controlling for other characteristics, larger CDEs, as measured by asset size, appear to

<sup>21</sup>Specifically, we conducted multiple regression analysis, using probit probability models, using CDFI Fund application data to determine the likelihood that certain CDE characteristics have on the probability that a CDE would receive an award. We conducted this analysis for all CDE applications from 2005 to 2008.

be more likely to receive NMTC awards while smaller CDEs are less likely to receive awards. Our analysis also shows that after controlling for characteristics such as CDE type, asset size, and proposed project characteristics, minority status is associated with a lower probability of receiving an allocation. Table 8 illustrates our results for the factors we could measure.

**Table 8: Results of Statistical Analysis on Characteristics That May Be Associated with the Probability That a CDE Will Obtain an Allocation, All Applicants from 2005 to 2008**

Characteristic	Result <sup>a</sup>	Interpretation of results, holding other characteristics constant
<i>CDE characteristic</i>		
Asset size	Significant, positive <sup>a</sup>	Greater asset size is associated with an increased probability of receiving an allocation while smaller asset size is associated with decreased probability.
Minority-owned or controlled	Significant, negative <sup>a</sup>	Minority-owned or controlled status is associated with a decreased probability of receiving an allocation while not being minority owned or controlled is associated with increased probability.
Certified CDFI	Significant, positive <sup>a</sup>	Being a certified CDFI is associated with a greater probability of obtaining an allocation while not being a certified CDFIs is associated with a lower probability.
Nonprofit	Not significant	Being a nonprofit organization (or not being nonprofit) is not statistically significantly associated with the probability of receiving an allocation.
Bank	Not significant	Being a bank (or not being a bank) is not statistically significantly associated with the probability of receiving an allocation.
Publicly traded	Not significant	Being a publicly traded company (or not being publicly traded) is not statistically significantly associated with the probability of receiving an allocation.
<i>Project characteristics</i>		
Non-real estate property	Not significant	Proposing (or not proposing) non-real estate property NMTC investments is not statistically significantly associated with the probability of receiving an allocation.
Severely distressed area <sup>b</sup>	Significant, positive <sup>a</sup>	Proposing projects with a greater share of investment in severely distressed areas is associated with an increased probability of obtaining an allocation while proposing projects with a smaller share is associated with decreased probability.
Investment in urban area	Significant, positive <sup>a</sup>	Proposing projects with a greater share of investment in urban areas is associated with an increased probability of obtaining an allocation while proposing projects with a smaller share is associated with a decreased probability.

Source: GAO analysis of CDFI Fund data.

<sup>a</sup>The association is statistically significant at the 99 percent level (p-value of 1 percent or less).

<sup>b</sup>For the purposes of the 2009 NMTC allocation round, the CDFI Fund includes 18 different types of low-income communities as “areas of higher distress.”

It is not clear from our analysis why minority status is associated with a lower probability of obtaining an allocation or whether any actions taken

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or not taken by the Department of the Treasury or the CDFI Fund contributed to this statistical relationship. Other factors for which our statistical analysis is unable to account, such as experience with the application process, may also be reasons why minority CDEs have not been as successful in obtaining NMTC allocations as non-minority CDEs.

For example, according to a 2006 GAO report, certain minority-owned banks have higher loan loss reserves and operating costs than non-minority owned peers.<sup>22</sup> These types of characteristics could potentially affect the competitiveness of minority CDE NMTC applications, particularly in the business strategy and management capacity section of the applications. Also, according to industry association representatives, minority-owned banks have traditionally had a more difficult time accessing capital markets than their non-minority peers, and our analysis of the CDFI Fund application data show that minority CDEs score lowest in the capitalization strategy section of the application. Our analysis indicates that these differences are not explained by the size of the CDE—that is, they are not problems shared by other small, non-minority CDEs that applied for NMTC allocations. However, these differences could be associated with some other feature that minority CDEs share with non-minority CDEs for which we do not have data to include in our analysis.

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## Potential Options

The relative lack of success of minority CDEs may have implications for the communities they serve. In 2002, the Federal Deposit Insurance Corporation (FDIC) issued a policy statement<sup>23</sup> indicating that minority-owned depository institutions often promote the economic viability of minority and underserved communities, and Congress, through the Financial Institutions Reform, Recovery, and Enforcement Act of 1989, has indicated an intention to preserve and support minority-owned banks in the past.<sup>24</sup> Our discussions with representatives from minority and non-minority CDEs and industry associations generally indicated that locally-based community lending organizations, of which many minority CDEs would likely be a subset, may have a better understanding of the economic conditions and availability of capital in the communities that they serve

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<sup>22</sup>GAO, *Minority Banks: Regulators Need to Better Assess Effectiveness of Support Efforts*. GAO-07-6 (Washington, D.C.: Oct. 4, 2006).

<sup>23</sup>67 Fed. Reg. 18618-01.

<sup>24</sup>Pub. L. No. 101-73 (1989).

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than other investment organizations serving those same communities. For example, a representative of an industry organization that assists businesses and individuals in traditionally underserved communities obtain capital, indicated that minority-owned banks that also serve as community banks may have a unique understanding of the communities that they serve.

The legislative history for the NMTC does not address whether Congress intended for minority CDEs to benefit directly from the NMTC program. However, if Congress intends for minority CDEs' participation in the NMTC program to exceed the current levels and Congress believes that minority CDEs have unique characteristics that position them to target the NMTC to its most effective use, Congress may want to consider legislative changes to the program should the New Markets Tax Credit be extended beyond 2009. Potential changes that could be considered include, but would not be limited to the following: (1) similar to provisions for certain federal grant programs, requiring that a certain portion of the overall amount of allocation authority be designated for minority CDEs; (2) in accordance with information we obtained in discussions with several experts in economic development, exploring the potential for creating a pool of NMTC allocation authority to be dedicated specifically for community banks (minority banks that are certified CDEs, in most cases, would likely compete with non-minority community banks with similar characteristics for NMTC allocations); or (3) similar to other federal programs where preferences are given to targeted populations, offering priority points to minority CDEs that apply for NMTC allocations.

Although these options could increase the amount of NMTC authority awarded to minority CDEs, in part because we could not definitively identify the reasons why minority CDEs have scored lower on the NMTC application than non-minority CDEs, the options may not address the underlying reasons for lower minority CDE success. In addition, implementing these changes would require addressing a number of issues, including legal and administrative concerns, associated with such changes in the NMTC application process.

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## The CDFI Fund and Others Assist CDEs in Submitting Competitive NMTC Applications, Although Assistance Is Not Generally Directed Specifically to Minority CDEs

According to CDFI Fund officials, the CDFI Fund has conducted outreach intended to reach all CDEs that may have an interest in applying for NMTCs. In the early NMTC rounds, CDFI Fund officials conducted video teleconferences as part of a general outreach strategy. Participants took part in a live question and answer session about applying for the NMTC. CDFI Fund officials said they have more recently converted these video conferences to Web-based seminars. Early in the program, the CDFI Fund conducted NMTC outreach in 10 to 12 selected cities per year, conducting seminars and creating general awareness about the NMTC program. According to CDFI Fund officials, in recent years, as the program has matured, CDFI Fund officials have conducted fewer on-site meetings with prospective program participants.

The CDFI Fund has written guidance and application materials on its Web site. These materials include question and answer documents on the CDE certification process and applying for the NMTC once an organization has become a certified CDE. The guidance includes information on the NMTC statute, rules and regulations associated with the NMTC program, and information on ensuring that NMTC investments will remain compliant with the program's rules.

Representatives from minority and non-minority CDEs we interviewed offered a range of opinions on the CDFI Fund's written guidance. Officials from CDEs we interviewed found the CDFI Fund's guidance to be clear and generally understandable. However, some CDE representatives indicated that available guidance could be clearer about the type of information CDEs should include in their application, especially the types of projects for which they intend to use NMTC allocation authority.

The CDFI Fund also provides a written debriefing to each CDE that does not receive an allocation to assist the CDE in future application rounds. The debriefing document provides the unsuccessful CDE with information about its scores in each of the application sections and written comments on areas of weakness within each of the four main application sections. Officials from some CDEs we interviewed noted that the debriefing document helped them submit more competitive application materials in future rounds. Officials from a few CDEs noted that the debriefing comments were not consistent from one year to another. Therefore, it was not clear to the representatives from those CDEs from the feedback that they received in the debriefing document that the application reviewer fully understood the projects and investment structures being proposed.



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Additionally, at the request of trade associations, CDFI Fund officials attend trade association conferences and give presentations about the NMTC program. According to CDFI Fund officials, CDFI Fund staff has given presentations for industry associations such as the New Markets Tax Credit Coalition; the National Bankers Association (NBA), an industry organization that represents minority-owned banks; and at FDIC conferences targeted to minority-owned institutions. According to the CDFI Fund, they have also more recently developed a relationship with the Department of Commerce's Minority Business Development Agency that they hope will lead to additional additional applications by minority CDEs. Representatives from a member organization of the NBA said that the CDFI Fund's presentations on the NMTC are helpful in gaining an understanding of the program; however, these officials also noted that due to time and other constraints associated with conference presentations, member organizations may not come away from these presentations with a detailed understanding of how their minority-owned banks could submit competitive applications.

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**External Stakeholders, Including Industry Associations and Consultants, Provide Information on How to Submit Competitive NMTC Applications**

External stakeholders, including representatives from industry associations such as the New Markets Tax Credit Coalition and a consulting firm we identified, hold conferences and offer varying degrees of assistance to CDEs submitting NMTC applications. For example, the New Markets Tax Credit Coalition, in addition to distributing information about the NMTC to interested parties through its Web site and e-mail lists, holds two annual conferences to address issues of interest to CDEs. For example, the fall 2008 conference held by the New Markets Tax Credit Coalition included a panel discussion on emerging trends in NMTC awards, which included a discussion of NMTC practitioners offering insights on the application process. CDFI Fund staff also participated by discussing the 2009 NMTC application process.

In addition, an official from a consulting firm with experience in the NMTC program that we identified also indicated that his consulting firm provides in-person and online training sessions about the NMTC application process for clients and for organizations which have not retained the services of the firm. Further, representatives from one CDE we interviewed indicated that they have participated in presentations and discussions within their communities to educate potential NMTC participants on the application process. However, representatives from organizations with experience in the NMTC program and community development programs in general that we identified also indicated that they did not target specific groups,

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including minority CDEs or other types of CDEs, for their outreach and assistance with respect to the NMTC application process.

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### CDEs Hire Consultants to Assist with Their NMTC Applications for a Range of Purposes

CDEs often hire consultants to assist them with completing their NMTC applications. Consultants offer a range of services to CDEs, including reviewing NMTC applications for completeness and depth of responses to completing the entire NMTC application for an applicant. Officials from some CDEs we interviewed indicated that they limited the consultant's role to reviewing their application because they felt they would be better able to describe their organization's history of investment in low-income communities and their intended use of the NMTC. On the other hand, representatives from one particular CDE we interviewed felt that their CDE would have a better chance of obtaining an allocation if they allowed consultants with greater NMTC program and technical expertise to complete their applications.

Representatives from CDEs we interviewed said that fees paid to consultants can span a relatively wide range depending on the services being provided by the consultant and the contracts established between the CDE and the consultant. For example, officials from several CDEs indicated that they paid consultants less than \$5,000 to review their NMTC applications while others paid consultants as much as \$50,000 for a more complete set of services. In addition, in a couple of instances, officials from CDEs with which we spoke indicated that consultants agreed to provide NMTC application consulting services on the condition that they would receive a basic fee at the beginning of the contract and would only receive additional compensation if the CDE received an allocation.

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### Potential Options

In previous legislation, Congress has directed banking regulators, in consultation with the Department of the Treasury, to provide technical assistance and training to help preserve the character of minority banks in cases involving mergers and acquisitions of these organizations.<sup>25</sup> If Congress perceives a similar interest in preserving and expanding the participation of minority CDEs in the NMTC program, Congress could direct that the Department of the Treasury and the CDFI Fund explore options for providing technical assistance in applying for and using NMTC

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<sup>25</sup>Pub. L. No. 101-73 (1989).

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allocations to minority CDEs. Such assistance could focus on broadening the pool of minority CDE applicants and providing minority CDEs with instructions on how to highlight the impact that proposed NMTC projects may have on the communities they serve. Providing such assistance might increase the number of minority CDE applicants and the quality of their applications, but would not necessarily ensure that minority CDEs would receive more NMTC allocations.

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## Concluding Observations

The NMTC program was designed to promote investment and development in low-income communities. Minority CDEs comprise one type of CDE that may have a special perspective on the challenges facing certain low-income communities and low-income populations. However, the legislative history for the NMTC does not address whether Congress intended for minority CDEs' participation in the NMTC to be higher than it has been. Our analysis indicates that minority CDEs have received proportionally fewer allocations than non-minority CDEs that applied, and when controlling for other CDE characteristics, minority status is associated with a lower probability of obtaining an allocation.

Our analysis is not sufficient to conclude that actions taken or not taken by the Department of the Treasury or the CDFI Fund have contributed to minority CDEs receiving proportionally fewer allocations than non-minority CDEs. Rather, while identifying CDE size (or the size of the CDE's controlling entity) and experience in applying for the credit as important factors in obtaining an allocation, our analysis does not identify all of the factors that may contribute to minority CDEs' success rate with the NMTC program. Our analysis also does not indicate the extent to which minority businesses and minority residents in low-income communities have benefited from the NMTC, which would appear to be an outcome consistent with the NMTC program's goal of deploying capital to underserved communities. Additional information about the specific projects and their benefits in low-income communities is needed to determine the extent to which minority communities may benefit from the NMTC.

Recent congressional interest about the participation of minority CDEs in the NMTC program has been introduced in the context of a program for which demand already exceeds supply. In all years, applications for NMTC authority have greatly exceeded the amount of allocation authority the CDFI Fund is authorized to award, and the CDFI Fund faces challenges in identifying the applicants with the best plans for using NMTC allocation

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authority. However, according to some representatives we interviewed from minority and non-minority CDEs and industry associations, CDEs with a focus on serving the communities in which they are located, of which many minority CDEs would likely be a subset, may have a unique understanding of the conditions that exist in the communities they serve. In addition, Congress has shown an interest in supporting minority-owned banks in the past. If Congress is interested in increasing minority CDEs' participation in the NMTC program and the NMTC is reauthorized beyond 2009, Congress could consider several options that might offer minority CDEs opportunities to be more competitive for allocations in the future.

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## Agency Comments and Our Evaluation

We received written comments on a draft of this report from the Director of the Community Development Financial Institutions (CDFI) Fund; her comments are reprinted in Appendix VII. The CDFI Fund did not comment on our options. However, the CDFI Fund agreed with our key conclusion that minority CDEs have not received awards in proportion to their representation in the application pool and noted that the CDFI Fund does not believe that the lower success rate is due to any biases in the application review or selection process. Our analysis is not sufficient to conclude whether any actions taken or not taken by the Department of the Treasury, including possible bias, contributed to minority CDEs receiving proportionally fewer allocations than non-minority CDEs.

The CDFI Fund also said that, as pointed out in our report, factors other than bias, notably the relatively low number of applications by minority CDEs, the small size of most minority CDE applicants, and the tendency of minority CDEs not to apply repeatedly likely account for minority CDEs' lower success rate. However, even though the CDFI Fund highlighted these factors as likely accounting for minority CDEs lower success rate, neither our analysis nor any information provided to us by the CDFI Fund is sufficient to identify these as the most notable influences. Although minority CDEs account for a relatively small percentage of the overall NMTC application pool, minority CDEs received proportionately fewer allocations than non-minority CDEs from 2005 to 2008. This means that although minority CDEs submitted relatively few applications, their success rate was still lower than non-minority CDEs. In addition, when controlling for the size of NMTC applicants, minority status was associated with a lower probability of receiving an allocation. This means that according to our analysis the lower likelihood that minority CDEs will receive awards is not fully explained by their tendency to be smaller or other characteristics. While our summary statistics indicate that CDEs that

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apply multiple times are more likely to receive awards, for statistical reasons we could not include a measure of application experience in our regression analysis.

The CDFI Fund also noted that GAO, by expanding the scope of its work to evaluating NMTC projects in low-income communities, might have been able to describe the impact of NMTC projects on minority communities. Although we did note that minority businesses and residents in low-income communities may benefit from the NMTC, measuring such benefits was outside the scope of this requested review. This requested review focuses on participation rates in the NMTC program by minority CDEs. In the past, Congress has shown an interest in providing assistance to minority banks, which can also be CDEs. In addition, representatives from some minority and non-minority CDEs and interest groups with which we spoke indicated that CDEs with a focus on serving the communities in which they are located, of which many minority CDEs would likely be a subset, may have a unique understanding of the communities they serve.

The CDFI Fund also said that it has actively sought participation by minority CDEs, mentioning specifically their outreach to the National Bankers Association, the Federal Depository Insurance Corporation, and the Department of Commerce. Although CDFI Fund staff noted the two former examples of outreach to minority CDEs in our discussions with them, they did not originally note the CDFI Fund's relationship with the Department of Commerce's Minority Business Development Agency.

The CDFI Fund said that the title of this report does not accurately reflect our conclusions. However, we believe that the report's title is an accurate reflection of our conclusions. When reviewing summary data on minority CDEs' participation in the program and controlling for factors that we could, minority CDEs are less successful in obtaining awards than non-minority CDEs. As noted above, in its response to GAO, the CDFI Fund agreed with our conclusion that minority CDEs have not received awards in proportion to their representation in the application pool.

The CDFI Fund also suggested several technical changes to the report, which we included where appropriate.

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As agreed with your offices, unless you publicly announce its contents earlier, we plan no further distribution of this report until 30 days from its issue date. At that time, we will send copies of this report to interested

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congressional committees, the Secretary of the Treasury, and the Director of the CDFI Fund. The report will be available at no charge on the GAO Web site at <http://www.gao.gov>.

If you or your staff have questions about this report, please contact me at (202) 512-9110 or [brostekm@gao.gov](mailto:brostekm@gao.gov). Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. Staff who made major contributions to this report are listed in appendix VIII.

A handwritten signature in black ink that reads "Michael Brostek". The signature is written in a cursive style with a large initial "M".

Michael Brostek  
Director, Strategic Issues

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# Objectives, Scope, and Methodology

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Based on consultations with your offices, as requested, this report (1) identifies how many minority-owned or controlled and non-minority-owned or controlled CDEs have applied for and received allocations and how much they have applied for and received from 2005 through 2008; (2) explains the NMTC application process and summarizes NMTC application scores for minority and non-minority-owned or controlled CDEs by CDE type from 2005 through 2008; (3) describes the challenges, if any, minority-owned or controlled and non-minority-owned or controlled CDEs have faced in applying for and receiving NMTC allocations; and (4) identifies efforts the CDFI Fund and others are taking to assist minority-owned or controlled CDEs in applying for NMTC allocations. As agreed with your staff, where appropriate we identify potential policy options that Congress may wish to consider based on its interpretation of our results.

To identify the number of minority-owned or controlled and other types of CDEs that applied for and received NMTC allocations and the amounts for which they applied and received, we analyzed NMTC application data from the CDFI Fund from 2005 through 2008. We limited our analysis to the 2005 through 2008 allocation rounds because the CDFI Fund did not begin collecting data on minority-owned or controlled CDE participation in the NMTC program until 2005. To discuss the number of minority-owned or controlled CDEs applying for and receiving NMTC allocations within the context of the entire applicant pool, we analyzed application data for all CDE types and sizes. Specifically, we used application data to develop summary statistics for the total number of allocations and amounts awarded for all NMTC applicants. We also used the application data to summarize the percentage of CDEs that applied for and received allocations, and the amount of NMTC allocation authority awarded as a percent of the amount of allocation authority for which CDEs applied by CDE type and size.

Because NMTC application data is self-reported by applicants, the CDFI Fund relies on applicants to self-report whether they should be classified as “minority-owned or controlled” in accordance with the CDFI Fund’s definition of a minority-owned or controlled CDE. Some CDE applicants could include a minority-owned bank partnering with a nonprofit organization. In such cases where partnerships are developed for the purpose of applying for the NMTC, the CDEs may not always indicate that a minority-owned or controlled partner is contributing to the CDE’s NMTC application. Because it may not be clear in all of these cases whether the CDEs meeting the technical definition of “minority owned or controlled” classified themselves as such, we were unable to generalize about the

extent to which such partnerships have been formed. Additionally, applicants may self-report multiple classifications for CDE types. For example, a CDE classifying itself as a bank could also categorize itself as a for-profit organization. Consequently, classifications for CDE types are not mutually exclusive.

To ensure reliability of the application data, we interviewed CDFI Fund officials with knowledge of the NMTC application data about the steps they take to ensure its accuracy. We determined that the data we use in this report were sufficiently reliable for our purposes.

To describe the NMTC application process we obtained and reviewed documents from the CDFI Fund that describe the criteria that the NMTC application reviewers used to score applications for each of the allocation rounds from 2005 through 2008. We developed summary statistics from 2005 through 2008 application data to analyze how CDEs of different types and sizes scored on the overall application and in each of the four main application sections. To supplement our data analysis, we interviewed CDFI Fund officials to clarify the application process and the scores in each application section. We also interviewed other stakeholders, including representatives from industry associations such as the New Markets Tax Credit Coalition, the National Bankers Association, the National Community Reinvestment Coalition, and a range of CDEs to obtain their views on the NMTC application process.

We interviewed representatives from a nongeneralizable sample of 13 minority-owned or controlled CDEs and 12 similarly-sized non-minority-owned CDEs that applied for NMTC awards from 2005 through 2008 to identify challenges, if any, that CDEs face in obtaining NMTC awards, using the frequency of their responses as the criterion for identifying challenges. We interviewed officials from randomly selected minority CDEs that obtained and did not obtain NMTC awards, including, minority banks and CDEs that did not identify themselves as banks. For each minority CDE we contacted, we attempted to interview officials from a similarly sized non-minority CDE, based on the asset size of the CDE as reported in the CDFI Fund's NMTC application data. For each group interviewed, we used a structured list of interview questions and analyzed the content of the interview summaries to identify recurring themes and differences that exist across the categories of CDEs and banks interviewed. We also interviewed CDFI Fund officials to discuss the recurring themes from our discussions with CDEs to place any concerns we identified into the proper context with respect to the NMTC application process. Given that the CDEs interviewed



represented a nongeneralizable sample, the challenges that we identified are not generalizable to the universe of applicants and potential applicants.

In addition to the interviews, we conducted multiple regression analysis on the 2005 through 2008 application data that measured the association between certain CDE characteristics (e.g., asset size, CDE type, minority status and characteristics of the projects proposed by the CDEs, such as whether the projects are located in severely distressed communities and whether these communities are in urban or rural areas) and the probability that a CDE will receive a NMTC allocation. These methods are more fully described in appendix II.

To identify efforts that the CDFI Fund and other stakeholders are taking to help minority-owned or controlled CDEs be competitive for NMTC allocations, we interviewed CDFI Fund officials and other stakeholders, including industry association representatives from organizations such as the New Markets Tax Credit Coalition and the National Bankers Association. Because we cannot be sure we identified all sources of support that minority-owned CDEs receive in applying for the NMTC allocations, the sources of support discussed in this report should not be considered definitive or comprehensive.

We conducted this performance audit from October 2008 through March 2009 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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# Description of Data and Methodology for Statistical Analysis of Factors Associated with the Probability That CDEs Receive NMTC Allocations

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Community Development Financial Institutions (CDFI) Fund data can be used to measure the relative frequency of receiving awards for different types of Community Development Entities (CDE). For example, we calculate that, based on this data, about 9 percent of minority CDE applications receive allocations while about 27 percent of all non-minority CDEs receive allocations. Based on this relative frequency measure, minority applications are less likely to receive allocations than non-minority applications. To determine whether this lower likelihood persists when other factors that affect the probability of success are controlled for, a multiple regression statistical analysis was applied to the data. This appendix describes that methodology and the results of the analysis.

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## CDFI Fund Data

The data are from New Markets Tax Credit (NMTC) applications maintained by the CDFI Fund on factors that describe characteristics of the CDEs, such as asset size and minority status and characteristics of the projects proposed by the CDEs, such as whether the projects are located in severely distressed communities and whether these communities are in urban or rural areas. We limited our analysis to the 2005 to 2008 NMTC allocation rounds because the CDFI fund did not collect data on minority-owned or controlled CDEs' participation in the NMTC program until 2005.

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## Methodology and Results of the Analysis

We estimated factors associated with the probability of receiving a NMTC allocation using the random effects probit model.<sup>1</sup> The analysis was done for the 566 CDEs that made 934 applications from 2005 through 2008. As table 9 shows, asset size, CDFI status, projects placed in severely distressed areas and urban areas all are associated with increased probability of receiving an allocation, while minority status is associated with decreased probability. The table shows the marginal effect of each variable on the probability of success. For example, status as a CDFI is associated with a 19 percentage point greater probability of receiving an allocation.

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<sup>1</sup>The test we used was a Hausman test. The results of this test did not provide sufficient evidence to conclude that the random effects model estimates are biased when tested against the specific alternative of a fixed effects model. In such cases, the random effects model is judged more appropriate because it produces more precise estimates (generally smaller standard errors) than the fixed effects model. We also investigated a model that included experience in applying for NMTC allocations and do not present the results of this model because of significant endogeneity issues.

**Appendix II**  
**Description of Data and Methodology for**  
**Statistical Analysis of Factors Associated**  
**with the Probability That CDEs Receive**  
**NMTC Allocations**

**Table 9: Associations between CDE and Project Characteristics and the Probability That a CDE Will Receive an Allocation, 2005-2008**

Measure	Coefficient	Standard error
CDE characteristics		
Asset size	.0026	*.0010
Minority owned or controlled	-.1540	*.0271
Certified CDFI	.1900	*.0613
Nonprofit	.0525	.0383
Bank	.0229	.0479
Publicly traded	.0021	.0570
Project characteristics		
Non-real estate property	.0326	.0350
Severely distressed area	.0044	*.0015
Urban area	.0011	*.0004

Source: GAO analysis of CDFI Fund data.

\*Indicates that the measure is significant at the 99 percent level (p-value of 1 percent or less).

According to this analysis which controls for other factors that might affect the probability of success, minority status is associated with a lower probability of receiving an allocation. For example, the analysis shows, as also claimed by several CDEs in our interviews, that smaller CDEs (here measured by asset size) are less likely to receive allocations. The analysis shows that the lower likelihood of success for minority CDEs is not fully explained by the tendency of these CDEs to be smaller. Even after controlling for the effect of asset size (and other factors), minority status lowers a CDE's probability of getting an allocation by 15 percentage points. However, the analysis does not exclude the possibility that minority status is associated with other characteristics of the CDE, such as management capacity for which we do not have independent data, which account for the lower probability. In that case, it would not be minority status *per se* that lowers the probability of success but its association with other factors not included in the analysis.

**Specification Tests**

We tested our model for specification errors that might cause our estimates to be biased. Our tests did not find evidence of such errors. Also, our results for minority status were robust in all of the specifications that we tested.

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**Appendix II**  
**Description of Data and Methodology for**  
**Statistical Analysis of Factors Associated**  
**with the Probability That CDEs Receive**  
**NMTC Allocations**

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We tested for and rejected the following types of specification error:

- **Selection bias:** The estimates may be biased if there is some characteristic of CDEs winning (or not winning) an allocation that is associated with belonging (or not belonging) to the applicant pool. If such is the case, the regression would not properly distinguish the probability of winning from the probability of applying. We tested for selection bias using a Hausman test that compared the estimates from a subsample of CDEs that applied in every year to estimates based on all CDEs. The test did not provide evidence sufficient for us to conclude that our estimates are subject to selection bias.
- **Endogenous variable bias:** The estimates may be biased if some variables used in the regression to explain the probability of winning an allocation are “endogenous”, i.e. are under the control of one or more parties to the application process and can be used to affect the probability of winning. While certain variables (such as asset size) are unlikely to be endogenous, other variables (such as the location of projects in severely distressed areas) could be endogenous to the application process. We tested for the exogeneity of the variables measuring characteristics of the projects as these seemed to be most likely to be used to affect the probability of winning an award. We did not find evidence sufficient to conclude that the variables are endogenous.

# NMTC Applications and Dollars for Which CDEs Applied and Received Allocations by CDE Type and Allocation Year, 2005 through 2008

CDE type and year	Applications			Dollar amounts		
	Number	Number successful	Percentage successful	Applied for	Awarded	Percentage awarded
<b>For-profit</b>						
2005						
Non-minority	120	23	19.2%	\$13,042,452,000	\$1,101,000,000	8.4%
Minority	10	0	0.0%	\$1,442,000,000	\$0	0.0%
2006						
Non-minority	136	38	27.9	16,980,474,440	2,634,000,000	15.5
Minority	15	1	6.7	1,749,000,000	60,000,000	3.4
2007						
Non-minority	144	41	28.5	16,667,571,360	2,615,000,000	15.7
Minority	15	1	6.7	1,437,058,125	75,000,000	5.2
2008						
Non-minority	118	28	23.7	11,507,745,539	1,531,750,000	13.3
Minority	20	2	10.0	1,840,800,000	47,000,000	2.6
For-profit total						
Non-minority	518	130	25.1	58,198,243,339	7,881,750,000	13.5
Minority	60	4	6.7	6,468,858,125	182,000,000	2.8
<b>Nonprofit</b>						
2005						
Non-minority	69	17	24.6	7,744,500,880	891,000,000	11.5
Minority	3	0	0.0	210,000,000	0	0.0
2006						
Non-minority	80	22	27.5	7,775,842,183	1,374,000,000	17.7
Minority	7	2	28.6	532,000,000	32,000,000	6.0
2007						
Non-minority	79	17	21.5	7,942,171,000	1,153,000,000	14.5
Minority	8	0	0.0	813,300,000	0	0.0
2008						
Non-minority	91	38	41.8	7,279,950,000	1,781,250,000	24.5
Minority	10	2	20.0	673,300,000	140,000,000	20.8
Nonprofit total						
Non-minority	319	94	29.5	30,742,464,063	5,199,250,000	16.9
Minority	28	4	14.3	2,228,600,000	172,000,000	7.7

**Appendix III  
 NMTA Applications and Dollars for Which  
 CDEs Applied and Received Allocations by  
 CDE Type and Allocation Year, 2005 through  
 2008**

(Continued From Previous Page)

CDE type and year	Applications			Dollar amounts		
	Number	Number successful	Percentage successful	Applied for	Awarded	Percentage awarded
<b>Certified CDFIs</b>						
2005						
Non-minority	28	11	39.3	2,170,492,880	494,000,000	22.8
Minority	4	0	0.0	325,000,000	0	0.0
2006						
Non-minority	29	14	48.3	3,148,910,000	911,000,000	28.9
Minority	10	2	20.0	898,000,000	62,000,000	6.9
2007						
Non-minority	25	7	28.0	2,226,610,000	517,000,000	23.2
Minority	5	0	0.0	525,000,000	0	0.0
2008						
Non-minority	35	22	62.9	2,836,916,839	1,147,000,000	40.4
Minority	10	1	10.0	609,500,000	20,000,000	3.3
Certified CDFIs total						
Non-minority	117	54	46.2	10,382,929,719	3,069,000,000	29.6
Minority	29	3	10.3	2,357,500,000	82,000,000	3.5
<b>Publicly traded company</b>						
2005						
Non-minority	23	6	26.1	3,341,000,000	339,000,000	10.1
Minority	0	0	0.0	0	0	0.0
2006						
Non-minority	23	8	34.8	3,232,500,000	762,000,000	23.6
Minority	1	0	0.0	100,000,000	0	0.0
2007						
Non-minority	24	9	37.5	3,482,500,000	790,000,000	22.7
Minority	1	0	0.0	100,000,000	0	0.0
2008						
Non-minority	19	7	36.8	2,571,300,000	371,250,000	14.4
Minority	1	0	0.0	100,000,000	0	0.0
Publicly traded company total						
Non-minority	89	30	33.7	12,627,300,000	2,262,250,000	17.9
Minority	3	0	0.0	300,000,000	0	0.0
<b>Government-controlled</b>						
2005						
Non-minority	23	4	17.4	3,173,100,000	160,000,000	5.0

**Appendix III  
 NMTC Applications and Dollars for Which  
 CDEs Applied and Received Allocations by  
 CDE Type and Allocation Year, 2005 through  
 2008**

(Continued From Previous Page)

CDE type and year	Applications			Dollar amounts		
	Number	Number successful	Percentage successful	Applied for	Awarded	Percentage awarded
Minority	1	0	0.0	120,000,000	0	0.0
2006						
Non-minority	31	4	12.9	3,489,032,183	269,000,000	7.7
Minority	0	0	0.0	0	0	0.0
2007						
Non-minority	36	10	27.8	4,115,000,000	608,000,000	14.8
Minority	1	0	0.0	38,300,000	0	0.0
2008						
Non-minority	35	12	34.3	3,061,680,000	435,000,000	14.2
Minority	4	1	25.0	328,300,000	100,000,000	30.5
Government-controlled total						
Non-Minority	125	30	24.0	13,838,812,183	1,472,000,000	10.6
Minority	6	1	16.7	486,600,000	100,000,000	20.6
<b>Thrift or bank holding company</b>						
2005						
Non-minority	32	6	18.8	3,464,900,000	318,000,000	9.2
Minority	3	0	0.0	185,000,000	0	0.0
2006						
Non-minority	44	15	34.1	5,519,000,000	1,322,000,000	24.0
Minority	6	1	16.7	691,000,000	60,000,000	8.7
2007						
Non-minority	41	13	31.7	4,808,500,000	1,040,000,000	21.6
Minority	3	0	0.0	350,000,000	0	0.0
2008						
Non-minority	37	13	35.1	4,115,196,839	763,250,000	18.5
Minority	6	1	16.7	479,500,000	20,000,000	4.2
Thrift or bank holding company total						
Non-minority	154	47	30.5	17,907,596,839	3,443,250,000	19.2
Minority	18	2	11.1	1,705,500,000	80,000,000	4.7
<b>Other<sup>a</sup></b>						
2005						
Non-minority	3	0	0.0	350,508,000	0	0.0
Minority	2	0	0.0	130,000,000	0	0.0
2006						
Non-minority	3	0	0.0	160,000,000	0	0.0

**Appendix III  
 NMTA Applications and Dollars for Which  
 CDEs Applied and Received Allocations by  
 CDE Type and Allocation Year, 2005 through  
 2008**

(Continued From Previous Page)

CDE type and year	Applications			Dollar amounts		
	Number	Number successful	Percentage successful	Applied for	Awarded	Percentage awarded
Minority	2	1	50.0	250,000,000	30,000,000	12.0
2007						
Non-minority	2	0	0.0	165,000,000	0	0.0
Minority	4	0	0.0	388,300,000	0	0.0
2008						
Non-minority	10	2	20.0	725,228,700	110,000,000	15.2
Minority	3	0	0.0	208,300,000	0	0.0
Other total						
Non-minority	18	2	11.1	1,400,736,700	110,000,000	7.9
Minority	11	1	9.1	976,600,000	30,000,000	3.1
<b>All applicants<sup>b</sup></b>						
2005						
Non-minority	190	41	21.6	20,856,952,880	2,000,000,000	9.6
Minority	13	0	0.0	1,652,000,000	0	0.0
2006						
Non-minority	218	60	27.5	24,926,316,623	4,008,000,000	16.1
Minority	22	3	13.6	2,281,000,000	92,000,000	4.0
2007						
Non-minority	229	60	26.2	25,101,742,360	3,834,000,000	15.3
Minority	23	1	4.3	2,250,358,125	75,000,000	3.3
2008						
Non-minority	209	66	31.6	18,787,695,539	3,313,000,000	17.6
Minority	30	4	13.3	2,514,100,000	187,000,000	7.4
All applicants total						
Non-minority	846	227	26.8%	\$89,672,707,402	\$13,155,000,000	14.7%
Minority	88	8	9.1%	\$8,697,458,125	\$354,000,000	4.1%

Source: GAO analysis of CDFI Fund data.

<sup>a</sup>The CDFI Fund collects applicant information for the following types of CDEs included in this category: Small Business Investment Companies, Specialized Small Business Investment Companies, New Markets Venture Capital Companies, credit unions, faith-based organizations, and tribal organizations. We included these CDE types in a combined "other" category because each category accounts for less than 1 percent of the total population of applicants.

<sup>b</sup>The sum of the individual categories is not equal to the summary numbers for the entire applicant pool because the CDE categories are not mutually exclusive. For example, in addition to a CDE classifying itself as a bank, it could also categorize itself as a for-profit organization or other applicable categories.



# Summary of Application Scores for Minority and Non-Minority CDEs by CDE Type and Year, 2005 through 2008

CDE type and year	Business strategy		Community impact	
	Minority	Non-minority	Minority	Non-minority
<b>For-profit</b>				
2005	12.5	17.7	13.0	16.7
2006	14.8	18.0	13.4	17.0
2007	16.1	18.5	16.3	17.9
2008	15.3	18.4	15.3	17.7
For-profit total	14.9	18.2	14.7	17.3
<b>Nonprofit</b>				
2005	16.9	17.4	16.7	17.5
2006	19.9	18.5	19.9	18.1
2007	14.3	18.4	14.7	18.3
2008	17.4	19.0	17.0	18.7
Non profit Total	17.1	18.4	17.0	18.2
<b>Certified CDFIs</b>				
2005	17.2	20.1	14.8	19.5
2006	19.6	20.2	18.7	19.8
2007	18.9	19.0	18.9	19.6
2008	17.9	20.5	17.8	20.3
Certified CDFIs total	18.6	20.0	17.9	19.8
<b>Publicly traded company</b>				
2005	0.0	19.2	0.0	17.5
2006	20.7	20.4	18.7	18.6
2007	17.3	20.0	18.3	19.5
2008	15.3	19.0	14.3	18.6
Publicly traded company total	17.8	19.7	17.1	18.6
<b>Government-controlled</b>				
2005	12.3	17.7	15.3	17.5
2006	0.0	17.9	0.0	17.6
2007	21.0	18.9	19.7	18.7
2008	19.0	18.9	19.8	18.2
Government-controlled total	18.2	18.4	19.1	18.1

**Appendix IV  
 Summary of Application Scores for Minority  
 and Non-Minority CDEs by CDE Type and  
 Year, 2005 through 2008**

Management capacity		Capitalization strategy		Total	
Minority	Non-minority	Minority	Non-minority	Minority	Non-minority
14.7	18.4	12.3	18.2	52.4	71.0
14.6	18.3	12.4	18.2	55.1	71.4
16.7	19.0	15.0	19.1	64.1	74.5
16.4	19.2	15.9	19.7	62.9	75.0
15.7	18.7	14.2	18.8	59.5	73.0
17.1	17.7	16.9	16.5	67.6	69.1
19.6	18.1	17.4	17.4	76.7	72.1
14.0	18.3	14.0	17.9	57.0	72.9
17.0	19.4	16.0	19.5	67.5	76.6
16.8	18.4	15.9	17.9	66.8	72.9
17.4	19.7	14.9	18.6	64.3	77.8
19.2	19.6	16.0	18.7	73.4	78.2
17.7	19.6	16.2	18.4	71.7	76.7
18.2	21.3	16.0	20.5	70.0	82.6
18.3	20.1	15.9	19.2	70.7	79.1
0.0	19.9	0.0	19.9	0.0	76.4
19.3	20.8	18.7	21.1	77.3	80.9
17.0	21.0	19.0	21.3	71.7	81.8
18.3	19.8	12.0	20.9	60.0	78.3
18.2	20.4	16.6	20.8	69.7	79.4
18.7	17.8	18.7	17.4	65.0	70.4
0.0	17.0	0.0	17.2	0.0	69.7
17.0	18.6	18.0	18.4	75.7	74.6
19.5	18.5	18.5	19.5	76.8	75.1
18.9	18.0	18.4	18.2	74.7	72.7

**Appendix IV**  
**Summary of Application Scores for Minority**  
**and Non-Minority CDEs by CDE Type and**  
**Year, 2005 through 2008**

CDE type and year	Business strategy		Community impact	
	Minority	Non-minority	Minority	Non-minority
<b>Thrift or bank holding company</b>				
2005	16.0	18.5	15.9	16.3
2006	19.3	19.7	17.4	18.7
2007	19.3	19.0	19.0	18.2
2008	18.1	19.6	17.7	19.0
Thrift or bank holding company total	18.4	19.2	17.5	18.1
<b>Other<sup>a</sup></b>				
2005	12.0	16.2	11.7	17.0
2006	19.0	15.3	19.5	16.1
2007	15.5	15.7	15.6	14.2
2008	15.2	13.4	14.9	12.6
Other total	15.4	14.4	15.4	14.1
<b>All applicants<sup>b</sup></b>				
2005	13.5	17.6	13.8	17.0
2006	16.4	18.1	15.4	17.4
2007	15.4	18.5	15.7	18.1
2008	16.0	18.7	15.9	18.1
All applicants total	15.6	18.3	15.4	17.7

**Appendix IV  
Summary of Application Scores for Minority  
and Non-Minority CDEs by CDE Type and  
Year, 2005 through 2008**

Management capacity		Capitalization strategy		Total	
Minority	Non-minority	Minority	Non-minority	Minority	Non-minority
15.9	18.8	14.7	18.9	62.4	72.5
18.9	20.2	15.4	19.8	71.0	78.3
18.4	19.8	17.0	20.2	73.8	77.2
18.9	20.3	16.9	20.4	71.6	79.2
18.3	19.8	16.1	19.8	70.2	77.0
10.2	17.2	11.2	14.2	45.0	64.7
20.3	17.3	18.5	17.3	77.3	66.1
15.3	15.8	13.3	14.2	59.8	59.8
14.1	14.9	13.2	15.1	57.4	55.9
15.0	15.8	13.8	15.2	59.6	59.5
15.2	18.1	13.4	17.6	55.9	70.3
16.2	18.2	14.0	17.9	62.0	71.6
15.8	18.8	14.7	18.6	61.6	74.0
16.6	19.3	16.0	19.6	64.4	75.7
16.1	18.6	14.7	18.5	61.8	73.0

Source: GAO analysis of CDFI Fund data.

<sup>a</sup>The CDFI Fund collects applicant information for the following types of CDEs included in this category: Small Business Investment Companies, Specialized Small Business Investment Companies, New Markets Venture Capital Companies, credit unions, faith-based organizations, and tribal organizations. We included these CDE types in a combined "other" category because each category accounts for less than 1 percent of the total population of applicants.

<sup>b</sup>The sum of the individual categories is not equal to the summary numbers for the entire applicant pool because the CDE categories are not mutually exclusive. For example, in addition to a CDE classifying itself as a bank, it could also categorize itself as a for-profit organization or other applicable categories.

# Summary of Application Scores for Minority and Non-Minority CDEs by CDE Type and Asset Size, 2005 through 2008

CDE type and size <sup>a</sup>	Business strategy		Community impact	
	Minority	Non-minority	Minority	Non-minority
<b>For-profit</b>				
Largest	12.3	19.5	15.3	18.3
Second largest	18.8	18.6	18.1	17.5
Middle	17.0	18.6	15.4	17.7
Second smallest	15.0	18.8	15.4	18.2
Smallest	9.7	14.7	10.1	14.5
For-profit total	14.9	18.2	14.7	17.3
<b>Nonprofit</b>				
Largest	20.7	20.0	21.0	19.6
Second largest	20.2	19.6	21.2	19.5
Middle	18.0	19.4	17.3	19.1
Second smallest	19.6	18.4	19.3	18.2
Smallest	14.1	15.1	13.9	15.1
Nonprofit total	17.1	18.4	17.0	18.2
<b>Certified CDFIs</b>				
Largest	0.0	17.8	0.0	17.8
Second largest	19.5	21.0	19.1	20.2
Middle	17.3	20.7	15.6	20.6
Second smallest	18.5	19.7	18.0	19.5
Smallest	19.8	16.6	20.3	16.8
Certified CDFI total	18.6	20.0	17.9	19.8
<b>Publicly traded company</b>				
Largest	0.0	20.1	0.0	19.0
Second largest	17.8	18.5	17.1	17.5
Middle	0.0	18.7	0.0	16.9
Second smallest	0.0	17.3	0.0	16.2
Smallest	0.0	0.0	0.0	0.0
Publicly traded company total	17.8	19.7	17.1	18.6

**Appendix V**  
**Summary of Application Scores for Minority**  
**and Non-Minority CDEs by CDE Type and**  
**Asset Size, 2005 through 2008**

Management capacity		Capitalization strategy		Total	
Minority	Non-minority	Minority	Non-minority	Minority	Non-minority
18.7	20.1	18.7	20.9	65.0	78.7
19.6	19.1	17.8	19.0	74.3	74.2
15.7	19.1	14.1	18.7	62.1	74.1
16.0	18.9	16.0	18.9	62.5	74.7
11.2	15.6	9.2	15.2	40.1	60.1
15.7	18.7	14.2	18.8	59.5	73.0
23.0	19.7	22.0	20.2	86.7	79.5
21.9	19.3	20.6	19.9	83.9	78.2
15.9	19.5	16.3	18.8	67.5	76.8
17.0	18.3	15.1	17.8	71.0	72.6
14.1	15.6	12.9	14.2	55.1	60.0
16.8	18.4	15.9	17.9	66.8	72.9
0.0	18.5	0.0	19.7	0.0	73.7
20.2	21.7	17.1	20.7	75.9	83.6
16.4	20.9	14.4	19.8	63.7	81.9
18.0	19.7	15.2	19.1	69.6	78.0
18.8	15.5	17.9	12.4	76.8	61.4
18.3	20.1	15.9	19.2	70.7	79.1
0.0	20.9	0.0	21.2	0.0	81.1
18.2	19.3	16.6	19.3	69.7	74.5
0.0	18.4	0.0	19.1	0.0	73.1
0.0	17.8	0.0	20.0	0.0	71.3
0.0	0.0	0.0	0.0	0.0	0.0
18.2	20.4	16.6	20.8	69.7	79.4

**Appendix V**  
**Summary of Application Scores for Minority**  
**and Non-Minority CDEs by CDE Type and**  
**Asset Size, 2005 through 2008**

CDE type and size <sup>a</sup>	Business strategy		Community impact	
	Minority	Non-minority	Minority	Non-minority
<b>Government-controlled</b>				
Largest	16.5	19.7	18.2	19.2
Second largest	19.7	18.4	20.5	18.5
Middle	18.5	17.9	18.5	17.4
Second smallest	0.0	17.0	0.0	16.4
Smallest	0.0	16.6	0.0	15.4
Government-controlled total	18.2	18.4	19.1	18.1
<b>Thrift or bank holding company</b>				
Largest	0.0	19.7	0.0	18.6
Second largest	19.6	18.1	18.7	16.6
Middle	16.5	18.8	15.9	18.3
Second smallest	17.1	21.1	16.2	19.5
Smallest	0.0	15.0	0.0	15.8
Thrift or bank holding company total	18.4	19.2	17.5	18.1
<b>Other<sup>b</sup></b>				
Largest	0.0	0.0	0.0	0.0
Second largest	17.0	18.8	18.3	18.0
Middle	16.9	16.2	16.7	15.8
Second smallest	18.0	16.0	19.7	16.0
Smallest	14.0	11.9	13.6	11.6
Other total	15.4	14.4	15.4	14.1
<b>All applicants<sup>c</sup></b>				
Largest	21.3	19.5	20.7	18.5
Second largest	16.6	18.9	16.7	18.1
Middle	18.3	19.1	17.6	18.5
Second smallest	18.2	18.6	16.9	18.2
Smallest	11.7	14.9	12.1	14.7
All applicants total	15.6	18.3	15.4	17.7

**Appendix V**  
**Summary of Application Scores for Minority**  
**and Non-Minority CDEs by CDE Type and**  
**Asset Size, 2005 through 2008**

Management capacity		Capitalization strategy		Total	
Minority	Non-minority	Minority	Non-minority	Minority	Non-minority
20.8	19.7	20.3	19.8	75.8	78.5
20.8	18.0	18.3	18.7	79.3	73.6
15.2	17.1	16.7	17.0	68.8	69.3
0.0	16.8	0.0	16.3	0.0	66.5
0.0	15.4	0.0	16.1	0.0	63.6
18.9	18.0	18.4	18.2	74.7	72.7
0.0	20.5	0.0	21.1	0.0	80.0
20.1	18.5	17.5	17.6	75.9	70.8
15.5	19.5	14.1	17.7	62.0	74.3
16.8	19.6	14.4	19.2	64.4	79.4
0.0	17.8	0.0	17.2	0.0	65.8
18.3	19.8	16.1	19.8	70.2	77.0
0.0	0.0	0.0	0.0	0.0	0.0
19.7	19.2	11.7	20.4	66.7	76.4
14.8	17.3	15.4	15.1	63.8	64.4
20.7	15.0	18.3	18.2	76.7	65.2
13.3	14.4	12.7	12.5	53.6	50.3
15.0	15.8	13.8	15.2	59.6	59.5
22.7	20.0	22.3	20.7	87.0	78.7
16.4	19.2	15.5	19.3	65.2	75.5
19.1	19.3	17.0	18.7	72.0	75.5
17.6	18.6	16.1	18.3	68.9	73.7
13.1	15.6	11.8	14.9	48.7	60.1
16.1	18.6	14.7	18.5	61.8	73.0

Source: GAO analysis of CDFI Fund data.

<sup>a</sup>CDEs report the asset size for the applicant CDE and the controlling entity of the applicant CDE. In cases where a controlling entity reported its asset size, we used the controlling entity's asset size for this table. In cases where no controlling entity was present, we used the applicant's reported asset size for this analysis. The asset size ranges for each of the five quintiles are as follows: (1) largest quintile,



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**Appendix V**  
**Summary of Application Scores for Minority**  
**and Non-Minority CDEs by CDE Type and**  
**Asset Size, 2005 through 2008**

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\$2,182,706,000,000 to \$2,378,496,000, (2) second largest quintile, \$2,378,495,999 to \$226,832,000, (3) middle quintile, \$226,831,999 to \$35,779,943, (4) second smallest quintile, \$35,779,942 to \$3,740,000, and (5) smallest quintile, \$3,739,999 to \$0.

<sup>b</sup>The CDFI Fund collects applicant information for the following types of CDEs included in this category: Small Business Investment Companies, Specialized Small Business Investment Companies, New Markets Venture Capital Companies, credit unions, faith-based organizations, and tribal organizations. We included these CDE types in a combined "other" category because each category accounts for less than 1 percent of the total population of applicants.

<sup>c</sup>The sum of the individual categories is not equal to the summary numbers for the entire applicant pool because the CDE categories are not mutually exclusive. For example, in addition to a CDE classifying itself as a bank, it could also categorize itself as a for-profit organization or other applicable categories.

# NMTC Applications and Dollars for Minority and Non-Minority CDEs by Asset Size and CDE Type, 2005 through 2008

CDE type and size <sup>a</sup>	Applications			Dollar amounts		
	Number	Number successful	Percentage successful	Applied for	Awarded	Percentage awarded
<b>For-profit</b>						
Largest						
Non-minority	151	43	28.5%	\$20,578,875,000	\$3,232,250,000	15.7%
Minority	1	0	0.0%	\$120,000,000	\$0	0.0%
Second largest						
Non-minority	111	27	24.3	12,036,975,000	1,664,000,000	13.8
Minority	21	4	19.0	2,480,000,000	182,000,000	7.3
Middle						
Non-minority	80	20	25.0	8,283,580,000	1,019,000,000	12.3
Minority	9	0	0.0	844,000,000	0	0.0
Second smallest						
Non-minority	79	21	26.6	8,663,993,279	1,152,000,000	13.3
Minority	11	0	0.0	1,034,358,125	0	0.0
Smallest						
Non-minority	97	19	19.6	8,634,820,060	814,500,000	9.4
Minority	18	0	0.0	1,990,500,000	0	0.0
For-profit total						
Non-minority	518	130	25.1	58,198,243,339	7,881,750,000	13.5
Minority	60	4	6.7	6,468,858,125	182,000,000	2.8
<b>Nonprofit</b>						
Largest						
Non-minority	30	10	33.3	3,847,000,000	630,000,000	16.4
Minority	1	1	100.0	125,000,000	100,000,000	80.0
Second largest						
Non-minority	47	19	40.4	5,476,500,000	1,352,000,000	24.7
Minority	6	1	16.7	615,000,000	40,000,000	6.5
Middle						
Non-minority	89	34	38.2	8,398,450,000	1,903,000,000	22.7
Minority	6	0	0.0	416,600,000	0	0.0
Second smallest						
Non-minority	94	26	27.7	8,193,903,063	1,213,000,000	14.8
Minority	3	0	0.0	115,000,000	0	0.0
Smallest						

**Appendix VI  
 NMTC Applications and Dollars for Minority  
 and Non-Minority CDEs by Asset Size and  
 CDE Type, 2005 through 2008**

(Continued From Previous Page)

CDE type and size <sup>a</sup>	Applications			Dollar amounts		
	Number	Number successful	Percentage successful	Applied for	Awarded	Percentage awarded
Non-minority	59	5	8.5	4,826,611,000	101,250,000	2.1
Minority	12	2	16.7	957,000,000	32,000,000	3.3
<b>Nonprofit total</b>						
Non-minority	319	94	29.5	30,742,464,063	5,199,250,000	16.9
Minority	28	4	14.3	2,228,600,000	172,000,000	7.7
<b>Certified CDFIs</b>						
<b>Largest</b>						
Non-minority	4	0	0.0	472,875,000	0	0.0
Minority	0	0	0.0	0	0	0.0
<b>Second largest</b>						
Non-minority	16	9	56.3	1,630,000,000	772,000,000	47.4
Minority	10	2	20.0	1,095,000,000	80,000,000	7.3
<b>Middle</b>						
Non-minority	49	28	57.1	4,787,750,000	1,562,000,000	32.6
Minority	9	0	0.0	631,000,000	0	0.0
<b>Second smallest</b>						
Non-minority	40	16	40.0	3,079,504,719	720,000,000	23.4
Minority	7	0	0.0	429,500,000	0	0.0
<b>Smallest</b>						
Non-minority	8	1	12.5	412,800,000	15,000,000	3.6
Minority	3	1	33.3	202,000,000	2,000,000	1.0
<b>Certified CDFIs total</b>						
Non-minority	117	54	46.2	10,382,929,719	3,069,000,000	29.6
Minority	29	3	10.3	2,357,500,000	82,000,000	3.5
<b>Publicly traded company</b>						
<b>Largest</b>						
Non-minority	68	25	36.8	10,449,800,000	1,952,250,000	18.7
Minority	0	0	0.0	0	0	0.0
<b>Second largest</b>						
Non-minority	16	3	18.8	1,542,500,000	190,000,000	12.3
Minority	3	0	0.0	300,000,000	0	0.0
<b>Middle</b>						
Non-minority	3	1	33.3	450,000,000	20,000,000	4.4
Minority	0	0	0.0	0	0	0.0
<b>Second smallest</b>						

**Appendix VI  
 NMTC Applications and Dollars for Minority  
 and Non-Minority CDEs by Asset Size and  
 CDE Type, 2005 through 2008**

(Continued From Previous Page)

CDE type and size <sup>a</sup>	Applications			Dollar amounts		
	Number	Number successful	Percentage successful	Applied for	Awarded	Percentage awarded
Non-minority	2	1	50.0	185,000,000	100,000,000	54.1
Minority	0	0	0	0	0	0
<b>Smallest</b>						
Non-minority	0	0	0.0	0	0	0.0
Minority	0	0	0.0	0	0	0.0
<b>Publicly traded company total</b>						
Non-minority	89	30	33.7	12,627,300,000	2,262,250,000	17.9
Minority	3	0	0.0	300,000,000	0	0.0
<b>Government-controlled</b>						
<b>Largest</b>						
Non-minority	37	10	27.0	4,567,000,000	630,000,000	13.8
Minority	2	1	50.0	245,000,000	100,000,000	40.8
<b>Second largest</b>						
Non-minority	39	10	25.6	4,263,500,000	466,000,000	10.9
Minority	2	0	0.0	165,000,000	0	0.0
<b>Middle</b>						
Non-minority	28	8	28.6	2,668,280,000	290,000,000	10.9
Minority	2	0	0.0	76,600,000	0	0.0
<b>Second smallest</b>						
Non-minority	15	2	13.3	1,610,032,183	86,000,000	5.3
Minority	0	0	0.0	0	0	0.0
<b>Smallest</b>						
Non-minority	6	0	0.0	730,000,000	0	0.0
Minority	0	0	0.0	0	0	0.0
<b>Government-controlled total</b>						
Non-minority	125	30	24.0	13,838,812,183	1,472,000,000	10.6
Minority	6	1	16.7	486,600,000	100,000,000	20.6
<b>Thrift or bank holding company</b>						
<b>Largest</b>						
Non-minority	95	34	35.8	12,933,675,000	2,654,250,000	20.5
Minority	0	0	0.0	0	0	0.0
<b>Second largest</b>						
Non-minority	35	5	14.3	2,710,900,000	229,000,000	8.4
Minority	10	2	20.0	1,155,000,000	80,000,000	6.9
<b>Middle</b>						

**Appendix VI  
 NMTTC Applications and Dollars for Minority  
 and Non-Minority CDEs by Asset Size and  
 CDE Type, 2005 through 2008**

(Continued From Previous Page)

CDE type and size <sup>a</sup>	Applications			Dollar amounts		
	Number	Number successful	Percentage successful	Applied for	Awarded	Percentage awarded
Non-minority	16	6	37.5	1,388,980,000	420,000,000	30.2
Minority	4	0	0.0	316,000,000	0	0.0
<b>Second smallest</b>						
Non-minority	5	2	40.0	549,041,839	140,000,000	25.5
Minority	4	0	0.0	234,500,000	0	0.0
<b>Smallest</b>						
Non-minority	3	0	0.0	325,000,000	0	0.0
Minority	0	0	0.0	0	0	0.0
<b>Thrift or bank holding company total</b>						
Non-minority	154	47	30.5	17,907,596,839	3,443,250,000	19.2
Minority	18	2	11.1	1,705,500,000	80,000,000	4.7
<b>Other<sup>b</sup></b>						
<b>Largest</b>						
Non-minority	0	0	0.0	0	0	0.0
Minority	0	0	0.0	0	0	0.0
<b>Second largest</b>						
Non-minority	3	1	33.3	325,000,000	60,000,000	18.5
Minority	1	0	0.0	100,000,000	0	0.0
<b>Middle</b>						
Non-minority	3	0	0.0	276,980,000	0	0.0
Minority	3	0	0.0	126,600,000	0	0.0
<b>Second smallest</b>						
Non-minority	3	0	0.0	180,508,000	0	0.0
Minority	1	0	0.0	100,000,000	0	0.0
<b>Smallest</b>						
Non-minority	9	1	11.1	618,248,700	50,000,000	8.1
Minority	6	1	16.7	650,000,000	30,000,000	4.6
<b>Other total</b>						
Non-minority	18	2	11.1	1,400,736,700	110,000,000	7.9
Minority	11	1	9.1	976,600,000	30,000,000	3.1
<b>All applicants<sup>c</sup></b>						
<b>Largest</b>						
Non-minority	185	53	28.6	24,765,875,000	3,862,250,000	15.6
Minority	2	1	50.0	245,000,000	100,000,000	40.8
<b>Second largest</b>						

**Appendix VI  
NMTTC Applications and Dollars for Minority  
and Non-Minority CDEs by Asset Size and  
CDE Type, 2005 through 2008**

(Continued From Previous Page)

CDE type and size <sup>a</sup>	Applications			Dollar amounts		
	Number	Number successful	Percentage successful	Applied for	Awarded	Percentage awarded
Non-minority	160	47	29.4	17,690,475,000	3,038,000,000	17.2
Minority	27	5	18.5	3,095,000,000	222,000,000	7.2
Middle						
Non-minority	172	56	32.6	16,897,030,000	2,974,000,000	17.6
Minority	15	0	0.0	1,260,600,000	0	0.0
Second smallest						
Non-minority	173	47	27.2	16,857,896,342	2,365,000,000	14.0
Minority	14	0	0.0	1,149,358,125	0	0.0
Smallest						
Non-minority	156	24	15.4	13,461,431,060	915,750,000	6.8
Minority	30	2	6.7	2,947,500,000	32,000,000	1.1
All applicants total						
Non-minority	846	227	26.8%	\$89,672,707,402	\$13,155,000,000	14.7%
Minority	88	8	9.1%	\$8,697,458,125	\$354,000,000	4.1%

Source: GAO analysis of CDFI Fund data.

<sup>a</sup>CDEs report the asset size for the applicant CDE and the controlling entity of the applicant CDE. In cases where a controlling entity reported its asset size, we used the controlling entity's asset size for this table. In cases where no controlling entity was present, we used the applicant's reported asset size for this analysis. The asset size ranges for each of the five quintiles are as follows: (1) largest quintile, \$2,182,706,000,000 to \$2,378,496,000, (2) second largest quintile, \$2,378,495,999 to \$226,832,000, (3) middle quintile, \$226,831,999 to \$35,779,943, (4) second smallest quintile, \$35,779,942 to \$3,740,000, and (5) smallest quintile, \$3,739,999 to \$0.

<sup>b</sup>The CDFI Fund collects applicant information for the following types of CDEs included in this category: Small Business Investment Companies, Specialized Small Business Investment Companies, New Markets Venture Capital Companies, credit unions, faith-based organizations, and tribal organizations. We included these CDE types in a combined "other" category because each category accounts for less than 1 percent of the total population of applicants.

<sup>c</sup>The sum of the individual categories is not equal to the summary numbers for the entire applicant pool because the CDE categories are not mutually exclusive. For example, in addition to a CDE classifying itself as a bank, it could also categorize itself as a for-profit organization or other applicable categories.

# Comments from the Department of the Treasury



DIRECTOR

DEPARTMENT OF THE TREASURY  
COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND  
601 THIRTEENTH STREET, NW, SUITE 200 SOUTH  
WASHINGTON, DC 20005

April 23, 2009

Mr. Michael Brostek  
Director, Strategic Issues  
United States Government Accountability Office  
441 G Street, NW  
Washington, DC 20548

Dear Mr. Brostek:

Thank you for providing the Community Development Financial Institutions (CDFI) Fund, an office within the U.S. Department of the Treasury, with an opportunity to comment on the draft Government Accountability Office (GAO) report pertaining to participation by minority entities under the New Markets Tax Credit (NMTC) Program.

As you note in your report, the NMTC application process is extremely competitive. Historically, only one out of four applicants has received an award, and in any given application round, requests for tax credit authority have been between six and nine times greater than what is available to award. As a result, in each round, many qualified applicants have not received awards, or received awards in amounts much smaller than their requests.

The CDFI Fund agrees with your conclusions that, within this competitive environment, minority-owned and minority-controlled Community Development Entities (CDEs) have not received awards in proportion to their representation in the application pool. The CDFI Fund does not believe that this lower success rate is attributable to any biases in the application review or selection process, but rather, as you point out in your report, is likely due to other factors. Most notably:

1. **Relatively few minority CDEs have applied for allocation awards.** In the past four allocation rounds, only 88 out of 934 applicants, or just over 9 percent of the total application pool, were identified as minority CDEs.
2. **Minority CDEs tend to be smaller, and smaller CDEs as a class do not fare as well.** Over 34 percent of minority CDEs fall in the smallest 20 percent of CDEs by asset size. The smallest 20 percent of CDE applicants by asset size have a success rate of 14 percent, which is much smaller than the overall success rate of 25 percent.
3. **Minority CDEs do not tend to apply in multiple rounds, which may put them at a competitive disadvantage.** As noted in the GAO report, applying in multiple rounds significantly increases a CDE's likelihood of success. The percentage of organizations that receive awards on their first try is 10.7 percent, but the percentage jumps up to 29.5 percent for applicants that have applied at

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**Comments from the Department of the**  
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least two times and to 67 percent for applicants that have applied at least three times. However, only 23 percent of the minority CDEs have submitted multiple applications, compared with 41 percent of the non-minority CDEs.

Similarly, the CDFI Fund does not believe that the title of the report accurately reflects the conclusions that were drawn in your study. Most notably, the GAO noted in its study that its analysis does not exclude the fact that there may be other factors outside the entity's status as a minority CDE which account for the lower probability that it will receive an award (page 35 of the draft report). In light of this fact, we strongly encourage the GAO to change the title to "New Markets Tax Credits -- Multiple Factors Contribute To Fewer Awards for Minority Entities", or a similar title that more accurately describes the findings contained within your evaluation.

Despite the application challenges faced by minority CDEs, the CDFI Fund believes that the NMTC Program is bringing tremendous benefits to communities with large minority populations. As noted in your report, a 2008 study that was jointly sponsored by the CDFI Fund and the Federal Reserve Board of San Francisco found that, on average, NMTC-eligible census tracts have non-white populations of 42 percent, compared with an average of 26 percent in all census tracts; and the census tracts that have received NMTC investments have, on average, non-white populations of 47 percent. This strongly suggests that NMTC awardees are targeting areas with higher minority concentrations when making their investments.

Investments in these communities bring numerous benefits to minority residents in the form of jobs, housing, and valuable goods and services. In Washington DC, for example, NMTC investments have financed charter schools with student populations that are 100 percent minority; minority-owned businesses; a community center in a community where 93 percent of residents are African-American; and, in that same community, a national chain grocery store that supports over 200 jobs for community residents. Many other NMTC-financed projects throughout the country have focused exclusively on serving other minority populations, including Hispanic populations and Native American populations. It would have been beneficial if the scope of the GAO report had also included an evaluation of the impact of NMTC investments in communities with high minority populations, so that projects like these could have been analyzed and included in the final report.

The CDFI Fund notes, as did the GAO in its report, that neither the NMTC authorizing statute, nor any documents regarding the legislative history of the program, indicate that a desired program outcome is success by minority CDE applicants. Nonetheless, the Fund has been actively seeking to promote participation by minority CDEs since the program's inception. Most notably, we have conducted multiple outreach sessions with the National Banker's Association, a trade association of minority-owned financial institutions, and with the Federal Deposit Insurance Corporation's Minority Depository Institution Program. These efforts have included webinars, workshops, panel presentations, conference booths, and keynote speeches at their major conferences.



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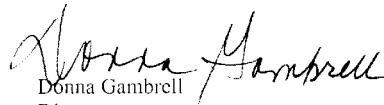
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The National Bankers Association has praised, in writing, the CDFI Fund's outreach efforts to their members.

More recently, we have developed a relationship with the Department of Commerce's Minority Business Development Agency that we hope will also lead to additional applications from minority CDEs. We will be presenting information about the NMTC Program, and other CDFI Fund initiatives, at their National Capital Access Forum in May of 2009. And in July of 2009, we will be participating in the FDIC's Interagency Minority Depository Institution National Conference. These efforts are in addition to the outreach we conduct on a regular basis with other Federal agencies, the banking regulatory agencies, trade associations and other industry representatives.

Thank you again for the opportunity to review and comment upon your draft report. We appreciate your efforts and the collaborative relationship that you fostered during the course of your review.

Sincerely,

  
Donna Gambrell  
Director

# GAO Contact and Staff Acknowledgments

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## GAO Contact

Michael Brostek, (202) 512-9110 or [brostekm@gao.gov](mailto:brostekm@gao.gov)

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## Acknowledgments

In addition to the contact named above, Kevin Daly, Assistant Director; LaKeshia Allen; Don Brown; Thomas Gilbert; Cristian Ion; Jean McSween; Ed Nannenhorn; and Cheryl Peterson made key contributions to this report.

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