



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.

NEW MARKETS TAX CREDIT

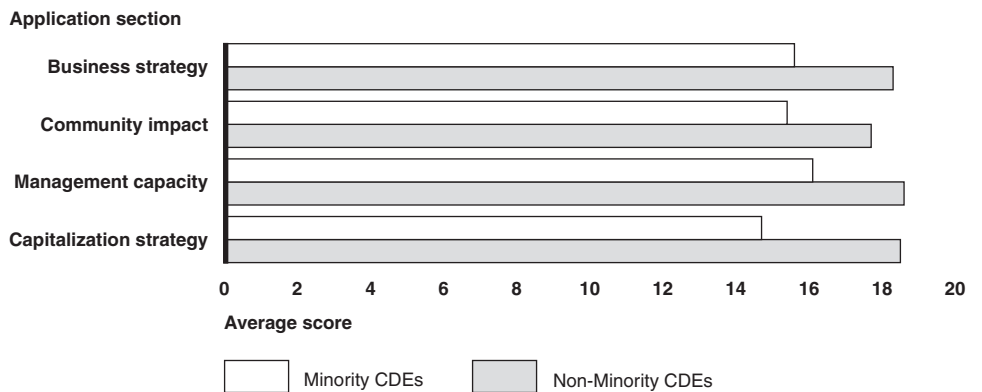
Minority Entities Are Less Successful in Obtaining Awards Than Non-Minority Entities

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.