LISC
LOCAL INITIATIVES
SUPPORT CORPORATION

March 1, 2021

Mr. Christopher Allison
NMTC Program Manager
Community Development Financial Institutions Fund
U.S. Department of the Treasury
1500 Pennsylvania Avenue, NW
Washington, DC 20220

Re: Comments on the CY 2021 NMTC Allocation

Dear Mr. Allison:

We are writing in response to the CDFI Fund's request for comments regarding the New Markets Tax Credit Program (NMTC Program) Allocation Application.

**BACKGROUND**

To date, the Local Initiatives Support Corporation (LISC) has received 13 NMTC awards totaling $1,103,000,000 in allocation. As of March 1, 2021, we have closed 150 NMTC transactions, deploying $1,067,114,583 in QEIs and $1,025,346,989 in QLICIs to low-income communities (LICs) across the country. Our investments have created over 9,400 permanent jobs, healthcare for more than 185,000 patients and educational opportunities for more than 15,000 students.

In addition to our NMTC experience, our wholly-owned subsidiary, New Markets Support Company (NMSC), provides NMTC investment management services to other CDEs, including application writing, compliance reporting, accounting services, asset management and more. Between our own applications and those of our clients, we have written or otherwise helped prepare 25 different NMTC allocation applications since the start of the NMTC Program.

Below we provide general comments on the NMTC Application, as well as recommendations regarding specific changes to the questions proposed in the NMTC Allocation Application Template provided in the request for comments.

**GENERAL COMMENTS**

**LISC recommends reducing application burdens whenever possible, but particularly with respect to applicants with an established track record of deploying NMTC allocations.**

The NMTC application is cumbersome and takes considerable time for applicants to prepare. Most applicants report they are spending hundreds of hours preparing and reviewing their application submissions. A thorough application submission should necessarily be a part of any competitive review process. However, the CDFI Fund must also carefully consider – for each question in the application – whether the information being collected will further the reviewer's determination as to whether the Applicant will be a good steward of the NMTC allocation; and whether the information requested is already being collected in other parts of the application. We hope that CDFI Fund, as it looks to improve the application, will review each question through this lens.

We provide some additional recommendations below, but we believe that the greatest opportunities for streamlining the application are in Part III (Management Capacity) and Part IV (Capitalization Strategy) of the application, particularly for prior year allocatees. It is notable that these sections are not scored in Phase 1 of the Application review and primarily contain information that, with respect to prior year allocatees, is reported to the CDFI Fund in other ways, including certification of material events, QEI finalization in AMIS and annual TLR and ILR reporting. We propose streamlining these sections by allowing established CDEs (CDEs that have received multiple awards within the past five years and have remained in compliance with all NMTC Program requirements) to opt-out of answering certain narrative questions.

For the following Part III questions, if an established CDE certifies that there have been no significant changes in personnel or policy since their most recent successful submission, a narrative response would not be required:

- Q29 – Providing QLICIs
    - (a) – Current roles and responsibilities of key personnel
- Q30 – Asset and Risk Management Experience
    - (a) – Current roles and responsibilities of key personnel
    - (c) – How the CDE monitors financial assets
- Q31 – Program Compliance Experience
    - (a) – Current roles and responsibilities of key personnel
    - (b) – CDE's systems and procedures to ensure on-going compliance with NMTC Program requirements

For Part III Q30(d), we recommend only requiring a CDE to provide a narrative response if its delinquency rate or total write-offs exceed 5% or 3%, respectively, of its entire portfolio. For Part III Q30(e), we recommend only requiring a CDE to report any changes in delinquent, defaulted or impaired NMTC investments since the last application.

We recommend eliminating the following Part IV questions if an established CDE has met the QEI Issuance and QLICI Requirements in each of the past three years and no more than 50% of its QEIs have come from a single investor (excluding "Affiliate of the QALICB," which many CDEs include in Table E2 as a single investor but represents multiple capital providers):

- Q35 – Capital Raising
- Q37 – Investment Strategy

**The CDFI Fund should use the questions in the application to further incentivize CDEs to pass along program subsidy to the QALICBs**

We have two primary suggestions to maximize the program subsidy to QALICBs: (1) include a CDE's commitment to benefit QALICBs in the scored portion of the application; and (2) encourage CDEs to commit to lower overall fee percentages in Part III.

For item (1) above, we suggest moving Q39 – Distribution of Benefits from Part IV to Part I (Business Strategy), and also including a CDE's ability to provide a majority of the economic benefits to QALICBs in the score it receives in Phase I of the application review. We also encourage the question be revised to require applicants to disclose the total benefits they receive from transactions closed with their allocation, including, for example:

1. If a CDE, a CDE's affiliate or a CDE's parent company provides equity for an NMTC transaction, the Applicant must disclose the total amount of tax credits it will receive from the transaction. For example, if XYZ CDE provides $2 MM of allocation and ABC CDE provides $8 MM of allocation to a project and XYZ CDE's parent company, XYZ Parent, provides the equity for both QEIs, they must list the full $3.9 MM tax credit benefit that XYZ CDE and its parent will receive.

2. If a CDE, a CDE's affiliate or a CDE's parent company receives additional fees from other CDE's NMTC investments, they must disclose the total amount of fees it will receive. For example, XYZ CDE provides $2 MM of allocation, and ABC CDE provides $8 MM of allocation to a project. XYZ CDE provides investment management services to ABC CDE and charges a 1% fee on ABC CDE's QEIs at closing. This $80,000 fee must be included in the total benefit received by XYZ CDE.

For item (2) above, we suggest supplementing or replacing Q40 in Part IV regarding QEI usage percentage by replacing Q34 in Part III with a question asking a CDE to commit to a maximum all-in fee (including front-end, on-going and back-end fees) based on total QEIs. We also would move Q40 to Part I to be scored by reviewers. This commitment, and corresponding all-in fee percentage, will be included in a CDE's allocation agreement.

Given changes to fee structures, including CDEs charging fees to investment funds or QALICBs that do not affect the QEI usage percentage, question Q40 and corresponding allocation agreement requirement is no longer a good measure of the amount of NMTC subsidy going to QALICBs. CDEs with lower all-in fees will be scored more favorably; CDEs that charge higher fees and can justify this decision, including how the fees are invested back in the community, may also receive favorable scoring consideration.

**The CDFI Fund should undertake efforts to reduce barriers to entry for new CDEs.**

LISC is committed to fostering and developing new CDEs, especially minority-owned or led CDEs, to increase the NMTC Program's impact in LICs across the country. To allow emerging CDEs to compete with established CDEs with nearly two decades of NMTC experience, we propose:

1. Not limiting NMTC Allocation Application submission only to certified CDEs as of the NOAA, as proposed in the CY2021 NMTC Allocation Application Applicant Instructions.

2. Allowing new CDEs to partner with established CDEs on Track Record or in the discussion of the Track Record of key management in Part I. Partnerships could include hiring established CDEs or their affiliates as service providers, committing to co-investing with established CDEs on a certain percentage of investments or other collaborations that boost a new CDE's capacity to manage NMTC allocation.

3. Allowing new CDEs to utilize the track record of their partnering organizations for receiving priority points under the track record of serving Disadvantaged Businesses and/or Communities.

In addition to the specific comments above, LISC strongly supports any and all efforts the CDFI Fund could undertake to increase the number of minority CDEs that receive allocation, including potential set-asides, additional training opportunities and other programs or initiatives the CDFI Fund sees fit to address the disparities in representation amongst successful CDEs.

**The CDFI Fund should provide detailed application debriefings to all applicants after award announcements.**

LISC requests the CDFI Fund return to the practice of providing detailed, specific debriefings to all applicants after award announcements, even if they were successful. Successful, experienced applicants should receive feedback from reviewers both to improve their NMTC strategies and to be able to strengthen their future applications. We suggest including specific reviewer comments in these debriefings to enhance their utility.

**COMMENTS ON SPECIFIC APPLICATION QUESTIONS**

*Applicant Instructions*

- Page ii – Remove the requirement that a CDE must be certified by the time the NOAA is published (see comments above regarding Reducing Barriers to Entry for New CDEs).

*Part I – Business Strategy*

- Page 13 – Q14
    - Add Yes/No question asking if the CDE intends to provide a debt product using a leveraged structure; if yes, only require the CDE to describe its rates and terms, not product, since most CDEs offer an A/B debt product. Other types of products should still be described in full detail.
    - Add Q39 – Distribution of Benefits to Product (see Maximizing Program Subsidy to QALICBs above).

- Page 18 – Q17(d) – We disagree with the addition of Q17(d) regarding multi-CDE projects. The question appears to discourage multi-CDE projects, which allow much bigger projects to be financed than most CDEs are willing to invest in alone. We concur with the comments submitted by the NMTC Coalition and NMTC Working Group regarding this question. We support the CDFI Fund providing minimum investment requirements for multi-CDE projects, for example, requiring CDEs to provide the lesser of $5 MM or 50% of QEIs for any multi-CDE transaction.

- Page 19 – Q18 – Most application pipeline deals are in very preliminary underwriting since financing will not close for over a year. We propose asking about underwriting practices in Part III and removing this question.

- Page 21 – Q20 & Q21 – Priority Points – We believe that "priority points" for demonstrating a track record of successfully providing capital or technical assistance to Disadvantaged Businesses or Disadvantaged Communities should be bifurcated into three priority points for the Applicant's track record and two priority points for the Controlling Entity or other parent company's track record. This will allow mission-driven applicants such as CDFIs and non-profits to differentiate themselves from applicants with profit-motivated parent companies. If there is no controlling entity or parent company, the five points should be based entirely on the Applicant's track record.

- Page 22 – Q20 – We disagree with the addition of the bullet point requiring applicants to identify the three largest sources of capital for non-NMTC loans and investments. This information is already discussed in Part IV of the application.

*Part II – Community Outcomes*

- Page 32 – Q26(a)5 – Community Goods or Services to LICs – Given the diversity in Community Goods or Services projects, including schools, health centers, social service providers, workforce development organizations, etc., it is extremely difficult to answer this Community Outcome in only 5,000 characters. Because this Outcome requires multiple impacts (patients served, students served) and each impact requires metrics and methods, we suggest increasing the character count to 10,000 for this Outcome only.

*Glossary*

- Page 84 – Disadvantaged Business – We disagree with the change to the definition of "Disadvantaged Business" and recommend reverting to the original definition as "A business that is (a) located in a Low-Income Community; or (b) owned by a Low-Income Person; or (c) a business that has inadequate access to investment capital." Removing from this definition a business that has inadequate access to investment capital has a material negative impact on new applicants that cannot rely on a track record of prior NMTC investments. This would particularly negatively impact Applicants, including that minority-owned or led Applicants, that prioritize investments in minority owned businesses.

**CONCLUSION**

We appreciate the opportunity to provide comments on the CY2021 NMTC Allocation Application. Thank you for your time and consideration of our suggestions. Please do not hesitate to contact us if you have any questions regarding our comments or if we can be of further assistance.

Sincerely,

Matt Josephs
Senior Vice President for Policy