March 1, 2021

Christopher Allison
NMTC Program Manager
Community Development Financial Institutions Fund
U.S. Department of the Treasury
1500 Pennsylvania Ave. NW
Washington, D.C. 20220

Re: Comments on the NMTC Allocation Application and Debriefing Process

Dear Mr. Allison:

We appreciate the opportunity to provide comments on the CY 2021 NMTC Program Allocation Application and review process.

Self-Help Ventures Fund is a mission-driven, nonprofit CDFI CDE founded in 1984. We are a founding member of the NMTC Coalition and a proud recipient of $328 million in NMTC allocation over six rounds.

The NMTC program is often a powerful force for good in the communities we serve. Through its flexibility, it has supported investments in businesses and nonprofits that struggle to access mainstream financing, those that create the fabric of leaders and resources in our communities. It has also supported large catalytic investments that drive revitalization in low-income areas that themselves have suffered from disinvestment. It is critical that the program continue to directly support both the people harmed by disinvestment (local businesses and nonprofits in low-income communities) and the places so harmed. Our application recommendations include suggestions for how to value community outcomes driven by smaller investments in smaller borrowers, be they operating or real estate investments. To build equitable change in our communities, we must directly invest in local people and institutions.

Comments Regarding the Draft Allocation Application

1. Q3b. To ensure that NMTC program earnings are revolved into additional investment in low-income communities, provide priority points to Applicants who have Nonprofit or CDFI Controlling Entities in Question 3d. Applicants that have not designated a controlling entity in question 3 should receive equivalent priority points if the Applicant is a Nonprofit or CDFI.

Rationale: As the NMTC Application has evolved we have witnessed a de-emphasis in discussion of the nature and focus of the Controlling Entity. Specific questions are primarily focused on the Applicant itself, not the Controlling Entity. The effect is that solely profit-focused Controlling Entities can score equally well on these questions, even where social motivation may be lacking.

The result of this evolution in the Application is that Applicant CDEs for whom the parent is a mission-driven nonprofit organization or CDFI now have little opportunity to differentiate themselves from Applicant CDEs for whom the parent is solely a profit motivated enterprise. However, unlike other specific financing tools like LIHTC or SBA, where awardees must comply with the restrictive tenets of the programs, the NMTC program allows for much more flexibility in deployment, such that the overarching intention of the parent entity has significant bearing on the nature of sponsors and projects that are ultimately selected, the amount of subsidy invested into low-income communities, and the ongoing use of profits generated by such investments. Additionally, profit-driven CDEs often use NMTC allocation as a lever to generate other business development opportunities, such as tax credit equity investments. We believe that the nature of an Applicant's Controlling Entity should be an essential consideration in administering NMTC awards. And awarding priority points to Controlling Entities such as mission driven CDFIs is the most effective way to do so.

2. Q26. We recommend reinstating and possibly expanding ENVIRONMENTALLY SUSTAINABLE OUTCOMES in Question 26. Climate change is a global crisis that disproportionately impacts low-income communities and low-income people. Projects that achieve environmentally sustainable outcomes in geographies most desperately in need should be a high priority.

We further recommend adding to the narrative reference to the following specific impacts: stormwater management; community solar; solar storage and microgrid initiatives; biogas; and other clean energy and climate resilience projects that can demonstrate positive environmental impacts for low-income people in low-income communities.

3. Q26. We recommend adding FINANCING SMALL BUSINESSES AND NONPROFITS as a new outcome area in Question 26, limiting it to truly small borrowers that have less than 20 employees, including all affiliated entities. Such a category allows CDEs to prioritize serving local businesses and nonprofits who drive the enduring infrastructure of the community.

4. Q26. We recommend adding FINANCING MULIT-SERVICE COMMUNITY ORGANIZATIONS as a new outcome area in Question 26. We further recommend that third-party metrics are not required for this outcome area. The current framework of the application has resulted in inherent disadvantages for Applicants that serve a diverse variety of nonprofit-sponsored community facilities. Character constraints and the requirement for third-party metrics have pushed Applicants away from QALICBs that do not have a singular focus and toward narrowing their allocation focus on a smaller set of business and outcome types. The reality is that most local nonprofits provide a multitude of services in response to the needs of their community. Adding this category will encourage CDEs to continue supporting local community-driven nonprofits that help create the resource infrastructure of our communities. It will also provide space for Applicants to include national and regional multi-service community organizations in their proposals without diminishing their impacts by forcing them into singular third-party metrics.

Comments Regarding the Review, Scoring, and Debrief Processes

5. Consider an Applicant's Full Proposal in Phase 1 [OR Add Scoring to Phase 2 and Delay Ranking Applications Until Scores Can Be Tallied on All Sections]. Currently, only two of five proposal sections are considered in Phase 1. The effect is that the sections on management capacity, capitalization and past award performance – critical components – are not even considered in the ranking of proposals, which effectively determines which Applicants receive allocation. The proposal sections covering these topics contain information that reviewers should be considering in order to identify Applicants with the strongest capacity to succeed. We strongly recommend that these sections be included in the Phase 1 reviews, and/or otherwise be incorporated into the final scorings and rankings before Panel Review.

6. Refine the Review Process. Applicants often struggle to understand what information is prioritized by the reviewers in Phase 1, and why their proposal scores can fluctuate widely from year-to-year. A common perception among Applicants is that success or failure often depends on the "reviewer lottery": if a proposal lands in front of generous reviewers or alongside unusually weak peer proposals it is more likely to succeed; if it lands in front of less charitable reviewers or exceptionally strong peer proposals it is more likely to fail. To help address this, we recommend:

a) The Fund re-engage NMTC experts and/or CDFI Fund Staff to conduct the Phase 1 review (which should include all five sections). We recognize and appreciate concerns about conflicts-of-interest, but we believe that those risks can be mitigated, and are anyway less problematic than having the most critical review phase completed by reviewers who may not fully understand the industry.
b) If the Fund continues to use external reviewers, it should address the following:
    1) The Fund should release to Applicants the training procedures and documents provided to reviewers. This would help Applicants understand what reviewers are considering and increase the ability of Applicants to meet programmatic goals.
    2) The Fund should clarify how Applicants are assigned to reviewers, including if applications are grouped by asset class, by some other means, or not at all. We recommend that applications not be grouped by asset class or any other means, as reviewers will naturally delineate scores amongst the applications they review.
    3) The Fund should further clarify how it addresses variations in reviewer scoring tendencies. We recommend that the Fund analyze and identify reviewer scoring tendencies and use the Panel (or a similar body) to review instances where proposals that are near the "cut line" and may have been helped or harmed by reviewer scoring tendencies.
    4) The Fund should train reviewers regarding the different types of CDEs applying for allocation. Reviewers should know if a CDE Applicant is part of a CDFI, a commercial bank, a for-profit real estate developer, or a government entity. Reviewers should be aware that different types of CDEs have different focuses and capacities as they evaluate an Applicant's ability to execute on the model they propose.

7. Strengthen Debriefings and Provide Them to All Applicants. Debriefing letters should help Applicants more fully understand where they fell short and how to improve future applications. Without sufficiently detailed debriefings unsuccessful Applicants cannot discern why they were not successful. For example, in recent rounds, there have are Applicants who submitted proposals that received nearly perfect scores (landing in Tier 1) but still did not receive allocation. The debriefings offer little information regarding how to improve their applications. On the other side, successful Applicants receive no feedback whatsoever and may not realize the need to solidify their offerings in the next round.

We recommend sharing detailed scoring results with each Applicant so that they know where they stand in the eyes of reviewers and in comparison to the broader industry. Applicants deserve to know:

a) Their exact score. Scoring ranges provide insufficient feedback.
b) Their place in the rank order (E.G., 85th out of 214). Tiers provide insufficient feedback.
c) The cut line (E.G. Applicants who scored 155 were successful. Applicants who scored 154 were not.)
d) The number of priority points earned.

Applicant debriefings should communicate:

e) The specific questions that caused Applicants to drop points. Providing score results by question will allow Applicants to drill down to areas most in need of improvement, be it rates and terms, pipeline, track record, etc.
f) The scores given by each reviewer, so Applicants know if their responses were downgraded by all reviewers (indicating a more systemic issue) or just one reviewer.

In addition, we appreciate the role of the Panel and Selecting Official in Phase 2, and to avoid any confusion we recommend that the Fund communicate with Applicants if:

g) Any point reductions, reordering, or other negative action is taken by the Panel or the Selecting Official.
h) An Allocation was not awarded as a result of being recommended for an amount that is lower than the minimum acceptable amount specified by the Applicant.
i) The Selecting Official's decision regarding their proposal reversed or varied considerably from the Panel's recommendation.

8. Mitigate Score Clustering. Applications scoring within a few points of each other are likely not meaningfully different enough to merit winning or losing allocation (particularly when those scores are based on a review of only two of the five application sections by different reviewers). Suggestions to address this randomness:

a) Including in the scoring process a broader point range, allowing reviewers more discretion on each question.
b) Scoring all five proposal sections in Phase 1 (as recommended above) would likely result in a broader range of scores.

If the clustering of Applicants in Tier 1 continues, then we recommend that **every Applicant in Tier 1 should receive an award**, funded by reducing allocation amounts as necessary.

We appreciate the opportunity to provide comments and recommendations. The NMTC program has done an admirable job attracting private capital to low-income communities. Its growth and extension holds the power to create economic opportunity for the businesses, nonprofits and communities hardest hit by the COVID-19 pandemic and resulting economic downturn. We believe that ensuring successful Applicants and QALICBs have a long-term commitment to low-income communities is a key to generating ongoing community outcomes and amplifying the program's success. In addition, building more transparency and expertise into the review process will support all Applicants in their efforts to best deliver on program goals.

We thank the CDFI Fund for its exemplary management of this important program and the Fund's willingness to keep seeking ways to improve it. Thank you in advance for your time and consideration of this letter. Please do not hesitate to contact us if you have any questions regarding our comments or if we can be of further assistance.

Yours very truly,

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Self-Help Ventures Fund