



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 Application

Dear Mr. Allison:

We appreciate the opportunity to provide feedback on the NMTC Program Allocation Application (the "Application") that we believe will improve and expand the exceptional benefits to low-income communities provided by the NMTC program.

National Trust Community Investment Corporation ("NTCIC") has participated in the NMTC program since its inception. We have received 12 NMTC allocation awards totaling \$633MM. As of March 1, 2021, we have closed 92 NMTC transactions with \$601.25MM in QEIs that provided \$599.19MM in QLICs to low-income communities ("LICs") nationally. As a wholly-owned subsidiary of the National Trust for Historic Preservation, the nation's leading historic preservation nonprofit organization, NTCIC follows a preservation-based community development model. Our NMTC investments have revitalized over 100 historic properties in our nation's most economically distressed areas, created over 32,000 permanent and temporary jobs, provided over 211,000 people with access to education, healthcare and social services, and helped finance the construction of 2,042 residential units.

Below we have divided our letter into two sections. The first provides direct comments to the proposed changes to the application, and the second provides recommendations for the overall application process. Broadly speaking, we encourage the CDFI Fund to consider how to continuously improve the application process to (1) encourage additional transparency, (2) reduce barriers to entry, and (3) eliminate any unintended bias.

## **Section 1: Comments on proposed changes to Application**

### **QUESTION 17(d)**

NTCIC recommends not including the new language in proposed Question 17(d). This question implies a bias towards CDEs who will be the single NMTC provider unless the multi-CDE structure is clearly superior for the borrower, and it is unclear how a reviewer would be able to effectively distinguish between responses of varied applicants.

In our experience there are significant and varied benefits of using a multi-CDE structure, even if these benefits often bring additional complexity. Many CDEs like ours will partner with another CDE to ensure that a project is sufficiently capitalized. Even highly accomplished CDEs never receive as much allocation as they anticipate using when they apply, so partnering with other CDEs is necessary to ensure that as many high priority projects as possible can be financed. In addition, market conditions are continuously evolving. For example, current market factors that may warrant the inclusion of another CDE include: (1) need for additional NMTCs because tax credit pricing has declined, and (2) need for additional NMTCs because projects face bigger gaps in other sources and/or expect less revenue when operational because of COVID-19.

There are also broad benefits to multi-CDE projects that may not be quantifiable. Successful community development efforts benefit from the strengths and perspectives of multiple community partners. For instance, CDEs that specialize in different types of financing (e.g. historic revitalization or charter school financing) provide valuable expertise to partner CDEs during the closing process, while local or regional CDEs have immediate access to the projects and provide valuable knowledge about the community and local government on which national CDEs can rely.

The proposed change could result in the unintended consequence of depriving larger, catalytic projects from receiving enough capital to make them feasible.

### **QUESTION 18 & 29(c)**

We endorse the CDFI Fund's approach to this additional language but believe the Applicant's due diligence process is more relevant to procedures and staff capacity which are discussed in Part III (Management Capacity).

Since Question 18 is similar to the newly added Question 29(c), which is backward-looking, we recommend modifying Question 29(c) to be both forward- and backward-looking and eliminating this concept from Question 18. We also recommend an increase of the character count of Q29 to 3,000.

### **Community Outcomes**

Projects benefiting from the NMTC can generate numerous positive community impacts including the creation of quality jobs, accessibility of jobs to low-income persons, provision of community goods and services, support of small businesses and entrepreneurs, and other community outcomes. We encourage the CDFI Fund to provide ample space for CDEs to describe a wide range of impacts that may be generated through the CDE's investments.

### **QUESTION 26**

We recommend against the elimination of **Flexible Lease Rates** (Question 25(a)(8) in the previous application) for the following reasons:

Obtaining flexible lease rates and terms are important benefits for small, Minority Business Enterprise (MBE), Women Business Enterprise (WBE), other local businesses, and smaller nonprofit community serving organizations in mixed-use real estate projects.

The **Flexible Lease Rates** response is also where the benefits to small business incubators, food incubators, or micro-entrepreneurs can be properly discussed including how small businesses benefit through the provision of access to space at below-market rates and supportive services.

We also request the CDFI Fund consider adding "higher-than-market tenant improvement allowances and shared commercial equipment" as examples of efforts that reduce start-up costs for small businesses and nonprofit tenant-businesses. We recommend the expansion because it would allow CDEs involved in real estate activities to capture how the NMTC subsidy benefits all levels of the structure from the QALICB to the tenants or sub-tenants. In addition, reducing operating and/or startup costs in the form of lower rents, or higher than market tenant improvement allowances, or providing commercial equipment allows these small businesses and organizations to provide more impactful outcomes, such as job creation or direct services.

We suggest that the wording "percent of affordable units" pertaining to the **Housing Units**

community outcome (Question 26(a)(8)) be broadened to make it clearer that housing units that are not specifically affordable at 80% of AMI or less are not the sole type of housing impact relevant for this community outcome. This would help clarify that CDEs can support a more diverse array of housing investments that contribute to holistic community development, including workforce housing at 81%-120%, “naturally occurring affordable housing” at 80%-100% of AMI, etc. We believe that these types of housing units, while they may not meet the current definition of “affordable” in the context of the NMTC Application, are still highly relevant due to their importance to community development strategies to create stable, healthy, mixed-income neighborhoods.

We recognize that because **Environmentally Sustainable Outcomes** in Q26A is not frequently answered it is being proposed for elimination. We suggest clarifying the question would enable more CDEs to participate in tracking these desired outcomes. To accomplish this, we advise keeping this community outcome with the following modifications:

- Eliminate “Quantify (e.g., amount of reduced energy or water use by QALICB, amount of reduced energy costs by end users, etc.)” because it is too burdensome for CDEs and borrowers to collect.
- Consider simplifying the question overall to be focused more explicitly on environmental benefits for low-income persons and communities. The question could read: “Describe the extent to which Applicant’s planned QLICs will result in environmental remediation, energy-saving design features, and/or renewable energy use or production, and how they will benefit residents of Low-Income Communities or Low-Income Persons.”

Lastly, we request that in Question 26 (formerly Question 25) the category **Other Community Outcomes** be added back to allow Applicants to describe one or more outcomes related to each CDE’s individual investment strategy. This would be particularly critical if the CDFI Fund were to remove three of the prior options in this category (Environmental, Healthy Foods, and Flexible Lease Rates). A broader question also provides CDEs with the opportunity to describe outcomes that are unique to their mission, encouraging more innovation and variety across program participants.

## QUESTION 27

We oppose the elimination of the “Additional Investment” question as it would reduce important discussion about the context in which an Applicant’s NMTC investments occur. This is especially true for real estate activities since many NMTC-financed real estate transactions are the first major investment in a community that has suffered from years of disinvestment. Once the initial investment proves feasible, others are encouraged to invest in nearby projects, reactivating the surrounding community and leveraging a smaller NMTC investment into larger community impacts.

## TABLE A5

We discourage the addition of Row j entitled “Total QLICs from unaffiliated CDEs” to Table A5. We would like to bring attention to the difficulty surrounding calculating unaffiliated CDE’s QLICs when the Applicant does not know the other CDE’s fee structure or QLIC amount so far ahead of a closing. For the CDFI Fund to better understand the NMTC equity that is anticipated for a general pipeline project, we recommend that the proposed Row j be changed to “Total QEIs from unaffiliated CDEs”, which would be a less burdensome question for the Applicant to complete.

## GLOSSARY OF TERMS

We would recommend that the CDFI Fund revise the definition of “**Controlling Entity**” to ensure

clarity by making the suggested edits in bold below:

- a. For for-profit CDEs: ownership, control, or power to vote more than 50 percent of the outstanding shares of any class of voting securities of the CDE at the time of Application and throughout the term of the Allocation Agreement (if the CDE is selected to receive an Allocation); **or**
- b. For not-for-profit CDEs: control in any manner over the election of a majority of the directors, trustees, or general partners (or individuals exercising similar functions) of the CDE at the time of Application and throughout the term of the Allocation Agreement (if the CDE is selected to receive an Allocation); **and**
- c. Control in any manner over the election of a majority of the directors, trustees, or general partners (or individuals exercising similar functions) of the CDE, including Control over the appointment and removal of the CDE's Executive management team (e.g., CEO, COO, CFO); and
- d. Approval authority over the management policies and investment decisions of the CDE.

We think these edits are consistent with the CDFI Fund's implementation of the NMTC program that Controlling Entities are those that have governance control (c) **and** management and investment control (d) as it applies to either for-profit CDEs (a) or nonprofit CDEs (b).

## **Section 2: General Recommendations**

NTCIC would like to propose recommendations for two questions or parts of questions that did not have any proposed changes as well as provide recommendations to the NMTC Application process that would streamline the application for established CDEs and highlight barriers to entry for emerging CDEs.

As an accomplished CDE that has participated since the very first year of the NMTC program, NTCIC acknowledges that we have benefited from a "first-mover" advantage in the program which enabled us to develop a strong track record that builds year over year. Broadly speaking, NTCIC recognizes a programmatic need to reduce barriers to entry for emerging CDEs, especially those owned or led by People of Color. Competition between emerging CDEs and established CDEs with almost two decades of NMTC track record and experience has created an unintended barrier to entry to the NMTC Program. NTCIC strongly supports all efforts the CDFI Fund could undertake to increase the number of emerging CDEs, especially those owned or led by People of Color, in the NMTC Program. We encourage you to consider a range of approaches including potential set-asides, additional training opportunities, and other programs or initiatives that would address the disparities in representation among successful CDEs.

### **QUESTION 19**

The question asks if the Applicant proposes to pursue any one or more innovative investments from a list of seven, we believe the CDFI Fund should allow CDEs to choose something *not on the list* to encourage innovation, especially if this is not scored by readers and is only evaluated by the CDFI Fund.

## **QUESTION 26**

In addition to the comments provided above regarding proposed changes to Community Outcomes, NTCIC recommends that the CDFI Fund provide additional transparency about how it evaluates a CDE's use of methods and metrics in the applicable Question 26 responses.

We do believe there is value in CDEs who serve varied communities with different types of products and services and need flexibility to describe how their outcomes are derived. We are concerned, however, that there is a possible lack of quality control since there are no examples provided for what a "good" metric is though presumably reviewers are asked to differentiate responses. We request that the CDFI Fund either provide examples of appropriate metrics and/or disclose the scoring thresholds for these responses.

### **Reduce Burden on Both Emerging and Established CDEs**

#### Emerging CDEs

To minimize the burden of the collection of information on emerging CDEs, NTCIC recommends bifurcating the application process. The CDFI Fund should consider requiring all applicants to submit only the Business Strategy and Community Outcomes section for initial scoring. Because only applicants that score high enough during the Phase 1 review move on to Phase 2 of the review process, providing notice to those highly qualified applicants to submit the remaining sections of the application for review and award consideration could make the application process less burdensome and more accessible to new applicants.

#### Established CDEs

NTCIC believes the collection of certain information in Part III (Management Capacity) and Part IV (Capitalization Strategy) of the application, particularly for prior year allocatees, could be streamlined. Neither of these sections is scored in Phase 1 of the Application review suggesting that they primarily contain information that, with respect to prior year allocatees, is reported to the CDFI Fund in other ways. Because the NMTC application cycle is on a different timeline than the annual compliance reporting cycle, in addition to providing redundant information, repeat CDEs have an additional reporting burden of compiling data that matches the application cycle.

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 if they meet specified criteria.

For all Part III questions, if an established CDE certifies that there have been no significant changes in personnel since its most recent successful submission, a narrative response would not be required for Questions 29-31 as it relates to personnel.

In addition, for Question Q31 – Program Compliance Experience, we recommend the elimination of (b) – CDE's systems and procedures to ensure on-going compliance with NMTC Program requirements unless there have been material changes to the applicant's business strategy or management capacity since the last successful application.

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.

For Part IV, for Q37(c) we recommend not requiring a CDE to provide a narrative response 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). Table E2 could be updated to include the percentages of leverage debt sources and a CDE could certify that their anticipated sources of leverage debt are consistent with the CDE's 5-year track record.

### **Additional Transparency**

We also request the CDFI Fund provide detailed, specific debriefings to all applicants after award announcements. 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 and the overall transparency of the program.

Thank you for your consideration of our feedback.

Sincerely,

A handwritten signature in blue ink that reads 'Merrill Hoopengardner'.

Merrill Hoopengardner  
President, National Trust Community Investment Corporation