

Keynote remarks by
Tony T. Brown, Director

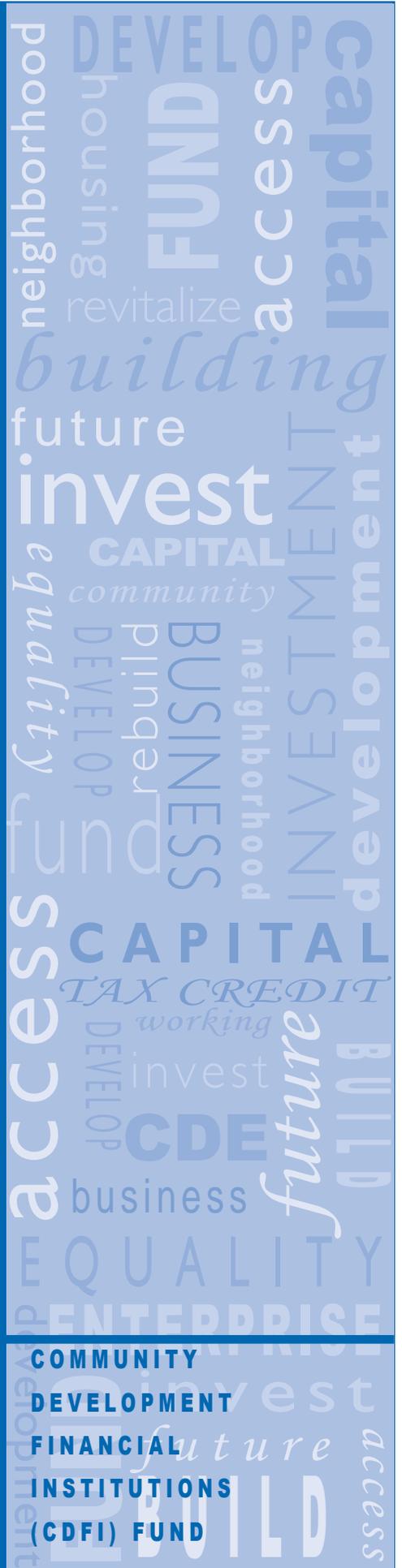
Community Development Financial
Institutions Fund (CDFI)

to the

Annual Network Conference
of the
National Community Investment
Fund (NCIF)

Hotel Washington
Washington, DC
Tuesday, March 25, 2003

CDFI
fund



COMMUNITY
DEVELOPMENT
FINANCIAL
INSTITUTIONS
(CDFI) FUND

FOR IMMEDIATE RELEASE
March 25, 2003

Contact: Bill Luecht
(202) 622-8042

**Remarks by Tony T. Brown, Director
Community Development Financial Institutions (CDFI) Fund
U.S Department of the Treasury
to the
Annual Network Conference
of the
National Community Investment Fund (NCIF)**

**Hotel Washington
Washington, DC
Tuesday, March 25, 2003**

Good afternoon. Thank you Lisa, for your kind introduction and inviting me to share with you some thoughts on the CDFI Fund's newest program – the New Markets Tax Credit (NMTC) Program.

I commend NCIF for its ongoing interest in the NMTC Program and welcome all of you to Washington. Your commitment to travel, especially to our nation's capital, in light of our war against terror, is a significant indication of your commitment to continue the fight on poverty.

Our hearts and prayers go out to the soldiers and their families for the dangers they face in liberating the people of Iraq to make the world more peaceful and to make our country more secure.

Two weeks ago, I had the opportunity to traveled with the Treasury Secretary, John Snow, in Ohio as he announced the inaugural round of the NMTC Program. Secretary Snow reinforced the Administration's commitment to grow the economy and provide jobs for all Americans. He stated that the President is committed to economic growth and prosperity for all Americans in all communities. Secretary Snow commended the fine work already underway by our nation's CDFIs and Community Development Entities (CDEs) to help improve the economy of the low-income communities across the country.

My invitation to speak today was extended so that I could provide an overview of the first round of NMTC allocations and to reflect on the next round.

As many of you know, the desire to attract investment equity capital in low-income communities is significant as was evidenced by the inaugural round of the NMTC Program. In August 2002, the Fund received 345 applications requesting an aggregate of nearly \$26 billion in NMTC allocations.

The Fund received allocation applications from CDEs based in 46 states and Washington, DC. Please note that this figure is based on where applicants are HEAD-QUARTERED, not where they say they will do business.

The \$15 billion of equity investments, for which tax credits can be claimed through the NMTC Program, may be allocated between 2001-2007. Because the CDFI Fund was developing the program in 2001, the first two years' allocations were combined, and \$2.5 billion was made available for allocation in the recently completed first round.

On March 14, 2003, the Treasury Department, through the CDFI Fund, announced the allocation of NMTC authority to sixty-six (66) CDEs, thus supporting \$2.5 billion in private sector equity investments that will result in needed economic growth in low-income communities throughout the country.

- The average allocation award is approximately \$38 million per allocatee.
- Allocation awards range in size from \$500,000 to \$170 million. The median allocation award is \$18 million.
- Six organizations each received allocation awards of \$100 million or more, and 24 organizations each received allocation awards of \$10 million or less.

The allocatees represent a broad cross section of community development entities. There are both large and small CDEs, affiliates of nonprofits as well as for-profit entities, CDEs that will focus locally as well as nationally, and CDEs that will focus on both rural and urban locations. The majority of allocatees will focus on either business investments and loans or real estate investments and loans, with a smaller percentage making investments in other CDEs or purchasing loans from CDEs.

The allocatees in the first round of the NMTC Program show a broad geographical mix and focus for investment activity:

- The 66 allocation recipients anticipate making investments in at least 40 different states and the District of Columbia.
- Twenty-seven (or 41 percent) of the allocation recipients will focus on local markets (e.g., a citywide or countywide area) within one state (22 allocatees) or multiple states (5 allocatees).
- Seventeen (or 26 percent) of the allocation recipients will focus investment activities within a statewide service area.
- Twenty-two of the allocation recipients (or 33 percent) will invest nationally or in a multi-state area.
- Twenty-one of the 66 allocation recipients (more than 30 percent) indicate that they will target investments predominantly to rural communities.

For NCIF and the interest of its members and investors, the allocatees in the recent round showed extensive participation with regulated financial institutions:

- 16 allocatees (24 percent) were either banks or indicated affiliation with banks or subsidiaries of banks. These CDEs will be allocated the authority to issue an aggregate of \$606 million in equity for which NMTCs may be claimed.
- And the vast majority of these 16 bank-awardees (13 of 16) are local institutions – including three certified CDFI banks. Only three of 66 allocatees were affiliated with national or regional banks.
- The three certified CDFI banks with NMTC allocated authority plan to issue \$128 million in equity.
- These CDEs will use their allocations to: make equity investments into banks



that will in-turn use these funds to provide loan products to small businesses, community facilities and real estate developers; and establish a commercial real estate investment fund that will provide flexible financing in the form of equity, senior, or mezzanine debt in urban retail, office, industrial, mixed-use, for-sale housing and community facility projects; and provide small businesses with flexible forms of financing and technical assistance, among other uses.

I recognize that this a lot of statistical information on the first round of the NMTC Program. A copy of this speech is on our website in the event you want to more easily refer to the facts and figures I just described.

I prepared the remainder of my remarks to address the evaluation process and less about the mechanics of the program. But, for some of you that are perhaps hearing about the program for the first time, let me give you this brief description of the NMTC Program:

Through the NMTC Program, taxpayers will be provided a credit against Federal income taxes for qualified equity investments made to acquire stock or other equity interests in designated community development entities. In turn, substantially all of the proceeds of these qualified equity investments must be used by the CDE to make qualified investments in low-income communities. These qualified low-income community investments include loans to or equity investments in, businesses or CDEs operating in low-income communities.

By offering a tax credit, the NMTC Program encourages private investment in low-income communities. If investors embrace the program, it will be a significant source of new capital that could help to stimulate new industries and entrepreneurs, diversify the local economy, and generate new jobs in low-income communities.

The tax credit provided to the investor will cover a seven-year period. In each of the first three years, the investor will receive a credit totaling 5 percent of the total value of the stock or equity interest at the time of purchase. For the final four years, the value of the credit is 6 percent annually.

Now, let me shift to the evaluation process.

To achieve the Administration's goals of demonstrably improving the life of residents in impacted low-income communities, Treasury attempted to set a high bar for applicants and made the selections based on a rigorous merit-based selection process. This review was conducted in the following manner:

Step One: Rate and Ranking of Applications

- First, all policy decisions regarding the selection process were made by officials separate and apart from those who reviewed and rated applications. No identifying information for any application was provided to policy officials until after the selection process was concluded. In other words, I and other senior Treasury officials were able to make policy decisions without regard to potential applicants or where the allocations of NMTCs may be applied.
- In scoring each application, three independent reviewers rated each of four evaluation sections: Business Strategy, Capitalization Strategy, Management Capacity and Community Impact, awarding up to 25 points per section.
- In addition, reviewers rated applicants with respect to two statutory priorities: (i)

up to 5 points for a track record of serving disadvantaged businesses or communities, and (ii) 5 points for committing to invest substantially all of the proceeds from its qualified equity investments in unrelated entities.

- For consistency, the process required three reviewers to independently review and evaluate each application. The reviewers included CDFI Fund staff, other federal agency staff working in other community development finance programs, and independent private sector members of the community development finance field.
- In addition to evaluating and scoring each application, reviewers recommended an allocation amount that was supported by the information in the application.

Step Two: High Rigorous Standards Applied

- Advancing applications were deemed to be those with an aggregate base score (without including priority points) that was in the “good” range based on a scoring scale of weak, limited, average, good and excellent. In addition, each advancing application had to achieve an aggregate base score in the “good” range in each of the four application evaluation criteria.
- For each application, panelists reviewed the scores, comments and recommended allocation amounts provided by each of the first phase reviewers. A statistical review was conducted to identify anomalous scores. In cases where there was an anomalous first phase reviewer score, that is, a score that was substantially higher or lower than the other two reviewers, the comments and recommendations of a fourth independent reviewer were used to determine whether the anomalous score should be replaced.

Step Three: Eligibility, Due Diligence, Documentation and Announcement

- A panel reviewed a variety of compliance, eligibility, due diligence and regulatory matters: (i) compliance with previous Fund awards requirements, (ii) verification that the applicants’ investor letters were consistent with the capitalization information, and (iii) consultation with the IRS on business strategies.
- The rank order list of applicants and the recommended allocation amounts were forwarded to the Selecting Official or Reviewing Official if modifications were recommended.
- This process ensured that adequate documentation and oversight was maintained to protect the integrity of the process.
- Allocation decisions were then final and the notification process began.
- All unsuccessful applicants will receive a written report from the Fund that will provide them with information specific to their particular application, including some of the comments provided by reviewers on their application.

NMTC: Next Steps

1. We expect to issue allocation agreements to the first round allocatees in April 2002.
2. The CDFI Fund is developing, with the Internal Revenue Service, a compliance system to ensure that each entity that receives a NMTC allocation will continue to fulfill its CDE certification requirements and the terms of its allocation agreements.
3. Following an internal evaluation of the NMTC application and selection process, the CDFI Fund will determine modifications for the next round of



application and applicant guidance materials. The Fund will consider public comments received in response to a solicitation in the Federal Register from last December.

4. It is expected that the application for the next round will be available in the summer of 2003, with applications due in the Fall and allocation decisions made in the first quarter of calendar year 2004.
5. We hope to combine FY 2003 and 2004 allocations for a NOAA that could announce up to \$3.5 billion in allocation authority.

The Fund is initiating a number of changes related to its programs, including the NMTC Program. We believe that these changes reflect the organizational maturity of the Fund and of the community development finance industry itself.

Let me leave you with a perspective of the Administration's plans for the CDFI Fund. Many of you know that we recently made substantial changes to the regulations governing the CDFI Program and the BEA Program.

Our goal is to help make America a place where all of its people, including those in economically distressed communities, can realize the American dream through better access to credit, capital and financial services. FY 2003 has been a transition year where the Fund has shifted from being primarily a grants-making organization to one aimed at measurably improving the economic conditions of the residents of low-income communities by spurring economic growth and jobs through community development finance.

The CDFI Fund aims to do this primarily through the NMTC Program, the CDFI Program, the BEA Program, and the Native American CDFI Development (NACD) Program.

The President's FY 2004 budget requests a \$51 million appropriation for the CDFI Fund. The proposed budget supports the administration of the NMTC Program, the CDFI Program, the NACD Program, and the BEA Program. Because the NMTC Program involves an allocation of tax credits rather than appropriated funds, all costs associated with the development, implementation and monitoring of the NMTC Program are administrative. The Administration's request reflects the following factors:

First, the NMTC Program is aimed at achieving similar economic development objectives as the CDFI and BEA Programs. We hope that many of the large bank participants in the BEA Program will purposely shift their investment strategies to the NMTC Program.

Second, the NMTC Program is vastly larger in scope than the other CDFI Fund programs. The first year NMTC Program allocation authority of \$2.5 billion is some 50 times larger than the entire CDFI Fund request.

Third, the Administration currently is evaluating the BEA Program and how it might be made more efficient and effective.

In FY 2002 - 2003, the CDFI Fund's own internal evaluation of the BEA Program concluded that the program needed changes to permit the program to better target awards to wealth-building activities. The Fund also concluded it should adopt outcome-based performance goals to better track the program's impact.

Fourth, the proposed FY 2004 funding level, reflecting a division of resources, is adequate to continue an effective baseline funding level in each program, particularly in light of the reforms put in place in recent months. The recent changes reflect the organizational maturity of the CDFI Fund and the CDFI industry so that a better, more targeted effort is now possible, focusing on opportunities where real needs can be addressed through sustainable economic development.

The proposed FY 2004 budget includes increased funding for administrative expenses to \$13 million to support staffing requirements of the NMTC Program and technology requirements to enhance our support for E-grants and E-government.

In conclusion, the Fund is poised to better connect our nation's distressed and underserved markets with resources needed to better the economic health of these communities. Senior officials in Treasury are committed to making the Fund very effective in its program offerings. Yet, we believe that better administration of the CDFI Fund's programs and integrating these programs along a "growth continuum" reflects our mission of increasing the capacity of CDFIs.

We see the changes made to our technical and financial assistance programs and the strategies for how we use the BEA Program to engage regulated financial institutions as key to this principle. The NMTC Program provides us a new and unique opportunity to attract billions of private sector dollars into our nation's low-income communities.

In remarks to community and business leaders across the country, President Bush acknowledges the role of community-based organizations in helping to eliminate pockets of despair. President Bush believes in the work we do to improve America. He knows that we must work hard and that there is plenty of work to do. And he knows that we can eliminate poverty and despair with love, compassion and decency.

The CDFI Fund's programs, and specifically the NMTC Program, are excellent vehicles to do this important and needed work.

Thank you so much for your attention.

