



May 15, 2023

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CDFI Fund, United States Department of the Treasury
1500 Pennsylvania Avenue NW
Washington, DC 20220

RE: OMB-1559-0014 (Community Development Entity Certification Application)

The African American Alliance of CDFI CEOs (the Alliance) is pleased to submit comments regarding the Community Development Entity Certification Application. The Alliance is a national membership-based organization with a mission to empower Black communities by promoting economic stability, wellbeing, and wealth. Leveraging a network of 77 Black-led Community Development Financial Institutions (CDFIs), the Alliance is working towards establishing power and promoting equal economic opportunity for Black individuals, families, and communities across all 50 states.

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The Department of the Treasury, through the CDFI Fund, administers the NMTC Program, which provides an incentive to investors in the form of tax credits over seven years, expected to stimulate the provision of private investment capital that, in turn, will facilitate economic and community development in low-income communities. In order to qualify for an allocation of tax credits through the NMTC Program, an entity must be certified as a CDE and submit an allocation application to the CDFI Fund. Nonprofit entities and for-profit entities may be certified as CDEs by the CDFI Fund. In order to be certified as a CDE, an entity must be a domestic corporation or partnership, that: (1) has a primary mission of serving or providing investment capital for low-income communities or low-income persons; and (2) maintains accountability to residents of low-income communities through their representation on any governing or advisory board of the entity.

Comments are invited on: (a) whether the collection of information is necessary for the proper performance of the functions of the CDFI Fund, including whether the information shall have practical utility; (b) the accuracy of the CDFI Fund's estimate of the burden of the collection of information; (c) ways to enhance the quality, utility, and clarity of the information to be collected; (d) ways to minimize the burden of the collection of information on respondents,

including through the use of technology; and (e) estimates of capital or start-up costs and costs of operation, maintenance, and purchase of services to provide information.

Is the collection of information necessary for the proper performance of the functions of the CDFI Fund, including whether the information shall have practical utility?

The Alliance believes that the information collected during the certification process is essential for the CDFI Fund to fulfill its mission of promoting economic and community development in low-income communities. By evaluating an entity's eligibility for certification and capacity to manage tax credits effectively, the CDFI Fund can ensure that the NMTC Program is administered efficiently and that the tax credits are allocated to projects that are most likely to benefit low-income communities.

The information collected helps the CDFI Fund determine an entity's suitability for certification by evaluating its governance structure, mission, and compliance history. It is critical to ensure that certified entities have a primary mission of serving or providing investment capital for low-income communities or low-income persons and maintain accountability to residents of low-income communities through their representation on any governing or advisory board of the entity. This information also helps the CDFI Fund determine whether an entity has the necessary expertise and experience to manage tax credits effectively.

Moreover, the information collected helps the CDFI Fund allocate tax credits efficiently and effectively. Since the NMTC Program has a limited amount of tax credits available each year, it is essential to ensure that they are allocated to entities that are most likely to benefit low-income communities and promote economic and community development. The CDFI Fund uses financial statements and other relevant information to evaluate an entity's financial capacity to manage tax credits effectively and ensure that they are allocated to projects that are most likely to achieve the intended outcomes.

Is the CDFI Fund's estimate of the burden of the collection of information accurate?

The accuracy of the burden estimate for the collection of information is contingent upon the respondent's familiarity with the application process. If the respondent is already acquainted with the process and has prepared the required information beforehand, the application may take less than four hours to complete. Conversely, if the respondent is inexperienced with the process and must gather all the necessary information, the application may take longer than four hours.

For instance, the CDFI Fund's estimate of a four-hour burden for the collection of information could pose significant difficulties for minority-led CDEs that are often limited in their staff capacity. These entities may lack the resources to allocate sufficient time and personnel to complete the application process, leading to delays or discouraging them from applying altogether. The Alliance recommends that the CDFI Fund increase its efforts to reduce the burden and provide additional support to minority-led CDEs with limited staff capacity to ensure that they have a fair and equitable opportunity to participate in the NMTC Program.

What are ways to enhance the quality, utility, and clarity of the information to be collected?

In order to qualify for NMTC, entities must be certified as qualified CDEs and submit an allocation application to the CDFI Fund. The Alliance believes that the quality, utility, and clarity of the information collected in this process could be enhanced. First, the CDFI Fund could offer technical assistance to help organizations understand the application requirements and navigate the process. This could include providing webinars or workshops to walk organizations through the application, as well as offering one-on-one consultations with CDFI Fund staff. Second, the CDFI Fund could simplify the application form and reduce the number of required attachments to make the application process less burdensome. Finally, the CDFI Fund could extend the application deadline or offer flexible timelines to allow for more time to complete the application process.

What are ways to minimize the burden of the collection of information on respondents, including through the use of technology?

The Alliance believes, first, that clear and concise instructions can be provided to applicants that outline the expectations of the CDFI Fund, what documentation is required, and how to complete the forms. This would help to avoid confusion or misunderstandings about the application process and ensure that entities can provide all the necessary information at once, reducing the need for follow-up requests or additional information.

Additionally, the CDFI Fund can provide resources and training to help applicants better understand the requirements and expectations of the program, as well as the online portal. This could include webinars, workshops, or other forms of outreach that provide guidance on the application process, compliance reporting, and other aspects of participating in the program.

Further, extending the certification period can also reduce the burden of reapplying for certification frequently. For example, currently, certification as a qualified CDE is valid for three years but extending it to five or more years could reduce the number of times entities have to go through the certification process, minimizing the burden on them.

Finally, the Alliance believes that simplifying compliance reporting through clear guidelines and increasing transparency can also help to minimize the burden on entities and make the process less time-consuming. Providing a clear and straightforward set of compliance requirements and instructions on how to report on them would help entities to meet their obligations more easily, reducing the time and effort required.

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The Alliance has also identified several barriers to NMTC Program participation faced by minority-led CDEs, which we will discuss in greater detail below:

Applicants who engage consultants have an advantage in the NMTC Program

The NMTC Program has been successful in attracting private investment to underserved areas. However, its application process is complex and time-consuming, which leads some applicants to engage expensive consultants for assistance. Such assistance puts applicants at a distinct advantage over applicants who do not pursue assistance from consultants. These consultants

possess in-depth knowledge of the program's requirements, enabling them to assist applicants in navigating the complex application process. As the application process is highly competitive, even minor errors or omissions can lead to disqualification, making it crucial for applicants to submit an accurate and well-written application. With their expertise, experienced consultants can ensure that the application is complete, error-free, and well-presented, thereby considerably improving the likelihood of success. Additionally, these consultants have cultivated relationships with the CDFI Fund. As a result, they possess an insider's understanding of the CDFI Fund's review process, enabling them to provide guidance to applicants in shaping their applications to align with the Fund's expectations. This advantage can prove especially useful for applicants who are new to the program or lack experience in the community development industry. Further, consultants can help identify and address potential weaknesses in applicants' applications and help create a narrative that effectively communicates the proposal's intended impact to low-income communities. By conducting due diligence on the proposed project, consultants can identify possible risks or issues that may raise concerns with the CDFI Fund, and they can develop effective strategies to mitigate these risks or address these issues, thereby strengthening the application overall. Finally, consultants can provide valuable insights into the market demand for the proposed project. They can conduct market research and analyze data to help applicants determine the feasibility of their project and identify potential demand for the project's services or products. This information can be critical in demonstrating the project's viability and can help applicants address any concerns that the CDFI Fund may have about the project's economic viability.

Despite the many benefits of utilizing consultants in the NMTC Program application process, minority-led Community Development Entities (CDEs) often face barriers in engaging consultants due to a lack of access to capital, limited networks, and systemic discrimination. These barriers can put minority-led CDEs at a disadvantage in the NMTC Program application process and limit their ability to access the program's benefits. However, there are several strategies that may be implemented to increase minority-led CDE's ability to engage consultants for the NMTC Program application process. First, providing minority-led CDEs with financial support can help them overcome the financial barriers to engaging consultants. Grants or low-interest loans can be provided to these organizations to help them offset the cost of hiring consultants, which can be a significant expense. By providing financial support, minority-led CDEs can have greater access to the resources they need to compete with larger, more well-resourced organizations in the NMTC Program application process. Second, the CDFI Fund could facilitate collaborations between minority-led CDEs and NMTC consultants to work on the NMTC Program application. This approach can provide the CDEs with access to the consultants' expertise while sharing the cost of engaging them, which can be a more financially feasible option. In such a partnership, the CDE and the consultant can work together to identify areas where the consultant's expertise can be most helpful, such as developing a project narrative, addressing potential application weaknesses, or identifying and connecting with potential investors. By partnering with consultants, the CDE can also maintain a level of control over the application process and ensure that the project's goals and objectives align with their mission and vision. Another option is for the CDFI Fund to develop a mentorship program which pairs minority-led CDEs with experienced consultants or successful organizations that have already gone through the NMTC Program application process. Mentors can provide valuable insights into the application process, including what to include in the application, how to structure it, and

what the funders are looking for in successful applications. Additionally, mentors can also provide guidance on project development and implementation and help CDEs build their network of contacts in the community development industry. The Alliance strongly encourages the CDFI Fund to consider these measures and others to help level the playing field for minority-led CDEs in the NMTC Program application process.

Talent acquisition can be cost-prohibitive for many minority-led CDEs, limiting their ability to compete with more-resourced applicants

The NMTC Program is highly competitive and not all CDEs that apply for NMTC allocations will receive funding every year. As a result, it is essential for CDEs to be able to absorb programmatic costs in years when they do not receive an allocation. To do so, CDEs need to have access to a range of resources, including financial reserves, diversified funding sources, strategic planning, staff expertise, and collaboration and partnerships. These resources can help CDEs maintain their operations, prepare for future NMTC application cycles, and compete effectively for funding.

Unfortunately, minority-led CDEs often lack access to such resources during the application process, which can make it difficult for them to compete with larger, more established CDEs. Specifically, acquiring and maintaining dedicated NMTC Program staff continues to be a challenge for minority-led CDEs. The NMTC Program application process is complex and time-consuming, requiring CDEs to provide detailed financial projections, market analyses, and project plans. Minority-led CDEs may have limited staff resources, which can make it challenging for them to complete these requirements without adequate support. This can lead to delays in the application process, which may decrease the likelihood of securing an allocation.

Also, minority-led CDEs may have limited access to experienced professionals, who are necessary to interpret complex rules and regulations and develop sound and competitive investment proposals for the NMTC Program. Access to professionals with expertise in tax law, finance, real estate development, and other key areas can be crucial to the success of an application, but, unfortunately, many Minority-led CDEs struggle to attract and retain such professionals due to limited resources and competition with larger, more established CDEs. These staffing concerns may result in minority-led CDEs having less capacity to identify and develop eligible projects, which limits their ability to make investments in communities that need them the most, ultimately hindering the program's overall impact on economic development in distressed areas.

Finally, and maybe most importantly, staffing needs hinder minority-led CDEs' ability to maintain their operations and prepare for future NMTC application cycles. As noted earlier, not all CDEs that apply for NMTC allocations will receive an award every year. As a result, it is essential for CDEs to be able to absorb programmatic costs in years when they do not receive an allocation. Minority-led CDEs with limited staff and resources may struggle to maintain their operations during these lean years, which can make it difficult for them to compete effectively in future NMTC application cycles.

NMTC Program favors applicants with program experience to the detriment of many minority-led CDEs

For several reasons, NMTC Program applicants with a demonstrated track record and/or experience in the NMTC Program are better positioned to distinguish themselves from competitors. A track record of successful NMTC investments reveals the applicant's familiarity with the program's requirements and their ability to navigate the complex application process. This familiarity and experience can help the applicant steer clear of common errors and pitfalls that can delay or thwart the application process. A successful track record in the NMTC Program also demonstrates to investors and other stakeholders that the applicant possesses the requisite expertise and experience to manage a project and deliver results. This makes the applicant more appealing to investors, lenders, and community partners, thereby making it easier to access additional investment capital and support. Further, experience in the NMTC Program provides the applicant with access to a range of additional resources and support. For instance, experienced NMTC investors and practitioners often have established relationships with lenders, community development organizations, and other key stakeholders that can provide the applicant with valuable technical assistance and support.

Minority-led CDEs face significant challenges in demonstrating their track record in the NMTC Program, particularly if they are not selected for awards due to their lack of a demonstrated track record. This creates a vicious cycle that makes it difficult for them to gain experience and attract investment capital needed to invest in low-income communities. One of the primary challenges that minority-led CDEs face is the competitive nature of the NMTC Program. There is a limited amount of allocation authority available, and many more CDEs apply for the allocation authority than can be awarded. As a result, the CDEs that have a demonstrated track record of successful NMTC investments are more likely to be selected for the awards. This means that minority-led CDEs, which are often newer and have less experience in the NMTC Program, may be overlooked, even if they have a solid proposal.

This lack of access to the NMTC Program can make it difficult for minority-led CDEs to establish a track record of successful investments, which can further limit their ability to secure allocation authority in future rounds. As a result, minority-led CDEs may be trapped in a cycle of underinvestment, where they are unable to access the capital and resources needed to invest in low-income communities.

To overcome this challenge, minority-led CDEs may need to pursue alternative funding sources, such as grants, loans, or other types of investment capital, to establish their track record and build their expertise in the NMTC Program. Ultimately, it will take a concerted effort from stakeholders across the NMTC ecosystem, including the CDFI Fund, to promote diversity and inclusion and ensure that all CDEs, regardless of their track record, have an equal opportunity to participate in the NMTC program and invest in low-income communities.

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On behalf of the African American Alliance of CDFI CEOs, we thank you for the opportunity to provide recommendations regarding the Community Development Entity Certification Application. Please do not hesitate to contact us for clarifying questions or comments.

Sincerely,

A handwritten signature in black ink, appearing to read "Lenwood V. Long, Sr.", written in a cursive style.

Lenwood V. Long, Sr., President and CEO
African American Alliance of CDFI CEOs