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Washington, DC 20548

April 26, 2012

The Honorable Richard Durbin
Chairman
The Honorable Jerry Moran
Ranking Member
Subcommittee on Financial Services
and General Government
Committee on Appropriations
United States Senate

The Honorable Jo Ann Emerson
Chairman
The Honorable Jose E. Serrano
Ranking Member
Subcommittee on Financial Services
and General Government
Committee on Appropriations
House of Representatives

Subject: Community Development Financial Institutions and New Markets Tax Credit Programs in Metropolitan and Nonmetropolitan Areas

The Riegle Community Development and Regulatory Improvement Act of 1994 created the Community Development Financial Institutions (CDFI) Fund under the Department of the Treasury to help promote access to capital and credit in underserved urban and rural communities across the country.¹ The CDFI Fund carries out this mission through two primary programs: the CDFI Program and the New Markets Tax Credit (NMTC) Program. The CDFI Program awards financial and technical assistance to CDFIs for financial and development services, cash or capital reserves, operating expenses, and capacity building. CDFIs are specialized financial institutions—including community development banks and credit unions and nonregulated institutions such as loan and venture capital funds—that operate in markets underserved by traditional financial institutions. The NMTC Program, created by the Community Renewal Tax Relief Act of 2000, allocates tax credit authority (in this report, tax credits) to community development entities (CDE), which are domestic corporations or partnerships with a primary mission of serving low-income communities or low-income persons that act as

¹The Riegle Community Development and Regulatory Improvement Act of 1994, Pub. L. No. 103-325, 108 Stat. 2160 (1994).

intermediaries in providing loans, investments, or financial counseling in low-income communities.² CDEs can use the tax credits to attract equity investments from investors who can, in turn, claim a tax credit over 7 years totaling 39 percent of their qualifying equity investment.³ The CDFI Program awarded a total of \$443 million to CDFIs from fiscal years 2004 through 2010, while the NMTC Program allocated tax credits worth \$27 billion to CDEs from fiscal years 2003 through 2010.⁴ Both programs' statutes include provisions requiring them to ensure at least a minimum level of assistance to nonmetropolitan areas.

House Report 112-136, referenced by the Consolidated Appropriations Act of 2012, requires that we conduct a study on the concentration of CDFIs and NMTCs in urban areas and comment on the extent that program design, administration, or history contributed to the early establishment of CDFIs in urban areas.⁵ In this report, we examine (1) how the CDFI Fund awards funds and allocates tax credits to recipients and how program policies affect the amount of funding and tax credits to metropolitan and nonmetropolitan areas, and (2) the extent to which the amounts of program awards and allocations that recipients receive differ in metropolitan and nonmetropolitan areas. We used the terms "metropolitan" and "nonmetropolitan" to make geographic distinctions between areas that have urban and rural characteristics for consistency in presentation and because some of the data available in program reports use these designations.

To address the first objective, we reviewed documentation related to the CDFI Fund's policies and procedures for distributing financial and technical assistance awards and tax credits to certified CDFIs and CDEs, respectively. We also reviewed CDFI Fund documents, laws, and regulations, prior GAO reports, and other applicable documentation to determine how CDFI and NMTC program policies and other factors have affected the amount of funding and tax credits directed to CDFIs and CDEs in metropolitan and nonmetropolitan areas. To address the second objective, we analyzed CDFI Fund data on primary geographic areas (metropolitan or nonmetropolitan) served by CDFIs that received awards or allocations, the total amounts of awards and allocations CDFIs and CDEs received, and amounts of funding and investments they deployed to metropolitan and nonmetropolitan areas. Our review focused on the period for which complete transaction-level data were available for individual transactions from the CDFI Fund's Community Investment Impact System database. Specifically, we examined data from fiscal years 2004 through 2010 for the CDFI Program and fiscal years 2003 through 2010 for the NMTC Program.⁶ The transaction-level data for the CDFI Program represent CDFIs' loans and

²The Community Renewal Tax Relief Act of 2000, Pub. L. No. 106-554, § 121, 114 Stat. 2763 (2000). The Act generally defines low-income communities as census tracts with poverty rates of at least 20 percent or median family incomes of no more than 80 percent of statewide median family income. The NMTC Program generally defines low-income persons as individuals with income of not more than 80 percent of the area median family income.

³A qualified equity investment is any equity investment in a CDE that an investor acquires at its original issue solely in exchange for cash. The CDE must use at least 85 percent of the cash to make investments in NMTC-eligible low-income communities.

⁴The time periods for these data reflect the periods for which public release data were available from the CDFI Fund's Community Investment Impact System. The CDFI and NMTC Programs began making awards in 1994 and 2002, respectively.

⁵Consolidated Appropriations Act of 2012, Pub. L. No. 112-74, 125 Stat. 786 (2012); H.R. Rep. No. 112-136, at 14 (2012).

⁶Although we present CDE transaction-level data on a fiscal year basis, the NMTC Program conducts its allocation rounds on a calendar year basis. Therefore, this report presents NMTC Program allocation data (in other words, information on tax credit allocations the NMTC Program made to CDEs) in terms of calendar years.

investments outstanding (which we refer to as total portfolio outstanding) at the end of each reporting year and reflect CDFI Program awards combined with all of the CDFIs' other funding sources. In other words, the data do not allow us to identify which loans and investments outstanding, or how much of the dollar amount of CDFIs' total portfolios outstanding, resulted directly from CDFI Program awards. In addition, because not all CDFI awardees must report transaction-level data, we cannot generalize the findings to the entire CDFI awardee (recipient) population. We examined trends in the amount and number of CDFI- and CDE-financed projects in metropolitan and nonmetropolitan areas. We interviewed CDFI Fund officials and reviewed information from the CDFI Fund and its data contractors on the steps taken to ensure the reliability of their data. For example, we reviewed their processes for ensuring consistent data entry and for addressing potentially inaccurate data. We also checked the data for extreme values and missing data points. We determined that the data were reliable for our purposes.

We conducted this performance audit from January to April 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives. Enclosure I provides a more-detailed description of our scope and methodology.

Results in Brief

The policies and procedures of the CDFI and NMTC Programs help ensure that awards and allocations generally are proportionate to the numbers of qualified applicants that serve metropolitan and nonmetropolitan areas. The CDFI Program's authorizing legislation and regulations require that award recipients constitute a geographically diverse group, serving metropolitan and nonmetropolitan areas and Native communities from different U.S. regions. To meet this requirement, CDFI Program officials have used the application review process and established a goal of matching the proportion of awards to the proportion of qualified applicants that primarily serve nonmetropolitan areas. This proportion changed from year to year depending on the number of qualified applicants that served nonmetropolitan areas. According to officials, revisions to the award procedures in the fiscal year 2012 funding round will enhance the CDFI Program's ability to achieve proportionality. In 2006, Congress, in the Tax Relief and Health Care Act of 2006, added a requirement for the NMTC Program that nonmetropolitan counties receive a proportional allocation of qualified equity investments.⁷ To meet this requirement, in 2008, the NMTC Program implemented two goals in its application review process. The first goal requires that a proportionate number of tax credits are allocated to recipients that principally serve nonmetropolitan counties.⁸ The second goal requires that at least 20 percent of all community investments resulting from the annual NMTC allocations are made in eligible nonmetropolitan counties.

The programs awarded the majority of funds and tax credits to recipients that served metropolitan areas, but both generally met their proportionality goals with regard to ensuring assistance to

⁷Tax Relief and Health Care Act of 2006, Pub. L. No. 109-432, Div. A, Tit. I, § 102(b), 120 Stat. 2922 (2006).

⁸Specifically, such a recipient is one that, over the past 5 years, has dedicated at least 50 percent of its direct financing dollars to nonmetropolitan counties and has committed in its application to dedicate at least 50 percent of its future NMTC direct financing dollars to such areas. The recipient is not required to be physically located in a nonmetropolitan area to be designated as such.

nonmetropolitan areas. From fiscal years 2004 through 2010, CDFI Program financial assistance awards to recipients serving primarily nonmetropolitan areas were proportional to the number of qualified applicants that served those areas in every year except 2008. For example, in 2010, 29 percent of award recipients primarily served nonmetropolitan areas, exceeding that year's proportionality goal of 27 percent. Based on recipients' annual reporting for fiscal years 2004 through 2010, about 18 percent of recipients' total annual loans and investments outstanding were in nonmetropolitan areas. For the NMTC Program, since implementing the two proportionality goals in the calendar year 2008 round, program officials stated that they have been successful in helping ensure that a proportional number of tax credits went to recipients that serve nonmetropolitan areas and that 20 percent of all NMTC investments were committed to nonmetropolitan areas. From calendar years 2008 through 2011, recipients committed to deploy more than \$3 billion, or 20 percent of total investments, in nonmetropolitan areas. In 2010, the proportion of the dollar amount of NMTC projects financed that went to nonmetropolitan areas increased to 21 percent, which exceeded the program goal of 20 percent.

Background

In general, financial institutions must be certified as CDFIs or CDEs before they can receive CDFI Program awards or NMTC allocations, respectively. Table 1 lists the criteria that entities must meet to become certified. For example, CDFIs and CDEs generally must be legal entities that provide the majority of their financial services to low-income persons or communities and maintain accountability to those communities by having members that represent them on their governing or advisory boards. The CDFI Fund follows detailed procedures to ensure that certified entities meet the criteria.

Table 1: Eligibility Criteria for CDFI and CDE Certification

| CDFI | CDE |
|--|---|
| <ul style="list-style-type: none"> • Be a legal entity • Have a primary mission of promoting community development • Primarily provide financial products, development services, or other similar financing in arms-length transactions • Primarily serve (direct at least 60 percent of financial product activities to) one or more geographic investment areas meeting certain poverty or income standards; low-income targeted populations; or other targeted populations that lack adequate access to capital and historically have been denied credit • Provide development services—such as credit or homebuyer counseling—in conjunction with financial products • Maintain accountability to defined target markets through representation on governing or advisory board or through outreach activities • Be a nongovernment entity and not be under control of any government entity (except tribal governments) | <ul style="list-style-type: none"> • Be a legal entity and a domestic corporation or partnership for federal tax purposes • Have a primary mission of serving or providing investment capital to low-income communities or low-income persons and target at least 60 percent of activities to these groups • Maintain accountability to low-income communities through representation on governing or advisory board • Note: Certified CDFIs and Specialized Small Business Investment Companies automatically qualify as CDEs and only need to register as CDEs rather than apply for certification. |

Sources: CDFI Fund; CDFI and NMTC Program statutes and regulations.

As of February 29, 2012, there were a total of 977 certified CDFIs and 5,500 certified CDEs, including subsidiary CDEs.⁹ Enclosure II lists the numbers of certified CDFIs and CDEs by state. The total number of certified CDFIs and CDEs is much higher than the number that typically applies for and obtains program awards in any given year. In addition, not all financial institutions that seek certification will obtain it. Certification rates for CDFIs averaged about 77 percent from fiscal years 2004 through 2010, while CDEs obtained certification about 91 percent of the time from calendar years 2003 through 2010 (see table 2). Agency officials told us that, based on their analysis of fiscal year 2011 certification data, the most common reasons for denying CDFI certification applications were failure to meet the criteria for primary service to eligible target markets and accountability to those markets. They stated that in prior years, these were also two of the most common reasons for denials of certification applications. Failure to meet the financing entity criteria was also historically a reason for denial. They attributed the majority of CDE certification denials to failure to establish accountability to low-income communities.

Table 2: Certification Rates for CDFIs (Fiscal Years 2004-2010) and CDEs (Calendar Years 2003-2010)

| | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | Total |
|--------------------|------|------|------|------|------|------|------|------|--------------|
| CDFIs | | | | | | | | | |
| Certified | N/A | 34 | 72 | 144 | 32 | 32 | 71 | 162 | 547 |
| Declined | N/A | 50 | 15 | 11 | 12 | 15 | 32 | 30 | 165 |
| Certification rate | N/A | 40% | 83% | 93% | 73% | 68% | 69% | 84% | 77% |
| CDEs | | | | | | | | | |
| Certified | 211 | 153 | 155 | 33 | 121 | 100 | 104 | 134 | 1,011 |
| Declined | 18 | 14 | 12 | 3 | 9 | 9 | 16 | 21 | 102 |
| Certification rate | 92% | 92% | 93% | 92% | 93% | 92% | 87% | 86% | 91% |

Source: GAO analysis of CDFI Fund data.

Note: The CDE certification rates in this table include only “applicant CDEs” and exclude subsidiary CDEs.

The CDFI Program provides financial or technical assistance to CDFIs to enhance their ability to make loans and investments and provide services for the benefit of designated investment areas, targeted populations, or both.¹⁰ CDFIs can apply for (1) financial assistance awards, which can be used for financial products or services such as loans and checking and savings accounts, development services such as financial or homeownership counseling, loan loss and capital reserves, and operations; or (2) technical assistance awards, which can be used for capacity-building purposes such as personnel salary, professional services, travel, training, and equipment and supplies. As shown in table 3, financial assistance applicants may apply as regular applicants or as Small and Emerging CDFI Assistance (SECA) applicants. SECA applicants are CDFIs that have smaller assets or have been operating for fewer than 5 years. However, regular applicants can apply for more financial assistance funding (for the fiscal year 2011 funding round, up to \$2 million) than SECA applicants (which can apply for \$600,000). Technical assistance awards were capped in fiscal year 2011 at \$100,000 per awardee. Since

⁹Subsidiary CDEs are legal entities that applicant CDEs own or directly control and to which CDEs can transfer all or part of their allocation authority.

¹⁰Financial assistance can be in the form of grants, loans, credit union shares, equity investments, and deposits to CDFIs. However, most financial assistance awards are in the form of grants. Investment areas and targeted populations are defined in 12 C.F.R. § 1805.201(b)(3).

1994, the CDFI Program has disbursed more than \$1 billion in financial and technical assistance awards.

Table 3: CDFI Financial and Technical Assistance Program Details

| Funding and applicant type | | Applicant criteria | Eligible uses for funds | Fiscal year 2011 award cap | Matching fund requirement ^a |
|----------------------------|---|--|---|----------------------------|--|
| Financial Assistance | Regular | Certified or certifiable CDFI ^b | <ul style="list-style-type: none"> Financial products Financial services Development services | \$2,000,000 | 100% match from nonfederal sources |
| | Small and Emerging CDFI Assistance (SECA) | <ul style="list-style-type: none"> Certified or certifiable CDFI Total assets of up to \$5 million (up to \$250 million for community development banks and up to \$10 million for insured credit unions and venture capital funds) or in operation for fewer than 5 years | <ul style="list-style-type: none"> Loan loss reserves Capital reserves Operations | \$600,000 | 100% match from nonfederal sources |
| Technical assistance | | Certified, certifiable or emerging CDFI ^c | <ul style="list-style-type: none"> Personnel (salary and fringe benefits) Professional services Travel Training Equipment Materials/supplies Other | \$100,000 | None |

Source: CDFI Fund 2011 Notice of Funding Availability, 76 Fed. Reg. 68,831.

Notes:

^aMatching funds must be comparable in form and value to the financial assistance award. Congress waived the matching funds requirement in the fiscal year 2009, 2010, and 2011 federal budgets.

^bA certifiable CDFI has submitted an application to the CDFI Fund demonstrating that it meets the certification requirements, but the CDFI Fund has not yet officially certified the entity.

^cAn emerging CDFI is an entity that demonstrates to the CDFI Fund that it has an acceptable plan to become a certified CDFI within approximately 3 years.

Congress created the NMTC Program in 2000 under the CDFI Fund to encourage investors to make investments in impoverished, low-income communities that traditionally lack access to capital. CDEs may apply for and receive tax credits, at which point investors can make qualified equity investments by acquiring stock or a capital interest in the CDEs in exchange for the ability to claim the tax credits on a portion of their investment. The CDEs, in turn, must use at least 85 percent of the investment proceeds for community investments, which can be in qualified low-income community businesses and used for residential, commercial, and industrial projects or

can be used for other types of activities, such as purchasing loans from other CDEs.¹¹ Since its inception, the NMTC Program has awarded \$33 billion in tax credits to CDEs. The program expired at the end of 2011, but legislation has been proposed to extend it and the administration has asked for an extension in its 2013 budget proposal.¹²

The CDFI and NMTC Programs use varying terminology to describe program activity geographically, depending on the program stage. For example, in the application stage, both programs ask applicants to indicate whether they primarily serve major urban, minor urban, or rural (nonmetropolitan for the NMTC Program) areas.¹³ The programs also require awardees and allocatees to commit to the areas that they will serve with their awards and tax credits. At this point, the terminologies diverge. While the CDFI Program continues to use the major and minor urban and rural classifications, the NMTC Program uses the metropolitan and nonmetropolitan classifications as defined by the 1999 Office of Management and Budget bulletin, with the former term referring to a metropolitan statistical area with a core city or urban center of population 50,000 or more and its surrounding communities and the latter term referring to anything other than a metropolitan area.¹⁴ Finally, when agency officials collect annual data from awardees and allocatees on the use of their funds, both the CDFI Program data and the NMTC Program data are classified using the 1999 Office of Management and Budget bulletin (the “metropolitan” and “nonmetropolitan” system). To simplify the discussion, this report generally uses metropolitan and nonmetropolitan for both programs, as defined by the Office of Management and Budget.¹⁵ As of 2011, approximately 16 percent of the U.S. population resided in nonmetropolitan areas.¹⁶

Program Policies and Procedures Aim to Make Awards and Allocations Proportionate to Numbers of Applicants That Serve Nonmetropolitan Areas

CDFI Program

The CDFI Program’s policies and procedures for reviewing funding applications and making financial and technical assistance awards are intended to encourage assistance to nonmetropolitan areas. After CDFI Program staff checks all applications for completeness and applicant eligibility, reviewers from outside of the CDFI Fund (three reviewers per financial

¹¹CDEs make community investments with the proceeds of qualified equity investments from outside investors. The community investments can include any capital or equity investments in, or loans to, qualified active low-income community businesses; loans purchased from other CDEs; financial counseling and other services to qualified active low-income community businesses, or to residents of a low-income community; or equity investments in, or loans to, other CDEs. For more information about the NMTC investment process, see GAO, *New Markets Tax Credit: The Credit Helps Fund a Variety of Projects in Low-Income Communities, but Could Be Simplified*, [GAO-10-334](#) (Washington, D.C.: Jan. 29, 2010).

¹²See S. 996, 112th Cong. (2011); H.R. 2655, 112th Cong. (2011); Office of Management and Budget, Executive Office of the President, Fiscal Year 2013 Budget of the U.S. Government (2012).

¹³According to the CDFI Fund, a major urban area is a metropolitan statistical area with a population equal to or greater than 1 million, including both central city and surrounding suburbs. A minor urban area is a metropolitan statistical area with a population of more than 50,000 and less than 1 million, including both central city and surrounding suburbs. A rural area is any area not contained in a major or minor urban area.

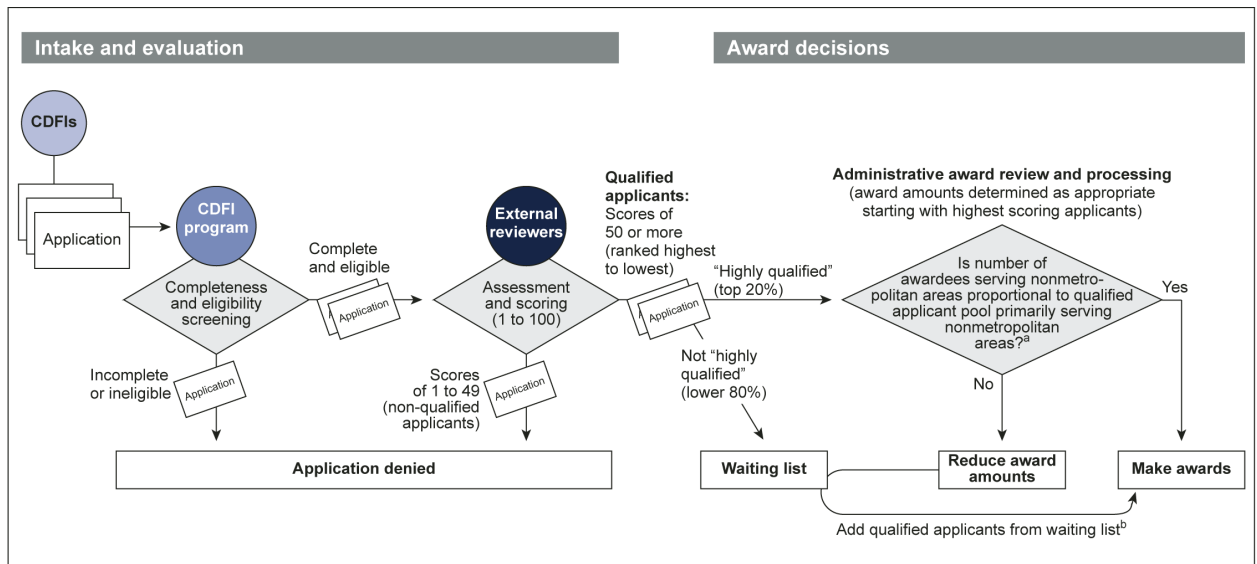
¹⁴See OMB Bulletin No. 99-04.

¹⁵See enclosure I for more detail on how we classified geographic areas in this report.

¹⁶ U.S. Census Bureau, Core Based Statistical Area (CBSA) Status for the United States, Regions, and Divisions, and for Puerto Rico: 2010 and 2011, CBSA-EST2011-12 (Washington, D.C.: April 2012).

assistance application and one reviewer per technical assistance application) evaluate the applications. Specifically, financial and technical assistance applicants are scored on and can receive up to 100 points from each reviewer for criteria such as how they meet the needs of their target market and their delivery capacity. As shown in figure 1, applicants that meet or exceed an overall scoring threshold and a threshold in each of the application sections advance to the second phase of the application review process in which CDFI Program officials determine—based on a final ranking score—which applicants will receive awards and how much they will receive.

Figure 1: CDFI Program Financial and Technical Assistance Award Process



Source: GAO analysis of CDFI Fund data.

^aCDFI Program officials also check for diversity with regard to geographic region and institution type.

^bUntil the fiscal year 2012 funding round, this process might not have resulted in full proportionality with regard to nonmetropolitan areas. Because reducing award amounts to allow for additional awards could decrease the awards' significance to CDFIs, CDFI Program officials must consider whether award reductions to achieve proportionality are in the best interest of the overall awardee pool.

The CDFI Program's authorizing legislation and regulations require that awardees represent a geographically diverse group, serving metropolitan and nonmetropolitan areas and Native communities.¹⁷ According to CDFI Program officials, to meet this requirement, they have tried to match the proportion of awards to the proportion of the qualified applicant pool with nonmetropolitan service areas during the application review process. For example, if 25 percent of qualified applicants in a given funding round indicated a nonmetropolitan service area, the CDFI Program would strive to make 25 percent of the total aggregate number of financial and technical assistance awards to CDFIs with nonmetropolitan service areas. This proportion can change from year to year depending on the number of applicants that serve nonmetropolitan areas and meet the minimum scoring threshold. Until recently, the CDFI Program's procedures did not allow officials to bypass other qualified applicants to select those with nonmetropolitan service areas, which impeded the program's ability to meet desired proportionality goals in certain years. However, for the fiscal year 2012 funding round, the CDFI Program's procedures

¹⁷ 12 CFR §1805.700(d).

have been revised to better support goal achievement. That is, CDFI Program officials can now bypass certain applicants on the ordered ranking list to select qualified but lower-ranked applicants to achieve geographic and institutional diversity.

In addition, according to CDFI Program officials, the SECA category for financial assistance awards, as well as the technical assistance awards, is helpful to CDFIs located in or serving nonmetropolitan areas. Officials stated that CDFIs in nonmetropolitan communities are often smaller in asset size and typically have fewer employees than their counterparts in metropolitan communities. The SECA category for financial assistance funding allows CDFIs with assets of less than a certain amount or in operation for fewer than 5 years to apply and compete separately from larger and more established CDFIs. In addition, program officials noted that technical assistance funding is useful to smaller and less established organizations because it can help them build capacity. Technical assistance awards can be used for such items as staff salaries and benefits, consultants, professional services, and computer equipment.¹⁸

NMTC Program

The NMTC Program's process for making NMTC awards reflects a recent policy change that ensures investment commitments in nonmetropolitan areas. In 2006, Congress required the NMTC Program to ensure that nonmetropolitan counties receive a proportional allocation of qualified equity investments.¹⁹ To guide its implementation of the requirement, in 2007, the CDFI Fund published a Request for Public Comments to obtain feedback on how to define, measure, and ensure "proportionality." Based on the public comments received, NMTC Program officials developed two goals, which they implemented in the calendar year 2008 funding round, to ensure compliance with the new requirement. First, program officials must review the annual allocation decisions and add additional allocatees if necessary to ensure that a proportionate number of applicants that are "rural CDEs"—CDEs that principally serve nonmetropolitan counties—receive tax credits. Second, program officials attempt to ensure through consideration of applicants' commitments to invest in nonmetropolitan areas that at least 20 percent of the aggregate investments made with each round of NMTC allocations are made in eligible nonmetropolitan counties. With regard to the second goal, although public commentators suggested a variety of benchmarks for the minimum proportion to be committed to nonmetropolitan areas, program officials chose 20 percent because it approximated the percentage of the U.S. population that—according to the CDFI Fund's analysis—resided in nonmetropolitan counties.²⁰ Thus, in recent years, NMTC Program officials have used the review process to ensure proportionate selection on two levels—in terms of areas served and amount of investment committed in those areas.

For the current review process, the NMTC Program first selects a group of three external reviewers with demonstrated experience in business, real estate, or community development

¹⁸While not within the scope of this report, the CDFI Fund's Native American CDFI Assistance Program provides similar awards to CDFIs and organizations that serve economically distressed Native communities. According to the CDFI Fund, these organizations serve mostly rural communities. In 2009, the CDFI Fund also implemented a Capacity Building Initiative to provide technical assistance and training opportunities for CDFIs. The initiative also focuses on extending CDFI coverage to underserved communities, including a specialized focus in rural areas.

¹⁹Pub. L. No. 109-432, Div. A, Tit. I, § 102(b).

²⁰The NMTC Program applies the 1999 Office of Management and Budget bulletin definition of nonmetropolitan areas to 2000 data to determine eligibility. According to this classification system, 19.6 percent of the U.S. population lived in nonmetropolitan counties in 2000.

finance. Applications are scored on a scale of 100 points for sections on business strategy, community impact, management capacity, and capitalization strategy. Applicants also can receive up to 10 “priority” points by demonstrating a record of successful investment in disadvantaged communities or businesses and by investing in businesses unrelated to the applicant.²¹

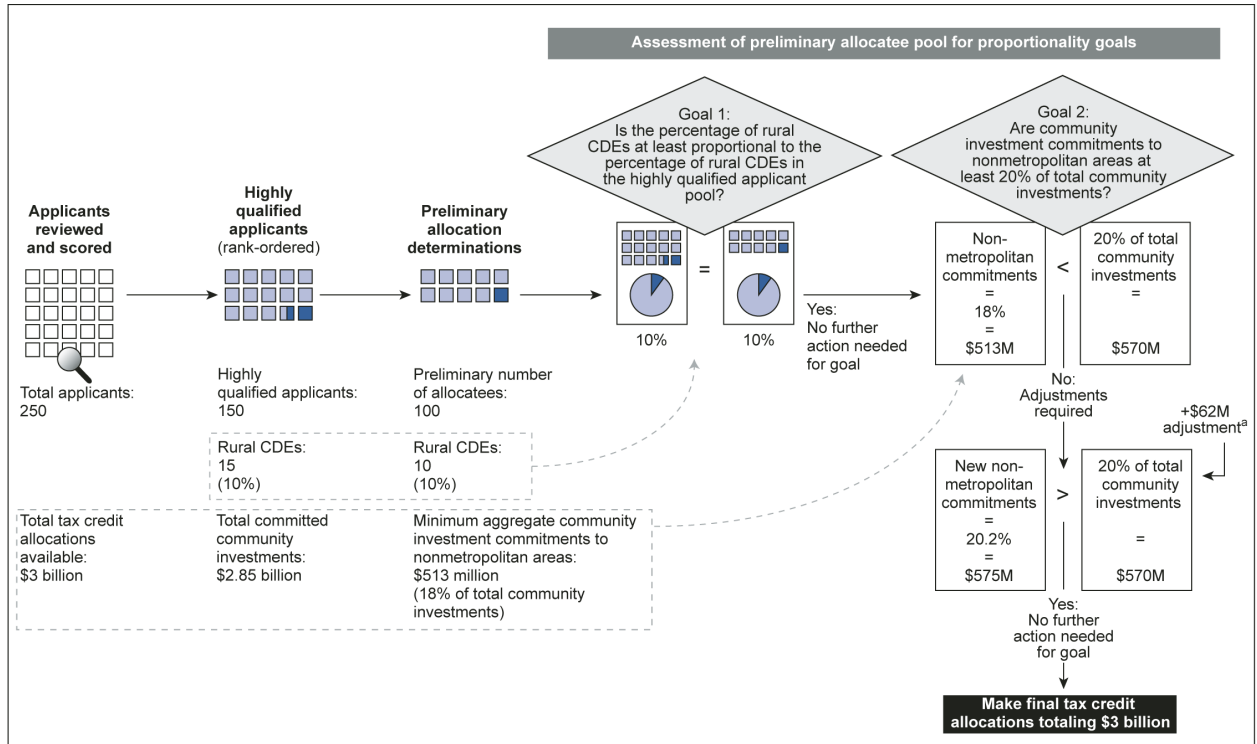
CDEs that meet or exceed an overall scoring threshold and a threshold in each of the four application sections listed previously advance to the second phase of the review, in which a panel of up to three NMTC Program officials determine—based on a final ranking score—which CDEs will receive allocations and how much they will receive. NMTC Program staff review the amount of tax credits that the CDEs requested and, based on the information in the application materials, award preliminary allocation amounts in the order of CDEs’ final ranking scores until the allocations are exhausted. Not all of the CDEs that satisfy the minimum application score thresholds receive allocations.²²

After making award decisions, the NMTC Program analyzes the allocatee pool to determine whether it has met the two proportionality goals. If the percentage of allocatees that are rural CDEs is not at least equal to the percentage of qualified applicants that are rural CDEs, the fund provides allocations to additional qualified rural CDEs from that pool in descending order of their final ranking score until it achieves the appropriate percentage balance. If necessary to accommodate the additional allocatees without exceeding the available tax credits, NMTC Program officials apply a reduction to all allocations to CDEs that have not committed to make at least 20 percent of their community investments in nonmetropolitan areas. For the second proportionality goal, all applicants must specify a minimum and maximum percentage of their community investments that they are willing to commit to nonmetropolitan areas. For example, an applicant might indicate that it will commit to making at least 15 percent but no more than 30 percent of its community investments in nonmetropolitan areas, while another applicant might indicate that it will make all of its community investments in metropolitan areas. NMTC Program officials calculate the minimum amount of community investments that all allocatees have committed to nonmetropolitan areas. If allocatees have not committed to making at least 20 percent of their aggregate community investments in nonmetropolitan areas, the NMTC Program can require allocatees to direct more investments—up to the maximum percentages they indicated in their applications—to nonmetropolitan areas. If, after applying the maximum percentages, the aggregate commitment to nonmetropolitan areas still does not equal at least 20 percent, the NMTC Program can award additional allocations to rural CDEs in descending order of their final ranking score, applying a formula reduction to all allocations for which allocatees have not committed at least 20 percent of investments to nonmetropolitan areas. Figure 2 illustrates the NMTC allocation process with a hypothetical example.

²¹The NMTC Program’s review process is similar to the CDFI program’s review process; see figure 1.

²²For a more-detailed description of the criteria used to evaluate NMTC Program applications, see GAO, *New Markets Tax Credit: Minority Entities Are Less Successful in Obtaining Awards Than Non-Minority Entities*, [GAO-09-536](#) (Washington, D.C., Apr. 30, 2009).

Figure 2: Illustration of the NMTC Program Allocation Process



Notes: This figure is an example of applying NMTC Program proportionality goals to hypothetical application information.

^aRequire any or all allocatees to direct additional community investments to nonmetropolitan areas (up to the maximum percentage they committed to in their applications). Based on track records and ability to deploy investments in nonmetropolitan areas, require eight allocatees to direct an additional \$62 million in community investments to nonmetropolitan areas.

To address potential challenges in implementing NMTC projects in nonmetropolitan communities, the NMTC Program gives rural CDEs an extra year to raise qualified equity investments and deploy the proceeds for community investments. Specifically, most CDEs must raise at least 20 percent of their qualified equity investments (in exchange for the tax credits that they can provide to investors) within 1 year after they receive their allocations, and they must deploy the proceeds of those qualified equity investments to qualified businesses within 1 year after raising the investments. However, rural CDEs receive an extra year to meet these requirements because of the potential difficulties in carrying out NMTC projects in nonmetropolitan areas. In particular, we have previously reported that CDEs can face challenges in using NMTCs to invest in smaller projects because transaction costs, such as legal fees or compliance monitoring costs, tend to be fixed (thus, smaller transactions would not incur lower transaction costs relative to the size of the project).²³ Because of high transaction costs, NMTC Program officials said that the minimum investment size of an NMTC transaction is commonly \$5 million to \$6 million. They explained that the federal tax structure related to the NMTC Program tends to benefit larger-size projects or deals. This structure may put CDEs that

²³GAO-10-334.

wish to invest in nonmetropolitan areas—where projects can be smaller than in metropolitan areas—at a disadvantage.²⁴

Both Programs Directed Most Awards and Tax Credits to Metropolitan Areas, but Generally Met Proportionality Goals for Nonmetropolitan Areas

The CDFI and NMTC Programs awarded the majority of funds and tax credits to recipients that served metropolitan areas, but both generally met their goals with regard to proportionality in nonmetropolitan areas. For both programs, we looked at the differences in the level of assistance provided to metropolitan and nonmetropolitan areas. Specifically, for each of the programs, we looked at the metropolitan and nonmetropolitan distributions of (1) awards and commitments, and (2) total portfolio outstanding (CDFI Program) and projects financed (NMTC Program).

CDFI Program

CDFI Program officials stated that they typically had been able to meet their goal of making awards proportionate to the number of qualified applicants that primarily serve nonmetropolitan areas. We analyzed the financial assistance award data for fiscal years 2004 through 2010 to determine the extent to which the CDFI Program met the geographic diversity goal. During this period, the proportion of awardees that primarily served nonmetropolitan areas equaled or exceeded the proportion of qualified applicants that served these areas every year except in 2008, when awardees serving nonmetropolitan areas represented 26 percent of all awardees compared with 35 percent of all qualified applicants (see table 4).

Table 4: Proportion of Qualified Applicants and Awardees Serving Nonmetropolitan Areas for CDFI Program, Fiscal Years 2004-2010

| Fiscal year | Qualified applicants | | | Awardees | | |
|-------------------|----------------------|--------------------------------------|--|----------|--------------------------------------|--|
| | Total | Number serving nonmetropolitan areas | Percentage serving nonmetropolitan areas | Total | Number serving nonmetropolitan areas | Percentage serving nonmetropolitan areas |
| 2004 ^a | 78 | 21 | 27% | 67 | 19 | 28% |
| 2005 | 124 | 37 | 30% | 48 | 17 | 35% |
| 2006 | 121 | 28 | 23% | 52 | 15 | 29% |
| 2007 | 119 | 26 | 22% | 49 | 11 | 22% |
| 2008 | 158 | 56 | 35% | 66 | 17 | 26% |
| 2009 | 337 | 89 | 26% | 121 | 33 | 27% |
| 2010 | 292 | 79 | 27% | 147 | 42 | 29% |

Source: GAO analysis of CDFI Fund data.

²⁴Under IRC §45D(g)(3), there is a recapture provision by which an investor can lose the right to claim the NMTC if certain conditions are not met throughout the seven-year period after the qualified equity investment is made. In its February 6, 2012 response to the CDFI Fund's Request for Public Comments on the NMTC Program, Novogradac and Company stated on behalf of the NMTC Working Group that the recapture provision increases transaction costs and discourages investments in specific types of businesses, including non-real estate businesses. The Internal Revenue Service recently indicated that non-real estate investments may be smaller than real estate investments, and it has proposed regulations that would modify the NMTC Program to facilitate and encourage investments in non-real-estate businesses in low-income communities. In addition, it requested comments on potential regulatory changes that would simplify the substantiation requirements in cases where CDEs invest qualified equity investment proceeds in other CDEs that then make smaller (i.e., less than \$250,000) loans to non-real-estate businesses in low-income communities.

Notes: The data in the table reflect the CDFI Program's financial assistance awards only. Data on technical assistance awards were not readily available within the time frames of this review. According to an official, recipients of technical assistance awards are more likely to serve nonmetropolitan areas. As a result, the percentages in the table are likely understated, but the extent of this difference is limited since the CDFI Program makes considerably fewer technical assistance awards compared with financial assistance awards.

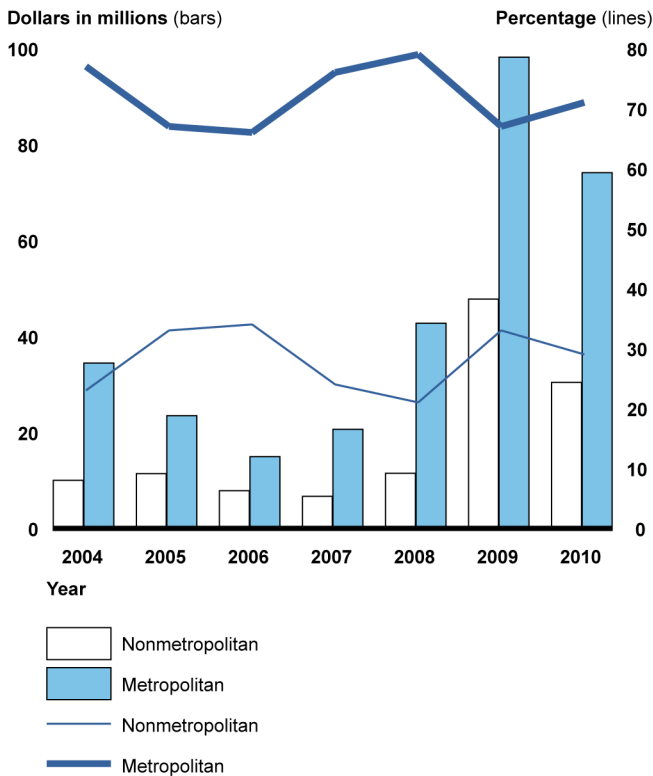
^aThe CDFI Program utilized a different scoring method for regular and Small and Emerging CDFI Assistance (SECA) applicants and a different applicant grouping process to categorize the two applicant types in fiscal year 2004. However, because applicants in 2004 still had to meet a minimum scoring threshold to be considered qualified, we believe that this does not significantly impact our analysis.

The total financial and technical assistance award amounts varied for CDFIs primarily serving nonmetropolitan areas.²⁵ From fiscal years 2004 through 2010, awards to CDFIs that indicated they primarily served nonmetropolitan areas totaled about \$126 million, or about 29 percent of the \$436 million in all awards for that period, compared with about \$311 million (71 percent) that went to CDFIs serving primarily metropolitan areas.²⁶ As shown in figure 3, the proportion of awards to these CDFIs varied considerably over the review period. However, it averaged just under 30 percent across that time period.

²⁵From fiscal years 2004 through 2010, the CDFI program awarded a total of \$436 million, of which approximately \$414 million (95 percent) was in financial assistance awards and \$23 million (5 percent) was in technical assistance awards. Dollar amounts have been rounded.

²⁶Amounts do not sum to \$436 million because of rounding. As part of the CDFI application for combined financial and technical awards, applicants select the primary geographic market they serve, although they may also serve a combination of metropolitan and nonmetropolitan markets.

Figure 3: Total Financial and Technical Assistance Award Amounts by CDFIs' Primary Service Area, Fiscal Years 2004-2010



Source: GAO analysis of CDFI Fund data.

Note: The increase in funding amount in the last 2 years of the period is a result of additional funding from the American Recovery and Reinvestment Act in 2009 and a higher appropriation in 2010 than in previous years.

For fiscal years 2004 through 2010, CDFIs' total loans and investments outstanding in nonmetropolitan areas annually averaged about 18 percent of their total portfolios outstanding, reflecting an increase to nonmetropolitan areas in recent years (see fig. 4). As stated earlier, CDFIs must report all of their loans and investments outstanding, which includes program awards combined with all of their other sources of funding.²⁷ From a low of about \$55 million in 2004, the dollar amount of CDFIs' total loans and investments outstanding in nonmetropolitan areas grew fivefold in 2005 and then increased steadily until 2009 and marginally decreased in 2010. From 2008 through 2010, CDFIs' total loans and investments outstanding in nonmetropolitan areas exceeded \$1 billion annually. As a percentage of CDFIs' total portfolios, the dollar amounts to nonmetropolitan areas remained fairly stable throughout this period. A similar trend occurred in metropolitan areas for the same period, as the total loans and investments outstanding increased fivefold from 2004 to 2005, steadily increased for 3 years,

²⁷ According to CDFI Fund officials, the Fund does not require certain types of financial institutions (for example, regulated depository institutions such as banks, bank holding companies, and credit unions) to report loan and investment data because call reports capture this information. In addition, technical assistance awardees are not required to submit detailed data because these awards are to be used for internal capacity-building activities rather than for financial and developmental services to the community. However, some of these awardees voluntarily submit the data to the CDFI Fund. For example, CDFI Fund officials stated that in fiscal year 2011, 21 of 37 regulated depository institutions, or about 57 percent, voluntarily submitted these data reports. They also stated that, in general, 70 percent of all financial and technical assistance awardees submit these reports, as do approximately 85 percent of all financial assistance awardees.

and plateaued at approximately \$4.3 billion annually from 2008 through 2010. CDFI Fund officials stated that the growth in both metropolitan and nonmetropolitan total loans and investments outstanding was a result of two factors. First, the overall level of CDFI Program awards increased substantially over the time period. In 2004, total financial and technical assistance awards were about \$46 million, and in 2010 the combined awards totaled almost \$105 million. Second, partly because of the increase in total awards, the size of the individual CDFIs' assets increased, as reflected by the number and amount of loans and investments made by reporting CDFIs. For example, the total portfolio outstanding for both metropolitan and nonmetropolitan CDFIs in 2004 was \$330 million, and the total portfolio outstanding in 2010 was over \$5 billion. See enclosure III for more details on CDFIs' loans and investments outstanding in nonmetropolitan areas, by state.

Figure 4: Total Dollar Amount and Number of CDFI Loans and Investments Outstanding in Metropolitan and Nonmetropolitan Areas, Fiscal Years 2004-2010

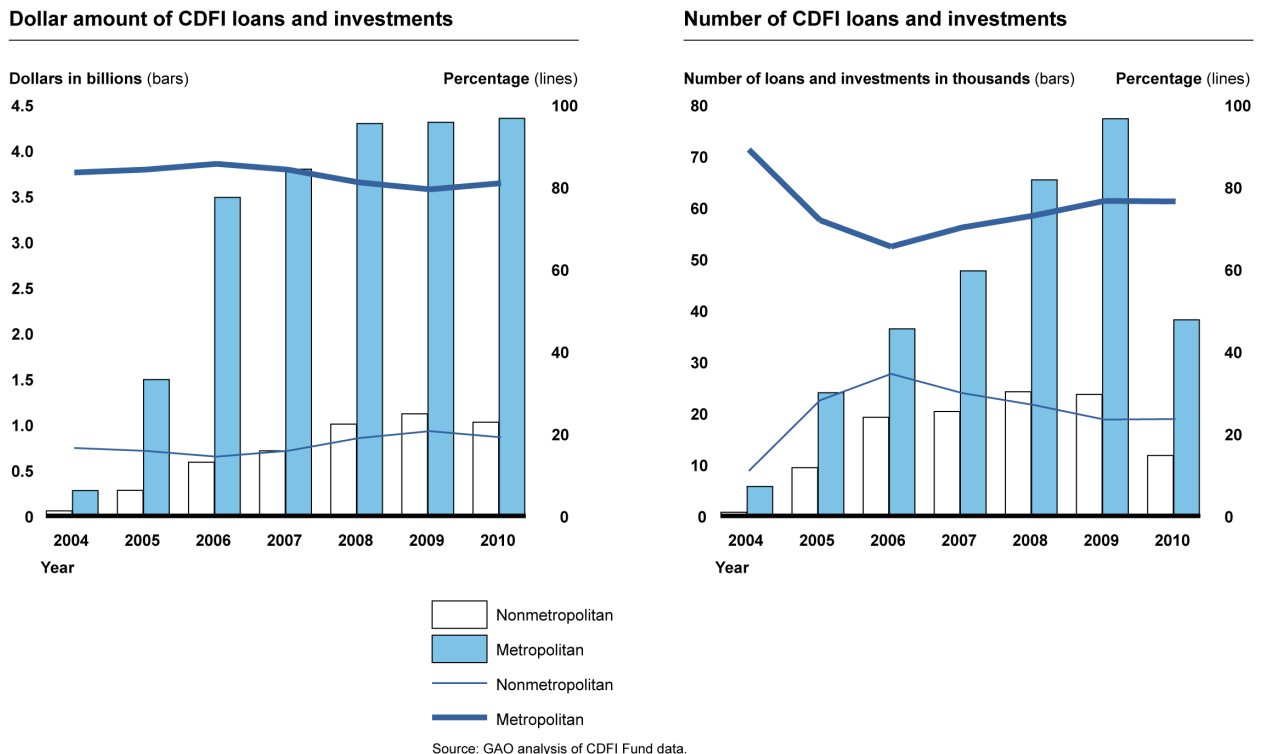


Figure 4 also shows the number of loans and investments that CDFIs made in metropolitan and nonmetropolitan areas from fiscal years 2004 through 2010. CDFIs made more than 290,000 loans and investments in metropolitan areas (73 percent) and more than 109,000 loans and investments in nonmetropolitan areas (27 percent) over the entire period. In addition, the proportion of loans and investments (27 percent) was greater than the proportion dollar amounts (18 percent) of those loans and investments in nonmetropolitan areas for the same period. The percentage of loans and investments in nonmetropolitan areas steadily decreased from its peak at 34 percent in 2006 to 23 percent in 2009.

NMTC Program

Policy changes to the NMTC Program have helped to ensure that about 20 percent of CDEs' community investments were committed to nonmetropolitan areas in recent years. Since the two goals related to the proportionality requirement were implemented in the 2008 funding round,

the NMTC Program has met the proportionality requirement. For the first proportionality goal, NMTC Program officials stated that they have been able to ensure that a proportional number of rural CDEs received tax credits and, for the second proportionality goal, that 20 percent of all NMTC community investments were committed to nonmetropolitan counties. From calendar years 2008 through 2011, rural CDEs received tax credits totaling almost \$2 billion. On the basis of their designation as rural CDEs, they were obligated to deploy at least 50 percent of this amount in nonmetropolitan areas. During the same time period, CDEs (including both rural and nonrural CDEs) committed to deploy more than \$3 billion, or 20 percent of total investments, in nonmetropolitan areas (see table 5). Data on investment commitments by areas served are not available prior to 2008 because the NMTC Program did not track this information.

Table 5: Total CDE Community Investment Commitments to Nonmetropolitan Counties, Calendar Years 2008-2011

Dollars in millions

| Calendar year | Total community investments | Number of CDEs making nonmetropolitan commitments ^a | Total investments committed to nonmetropolitan counties | Percentage of total investments committed to nonmetropolitan counties |
|-------------------|-----------------------------|--|---|---|
| 2008 ^b | \$4,895 | 60 | \$989 | 20% |
| 2009 | \$4,880 | 49 | \$971 | 20% |
| 2010 | \$3,409 | 46 | \$682 | 20% |
| 2011 ^c | \$3,526 | 34 | \$708 | 20% |
| Totals | \$16,710 | 189 | \$3,350 | 20% |

Source: GAO analysis of CDFI Fund data.

^aThe numbers in this column reflect only CDEs that committed to make a minimal percentage of their investments in nonmetropolitan counties, including rural CDEs. CDEs do not have to commit to investments in nonmetropolitan counties. However, if CDEs do so, they must uphold the commitments.

^bThere were two NMTC allocation rounds for applicants that applied in 2008: the regular NMTC annual allocation round and an additional allocation round authorized by the American Recovery and Reinvestment Act. Data in the 2008 row reflect both allocation rounds.

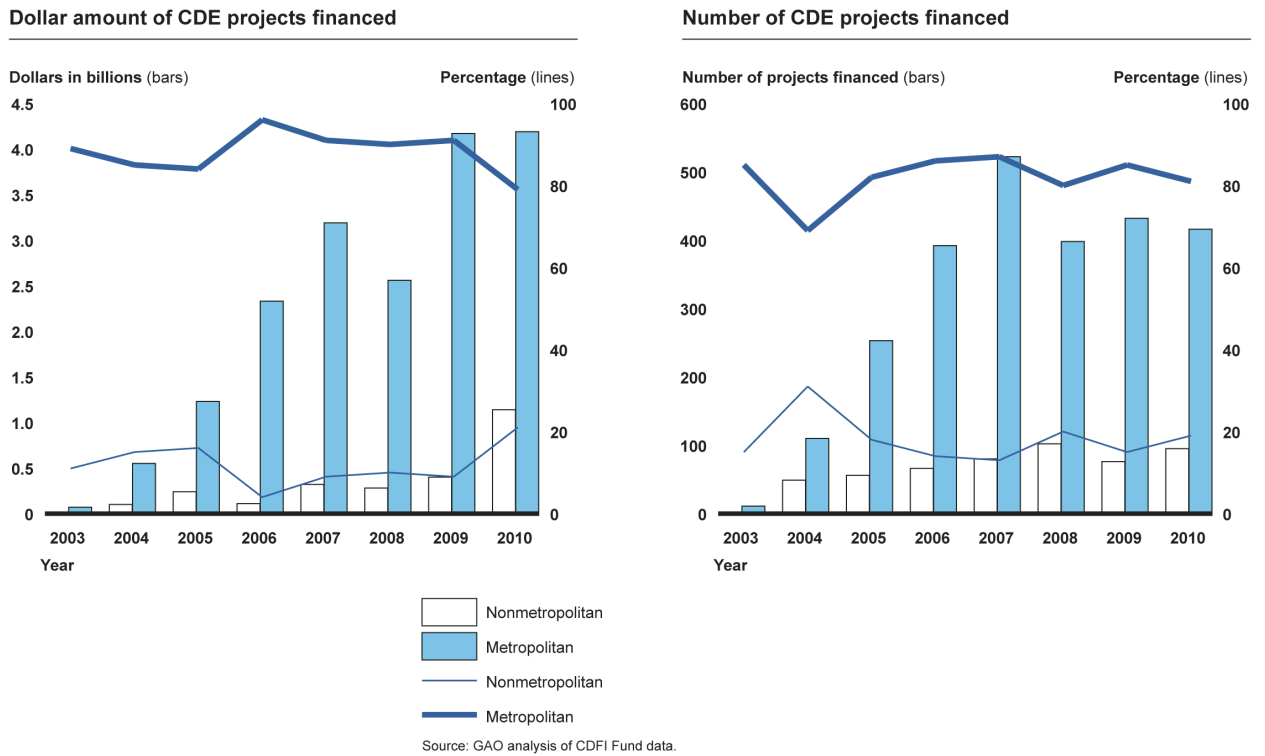
^cThe NMTC Program announced the results of the calendar year 2011 allocation round in February 2012 and provided publicly available data on tax credits to rural CDEs and overall investment commitments to nonmetropolitan counties.

Based on our review of annual data reported by CDEs through the fiscal year 2010 reporting period, the proportion of NMTC projects financed in nonmetropolitan areas varied from 2003 through 2010 but increased appreciably in 2010 following the 2008 policy change requiring proportional investments in these areas (see fig. 5).²⁸ From 2003 to 2005, the dollar amount of projects financed in nonmetropolitan areas increased from about \$9 million to \$239 million (or from 11 percent of total projects financed to 16 percent of total projects financed). During 2006 to 2009, the dollar amount of projects financed in nonmetropolitan areas fluctuated between a low of \$108 million to a high of \$401 million. In the last year of the review period, the dollar amount of projects financed in nonmetropolitan areas increased to over \$1 billion (or 21 percent of the total amount of projects financed). The dollar amount of projects financed in metropolitan areas also varied throughout the review period but totaled over \$4 billion in both fiscal years

²⁸The number of projects that CDEs financed in nonmetropolitan areas from fiscal years 2003 through 2010 remained relatively steady as a percentage of all projects financed (approximately 17 percent).

2009 and 2010. See enclosure IV for more details on CDEs' projects financed in nonmetropolitan areas, by state.

Figure 5: Dollar Amount and Number of CDE Projects Financed in Metropolitan and Nonmetropolitan Areas, Fiscal Years 2003-2010



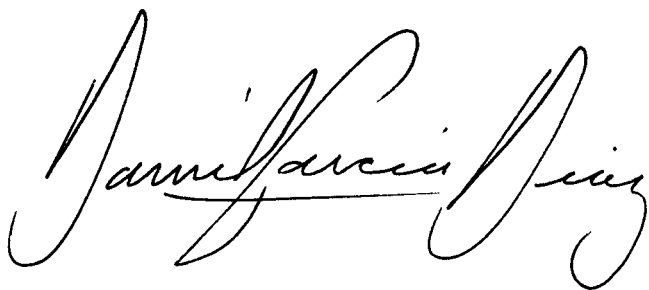
According to an NMTC Program official, for several reasons, NMTC Program data do not immediately reflect the increased investments in nonmetropolitan areas that would be expected to follow from the proportionality goals instituted in 2008. First, some of the 2008 awards were not closed until 2009 under the American Recovery and Reinvestment Act of 2009. Second, rural CDEs have an additional year to raise qualified equity investments and deploy the proceeds as community investments. Lastly, CDEs have up to 180 days after the end of their fiscal year to report to the CDFI Fund on projects financed. Consequently, in 2010, the data for projects financed in nonmetropolitan areas reflect a substantial increase following from the 2008 policy change.

Agency Comments and Our Evaluation

We provided a draft of this report to the Secretary of the Treasury for review and comment. In its written comments, reproduced in enclosure V, Treasury concurred with the report's observations regarding the process and distribution of assistance to metropolitan and nonmetropolitan areas for both programs. Treasury also provided technical comments that we incorporated into the report, as appropriate.

We are sending copies of this report to the appropriate congressional committees and the Secretary of the Treasury. In addition, the report is available at no charge on the GAO website at <http://www.gao.gov>.

If you or your staff have any questions about this report, please contact me at (202) 512-8678 or garcia Diaz@gao.gov. Contact points for our Offices of Congressional Relations and Public Affairs may be found on the last page of this report. GAO staff who made key contributions to this report are listed in enclosure VI.

A handwritten signature in black ink, reading "Daniel Garcia-Diaz". The signature is written in a cursive style with a horizontal line underlining the name.

Daniel Garcia-Diaz
Acting Director, Financial Markets
and Community Investment

Enclosures

Enclosure I: Objectives, Scope, and Methodology

The objectives of this report were to assess (1) how the Community Development Financial Institutions (CDFI) Fund awards funds and allocates tax credits to recipients and how program policies affect the amount of funding and tax credits to metropolitan and nonmetropolitan areas, and (2) the extent to which the amounts of program awards and allocations that recipients receive differ in metropolitan and nonmetropolitan areas.

To address the first objective, we reviewed the CDFI and New Markets Tax Credit (NMTC) Programs' policies and procedures for distributing financial and technical assistance awards and tax credits to certified CDFIs and community development entities (CDE), respectively. We reviewed how the programs' policies and procedures considered and weighed applicants' geographic location in making funding and tax credit allocation decisions. We also reviewed annual notices of funding and allocation availability, reports on annual awards and allocations, applicable laws and regulations, prior GAO reports, and other documentation. We further reviewed the CDFI Fund's guidance for certifying CDFIs and CDEs because financial institutions generally must apply to the CDFI Fund for certification as CDFIs or CDEs before they can apply for CDFI awards or NMTC allocations, respectively. We also obtained program data to determine the numbers of approved and denied applicants for CDFI and CDE certification. The CDFI certification data covered fiscal years 2004 through 2010 and the CDE certification data covered calendar years 2003 through 2010. We reviewed lists of all certified CDFIs and CDEs as of February 29, 2012, from the CDFI Fund's website. We also interviewed CDFI Fund officials.

Both programs used varying terms to describe geographic areas such as urban and rural areas. To simplify presentation of geographic designations and develop consistent terminology for use in our report, we consulted with agency officials and agreed to report information using "metropolitan" and "nonmetropolitan" categories. Specifically, the CDFI and NMTC Program applications require applicants to indicate the types of geographic areas they primarily serve—major urban, minor urban, or rural.²⁹ For CDFI and NMTC Program applicants and awardees that indicated they served primarily major or minor urban areas, we reclassified them as serving metropolitan areas. For applicants and awardees that indicated they served primarily rural areas, we reclassified them as serving nonmetropolitan areas. The transaction-level data we received on CDFIs' loans and investments outstanding and CDEs' projects financed already were presented in metropolitan and nonmetropolitan terms and therefore did not require reclassification.

To address the second objective, we compared program data for metropolitan and nonmetropolitan areas on (1) the number of CDFIs that received awards by primary geographic service area, (2) the total amounts of awards and allocations CDFIs and CDEs received, and (3) the total amounts of funding and investments deployed. We reviewed CDFI and NMTC Program documentation to better understand each program's proportionality goal. We conducted interviews with program officials, including the CDFI Fund Office for Financial Strategies and

²⁹According to the CDFI Fund, a major urban area is a metropolitan statistical area with a population equal to or greater than 1 million, including both central city and surrounding suburbs. A minor urban area is a metropolitan statistical area with a population of more than 50,000 and less than 1 million, including both central city and surrounding suburbs. A rural area is any area not contained in a major or minor urban area. In the NMTC Program application, applicants must indicate whether they serve major urban, minor urban, or nonmetropolitan areas.

Research and Office of Certification, Compliance Monitoring and Evaluation to discuss the data captured by the various databases.

Analysis of CDFI Program Awards

The CDFI Program regulations require that awardees represent a geographically diverse group serving metropolitan and nonmetropolitan areas. To assess the CDFI Program's progress toward its geographic diversity goal, we analyzed the proportion of qualified applicants to the proportion of CDFI awardees serving nonmetropolitan areas for fiscal years 2004 through 2010. From the CDFI Program, we obtained financial assistance application and award data on the total number of qualified applicants and awardees. We calculated the percentage of qualified applicants and awardees serving nonmetropolitan areas. We used financial assistance award data and not technical assistance award data in our analysis of the geographic diversity goal because of time constraints to collect the qualified applicant data broken down by primary areas served. Our analysis of overall award data indicated that recipients of technical assistance awards are slightly more likely to serve nonmetropolitan areas. As a result, our discussion of proportionality in the CDFI Program may understate the percentage of awards that went to CDFIs serving nonmetropolitan areas. However, the extent of this difference is limited since the CDFI Program makes fewer technical assistance awards than financial assistance awards. CDFI Program officials told us that in fiscal year 2004, they used a different scoring method and a different applicant grouping process to categorize regular and Small and Emerging CDFI Assistance (SECA) applicants.³⁰ We note these differences in our presentation of the 2004 data on proportions of qualified CDFI Program applicants and awardees serving nonmetropolitan areas.

To assess the primary geographic areas that CDFIs reported they served, we analyzed CDFI Program data on award amounts for financial and technical assistance by CDFIs' reported primary geographic market served (metropolitan and nonmetropolitan). We obtained historical application and award data from the CDFI Fund on awardee, primary geographic market, amount of technical assistance funding, and amount of financial assistance funding for fiscal years 2004 through 2010. The applications for financial and technical assistance capture the primary geographic market variable. Applicants can serve a combination of geographic markets (metropolitan or nonmetropolitan) but can self-select the geographic market that they primarily serve. Because applicants choose only one area as "primarily" served, the data do not necessarily capture where CDFIs ultimately make loans and investments or capture CDFIs that self-identify as primarily serving metropolitan areas but also make loans and investments in nonmetropolitan areas. Therefore, we cannot say with certainty that CDFIs invest all of their awards in the areas that they select as their primary geographic markets. In addition, for 2004, data on the primary geographic market for technical assistance applicants were not readily available because the 2004 applications were paper based. As a result, we did not include 100 awardees from 2004 in our data set. In addition to these limitations, the data do not reflect de-obligation of awards completed before May 2008 because the CDFI Fund did not have any electronic system to record de-obligations before that time.

³⁰The SECA category allows CDFIs with assets of less than a certain amount or in operation for fewer than 5 years to apply separately from larger and more established (regular) CDFIs. From fiscal years 2004 through 2010, SECA applicants received approximately 13 percent of the total dollar amount of financial assistance awards, while regular applicants received approximately 87 percent of financial assistance funding.

To assess the amounts and number of investments and loans that CDFIs deployed to metropolitan and nonmetropolitan areas, we obtained transaction-level program data. Our review focused on fiscal years 2004 through 2010, for which complete transaction-level data were available for individual transactions (for example, a loan made to a local business) from the Community Investment Impact System (CIIS) database. We obtained aggregate data on the number and dollar amount of loans and investments outstanding, as well as the percentage of transactions and percentage of dollars outstanding by year and metropolitan status. There are two main limitations to the data set. First, the transaction-level data for the CDFI Program represent CDFIs' loans and investments outstanding (to which we also refer as total portfolio outstanding) at the end of each reporting year and reflect CDFI Program awards combined with the CDFIs' other funding sources. Therefore, the data do not allow us to identify which loans and investments resulted directly from CDFI Program awards. In addition, the program does not require certain types of financial institutions (for example, regulated depository institutions such as banks, bank holding companies, and credit unions) to report loan and investment data because bank call reports (quarterly reports that collect basic financial data from commercial banks) already capture this information. Technical assistance awardees also are not required to submit transaction-level reports because these awards are intended for internal capacity-building activities rather than for providing financial and developmental services to the community. However, some of these CDFIs voluntarily submit transaction-level data to the CDFI Fund. For example, program officials stated that in fiscal year 2011, 21 of 37 regulated depository institutions, or about 57 percent, voluntarily submitted these data reports. They also stated that, in general, 70 percent of all financial and technical assistance awardees submitted these reports, as did approximately 85 percent of all financial assistance awardees. But because not all CDFI awardees must report transaction-level data, we cannot generalize the findings to the entire CDFI awardee population.

Analysis of NMTC Program Allocations

The NMTC Program ensures that a proportionate number of applicants that are "rural CDEs"—CDEs that principally serve nonmetropolitan areas—receive tax credits. It also attempts to ensure that at least 20 percent of the aggregate investments made with each round of NMTC allocations are made in eligible nonmetropolitan areas. To describe the extent to which the NMTC Program allocated tax credits to rural CDEs, we reviewed annual allocation reports. To assess the extent to which the NMTC Program has met the proportionality goal for investments in nonmetropolitan areas, we analyzed the total CDE community investments to nonmetropolitan areas for calendar years 2008 through 2011. Using the annual NMTC Program allocation reports, we compiled data on total funding, the number of CDEs making investments in nonmetropolitan areas, and total investments committed to nonmetropolitan areas for the years the policy was in place (from 2008). We calculated the percentage of the total investments committed to nonmetropolitan areas and present the data in terms of calendar years because the program conducts its allocation rounds on a calendar year basis.

To assess the amounts and number of investments and loans that CDEs deployed to metropolitan and nonmetropolitan areas, we analyzed the dollar amount and number of CDE projects financed in metropolitan and nonmetropolitan areas for fiscal years 2003 through 2010. The NMTC Program provided us with aggregate transaction-level data on the total amount of qualified low-income community investment and with the metropolitan statistical area and combined metropolitan statistical area of the project location (MSACMSA code). To sort the data by metropolitan and nonmetropolitan, we created a new variable based on the MSACMSA code. We calculated the percentage of dollars and percentage of community investments for fiscal years 2003 through 2010. We present this information in terms of fiscal years because this is how the NMTC Program collects the data.

For all the analysis on CDFI and NMTC programs, we used data obtained from the CDFI Fund's CIIS and internal certification, application, and award databases. We conducted a reliability assessment of the data by reviewing documentation from the CDFI Fund and its data contractor, Kearney & Company, which maintains and manages the CIIS database. Specifically, we reviewed their processes for ensuring consistent data entry and for addressing potentially inaccurate data. We also interviewed officials from the CDFI Fund to address questions about the reliability of the information and checked the data for extreme values and missing data points. We found the data to be sufficiently reliable for our purposes.

We conducted this performance audit from January to April 2012 in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

Enclosure II: Certified CDFIs and CDEs by State or Territory as of February 29, 2012

Figure 6 lists all certified Community Development Financial Institutions (CDFI) and Community Development Entities (CDE) as of February 29, 2012. The numbers of CDEs represent both the applicant CDEs and their subsidiaries, which are legal entities that applicant CDEs own or directly control and to which CDEs can transfer all or part of their allocation authority.

Figure 6: Certified CDFIs and CDEs by State or Territory as of February 29, 2012

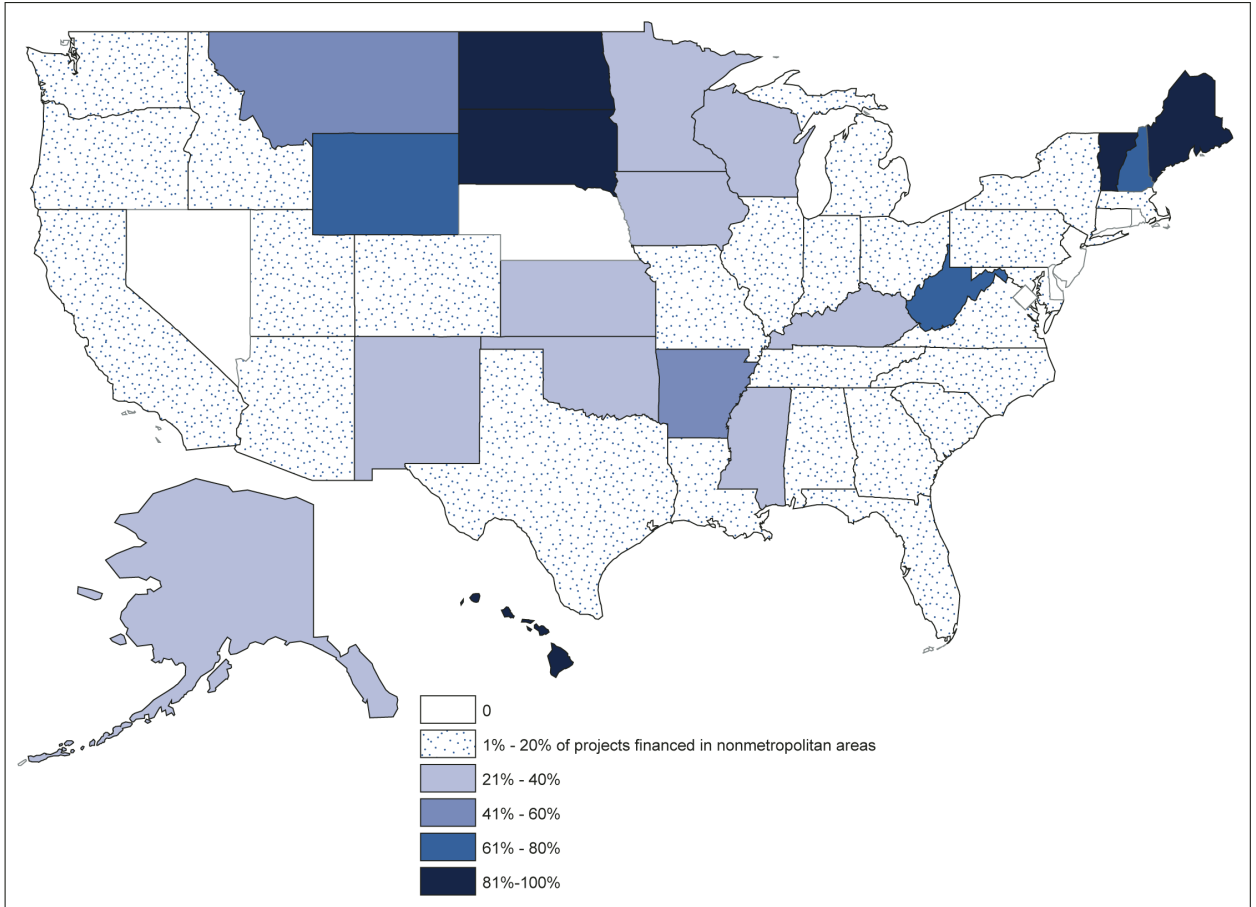
| States and territories | CDFIs | CDEs | |
|---------------------------|------------|------|--------------|
| Alabama | 20 | | 45 |
| Alaska | 10 | | 18 |
| American Samoa | 0 | 0 | 0 |
| Arizona | 17 | | 69 |
| Arkansas | 9 | | 32 |
| California | 86 | | 475 |
| Colorado | 14 | | 105 |
| Connecticut | 15 | | 40 |
| Delaware | 3 | | 17 |
| District of Columbia | 19 | | 196 |
| Florida | 24 | | 148 |
| Georgia | 23 | | 96 |
| Guam | 1 | 0 | 0 |
| Hawaii | 23 | | 22 |
| Idaho | 4 | | 4 |
| Illinois | 42 | | 207 |
| Indiana | 8 | | 165 |
| Iowa | 8 | | 70 |
| Kansas | 1 | | 10 |
| Kentucky | 14 | | 68 |
| Louisiana | 31 | | 374 |
| Maine | 11 | | 66 |
| Maryland | 18 | | 224 |
| Massachusetts | 30 | | 196 |
| Michigan | 19 | | 117 |
| Minnesota | 38 | | 108 |
| Mississippi | 38 | | 57 |
| Missouri | 12 | | 334 |
| Montana | 17 | | 28 |
| Nebraska | 5 | | 20 |
| Nevada | 3 | | 11 |
| New Hampshire | 3 | | 14 |
| New Jersey | 16 | | 97 |
| New Mexico | 12 | | 25 |
| New York | 80 | | 486 |
| North Carolina | 21 | | 96 |
| North Dakota | 6 | | 2 |
| Northern Marianas Islands | 0 | 0 | 0 |
| Ohio | 24 | | 206 |
| Oklahoma | 18 | | 67 |
| Oregon | 19 | | 103 |
| Pennsylvania | 34 | | 220 |
| Puerto Rico | 11 | | 17 |
| Rhode Island | 4 | | 4 |
| South Carolina | 10 | | 77 |
| South Dakota | 16 | | 33 |
| Tennessee | 17 | | 61 |
| Texas | 40 | | 174 |
| Utah | 5 | | 12 |
| Vermont | 6 | | 16 |
| Virgin Islands | 1 | 0 | 1 |
| Virginia | 19 | | 201 |
| Washington | 24 | | 77 |
| West Virginia | 4 | | 12 |
| Wisconsin | 20 | | 177 |
| Wyoming | 4 | | 0 |
| Total | 977 | | 5,500 |

Source: GAO analysis of CDFI Fund data.

Enclosure IV: CDEs' Percentages of Projects Financed in Nonmetropolitan Areas by State, Fiscal Years 2003-2010

We obtained data from the NMTM Program on the dollar amount of projects financed by CDEs by state and nonmetropolitan status for fiscal years 2004 through 2010. Figure 8 represents the percentage of projects financed in nonmetropolitan areas in each state over this time period.

Figure 8: CDEs' Percentages of Projects Financed in Nonmetropolitan Areas by State, Fiscal Years 2003-2010



Source: GAO analysis of CDFI fund data; map (MapInfo).

Enclosure V: Comments from the Department of the Treasury



DEPARTMENT OF THE TREASURY
COMMUNITY DEVELOPMENT FINANCIAL INSTITUTIONS FUND
601 THIRTEENTH STREET, NW, SUITE 200 SOUTH
WASHINGTON, DC 20005

April 18, 2012

Mr. Daniel Garcia-Diaz
Acting Director, Financial Markets and
Community Development
U.S. Government Accountability Office
441 G Street, N.W.
Washington, D.C. 20548

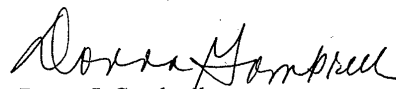
Dear Mr. Garcia-Diaz:

Thank you for providing the Community Development Financial Institutions (CDFI) Fund with the opportunity to comment on the draft GAO report, "Community Development Financial Institutions and New Markets Tax Credit Programs in Metropolitan and Nonmetropolitan Areas" required under House Report 112-136, referenced by the Consolidated Appropriations Act of 2012.

As always, we appreciate your team's familiarity with the programs that are administered by the CDFI Fund. The CDFI Fund concurs with the observations made by the GAO regarding the process and distribution of assistance to metropolitan and nonmetropolitan areas. Therefore, we have only a few edits we would like the GAO to take into consideration (please see attachment).

Thank you again for the opportunity to review and comment upon your draft report. We appreciate your efforts and collaboration during this review. Please do not hesitate to contact me or my staff should you wish to have any further discussion on the draft report.

Sincerely,


Donna J. Gambrell
Director

Attachment: CDFI Fund Comments

Enclosure VI: GAO Contact and Staff Acknowledgments

GAO Contact

Daniel Garcia-Diaz, (202) 512-8678 or garciadiazd@gao.gov

Staff Acknowledgments:

In addition to the contact named above, Paul Schmidt, Assistant Director; William R. Chatlos; Elizabeth Jimenez; Marc Molino; Patricia Moye; Lisa Reynolds; and Barbara Roesmann made key contributions to this report.

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