New Markets Tax Credit

A Progress Report

A Report by the New Markets Tax Credit Coalition

May 2005

New Markets Tax Credit Coalition

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This report was prepared by Rapoza Associates for the New Markets Tax Credit Coalition. Bob Rapoza, Alison Feighan, Keith Bisson, and Jonathan Halpern contributed to the report.

The New Markets Tax Credit (NMTC) Coalition is a national membership organization that advocates on behalf of the NMTC program. The Coalition is managed by Rapoza Associates, a public interest lobbying and government relations firm located in Washington D.C. that specializes in providing comprehensive legislative and support services to community development organizations, associations and public agencies.

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New Markets Tax Credit

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Introduction

The purpose of this report is to provide policymakers with an update on the implementation of the New Market Tax Credit (NMTC) program. This report was prepared by the New Markets Tax Credit Coalition, a national membership organization that advocates on behalf of the Credit.

The NMTC program was enacted in December 2000 as part of the Community Renewal Tax Relief Act. The purpose of the Credit is to stimulate increased investment and economic growth in low-income communities. It offers a seven-year, 39% federal tax credit for Qualified Equity Investments (QEIs) made through investment vehicles known as Community Development Entities (CDEs). CDEs use capital derived from tax credits to make loans to or investments in businesses and projects in low-income communities.

A CDE is a domestic corporation with a track record in community development, which is accountable to low-income communities. An example of a CDE is a Community Development Corporation, a Community Development Financial Institution, a private financial institution or a Small Business Investment Company. Non-profit organizations participating in the NMTC typically establish for-profit subsidiary corporations to take equity investments related to the New Markets Tax Credit.

The NMTC program is administered by the United States Department of Treasury through its Community Development Financial Institutions (CDFI) Fund.

Beginning in the fall of 2004, the Coalition conducted a survey (See Appendix A) of how Community Development Entities receiving first-round NMTC allocations are using the Credit to raise and deploy capital in economically distressed areas. Twenty-nine first-round allocatees responded to the survey, and their responses are described in the following pages.

This report also includes eight case studies highlighting transactions made possible with NMTC financing and the creative partnerships forged between CDEs and investors.

The twenty-nine CDEs surveyed are among the ‘pioneers’ of the NMTC program. These 29 CDEs received nearly $1.3 billion, or 52%, of the total $2.5 billion in NMTC allocations awarded in 2003. Allocations to the CDEs in this group range from $1 million to a small rural bank to $162.5 million to a large CDE with a national service area. The average allocation among survey respondents was $44.8 million. These CDEs are a diverse group representing programs targeted directly to twenty states and the District of Columbia. Eleven of the survey respondents have a national service area.

While the CDFI Fund announced Round I NMTC awards in spring of 2003, most CDEs did not finalize allocation agreements until the fall of 2003. So, information collected in the survey represents a relatively short time period for actual implementation of the New Markets program.

A timeline of the New Markets Tax Credit Program is included in Appendix B.

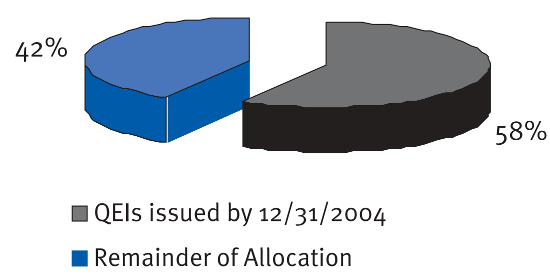
Survey Findings

Progress Issuing Qualified Equity Investments

CDEs secure equity investments from investors in the form of Qualified Equity Investments (QEIs), which are made in exchange for tax credits. Community Development Entities (CDEs) then take cash from the QEIs and make loans and investments in businesses and projects in low-income communities.

Under NMTC rules CDEs have five years from the time they receive tax credit allocations to issue QEIs. The survey found that CDEs are making much faster progress in marketing the Credit and securing qualified equity investments.

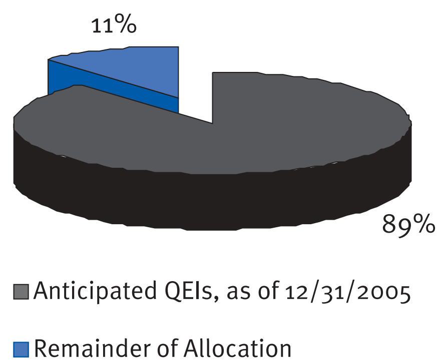
Chart 1:
Qualified Equity Investments Issued



Source: Survey respondents.

In the fall of 2003, the CDEs surveyed received a total of approximately $1.3 billion in New Markets Tax Credits. By the end of 2004, CDEs had issued QEIs totaling $756 million or 58% of their total allocations (Chart 1). By the end of 2005, QEIs are expected to reach $1.15 billion, 89% of the total allocation (Chart 2).

Chart 2:
Anticipated Qualified Equity Investments



Source: Survey respondents.

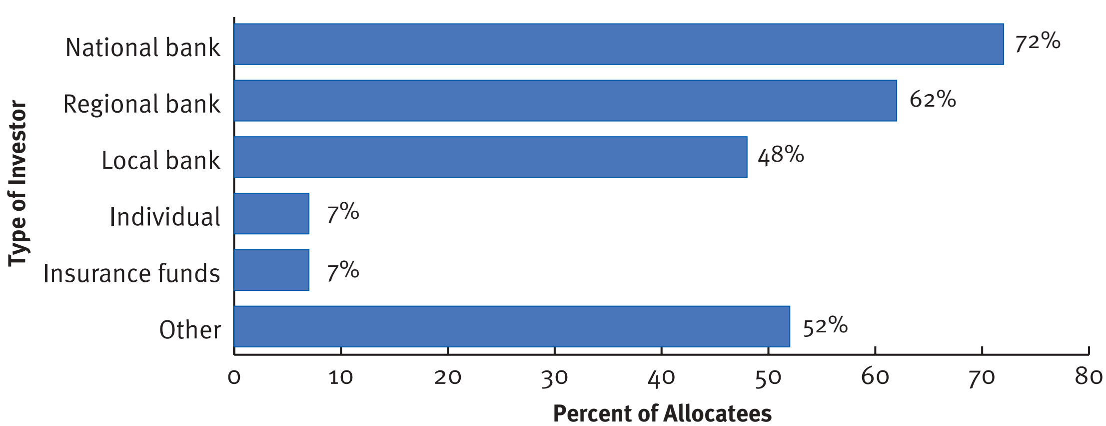
Chart 3 indicates that national banks represent the largest group of investors and potential investors (72%), followed by regional banks (62%), 'other' investors (52%), and local banks (48%). 'Other' investors include a range of entities such as financial services corporations, insurance companies, government entities, philanthropies, community development financial institutions, pension funds, non-regulated corporate finance entities, and other investment pools managed by investment banks.

The prevalence of national banks as investors is partly due to the requirements of the Community Reinvestment Act (CRA), which requires depository institutions to address the credit needs of the communities in which they operate, including low- and moderate-income neighborhoods.

The survey also shows that local and regional banks are active investors in the NMTC. Their investments are significant because it reveals that these banks see the Credit as an opportunity to reach new markets in their service areas.

Nearly half (45%) of the survey respondents are using leveraged investments as part of their NMTC strategy. In August 2003, the IRS issued guidance on leveraged investments for the

Chart 3:
Investors and Potential Investors by Category



Source: Survey respondents (NB: some CDEs have multiple investors)

NMTC program. In its simplest form, a leveraged investment is one in which debt and equity are combined by an investor to make a Qualified Equity Investment (QEI) in a CDE.

For example, a CDE may establish an investment LLC in order to receive investments from individuals or corporations. Upon receiving the equity investments, the investment LLC borrows from a pension fund or non-profit organization that does not have federal tax liability. The investment LLC then combines the equity from investors and the loan capital to make a QEI in a CDE. The investment LLC receives Credits on the entire investment, along with any other return on the QEI. Of course, at the end of the loan period the LLC must satisfy the loan.

Leveraged investments have two principal benefits. First, this arrangement typically provides a higher rate of return to the investor on equity. Second, it allows entities without federal tax liability as well as entities with loan capital to participate in the NMTC program.

Progress Deploying NMTC Capital

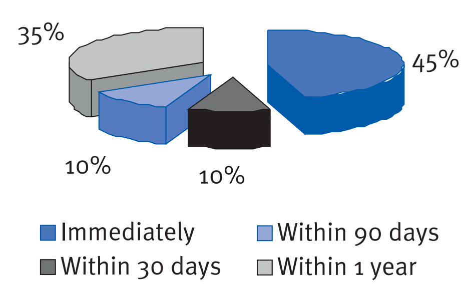
The law requires efficient deployment of the investment capital raised with the New Markets Tax Credit. Within one year of receiving QEIs, CDEs must have 'Substantially All' (at least 85%) of those funds deployed in Qualified Low-Income Community Investments (QLICIs).

The law provides that a Qualified Low-income Community Investment can take the form of: (1) a loan or investment in a qualified business; (2) the purchase of a qualified loan from another CDE; (3) financial counseling to businesses or residents in a low-income community; and 4) loans or equity investments in another CDE.

CDEs responding to the survey are getting loans and investments into the field at a faster rate than required by law. In 2004, CDEs deployed two-thirds of QEIs as QLICIs within 90 days. By the end of 2004 these CDEs deployed nearly $622 million in low-income communities. CDEs anticipate that, by the end of 2005, 94% of the capital raised through QEIs will be in business deals in economically distressed areas (Charts 4 and 5).

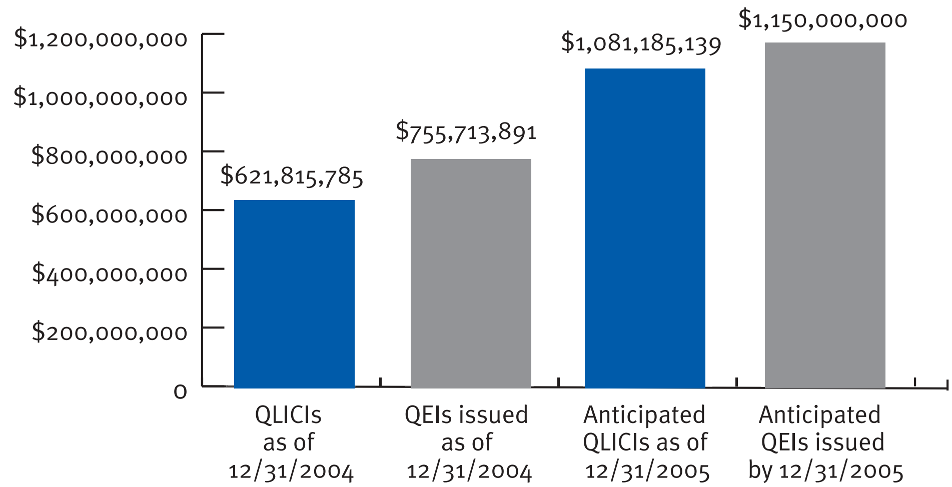
These CDEs made a total of 192 loans and investments with an average size of $3.2 million. Since CDEs have had only one year to use the NMTC as a financing tool, the rapid deployment of their allocation is particularly impressive.

Chart 4:
Time Required to Deploy Capital



Source: Survey respondents.

Chart 5:
Capital Deployment



Source: Survey respondents

NMTC Financing Products

The NMTC is emerging as an important economic development tool and survey responses indicated that CDEs are taking advantage of the Credit's flexibility to provide a range of financing products not otherwise available in the marketplace — or at least not available to businesses operating in the low-income communities targeted by CDEs.

By law, NMTC financing can be deployed by a CDE as a loan or investment to a qualified business, a loan or investment in another CDE, as a purchase of a loan from another CDE, or financial counseling to a qualified business. Neither the law nor the regulations dictate the terms of a CDE loan or investment product. It is up to the CDE to develop loan and investment products that meet the needs of the businesses operating in the low-income areas targeted. The survey revealed that CDEs are developing financial products that are otherwise not available to these businesses in the marketplace. The products include:

- Debt, subordinated debt, and debt with equity features;
- Mezzanine financing;
- Equity products; and
- Venture capital.

The more favorable terms and conditions offered on debt products include below-market interest rates, extended amortization schedules, higher than standard loan-to-value ratios, and lower than normal debt service coverage ratios.

One of the most common trends in NMTC debt financing is the provision of seven-year, interest-only loans structured with a balloon payment after year seven. Most of these loans are amortized over a longer period (20 to 30 years) thus reducing the payments for the borrower. In the majority of cases the CDE has committed to working with the business borrower after the seven-year term expires to refinance or secure new financing elsewhere. This structure has emerged within the NMTC industry for two principal reasons. First, the interest-only loan provides borrowers with flexible, patient capital with which to grow. Secondly, the structure enables the CDE to conform to NMTC programmatic requirements — namely the statutory requirement that 'substantially all' of its QEI remain invested in qualified businesses for the full seven-year credit term. The interest-only debt instrument ensures that the CDE's equity remains in the qualified business for the full term

The survey finds that three of the respondents are using their NMTC allocation to provide equity products to businesses in tandem with the Historic Tax Credit on qualifying real estate projects. According to one such respondent, using the NMTC and the Historic Tax Credit together allows investors to put more equity into projects. This additional equity effectively lowers the amount of debt financing for the project, which can stabilize the economics of marginal properties. In some cases, the additional equity is used to fill gaps in project development budgets, which are often higher in urban rehabilitation projects located in weak markets and with higher costs of rehabilitation. By filling this gap, many projects can move forward that otherwise would not have come to fruition.

Two respondents are using the NMTC in venture capital transactions. One is employing 10% of its allocation in venture capital products, and has created a product that enables it to make equity investments in firms when an equity infusion is more appropriate than straight debt financing. A second CDE is using 100% of its allocation for venture capital in conjunction with the New Markets Venture Capital Program, which is managed by the Small Business Administration. The fund has made several investments and is essentially operating as a traditional community development venture capital fund.

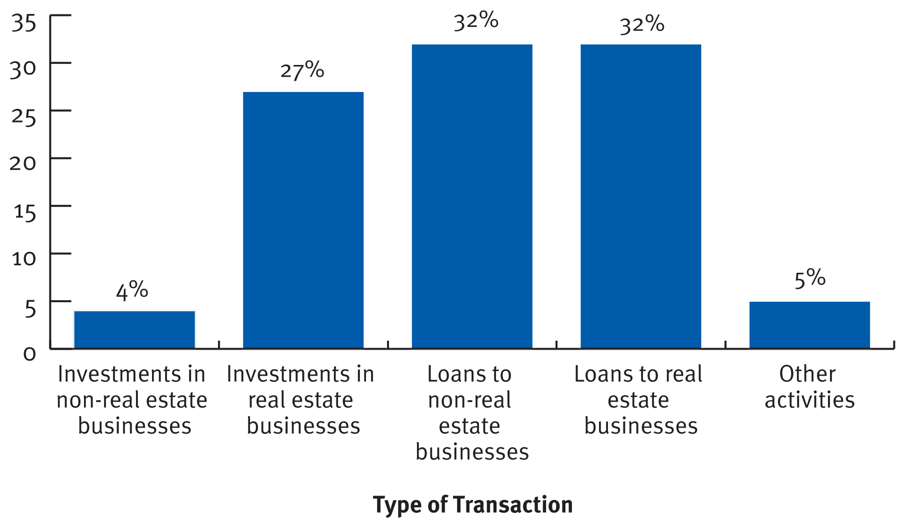
Types of Loans and Investments

The survey showed that CDEs are financing a full range of businesses, including start-ups and expanding businesses, community facilities, office developments, neighborhood retail, and mixed-use projects.

Almost all of the NMTC financing reported was in the form of loans or investments in real estate and non-real estate businesses. The survey respondents reported that approximately 5% of their NMTC transactions completed by the end of 2004 were in other qualified investments activities such as purchasing of loans from other CDEs, financial counseling, and loans or investments in other CDEs (Charts 6 and 7).

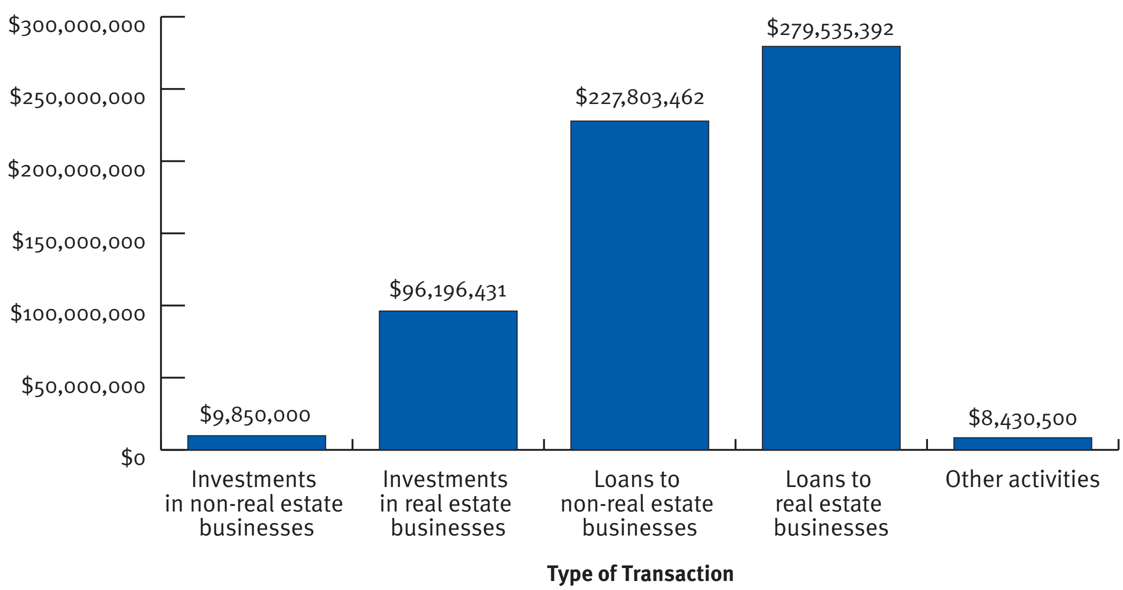
For purposes of the NMTC program the CDFI Fund defines a real estate business as a business that is principally engaged in the development of a specific real estate project or projects. A CDE could deploy its NMTC financing to assist a business to develop or expand a facility but as long as that business is involved in a range of business activities, not strictly real estate development, then the business would be booked as a non-real estate business for purposes of the NMTC. This is an important distinction to keep in mind in reviewing NMTC transactions.

Chart 6:
Type of Transaction as Percentage of Overall Transactions



Source: Survey respondents
Transactions completed by 12/31/04.

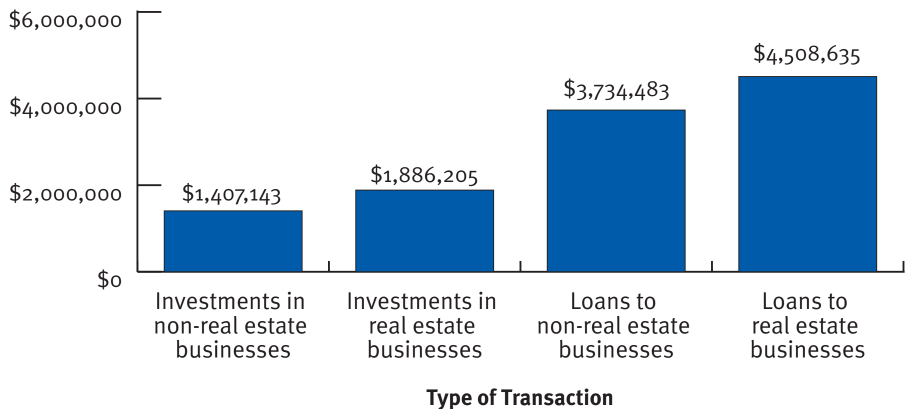
Chart 7:
Value of All Transactions



Source: Survey respondents.
Transactions completed by 12/31/04.

Chart 8 shows that investments tend to be smaller on average than loans. This is true for both real estate and non-real estate businesses. The average investment in a non-real estate business was $1.4 million and $1.9 million in a real estate business. The average loan to a non-real estate business was $3.7 million, while the average loan to a real estate business was $4.5 million.

Chart 8:
Average Size of Transactions

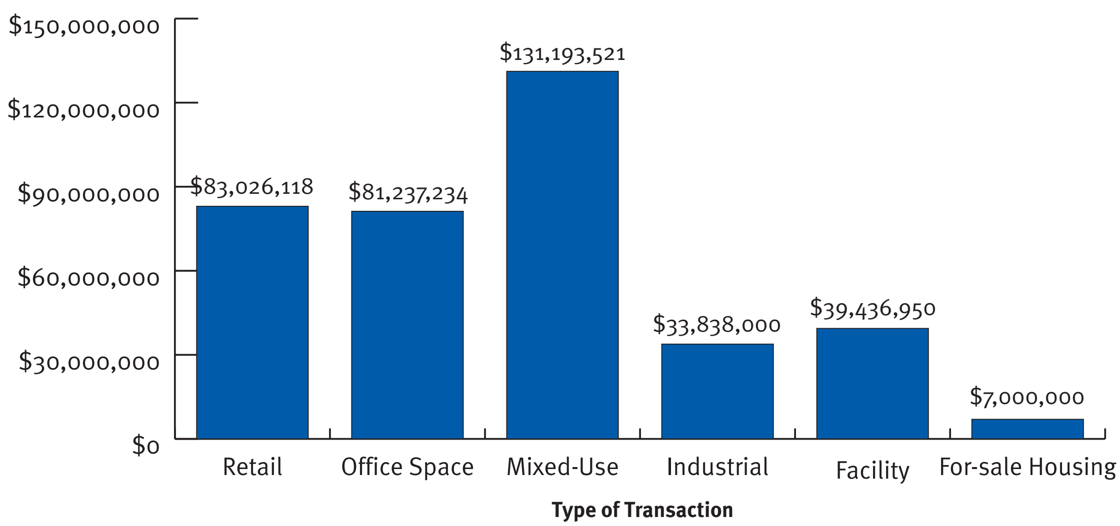


Source: Survey respondents.
Transactions completed by 12/31/04.

Charts 9 reveals that the largest dollar volume of real estate transactions is in mixed-use projects. This reflects the need in many communities for commercial space, as well as housing.

The NMTC can be used for mixed-use projects where less than 80% of the gross rental income is derived from dwelling units.

Chart 9:
Value of Real Estate Transactions



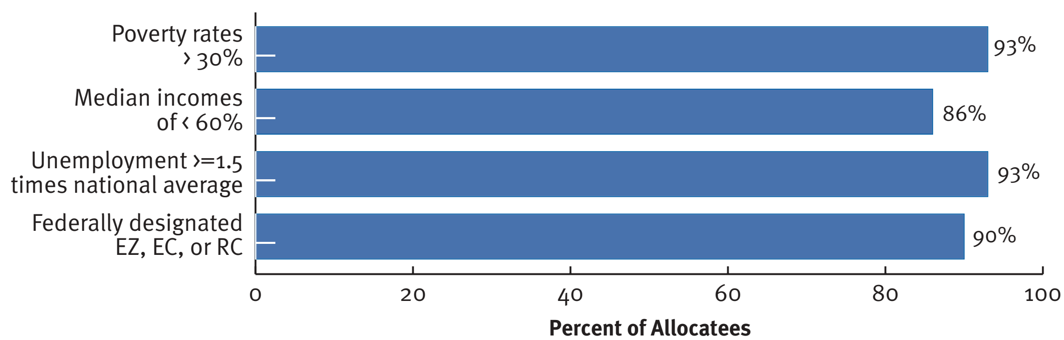
Source: Survey respondents.
Transactions completed by 12/31/04.

Community Impact

The law establishing the NMTC program requires CDEs to invest in low-income communities, which are defined as census tracts with (1) a poverty rate of at least 20%; (2) a median family income of up to 80% of the metropolitan area or statewide median, whichever is greater; and/or (3) for non-metro census tracts, a median family income of up to 80% of the statewide median. Therefore, a principle measure of success is the deployment of capital in low-income areas.

CDEs are targeting NMTC resources to poorer communities than required by law. As Chart 10 shows, 93% of respondents are targeting areas with poverty rates higher than 30% and unemployment greater than 1.5 times the national average. Ninety percent are also targeting federally designated Enterprise Zones, Enterprise Communities, and Renewal Communities. Furthermore, 86% are targeting areas with median incomes of less than 60% of area median income.

Chart 10:
Targeting to Areas of Economic Distress



Source: Survey respondents.

The higher rate of targeting is driven by at least two factors. First, there is significant need for the flexible investment capital provided by the NMTC in low-income communities and, therefore, there is substantial demand for the Credit. In the first three rounds, the dollar total for allocation applications has significantly exceeded demand. Second, allocation applications committing to target areas of higher distress have a competitive advantage and, therefore, CDEs are pushing investment activities to such communities.

Chart 11:
Allocation Availability and Demand

	Available Allocation	Application Demand
Round I	$2.5 billion	$26 billion
Round II	$3.5 billion	$30 billion
Round III	$2 billion	$23 billion

Case Studies

The following eight case studies provide specific examples of how the NMTC program is making investments possible in low-income communities that otherwise would not likely have been made. The case studies provide a local context and a deeper understanding of how CDEs are deploying capital in new and innovative ways.

Project: Arbor Park Place — Cleveland, Ohio

Allocatee 1:	Community Development New Markets I LLC, a subsidiary of Key Community Development Corporation
Headquarters:	Cleveland, OH
Service Area:	National
Round I Allocation:	$150 million
Allocatee 2:	Cleveland New Markets Investment Fund LLC, a subsidiary of Cleveland Development Advisors, Inc.
Headquarters:	Cleveland, OH
Service Area:	Cuyahoga County, Ohio
Round I Allocation:	$15 million

One of the exceptional aspects of the New Market Tax Credit (NMTC) is how it brings together public and private entities to funnel capital to low-income urban and rural areas where, in the past, the risk for investors would have been too great. A case in point is the $6.2 million revitalization of the Longwood Plaza (now renamed Arbor Park Place) shopping center in Cleveland, Ohio, of which $1.57 million was made possible by the NMTC program.

The $1.57 million came from two sources. Key Bank, a large commercial financial institution headquartered in Cleveland and with branches in twelve states, contributed $770,000 for the first mortgage and $300,000 as a cash flow contingent mezzanine loan. This type of loan, which does not require a normal principal payment each month, would have been difficult for Key Bank to make before the NMTC program came into existence because of the significant risks involved.

Arbor Park Place, Before

CNMIF Photo

The remaining $500,000 was an equity investment made by The Cleveland New Markets Investment Fund (CNMIF), which is a new fund created by a private civic entity, Cleveland Development Advisors, Inc. (CDA). CDA has been making civic real estate investments in catalytic projects utilizing funds generated by the Cleveland business community for nearly fifteen years. CNMIF was awarded $15 million in Round I, and it is using the remainder of its tax credit allocation to provide gap financing at below market rates for a number of community development activities. To date, CNMIF has closed seven investments which include one downtown and two neighborhood retail projects, three real estate development projects that include office space for business incubators and non-profits geared toward job creation, and one working capital loan to a non-profit developer.

Arbor Park Place, After

CNMIF Photo

Longwood Plaza had long been considered among Cleveland's most blighted shopping centers in one of its most economically distressed neighborhoods. According to the 2000 Census, more than 60 percent of its residents live below the poverty level. Unemployment and crime were both rampant, and Longwood Plaza had even been a haven for drug dealers for many years. In short, nobody wanted to invest in this area until the New Market Tax Credit came along.

As a result of the efforts of the City of Cleveland Council President Frank Jackson and the nonprofit New Village Corporation, they were able to lure investors and put together a financial package to renovate the plaza. In addition to the $1.57 million made available through the NMTC program, the remainder of the funds for this $6.2 million project came from a City of Cleveland UDAG loan ($1.3 million), a City of Cleveland Empowerment Zone loan ($1.2 million), a Cuyahoga County HUD 198 loan ($770,000), a Health and Human Services grant ($600,000), an EDI grant ($310,000), and a Community Development Block Grant ($45,700). These investments have been used to fully renovate Arbor Park Place to include a new façade, roof, parking lot, and landscaping, as well as high intensity lighting and additional security to cut down on crime.

Jackson had been particularly interested in finding a supermarket to anchor the shopping center, since the neighborhood had been without one for decades. Residents who did not own a car were forced to pay higher prices for food by unscrupulous grocers who remained in the area. In fact, Jackson had tried to lure a supermarket to the neighborhood since he was first elected to the City Council over fifteen years ago, but each time he spoke to a grocery store chain he was turned away. The supermarket owners argued that there was not enough household income in the community to make the business viable. In November 2003, however, Dave's Supermarket agreed to become the anchor tenant of the renovated Arbor Park Place shopping plaza. The supermarket is smaller than a typical Dave's store, but many residents are pleased by the convenience and choice that it provides. Seven tenants are also located within the shopping center, including a new Key banking center. These improvements to Arbor Park Place have proven to be a draw to other tenants — in fact, the shopping center is currently 100% leased.

The revitalized Arbor Park Place finally opened in November 2004. The project is expected to create seventy-five new jobs, thirty-nine of which are set aside for low-to-moderate income neighborhood residents. According to officials at Key Bank and CNMIF, it would never have gotten off the ground had it not been for the NMTC program. Yvette M. Ittu, Vice President of CNMIF, said that the tax credit "is an important tool to help generate additional private capital for investment in communities where such capital is lacking." In addition, Randy Depp of Key Bank remarks that as a banker, he found it to be an "extraordinary experience" to help the community through the NMTC initiative in that it "allows a development project that could not move forward because of inadequate cash flow and debt service coverage to become a bank financing opportunity."

Project: The Bethel Center — Chicago Illinois

Allocatee:	Bethel New Life, Inc.
Headquarters:	Chicago, IL
Service Area:	West Garfield Park and Austin Neighborhoods in Chicago
Round I Allocation:	$4 million

On May 19, 2005, Bethel New Life, Inc., a nationally recognized faith-based community development corporation that has served the low-income West Garfield and Austin neighborhoods of Chicago for over twenty-five years, will dedicate its 23,000 square foot Bethel Center. According to Mary Nelson, President and CEO of Bethel New Life, Inc., the $5 million Center, which was completed in January 2005, would never have been built had it not been for the vital support provided by the NMTC program. Bethel New Life, Inc. received a $4 million NMTC allocation in November 2003, of which $1.5 million was directed to help develop the Center. Other sources of funding for the Center include $1.1 million from the State of Illinois, a $1.8 million Empowerment Zone grant from the City of Chicago, $400,000 from the Chicago Department of Environment, $200,000 from the Illinois Department of Commerce and Economic Opportunity, and $100,000 from Illinois Clean Energy. The remainder of Bethel's NMTC allotment is being used to finance, develop, and operate other projects in its service area on the West Side of Chicago.

Bethel New Life, Inc. Photo

The Bethel Center is remarkable in a number of ways. It is located on the corner of Lake and Pulaski Streets, which is a major transit stop on Chicago's revitalized Green Line. The Chicago Transit Authority (CTA) has even funded the construction of a walkway to connect the transit stop with the Center. This partnership is a win-win situation for the CTA and the surrounding community. It will promote increased ridership for mass transit, and local residents will have convenient access to the wide variety of much needed services the Center will offer.

For example, parents could ride the Green Line to the Bethel Center in the morning, drop their children off in its child development center (which will exclusively serve low-income children), and then quickly return to the transit stop to take them to their final destination. The same holds true for the employment services facility that is also housed in the Bethel Center. Local residents can learn of job openings in the morning, and then conveniently access the Green Line to bring them to their worksites. They can also use the employment services center to learn new skills and become productive members of the community.

In addition to the employment services and child development facilities, the Bethel Center also houses a community technology center that teaches residents computer skills and helps to bridge the digital divide. There are also six commercial storefronts located in the Center, including a national chain restaurant, a cellular phone store, a financial service center, and a dry cleaning business. The Center will ultimately act as an economic anchor in the community, spurring additional area redevelopment and economic activity on Chicago's West Side.

The fact that the Bethel Center is located on the CTA's Green Line is not the only thing "green" about the development though. Through a partnership with Argonne National Laboratory, the City of Chicago, the State of Illinois, and other entities, the building is planned as an example of a smart, green, environmentally friendly, energy efficient structure. It features a living roof, photovoltaic cells, automatic light dimmers, interior light wells, super-insulation, and radiating windows, which together can reduce energy costs by as much as fifty percent.

The Center was unlikely to have attracted conventional financing for its development had it not been for the NMTC. From an investor's perspective, the fact that it is located in a distressed area hit hard by neighborhood riots in the 1960s, and then subsequently hurt by white flight and the neglect of absentee slumlords, would have posed significant financing risks. In addition, the operating funds were unstable given the fact that two of the proposed tenants — the child development center and the employment services center — relied on annual federal, state, and local appropriations. To address this issue, Bethel does have the fallback option of providing child care on a fee-for-service basis and leasing the employment center for another purpose should public operating funds become unavailable.

Mary Nelson contends that the NMTC program has been extremely helpful to Bethel New Life, Inc. in two important ways. First, it has allowed Bethel New Life, Inc. to find receptive investors who are willing to take a chance on helping a low-income community thrive and flourish. The Center has four NMTC investors, all of them regional and local banks. It is also supported with public and private grants secured by Bethel New Life, Inc. Furthermore, Nelson remarks that the NMTC has increased its own capabilities to serve as a catalyst for community economic development. For example, it has allowed Bethel New Life, Inc. to plan affordable housing projects within walking distance of the Center. She believes that with the Center as an anchor at Lake and Pulaski, it will spur as much as $100 million in future development on the West Side of Chicago. The incentive provided by the NMTC, along with the outstanding reputation and expertise of Bethel New Life, Inc., has therefore made a real difference in improving the lives of thousands of people.

Project: Coal Mine — Pineville, West Virginia

Allocatee	West Virginia Community Development Loan Fund, Inc. a subsidiary of The First State Bank
Headquarters:	Barboursville, WV
Service Area:	West Virginia
Round I Allocation:	$4 million

As noted earlier, the NMTC makes possible commercial investment and community development initiatives that would otherwise have been impossible. One inspiring story of such a venture involves a local bank and a coal mine, both of which are located in West Virginia.

An existing coal company (whose name did not want to be publicized) had wanted to open a new coal mine in Pineville, a southern West Virginia community with a population of 700 people. Pineville and its surrounding area had been adversely affected by the increased automation of the coal mining industry in the 1980s and 1990s. As a result, there had been severe unemployment, a depressed economy, and high poverty rates.

The coal company ultimately approached First State Bank of Hurricane, West Virginia about a loan to help finance its planned coal mine for Pineville. First State Bank was initially reluctant to approve the loan. The bank did not want to get involved in the coal mining business, Pineville was outside of its lending area, and the collateral the coal company offered — its mining equipment — was too risky.

It was not until the NMTC was available that the Pineville coal mine was able to move forward. First State Bank created a wholly-owned subsidiary called West Virginia Community Loan Fund, Inc., which applied for and received a $4 million NMTC allocation in Round I. Of that amount, $1.2 million was provided as a loan to the coal company for the purchase of equipment so that they could start digging the mine. (The remainder of the NMTC allocation went to five small business financing initiatives in both urban and rural areas of West Virginia. The projects all involved retaining locally-owned businesses, such as an insurance agency with two jobs, two hardware stores with five jobs each, a garbage collection service with two jobs, and a wood products manufacturer with twenty jobs). The $1.2 million allocated to the Pineville coal mine helped to fill a crucial gap in the financing of this $3.7 million project (of which the remaining funds came directly from the coal company).

Since the Pineville coal mine opened in mid-2004, it has been a resounding success. More coal was found at the site than the coal company had originally anticipated. In addition, the mine generated a $4.8 million gross profit in its first six months as well as created fifty new jobs. (The original estimate for the number of new jobs created was thirty-five). The jobs are also well compensated — $50,000 to $55,000 a year — which is a significant income for this economically-depressed part of West Virginia.

According to Roy Hamilton, Vice President of First State Bank, the Pineville mine would never have opened had it not been for the NMTC program. He said that the NMTC allowed

First State Bank to invest in an area from which it would have typically stayed away. It also permitted the bank to provide the coal company lower interest rates on their loan, as well as accept as collateral something that carried with it more uncertainty. Hamilton is so enthusiastic about the tax credit's potential that he plans to establish a coalition of other West Virginia bankers to explore future NMTC opportunities in the state.

Project: East Baltimore Life Sciences Park — Baltimore, Maryland

Allocatee	ESIC New Markets Partners Limited Partnership, a subsidiary of the Enterprise Social Investment Corporation
Headquarters:	Columbia, MD
Service Area:	National
Round I Allocation:	$90 million

One of the strengths of the NMTC is its significant potential to transform entire neighborhoods and build the platforms for communities to flourish in the twenty-first century global economy. This potential was recognized by the City of Baltimore, and resulted in the formation of the community-based organization, East Baltimore Development, Inc. (EBDI) in 2002. EBDI's sole purpose is to oversee the $800 million revitalization effort of an 80-acre site in East Baltimore.

ESIC Graphic

The initial phase of the 20-acre redevelopment effort includes the creation of the East Baltimore Life Sciences Park. Local corporate and community leaders leveraged the New Markets Tax Credit Program to invest $18.9 million in working capital into EBDI for site acquisition and start-up development. The actual NMTC allocatee was The Enterprise Social Investment Corporation (ESIC) New Markets Partners, LP, which received a total NMTC allocation of $90 million in Round I. The remaining allocation went to other retail, mixed-use, and commercial development projects in qualified low-income communities across America.

The transaction occurred in two steps. First, Bank of America invested $15 million in the sub-allocatee ESIC New Markets Partners III, LP, a Community Development Entity, which in turn loaned the funds to EBDI. Simultaneously, Bank of America made another loan of $3.9 million to EBDI directly, which represents the value of the tax credits. The Annie E. Casey Foundation also played an important role in this transaction by serving as a credit enhancer, which allowed Bank of America to make these loans and provide a very favorable interest rate.

The Life Sciences Park will be located in a historic Baltimore neighborhood called "Middle East," and is about three blocks from the world-renowned Johns Hopkins Hospital. It is one of the most blighted areas in the city, and it has long been known for its violent crime, high unemployment, drug trafficking, boarded buildings, and empty lots. A staggering statistic is that one out of every four homes in the Middle East neighborhood is vacant. For two decades, the City of Baltimore tried almost every strategy to clean up the area, such as providing generous tax breaks, increased police patrols, and house-by-house renovations, but nothing seemed to work.

With the construction of the Life Sciences Park, a biotechnology complex will be established in the Middle East neighborhood. It is expected to be the cornerstone of the economic rebirth of this beleaguered area, providing two million square feet of laboratory and office space (as well as built-to-suit options) for 30 to 50 biotech companies over the next ten years. The Life Sciences Park is also expected to generate between 4,000 and 6,000 new jobs, of which it is estimated that one-third will go to workers holding a high school degree or GED, one-third to college graduates, and one-third to post-graduates.

Furthermore, the close proximity of the Life Sciences Park with Johns Hopkins' medical institutions should foster a "synergistic" relationship among academic, government and corporate scientists and clinicians. Such cooperation should contribute to the overall success of this project in a number of ways. First, Johns Hopkins' reputation as one of the world's finest medical institutions should serve as a magnet to attract both emergent and established companies to the Life Sciences Park. In 2001, the university was awarded $1.2 billion in research money, the second-largest sum in the country behind the entire University of California system. The prospect of commercializing the fruits of this research has the potential of bringing new biotechnology companies to this site so close to Johns Hopkins.

Second, the biotech companies that are housed in the Life Sciences Park will have access to the teaching facilities, libraries, medical infrastructure, as well as large student and patient base at Johns Hopkins. Finally, the 630 primary researchers and 2,000 postdoctoral students and scientists at the university can take advantage of the networking opportunities that are available to them with the Life Sciences Park nearby.

Once the Life Sciences Park and the larger 80-acre development project is completed, the neighborhood will be radically changed. There will be as many as 1,200 new and renovated mixed-income housing units, as well as new green spaces, improved transit connections, increased retail opportunities, as well as new community and recreational opportunities. The project has had the strong support of the Mayor's Office, the State of Maryland, and state and federal public officials, Johns Hopkins, the Historic East Baltimore Community Action Coalition and the communities of East Baltimore.

According to Charles Werhane, President of ESIC Realty Partners, the NMTC program played a major role in getting the East Baltimore Life Sciences Park started. It has freed up a significant amount of capital for EBDI to make use of as the development of the project proceeds over the next decade. Such capital, Werhane contends, is critical for the success of this innovative project in the long-term.

Project: First Wave — Bristow, Oklahoma

Allocatee	REI New Markets Investment LLC, a subsidiary of Rural Enterprises of Oklahoma, Inc.
Headquarters:	Durant, OK
Service Area:	Oklahoma
Round I Allocation:	$80 million

The NMTC has brought hope to small rural communities in America's Heartland that have recently suffered the pain of economic dislocation. REI New Markets Investment LLC, a subsidiary of Rural Enterprises of Oklahoma, Inc. (REI), was awarded an $80 million NMTC allocation in Round I. In late-March 2005, REI New Markets Investment LLC, announced it would make a $14.6 million NMTC investment designed to help rebuild the economy of Bristow, Oklahoma.

In Bristow, a rural community 30 miles southwest of Tulsa with a population of 4,300, the financing made possible by the NMTC could not have come too soon. Last year, Bristow lost 1,200 jobs with the closing of a Black & Decker door lock manufacturing facility. Black & Decker had decided to move these jobs to plants it owned in Texas and Mexico. These layoffs were a severe blow to the economy of Bristow, where the facility had long been the lynchpin of the local economy.

When the plant closed, the Bristow branch of Spirit Bank contacted officials at REI New Markets Investment LLC about how to leverage the NMTC to Bristow's advantage. Spirit Bank had learned that First Wave Aviation, a Tulsa-based aerospace company, was looking for a larger facility to repair and overhaul commercial aircrafts. First Wave had experienced rapid growth over the last thirteen years, with offices and customers in such cities as Dubai, UAE, Sao Paulo, Brazil, and Miami, Florida. It has a staff of 140 people in its Tulsa office alone, where they ship commercial jet aircraft parts throughout the world 24 hours a day, seven days a week, 365 days a year.

By harnessing the NMTC, Bristow Aviation Investment, LLC, a for-profit subsidiary of Spirit Bank, was able to make a $14.6 million investment in REI New Markets Investment, LLC,

REI Photo

which in turn made a loan to First Wave to entice them to Bristow. Of that amount, $5.1 million went to the construction of a new, 220,000 square foot aircraft repair facility, which will be completed in late-2005. It will employ 125 people when it opens, with the possibility of an additional 375 jobs over the next five years. The groundbreaking ceremonies for the Bristow facility recently occurred on March 28, 2005, and were attended by First Wave President Ed Clark, Oklahoma Lieutenant Governor Mary Fallin, and Oklahoma Secretary of Commerce Kathryn Taylor. The remaining $1.5 million went to the purchase of equipment for refurbishing aircraft, and $8 million was directed to the inventory and operating line in the new facility.

According to Debbie Partin, Financial Services Director at REI, the NMTC provided critical assistance to bringing First Wave to Bristow. Without it, she said that it would have been unlikely that the company would have expanded its operations or made a multi-million dollar investment in such a small, rural, and impoverished town. Investors would have found the risk to be too great in Bristow as opposed to larger cities such as Tulsa and Oklahoma City. Yet Partin noted that one of the most important features of the NMTC transaction — that after seven years, Spirit Bank would pass on its savings from the tax credit back to First Wave — provided enough incentive and risk mitigation to bring the deal to fruition.

REI New Markets Investment, LLC has put its $80 million NMTC allocation to work financing a range of businesses throughout rural Oklahoma. Other NMTC investments financed include the development of a biotech facility in Oklahoma City ($15 million), the retention of a trophy manufacturing facility (saving 400 jobs) within Oklahoma ($5 million), the building of television antenna boosters to improve reception in rural areas ($1.9 million), and the expansion of a linen production service to low-income areas ($3.2 million).

Projects: Harlem Office Center — New York City and La Mexicana Tortilla Factory — Hayward California

Allocatee	National New Markets Tax Credit Fund, Inc., a subsidiary of Community Reinvestment Fund, Inc.
Headquarters:	Minneapolis, MN
Service Area:	National
Round I Allocation:	$162.5 million

The Harlem Office Center project, located on the corner of Lenox and 125th Streets in the Harlem neighborhood of New York City, is a unique example of a nonprofit community development organization teaming up with a leading Wall Street investment banking firm to augment the power of the NMTC program.

In 2003, the National New Markets Tax Credit Fund, Inc. (NNMTCF) was awarded a $162.5 million NMTC allocation, the largest of any national organization. NNMTCF is owned by Community Reinvestment Fund (CRF), a nonprofit based in Minneapolis, Minnesota that provides capital to community development lenders through the secondary market for loans. When NNMTCF received its $162.5 million allocation, it created two subsidiary allocatees that it controlled — Commercial Lending, LLC ($82.5 million) and Business Loan Conduit, LLC ($80 million). Commercial Lending is a single investor fund that makes commercial loans that average $8 million, whereas Business Loan Conduit is a multi-investor leveraged fund that purchases small business loans from CDEs and non-CDEs secured by real estate averaging $500,000.

In 2004, Commercial Lending, LLC partnered with Bear Stearns, one of the leading Wall Street global investment banking, securities, trading and brokerage firms. The deal called for Bear Stearns to make an $82.5 million equity investment in Commercial Lending, LLC in order to take advantage of the tax credit. Commercial Lending in turn made a $35.8 million NMTC loan to Abyssinian Development Corporation (ADC) to provide for the permanent financing of the Harlem Office Center project. ADC is a nationally-recognized community-based nonprofit that was founded in 1989 by a group of Harlem residents and members of the Abyssinian Baptist Church, one of New York's oldest African-American congregations. It has played a leading role in the "New Harlem Renaissance," which has fostered the economic revitalization of one of New York City's poorest neighborhoods.

The census tract on which the Harlem Office Center is located had a median family income of $24,451 in 2000, which is half that of Manhattan proper. Fifty-two percent of the families in that location had incomes below $25,000. Eighty-four percent of the families were African-American and 14% were Hispanic / Latino. In 2000, the unemployment rate in that area was 3.5 times the national average. Furthermore, the poverty rate was an astounding 40%.

The 126,000 square foot Harlem Office Center is a key component of the New Harlem Renaissance. Built in 2003, the bottom three floors (which did not receive NMTC financing) house a CVS pharmacy, Washington Mutual Bank, Marshall's, Staples, and H&M. The top eight floors are office condos, with two New York State agencies — the Office of Alcohol and Beverage Control as well as the Office of Temporary and Disability Insurance — being the major tenants. At the time that the project received its permanent financing from Commercial Lending, the Harlem Office Center was 85% occupied. Five hundred people now work in these office condos, which have the added benefit of providing new customers to neighborhood retail and service industries and thereby boosting the local economy.

According to Keith Ford, CRF's Community Impact Liaison, the NMTC program was a significant factor in the success of the Harlem Office Center. He maintains that it allowed CRF and Bear Stearns to offer ADC financing that had more flexible terms as well as lower interest rates. Furthermore, CRF was able to take some of the earnings it received from the transaction and recycle them back into the community to enhance the impact of the lending. In the case of the Harlem Office Center project, CRF provided ADC with consulting services on how to repair their revolving loan program. CRF is also working with ADC to explore the creation of a new business ownership loan program.

CRF Photo

It is also worth noting that not all of CRF's investments with the NMTC involve millions of dollars. As noted earlier, one of the two suballocatees CRF created — Business Loan Conduit, LLC — focuses on smaller projects that range from $50,000 to $2.5 million.

One such NMTC loan CRF recently made through Business Loan Conduit, LLC is to La Mexicana Tortilla Factory, a family-owned small business in Hayward, California. The company was founded in 1965 by a husband and wife, and is now owned and operated by the couple's three sons. It is located in an economically distressed area where the unemployment rate is twice the national average.

La Mexicana Tortilla Factory was having distribution problems because it was operating from two locations that were six miles apart from each other. CRF partnered with the Bay Area Development Company to provide the factory with a $210,000 NMTC loan so that they could purchase a new warehouse only one-half mile from the main site.

This transaction benefited La Mexicana in a variety of ways. Not only did it allow the factory to become more efficient, it created five new jobs and increased business in an underserved community. In addition, the factory's purchase of the operating site (the two locations La Mexicana previously used were rental properties) saved the company $50,000 annually in lower monthly payments. Finally, the NMTC loan's low interest rate and 25-year term results in a lower debt payment for La Mexicana, which is estimated to save the company $4,000 annually, with a total savings of $28,000 over the seven-year NMTC compliance period.

Katahdin Project — Northern Maine

Allocatee	Coastal Enterprises, Inc. (CEI)
Headquarters:	Wiscasset, ME
Service Area:	Maine, New Hampshire, Vermont, Upstate New York
Round I Allocation:	$65 million

The New Markets Tax Credit (NMTC) program has not just helped to stimulate investments in distressed urban neighborhoods. Rural areas have also benefited from the NMTC's job creation and economic development potential. A noteworthy example of the NMTC program bringing much needed investment dollars to struggling rural communities is the Katahdin Project, which refers to the scenic Katahdin Forest near Millinocket, Maine.

The Katahdin Project has been a joint partnership of The Nature Conservancy (TNC) and the Wiscasset, Maine-based community development corporation Coastal Enterprises, Inc. (CEI). Since 1977, CEI has provided capital and support to low-income communities in its core market area of Maine, New Hampshire, Vermont, western Massachusetts, and upstate New York for sustainable job creation and economic development initiatives that are environmentally sound. In 2003, CEI received $65 million in the first round of NMTC allocations, from which it provided $31.5 million to the Katahdin Project. CEI has utilized its remaining Round I allocation in two other high-impact projects in Maine. Over $325,000,000 of total investment capital has flowed into Maine as a result of these three investments.

At the heart of the Katahdin story is The Great Northern Paper Company (GNP), which dominated the economy of north central Maine throughout the twentieth century. GNP operated two large pulp and paper mills in Millinocket and East Millinocket, which at one time employed 1,500 people. GNP also owned and managed over one million acres of forestland. During the 1990s, however, the company fell on hard times as a result of depressed global paper prices, low financial returns associated with owning trees, and the need to raise capital for mill improvements. Against this backdrop, TNC approached CEI about being a working partner in a deal that would conserve the environment while promoting the twin goals of economic development and social equity.

Working with GNP, the company's lenders and Maine's political leadership, CEI and TNC designed an "economic revitalization" plan that was contingent on NMTC financing. The proposal called for CEI applying for an NMTC allocation and, if successful, using the tax credits to alter the economics of owning the timberland (via lower-cost debt financing). This investment allowed for the continued availability of forestland to supply the mills and maintain the natural resource-based economy of the Katahdin area. GNP also agreed to upgrade its paper mill and related mill infrastructure to modernize its entire operation and make it viable in today's competitive paper markets.

Furthermore, the deal provided for TNC to purchase 41,000 acres of the total 341,000-acre land base still owned by GNP, which contains critical lake and stream watershed lands in the Debsconeag Lakes wilderness area. It also called for a perpetual conservation easement to be

CEI Photo

placed on 200,000 of the remaining 300,000 acres to be retained by GNP. Finally, GNP guaranteed as part of the conservation easement that those timberlands would be managed and harvested in an environmentally sustainable manner as well as made available for recreational uses.

Once the details of the plan were finalized, TNC provided nearly $50 million of short-term financing to pay off GNP's existing mortgage note on the timberlands and infuse several million dollars of working capital into the mills. TNC subsequently agreed to a $14 million write-down in its mortgage with GNP to pay for the land and easement purchases, leaving GNP with a $36 million note at a favorable 4% interest rate. GNP in turn made a series of paper machine and mill upgrades. As the plan was being implemented, however, GNP went bankrupt in the winter of 2002-2003, closing both mills and laying off the remaining 1,000 mill employees. Unemployment in the Millinocket area then skyrocketed to a staggering 30%.

Despite this setback, the economic revitalization plan for the Katahdin region held together as a result of the strength of the CEI-TNC partnership as well as the efforts of Maine's political leadership to find a new corporate owner and secure the necessary financing, including the NMTC component. A few months after GNP shut its doors, the Toronto-based Brascan Corporation purchased both the forestland and the two mills, reemploying about 650 workers. Nexfor / Fraser, Inc., a paper and building products company partially owned by Brascan, provided significant operational support as well.

General Electric Commercial and Industrial Finance (GECIF) then emerged from several potential investors to make an equity investment in CEI in exchange for the tax credits. CEI then provided a $31.5 million long-term loan in exchange for the tax credits to Katahdin Forest Management, LLC (KFM), a forestland subsidiary of Brascan, which in turn used the loan and other unrelated funds to pay off its $36 million short-term note to TNC. Now, KFM has a loan with CEI with favorable terms, providing below market-rate financing on the timberlands. These funds effectively provide additional working capital for the two large pulp and paper mills to meet the challenges of a competitive business climate.

The NMTC financing was successfully closed on February 27, 2004. As a result, both of the mills that had recently been shuttered have now reopened and are making paper. According to Ronald L. Phillips, President of CEI, the NMTC financing has proven to be an integral component in the major investments made in the Katahdin Project by two international financial giants, General Electric and Brascan Corporation. These investments have resulted in the direct employment of 650 people, potential jobs for another 200, and the indirect employment of another 1,500. The Katahdin Project has also helped to diversify the area economy via the development of new high-value-added wood processing enterprises and recreational tourism. CEI is deploying additional revolving loan fund capital raised via the NMTC program specifically for this purpose, and GECIF is supporting this initiative as well. The NMTC program is helping this area and its residents survive and make a transition to a new economic future.

Project: Market Creek Plaza — San Diego, California

Allocatee:	Clearinghouse CDFI
Headquarters:	Lake Forest, CA
Service Area:	California: Los Angeles, Orange, Riverside, San Bernardino, and San Diego
Round I Allocation:	$56 million

While the New Market Tax Credit program is a powerful instrument for revitalizing low-income and economically distressed areas, its effectiveness is greatly enhanced by the participation of community residents. A remarkable example of such community involvement is the development of Market Creek Plaza, a commercial and cultural center in southeastern San Diego, California.

Clearinghouse CDFI, a for-profit corporation that provides direct loans for affordable housing, community development projects, small business and other qualified CRA activities in Southern California, received a $56 million NMTC allocation in Round I. Of that amount, Clearinghouse CDFI made a $15 million below market interest rate loan to Market Creek Partners, LLC, which owns Market Creek Plaza. To date, the $15 million NMTC loan is the largest awarded on a commercial development project in Southern California. Wells Fargo Community Development Corporation invested in Clearinghouse CDFI in order to receive the benefits of the tax credit. Clearinghouse CDFI is using the remainder of its $56 million Round I NMTC allocation on a wide range of real estate secured loans throughout its service area, including industrial buildings, retail centers and loans to nonprofit organizations purchasing office buildings.

Market Creek Plaza is located on the site of a former aerospace factory, which for many years was abandoned, tucked behind barbed wire, and overgrown with weeds. Numerous investors lacked any interest in transforming the location into a shopping mall, calling it a high risk and "unbankable." In 1998, Jacobs Center for Neighborhood Innovation (JCNI), a unique non-profit organization that operates on the premise that residents must own and drive the change in their communities for it to be meaningful, purchased the property and then did something that was very unusual — it solicited the participation of the residents. Seven hundred neighborhood surveys were subsequently conducted, as were many community meetings. In addition, a study of area residents found that they spent more than $60 million each year outside their neighborhood because of the lack of retail services.

With JCNI agreeing to develop the property, they incorporated the residents' input and began to plan a commercial and cultural center for the Market Creek Plaza site. Thousands of residents from many backgrounds and cultures joined teams to work on community outreach, art and design, construction, business development and leasing, marketing, youth, childcare, and evaluation. Even the neighborhood's children were involved — over 1,300 kids helped decorate a 150-foot retaining wall along the bordering Chollas Creek.

Clearinghouse CDFI Photo

JNCI also created Market Creek Partners, LLC, and recycled its profits back into the community. Residents have created a 501(c)(3) foundation as a vehicle for recommending how the profits will be used to enhance the neighborhood.

Almost seven years after JCNI bought the abandoned factory, Market Creek Plaza is now fully leased and completely open. Among the tenants are Starbucks, Wells Fargo Bank, Cold Stone Creamery, El Pollo Grill, and a 57,000-square-foot Food 4 Less supermarket as the anchor. Food 4 Less is also the first supermarket to move into the neighborhood in three decades. Ninety-one percent of the employees hired for the supermarket were local residents trained through a local workforce agency. In addition, there is a San Diego Gas and Electric high-tech bill paying center located in Market Creek Plaza, which alone attracts 30,000 people to the plaza each month. Local entrepreneurs with restaurants, a gift shop, and a women's fitness center are also among the tenants. The showcase feature of the center is a 500-seat outdoor amphitheater used for cultural performances and special events.

To date, Market Street Plaza has created nearly 200 jobs. That number is expected to increase to 300 when a planned three-story, 75,000-square-foot office building and community center is completed on the site. Furthermore, the below market interest rate loan provided through the NMTC program allows JCNI to free up capital for future development. JCNI intends to use this capital to begin development of a mixed-use center adjacent to the Market Street Plaza that will include 400 residential units and an additional 100,000 square feet of commercial space. Clearinghouse CDFI is continuing to work with JCNI on this next phase.

Conclusion

There are at least two important principles behind the New Markets Tax Credit. First, that there are good business opportunities in low-income communities and that these communities constitute a new market opportunity for the private sector. Second, that a modest federal subsidy can provide the 'nudge' needed to persuade the private sector to invest in these low-income communities or *new markets.*

This report indicates that the New Markets Tax Credit program is working at a faster pace and in poorer communities than required by law or regulation. CDEs responded to the opportunity provided by the Credit and are exceeding performance standards. CDEs are moving aggressively to implement lending and investing programs financing a range of projects and businesses in low-income urban and rural communities.

The case studies put an important face on the work of CDEs and the New Markets Tax Credit. The case studies show how CDEs are using New Markets Tax Credits to implement projects aimed at economic revitalization and strengthening communities:

- Creation of the first new supermarket and shopping center in a low-income community in 30 years;
- Economic revitalization and thousands of jobs in an urban community where past efforts foundered;
- Development of a new facility for daycare and other community services that shows the potential to lead the way for other development;
- Business expansion, job creation and opportunity in the heartland;

- Revitalization of the timber industry in northern Maine.

The survey demonstrates that the NMTC program is getting capital into low-income communities to support and grow businesses. The impressive activity achieved over a short period of time points to the need for such investments in low-income communities.

After one year of activity doing tax credit transactions, practitioners have identified a number of challenges. Most of these challenges fall into two main areas — (1) securing investors and (2) adapting the structure of the Credit to meet specific financing needs. Concerning securing investors, the biggest obstacle has been simply the newness of the NMTC program. Although CDEs have been able to secure investors relatively quickly, nearly half of the survey respondents described a continuing market challenge of educating current and potential investors about the Credit, especially with regard to the nature of the risk involved.

The survey and the case studies indicate that a preponderance of NMTC projects is in real estate. The average loans and investments in non-real estate business are relatively large and there is anecdotal evidence that many of these transactions are financing real estate-based activity such as plants and facilities. There is clearly less activity in small business lending and venture capital.

There may be several reasons for this trend. There is substantial evidence that low-income communities need investment for facilities, for supermarkets and day care facilities — all of which may be financed by the Credit.

The New Markets Tax Credit also carries a substantial penalty for non-compliance. An investor must maintain the QEI in place for the entire seven-year credit period. If the investor redeems the QEI before seven years, then all Credits are recaptured, with interest, back to the beginning of the Credit period. Recapture is also triggered if a CDE falls out of compliance with 'Substantially All.'

Therefore, at least initially, there is some indication that investors are looking for investments with less recapture risk. Real estate falls into this category. Because real estate financed by the Credit is located and operating in low-income communities, there is less a question that investments in a CDE for a real estate project will fall out of compliance. Finally, there is a long history of investor interest and experience in other tax credit financing for real estate such as the Low-Income Housing Tax Credit.

As investors become more familiar with the Credit and as CDEs continue to implement successful programs, small business lending and venture capital investing may flourish. However, for both there are some issues around the structure of the Credit that should be addressed.

In spite of the obvious success of the Credit in meeting its goals of deploying capital in low-income communities and targeting low-income populations, the requirements of the Credit do create challenges for certain types of transactions involving equipment, working capital loans to small businesses, and venture capital investments.

For example, the seven-year term of the Credit does not always coincide with the amortization schedules used for equipment and working capital loans to small businesses. Many of these businesses are not in a position to repay or refinance NMTC loans structured with balloon payments.

Concerning implementing a venture capital program using the NMTC, many CDEs also face significant challenges. While most venture capital partnerships have a ten-year life, if a portfolio business is sold during this period, investors typically expect to take the profits, regain their principal, and exit the partnership. This scenario, however, runs afoul of the seven-year holding period required by the NMTC statute. In addition, venture capital is a ‘high-touch’ industry, with fund managers often sitting on boards and taking part in the management decisions of the investee. It is common for venture capital funds to provide a 2.5 percent management fee to the fund management to make and manage investments. While this is the industry standard used by SBA certified Small Business Investment Companies (SBICs), CDEs wanting to pursue venture capital have had difficulty incorporating such a fee structure into the NMTC framework.

In developing the New Markets legislation, the sponsors and advocates anticipated a program that included real estate financing but also small business lending and venture capital financing as strategies to improve economies in low-income communities. There is clearly a need for small business lending and equity capital for businesses in low-income communities. The challenge is to define a set of rules, regulations and policies that facilitate small business lending and venture capital investing in the context of New Market Tax Credits.

Appendix A:
NMTC Round I Allocatee Survey

*** The Coalition verified final 2004 year-end numbers with respondents.**

New Markets Tax Credit Coalition (NMTCC)

NMTC Round I Allocatee Survey

Basic Information

Name of Allocatee:______________________________

Name of Parent / Controlling Entity: ______________________________

Total Allocation Award for Round I: $ ______________________________

Allocatee Service Area: ______________________________

Contact Person and Title: ______________________________

Telephone number: ______________________________

E-mail address: ______________________________

Date:______________________________

____Please check here if you would like additional information on the NMTC Coalition.
Are you willing to engage in a brief follow-up phone interview after completing this written survey?
______ Yes ______ No

All of the data collected in Sections A and B of this survey will be aggregated to illustrate how Round I Allocatees are using the NMTC to raise and deploy capital but none of the data will be attributed to a specific Allocatee.

Section C of the survey asks Allocatees to describe a specific project that has benefited from NMTC financing and the information collected in this section will be used to craft brief project summaries for the final report. This is the only portion of the survey where information collected will be attributed to a specific NMTC Allocatee.

All survey respondents will have an opportunity to see a draft of the report before it is made public and circulated to our wider audience.

NMTC Coalition Survey of Round I NMTC Allocatees
Please Complete and Return via fax or email by Friday, November 19, 2004
Fax (202) 393-3034 Email Siggy@Rapoza.org

General Survey Instructions:

- Please answer the following questions based solely on the Allocatee's Round I Allocation award.
- Unless otherwise specified, please answer questions with information that is current as of November 1, 2004.
- If you plan to e-mail this survey back to us, please save it as a Word document, fill in the questions and return it to us as an attachment to siggy@rapoza.org. If you plan to fax it back to us, please print the survey, fill in the questions and fax it back to us at 202-393-3034.

Section A - Securing NMTC Investors and QEIs

1. When did the Allocatee sign its Round I Allocation Agreement:
   a. Date: ________________

2. Dollar amount of Qualified Equity Investments (QEIs) issued as of November 1, 2004:
   $____________________

3. Dollar amount of Qualified Equity Investments (QEIs) anticipated to be issued as of December 31, 2004: $_____________________

4. Dollar amount of Qualified Equity Investments (QEIs) anticipated to be issued as of December 31, 2005: $_____________________

5. Please describe where the Allocatee is in the process of securing QEIs for the remainder of the Allocation by checking all of the following that apply:
   a. ______ Investors have committed $____________ in QEIs
   b. ______ The Allocatee is in serious negotiations with an investor (s)
   c. ______ The Allocatee is in discussions with investor(s)

6. Please describe the Allocatee's investor(s) or potential investor(s) by checking all that apply.
   a.____ National bank
   b.____ Regional bank
   c.____ Local bank
   d.____ Individual
   e.____ Insurance funds
   f.____ Venture capital funds
   g.____ Other – please specify _________________________

7. Are the investors that have issued QEIs, different from the investors identified in the Allocatee's NMTC application?
   a.____ Yes
   b.____ No

If yes, to what do you attribute this change? Please describe briefly.

____

____

8. Are investors originating or otherwise identifying transactions for the Allocatee?
   a. ____Yes
   b. ____No

If yes, what percentage of the Allocatee's transactions to date have been identified by investors? ________%

9. Please describe the challenges encountered in securing NMTC investors? Are there issues regarding the perceived risk associated with the Credit? Do investors need more information on the Credit and how it works? Has the Allocatee encountered problems negotiating investor agreements with interested investors? Please provide as much detail as possible and remember the information gathered from this question will not be attributed to any single Allocatee.

____

____

____

____

10. Has the Allocatee utilized the leverage model by securing investments from partnership entities that will leverage non-Equity Investments (e.g., debt, grant dollars) from outside of the partnership to increase the tax yield to members of the partnership?
    a.____ Yes
    b.____ No

11. How long on average does the Allocatee take to make a Qualified Low Income Community Investments(QLICIs) once a QEI is secured:
    a. ______QLICIs are made as soon as QEIs are issued
    b. ______QLICIs are made within 30 days of issuing QEIs
    c. ______QLICIs are made within 90 days of issuing a QEI
    d. ______QLICIs are made within 1 year of issuing a QEI

Section B - Implementing the Allocatee's NMTC Business Strategy

1. What is the number and total dollar amount of Qualified Low Income Community Investments (QLICIs) made by the Allocatee as of November 1, 2004:
   Number of QLICIs: _______
   Dollar amount of QLICIs $ _______

2. What is the number and total dollar amount of Qualified Low Income Community Investments (QLICIs) that the Allocatee anticipates making by December 31, 2004 :
   Number of QLICIs: _______
   Dollar amount of QLICIs $________

3. What is the number and total dollar amount of Qualified Low Income Community Investments (QLICIs) that the Allocatee anticipates making by December 31, 2005 :
   Number of QLICIs: _______
   Dollar amount of QLICIs $________

4. Does the Allocatee assist its borrowers or investees in raising additional project financing above and beyond what the Allocatee provides through its NMTC related loans or investments?
   _____ Yes
   _____ No

   If yes, please indicate the total dollar amount, in both public and private financing, that the Allocatee has successfully leveraged for its borrowers or investees as of November 1, 2004:
   $_____________________. This figure should not include NMTC dollars.

5. Using the following table, please indicate the type(s) of QLICIs that the Allocatee has financed as of November 1, 2004 as well as the total that the Allocatee anticipates financing by the close of the year, December 31, 2004. Record both the number of transactions as well as the total dollar amount.

Type of QLICI Transaction	Total number of transactions as of Nov. 1, 2004	Total dollar amount of transactions as of Nov. 1, 2004	Total number of transactions as of Dec. 31, 2004	Total dollar amount of transactions as of Dec. 31, 2004
Investments in non-real estate businesses		$		$
Loans to non-real estate Businesses		$		$
Investments in real estate businesses*	_____retail _____office space _____mixed use _____industrial _____facility _____for-sale housing	$_____retail ______office space ______mixed use ______industrial ______facility ______for-sale housing	______retail ______office space ______mixed use ______industrial ______facility ______for-sale housing	$_____retail ______office space ______mixed use ______industrial ______facility ______for-sale housing
Loans to real estate businesses*	_____retail _____office space _____mixed use _____industrial _____facility _____for-sale housing	$_____retail ______office space ______mixed use ______industrial ______facility ______for-sale housing	______retail ______office space ______mixed use ______industrial ______facility ______for-sale housing	$______retail ______office space ______mixed use ______industrial ______facility ______for-sale housing
Loans to other CDEs		$		$
Investments in other CDEs		$		$
Loan Purchases from other CDEs		$		$
Financial Counseling and other Services		$		$
Other : Please specify		$		$

** The survey is using the CDFI Fund's definition of 'Real Estate business" which refers to a business that has as its primary mission the development of a real estate project or projects.*

6. Briefly describe the financing product(s) being offered by the Allocatee and the financing gap in the marketplace that the product(s) is designed to address.

   For example, if the Allocatee is offering a debt product designed to meet the gap financing needs of start-up businesses, describe briefly the terms and characteristics of the loan (term, interest rate, subordinated, flexible collateral, interest only, longer than conventional amortization etc).

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7. If the Allocatee is using some of its Credits to finance venture capital equity or near equity investments in non real estate business, please indicate what percentage of the total Allocation is devoted to this type of QLICI.
   a. __________ % of total Allocation
   b. Also, please describe how the Allocatee is structuring its venture capital equity or near equity investments and discuss any problems that have been encountered in using the Credit to finance these investments.

8. Please identify any of the following areas of high economic distress that the Allocatee is specifically targeting with its NMTC financing. Check all categories below that apply:
   ____ Poverty rates > 30%
   ____ Median incomes of < 60%
   ____ Unemployment >=1.5 times national average
   ____ Federally designated EZ, EC, or RC
   ____ SBA designated HUB Zones
   ____ Native Areas
   ____ Brownfield redevelopment Areas
   ____ Areas encompassed by a HOPE VI redevelopment plan
   ____ Federally designated Native American, Alaskan Native area, Hawaiian Homelands, or Tribal area
   ____ Area designated as distressed by the Appalachian Regional Commission or the Delta Regional Authority
   ____ Colonias areas as designated by HUD
   ____ Federally designated medically underserved areas
   ____ CDFI Hot Zone
   ____ State or local tax increment financing districts, EZs or other locally designated areas of distress

   Indicate what percentage of the Allocatees total QLICIs are targeted to one or more of the target markets identified above: ________%

9. Please provide the following information regarding the impacts that the Allocatee's projects have had to date or that you anticipate having by the end of the calendar year.

Fax (202) 393-3034 Email Siggy@Rapoza.org

Community Impacts	Impacts Resulting from NMTC projects closed as of November 1, 2004	Impacts Resulting from NMTC projects to be closed by 12-31-04
Jobs created	#	#
Jobs retained	#	#
Square feet of real estate manufacturing	Sq. ft.	Sq. ft.
Square feet real estate office	Sq. ft.	Sq. ft.
Square feet of real estate retail	Sq. ft.	Sq. ft.
For Sale Housing Units % reserved for low or moderate income	# of Homes %	
Mixed Use / Rental Housing Units % reserved for low or moderate income	# of Units %	
Clients Served by Community Facility Indicate type of facility (e.g. health, child care, charter school) _____________ __________________________ % reserved for low-income clients	# of clients served %	# of clients served %

NMTC Coalition Survey of Round I NMTC Allocatees
Please Complete and Return via fax or email by Friday, November 19, 2004
Fax (202) 393-3034 Email Siggy@Rapoza.org

Section C — Describe a NMTC Project

Please describe a NMTC project that you have closed or anticipate closing by December 31, 2004. Please feel free to send us press releases or a short project descriptions that you have on hand or alternatively provide us with a brief description in the space provided below.

We are specifically looking for the following information:

- The type of deal (real estate, small business financing, community facility, etc.)
- The location of the deal (urban, rural, etc.)
- A brief description of the deal and the community impact(s) anticipated — new jobs, new homeowners, feet of new commercial space, new childcare slots, etc.
- Describe the NMTC financing provided and the value that the NMTC financing added to the deal.
- Please describe any public or private financing in the deal in addition to NMTC financing.
- Closing date or anticipated closing date

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Appendix B: New Markets Tax Credit Timeline

2000	
December	■ NMTC Program signed into law as part of the Community Renewal Tax Relief Act of 2004 (PL 105-554)
2001	
December	■ IRS releases temporary NMTC regulations
	■ CDFI Fund issues CDE certification application
2002	
September	■ First-round allocation applications submitted to CDFI Fund with a $26 billion demand for $2.5 billion in available allocations
2003	
March	■ CDFI Fund awards $2.5 billion in first-round allocations
September	■ Second-round allocation applications submitted to CDFI Fund with a $30 billion demand for $3.5 billion in available allocations (First-round applicants reapplying for second round are required to invest 50% of first-round allocation to qualify for another round)
November/ December	■ First-round allocation agreements signed
2004	
March	■ IRS releases revised temporary NMTC regulations
May	■ CDFI Fund awards $3.5 billion in second-round allocations
October	■ Corporate Tax Bill (HR 4520) passed with NMTC amendments allowing the targeting of low-income communities by place and population
	■ Third-round allocation applications submitted to CDFI Fund with a $23 billion demand for $2 billion in available allocations
December	■ IRS releases final NMTC regulations
2005	
March	■ CDFI Fund reports that $2 billion in QEIs were issued by first- and second-round allocatees by this time
May	■ CDFI Fund will award $2 billion in third-round allocations

New Markets Tax Credit Coalition
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