# The New Markets Tax Credit

# Progress Report 2009

A Report by the New Markets Tax Credit Coalition

June 2009

## New Markets Tax Credit Coalition

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This report was prepared by Rapoza Associates for the New Markets Tax Credit Coalition.

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, policy analysis 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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## Acknowledgements:

The following provided generous financial support for this publication:

Mike Ross, Baker Tilly (formerly known as Virchow, Krause & Company), Madison, WI

Claudia Robinson, Bank of America, Washington, DC

Randall Kahn, CAPMARK Securities Inc., Washington, DC

Matt Reilein, JP Morgan Chase, Chicago, IL

Michael Novogradac, Novogradac & Company LLP, San Francisco, CA

Gary Perlow, Reznick Group, Baltimore, MD

Edward Seksay, Rockland Trust, Rockland, MA

Eric Rosen, SunTrust Community Capital LLC, Atlanta, GA

The following entities provided generous amounts of their time
and talent to assist in the development of this report:

Carver Community Development Corporation

Finance New Mexico LLC, Santa Fe, NM

Hampton Roads Ventures LLC, Norfolk, VA

ShoreBank Enterprise Cascadia, Ilwaco, WA

The following provided valuable assistance in the preparation of this report:

Fusion MR — Market Research for Sustainable Business, Portland, OR

ampersand graphic design, llc, Boulder, CO

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# Introduction

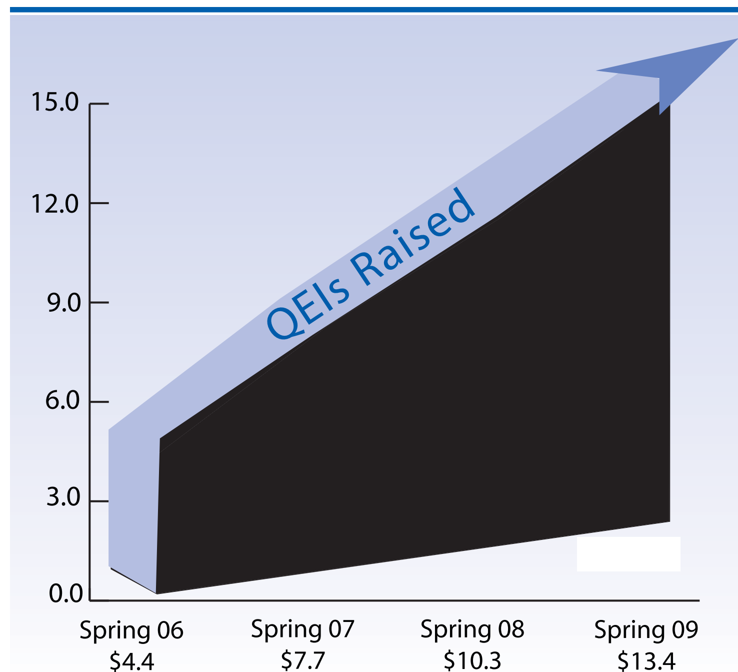
The New Markets Tax Credit (NMTC) program continues to exceed expectations as it boosts critical investment in low-income communities across the country. Enacted in 2000 and launched in 2003, the program's intent is to spur private investment in low-income communities. In particular, since inception through May 2009, $13.4 billion in New Markets Tax Credit investments have been finalized or committed out of a total of $19.5 billion awarded through 2008. An additional $1.5 billion was awarded on May 27, 2009. This is a significant commitment to revitalizing the poorest communities in our nation (Chart 1).

This is an exceptional time of opportunities and challenges for the New Markets Tax Credit program. As evidence of the commitment by the new Administration and Congress, President Obama called for a 1-year extension of this important program in his Fiscal 2010 budget proposal. One of the first major legislative feats in the 111th Congress was passage of the American Recovery and Reinvestment Act (ARRA) that contained a $3 billion increase in allocation for the NMTC.

Clearly, in just a few short years, the program has demonstrated its ability to stimulate investment in distressed communities. That said, this is a time of great challenges for the program in maneuvering through obstacles created by the economic crisis. Demand for the Credits is still robust, but tightening of the capital markets has raised concerns within the NMTC industry.

This year we asked survey respondents specific questions about the effects of the economic slow down on their ability to fully utilize their NMTC allocations and their responses are discussed later in this report. The NMTC Coalition will continue to track these developments throughout the year.

**Chart 1:**
**New Market Tax Credit Investment 2006–2009**
**(QEIs raised in billions of dollars)**




Source: CDFI Fund website

The chart at right illustrates the rapid pace of investment growth in just three years. As of May 2009, New Markets Tax Credits had raised or committed $13.4 billion in Qualified Equity Investments (QEIs) for investment in our nation's poorest communities; nearly a 22 percent jump over a 12 month period and far above the $4.4 billion amount raised through 2006.

## *The 2009 Progress Report*

This *2009 Progress Report*, prepared by the New Markets Tax Credit Coalition, a national membership organization that advocates on behalf of the Credit, is the Coalition's fifth report on the implementation of the New Markets Tax Credit. The report is designed to provide policymakers and practitioners with an update on the Credit and its impact on low-income communities across the country.

For its *2009 Progress Report* the Coalition surveyed Round I (2003), Round II (2004), Round III (2005), Round IV (2006) and Round V (2007) Allocatees. The results of the survey show that Credit recipients are continuing to raise capital from investors and deploy it into qualified businesses at a remarkably fast pace. In fact, the results indicate that demand for the Credit by allocatees and investors have made the program a more efficient development tool and have encouraged greater targeting to communities experiencing severe economic distress.

As with the previous four reports, the *2009 Progress Report* includes a series of stories from the field, which illustrate how Credit recipients are using the NMTC to channel NMTC financing to a range of businesses and community development projects in low-income communities. The stories also describe the reach of the Credit into both urban and rural areas in New Mexico, New York, Oregon and Virginia.

## *Background on the New Markets Tax Credit*

The purpose of the New Markets Tax Credit is to stimulate private investment and economic growth in low-income communities that are often overlooked by conventional investors. These economically distressed communities lack access to the patient capital necessary to support business and economic development.

The Credit attracts private sector investors to low-income areas by offering them a 39 percent federal tax credit over seven years – a 5 percent credit in each of the first three years and a 6 percent credit in each of the last four years. The investor receives the Credit when it provides a Qualified Equity Investment (QEI) in a Community Development Entity (CDE). The CDE in turn uses the capital derived from the Credit to make loans or investments in businesses and projects in low-income communities. These loans and investments are called Qualified Low Income Community Investments (QLICIs).

The Department of the Treasury's Community Development Financial Institutions (CDFI) Fund, which administers the New Markets Tax Credit program, starts the allocation process by certifying CDEs. In general, a CDE is a domestic corporation with a track record in community development and is accountable to the residents of the low-income communities it serves (i.e. by having such residents represented on the CDE's governing or advisory boards). Examples of a CDE are a Community Development Corporation, a Community Development Financial Institution, a private financial institution, or a Small Business Investment Company.

The CDFI Fund also oversees the competitive Credit allocation application process that determines which CDEs are awarded New Markets Tax Credits. If a CDE is awarded an

allocation of Credits it must sign an Allocation Agreement with the CDFI Fund, giving the Allocatee the authority to market the Credit to investors and begin implementing its New Markets Tax Credit business strategy.

## *Authorized NMTC Investment Exceeds $26 Billion*

Since its inception in 2000, Congress has consistently supported the NMTC, making it one of the largest community development programs in the federal government. The original authorization, part of the Community Renewal Tax Relief Act (P.L. 106-554), provided $15 billion in Credit allocations between 2000 and 2007, which was divided out over five allocation rounds. In December 2005, an additional $1 billion was authorized in New Markets Tax Credit allocations for Gulf Coast communities devastated by Hurricane Katrina. The Tax Relief and Health Care Act of 2006 extended the Credit through 2008 with an additional $3.5 billion in Credit authority and language requiring the Department of Treasury to better target the Credit to non-metro areas.

The most recent extension of the program occurred in fall 2008, when Congress passed the Renewable Energy and Job Creation Act of 2008 that included an NMTC extension through 2009 in its package of tax extenders. In February 2009, Congress passed the American Recovery and Reinvestment Act (ARRA), the economic recovery package that included a provision for $3 billion in additional New Markets Tax Credit (NMTC) authority divided equally between 2008 and 2009, increasing the overall Credit authority for 2008 and 2009 to $5 billion. On May 21, 2009, Representatives Richard Neal (D-MA) and Patrick Tiberi (R-OH) introduced H.R. 2628 to extend the NMTC program through 2013.

As of May 2009, the CDFI Fund has awarded six rounds of Credit allocations totaling $21 billion, and announced awards for the additional $1.5 billion made available through ARRA to 2008 CDE applicants on May 27, 2009.

Allocations are currently pending for the seventh allocation round. The CDFI Fund received $22.5 billion in requests from 249 CDEs for the $5 billion of available Credits for 2009. Under the CDFI Fund schedule, applications were submitted in April 2009 and Credit awards will be announced in October 2009.

## *Soaring Demand for Credits Magnifies Impact*

When a CDE submits an application to the CDFI Fund, it must detail its intended efforts in four areas: business strategy, capitalization strategy, management capacity, and community impact. Each of these four areas is scored equally, and the stiff competition and program rules require that successful applicants score well in all four categories. The CDFI Fund typically receives so many highly rated applications that in order for a CDE applicant to be successful, it must in fact exceed the minimum threshold for raising and deploying capital, as well as for penetrating areas of high economic distress, as established by law and the program guidelines. The CDFI Fund has thus dictated a set of higher benchmarks[1], as described further in the body of this report.

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1 CDFI Fund, NMTC Allocation Application Debriefing Document

As shown in Table 1, the demand to date has outstripped the availability of Credits by more than $152 billion. This *2009 Progress Report* will detail how Credit recipients from the first five allocation rounds are responding to this competition by continuing to surpass the statutory and program standards established for the New Markets Tax Credit while meeting or exceeding the elevated standards of success delineated by the CDFI Fund in its application.

**Table 1:**
**Allocation Availabilty and Demand**

| Application Round | Available Allocation | Application Demand |
|---|---|---|
| Round I (2003) | $2.5 billion | $26 billion |
| Round II (2004) | $3.5 billion | $30 billion |
| Round III (2005) | $2 billion | $23 billion |
| Round IV[2] (2006) | $4.1 billion | $28 billion |
| Round V (2007) | $3.9 billion | $28 billion |
| Round VI (2008) | $5 billion | $21 billion |
| Round VII (2009) | $5 billion | $22.5 billion |
| **TOTAL** | **$26 billion** | **$178.5 billion** |

# Survey Findings

## *The Survey Sample*

The CDFI Fund made 294 allocation awards to 205 Community Development Entities (CDEs) in Rounds I through V. Through the first five rounds of the NMTC Program, the 294 awards totaled $16 billion in tax credit allocation authority. This year's survey sample includes 167 New Markets Tax Credit (NMTC) allocation awards or 72 percent of the total awards to 96 CDEs from those five rounds[3]. The CDEs that responded to this year's survey hold nearly $9.3 billion in NMTC allocations:

- $1.7 billion in Round I Credits,
- $1.9 billion in Round II allocation awards,
- $1.4 billion in Round III awards,
- $2.1 billion in Round IV awards, and
- $2.1 billion in Round V awards

or 58 percent of the total $16 billion made available in Rounds I through V.

---

2 These figures include the additional $600 million in allocation volume provided to the GO Zones as well as the additional demand it generated.

3 The total number of completed surveys is 90; however most tabulations utilize up to 6 more incomplete surveys so the total number of responses for each question is between 90-96.

Of the CDEs surveyed:

- Forty percent received a Round I allocation, 33 percent a Round II allocation, 28 percent a Round III allocation, 36 percent received a Round IV allocation and 35 percent received a Round V allocation;
- Fifty-two received one allocation award and 44 received awards in two or more rounds;
- Thirty-four percent represent a national service area, 18 percent a multi-state area, 22 percent a statewide service area, and 32 percent a local service area[4].

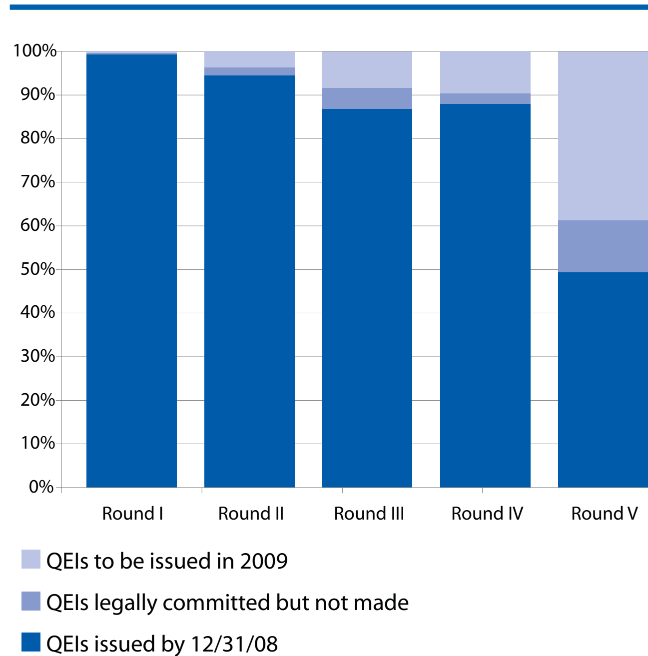
## CDEs Continue Issuing QEIs at Rapid Pace

CDE survey respondents were asked to report on their progress in securing capital from investors in the form of Qualified Equity Investments (QEIs), which are made in exchange for the Credit. CDEs continue to secure investments and issue QEIs at a faster pace than required by law or program guidelines. By law, a CDE must issue its QEIs within five years of receiving a Credit allocation. However, the CDFI Fund requires allocatees to raise 60 percent of their investment capital within three years[5].

By the end of 2008 the Round I CDEs surveyed had already issued $1.7 billion (99 percent) of their Credit allocations as QEIs and had legally committed[6] an additional $6 million (Chart 2).

By the end of 2008, the Round II award recipients had issued $1.9 billion (96 percent) of their Credit allocations as QEIs and had legally committed another $37 million. By the same time, Round III CDEs surveyed had issued $1.2 billion in QEIs (87 percent) and had legally committed $68 million.

**Chart 2: QEIs Issued, Committed and To Be Committed in 2009**




Source: Survey Respondents

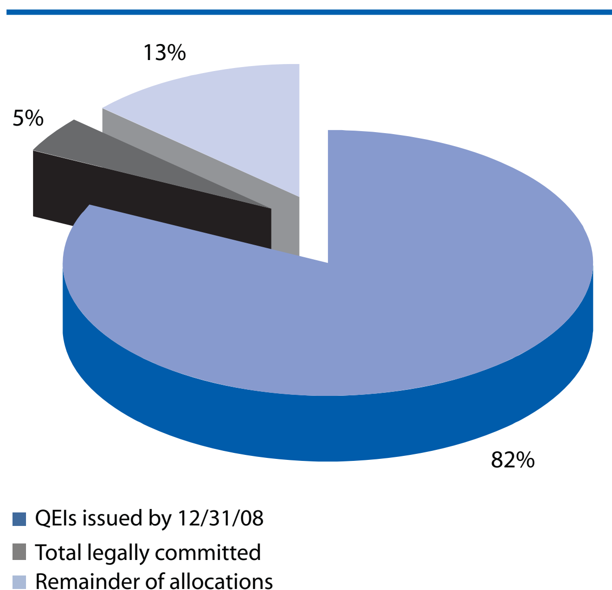
4 Percentages total greater than 100 percent because some multi-round Allocatees serve different service areas for separate allocation rounds.

5 CDFI Fund, NMTC Allocation Agreement 2008 Template

6 A legally binding contract signed between a CDE and an investor whereby the latter agrees to make an investment or a series of investments according to a determined schedule.

Round IV respondents had issued $1.9 billion (87 percent) and legally committed another $50 million. And finally, Round V respondents had issued $1 billion (51 percent) and legally committed another $261 million. Round V allocatees have issued over half of their allocations. One third of the Round V survey respondents are first time allocatees.

**Chart 3: QEIs Issued as Percent of Total Rounds I-V Allocation**




- QEIs issued by 12/31/08
- Total legally committed
- Remainder of allocations

Source: Survey Respondents

In aggregate, the Rounds I-V Allocatees surveyed had issued over $7 billion in QEIs – 82 percent of their total allocations – and legally committed another $422 million as of December 31, 2008 (Chart 3). By the end of 2009, these CDEs report that 87 percent of their allocations, or $8.1 billion, will be issued as QEIs.

## *NMTC Investor Market Continues to Develop*

CDEs were asked to indicate the types of institutions to which they had issued QEIs. Thirty-five percent of the CDEs responding indicated that they had secured investments from more than one type of investor.

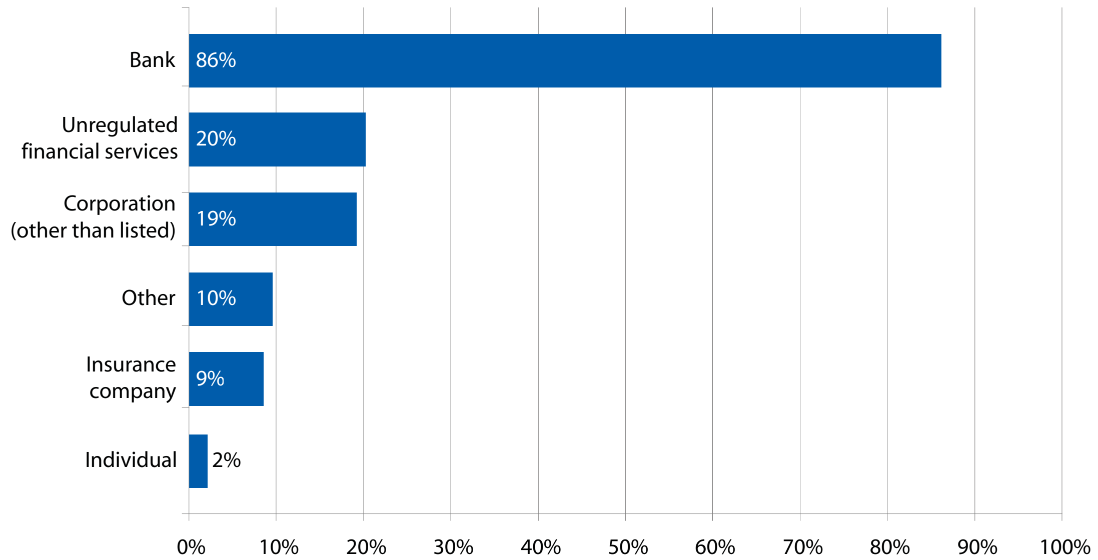
Chart 4 shows the diversity of institutional investors engaged in the Credit, displaying the percentage of survey respondents that issued at least one QEI to each investor type. The most commonly utilized investment sources are banks (86 percent), unregulated financial services firms (20 percent), and corporations (19 percent).

As represented in Chart 4, the bulk of QEIs are issued to regulated banks. Fifty percent of CDE respondents received 100 percent of their investments from regulated national, regional, or local banks. Nonetheless, Chart 4 shows that non-regulated financial institutions and corporations continue to play a significant role as investors in CDEs.

At the same time it is important to note that 18 percent of CDEs responding were themselves regulated banks. It is not uncommon for these institutions to be both Allocatees and NMTC investors, and in some cases to self-invest, which contributes to the predominance of this investor type.

The "Other" sources of investment reflected in Chart 4 include leveraged funds, community development corporations, pension funds, government sponsored enterprises, foundations, nonprofits, and limited partnerships, highlighting even further the diverse sources of capital invested in underserved communities through the NMTC program.

**Chart 4:**
**Sources of QEI Investment**

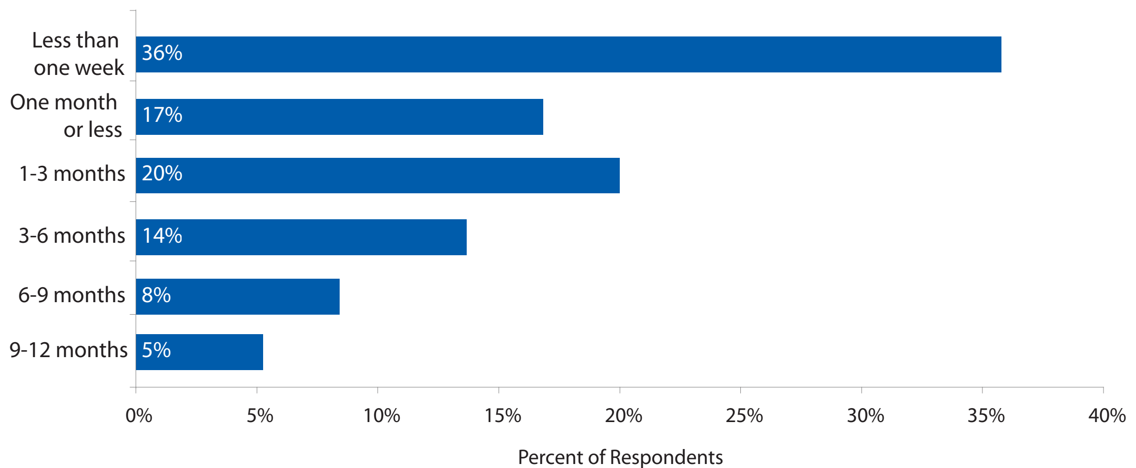



Source: Survey Respondents

## *Progress Deploying New Markets Tax Credit Capital*

CDEs responding to the survey continue to deploy loans and investments into the field at a faster rate than required by law and faster than the standard set by the CDFI Fund. The law requires CDEs to have "Substantially All" (at least 85 percent by regulation) of their QEIs deployed in Qualified Low Income Community Investments (QLICIs) within one year of issuance. This requirement means that once a CDE raises its investment capital and issues a

**Chart 5:**
**Time (Required) to Deploy Capital (Requirement is One Year)**

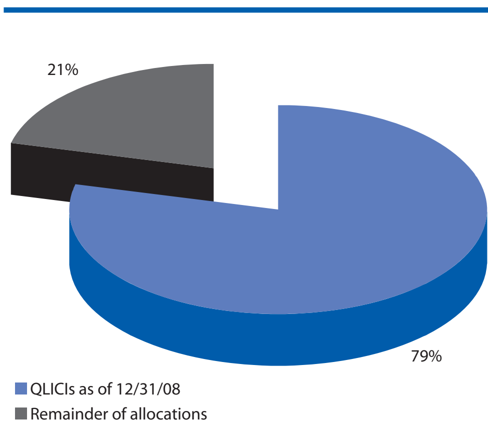



Source: Survey Respondents

QEI to the investor, it has one year to deploy the capital into QLICIs. Again, the CDFI Fund sets a higher bar in its application process, stating that a successful CDE applicant must show that it can close at least 80 percent of its QLICI activities within three years[7].

Thirty-six percent of the CDEs surveyed indicated that they deploy their capital in less than a week after issuing a QEI, 17 percent within thirty days, and another 20 percent deploy their capital within three months (Chart 5). Thus, 73 percent deploy their capital in three months or less, a slightly faster rate than the finding of nearly 70 percent in 2008.

**Chart 6: Percentage of Capital Deployment, Rounds I–V**




Source: Survey Respondents

As of December 31, 2008, survey respondents had collectively made a total of 1,781 QLICIs totaling $7.3 billion. This figure also represents 79 percent of the total allocations for the survey respondents (Chart 6).

## *Types of Loans and Investments*

A QLICI can take the form of (1) an investment or loan in a qualified business; (2) equity investments and loans in another CDE; (3) the purchase of a qualified loan from another CDE; or (4) financial counseling to businesses or residents in a low income community.

Most of the nearly $7.3 billion in QLICIs deployed by the CDEs surveyed as of December 31, 2008 is in the category of investments and loans to qualified businesses (Chart 7). Eighty-one percent of the total QLICIs took the form of debt financing to QALICBs while 14 percent was invested as equity and 5 percent in other activities (Chart 8).

A high percentage of respondents indicated that they use the Credit to provide both debt and equity products to qualified businesses, at times packaging them together.

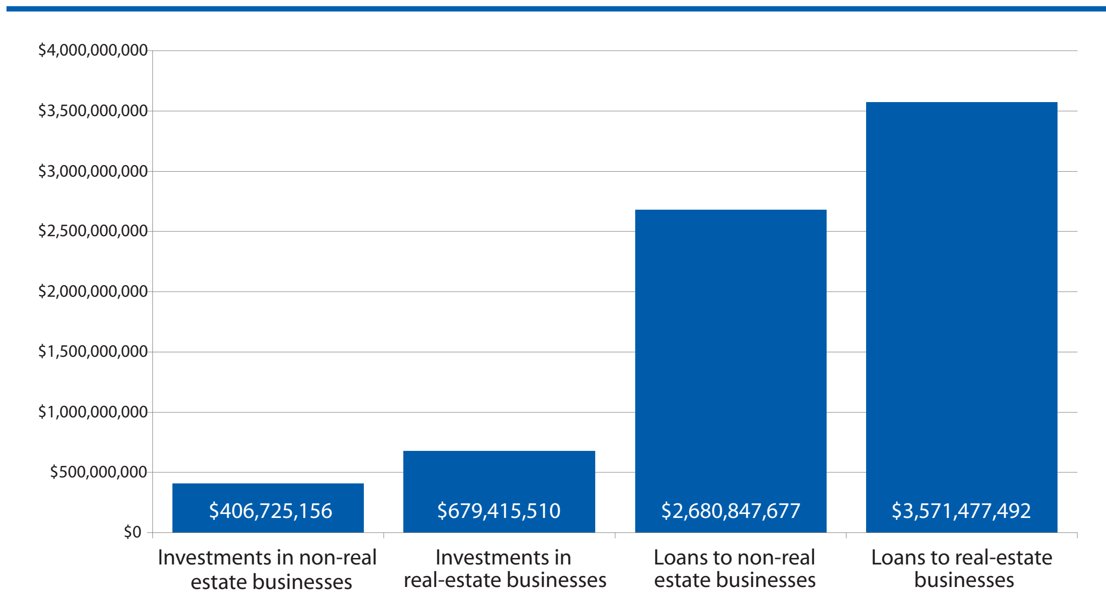
The CDEs report that more than $3 billion in debt and equity financing went to non-real estate businesses and more than $4.2 billion in loans and investment went to real estate businesses[8] (Chart 7). As Chart 8 indicates, non-real estate transactions account for 40 percent of the overall QLICIs reported, and real estate transactions account for 55 percent. This year, the percentage of non-real estate transactions jumped five points over last year's findings. More detailed data on "other activities" can be found in Chart 12.

Survey responses indicated a slight drop in the category of "other" investment activities tracked by the CDFI Fund including equity investments in other CDEs, loans to other

7 CDFI Fund, NMTC Allocation Application Debriefing Document

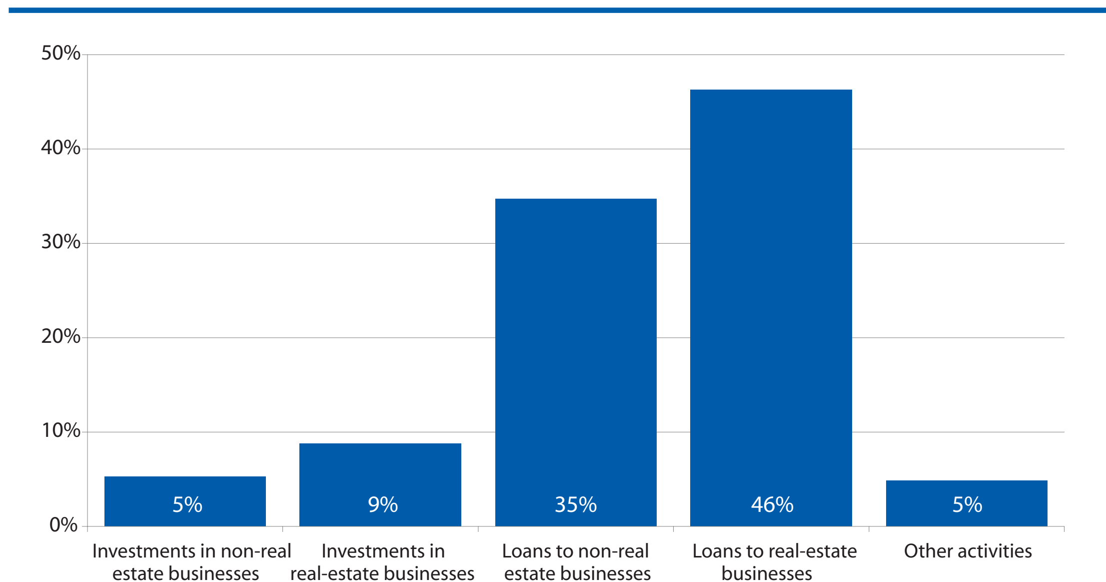
8 The CDFI Fund defines a real estate business as a business that is principally engaged in the development of a specific real estate project or projects. Investments in real estate businesses (development, management or other) in support of their business operations, as opposed to a specific project or projects, are considered non-real estate business transactions.

**Chart 7:**
**Loans and Investments in Real Estate and Non-Real Estate Businesses**




Source: Survey Respondents

**Chart 8:**
**Type of Transactions as Percentage of Overall Transactions**

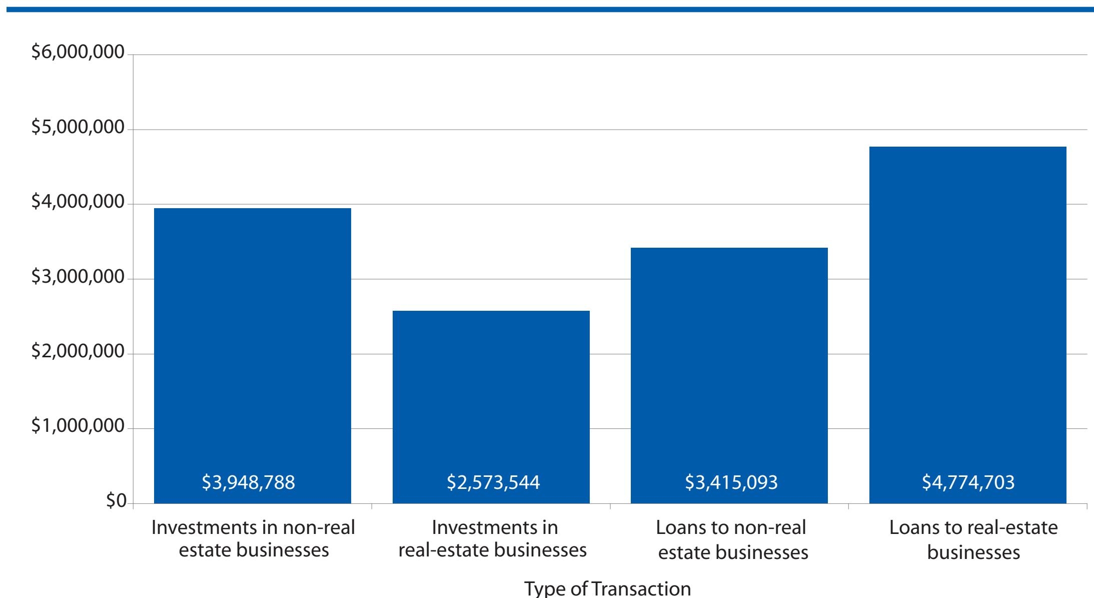



Source: Survey Respondents

CDEs, loan purchases from other CDEs, and financial counseling (Chart 8). These activities represent 5 percent of the total QLICIs deployed by CDE respondents, down from 8 percent in 2008. As can be seen in Chart 12, the most utilized of these other activities are loan purchases from other CDEs.

Previous survey reports have found that NMTC loans are larger than equity investments (Chart 9) and real estate transactions are typically larger than non-real estate, although this year investments in non-real estate businesses exceeded loans to non-real estate businesses by an average of $500,000.

**Chart 9:**
**Average Size of NMTC Transactions (in dollars)**



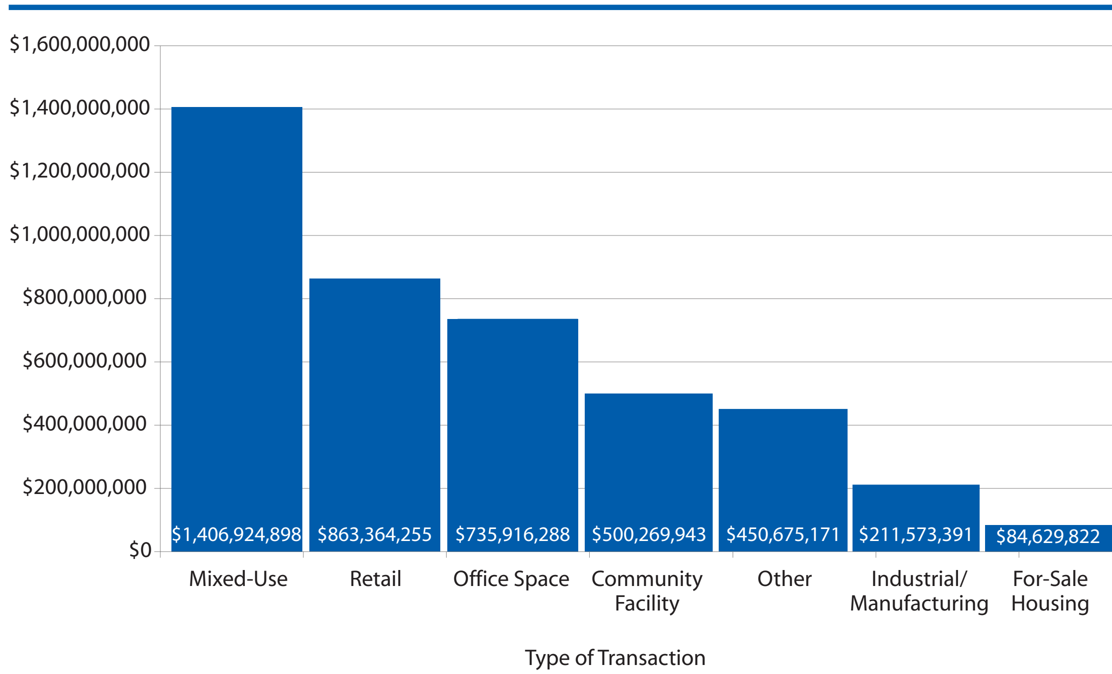

Source: Survey Respondents

Charts 10 and 11 reveal the prominence of mixed use and retail projects among the real estate transactions. Mixed-use developments account for 33 percent of real estate transactions made by the survey respondents. The second most common real estate project type is retail at $863 million, or 20 percent of all real estate developments. These findings are consistent with previous reports.

As compared to findings in the *2008 Progress Report*, this year's survey found a $400 million increase in the total value of mixed-use real estate transactions; a $200 million hike in community facility transactions and a 50 percent increase in the industrial and manufacturing category.

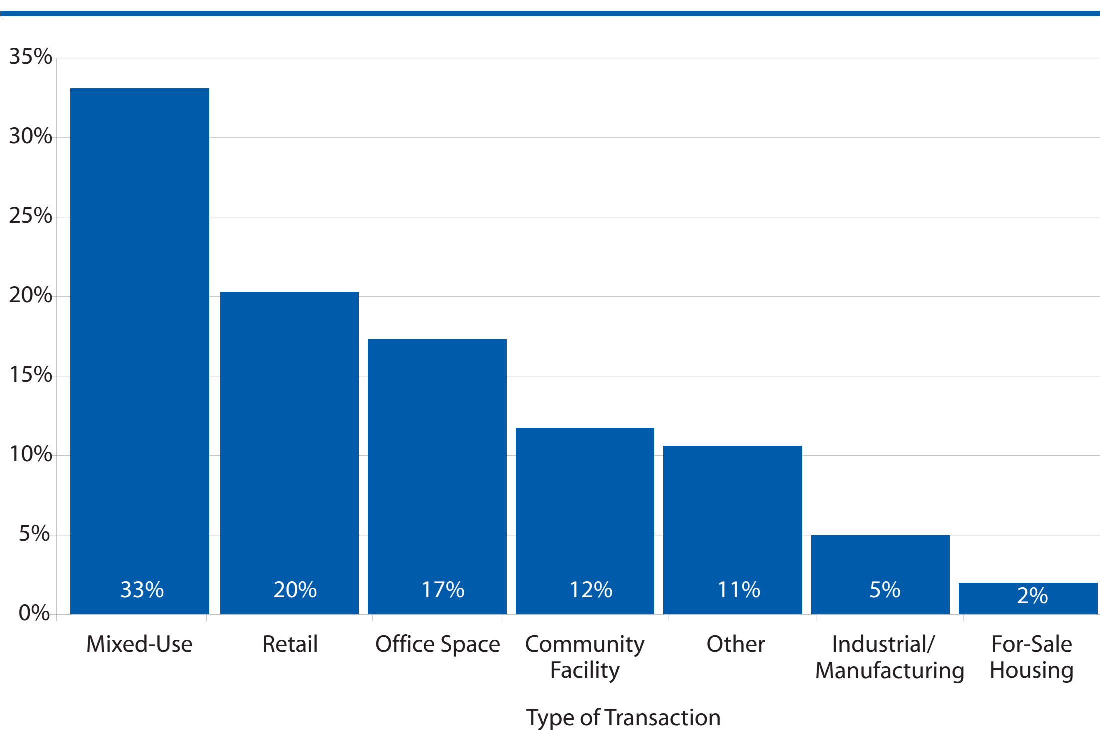
For the first time, the survey asked respondents to identify the types of their non-real estate transactions. Survey results reveal that respondents invested $500 million in healthcare transactions, $487 million in industrial/manufacturing, $453 million in education, $311 million in energy, green or agri-business transactions and $28 million in transportation. Other significant non-real estate transactions were made in community facilities, retail, mixed-use, hotels and hospitality, cultural, entertainment, and religious facilities. Since non-real estate

**Chart 10:**
**Value of Real Estate Transactions by Type**




Source: Survey Respondents

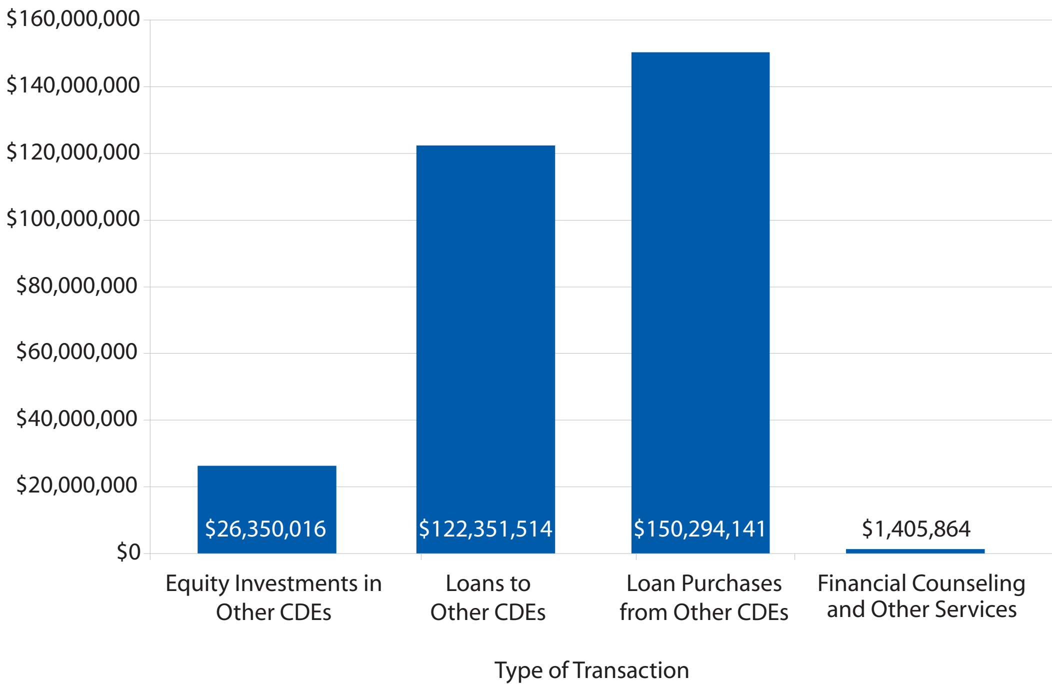
**Chart 11:**
**Percent of Total Real Estate Transactions by Type**




Source: Survey Respondents

investments, both in the form of equity and loans, are a growing segment, the Coalition will begin tracking these investments more closely as the program moves forward.

**Chart 12:**
**Other Investment Activities**

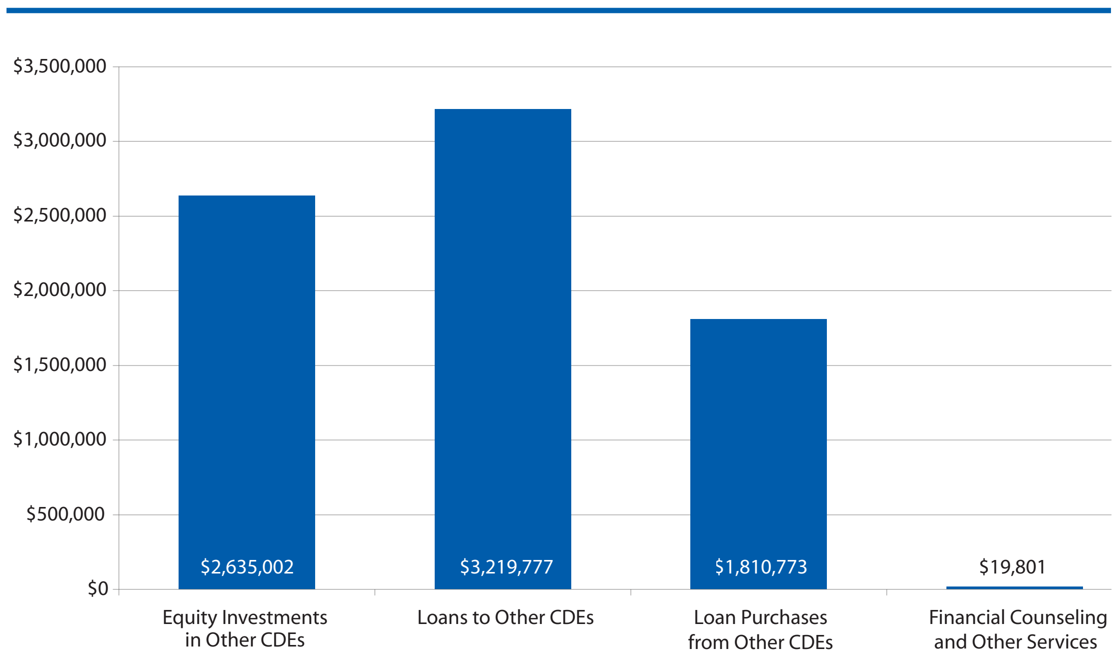



Source: Survey Respondents

The survey findings for CDEs' investments in "other" activities, covering equity investments in other CDEs, loans to other CDEs, loan purchases from other CDEs, and financial counseling and other services tends to fluctuate more year-to-year. In many cases the allocatees who engage in these transactions are large, established organizations that not only direct needed capital to low-income communities; they also build the capacity of smaller, locally grown CDEs.

There was an expectation in the design of the NMTC program that CDE Allocatees would use their allocations to make loans to and purchase loans from other CDEs. The *2008 Progress Report* found that loans to other CDEs had more than doubled from the *2007 Progress Report*. This year instead there is a significant jump in the amount of loan purchases from other CDEs – in 2008 we reported it at a level of $49 million, this year the amount reported is significantly higher at $150 million (Chart 12) making it the largest category while loans to other CDEs that topped the list last year came in at $122 million this year. Overall, the amount invested in these other activities came in at 8 percent in 2008 and this year dropped to 5 percent. Chart 13 shows the average transaction size for these other activities, specifically loans to other CDEs, loan purchases from other CDEs and financial counseling.

**Chart 13:**
**Average Size of Other Investment Activities (in dollars)**




Source: Survey Respondents

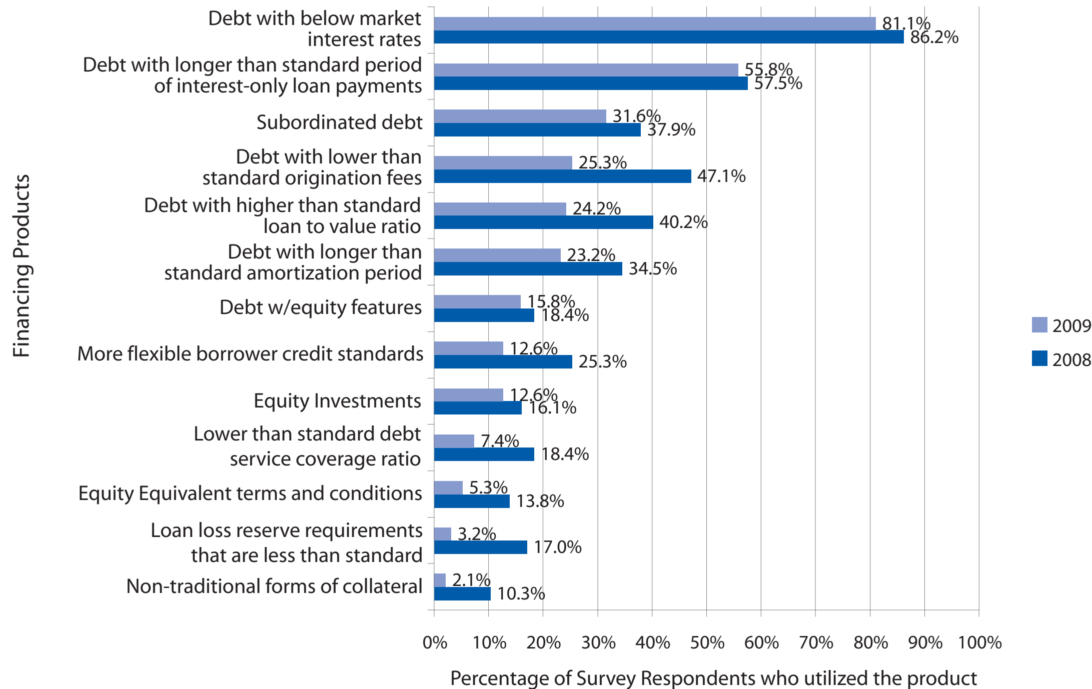
## *Offering Patient, Flexible Financing Products*

While using the Credit to provide a range of both debt and equity products to qualified businesses, CDEs have designed flexible financing products to address the financing needs of businesses in the communities they serve. The flexibility of the Credit has allowed CDEs to structure financing products and strategies based on the needs of the business, the profile of the community, and the financing gaps in the market.

In fact, in order to succeed in the competitive application process, CDEs must show how they will target investments in more highly distressed communities and demonstrate how the Credit will be used to provide patient, flexible capital on terms and conditions not otherwise available in the market. The CDFI Fund has continued to add application questions on the types of flexible products offered and award points to CDEs committed to making use of them.

Survey respondents were asked to identify their three most frequently utilized flexible or non-traditional financing products out of a list of products identified by the CDFI Fund (Chart 14).

**Chart 14:**
**Most Popular Flexible and Non-traditional Financing Products, 2009 vs. 2008**
**(by Percent of Survey Respondents)**




Source: Survey Respondents

Over 81 percent of survey respondents indicated that providing debt with below market interest rates is the CDE's most utilized product, consistent with prior years' findings. Here are the next "top three" products offered by the CDEs surveyed:

- Longer than standard period of interest-only loan payments – 56 percent
- Subordinated debt – 32 percent
- Debt with lower than standard origination fees – 25 percent

This year revealed some shifts in the use of certain financing products, perhaps a result of changes in the capital markets. Chart 14 shows survey results from both 2008 and 2009 surveys to illustrate financing product adjustments over the last year. For instance, in 2008, 47 percent of respondents indicated that they used lower than standard origination fees and this year that has dropped to 25 percent. Debt with a higher than standard loan to value ratio dropped from 40 percent in 2008 to 24 percent this year. And, the popularity of products with a longer than standard amortization period dropped 10 points.

As seen previously in Chart 7, the majority of financing to businesses in low-income communities through the NMTC has come in the form of loans. Accordingly, the majority of the flexible and non-traditional financing products listed in Chart 14 relate to debt products. While most CDEs continue to use the Credit to provide flexible debt financing products, it is

important to note that CDEs are also using the Credit to offer equity, equity-like and near-equity products. Patient capital, particularly equity capital, is often the most difficult financing to secure for projects in low-income communities. The ability to use the Credit to address this capital gap is very important even if it is most often combined with debt.

## *Leveraging Additional Investment into Target Communities*

Neither the law nor regulation requires NMTC Allocatees to leverage additional financing resources from outside investors when structuring transactions. The New Markets Tax Credit program is by its very definition leverage in that a CDE must use its tax credits to raise (leverage) capital. CDEs have proven adept at leveraging additional dollars into target communities at the project level.

As originators of investments in highly distressed communities, CDEs perform three critical functions. The first is to act as initial and exclusive investor in underserved urban and rural areas that lack private financing options. In some instances CDEs use their QEIs to provide 100 percent financing to local businesses.

Second, a CDE may be the first investor in a transaction, thus lowering the risk profile of the investment and attracting other private and public investors. Finally, CDEs provide gap financing. In this case, while other investment capital may be pledged to a project, an additional, critical piece of patient capital may be required to finalize the transaction. In some instances, gap financing takes the form of equity or subordinated debt to make the project feasible.

To further explore the magnitude of the leverage effect of CDEs, the Coalition asks a leveraging question in its survey. Eleven of the 94 respondents to this question reported having financed 100 percent of the project with their NMTC investment. The remaining 83 respondents indicated they routinely provided either the initial capital that attracted other investors or the gap financing required to complete a project's financing. Collectively, of the $7.3 billion in NMTC investment, the respondents reported that on average, 48 percent of total project costs were financed using the NMTC financing dollars.

## *Credit Activity in Rural, Major Urban, Minor Urban Areas*

The CDEs responding for this survey report that 14.4 percent of the total QLICIs went to rural areas[9] (Chart 15) indicating a modest increase in transactions in rural areas from 2008. In terms of dollars invested, the survey respondents report $980 million of investments in rural areas, or 13 percent of the total QLICIs. Major urban areas received $4.8 billion of

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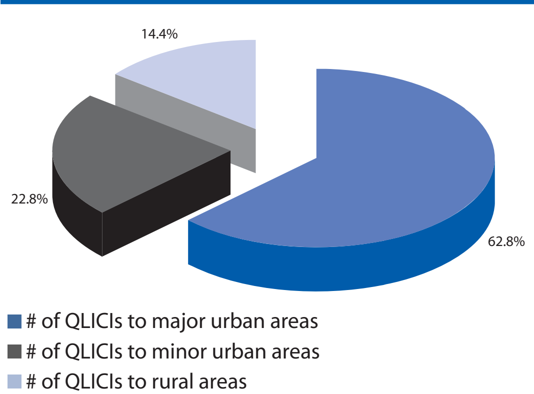
9 CDFI Fund Definitions:

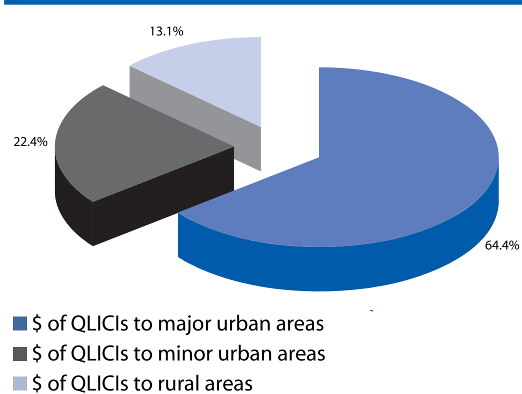
- **Major Urban Area** - a metropolitan area with a population equal to or greater than 1 million, including both central city and surrounding suburbs.
- **Minor Urban Area** - a metropolitan area with a population less than 1 million, including both central city and surrounding suburbs.
- **Rural Area** - areas not contained within major urban or minor urban areas.

**Chart 15:**
**Percent of QLICIs to Rural, Major Urban and Minor Urban Areas**




Source: Survey Respondents

**Chart 16:**
**Percent of QLICIs in Dollars to Rural, Major Urban and Minor Urban Areas**

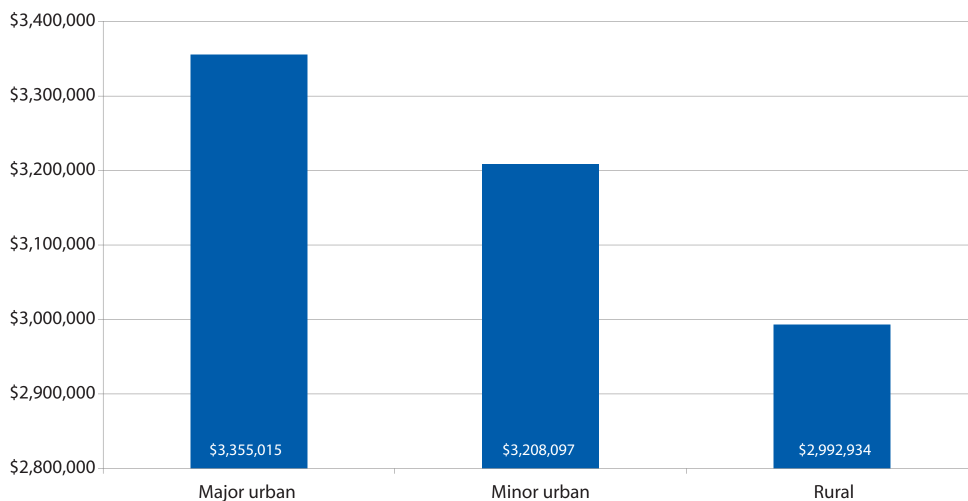



Source: Survey Respondents

investment and minor urban areas garnered $1.7 billion, together totaling 87 percent of the total QLICI dollars (Chart 16).

Of note, last year's survey results found that the average size of the investments in all three areas was relatively similar in spite of overall investment being smaller for rural areas. This year's results indicate a larger difference in the average size of transactions with the average size of major urban transactions at $3.3 million, minor urban at $3.2 million and rural at $2.9 million (Chart 17).

**Chart 17:**
**Average Size of Transaction for Major, Minor Urban and Rural Areas**




Source: Survey Respondents

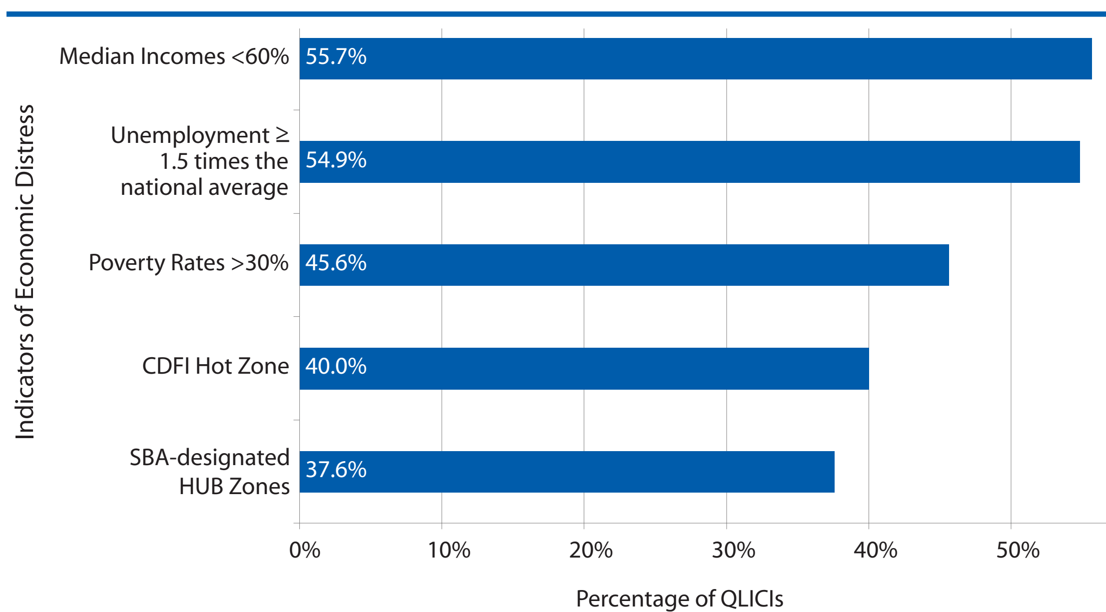
The Tax Relief and Health Care Act of 2006, which extended the Credit through 2008, also included language to address the underinvestment of capital in rural areas. Starting in 2008, the application process contains new requirements to ensure that a proportional allocation of QEIs will be provided in non-metropolitan counties. The CDFI Fund will ensure that at least 20 percent of QLICIs made by allocatees under the 2008 allocation round are invested in non-metropolitan counties and the same proportion of eligible applicants are rural CDEs. Since this survey covers allocations made through Round V (2007), we have yet to measure results from this new requirement. The Coalition will track and report on the impact of these new requirements in future reports.

## *Targeting Communities of High Distress*

The law and regulations that govern the Credit require CDEs to invest in low-income communities, which are defined as census tracts with (1) A poverty rate of at least 20 percent; (2) A median family income of up to 80 percent of the metropolitan area or statewide median income, whichever is greater; or (3) for non-metro census tracts, a median family income of up to 80 percent of the statewide median income. However, to ensure that the Credit will be used in the most high distress areas, the CDFI Fund has set the bar to require that at least 75 percent of QLICIs will be in communities of high economic distress, using standards that exceed the minimum benchmarks set by the law[10].

The CDFI Fund requires allocatees to report on these indicators of high distress to determine whether and which CDEs are targeting NMTC dollars to the communities that

**Chart 18:**
**QLICIs in Areas of Economic Distress**




Source: Survey Respondents

10 CDFI Fund, NMTC Allocation Agreement 2008 Template

need them most. Recognizing that different communities face different barriers to economic development, the CDFI Fund utilizes an extensive list of high distress criteria.

Survey respondents were asked to report on the number of QLICIs that were made in these areas of high economic distress. Overall, the CDEs report that 92 percent of their total QLICIs were made in communities with an average of two or more high economic distress factors. Most notably, the greatest percentage of survey respondents pointed to the following criteria of high economic distress (Chart 18):

- Fifty-six percent of the QLICIs are in areas with median incomes of less than 60 percent of area median income;
- Fifty-five percent of the QLICIs are in areas with unemployment greater than 1.5 times the national average; and
- Forty-six percent of the QLICIs are in areas where the poverty rate is greater than 30 percent.

These findings show a significant increase in investment in economically distressed areas over the last year. In the 2008 survey, results showed investment in areas with median incomes less than 60 percent at a level of 47 percent, a nine point difference. There is a 16 point jump in the level of investments in areas with unemployment greater than 1.5 times the national average. In addition, there is an eleven point hike of investment in areas with a poverty rate above 30 percent.

As represented in Table 1, CDE demand ($156 billion) for Credits in the first five allocation rounds significantly exceeded the amount available ($16 billion). CDEs that target their investments to more economically distressed areas are more competitive in the application process. These results would indicate that the trend to target more investment to economically distressed areas is occurring.

## Stories from the Field

The following NMTC stories from the field describe how a cross-section of CDEs and investors are using the New Markets Tax Credit to generate private sector investments, expand business opportunities, finance quality community facilities and create jobs in communities across the country.

# Story from the Field: Carver Leverages NMTC To Expand Healthcare Services in Harlem

**Allocatee:** Carver Community Development Corporation (CCDC)
**Headquarters:** New York, New York
**Service Area:** Multistate*: New York and New Jersey (*as of Round VI)
**Allocation:** $124 Million (Rounds IV and VI)

Carver Bancorp, Inc. (Carver) is the holding company of Carver Federal Savings Bank, founded in 1948 to serve African-American communities whose residents, businesses and institutions had limited access to mainstream financial services. Today, Carver is the largest African-American and Caribbean-American operated bank in the United States with assets of $800 million. It continues to operate as a community bank focused on meeting the financing needs of families and businesses in its service area.

The bank is headquartered in Harlem with all 9 of its branches and 11 stand-alone ATM centers located in low- to moderate-income neighborhoods throughout Manhattan, Queens, and Brooklyn. More than 80 percent of Carver's lending is directed to consumers and businesses in low- and moderate-income census tracts where Carver depositors live. This targeted lending illustrates Carver's commitment to keeping its community vibrant and growing.

Photo: Kenneth D. Garcia, AXIS D.I. ARCHITECTURE LLC

Carver is certified by the Treasury Department as a Community Development Financial Institution (CDFI). In 2006 the bank formed its Community Development Entity (CDE), Carver Community Development Corporation (CCDC), which applied for and was awarded a NMTC allocation of $59 million in 2006 and received $65 million in the recently announced Recovery Act awards. NMTC allowed Carver, through its CDE affiliate, to expand and offer financing products and services that the bank, as a regulated financial institution, was not able to offer directly. The NMTC award enabled CCDC to invest with community and development partners in economic development projects with attractive terms including, in some cases, below market interest rates. These NMTC projects are expected to attract additional capital to underserved communities throughout Carver's service area.

In just three years, CCDC has placed all of its initial $59 million NMTC allocation. Carver is the major equity investor in CCDC, which allows it to take advantage of the 39 percent federal tax credit over 7 years. The capital raised with the NMTC has allowed CCDC to finance 10 businesses, all of which are located in highly distressed census tracts within Carver's service area. One of CCDC's NMTC loans was used to finance a health care clinic and at the same time preserve one of Harlem's architectural landmarks.

### *Citicare Properties, LLC – New York, New York*

Carver Community Development Corporation had the foresight to build an alliance between jazz music preservationists and a community health care provider in order to renovate a historic building in the heart of Harlem into the only free-standing health care clinic in the neighborhood. The NMTC was critical in making the project work.

Jazzmobile, a non-profit founded in 1964 as a pioneer organization committed to the preservation of the jazz musical genre, was housed in a historic building in Harlem. Jazzmobile was at risk of losing its historic headquarters building due to a challenging fundraising environment. As they looked to sell the building, they hoped to find a buyer who would maintain the building as a community facility. Citicare, a health care provider that has served residents of New York since 1982, approached Jazzmobile about acquiring the property and converting it to a community healthcare facility.

With the help of CCDC's NMTC financing, Citicare was able to purchase and preserve the historic structure and develop it as a healthcare facility. In addition, Citicare is allowing Jazzmobile to stay in the building until they find a new and affordable home.

By locating Citicare in Harlem, it is anticipated that additional medical service providers will come to the neighborhood, which is designated as a medically underserved community, bringing both jobs and medical services. The new Citicare site handled more than 28,000 patient visits in 2008, serving more than 6,000 individuals. Almost 70 percent of Citicare's patients are Medicaid recipients with Medicare accounting for another 9 percent and the remaining 22 percent consisting of managed care patients, commercial insurance or self-pay patients.

The total cost of the Citicare renovation project was just under $8 million. Citicare provided roughly $2 million in equity financing and CCDC provided a $6 million loan, financed with

NMTC. The loan was structured as an interest-only loan with a 5 percent interest rate. It was structured as a source of permanent financing which was possible because Carver Federal Savings was the sole NMTC investor. This structure allowed CCDC to make a loan that exceeded the 7-year credit term required by the NMTC statute. As the NMTC investor, Carver will realize the NMTC tax benefit over 7 years after which the bank will continue to hold the loan. During the 7-year term of the Credit, Carver will pass on $60,000 to Citicare to write down the annual lease. This will result in a 19 percent cost savings to Citicare, which will in turn invest the savings in services to the community.

In addition to the Citicare project, CCDC used its NMTC financing to extend a working capital loan to Hale House, Inc. a non-profit social service provider that has been serving families in Carver's service area since 1969. Hale House operates three community health safety net programs that assists foster children, offers subsidized day care and provides transitional housing for homeless families in a community where 30 percent of the residents live in poverty. CCDC provided a $1.6 million NMTC loan to Hale House which allowed the organization to finance operations during a transition period. The loan allowed Hale House to continue community operations, complete a renovation, retain and hire staff, and continue to source goods and services from the local community.

CCDC also provided a $5.3 million pre-development loan to Abyssinian Development Corporation for the renovation of the legendary Renaissance Ballroom in Harlem which has been boarded up and vacant for over 30 years. CCDC's NMTC loan will enable Abyssinian Development Corporation to bring the historic building back into service offering community and cultural space as well as up to 150 mixed-income workforce housing units. In addition, CCDC has provided a $2 million loan to the Community Partnership Development Corp to capitalize a revolving loan fund that provides no-interest, pre-development loans and equity to small minority and women-owned housing builders and developers in New York City.

Carver is committed to investing in the most distressed neighborhoods in New York City and has already been a huge contributor to efforts to revitalize these areas. The NMTC has enabled Carver to expand the products and services it can offer consumers and businesses in the community and the bank plans to continue growing its NMTC portfolio as a recipient of an additional NMTC allocation of $65 million through the American Recovery and Reinvestment Act of 2008.

## Story from the Field: Adaptive Reuse with the NMTC Restores Historic African American Buildings and Brings A Performing Arts Center and Culinary School to Southwest Virginia

| | |
|---|---|
| **Allocatee:** | Hampton Roads Ventures, LLC |
| **Headquarters:** | Norfolk, Virginia |
| **Service Area:** | National |
| **Allocation:** | $100 million (Rounds I, III and V) |

At the turn of the 20th century, Roanoke, Virginia was a strategically located transportation hub at the edge of the Blue Ridge Mountains and Roanoke's Gainsboro neighborhood, affectionately known to locals as "the Yard." It was recognized as a vibrant cultural and commercial center for the African American community. The Dumas Hotel and the Strand Theatre, both located on Henry Street at the heart of the Gainsboro community, played a critical role in the livelihood of the community.

In the early 1900s, the Strand Theatre attracted famous black entertainers from across the country to perform in Roanoke, and yet, segregation laws at the time prohibited these star performers from staying at a hotel with a white clientele. The Dumas Hotel, which opened in 1917, provided 26 first class accommodations for these performers. The Dumas Hotel's guest list of entertainers coming through town to perform at the Strand Theater included the top American jazz musicians – Louis Armstrong, Count Basie, Lena Horn, Dizzy Gillespie, Fats Waller, Duke Ellington, Cab Calloway, and Ella Fitzgerald.

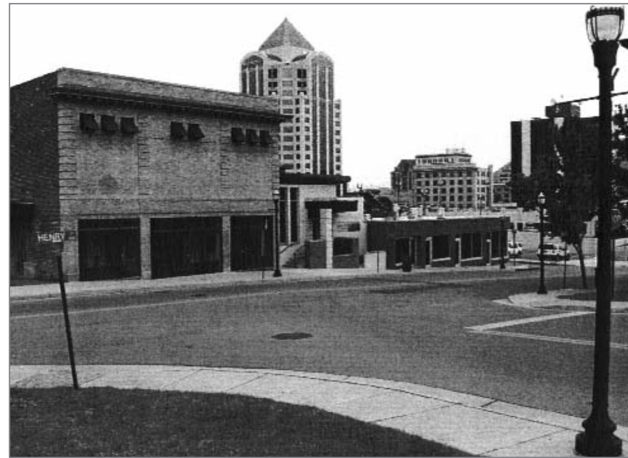


Photo: Hampton Roads Ventures

Over the years, both the hotel and the theatre fell into disrepair, as did the surrounding Gainsboro neighborhood. Once a vibrant center for the arts and entertainment, the neighborhood now has a poverty rate of 40 percent and has been deemed by HUD as an Enterprise Community and by the SBA as a HubZone due to its deepening economic distress.

In 2003, the Roanoke City Council adopted a comprehensive neighborhood plan designed to revitalize the historic Henry Street corridor and renovate the historic buildings in Gainsboro that were now vacant. The city was committed to restoring the once flourishing neighborhood and putting the historic structures back into use to serve the community. The plan called for the Dumas Hotel to be converted into the Dumas Center for the Arts, and the Strand Theatre was to be converted into an educational complex that would include a college level culinary school and banquet facility.

Photo: Hampton Roads Ventures

The City of Roanoke approached Hampton Roads Ventures (HRV), a community development investment firm headquartered in Norfolk, Virginia, to help move the Henry Street renovation plan forward. While the city had done its work to engage the community in developing a comprehensive community revitalization plan, they needed HRV's assistance to secure and structure the financing needed to move the plan forward as envisioned.

HRV was certified as a CDE in 2003 and had established a successful track record of using NMTCs, as well as Historic Tax Credits (HTC) to finance real estate projects in low-income rural and urban communities throughout Virginia, with a particular focus on working to restore historic and/or architecturally significant buildings in African American and Hispanic communities.

### Renovation of the Dumas Hotel into the Dumas Center for the Arts

The Dumas Hotel had been lying vacant for years when it was acquired by Total Action Against Poverty (TAP), a local community action agency based in Roanoke. HRV worked with TAP to restore the historic hotel into a performing arts center and educational facility.

The total project cost of the Dumas Center for the Arts renovation was $4.4 million, of which $4.1 million was financed with NMTC debt provided by HRV and its NMTC investor, Morgan Stanley. Historic tax credits and local non-profit grants provided the remaining $300,000. HRV provided two separate NMTC loans to the project. The first loan, $3.1 million, was structured as an interest-only senior loan with a term of 7 years and an interest rate of 2.54 percent. The second loan, for $1 million, was structured as an interest-

only 25-year junior loan, with an interest rate of .5 percent and a 'put and call' option after year 7 allowing the investor to refinance, sell or remain in the project. The below market rate financing provided by HRV, and made possible with the NMTC, allowed TAP to retain ownership of the historical structure and bring it back on line as a facility designed to serve the needs of community residents.

The Dumas Hotel re-opened as the Dumas Center for the Arts in November 2006. This new multi-faceted community cultural and performing arts venue has a 200-seat theater, a recording studio, and a music education center for teens. The new facility is now home to two performing arts organizations committed to enhancing the cultural, educational and social well being of the youth and teen residents of the Gainsboro and the surrounding neighborhoods. Over one hundred young people, mostly African Americans from the surrounding community, are participating in the programs offered.

## *Renovation of the Strand Theatre into the Culinary School*

The Strand Theatre had been boarded up and lying vacant for years and had been listed as one of Virginia's top ten most threatened architectural landmarks before the Roanoke Higher Education Center, a consortium of 14 Virginia colleges, stepped in with plans to redevelop the site into a college level culinary arts school.

The total project cost for the Strand Theatre renovation was $7 million, of which $5.7 million was financed with NMTC debt provided by HRV and its NMTC investor Morgan Stanley, and the remaining $1.3 million was provided by a combination of historic tax credit financing and local non-profit grants. HRV provided two separate NMTC loans to the project. The first loan, for $4.5 million, was structured as an interest-only senior loan having a term of 7 years and an interest rate of 2.9 percent. The second loan, for $1.2 million, was structured as an interest-only junior loan for 25 years, with an interest rate of .5 percent, and a 'put and call' option after year 7 allowing the investor to refinance, sell or remain in the project.

The Culinary School opened in June of 2008 and has maintained a full enrollment with 300 students in training. It expects to produce 30 professional level chefs per academic year. It is also worth noting that the Culinary School is the first building in Roanoke, VA to be registered with the U.S. Green Building Council for LEED certification. The new facilities incorporate green features, including a vegetation-covered roof, solar-heated dishwasher and dual-flush toilets that let users choose a light flush to conserve water.

The restoration of the former Dumas Hotel and the Strand Theatre has already had a catalytic impact on the city of Roanoke, and the Gainsboro neighborhood in particular. A local law firm has acquired a building on the far end of Henry Street for redevelopment into law offices, and a developer has announced plans to construct an office building that is expected to bring new skilled workers into the area.

To date, HRV has been awarded three NMTC awards for a total of $100 million, and the capital raised with the Credits has been successfully deployed in high impact real estate projects like those completed in Roanoke. In addition to putting its NMTC financing to work assisting in the Henry Street renovation project, HRV has used its NMTC capital to finance ten additional projects in Virginia and one project in Jackson, Mississippi.

## Story from the Field: NMTC Investment Tips the Scale to Bring New Solar Manufacturing Facility to New Mexico

| | |
|---|---|
| **Allocatee:** | Finance New Mexico, LLC |
| **Controlling Entity:** | New Mexico Finance Authority |
| **Service Area:** | Statewide: New Mexico |
| **Allocation:** | $110 million (Round V) |

"This facility is proof that smart policy can create jobs and spur investment," said New Mexico Governor Bill Richardson at the recent grand opening of the new SCHOTT Solar manufacturing facility in Albuquerque, New Mexico. The facility is the first NMTC project that Finance New Mexico, LLC has financed and the facility will bring more than 1,500 new 'green' manufacturing jobs to the community.

Finance New Mexico, LLC was created in 2006 as a CDE affiliated with the New Mexico Finance Authority, which is the state agency designated to finance infrastructure, public projects and economic development throughout the state. The state launched Finance New Mexico, LLC to increase its capacity to finance small and medium-sized businesses and specifically "green" businesses that will promote or develop clean energy and create jobs for residents of New Mexico.

Photo: Pat Berrett

In July 2008, soon after being awarded a $110 million NMTC allocation, Finance New Mexico, LLC worked aggressively through its public and private networks to solicit financing requests from businesses that met the CDE's ambitious NMTC impact goals. Finance New Mexico, LLC established a process that screened and scored businesses and projects seeking NMTC financing in order to ensure that businesses chosen had the maximum impact in terms of job creation, advancing green technologies, and encouraging economic growth and stability.

One of the first businesses to approach the state for NMTC financing was SCHOTT Solar, a German-based manufacturer of solar energy technology products. The company was looking to build a new plant in the United States and one of the sites being considered was Mesa del Sol, a community in southeast Albuquerque. Founded 125 years ago, Schott is a major manufacturer of solar energy products with operations in 42 countries and markets throughout the world. The company manufactures receivers that convert energy from the sun into electricity using concentrated solar radiation. In requesting NMTC financing from Finance New Mexico, LLC, SCHOTT Solar outlined its plans to establish a facility that would bring more than 1,500 green manufacturing jobs to the area, with 350 coming on line within a year, and all paying good wages with benefits. In addition, the presence of SCHOTT Solar in the state would establish New Mexico as a manufacturing base for the solar industry which was one of the CDE's prime objectives.

Photo: Pat Berrett

The total development cost of the SCHOTT Solar manufacturing plant was $125 million. Finance New Mexico, LLC and the state competed with other locations to secure the project and was successful in demonstrating that the financing gap could be partially filled with NMTC. The CDE was reluctant to commit close to 25 percent of its NMTC allocation to a single project. Therefore, Finance New Mexico, LLC approached US Bancorp and its CDE, US Bancorp Community Development Corporation CDE (USBCDC CDE), to jointly finance the transaction.

While the community of Mesa del Sol was in many ways an ideal site for SCHOTT Solar because it was planned as a 'sustainable' community using "New Urbanism" design principles, the community had deficiencies in terms of infrastructure, power and other needs related to the condition of the soils and water retention processes. All of these combined to make the site and site development costs relatively more expensive as compared to other site options that SCHOTT Solar was exploring. Finance New Mexico, LLC understood that the NMTC investment would allow SCHOTT Solar to stay within its projected project budget and allow the company to develop a plant in New Mexico.

Photo: Pat Berrett

In October 2008 SCHOTT Solar and Finance New Mexico, LLC came to an agreement and in December the financing was closed. Finance New Mexico, LLC committed $15.5 million of its NMTC allocation to financing the SCHOTT facility and USBCDC CDE committed $6 million of its NMTC allocation to the project – for a total of $21.5 million in NMTC-financed debt. Finance New Mexico, LLC provided a 7-year, interest-only loan carrying a 2 percent interest rate. The loan is structured so that 12 percent of the debt, or $1.8 million, will convert to equity after 7 years and $1.8 million will be returned in cash to the New Mexico Finance Authority to finance other economic development activities throughout the state. US Bancorp is the sole NMTC investor in the SCHOTT Solar project.

SCHOTT Solar's manufacturing plant incorporates green elements in its construction and design, and promotes clean energy in its products. The first phase of the SCHOTT Solar facility officially opened on May 11, 2009 and 350 employees are already working at the plant with production and employment expected to ramp up over the summer. In addition to the full time employment created, more than 300 construction jobs will be created throughout the remaining development phase of the new plant. The state is working with SCHOTT Solar to see that at least 90 percent of the short-term and long-terms jobs created go to local residents.

When the facility is completed, SCHOTT Solar will employ more than 1,500 people and is forecast to have direct and indirect economic impacts of over $1 billion by 2020. Long-term plans call for the facility to expand to 800,000 square feet to accommodate several more production lines, with a planned investment of over $500 million.

## Story from the Field: ShoreBank Enterprise Cascadia Boosts Rural Community College Capacity and Curriculum

| | |
|---|---|
| **Allocatee:** | ShoreBank Enterprise Cascadia |
| **Headquarters:** | Ilwaco, WA |
| **Service Area:** | Multi State: Rural Oregon and Washington |
| **Allocation:** | $43 Million (Rounds II and IV) |

Clatsop Community College (CCC) is the oldest accredited community college in Oregon, offering training and instruction in professional and technical fields and general education classes to residents in northwest Oregon and southwest Washington. CCC is located in Astoria, the oldest settlement in the US west of the Rocky Mountains, and a community of 10,000 located at the mouth of the Columbia River, nearly 100 miles from the nearest four-year college.

Clatsop Community College serves students from three rural counties with a combined population of 56,000. Enrollment at CCC exceeds 7,000 students, many of whom are entering college for the first time after working many years as fisherman, loggers and parents. The general population lacks higher education; less than 20 percent of residents have bachelor's degrees and 20 percent did not complete high school.

The region is marked by a decline in employment in industries like fishing, logging and wood products manufacturing that had previously been a source of well-paying jobs. The region is now seeing an increase in the number of minimum wage, tourism-related jobs paying wages that are well below those offered by the once robust manufacturing sector. With this shifting employment market, it is imperative that residents receive the education necessary to compete in the market and secure a job that pays a living wage needed to support a family. The college has focused on providing educational opportunities with programs in nursing, welding, environmental science, maritime trades and historic preservation. High school equivalency programs and a special curriculum for women in transition are also offered.

Photo: Clatsop Community College

Many of the college's buildings are nearly a century old. Towler Hall, the oldest building on campus, has been vacant and unused since it was condemned in the 1950s. In addition, the campus is located on a steep hill and most of its buildings are not accessible to individuals with disabilities. Indeed, CCC has been under scrutiny by its accrediting agency regarding

Americans with Disabilities Act (ADA) compliance and accessibility standards. The college recognized the need for major renovations but lacked the resources. Three attempts to get local residents to approve a bond measure to construct a new campus were soundly rejected between 2003 and 2007.

In 2005, the Oregon State Legislature committed $7.5 million in bonding authority to the CCC renovation project which allowed the college to begin recruiting development partners and leveraging other sources of financing. College President Greg Hamann jokingly remarked that the way the project's financing finally came together after so many years was "magical," but actually it was the result of his determination, a strategic investment by Wells Fargo Bank, the availability of the NMTC, and the leadership and creative financing provided by Shorebank Enterprise Cascadia. Based in Ilwaco, WA, ShoreBank Enterprise Cascadia is the largest non-bank CDFI in the Pacific Northwest with more than $70 million in capital assets under management. They are an affiliate of Chicago-based ShoreBank Corporation, the nation's first community development financial institution.

Photo: Clatsop Community College

NMTC financing was critical to the success of CCC's campus renovation and ShoreBank Enterprise Cascadia was responsible for bringing the NMTC to the project. ShoreBank Enterprise Cascadia has a strong track record financing economic development projects and businesses that strengthen families, the environment, and the local economy. It formed its first CDE in 2002 and has been awarded a total of $43 million in NMTC allocations; $8 million in 2004 and $35 million in 2006, which it has used to invest in businesses and community facilities in Oregon and Washington State including Indian Country. ShoreBank Enterprise Cascadia is committed to using its NMTC financing to advance projects like the CCC campus renovation that have a significant and lasting impact on the community.

The CCC campus renovation project includes the building of a new 48,000 square foot, multi-story building that will house state-of-the-art classrooms, science labs, allied health and development programs, the student commons and other facilities. In addition, the dilapidated Towler Hall with 41,000 square feet of classroom and administrative space will be fully renovated, thus bringing a historic building back into use and into compliance with ADA standards.

The total cost of the CCC campus renovation project is $28 million. The state of Oregon provided $7.5 million in state bond financing and the college provided $4.5 million to the project and leveraged an additional $500,000 in foundation funds. ShoreBank Enterprise Cascadia used a portion of its 2006 NMTC allocation to provide a $10.5 million loan to the CCC campus renovation. Working with Wells Fargo Community Development Corporation

as its NMTC equity investor, ShoreBank was able to offer CCC a 7-year, interest-only loan at 2.5 percent with a balloon payment after year 7. Once all the non-local and NMTC resources were assembled the voters of Clatsop County approved a $5 million bond measure to take the campus project over the top.

The CCC campus renovation project is currently underway and the college plans to have the new and renovated buildings in use by September 2010. In addition to bringing accessible, high quality and affordable educational opportunities to a rural community the CCC campus renovation project will retain and create jobs. The project will retain 120 jobs on the college campus that would have been lost if the college lost its accreditation. In addition, the project will create 125 construction jobs and the college is committed to working with local contractors.

The CCC campus renovation project is the first time state and private funds have merged to help a public institution in Oregon obtain New Markets Tax Credit funding. The project establishes a precedent in the state of Oregon and will serve as a model for other states looking to expanding the capacity of their community college systems to serve low-income community residents.

# Conclusion

The Coalition's *2009 Progress Report* indicates that the New Markets Tax Credit continues to be an important revitalization tool for America's economically distressed communities. Over the course of the program, dating back to the first allocations in 2003, and particularly since 2006, Community Development Entities have raised investor equity and deployed that equity in low-income communities at a pace faster than required by law or regulation. The initial $13.4 billion invested in low-income communities through the New Markets Tax Credit program has bolstered local economies, increased economic opportunity and improved the lives of many Americans.

This year's report does not indicate that NMTC performance has changed, nor does it show that investor appetite has diminished. In a year- over- year comparison, the pace of Qualified Equity Investments (QEIs) issued remains steady. In fact, the rate of investment was higher in 2008 than 2007. This positive news is welcome in light of the current economic environment.

However, the *2009 Progress Report* is a snapshot of the Credit through 2008. As a snapshot, our survey captures the experience of CDEs using the Credit for all of last year. The findings in the report probably do not reflect the impact of the economy going off the cliff in the last quarter of 2008. Unlike past years, our *2009 Progress Report* may be a better guide to where we have been than where we are going.

## *Change Is In the Air: New Markets and the Economy*

The economy in which the New Markets Tax Credit program was launched is not the economy of today. The late 1990s were a period of sustained economic growth, prosperity, budget surpluses at the federal level and an expanding financial services industry. The New Markets program was enacted and spurred on by President Clinton who said, "If we cannot attack poverty in this economy, when can we?" In the economy of 10 years ago, it was reasonable to assume that a shallow Credit such as NMTC would be an adequate incentive to persuade the private sector to invest in low-income urban neighborhoods, in small towns and farming in communities.

Today, we have a different economic situation. Median household income is 1 percent lower than in 2000. There has been a swing in the federal budget from a $238 billion surplus to a $1.4 trillion deficit; unemployment is heading toward double digits and there has been an enormous expenditure of federal funds to re-capitalize banks. In 2008 the nation experienced the largest bank failure in U.S. history when WAMU collapsed, and already in 2009 over 30 banks have failed. The tightening of credit across all sectors of the economy is well-documented.

## *What Impact Will it Have on New Markets?*

The success of New Markets in raising capital is largely built on three things: First, the appetite of financial institutions, regulated and otherwise, to offset federal tax liability; second, for large, regulated financial institutions, the incentive provided under the

Community Reinvestment Act (CRA); and third, the ability of these institutions to work with CDEs to deploy capital to low-income communities using leveraged structures which provide a better financial result through the combination of both debt and equity capital.

According to this *2009 Progress Report*, 84 percent of the investors of reporting allocatees are banks and half of the allocatees surveyed get 100 percent of their investment from banks. While banks continue to invest in NMTCs to offset tax liabilities, there is concern that as the profit levels of these investors fall their tax liability and appetite for NMTCs will also decline.

To date, we have little concrete evidence that banks or other investors are pulling back. In fact, when asked whether an investor has withdrawn or otherwise been unable to close a NMTC investment as anticipated, 91 percent of the allocatees responded 'no' and only 9 percent responded 'yes'. However, when asked whether an investor has changed the terms or conditions of QEI pricing, only 75 percent responded 'no' and 24 percent responded 'yes', which indicates that the NMTC investor market may be in transition.

CDEs are beginning to seek alternatives to their traditional investor base and are exploring relationships with smaller, regional and community banks that are profitable and good candidates for a federal tax credit. There are obstacles, however, as many of these institutions do not have a community development staff or a CRA obligation, and therefore may not have the internal capacity or the regulatory incentive to undertake NMTC transactions.

One of the innovative facets of New Markets is the leverage structure. Approved by Treasury in 2003, the leverage model allows investors and lenders to fund an upper tier entity that, in turn, makes a QEI in the CDE. By permitting the upper tier entity to borrow non-recourse funds to make the QEI, this structure facilitates a greater return for the equity investor. The upper tier lender has a collateral interest only in the ownership of the upper tier entity, not a direct collateral interest in the property in which the QEI is ultimately invested. It is estimated that 70 percent of NMTC transactions are financed through the leverage model.

There is some evidence that the debt side of the equation in the leverage structure is slowing down as banks are more reluctant, and in some cases discouraged by regulators, to make loans that do not have hard collateral. Further, some investors are now indicating that they will only make QEIs in the context of a leverage structure.

More specifically, when asked whether the terms of leveraged investor transactions had changed, 38 percent of the allocatees responded 'yes' and 62 percent responded 'no'. The allocatees that responded 'yes' indicated that debt financing was more difficult to find and when available, the debt financing was secured at a higher price.

When asked whether they are currently using NMTC financing to cover a larger percentage of a project's total cost than they had previously, 21 percent of the allocatees responded 'yes' and 79 percent responded 'no'. The allocatees that responded 'yes' indicated that as debt financing, or other forms of affordable financing, was becoming more difficult to secure, the CDE was being called on to cover the financing gap left by other lenders.

For this reason, in addition to looking to smaller banks as possible investors in the NMTC, some CDEs are approaching this segment of the banking industry to become the leverage lender on NMTC transactions in which other banks or corporations are the NMTC investor.

The complexities of the program and the lack of direct collateral are potential barriers to these banks' willingness to participate. CDEs are also pursuing other sources of debt such as tax increment financing, tax-exempt bond financing and Section 108 loans.

The ability of CDEs to employ the leverage structure for a significant amount of the transaction financing is a key facet of the program and one that is particularly important to financing more difficult transactions in low-income areas. If one of the outcomes of the nation's current economic turmoil is waning interest on the part of private financial institutions of all stripes to finance leverage transactions, then Congress and the Administration will be called upon to revamp NMTC.

## *Change Is In the Air: Federal Policy*

Through the summer and fall of 2008 and into the winter of 2009, Congress devoted most of its time and a substantial amount of resources to steadying the financial services industry and reviving the economy.

In July 2008 Congress enacted the Housing and Economic Recovery Act (HERA). The legislation not only revamped the federal regulatory structure for Government Sponsored Entities (GSEs), it also provided extensions for a number of expiring tax provisions, including NMTC, and provided additional incentives for tax credit programs designed to spur the housing market.

Fannie Mae and Freddie Mac were two of the principal investors in the Low Income Housing Tax Credit (LIHTC). Their withdrawal from the market after being placed into conservatorship had a deleterious impact on the market for LIHTC investments. To spur housing development and encourage new investors in LIHTC, HERA made a number changes to the program. The legislation exempted LIHTC, Historic Credits and Housing Finance Agency Mortgage Revenue Bonds from the Alternative Minimum Tax (AMT). AMT requires certain taxpayers to pay a particular level of taxes regardless of their deductions or credits against federal income taxes. Exempting corporations from AMT effectively increases their appetite for credits.

After the enactment of HERA, the economy worsened and Congress enacted the Emergency Economic Stabilization Act in October 2008. Using authority under this legislation, many banks received investments through the Troubled Assets Relief Program. In February 2009 the new Administration worked with Congress to pass a $787 billion stimulus bill: the American Recovery and Reinvestment Act of 2009 (ARRA). Again, a number of federal tax credits, including renewable energy credits, were suffering from a lack of investor interest so Congress expanded AMT relief to renewable energy credits and certain bonds.

Through all of this, NMTC stood out as a credit that was still working in spite of the turmoil in the economy. For that reason, Congress provided an additional $3 billion in Credit authority as part of ARRA, equally divided between 2008 and 2009; an increase of over forty percent, but did not include AMT relief. On May 27, 2009 the Treasury Department announced that $1.5 billion in NMTC allocation authority provided through the stimulus bill would be awarded to 32 CDEs that applied for Credits in 2008.

## *Change is in the Air: New Markets Tax Credits*

With changed circumstances in the economy, in the White House and in Congress, it may be necessary to tinker with the NMTC structure. Evolving circumstances of the financial services industry and the declining economies of many low-income communities, combined with anecdotal data from those CDEs working with the program, indicate that additional incentives may be necessary to ensure the continued success of the Credit.

In the short run, NMTC must be kept current with other federal tax credits by providing investors an exemption from the Alternative Minimum Tax. The New Markets Tax Credit will be at a competitive disadvantage in the investor marketplace without AMT relief. At a minimum, Congress should enact legislation sponsored by Reps. Richard Neal and Patrick Tiberi (H.R. 2628) that not only extends the Credit for 5 years at $5 billion per year in Credit authority, but also provides NMTC investors with AMT relief.

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# Appendix A:

## NMTC Survey of Round I–5 Allocatees Results

# NEW MARKETS TAX CREDIT COALITION

**NMTC Survey of Round 1-5 Allocatees Results**

### Part One. Basic Information

1. Name of Allocatee: **90 complete responses, 6 incomplete records**

2. Name of Parent/Controlling Entity: **90 complete responses, 6 incomplete records**

3. For which rounds has your organization received a NMTC allocation? (Check all that apply) N=96
   __ Round 1 **40.6%**
   __ Round 2 **33.3%**
   __ Round 3 **28.1%**
   __ Round 4 **36.5%**
   __ Round 5 **35.4%**

4. Allocatee Service Area – check the service area that applies to the Round in which you received an allocation:

| Service Area | Round 1 | Round 2 | Round 3 | Round 4 | Round 5 |
|---|---|---|---|---|---|
| Local | 12 | 5 | 8 | 8 | 5 |
| Statewide | 8 | 10 | 5 | 4 | 5 |
| Multi-State | 6 | 5 | 1 | 9 | 4 |
| National | 13 | 12 | 13 | 14 | 20 |

5. If Allocatee Service Area is Local (e.g. Los Angeles), please specify:

| Round 1 | Round 2 | Round 3 | Round 4 | Round 5 |
|---|---|---|---|---|
| SF Bay Area | Louisville, KT | SF Bay Area | Greenville, SC | Fulton County |
| Columbus, Ohio | Portland, OR | Milwaukee | Seattle | Philadelphia |
| Los Angeles, Orange | Alameda, Contra Coss | Louisville, KT | Los Angeles County | CUYAHOGA COUNTY |
| Richmond Virginia | Baltimore City | Hamilton County, OH | GO Zone | 3 Milwaukee counties |
| Eastern Kentucky | Wayne County-Detroit | Los Angeles County | New York City | LA, San Diego, Orang |
| CUYAHOGA COUNTY | | Oklahoma City, OK | GO Zone | |
| Obion County | | Los Angeles, Orange | Northside Pittsburgh | |
| Pike County Ohio | | Rural Southeast Kent | New Orleans | |
| Northside Pittsburgh | | | | |
| New Orleans | | | | |
| Jamaica | | | | |
| Los Angeles | | | | |

6. If Allocatee Service Area is Statewide, please specify the state: (all rounds)

| | |
|---|---|
| Arizona | 3% |
| Arkansas | 3% |
| California | 9% |
| Colorado | 6% |
| Delaware | 3% |
| Indiana | 3% |
| Kentucky | 9% |
| Massachusetts | 16% |
| Michigan | 3% |
| Minnesota | 9% |
| New Jersey | 3% |
| Ohio | 9% |
| Oklahoma | 9% |
| South Carolina | 3% |
| Texas | 6% |
| Wisconsin | 3% |

7. For all Rounds, if Allocatee Service Area is Multi-state or National, please check all the states in which you have at least one QLICI as of 12/31/2008:

| | |
|---|---|
| Alabama | 1% |
| Alaska | 3% |
| Arizona | 8% |
| Arkansas | 2% |
| California | 29% |
| Colorado | 10% |
| Connecticut | 9% |
| Delaware | 2% |
| District of Columbia | 12% |
| Florida | 14% |
| Georgia | 7% |
| Hawaii | 1% |
| Idaho | 2% |
| Illinois | 12% |
| Indiana | 3% |
| Iowa | 5% |
| Kansas | 1% |
| Kentucky | 6% |
| Louisiana | 25% |
| Maine | 9% |
| Maryland | 15% |
| Massachusetts | 12% |
| Michigan | 10% |
| Minnesota | 9% |
| Mississippi | 8% |
| Missouri | 15% |
| Montana | 2% |

| | |
|---|---|
| Nebraska | 2% |
| New Hampshire | 5% |
| New Jersey | 13% |
| New Mexico | 2% |
| New York | 31% |
| North Carolina | 14% |
| Ohio | 14% |
| Oklahoma | 2% |
| Oregon | 10% |
| Pennsylvania | 11% |
| Rhode Island | 6% |
| South Carolina | 6% |
| South Dakota | 1% |
| Tennessee | 7% |
| Texas | 21% |
| Utah | 5% |
| Vermont | 2% |
| Virginia | 11% |
| Washington | 18% |
| West Virginia | 1% |
| Wisconsin | 12% |
| Wyoming | 2% |

8. Please enter your contact information below.
   a. First & Last Name:________________________________
   b. Title:____________________________________________
   c. Telephone #:_______________________________________
   d. E-mail:___________________________________________

9. Would you like additional information about the NMTC Coalition?
   a. Yes **47.4%**
   b. No **51.5%**

## Part Two. Securing Investors and Issuing Qualified Equity Investments (QEIs) N=94

| | | Round 1 | Round 2 | Round 3 | Round 4 | Round 5 |
|---|---|---|---|---|---|---|
| 10. | What is the total dollar amount of your NMTC Allocation award for each round? | $1,674,012,000 | $1,929,700,000 | $1,396,012,000 | $2,172,000,000 | $2,124,045,000 |
| 11. | As of 12/31/08, what was the total dollar amount in QEIs your CDE had issued? | $1,665,419,714 | $1,856,727,228 | $1,215,500,799 | $1,899,800,641 | $1,074,050,516 |
| 12. | As of 12/31/08, what was the total dollar amount in QEIs legally committed but not yet issued? | $5,944,793 | $36,728,424 | $68,167,000 | $49,899,159 | $261,460,500 |

| | | | | | | |
|---|---|---|---|---|---|---|
| 13. | What is the total dollar amount of new QEIs you plan to issue in calendar year 2009? | $6,344,793 | $72,089,619 | $116,920,228 | $209,716,966 | $842,751,841 |

14. Aggregating all the Rounds in which you have received allocations, please estimate the share of your allocations your CDE has issued in QEIs to the following types of institutions (should add up to 100%)

| | % of Allocatees | Mean Answer |
|---|---|---|
| a. Bank | 86% | 71% |
| b. Unregulated financial services | 20% | 11% |
| c. Corporation (other than listed) | 19% | 10% |
| d. Other | 10% | 6% |
| e. Insurance company | 9% | 2% |
| f. Individual | 2% | 0% |
| | | 100% |

## Part Three. Deploying Allocations: Qualified Low Income Community Investments (QLICIs)

15. Once your CDE has issued a QEI, how long does it take, on average, to place the proceeds of that investment in a QLICI? Please check only one.

| | |
|---|---|
| a. Less than one week | 36% |
| b. One month or less | 17% |
| c. 1-3 months | 20% |
| d. 3-6 months | 14% |
| e. 6-9 months | 8% |
| f. 9-12 months | 5% |

16. What are the flexible or non-traditional financing products offered most frequently by your CDE? Please check your top three. **N=95**

| Financing Products | % of Respondents |
|---|---|
| 1. Debt with below market interest rates | 81.1% |
| 2. Debt with longer than standard period of interest-only loan payments | 55.8% |
| 3. Subordinated debt | 31.6% |
| 4. Debt with lower than standard origination fees | 25.3% |
| 5. Debt with higher than standard loan to value ratio | 24.2% |
| 6. Debt with longer than standard amortization period | 23.2% |
| 7. Debt w/equity features | 15.8% |
| 8. Equity Investments | 12.6% |
| 9. More flexible borrower credit standards | 12.6% |
| 10. Lower than standard debt service coverage ratio | 7.4% |
| 11. Equity Equivalent terms and conditions | 5.3% |
| 12. Loan loss reserve requirements that are less than standard | 3.2% |
| 13. Non-traditional forms of collateral | 2.1% |

## Part Four. Deploying QLICIs – Rural, Minor Urban & Major Urban Areas[i]

Part Four. Instructions:
In this section, the goal is to quantify the total number and dollar amount of Qualified Low Income Community Investments (QLICIs) directed towards major urban, minor urban and rural areas as of 12/31/2008.

By QLICI, we mean an individual transaction that is in the form of:
- a loan or investment in a qualified business;
- the purchase of a qualified loan from another CDE;
- financial counseling to businesses or residents in a low income community;
- loans and equity investments in another CDE.

Thus, even if you made multiple QLICIs in a single QALICB, you should record all of the QLICIs here.

| As of 12/31/08, what was … | | Round 1 | Round 2 | Round 3 | Round 4 | Round 5 |
|---|---|---|---|---|---|---|
| 17. | … the total number of QLICIs that you deployed for each round? | 516 | 427 | 294 | 357 | 187 |
| 18. | … the total dollar amount of QLICIs that you deployed for each round? | $ 1,770,209,292 | $ 1,742,338,387 | $ 1,225,969,618 | $ 1,760,103,699 | $ 823,839,187 |

| As of 12/31/08, what was … | | Round 1 | Round 2 | Round 3 | Round 4 | Round 5 |
|---|---|---|---|---|---|---|
| 19. | … the total number of QLICIs that you have deployed to major urban areas for each round? | 612 | 277 | 224 | 211 | 106 |
| 20. | … the total number of QLICIs that you deployed to minor urban areas for each round? | 235 | 106 | 42 | 89 | 48 |
| 21. | … the total number of QLICIs that you deployed to rural areas for each round? | 179 | 38 | 26 | 51 | 33 |

| | | | | | | |
|---|---|---|---|---|---|---|
| 22. | … the total dollar amount of QLICIs that you deployed to major urban areas for each round? | $1,271,540,007 | $1,008,103,899 | $898,900,250 | $1,089,998,283 | $529,129,442 |
| 23. | … the total dollar amount of QLICIs that you deployed to minor urban areas for each round? | $ 364,148,667 | $455,549,595 | $245,223,326 | $449,249,074 | $154,040,012 |
| 24. | … the total dollar amount of QLICIs that you deployed to rural areas for each round? | $ 232,944,920 | $276,068,365 | $87,478,944 | $247,584,676 | $134,612,640 |

**Part Five. Deploying Allocations – Non-Real Estate & Real Estate Businesses**[ii]

Instructions:
In this section please record the types of Qualified Low Income Community Investments (QLICIs) that were made using your allocation(s) in Rounds 1 through 5 in *non*-real estate and real estate businesses (QALICBs) as of 12/31/2008. You are asked to record the total number of QLICIs and dollar amount of QLICIs (first for equity investments and then for loans ) for both non-real estate and real estate businesses.

25. For all rounds in which an allocation was received, and taking into account, all QEIs from multiple CDEs, on average, what percentage of total investment or project costs for your QALICBs were financed with NMTC vs. other sources of funding? Average: 48%; Median: 41%

| | | Round 1 | Round 2 | Round 3 | Round 4 | Round 5 |
|---|---|---|---|---|---|---|
| ***Investments in non-real estate businesses*** | | | | | | |
| 26a. | Total *number* of equity investments in *non*-real estate businesses | 43 | 24 | 7 | 23 | 6 |
| 26. | Please break down by type below | | | | | |
| | Education | 2 | 5 | 1 | 3 | 2 |
| | Healthcare | 5 | 2 | 1 | 1 | 0 |
| | Industrial or manufacturing | 8 | 7 | 0 | 3 | 0 |
| | Energy, agribusiness or green business | 1 | 0 | 0 | 0 | 2 |
| | Transportation | 0 | 0 | 0 | 0 | 0 |
| | Other | 27 | 10 | 5 | 16 | 2 |

| | | Round 1 | Round 2 | Round 3 | Round 4 | Round 5 |
|---|---|---|---|---|---|---|
| 27a. | Total *dollar* amount of equity investments in *non*-real estate businesses | $161,930,994 | $100,314,752 | $19,939,225 | $98,325,185 | $26,215,000 |

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| | | | | | | |
|---|---|---|---|---|---|---|
| 27. Please break down by type below | | | | | | |
| | Education | $2,288,880 | $ 25,886,300 | $ 1,401,000 | $ 22,030,000 | $ 10,000,000 |
| | Healthcare | $18,059,734 | $ 26,226,409 | $ 891,489 | $ 7,579,489 | $ 0 |
| | Industrial or manufacturing | $40,288,432 | $ 11,000,000 | $ 0 | $ 18,315,651 | $ 0 |
| | Energy, agribusiness or green business | $250,000 | $ 0 | $ 0 | $ 0 | $ 6,272,000 |
| | Transportation | $0 | $ 0 | $ 0 | $ 0 | $ 0 |
| | Other | $101,043,948 | $ 37,202,043 | $ 17,646,736 | $ 82,488,045 | $ 9,943,000 |

| | | | | | | |
|---|---|---|---|---|---|---|
| ***Investments in real estate businesses*** | | | | | | |
| 28a. | Total *number* of equity investments in real estate businesses | 144 | 45 | 23 | 29 | 23 |
| 28. Please break down by type below | | | | | | |
| | Retail | 6 | 1 | 4 | 5 | 1 |
| | Office Space | 29 | 12 | 5 | 4 | 7 |
| | Mixed-Use | 64 | 29 | 8 | 9 | 4 |
| | Industrial/Mfg. | 1 | 1 | 1 | 2 | 0 |
| | For-Sale Housing | 1 | 0 | 0 | 1 | 0 |
| | Community Facility | 29 | 5 | 3 | 7 | 3 |
| | Other | 5 | 0 | 0 | 1 | 7 |
| 29a. | Total *dollar* amount of equity investments in real estate businesses | $263,167,978 | $127,750,246 | $53,881,255 | $144,902,546 | $89,713,485 |
| 29. Please break down by type below | | | | | | |
| | Retail | $45,389,666 | $5,537,446 | $12,660,000 | $31,136,000 | $282,185 |
| | Office Space | $30,316,817 | $27,315,431 | $7,154,490 | $16,598,989 | $12,971,170 |
| | Mixed-Use | $106,016,894 | $83,167,035 | $28,207,976 | $39,132,481 | $34,886,157 |
| | Industrial/Mfg. | $10,000,000 | $5,257,070 | $1,310,017 | $9,000,000 | 0 |
| | For-Sale Housing | $6,500,000 | 0 | 0 | $9,500,000 | 0 |
| | Community Facility | $35,304,843 | $6,473,264 | $4,548,772 | $9,535,076 | $27,500,000 |
| | Other (from Q28c) | $29,639,758 | 0 | 0 | $30,000,000 | $26,573,973 |

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| | | Round 1 | Round 2 | Round 3 | Round 4 | Round 5 |
|---|---|---|---|---|---|---|
| *Loans to non-real estate businesses* | | | | | | |
| 30a. | Total *number* of loans to *non*-real estate businesses. | 184 | 217 | 142 | 163 | 79 |
| 30. | Education | 24 | 13 | 23 | 19 | 7 |
| | Healthcare | 17 | 21 | 15 | 18 | 19 |
| | Industrial or manufacturing | 50 | 19 | 41 | 20 | 16 |
| | Energy, agribusiness or green business | 8 | 13 | 7 | 8 | 3 |
| | Transportation | 0 | 6 | 0 | 1 | 0 |
| | Other – please specify: ______ | 85 | 146 | 55 | 97 | 33 |
| 31a. | Total *dollar* amount of loans to *non*-real estate businesses. | $ 566,877,804 | $682,123,120 | $408,990,520 | $692,945,199 | $329,911,034 |
| 31. Please break down by type below | | | | | | |
| | Education | $50,002,921 | $132,264,780 | $86,320,184 | $86,947,287 | $35,971,826 |
| | Healthcare | $50,391,611 | $100,014,510 | $81,698,486 | $101,227,036 | $112,997,365 |
| | Industrial or manufacturing | $171,037,964 | $40,257,340 | $75,011,358 | $74,609,828 | $57,240,903 |
| | Energy, agribusiness or green business | $71,243,185 | $104,461,285 | $17,854,557 | $95,293,500 | $16,148,289 |
| | Transportation | $ 0 | $18,910,000 | 0 | $9,650,000 | 0 |
| | Other | $232,202,122 | $292,508,205 | $144,015,335 | $314,257,548 | $120,052,651 |
| *Loans to real estate businesses* | | | | | | |
| 32a. | Total *number* of loans to real estate businesses | 213 | 157 | 102 | 173 | 103 |
| 32. Please break down by type below | | | | | | |
| | Retail | 58 | 20 | 23 | 16 | 9 |
| | Office Space | 49 | 34 | 16 | 37 | 32 |
| | Mixed-Use | 58 | 66 | 33 | 57 | 25 |
| | Industrial/Mfg. | 11 | 13 | 2 | 10 | 2 |
| | For-Sale Housing | 10 | 6 | 5 | 12 | 4 |
| | Community Facility | 21 | 10 | 13 | 24 | 15 |
| | Other | 5 | 8 | 10 | 17 | 16 |
| 33a | Total *dollar* amount of loans to real estate businesses? | $898,379,090 | $800,114,505 | $620,043,524 | $849,423,470 | $403,516,903 |
| 33. Please break down by type below | | | | | | |
| | Retail | $351,796,109 | $151,556,811 | $124,077,525 | $81,173,513 | $59,755,000 |
| | Office Space | $122,866,297 | $189,742,546 | $95,628,294 | $147,844,092 | $85,478,162 |
| | Mixed-Use | $225,286,969 | $292,148,181 | $229,393,500 | $284,653,394 | $84,032,311 |
| | Industrial/Mfg. | $46,277,709 | $79,598,910 | $7,239,685 | $46,950,000 | $5,940,000 |
| | For-Sale Housing | $23,382,883 | $7,381,971 | $10,090,000 | $27,385,790 | $389,178 |
| | Community Facility | $65,030,816 | $30,603,966 | $47,670,248 | $169,009,179 | $104,593,779 |
| | Other | $43,738,305 | $49,082,390 | $105,944,272 | $102,367,500 | $63,328,973 |

## Part Six. Deploying Allocations -- Other

Instructions: In this section, you are asked to quantify the total number and dollar amount of investments in other CDEs, loans to other CDEs, loan purchases from other CDEs, and financial counseling and other services as of 12/31/2008. N=93

| **34. As of 12/31/08, what was the total number for each of the following?** | **Round 1** | **Round 2** | **Round 3** | **Round 4** | **Round 5** |
|---|---|---|---|---|---|
| 1. Equity investments in other CDEs. | 4 | 1 | 3 | 2 | 0 |
| 2. Loans to other CDEs. | 17 | 6 | 7 | 8 | 0 |
| 3. Loan purchases from other CDEs. | 45 | 15 | 22 | 1 | 0 |
| 4. Financial counseling and other services provided. | 60 | 6 | 0 | 0 | 5 |
| **35. As of 12/31/08, what was the total dollar amount for each of the following?** | **Round 1** | **Round 2** | **Round 3** | **Round 4** | **Round 5** |
| 1. Equity investments in other CDEs. | $18,050,000 | $490,000 | $2,810,016 | $5,000,000 | $0 |
| 2. Loans to other CDEs. | $37,411,714 | $43,939,800 | $20,500,000 | $20,500,000 | $0 |
| 3. Loan purchases from other CDEs. | $106,813,055 | $21,981,086 | $95,630,985 | $1,000,000 | $0 |
| 4. Financial counseling and other services provided. | $317,663 | $468,851 | $0 | $0 | $619,350 |

## Part Seven. Deploying Allocations – Economically Distressed or Underserved Communities

**36. As of 12/31/08, what was the total number of QLICIs that you made in each of the following categories of economically distressed or underserved communities?** N=93

| | | Round 1 | Round 2 | Round 3 | Round 4 | Round 5 |
|---|---|---|---|---|---|---|
| | *Please enter the total number of transactions for each category.* | | | | | |
| | Poverty Rates >30% | 269 | 150 | 158 | 165 | 71 |
| | Median Incomes <60% | 301 | 218 | 191 | 209 | 73 |
| | Unemployment ≥ 1.5 times the national average | 303 | 180 | 197 | 212 | 85 |
| | Federally-designated EZ, EC, or RC | 115 | 75 | 71 | 66 | 30 |
| | SBA-designated HUB Zones | 204 | 208 | 96 | 135 | 27 |
| | Brownfield redevelopment areas | 17 | 32 | 26 | 26 | 15 |
| | Areas encompassed by a HOPE VI redevelopment plan | 6 | 11 | 4 | 3 | 3 |
| | Federally-designated Native American, Alaskan Native area, Hawaiian Homelands, or Tribal area | 12 | 5 | 13 | 3 | 2 |
| | Area designated as distressed by the Appalachian Regional Commission or the Delta Regional Authority | 18 | 1 | 3 | 3 | 0 |
| | Colonias areas designated by HUD | 0 | 0 | 0 | 2 | 0 |
| | Federally-designated medically underserved areas | 9 | 28 | 24 | 30 | 28 |
| | CDFI Hot Zone | 196 | 167 | 139 | 175 | 36 |
| | Projects serving Targeted Populations | 11 | 15 | 2 | 31 | 13 |
| | High migration rural county | 3 | 5 | 0 | 3 | 4 |
| | USDA Champion Communities or Rural Economic Area Partnership (REAP) Zones | 0 | 0 | 0 | 1 | 0 |
| | State or local tax increment financing districts, EZs or other locally designated areas of distress | 98 | 154 | 75 | 102 | 69 |
| | Counties for which FEMA has issued a "major disaster declaration" and determined the county eligible for both "individual and public assistance" provided that, with exception of GO Zone, initial investment will be made within 18 months of disaster declaration | 0 | 7 | 1 | 24 | 9 |

| | | Round 1 | Round 2 | Round 3 | Round 4 | Round 5 |
|---|---|---|---|---|---|---|
| 37. | What percentage of your total number of QLICIs was used to finance activities in one or more of the economically distressed areas identified above? | 94% | 97% | 99% | 94% | 96% |

**Part Eight: Pipeline of Investments**

Part Eight. Instructions:

Please answer the following questions based on your current pipeline of expected investments and your experience to date in terms of deploying QLICIs. This section is designed to determine the demand for NMTC financing.

| For the period 1/1/09 to 12/31/09, and including any transactions already closed in 2009 ... | | Round 1 | Round 2 | Round 3 | Round 4 | Round 5 |
|---|---|---|---|---|---|---|
| 38. | What is the total number of transactions in your pipeline that you anticipate closing? | 10 | 26 | 29 | 56 | 138 |
| 39. | What is the total dollar amount of transactions in your pipeline that you anticipate closing? | $174,771,800 | $87,731,248 | $200,038,067 | $306,110,146 | $1,081,347,532 |

**Part Nine. NMTC Program Changes and Trends**

The following questions are designed to determine whether the economic downturn has impacted the NMTC industry and if so, how.

40. Has your CDE encountered any of the following situations with NMTC investors over the last year? (Check all that apply) N=92

A1. Has an investor withdrawn or otherwise been unable to close a QLICI transaction as anticipated?
1. Yes 8.7%
2. No 91.3%

A2. If yes, please describe: ______________________________

B1. Has an investor changed the terms, conditions, or pricing of its QEI investment?
1. Yes 23.9%
2. No 76.1%

B2. If yes, please describe: ___________________________________________

C1. Have the terms of leveraged investor transactions changed, in terms of availability, pricing, debt equity ratios or other issues?

1. Yes **38.0%**
2. No **62.0%**

C2. If yes, please describe: ___________________________________________

D1. Is your CDE using NMTC financing to cover a larger percentage of a business' total project cost than it has in the past?

1. Yes **20.7%**
2. No **79.3%**

D2. If yes, please describe: ___________________________________________

41. Are there any other changes or trends you would like to note? If yes, please describe:

42a. (For CDEs with 2 or more allocations only) Since your CDE made its first QLICI, has your NMTC portfolio changed in terms of the average size of a QLICI, the percentage of a project financed by NMTC, the types of QALICB being financed? N=42

1. Yes **57.1%**
2. No **42.9%**

42b. If yes, please describe: ___________________________________________

43. If you could change the existing law or regulations governing the NMTC, what changes would you make? Please enter your top three recommended changes.

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[i] CDFI Fund Definitions:

- ***Major Urban Area*** - a metropolitan area with a population equal to or greater than 1 million, including both central city and surrounding suburbs.
- ***Minor Urban Area*** - a metropolitan area with a population less than1 million, including both central city and surrounding suburbs.
- ***Rural Area*** - areas not contained within major urban or minor urban areas.

[ii] 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. Investments in real estate businesses (development, management or other) in support of their business operations, as opposed to a specific project or projects, are considered non-real estate business transactions.

# Appendix B: A New Markets Tax Credit Timeline

| Date | Event |
|---|---|
| **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<br>■ CDFI Fund issues CDE certification application |
| **2002** | |
| October | ■ First-round allocation applications submitted to CDFI Fund with $26 billion in demand for $2.5 billion in available allocations |
| **2003** | |
| March | ■ CDFI Fund awards $2.5 billion in first-round allocations |
| October | ■ Second-round allocation applications submitted to CDFI Fund with $30 billion in demand for $3.5 billion in available allocations |
| 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 a provision expanding the definition of low-income communities to include Targeted Population<br>■ Third-round allocation applications submitted to CDFI Fund with $23 billion in demand for $2 billion in available allocations |
| Fall/Winter | ■ Second-round allocation agreements signed |
| December | ■ IRS releases final NMTC regulations |
| **2005** | |
| March | ■ CDFI Fund announces $2 billion in QEIs issued by first- and second-round allocatees |
| July | ■ CDFI Fund awards $2 billion in third-round allocations |
| Fall/Winter | ■ Third-round allocation agreements signed |
| December | ■ Gulf Opportunity Zone Act (P.L. 109-135), which provides an additional $1 billion in New Markets Tax Credit volume for areas affected by Hurricane Katrina, signed into law. |

| | |
|---|---|
| **2006** | |
| March | ■ The CDFI Fund announces plans to award the first $600 million in targeted Credits to CDEs working in qualified GO Zone communities |
| June | ■ CDFI Fund awards $3.5 billion fourth-round allocations and $600 million in Credits for GO Zone |
| | ■ IRS issues notice on Targeted Populations |
| Fall/Winter | ■ Fourth-round allocation agreements signed |
| December | ■ Tax Relief and Health Care Act (PL 109-432) including one-year reauthorization of NMTC and language targeting Credit to non-metro areas, signed into law |
| **2007** | |
| March | ■ Fifth-round allocation applications submitted to CDFI Fund with $28 billion in demand for $3.5 billion in available allocations |
| | ■ CDFI announces $7.7 billion in QEIs issued by first, second, and third-round allocatees |
| April | ■ New Markets Tax Credit Extension Act of 2007 introduced in Congress (H.R. 2075, S. 1239) |
| October | ■ The CDFI Fund awards $3.5 billion in fifth-round allocations and $400 million in credits for GO Zone |
| **2008** | |
| Winter | ■ Fifth-round allocation agreements signed |
| February | ■ President Bush calls for a one-year extension of the NMTC in his FY 2009 Budget |
| March | ■ Sixth-round allocation applications submitted to CDFI Fund with $21 billion in demand for 3.5 billion in available allocations |
| May | ■ CDFI Fund announces 10.3 billion in QEIs by Allocatees |
| July | ■ Housing and Economic Recovery Act (HERA) extends NMTC through 2009 |
| October | ■ The CDFI Fund awards $3.5 billion in sixth-round allocations |
| **2009** | |
| February | ■ American Recovery and Reinvestment Act (ARRA) is signed into law adding $3 billion in New Markets Tax Credit Authority divided equally between 2008 allocation authority and 2009 – with $1.5 billion to be made available to highly qualified CDEs that applied in 2008 but did not receive awards and $1.5 billion added to 2009 making $5 billion available for seventh-round applicants. |
| April | ■ Seventh-round allocation applications submitted to CDFI Fund with 249 applications requesting $22.5 billion for $5 billion in available allocations. |
| May | ■ The CDFI Fund announces $13.4 billion in QEIs by Allocatees |
| | ■ The CDFI Fund awards $1.5 billion in additional 2008 allocations made available through ARRA to 32 CDEs |

# Appendix C:
# H.R. 2628, New Markets Tax Credit Extension Act of 2009

111TH CONGRESS
1ST SESSION

# H. R. 2628

To amend the Internal Revenue Code of 1986 to extend the new markets tax credit through 2013, and for other purposes.

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IN THE HOUSE OF REPRESENTATIVES

MAY 21, 2009

Mr. NEAL of Massachusetts (for himself and Mr. TIBERI) introduced the following bill; which was referred to the Committee on Ways and Means

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# A BILL

To amend the Internal Revenue Code of 1986 to extend the new markets tax credit through 2013, and for other purposes.

1 *Be it enacted by the Senate and House of Representa-*
2 *tives of the United States of America in Congress assembled,*
3 **SECTION 1. SHORT TITLE.**
4 This Act may be cited as the "New Markets Tax
5 Credit Extension Act of 2009".
6 **SEC. 2. EXTENSION OF NEW MARKETS TAX CREDIT.**
7 (a) EXTENSION.—
8 (1) IN GENERAL.—Subparagraph (D) of section
9 45D(f)(1) of the Internal Revenue Code of 1986 (re-
10 lating to national limitation on amount of invest-

2

1 ments designated) is amended by striking "2009"
2 and inserting "each of calendar years 2009 through
3 2013".
4 (2) CONFORMING AMENDMENT.—Section
5 45D(f)(3) of such Code is amended by striking
6 "2014" and inserting "2020".
7 (b) INFLATION ADJUSTMENT.—Section 45D(f) of the
8 Internal Revenue Code of 1986 is amended by inserting
9 at the end the following new paragraph:
10 "(4) INFLATION ADJUSTMENT.—
11 "(A) IN GENERAL.—In the case of any cal-
12 endar year beginning after 2009, the dollar
13 amount in paragraph (1)(f) shall be increased
14 by an amount equal to—
15 "(i) such dollar amount, multiplied by
16 "(ii) the cost-of-living adjustment de-
17 termined under section 1(f)(3) for the cal-
18 endar year, determined by substituting
19 'calendar year 2008' for 'calendar year
20 1992' in subparagraph (B) thereof.
21 "(B) ROUNDING RULE.—If a dollar
22 amount in paragraph (1)(D), as increased
23 under subparagraph (A), is not a multiple of
24 $1,000,000, such amount shall be rounded to
25 the nearest multiple of $1,000,000.".

1 (c) ALTERNATIVE MINIMUM TAX RELIEF.—Section
2 38(c)(4)(B) of such Code is amended by redesignating
3 clauses (v) through (viii) as clauses (vi) through (ix), re-
4 spectively, and by inserting after clause (iv) the following
5 new clause:
6 "(v) the credit determined under sec-
7 tion 45D to the extent that such credit is
8 attributable to a qualified equity invest-
9 ment which is designated as such under
10 section 45D(b)(1)(C) pursuant to an allo-
11 cation of the new markets tax credit limi-
12 tation for calendar year 2009,".
13 (d) EFFECTIVE DATES.—
14 (1) IN GENERAL.—The amendments made by
15 this section shall take effect on the date of the en-
16 actment of this Act.
17 (2) SUBSECTION (c).—The amendments made
18 by subsection (c) shall apply to credits determined
19 under section 45D of the Internal Revenue Code of
20 1986 in taxable years ending after the date of the
21 enactment of this Act and to carrybacks of such
22 credits.

○

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