The New Markets Tax Credit

Progress Report 2010

A Report by the New Markets Tax Credit Coalition

Revised

July 2010

New Markets Tax Credit Coalition
1331 G Street, NW, 10th Floor • Washington, DC 20005
(202) 204-4500 • (202) 393-3034 fax • www.nmtccoalition.org

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, DC that specializes in providing comprehensive legislative and support services to community development organizations, associations and public agencies.

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Congress of the United States
Washington, DC 20515

June 8, 2010

Dear Reader:

In the following pages, the New Markets Tax Credit Coalition tells an important story about how the New Markets Tax Credit (NMTC) is working to generate investment, spur economic growth, and create jobs in economically distressed rural and urban communities across America.

The New Markets Tax Credit, authorized in the Community Renewal Tax Relief Act of 2000, was designed to stimulate investment and economic growth in low-income communities that are traditionally overlooked by conventional capital markets. The NMTC does this by providing investors with a seven-year, 39 percent Federal tax credit for investments made through Community Development Entities (CDEs). The CDEs use the capital raised with the NMTC to finance loans and investments in businesses and economic development projects in low-income areas.

We are pleased to report that the NMTC has been a success. To date, more than $16 billion in private sector capital has been invested in low-income communities because of the NMTC. As the *NMTC 2010 Progress Report* shows, this capital is financing a wide variety of businesses and community facilities including child care and health care centers, manufacturing businesses, grocery-anchored retail centers, and mixed-use real estate projects. All of the projects financed with the NMTC are in low-income communities, which are particularly vulnerable during this economic downturn.

According to a 2007 report by the Government Accountability Office (GAO), approximately 88 percent of NMTC investors surveyed reported they would not have made the same investment without the incentive of the Credit. The NMTC Coalition's 2010 Progress Report reinforces the GAO's finding that banks are the largest, though not the only, source of NMTC investments. We support the Coalition's effort to grow and diversify the NMTC investors market, and we believe that allowing NMTC investments to offset the Alternative Minimum Tax (AMT) will help.

According to a fact sheet released by the Department of the Treasury in February, "$1 of foregone tax revenues under the NMTC leverages about $12 of private investment in distressed communities on a cost basis. NMTC dollars are critical in spurring private sector investment in communities facing economic challenges."

There are hundreds of examples of how the New Markets Tax Credit has helped to foster the economic recovery, create jobs, and support small businesses. This report tells the story of how the NMTC is working in urban communities like Flint, Michigan, and Miami, Florida, as well as in rural communities like Bastrop, Louisiana, Council Bluffs, Iowa, and Muskegee, Oklahoma. We have seen first-hand in our home states how the NMTC is working: financing an organic supermarket in Springfield, Massachusetts, a health care facility in Columbus, Ohio, a hardware store in Huntington, West Virginia, and a marine research lab in the Gulf of Maine.

There is a rich tradition of bi-partisan support for the New Markets Tax Credit. The Credit was originally enacted in legislation sponsored by a Democratic President and Republican Speaker of the House. It was successfully launched under a Republican Administration, and the first extension was passed by a Republican Congress. In 2010, a Democratic President and Congress supported legislation to expand the program to promote economic recovery.

We are pleased to carry on that tradition by leading a bi-partisan coalition of Members of Congress who support the extension and improvement of the New Markets Tax Credit.

Sincerely,

Jay Rockefeller

Senator John D. Rockefeller IV

Olympia Snowe

Senator Olympia J. Snowe

Richard E. Neal

Congressman Richard E. Neal

Pat Tiberi

Congressman Patrick J. Tiberi

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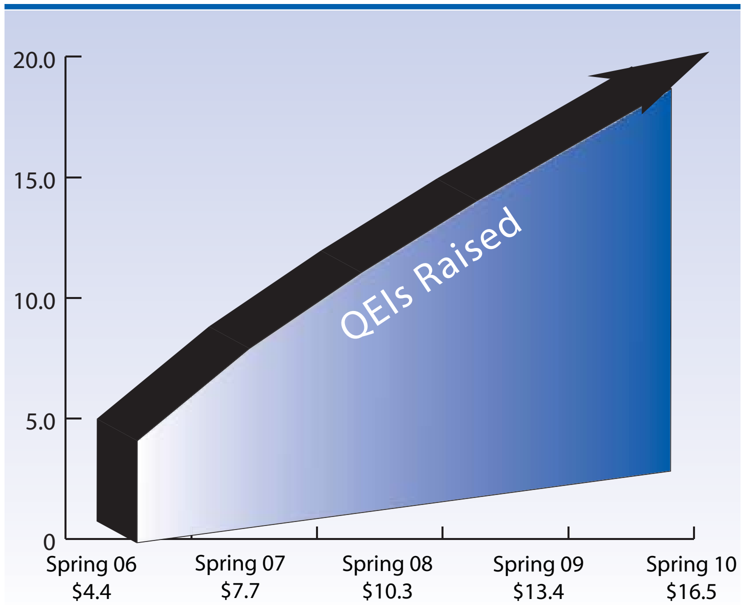
Introduction

This *2010 Progress Report* was prepared by the New Markets Tax Credit Coalition, a national membership organization of Community Development Entities (CDEs) and investors organized to advocate on behalf of the New Markets Tax Credit (NMTC). This is the Coalition's sixth annual NMTC progress report and, as previous reports, is designed to inform policymakers and practitioners on the Credit and how it is working to generate investment and economic activity in low income communities.

The New Markets Tax Credit (NMTC) was signed into law in December 2000 and the first NMTC allocations were awarded by the Treasury Department in March 2003. In a relatively short period of time the NMTC has generated more than $16 billion in private capital to invest in businesses and economic development efforts in some of our nation's poorest communities. According to the CDFI Fund, 15,000 businesses have already been financed with capital made available through the NMTC. These businesses have generated jobs, expanded health care and educational facilities, and created viable markets in economically distressed communities.

The Coalition's *2010 Progress Report* provides a snapshot of how the NMTC is working in the current economic environment. As Chart 1 illustrates, demand for the NMTC program remains strong in spite of the market challenges brought on by the economic crisis. According to the Qualified Equity Investments (QEIs) issuance reports issued by the CDFI Fund there has not been a slow down in NMTC investment activity over the last year. This finding is largely consistant with the findings of the Coalition's report.

Chart 1:
New Market Tax Credit Investment 2006–2010
(QEIs raised in billions of dollars)
Rounds I-VI (2003-2008)



Source: Rapoza Associates, survey of NMTC allocatee activity through December 31, 2009

There are two parts to the Coalition's *2010 Progress Report*. The first section reports on findings from the Coalition's most recent survey of allocatees. This year the Coalition surveyed NMTC allocatees from Round I (2003), Round II (2004), Round III (2005), Round IV (2006), Round V (2007) and Round VI (2008). Allocatees were asked to report on their NMTC activity as of December 31, 2009.

In addition, this report includes a series of stories from the field to illustrate how Community Development Entities are using the NMTC to channel a variety of investment products to a full range of businesses and community development projects in low income communities. This year the Coalition's report profiles several high impact NMTC projects in Florida, Iowa, Louisiana, Michigan and Oklahoma.

Background on the New Markets Tax Credit

The New Markets Tax Credit was designed to stimulate private investment and economic growth in low income communities that have historically been overlooked by conventional investors. These economically distressed communities lack access to the patient capital that is needed to support new and existing businesses, create jobs and generate economic activity.

The Credit attracts private sector investors to low income areas by offering a 39 percent federal tax credit, for each dollar invested, 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 in return for 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 Market 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 to implement its New Markets Tax Credit business strategy.

Political Support for NMTC on Both Sides of the Aisle

Since its inception in 2000, Congress has consistently supported the NMTC making it one of the largest community development programs in the federal government. From the beginning the NMTC has enjoyed bi-partisan support. The NMTC was signed into law by President Clinton and became law as part of the *Community Renewal Tax Relief Act of 2000* (P.L. 106-554). The Credit was launched under President Bush with the Round I awards made in 2003 and the first extension was passed by a Republican Congress in 2006.

The original NMTC legislation provided $15 billion in Credit allocations between 2000 and 2007. These Credits were awarded over five allocation rounds in years 2003 through 2007. In December 2005, an additional $1 billion was authorized in New Markets Tax Credit allocations for Gulf Coast communities devastated by Hurricane Katrina and those Credits were allocated in 2006 and 2007.

The *Tax Relief and Health Care Act of 2006* (P.L. 109-432) 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. In the fall of 2008, Congress passed the *Renewable Energy and Job Creation Act of 2008* (P.L. 110-140) that included a NMTC extension through 2009 at the $3.5 billion rate.

In February of 2009, Congress passed the *American Recovery and Reinvestment Act of 2009* (P.L. 115-5) (ARRA) that included $3 billion in additional New Markets Tax Credit authority divided equally between 2008 and 2009. The ARRA legislation increased the overall NMTC allocation authority to $5 billion annually.

In the summer of 2009, The *New Markets Tax Credit Extension Act of 2009* (H.R. 2628 and S. 1583) was introduced in the House by Representatives Richard Neal (D-MA) and Patrick Tiberi (R-OH) and in the Senate by Senators John Rockefeller (D-WV) and Olympia Snowe (R-ME). The *New Markets Tax Credit Extension Act of 2009* would extend the NMTC through 2014 with $5 billion in annual allocation authority. The bill would also provide Alternative Minimum Tax (AMT) relief to NMTC investors.

While the NMTC Coalition continues to advocate for a longer term extension of the NMTC, the 111th Congress is expected to approve a tax extender bill that will provide a one-year extension of the NMTC with $5 billion in allocation authority available for 2010. On May 28, 2010 the House passed tax extender legislation that includes that extension and the Senate is expected to follow suit.

To date the CDFI Fund has awarded seven rounds of Credit allocations for a total of $26 billion in NMTC allocation authority. Applications for the 2010 allocations (Round VIII) were due on June 2, 2010 and the CDFI Fund expects to announce the 2010 NMTC allocation awards before the end of 2010.

Demand for Credits Remains Strong

The NMTC allocation application process is highly competitive. As shown in Table 1, between 2003 and 2010 the demand for allocations outstripped the availability of Credits by more than $171 billion.

When a CDE submits an allocation application to the CDFI Fund it must detail how it intends to use the requested NMTC allocation. A CDE applicant is required to provide detail in four areas: business strategy, capitalization strategy, management capacity, and community impact. Each of these four areas is scored equally and the stiff competition requires 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 exceed the minimum standards for raising and deploying capital and demonstrate how it plans to have a significant and measurable economic impact on its target communities. The CDFI Fund also looks favorably on allocation applications in which the CDE describes how it will impact areas of particularly high economic distress. The CDFI Fund has dictated a set of high impact benchmarks[1] that a CDE allocation application must address in order to receive an allocation. This report shows how the high impact benchmarks set by the CDFI Fund and the strong competition for NMTC allocations has driven NMTC activity to areas of high distress at a faster pace than required by NMTC statute or regulations.

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
Round VIII (2010)	$5 billion	$23.5 billion
TOTAL	**$31 billion**	**$202 billion**

Survey Findings

The Survey Sample from Rounds I through VI (2003-2008)

In December 2009, the Coalition sent a survey to every CDE that had received at least one NMTC allocation in Rounds I through VI (2003 through 2008).

From 2003 through 2008, the CDFI Fund made a total of 396 allocation awards to 237 distinct Community Development Entities (CDEs). Through the first six rounds of the NMTC program, the 396 awards totaled $21 billion in tax credit allocation authority.

The Coalition received completed surveys from 70 CDEs, representing 175 NMTC allocation awards. These CDEs hold $10.1 billion in NMTC allocations, or 48 percent of the total $21 billion awarded between 2003 and 2008. The survey sample includes the following allocation volume by round:

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1 CDFI Fund, NMTC Allocation Application Debriefing Document

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

- $1.1 billion in Round I (2003) awards;
- $1.4 billion in Round II (2004) awards;
- $1.1 billion in Round III (2005) awards;
- $2.2 billion in Round IV (2006) awards;
- $1.8 billion in Round V (2007) awards; and
- $2.5 billion in Round VI (2008) awards.

Of the 70 CDEs surveyed:

- 40 percent received a Round I (2003) allocation, 31 percent a Round II (2004) allocation, 33 percent a Round III (2005) allocation, 46 percent received a Round IV (2006) allocation, 39 percent received a Round V (2007) allocation and 61 percent received a Round VI (2008) allocation;
- 21 percent had received only one allocation award while 79 percent had received allocation awards in two or more rounds;
- 47 percent represent a national service area, 15 percent a multi-state area, 22 percent a statewide service area, and 16 percent a local service area[3];
- 11 percent of the CDEs responding to the survey identified themselves as minority owned or controlled CDEs as defined by the CDFI Fund[4];
- The smallest allocation award reported was $2.0 million, the largest allocation award reported was $150.0 million, the median allocation award reported was $55.0 million, and the average allocation award was $58.7 million.

It is worth noting that 80 percent of the CDEs responding to the 2010 survey had responded to the 2009 survey.

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) made in exchange for the Credit. As in past years we found that CDEs secured investments and issued QEIs at a faster pace than required by law or regulation. By law, a CDE must issue its QEIs within five years of receiving a Credit allocation. However, in order to be competitive in applying for a

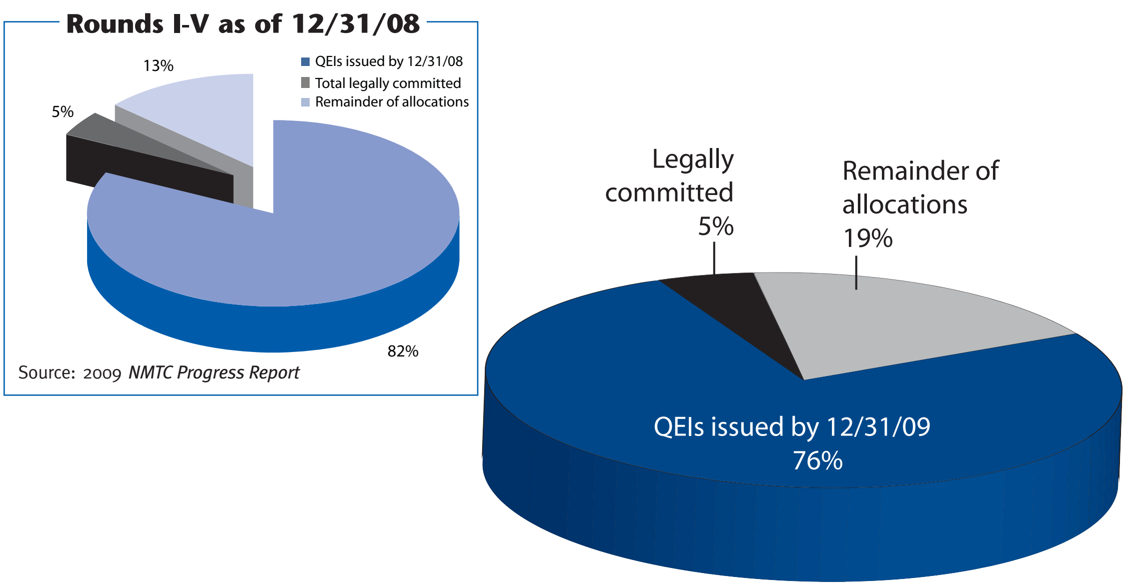
3 Percentages total greater than 100 percent because some multi-round allocatees serve different service areas for separate allocation rounds.

4 A minority owned or controlled CDE is a business that is more than 50% owned or controlled by one or more persons who are members of a minority ethnic group. If the business is a for-profit concern, more than 50% of its owners must be minorities; if the business is a non-profit concern, more than 50% of its board of directors must be minorities (or its Chief Executive Officer, Executive Director, General Partner or Managing Member must be a minority).

NMTC allocation a CDE must demonstrate its ability to raise 80 percent of its investment capital within two years and 100 percent within three years[5].

In aggregate, as of December 31, 2009, the CDEs surveyed had issued over $7.7 billion in QEIs or 76 percent of the total $10.1 billion in NMTC allocations awarded. In addition, these CDEs had legally committed[6] another $552 million as of year end 2009 and anticipated that another $2 billion will be issued as QEIs by the end of 2010. This QEI issuance rate is slightly slower than reported in the 2009 survey, when Allocatees from Rounds I-V (2003-2007) indicated that 82 percent of their allocations had been issued as QEIs as of December 31, 2008 (Chart 2). The QEI issuance rate by round is shown in Chart 3.

Chart 2:
QEIs Issued as Percent of Total Allocations — Rounds I-VI (2003-2008)



Source: Rapoza Associates, survey of NMTC allocatee activity through December 31, 2009

As in past years, the survey revealed that after 3 years CDEs have issued or committed most of their allocations as QEIs (Chart 2). This year's survey revealed that by the end of 2009:

- Round I (2003) CDEs had issued $1.1 billion and legally committed an additional $6 million;
- Round II (2004) CDEs had issued $1.4 billion making them fully committed;
- Round III (2005) CDEs had issued $1.1 billion and legally committed $10.1 million;
- Round IV (2006) CDEs had issued $1.9 billion and legally committed $14 million;
- Round V (2007) CDEs had issued $1.3 billion and legally committed $94 million; and
- Round VI (2008) CDEs had issued $808 million and legally committed $326 million.

5 CDFI Fund, NMTC Allocation Application Debriefing Document

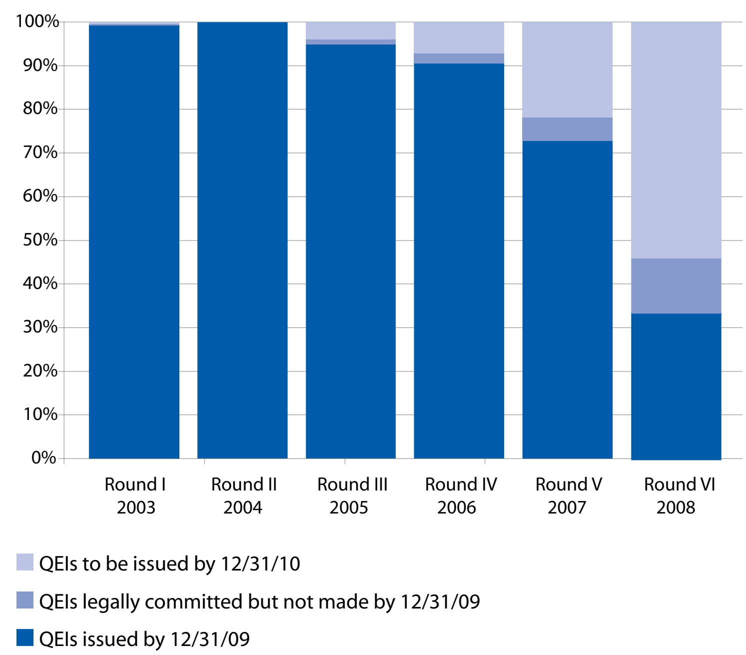
6 A legally binding contract signed between a CDE and an investor whereby the latter agrees to make an investment or a series of investments according to a determined schedule.

NMTC Investor Market

CDEs were asked to identify their NMTC investors by sector - indicating the types of institutions to which they had issued QEIs. Forty percent of the CDEs responding indicated that they had secured investments from more than one type of investor and Chart 4 shows the diversity of institutional investors engaged in the Credit.

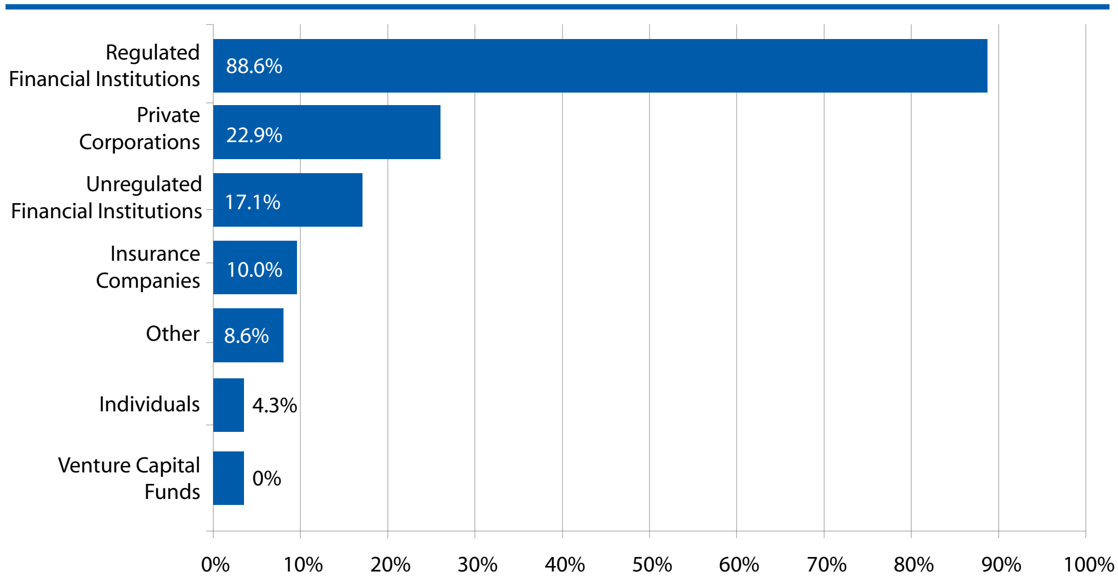
As in past surveys, CDEs reported that regulated financial institutions are the most common source of NMTC investment. The survey found that 88.6 percent of the CDEs reporting had secured all or

Chart 3: QEIs Issued, Committed and To Be Committed in 2010 as Percent of Allocation by Round — Rounds I-VI (2003-2008)



Source: Rapoza Associates, survey of NMTC allocatee activity through December 31, 2009

Chart 4: Sources of QEI Investment — Rounds I-VI (2003-2008)



Source: Rapoza Associates, survey of NMTC allocatee activity through December 31, 2009

some of their QEIs from regulated financial institutions. The survey found that 23 percent of the CDEs had secured investments from private corporations and 17 percent from unregulated financial institutions.

It is important to note that 17 percent of CDEs responding to the survey were themselves regulated financial institutions. It is not uncommon for these institutions to be both the NMTC Allocatees and investors. This may contribute to the predominance of financial institutions as investors.

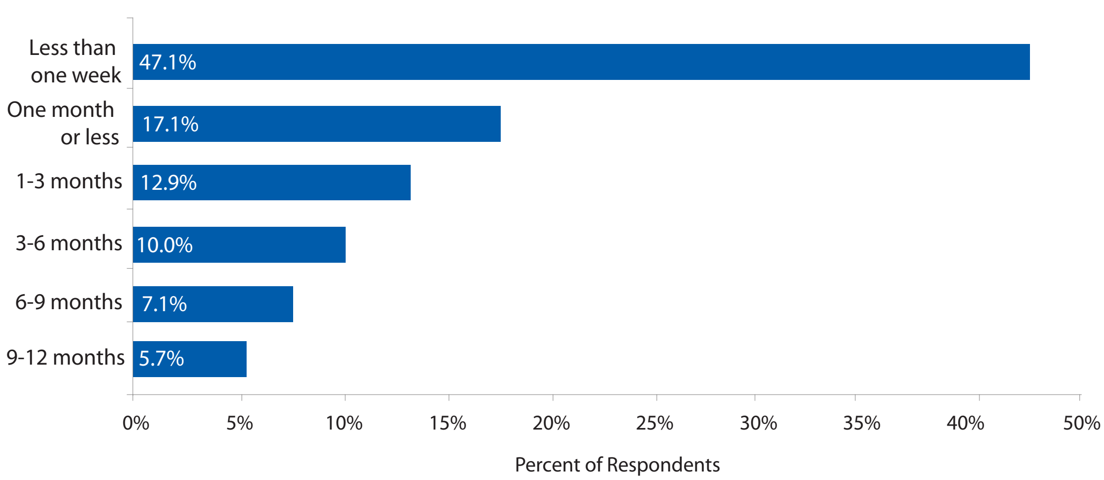
The "other" sources of investment in Chart 4 includes leveraged upper tier funds, community development corporations, pension funds, and government sponsored enterprises highlighting even further the diverse sources of capital invested in underserved communities through the NMTC program.

CDE respondents were asked if over the last year an investor had withdrawn or otherwise been unable to close a NMTC transaction as anticipated. Seventeen percent of the CDEs reported to have had an investor pull back from a commitment and 54 percent reported difficulty securing leveraged debt over the last year. CDEs revealed that it was taking longer to find investors, particularly leveraged debt lenders. CDEs also indicated that investors were putting more stringent underwriting requirements in place, making it more difficult to secure debt financing for leveraged investments.

Deploying NMTC Capital

CDEs responding to the survey continue to get loans and investments into the field at a faster rate than required by law or 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.

Chart 5:
Time to Deploy QEIs Once Issued — Rounds I-VI (2003-2008)

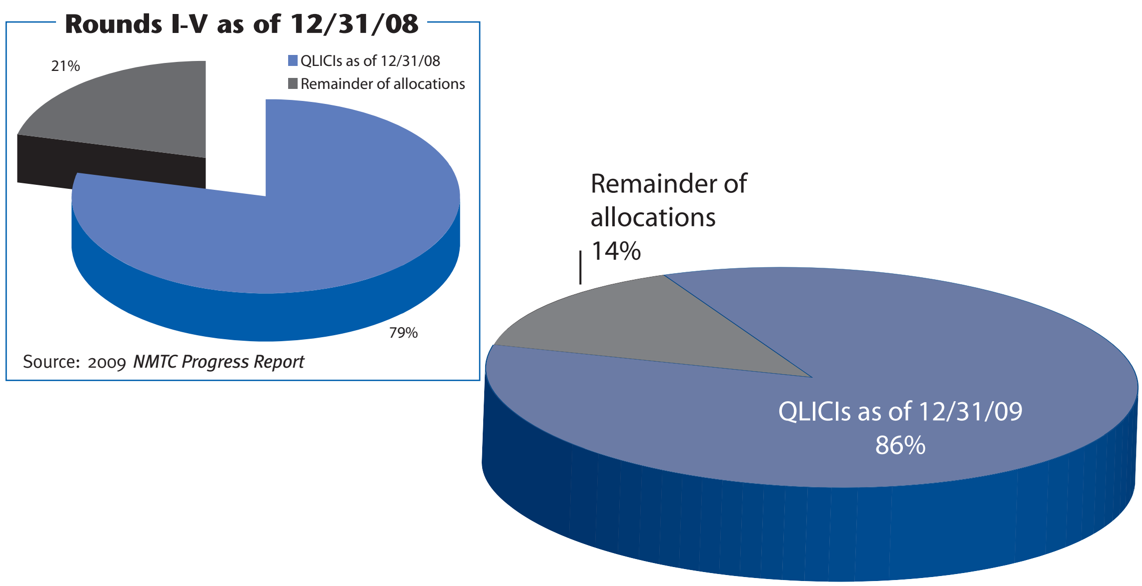


Source: Rapoza Associates, survey of NMTC allocatee activity through December 31, 2009

Forty-seven percent of the CDEs surveyed indicated that they deploy their capital in less than a week after issuing a QEI. This is up from 36 percent of the CDEs who reported such timely deployment in the 2009 survey. Seventeen percent of the CDEs reported that QEIs are deployed within thirty days, and another 13 percent deploy QEIs within three months (Chart 5). Thus, 77 percent deploy their capital in three months or less.

As of December 31, 2009, survey respondents had collectively made a total of 2,082 QLICIs totaling $8.8 billion, which represents approximately 86 percent of the total allocations awarded to survey respondents. This figure is significant for several reasons. First, CDEs responding to this year's survey had deployed a higher percentage of the allocations as QLICIs as compared to the 2009 survey respondents that had deployed 79 percent of their allocations into QLICIs (Chart 6).

Chart 6:
Percentage of Capital Deployed as QLICIs — Rounds I-VI as of 12/31/09



Source: Rapoza Associates, survey of NMTC allocatee activity through December 31, 2009

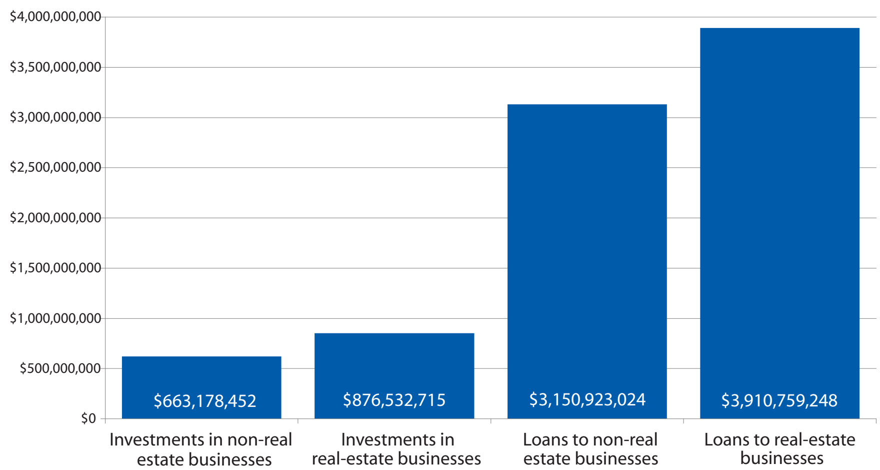
In addition, this year's survey respondents deployed $8.8 billion in QLICIs between 2003 and 2009 while securing $7.7 billion in QEI investments. This finding indicates that CDEs are starting to redeploy principal as it is returned from original QLICIs thus further enhancing the community impact of a NMTC investment.

NMTC Loans and Investments

A QLICI can take the form of an investment or loan in a qualified business, an equity investment or loan in another CDE, the purchase of a qualified loan from another CDE, or financial counseling to businesses or residents in a low income community.

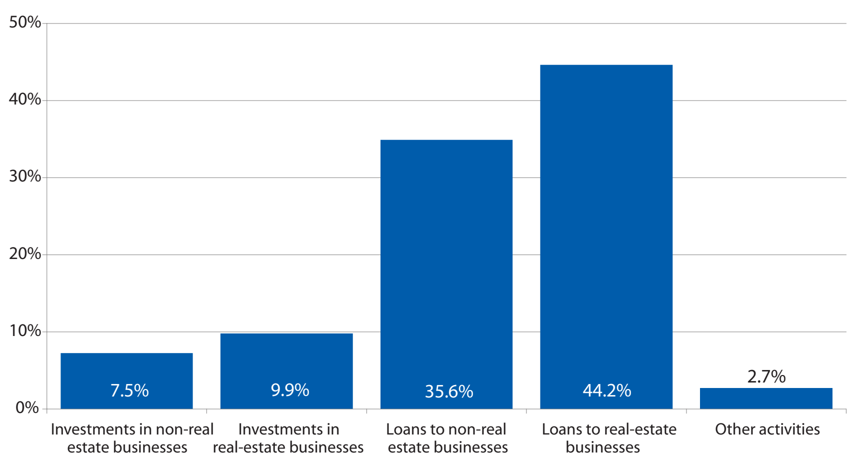
As Charts 7 and 8 show, most of the nearly $8.8 billion in QLICIs deployed by the CDEs surveyed as of December 31, 2009 were in the category of investments and loans to qualified businesses. Almost 80 percent of the QLICIs reported took the form of debt financing while approximately 17 percent of the QLICIs were invested as equity.

Chart 7:
Loans and Investments in Real Estate and Non-Real Estate Businesses
Rounds I-VI (2003-2008)



Source: Rapoza Associates, survey of NMTC allocatee activity through December 31, 2009

Chart 8:
Type of Transactions as Percentage of Total Transactions
Rounds I-VI (2003-2008)



Source: Rapoza Associates, survey of NMTC allocatee activity through December 31, 2009

In addition, CDEs reported 2.7 percent of the QLICIs financed financial counseling, loans or investments in another CDE and/or to purchase loans from another CDE.

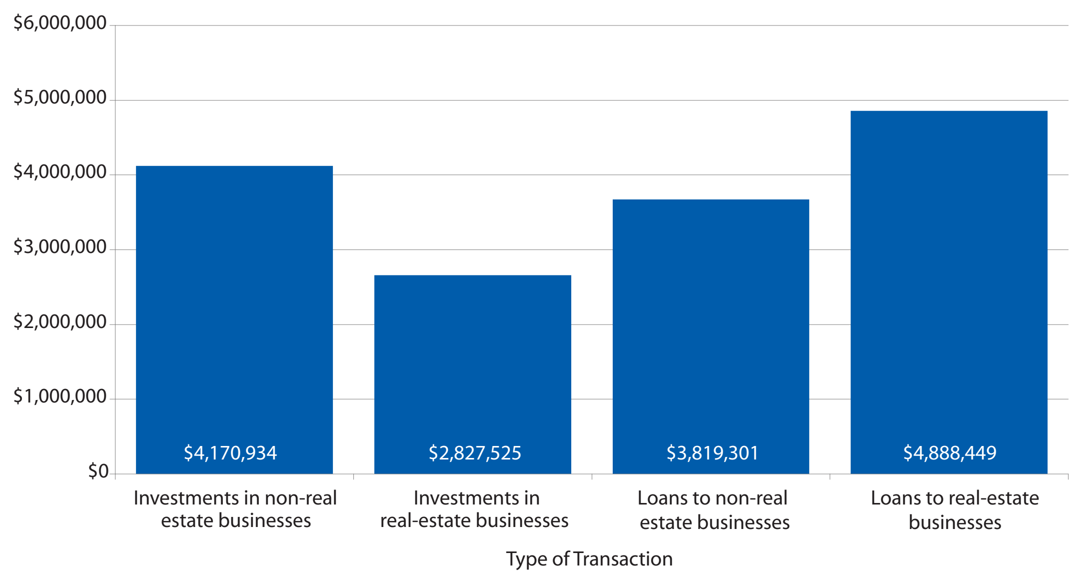
The CDEs reported that more than $3.8 billion, or 43 percent of the QLICIs, financed non-real estate businesses and more than $4.8 billion, or 54 percent of the QLICIs, financed real estate businesses.

In making the distinction between real estate and non-real estate transations the Coalition is using the CDFI Fund's definition that defines a "real estate business" as a business that is principally engaged in the development of a specific real estate project as opposed to a non-real estate business securing NMTC financing for business operations or expansion.

Over the last three years the Coalition's surveys have revealed a steady increase in QLICIs being made in non-real estate businesses. The Coalition's 2008 survey found that 35 percent of the QLICIs were made in non-real estate businesses, 40 percent in 2009 and now 43 percent in this survey.

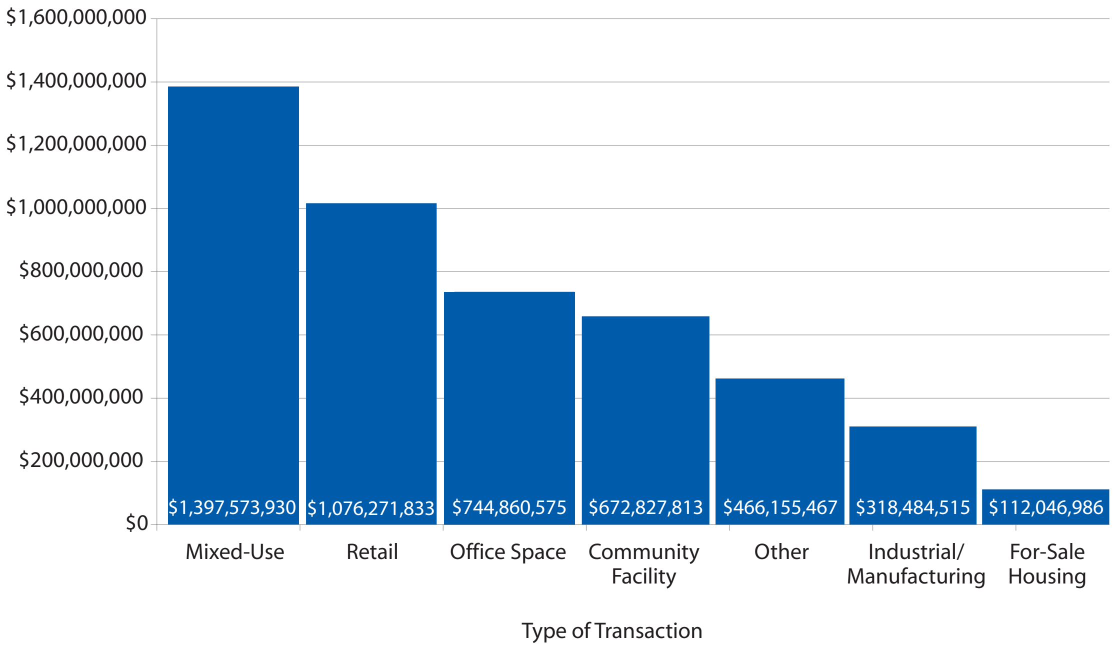
Chart 9 shows the average size of QLICI loans and investments made in qualified businesses. Loans to real-estate businesses have always been the largest type of QLICI and the $4.8 million average loan reported this year is similar to that reported over the last three years. However, the average size of loans and investments made in non-real estate businesses has increased over the last three years according to the survey. In 2008 the Coalition's survey found that the average investment in a non-real estate business was $3.4 million, in 2009 it was $3.9 million and this year's survey reports $4.1 million. Similarly, the average loan to a non-real estate business reported in the 2008 survey was $2.0 million, in 2009 it was $3.4 million and this year's survey reports the average loan to be $3.8 million.

Chart 9:
Average Size of NMTC Transactions by Type (in dollars) — Rounds I-VI (2003-2008)



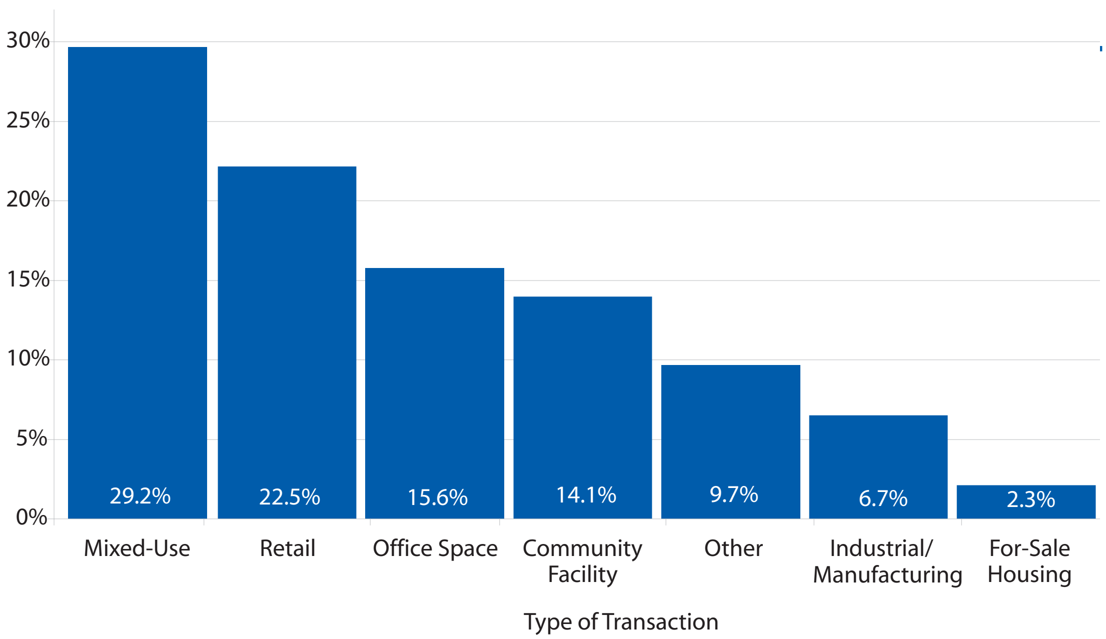
Source: Rapoza Associates, survey of NMTC allocatee activity through December 31, 2009

Chart 10:
Value of Real Estate Transactions by Type — Rounds I-VI (2003-2008)



Source: Rapoza Associates, survey of NMTC allocatee activity through December 31, 2009

Chart 11:
Percent of Total Real Estate Transactions by Type — Rounds I-VI (2003-2008)

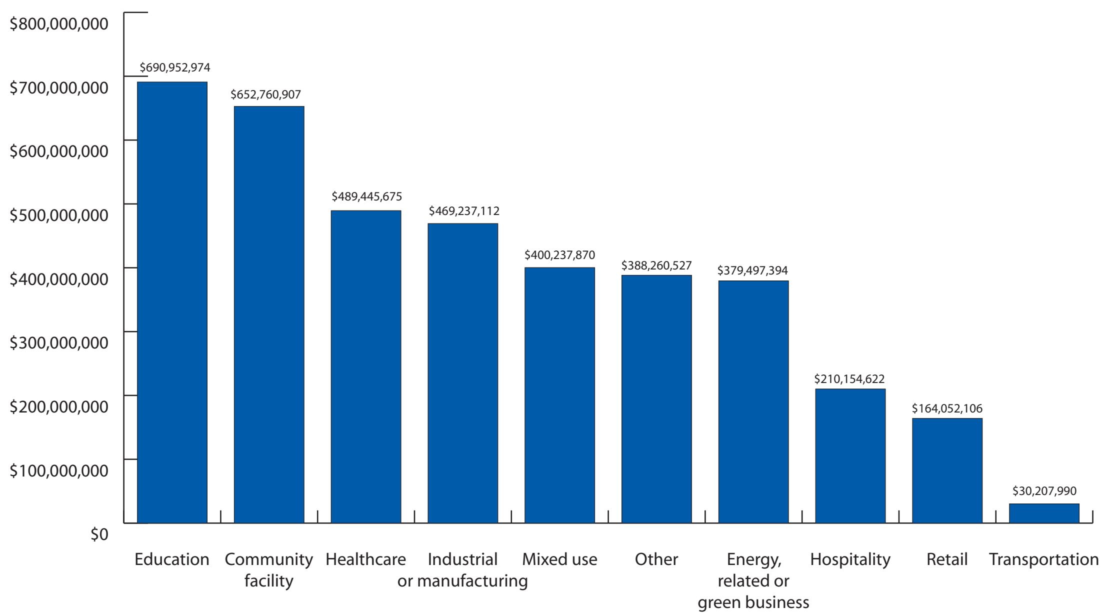


Source: Rapoza Associates, survey of NMTC allocatee activity through December 31, 2009

Charts 10 and 11 reveal the prominence of mixed use and retail projects among the real estate transactions. Mixed use deals account for 29 percent of all real estate transactions reported by the survey respondents. The second most common type of real estate project reported was retail at $1 billion, or 23 percent of all real estate transactions. These findings are consistent with previous Coalition reports.

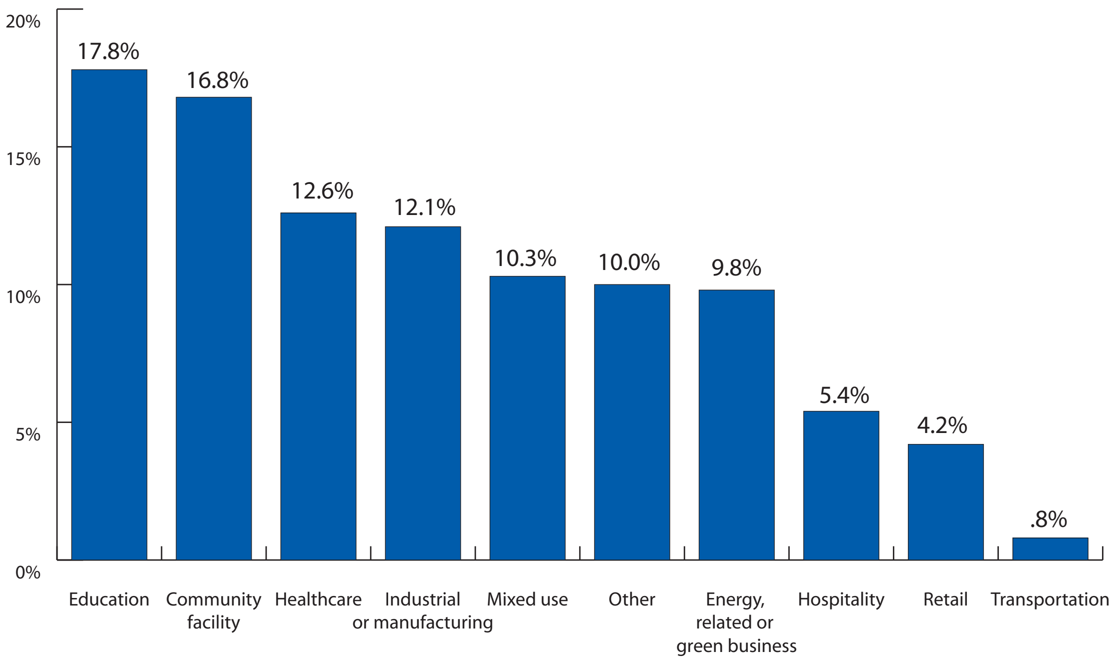
This year's survey asked CDEs to categorize by sector the non-real estate businesses that they had financed. The purpose of this was to ascertain the types of non-real estate businesses being financed by CDEs. It is apparent that a substantial portion of the investments (Charts 12 and 13) made in non-real estate businesses were used to finance the development or expansion of real estate for use by the qualified business. Though the NMTC was used to support brick and mortar development, the CDFI Fund considers these to be NMTC investments in non-real estate businesses because the purpose of the business receiving the NMTC financing is not principally real estate development. The non-real estate businesses financed included non-profit charter schools, for-profit and non-profit hospitals, heath centers and manufacturers.

Chart 12:
Value of Non-Real Estate Transactions by Type — Rounds I-VI (2003-2008)



Source: Rapoza Associates, survey of NMTC allocatee activity through December 31, 2009

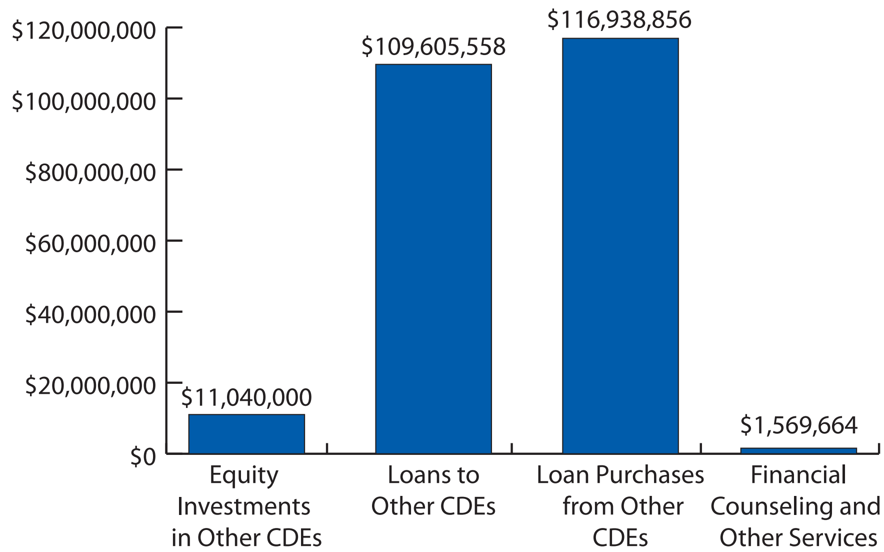
Chart 13:
Percentage of Total Non-Real Estate Transactions by Type
Rounds I-VI (2003-2008)



Source: Rapoza Associates, survey of NMTC allocatee activity through December 31, 2009

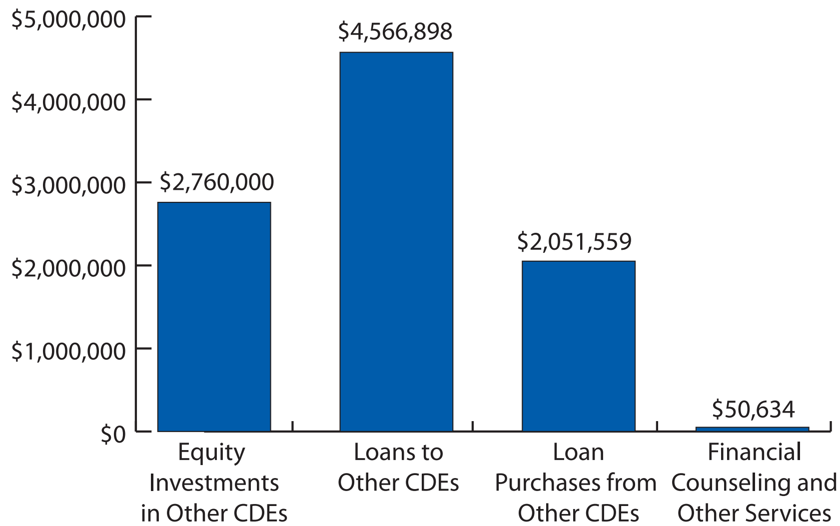
The survey findings for CDEs investments in "other" activities, including equity investments in other CDEs, loans to other CDEs, loan purchases from other CDEs, and financial counseling and other services, tends to fluctuate from year-to-year. In many cases the CDEs engaged in the transactions are large, established organizations that not only direct needed capital to low income communities but also build the capacity of smaller, locally grown CDEs. There was an expectation in the design of the NMTC program that some CDEs would use a portion of their allocations to make loans to and purchase loans from other CDEs. Coalition surveys have consistently found between 3 to 5 percent of the QLICIs reported are in "other" activities. Chart 14 displays the total value of CDE investments in "other" activities and Chart 15 displays the average size of each type of investment.

Chart 14:
Total Value of Investment in "Other" Activities (in dollars)
Rounds I-VI (2003-2008)



Source: Rapoza Associates, survey of NMTC allocatee activity through December 31, 2009

Chart 15:
Average Size of "Other" Investment Activities (in dollars)
Rounds I-VI (2003-2008)



Source: Rapoza Associates, survey of NMTC allocatee activity through December 31, 2009

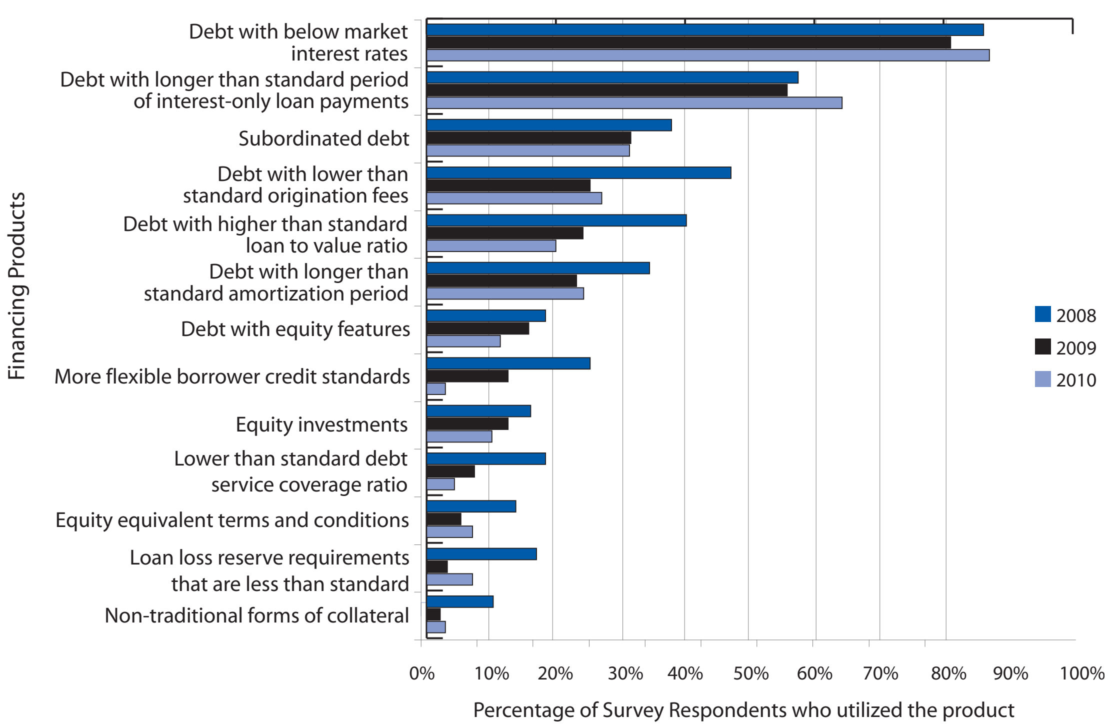
Patient, Flexible Financing Products

The flexibility of the Credit allows 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.

However, in order to succeed in the competitive allocation process, a CDE must show how it will target investments to communities with high economic distress and demonstrate how the Credit will be used to provide patient, flexible capital at 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 16).

Chart 16:
Most Popular Flexible and Non-traditional Financing Products, 2010 vs. 2009 vs. 2008 (by Percent of Survey Respondents)



Source: Rapoza Associates, survey of NMTC allocatee activity through December 31, 2009

Over 87 percent of survey respondents indicated that debt with below market interest rates is the CDE's most frequently utilized product. This is 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 – 64 percent
- Subordinated debt – 31 percent
- Debt with lower than standard origination fees – 27 percent

This year revealed some shifts in the use of certain financing products, perhaps a result of changes in the capital markets. Chart 16 shows survey results from 2008, 2009 and 2010 to illustrate changes in the most popular financing products CDEs choose to offer each year. For instance, in the *2008 Progress Report*, 47 percent of respondents indicated that they used lower than standard origination fees, and in the *2010 Progress Report* that number dropped to 25 percent of respondents. Debt with a higher than standard loan to value ratio dropped from 40 percent usage in 2008 to 20 percent in this year's report. The survey also found that it is less common now to provide products with more flexible borrower credit standards; usage declined from 25 percent in 2008 to 2.9 percent in 2010.

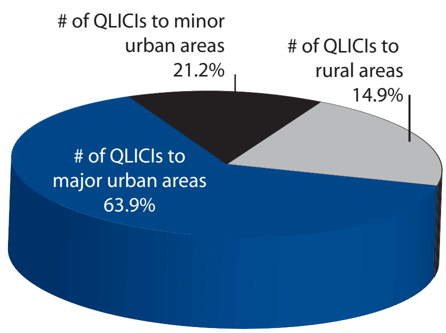
Leveraging Additional Investment into Target Communities

Neither the law nor regulation requires a CDE to leverage additional resources from outside investors when structuring deals. The New Markets Tax Credit program is by its very definition leverage; as originally authorized the program uses a $0.39 federal tax credit subsidy to make a $1 investment in a poor community. However, at the same time, CDEs have proven adept at using NMTC financing to leverage additional dollars into target communities at the project level.

In some instances a CDE will use its QEIs to provide 100 percent financing to a local business. In other situations, a CDE may be the first investor in a deal, thus helping to lower the risk profile of the deal and attract other private and public investors. Finally, a CDE may provide gap financing supplying the patient capital necessary to finalize a deal.

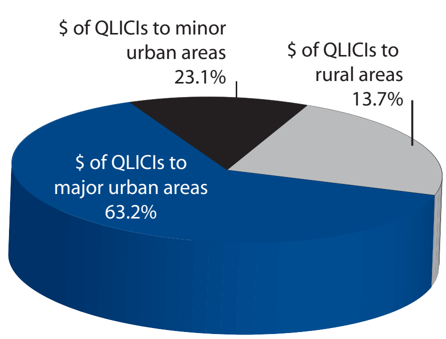
Survey respondents were asked what percentage of a project's total cost is typically financed using NMTC. On average CDEs reported that 47 percent of a project's cost was covered using NMTC financing. However 31 percent of the CDEs reported that they are increasingly being called on to use NMTC to finance a larger percentage of a project's overall cost as other sources of financing become tight.

Chart 17:
Percent of QLICIs to Rural, Major Urban and Minor Urban Areas Rounds I-VI (2003-2008)



Source: Rapoza Associates, survey of NMTC allocatee activity through December 31, 2009

Chart 18:
Percent of QLICIs in Dollars to Rural, Major Urban and Minor Urban Areas Rounds I-VI (2003-2008)



Source: Rapoza Associates, survey of NMTC allocatee activity through December 31, 2009

NMTC Activity in Rural, Major Urban, Minor Urban Areas

CDEs reported that 15 percent of their QLICIs made as of December 31, 2009 were invested in rural areas[7] (Chart 17) and 14 percent of the total QLICI dollars were invested in rural areas (Chart 18). Over the last three years the Coalition's surveys have revealed a steady increase in NMTC activity in rural areas. The Coalition's 2008 survey found that 11 percent of the QLICIs and 11 percent of the QLICI dollars went to rural areas. The 2009 survey found that 14 percent of the of the QLICIs and 13 percent of the QLICI dollars went to rural areas.

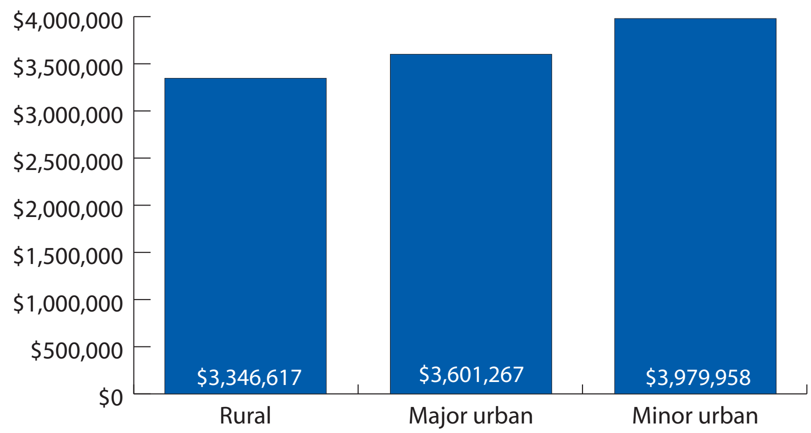
The *Tax Relief and Health Care Act of 2006* (P.L. 109-432) extended the Credit through 2008 and amended the statute to address the need for more capital investment in rural areas. Starting in 2008, the CDFI Fund has been required to ensure that at least 20 percent of QLICIs made by allocatees are invested in non-metropolitan counties. The increase seen in rural activity in this year's survey could in part be attributed to this change.

Of note, for the last three years the Coalition's survey results found that the average size of NMTC investments in urban and rural areas has been relatively similar in spite of an overall lower level of investment in rural areas (Chart 19).

7 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 19:
Average Size of Transaction to Rural, Major Urban and Minor Urban Areas
Rounds I-VI (2003-2008)



Source: Rapoza Associates, survey of NMTC allocatee activity through December 31, 2009

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 a poverty rate of at least 20 percent; or a median family income of up to 80 percent of the metropolitan area or statewide median, whichever is greater; or for non-metro census tracts, a median family income of up to 80 percent of the statewide median.

In 2004 the statutory definition of "low income community" was amended to include one or more "Targeted Population" defined as certain individuals, or an identifiable group of individuals, including Indian Tribes, who are low income persons. In June of 2006 the IRS issued guidance on the Targeted Population allowance.

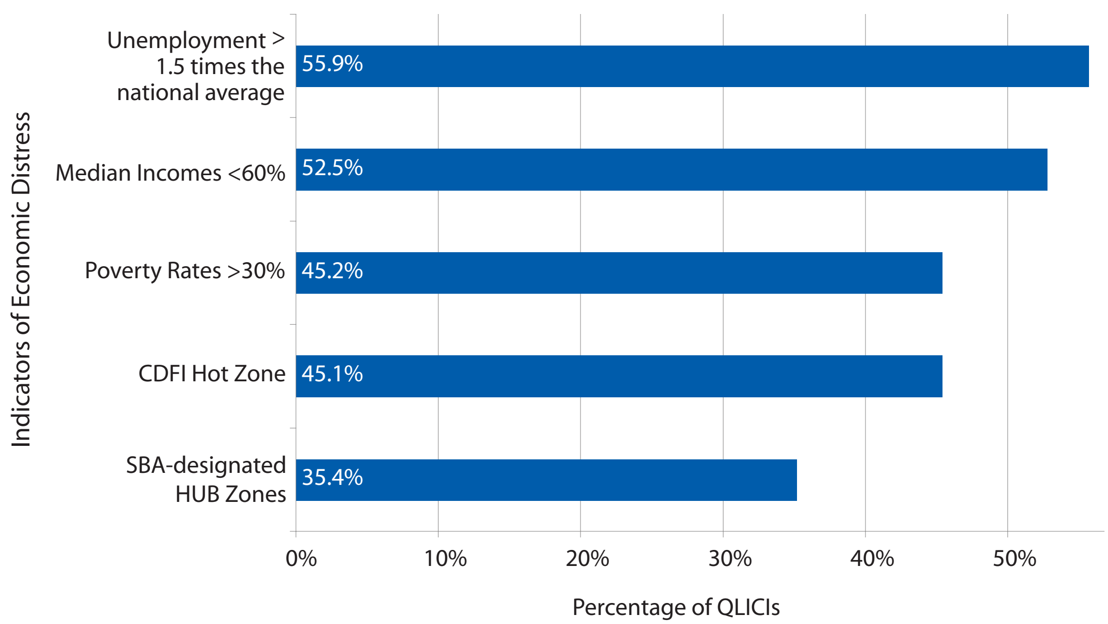
This year's survey asked CDEs if they had qualified a QLICI using the Targeted Population Guidance. A total of 22 CDEs responded that they had used the Targeted Population options to qualify at least one QLICI.

The CDFI Fund tracks indicators of high distress to determine whether and how CDEs are targeting NMTC dollars to the communities that need them most. Recognizing that different communities face different barriers to economic development, the CDFI Fund utilizes an extensive list of high economic 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 reported that 93 percent of their total QLICIs were made in communities with an average of two or more high economic distress factors. The greatest percentage of survey respondents pointed to the following criteria of high economic distress (Chart 20):

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

Chart 20:
QLICIs in Areas of Economic Distress — Rounds I-VI (2003-2008)



Source: Rapoza Associates, survey of NMTC allocatee activity through December 31, 2009

Coalition surveys have consistently found that CDEs target their investments to more economically distressed areas than required by law.

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: NMTC Brings Quality Health Care to Rural Louisiana

Allocatee:	Advantage Capital Community Development Fund, LLC
Headquarters:	New Orleans, LA
Service Area:	Nationwide
Allocation:	$388 million (Rounds 2003, 2005, 2006, 2007, 2008 and 2009)

Advantage Capital Partners is a New Orleans based venture capital and small business finance firm that was founded in 1992 to pursue a 'double bottom-line' mission – to generate returns for its investors while at the same time financing early stage businesses with the potential to generate wealth, and bring new technologies and quality jobs to communities that have historically lacked access to venture capital. The company provides both equity and debt financing as well as value-added technical assistance to the businesses and communities it works with. Over its 18 year history the firm has raised more than $1.3 billion in private capital and has invested in more than 200 companies, and created or retained more than 15,000 jobs.

While the company works with businesses and communities across the country, it has maintained a strong presence in the Gulf Coast. Advantage Capital currently maintains offices in Louisiana, Missouri, New York, Texas, California, Illinois, Florida, Mississippi and Washington, DC with affiliated offices in Alabama, Colorado and Wisconsin.

Advantage Capital formed its CDE, Advantage Capital Community Development Fund, LLC (ACCDF), and was awarded a $110 million NMTC allocation in 2003 (NMTC Round I). ACCDF was looking to use its NMTC allocation to provide both debt and equity to high tech companies with the potential to have a significant job creation and economic impact in distressed communities. The first NMTC investments made by ACCDF included small business investments in several technology and retail businesses, as well as investments in mixed use, commercial and residential real estate.

Initially, ACCDF was formed as a CDE targeting three principal regions of the country: New Orleans, LA; St. Louis, MO; and Honolulu, HI. When ACCDF applied for its 2005 allocation it expanded its certification to cover a national service area. In both 2006 and 2007, Advantage Capital was awarded Credits for the Gulf Opportunity Zone (GO Zone) in order to stimulate growth in low income communities that were devastated by Hurricane Katrina in 2005.

In total Advantage Capital has been awarded $388 million in NMTC allocations. ACCDF has used the NMTC to invest in 73 businesses in nine states, generating wealth in communities and creating or retaining more than 4,053 jobs.

ACCDF has used the NMTC with other state and federal financing tools to leverage funds and maximize the impact of its NMTC capital. For example, Advantage Capital is putting

USDA loan guarantees to use with the NMTC in rehabbing Morehouse General Hospital in Bastrop, Louisiana.

Morehouse General Hospital is a 60 bed rural hospital facility offering a wide range of both inpatient and outpatient care to northeast Louisiana and southeast Arkansas residents. Morehouse General is the only hospital in Morehouse Parish, which is home to 31,000 residents, over 15 percent of whom are elderly and more than 20 percent are uninsured. There are no hospitals within a three hour driving radius of Morehouse General so many patients travel great distances to receive care. The aging facility was on the verge of closing when ACCDF intervened in the summer of 2008.

To date, ACCDF, along with Advantage Capital's small business lending division BizCapital, has committed over $12.5 million in financing to Morehouse General using capital raised through the NMTC, the Louisiana New Markets Development program, the Louisiana CAPCO program, and the USDA's Business and Industry (B&I) guarantee and Community Facility (CF) direct and guaranteed loan programs.

In the summer of 2008, ACCDF provided a $4.6 million loan to Morehouse that was in large part used to finance equipment and begin work on the rehabilitation of the facility. The NMTC investor for this first phase investment was US Bancorp Community Development Fund, with leverage loans provided by several lenders including USBank, Enterprise Bank & Trust, Pulaski Bank and Southwest Bank of St. Louis, Missouri. The loan was structured as a 348-month fully amortized loan, priced at prime plus 4.5 points and the loan was backed by an 80 percent B&I guarantee.

In November 2009, ACCDF stepped in on the second phase of financing and provided Morehouse with a $7.8 million, one-year, prime plus 0.5 point loan to cover the construction phase of the project. That second loan was backed by a Community Facility (CF) guarantee and after construction USDA will take out the loan and provide financing through its direct community facility loan program.

ACCDF's funding for Morehouse General supported the direct creation and retention of approximately 250 hospital jobs. It also helped to bring desperately needed improvements to the Emergency Department and will soon provide new, state-of-the-art diagnostic equipment including digital mammography, digital radiology and digital fluoroscopy equipment. New CT and MRI equipment are slated for installation in the near future. The Emergency Department is under construction to add a five room non-urgent clinic adjacent to the main emergency room. A new, larger waiting area is also planned. Additionally, the hospital is replacing old washers and dryers to bring the laundry services back in-house for better quality and utilization.

Story from the Field: NMTC Investment Brings World-Class Hospital to Rural Oklahoma

Allocatee:	REI New Markets Investment, LLC
Headquarters:	Durant, OK
Service Area:	Statewide: Oklahoma
Allocation:	$136 million (Rounds 2003 and 2005)

In 2007, a group of 24 physicians had an idea to open a new, state-of-the-art hospital in Muskogee, Oklahoma where there was a lack of satisfactory healthcare facilities. An older community hospital existed, but due to lack of equipment and limited services it was losing patients to Tulsa, Oklahoma 50 miles away. Therefore, many of the doctors employed at the old hospital were contemplating relocating their practice. The lack of an adequate medical facility was a deterrent to many businesses and households that might otherwise locate in Muskogee. As a result, the community at-large was suffering from a weak economic base and was starved for capital.

The cost to build a new hospital and hire skilled physicians was substantial; the price tag for land and the building were $49 million and equipment alone cost $15 million. The physicians contacted Rural Enterprises of Oklahoma, Inc. (REI) in search of financial assistance. REI has been working to strengthen the state's economy since 1982 with a mission to create and retain jobs in Oklahoma through effective economic development services.

REI began as a small business lender and has grown to meet various, larger economic development needs of communities through targeted services and flexible financing for both families and businesses, with a statewide network of partners to help deliver its programs. For example, REI offers an equipment lease and purchase program to assist small rural manufacturing companies, and through NMTC the organization brings new investments to low income underserved areas in the state. For every $1 million invested by REI New Markets Investment, LLC $980,000 in additional economic activity is generated in the local economy, so REI has effectively doubled its impact in Oklahoma's weak markets most in need of additional capital. To date, REI has helped finance more than twenty-five NMTC transactions in fourteen communities which has allowed local businesses to retain or hire hundreds of workers.

REI used $15 million of its New Markets Tax Credit (NMTC) allocation in conjunction with an Oklahoma state tax credit program to provide debt and equity in order to acquire land, cover construction costs, pay for equipment and then extend short term working capital to the new Muskogee Community Hospital (MCH). This was a significant portion of the overall project cost, and Mark Roberts, MCH President noted that "All of this potential growth has been made possible by the initial tax credit investments. That initial investment was instrumental in creating a planned first year payroll of over $6 million and during construction provided payroll totaling over $18 million. The capital investment was over $50 million at time of official opening in 2009."

This acute-care hospital is located on 22 acres and features 45 private rooms, geothermal heating and cooling, eco-friendly paint, and furniture and flooring made from recycled materials. The physicians investing in MCH were committed to build an environmentally friendly and healthy building and REI's assistance with Oklahoma community-based Spirit Bank as the investor provided the capital necessary to build to the more expensive Leadership in Energy and Environmental Design (LEED) standard. Spirit Bank provided the senior debt of $38 million; REI provided $15 million in subordinated debt, interest-only for 7 years; and another Oklahoma CDE MetaMarkets OK, LLC provided another $5 million in debt on the same terms. MCH is completely digital and is proud to be the first for-profit LEED Gold Certified hospital in the world.

In addition to its environmentally friendly atmosphere, patients now receive services through state-of-the-art technology which also allows nurses and other medical staff to stay in constant touch with the patient. The project created 300 temporary jobs during construction and now the hospital employs 190 skilled physicians and healthcare professionals earning above-average wages for this economically depressed region. The majority of employees live within 10 minutes of MCH, and the positive local community impact has been substantial.

The presence of the hospital has generated $600,000 for the local school system through property taxes, and MCH is partnering with 5 institutes of higher education in Oklahoma to provide clinical rotations, mentoring and classroom space. MCH has experienced a greater demand for additional space, and has already completed expansion for a radiology center, sleep center, and pulmonary rehab center, so the hospital is considering expanding its medical facilities and training center. The hospital has served as a catalyst for community development; discussions are underway to build a retirement village with assisted living and nursing homes that will be served by MCH's physicians. A Women's Center and Heart Center are also being considered in the expansion plans.

Story from the Field: The NMTC Catalyzing Reinvestment in Michigan

Allocatee:	Michigan Magnet Fund, Inc.
Controlling Entity:	Michigan State Housing Development Authority
Headquarters:	Huntington Woods, MI
Service Area:	Statewide: Michigan
Allocation:	$120 million (Rounds 2005 and 2009)

The Michigan Magnet Fund, Inc. (MMF) is a broad-based statewide nonprofit 501(c)3 organization organized by a consortium made up of the Michigan Economic Development Corporation, Great Lakes Capital Fund, and the Michigan State Housing Development Authority. It has won two $60 million NMTC allocations. Using its 2005 allocation MMF invested in 10 projects located in 6 cities, including the renovation of the Rowe Building in downtown Flint and the Woodward Lofts in rural Owosso, Michigan.

Flint:

It takes a whole community to rebuild a city. Especially a city as devastated as Flint, which has been a national symbol of the loss of American automobile manufacturing jobs. Flint is a HUD-designated Enterprise Community and a Small Business Administration (SBA) designated HUB Zone. The City of Flint has a 45 percent poverty rate, a median family income equal to 39 percent of the area median income, and an unemployment rate of 25.8 percent.

In this case, a local development group made the commitment to invest in the center of this devastated city. The Rowe Building combined three adjacent buildings on brownfield sites in the heart of the downtown business district, combining them into a four-story, 83,000-square-foot building on South Saginaw Street. The effort was backed by a local nonprofit, the Uptown Reinvestment Corporation; the Mott Foundation; the City of Flint; and the State of Michigan.

Originally projected to cost $12.5 million, the cost escalated to $22.5 million following the collapse of the atrium being built across from the three buildings during construction, which threatened the entire project. The developer, the city, and MMF obtained commitments from two CDEs to support the project and the Local Initiatives Support Corporation (LISC) provided $6.9 million in NMTC financing and MMF provided $6.5 million in NMTC financing. The project secured a total of $13.4 million in NMTC financing from LISC and MMF: $2.9 million structured as an equity investment and $10.5 in debt financing. USBank was the NMTC investor in both LISC and MMF.

Additional project financing was provided by the City of Flint which dedicated $3.5 million in HUD Section 108 loan guarantee financing as well as $2 million through a HUD Brownfield Economic Development Initiative grant. In addition, the Mott Foundation made close to $2 million available to the Uptown Reinvestment Fund to finance the project. The

State of Michigan also made state brownfield and historic tax credit financing available to support the renovation project.

The completed project is named for the Rowe Professional Services Company which is an engineering firm that occupies the second and third floors. The firm signed a 10-year lease to house its headquarters in the newly renovated building bringing 100 professionals to the city. The building features open brick walls, high ceilings, and huge windows. A restaurant is scheduled to open on the first floor. Prior to the development's completion, each of the eight fourth-floor lofts were leased.

The development is a shot in the arm for a community that has lost literally tens of thousand of jobs from the closing of GM plants in Flint. It is returning hope to a community that has been devastated by the de-industrialization of America.

Owosso:

In Owosso, MI, a town of 26,000 in the rural central part of the state, hard times for manufacturers began long ago. The Owosso Casket Factory was known in the 1920s as the world's largest. It even supplied a metal coffin for President William McKinley. The casket factory closed in the 1950s and the building deteriorated over the years. By 2005, the buildings were in shambles. Portions of ceilings and floors in the 100-plus-year-old factories were collapsed and the surrounding area was blighted—it contained the city's last gravel road, some unsightly silos, a large barbed-wire fence, and a lot of weeds.

The city's goal was to use the revitalization of the main building and one other building to anchor redevelopment of the area. The gravel road that once bordered the buildings is now a nicely paved street with pedestrian-friendly lighting and sidewalks. Owners of properties around what has now become Woodard Station also have spruced up their areas. "It's really amazing what they've done over there," said Owosso City Manager Joseph Fivas. "This was an area of our community that had a significant amount of blight and this development completely changed that. It has created a place where people live and people from a three-county area come and enjoy. It has just turned into an active place."

The project consists of two main buildings—the former Owosso Casket Company (now restored and housing Target Industries, a manufacturer of promotional materials), and

Woodard Station. Woodard Station, once home to Woodard Wrought Iron Furniture, is now a multi-use facility with 48 loft apartments and retail facilities that offer space for small businesses. A physical rehabilitation center is being built in the retail space for Memorial Healthcare of Owosso. In all, the project has generated nearly 200 jobs and provided a facelift for a part of the community that desperately needed it.

The total development costs were $20 million. MMF invested $5 million in NMTC financing and Phase 2 of the project was financed by a $7.6 million NMTC investment from LISC. The leveraged debt investor was Huntington Bank and the equity investor was Fifth Third Bank for Phase 1 and Huntington Bank for Phase 2. The State of Michigan provided state historic and brownfield tax credits valued at $600,000. To make the project possible, assistance was also provided through a variety of additional economic incentives including a Neighborhood Enterprise Zone, a Corridor Improvement Authority, Michigan business tax credits, brownfield redevelopment, and historic district designation. It has been estimated that the various tools and tax incentives saved about $5 million on the $20 million project. The site is in a non-metropolitan county that is an SBA designated HUB Zone. The median family income for Owosso is 48.6 percent of state's median family income and 24 percent of the residents are living in poverty.

Story from the Field: Charter School Expansion Made Possible with NMTC Investments

Allocatee:	Florida Community Loan Fund
Headquarters:	Orlando, FL
Service Area:	Statewide: Florida
Allocation:	$60 million (Rounds 2004 and 2009)

ASPIRA North Youth Leadership Charter School in North Miami served 300 students in grades 6 through 9 during the 2006/2007 school year. In the fall of 2008, thanks to the Florida Community Loan Fund (FCLF) and financing made available through New Markets Tax Credits, ASPIRA was able to enroll 600 students. ASPIRA moved from its original 10,000 square foot facility where 6 of its classrooms were housed in temporary modular units into its new 35,000-square-foot, 3-story, state-of-the-art educational facility that allowed them to serve twice as many middle school children.

George Cabrera, ASPIRA's Chief Financial Officer, credits NCB Capital Impact and FCLF for introducing ASPIRA to the NMTC as a financing tool to help expand services for children in an area of severe economic distress.

The Florida Community Loan Fund (FCLF) was established in 1994 to provide financing to nonprofit organizations to support community and economic development in low income communities throughout the state of Florida. It made its first loan in 1996 and became a certified Community Development Financial Institution (CDFI) that same year. Over the past 15 years, FCLF has provided more than $49 million in below market debt financing, and leveraged an additional $300 million to support its statewide lending activity. Using financing out of its original community development loan pool, FCLF typically made loans of between $150,000 and $1 million. As it grew, FCLF saw a need to finance larger projects with the potential to create jobs and bring much needed services and facilities to poor communities.

Before securing its first NMTC allocation FCLF had not worked with federal tax credit financing but recognized the potential to use the NMTC to raise private investment capital to finance larger real estate and community facilities projects. In 2003 FCLF was awarded a $15 million NMTC allocation and was the first Florida-based CDE to secure Credits. Nelson Black, FCLF's Director of Lending, described how the NMTC has allowed FCLF to finance a number of high impact, larger scale projects that they previously would have passed over because the capital need was too great. With the NMTC capital, FCLF is now able to look for businesses in need of between $6 million and $15 million in financing.

One such project was the $7.9 million expansion of the ASPIRA North Youth Leadership Charter School campus in North Miami. ASPIRA Florida is a non-profit organization that was launched 30 years ago to administer youth leadership and education programs targeting the needs of young people in the Puerto Rican/Latino community. ASPIRA administers three charter schools in the greater Miami area. Two of the schools are in buildings owned by ASPIRA and the third is in a building that is currently being leased.

In 2006 ASPIRA approached NCB Capital Impact seeking financing for the renovation and expansion of its middle school campus in North Miami. ASPIRA owned its aging facility as well as an adjacent piece of land but as a non-profit charter school they were having difficulty coming up with the financing to support the construction and renovation of the facility.

NCB Capital Impact put ASPIRA in touch with FCLF knowing that they were interested in financing community facilities with their NMTC allocation. NCB Capital Impact stepped forward as the leveraged lender in the project providing $5.8 million. USBancorp is the equity investor. Using the leveraged investment structure, FCLF provided ASPIRA with two below market loans. The first loan, or A note, for $5.8 million was structured as a seven-year note with a 6.67% interest rate, amortized over 30 years, with interest-only payments for 7 years, and a balloon payment after year 7. The second loan, or B note, for $1.6 million, was also structured as a seven-year, interest only note, with a 6.67% interest rate, with a balloon payment after year seven. The two notes taken together had an effective interest rate that was close to 1 percentage point below market. After seven years ASPIRA will repay and refinance the A note in full, and the B note will be converted to equity and remain invested in ASPIRA and contribute to the long-term health of this community institution.

To date, FCLF has financed three projects using its first allocation of NMTC capital. They have a rigorous screening process in place to evaluate potential NMTC projects and ensure that the businesses benefitting from NMTC financing will have a strong community impact. With its 2009 allocation, FCLF has already committed $15 million to another charter school project, located in Jacksonville, Florida. FCLF looks for projects that are “shovel ready” and ideally for projects that have some financing already committed or ready to be committed once NMTC financing is brought to the table.

ASPIRA is now in talks with FCLF about financing the purchase of the current leased facility in which ASPIRA is hosting 500 charter school students. The project would enable ASPIRA to build out the entire 59,000-square-foot three-story facility and welcome a potential total of 1,000 students.

Story from the Field: Iowa Communities Benefit from NMTC Investments Coming from Near and Far

In Iowa, New Markets Tax Credit (NMTC) investments have been made not only by local entities but also by organizations headquartered outside the state. According to the most recent data published by the CDFI Fund, six CDEs have utilized the NMTC to finance 13 transactions totaling more than $61.5 million in six Iowa communities through 2007.

An Established Iowa Business Lender Grows into New Markets

CDE:	Iowa Community Development LC
Controlling Entity:	Iowa Business Growth Company (IBG)
Headquarters:	Johnston, IA
Service Area:	Statewide: Iowa
Allocation:	$165 million (Rounds 2006, 2008 and 2009)

Iowa Business Growth Company (IBG) is headquartered in Johnston, IA and began operating as a Small Business Administration (SBA) 504 loan company in 1981. IBG has a long history of providing flexible alternative financing for small businesses throughout Iowa that complements products available through conventional lenders. To date, IBG has facilitated more than 650 loans to small businesses in Iowa, creating nearly 7,000 new jobs in the Hawkeye State. "The NMTC program was a natural fit that complemented IBG's mission to create jobs and promote economic development within Iowa's most needy communities," commented IBG President Daniel T. Robeson.

IBG's Community Development Entity the Iowa Community Development LC has an exclusive statewide service area in Iowa and has received three NMTC allocations totaling $165 million. NMTC allocations have allowed IBG to extend its flexible rates and terms to qualified borrowers and now leverages NMTC debt to finance much larger business and real estate transactions than they could otherwise authorize. Distressed communities throughout Iowa have benefited from IBG's sizable economic investments that have ensured sustained job growth in the state.

When asked how Iowa Community Development LC decides the size and scale of its NMTC transactions, the investment strategy is simple: "The story guides our investment," says IBG Senior Vice President Jim DePauw. One community's story that so compelled Iowa Community

Development LC to put up $10 million of its NMTC allocation and urge CDE colleagues to do the same was the opportunity for a single office renovation to attract more than 1,300 good paying jobs to downtown Dubuque.

A prominent technology company needed large enough space to host 1,300 employees. Iowa Community Development LC saw the potential to harness this economic engine to benefit a distressed city starved for capital and marked by unemployment more than 1.5 times the national average. The $45.5 million cost to renovate and bring the massive 255,000-square-foot building to LEED Gold certification was prohibitive. A supercharged partnership between Iowa Community Development LC, National Community Fund I, LLC and USBCDE, LLC was necessary to tackle this large renovation. Each CDE made a $10 million investment so the total Qualified Equity Investment was $30 million and USBank served as the investor. Financing to the QALICB was provided with roughly $10 million of debt from each CDE totaling $30 million, $10.6 million from a state historic tax credit, and $5.1 million in equity from the developer. This capital structure brought the project to scale and made it financially feasible.

As a condition of its financing, Iowa Community Development LC secured a commitment from the technology company to fund green job training and sustainability-oriented educational programs for the surrounding low income community residents. This Roshek Building renovation was nominated for Novogradac & Company's "Real Estate QLICI of the Year" and "Metro QLICI of the Year" awards.

Council Bluffs: Targeted Revitalization Bolsters Local Economy

CDE:	HEDC New Markets, Inc.
Controlling Entity:	National Development Council (NDC)
Headquarters:	New York, NY
Service Area:	National
Allocation:	$486 million (Rounds 2002, 2003, 2006, 2008 and 2009)

The National Development Council (NDC), headquartered in New York City, has a national service area and works with communities large and small, urban and rural, throughout the country to address their economic development needs through business and real estate investment. NDC has a longstanding presence in Iowa, and has attracted more than $17 million in Qualified Equity Investments for three targeted revitalization efforts in Council Bluffs that have spurred job creation in the city. Financing provided by NMTC accounted for more than 60% of each project's total cost, and in two projects the NMTC equity investment contributed almost 90% of each project's total financing needs. Capital for these community development projects would not have been available without NMTC. The tax credits facilitated lower-than-standard interest rates and terms that were beneficial to each community business that had struggled to attract capital in the form and with the terms it needed.

Council Bluffs, Iowa (pop. 58,000) is a community whose history was rooted in railroad expansion and the early automotive industry. Like many of its counterparts throughout the

Midwest, the city suffered an economic decline that threatened the survival of its local production economy, its downtown and its rich architectural heritage.

Omaha Standard, Inc.

In 2004, when the Pottawattamie County Development Corporation (PCDC) was working to retain one of the area's largest employers, the high cost of land for a new facility presented a serious threat to those efforts. PCDC turned to NDC for development assistance.

NDC made its first investment in Iowa in the Omaha Standard Inc., a leading manufacturer of trucks and truck accessories, including joists and lifts. In 2006, HEDC New Markets raised $10.5 million in qualified equity investments with a $7.5 million loan and $3 million in equity from the First National Bank of Omaha to finance equipment and a new expanded facility for the business. These investments allowed the company to retain 200 employees and hire 65 new workers.

NDC did not stop there. Committed to meeting the development goals of its community partners, NDC continued its efforts with PCDC and the city to build the local economy. With two more projects, this time addressing downtown renewal and historic preservation, NDC worked with the city to leverage public debt and private equity for the redevelopment of two key landmark buildings that have been instrumental in revitalizing historic downtown.

Nonpareil Building

In 2008, NDC attracted financing from an array of sources to meet the $2.8 million project cost of restoring the historic Nonpareil Building, the former home of the *Daily Nonpareil* newspaper. The $2.475 million Qualified Equity Investment included $750,000 in HUD Section 108 debt, a $750,000 loan from the local PCDC, $725,000 in NMTC equity and a $250,000 loan from the developer. In turn, NDC provided three below-market rate loans and secured the last $430,000 in equity from the developer. TransCapital served as the investor to restore and put to new economic use this 13,000-square-foot facility, built in the 1920s and empty since 2003. The restoration also included an energy efficient retrofit. The building now houses the Council Bluffs Savings Bank, which provides banking services to downtown residents and businesses and has brought 15 permanent jobs to this low income community. In addition, 78 construction jobs were involved in the building of the project.

Hughes-Irons (O'Malley) Building

In 2009, NDC partnered with investor USBank to begin restoring the 44,000-square-foot Hughes-Irons Motor Co. building. Built in 1914, this building is rooted in the city's commercial past and has historical significance as an early automobile sales and service business. The building was eligible to be listed on the National Register of Historic Places, but was vacant and dilapidated. In order to finance the hefty $7 million historic redevelopment, NDC used $1.1 million in historic tax credits, obtained a $3 million loan from the PCDC, and provided $1.6 million in NMTC equity. HEDC New Markets offered below market interest rates of less than 2% on three notes, with equity provided to the tenant totaling $5.7 million in qualified low income community investments. To cover the total project cost of $7 million, HEDC New Markets secured $1 million from a deferred development fee and $300,000 in contributed property. This landmark will be converted into a mixed use property and bring much needed residential and retail space to downtown. Street-level commercial space will be leased to the Chamber of Commerce and a local food proprietor, and seventeen apartments will become home to the residential tenants of the building, signaling rebirth of this historic neighborhood.

Conclusion

This is the sixth NMTC *Progress Report* released by the NMTC Coalition. Like the previous reports, this report indicates that capital generated by the New Markets Tax Credit (NMTC) is getting to some of the poorest communities in America at a faster pace than required by law. With $16 billion in capital invested to date thanks to the NMTC, we are seeing how the Credits can generate jobs, business opportunities and economic growth across the nation.

With seven years of NMTC allocations awarded, we can say this about the New Markets Tax Credit:

1. As America continues to crawl out of a deep, long lasting recession, the New Markets program remains a remarkably stable and successful tool for revitalization. For the last five years, CDEs have raised $3 billion annually in equity investments. In the worst economy in 70 years, New Markets investing in 2009 did not decline. In fact, since the beginning of the recession in 2008, CDEs have used the NMTC to raise more than $6 billion in private capital for investments and loans in low income communities.

2. As the New Markets industry has matured the program has become more efficient. From the beginning of the program QEIs issuance rates increased every year, reaching a high of 87% in 2008. In this report, notwithstanding economic circumstances, CDEs reporting on transactions utilizing allocations through Round VI had over 80% of their QEIs either issued or legally committed through December 31, 2009.

   From the beginning CDEs have quickly deployed QEIs. The 2005 report indicated that two-thirds of CDEs deployed capital within 90 days of receipt of a QEI. Seventy-seven percent of CDEs responding to this *Progress Report* make loans or investments within 90 days of receiving a QEI. When one considers the challenging economic environment and the relative inaccessibility of credit, this is a very good record.

3. According to this *2010 Progress Report*, private, regulated banks continue to lead the way as a source of investments for CDEs. The challenge for the future is to increase the number of participating banks and diversify the investor base.

4. Demand for the Credit remains strong, and that yields benefits to businesses and communities. Since 2003 over 1,800 CDEs have applied for $202 billion in New Markets Tax Credits. Of that number 495 received allocations totaling $26 billion. According to the CDFI Fund, because of the intense competition for Credits, CDEs are committing to invest a greater portion of their QEIs. As a result, all of the allocatees in the 2009 round committed to invest more than the minimum (85 percent) of their QEIs, and 96 percent of the CDEs agreed to invest at least 95 percent of their QEIs, according to the CDFI Fund's *FY 2009 Performance and Accountability Report*:[8]

"In real dollars, this means at least $630 million above and beyond what is minimally required by the NMTC Program rules …"

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8 *FY 2009 Performance and Accountability Report*, The U.S. Department of the Treasury's Community Development Financial Institutions Fund (CDFI Fund), March 24, 2010.

5. The size and scope of the program continues to mount. The CDFI Fund's recent report indicates that between 2003 and 2009 CDEs invested a total of $12.5 billion in over 3,300 NMTC transactions and in almost 15,000 businesses. Of this amount $7.7 billion (61%) was in loans and investment in real estate businesses, and $4.1 billion (33%) in non-real estate businesses.

6. This *2010 Progress Report* and the CDFI Fund's recent report both point to an emerging trend of NMTC investing more in non-real estate businesses. The CDFI Fund report indicates that non-real estate lending and investing increased to 41 percent of the QLICIs in 2009, totaling $1.2 billion. This report found non-real estate QLICIs increased from 35 percent of all QLICIs reported in 2008 to 43 percent of the QLICIs in 2010.

   Non-real estate QLICIs include financing for operating businesses including working capital and equipment, although financing for these activities still lags behind other types of NMTC financing. For this reason there is still more to be done to address the capital needs of businesses through the Credit, which is explained below.

7. The *2010 Progress Report* found that CDEs were issuing QEIs at a slightly slower rate as compared to the *2009 Progress Report*, perhaps due to the retraction of bank lending and investing. However, the 2010 report found that CDEs are deploying capital at a somewhat faster rate than reported last year. This year, the Coalition found that CDEs had raised $7.7 billion in QEIs between 2003 and 2008 and yet they had deployed more than $8.8 billion in QLICIs during that period. As of December 31, 2009 CDEs reported that they had more than $2 billion in high quality deals in the pipeline.

8. The poorest communities in the country continue to benefit from the Credit. According to the CDFI Fund, 95 of the 99 Round VII allocatees indicated that at least 90 percent of their activities will be provided in areas of higher economic distress than required by law, and 91 of the 99 will target 100 percent of their activities in these more highly distressed communities. This report similarly finds that high percentages of CDEs are targeting investments to communities with high unemployment rates, low median incomes and high poverty rates.

The Road Ahead

In February 2010, as President Obama released his FY 2011 Budget, Treasury Secretary Geithner announced a number of important Administration initiatives regarding New Markets Tax Credits. The Administration supports a two year (2010 & 2011) extension at $5 billion in annual credit authority, AMT exemption for investors in NMTC, and review of proposals for revision of passive activity rules and enhanced small business lending.

Revising Passive Activity Rules — In 2009 the Coalition proposed that Treasury make a determination that the passive activity rules do not exclude individual taxpayers from investing in the Credit. In general, passive activity rules limit the loss or tax benefits that an individual tax payer might claim if he or she is not directly participating in the relevant business activity. Until recently there was not any clear guidance on whether the passive activity rules apply to New Markets. Under the Coalition's proposed revision, S Corporation investors, that are currently treated like individual investors, as well as high net worth individuals, could invest. This could include some rural banks that tend to be S Corporations, as well as certain individuals who may have an interest in socially responsible investment. Moreover, intergenerational wealth transfers in the coming years are expected to top $42 billion and there is little or no opportunity for families of very high wealth to offset taxes through social investment because of the passive activity rules adopted in the *Tax Reform Act of 1986*.

On June 8, 2010 the Internal Revenue Service issued a ruling (Revenue Ruling 2010-16) on passive activity that was consistent with the Coalition’s recommendation. The IRS held that if an individual's acquisition of a qualified equity investment in a CDE is not in connection with the conduct of the individual's trade or business, the NMTC allowable under Sec 45D will not be a subject to passive activity limitations.

As this report goes to press Congress is on a path to extend the New Markets Tax Credit through December 31, 2010 with $5 billion in additional credit authority and provide AMT relief for NMTC investors from March 15, 2010 to January 1, 2012.

In the future the NMTC Coalition will continue to work with Congress and the Administration to further strengthen the Credit by:

Enacting a Long Term Extension of the NMTC Program, Including AMT Relief. This is in keeping with legislation co-sponsored by Representatives Richard Neal and Patrick Tiberi in the House and Senators John Rockefeller and Olympia Snowe (H.R. 2628, S. 1583). A five-year authorization will encourage investors to make long term commitments to invest, which is essential for the success of the program. Long term authorization should include a provision on AMT relief that puts New Markets on par with other similar tax credits including Low Income Housing and Historic Tax Credits. Without this incentive, New Markets is at a disadvantage in the investor marketplace even if it is otherwise extended. Without both AMT and a long term extension it will be difficult to broaden the base of those investing beyond the core investors comprised largely of CRA motivated banks. More investors will increase competition for Credits, which should result in better pricing and more subsidies going to the qualified businesses.

Increasing Credit for Operating Businesses. As the upheaval in the financial services industry continues, Congress and the Administration continue to work to improve access to credit for businesses, particularly small businesses. It is worth noting both that CDEs are responding to small business needs and financing operating businesses, and that conventional bank lending has declined. According to the Federal Deposit Insurance Corporation (FDIC), bank lending fell by 7.5 percent between 2008 and 2009 which is the largest annual decline in bank lending since 1942.

Both the recent CDFI Fund report and this *2010 Progress Report* indicate that a greater share of NMTC investment is flowing to non-real estate businesses, which includes operating businesses. The increase in non-real estate business activities likely represents the confluence of events in the economy and public policy that have resulted in an increase in non-real estate QLICIs but not necessarily an increase in financing for operating businesses. The recession has pushed down the value of commercial and residential real estate, thereby making those investments tougher, although as this report indicates, not impossible. At the same time, federal support for charter schools, health care facilities and community facilities has increased; in part due to the stimulus bill, the *American Recovery and Reinvestment Act of 2009* (P.L. 111-5) which increased the flow of loans, guarantees and operating funds to a range of urban and rural facilities. As a result, in difficult economic circumstances loans and investments in businesses that operate these facilities are a good bet, in terms of both the quality of the investment as well as the responsiveness to needs of low income communities for improved education facilities, health care, day care and related community facilities.

So, the question remains: how to encourage more NMTC financing of operating businesses? In developing the New Markets legislation, the sponsors and advocates anticipated a program that included real estate financing but also business lending and venture capital financing as strategies to improve economies in low income communities.

Making a QEI in a blind pool for loans or investments in operating businesses is a challenge for the investor. Financing for operating businesses usually centers on working capital, lines of credit or equipment. This financing typically takes the form of amortizing debt with a term of less than seven years. The seven-year term of NMTC coupled with reinvestment and "substantially all" (at least 85% by regulation) requirements limit a CDE's ability to structure capital that operating businesses need. Under current rules, CDEs are required to re-deploy returned principal within a time certain: 12 months for investments, and by the end of the calendar year after the year in which the capital is returned for amortizing debt. The pressure to reinvest principal has given many investors pause and steered them away from CDEs that are financing operating businesses.

To improve the performance of the Credit in assisting operating businesses, the Coalition has recommended that Treasury revise the rule governing the Credit to establish a safe harbor for NMTC Qualified Low Income Community Investments (QLICIs) made for the sole purpose of financing operating businesses. The proposed safe harbor is designed to ease investor concerns regarding "substantially all" requirements and should have a salutory effect on investor interest in supporting CDEs that offer flexible financing products to operating businesses.

In detail, the advantage of the special rule of safe harbor protection would require a CDE to:

1) Satisfy the "substantially all" test at the initial deployment of the Qualified Equity Investment into one or more QLICIs made in one or more qualified businesses as long as the operating business was established for a purpose other than the developing or leasing of a real estate project or projects; and

2) Any amounts received by the CDE as a return of capital, equity or principal with respect to such a QLICI must either be reinvested in another qualified non-real estate business or retained by the CDE for the remaining term of the 7-year credit period.

In an economy the likes of which none of us have ever seen, the New Markets Tax Credit continues to be a source of capital to improve local economies and enhance revitalization of low income communities. With a few improvements and continued bi-partisan support, the New Markets Tax Credit will improve on its already strong record of success in revitalizing urban and rural communities across America.

Appendices

Appendix A: NMTC Survey Instrument

NEW MARKETS TAX CREDIT COALITION: SURVEY OF ROUND 1-8 ALLOCATEES

Thank you for supporting the New Markets Tax Credit Program by responding to this survey of Round 1 (2002) through Round 6 (2008) Allocatees!

The data collected from the NMTC Coalition's 2010 Survey will be compiled by the Coalition and released in the Coalition's 2010 NMTC Progress Report scheduled to come out this spring. All CDEs that complete this survey will be emailed a copy of the 2010 NMTC Progress Report.

The Survey has nine sections and should take between 45 and 90 minutes to complete. All answers will be analyzed at the aggregate level to ensure respondent anonymity. Your name and the name of your CDE is not associated with any of the results provided in the survey or reported in the 2010 Progress Report.

In order to save time, we encourage you to get the following documents in front of you before you start:

- Your Allocation Applications
- Your Allocation Agreements
- Transaction Level Reports as Submitted to the CDFI Fund
- A copy of the PDF version of the Questionnaire

Create Password (minimum of 4 alpha-numeric characters): ______________________________
Note: Your password enables you to return to the same page of the survey from which you left. Re-click your email invitation link if you need to return to the survey after exiting it.

IMPORTANT:
- Dollar values should be entered **without** any commas
- Please check your work prior to clicking the Next button on every page. If you make a mistake and have to go back and correct it, all subsequently answered questions (to the one that was changed) will need to be re-answered.
- If you exit the survey prior to its completion, re-click your survey link to return from the page you left

Please click the Next button to advance

Part One. Basic Information

1. Name of Allocatee: ____

2. Name of Parent/Controlling Entity: ____

3M. According to the CDFI Fund's definition, is your CDE **currently** a minority owned or controlled CDE? (A minority owned or controlled CDE is a business that is more than 50% owned or controlled by one or more persons who are members of a minority ethnic group. If the business is a for-profit concern, more than 50% of its owners must be minorities; if the business is a non-profit concern, more than 50% of its board of directors must be minorities (or its Chief Executive Officer, Executive Director, General Partner or Managing Member must be a minority)).
   1. Yes
   2. No

3. For which rounds has your organization received a NMTC allocation? (Check all that apply)
   __ Round 1 (2002)
   __ Round 2 (2003-04)
   __ Round 3 (2005)
   __ Round 4 (2006)
   __ Round 5 (2007)
   __ Round 6 (2008)

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

Service Area	Rd 1 /2002	Rd 2 /2003-4	Rd 3 /2005	Rd 4 /2006	Rd 5 /2007	Rd 6 /2008
Local						
Statewide						
Multi-State						
National						

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

6. If Allocatee Service Area is Statewide, please specify the state: [drop down list]

7. For all Rounds, if Allocatee Service Area is Multi-state or National, please select all the states in which you have at least one QLICI as of 12/31/2009:

8. Please enter your contact information below.
   First & Last Name:________________________________
   Title:____
   Telephone #_____________________________________
   E-mail:____

9. Would you like additional information about the NMTC Coalition?
   3. Yes
   4. No

Part Two. Securing Investors and Issuing Qualified Equity Investments (QEIs)

	Rd 1 /2002	Rd 2 /2003-4	Rd 3 /2005	Rd 4 /2006	Rd 5 /2007	Rd 6 /2008
10. What is the total dollar amount of your NMTC Allocation award for each round?	$	$	$	$	$	$
11. As of 12/31/09, what was the total dollar amount in QEIs your CDE had issued?	$	$	$	$	$	$
12. As of 12/31/09, what was the total dollar amount in QEIs legally committed but not yet issued?	$	$	$	$	$	$
13. What is the total dollar amount of new QEIs you plan to issue in calendar year 2010?	$	$	$	$	$	$

Verify: Please make sure that for each applicable round ...
-- the sum of the second and third row item(s) do not exceed the first
-- the sum of the second and fourth row item(s) do not exceed the first

14. Please estimate the percentage of your allocation(s) (in aggregate) that have been issued in QEIs to the following types of institutions: (Total should add up to 100%)
   1. Bank __%
   2. Unregulated financial services firm
      (e.g., GE Capital, Capmark Finance, etc.) __%
   3. Insurance company __%
   4. Venture capital fund __%
   5. Corporation (other than listed above) __%
   6. Individual __%
   7. Other – please specify: ________________________ __%

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?
    1. Less than one week
    2. One month or less
    3. 1-3 months
    4. 3-6 months
    5. 6-9 months
    6. 9-12 months

16. What are the flexible or non-traditional financing products offered most frequently by your CDE? Please check your top three. [Randomized List]
    1. Equity Investments
    2. Equity Equivalent terms and conditions
    3. Debt w/equity features
    4. Subordinated debt
    5. Debt with Below market interest rates
    6. Debt with Lower than standard origination fees
    7. Debt with Longer than standard period of interest-only loan payments
    8. Debt with Higher than standard loan to value ratio
    9. Debt with Longer than standard amortization period
    10. More flexible borrower credit standards
    11. Non-traditional forms of collateral
    12. Lower than standard debt service coverage ratio
    13. Loan loss reserve requirements that are less than standard

Part Four. Deploying QLICIs – Rural, Minor Urban & Major Urban Areas

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/non-metropolitan areas as of 12/31/2009.

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 12/31/09, what was …	Rd 1 /2002	Rd 2 /2003-4	Rd 3 /2005	Rd 4 /2006	Rd 5 /2007	Rd 6 /2008
17. … the total number of QLICIs that you deployed for each round?						
18. … the total dollar amount of QLICIs that you deployed for each round?	$	$	$	$	$	$

Q19-24. In the table below, enter the total number and dollar amount of all QLICIs as of 12/31/09 broken out by defined area.

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.
- ***Non-metropolitan Counties*** - any county not contained within a Metropolitan Statistical Area as of the 2000 Census. The Tax Relief and Health Care Act of 2006 included language requiring the CDFI Fund to ensure that a "proportional allocation of QEIs" are provided to "non-metropolitan counties". Thus starting in 2008 with the Round 6 NMTC allocations, CDEs were asked to report on NMTC activity in non-metropolitan counties. Previously, for Round 1-5 allocatees, the CDFI Fund had asked for information regarding NMTC activity in rural areas - defined as any area not contained within a major urban or minor urban area.

As of 12/31/09, what was ...	Rd 1 /2002	Rd 2 /2003-4	Rd 3 /2005	Rd 4 /2006	Rd 5 /2007	Rd 6 /2008
19. ... the total number of QLICIs that you have deployed to major urban areas for each round?						
20. ... the total number of QLICIs that you deployed to minor urban areas for each round?						
21. ... the total number of QLICIs that you deployed to rural areas for Rounds 1-5 and non-metropolitan areas for Round 6?						
22. ... the total dollar amount of QLICIs that you deployed to major urban areas for each round?	$	$	$	$	$	$
23. ... the total dollar amount of QLICIs that you deployed to minor urban areas for each round?	$	$	$	$	$	$
24. ... the total dollar amount of QLICIs that you deployed to rural areas for Rounds 1-5 and non-metropolitan areas for Round 6?	$	$	$	$	$	$

24R: Did you indicate in your 2008 application for Round 6 that you are a Rural CDE? (This only applies to Round 6.)

1. Yes
2. No

Part Five. Deploying Allocations – Non-Real Estate & Real Estate Businesses

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 6 in non-real estate and/or real estate businesses (QALICBs) as of 12/31/2009. 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.

Note: 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.

25. For all rounds in which an allocation was received, what percentage of total investment or project costs for your QALICBs were financed with NMTC vs. other sources of funding? _____%

Equity Investments in non-real estate businesses

What were the total number of equity investments in non-real estate businesses as of 12/31/09?

	Rd 1 /2002	Rd 2 /2003-4	Rd 3 /2005	Rd 4 /2006	Rd 5 /2007	Rd 6 /2008
26a. Total *number* of equity investments in *non*-real estate businesses						

What were the total *number* of equity investments in non-real estate businesses as of 12/31/09?

26. Please break down by type below	Rd 1 /2002	Rd 2 /2003-4	Rd 3 /2005	Rd 4 /2006	Rd 5 /2007	Rd 6 /2008
Education						
Healthcare						
Industrial or manufacturing						
Energy, agribusiness or green business						
Transportation						
Retail						
Hospitality						
Mixed-use						
Community Facility						
Other – please specify:						

What were the total *dollar* amount equity investments in non-real estate businesses as of 12/31/09?

	Rd 1 /2002	Rd 2 /2003-4	Rd 3 /2005	Rd 4 /2006	Rd 5 /2007	Rd 6 /2008
27a. Total *dollar amount* of equity investments in *non*-real estate businesses	$	$	$	$	$	$

27. Please break down by type below	Rd 1 /2002	Rd 2 /2003-4	Rd 3 /2005	Rd 4 /2006	Rd 5 /2007	Rd 6 /2008
Education	$	$	$	$	$	$
Healthcare	$	$	$	$	$	$
Industrial or manufacturing	$	$	$	$	$	$
Energy, agribusiness or green business	$	$	$	$	$	$
Transportation	$	$	$	$	$	$
Retail	$	$	$	$	$	$
Hospitality	$	$	$	$	$	$
Mixed-use	$	$	$	$	$	$
Community Facility	$	$	$	$	$	$
Other (from Q26):	$	$	$	$	$	$

Equity Investments in real estate businesses

What were the total *number* of equity investments in real estate businesses as of 12/31/09?

	Rd 1 /2002	Rd 2 /2003-4	Rd 3 /2005	Rd 4 /2006	Rd 5 /2007	Rd 6 /2008
28a. Total *number* of equity investments in real estate businesses						

What were the total *number* of equity investments in real estate businesses as of 12/31/09?

28. Please break down by type below	Rd 1 /2002	Rd 2 /2003-4	Rd 3 /2005	Rd 4 /2006	Rd 5 /2007	Rd 6 /2008
Retail						
Office Space						
Mixed-Use						
Industrial/Mfg.						
For-Sale Housing						
Community Facility						
Other – please specify:						

What were the total *dollar* amount of equity investments in real estate businesses as of 12/31/09?

	Rd 1 /2002	Rd 2 /2003-4	Rd 3 /2005	Rd 4 /2006	Rd 5 /2007	Rd 6 /2008
29a. Total *dollar amount* of equity investments in real estate businesses	$	$	$	$	$	$

29. Please break down by type below	Rd 1 /2002	Rd 2 /2003-4	Rd 3 /2005	Rd 4 /2006	Rd 5 /2007	Rd 6 /2008
Retail	$	$	$	$	$	$
Office Space	$	$	$	$	$	$
Mixed-Use	$	$	$	$	$	$
Industrial/Mfg.	$	$	$	$	$	$
For-Sale Housing	$	$	$	$	$	$
Community Facility	$	$	$	$	$	$
Other (from Q28):	$	$	$	$	$	$

Loans to non-real estate businesses

Note: 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.

What were the total *number* of loans to non-real estate businesses as of 12/31/09?

	Rd 1 /2002	Rd 2 /2003-4	Rd 3 /2005	Rd 4 /2006	Rd 5 /2007	Rd 6 /2008
30a. Total *number* of loans to *non*-real estate businesses	0-1000	0-1000	0-1000	0-1000	0-1000	0-1000

What were the total *number* of loans to non-real estate businesses as of 12/31/09?

30. Please break down by type below	Rd 1 /2002	Rd 2 /2003-4	Rd 3 /2005	Rd 4 /2006	Rd 5 /2007	Rd 6 /2008
Education						
Healthcare						
Industrial or manufacturing						
Energy, agribusiness or green business						
Transportation						
Retail						
Hospitality						
Mixed-use						
Community Facility						
Other – please specify:						

What were the total *dollar* amount of loans to non-real estate businesses as of 12/31/09?

	Rd 1 /2002	Rd 2 /2003-4	Rd 3 /2005	Rd 4 /2006	Rd 5 /2007	Rd 6 /2008
31a. Total *dollar amount* of loans to *non*-real estate businesses	$	$	$	$	$	$

31. Please break down by type below	Rd 1 /2002	Rd 2 /2003-4	Rd 3 /2005	Rd 4 /2006	Rd 5 /2007	Rd 6 /2008
Education	$	$	$	$	$	$
Healthcare	$	$	$	$	$	$
Industrial or manufacturing	$	$	$	$	$	$
Energy, agribusiness or green business	$	$	$	$	$	$
Transportation	$	$	$	$	$	$
Retail	$	$	$	$	$	$
Hospitality	$	$	$	$	$	$
Mixed-use	$	$	$	$	$	$
Community Facility	$	$	$	$	$	$
Other (from Q30):	$	$	$	$	$	$

Loans to real estate businesses

What were the total *number* of loans to real estate businesses as of 12/31/09?

	Rd 1 /2002	Rd 2 /2003-4	Rd 3 /2005	Rd 4 /2006	Rd 5 /2007	Rd 6 /2008
32a. Total *number* of loans to real estate businesses						

What were the total *number* of loans to real estate businesses as of 12/31/09?

32. Please break down by type below	Rd 1 /2002	Rd 2 /2003-4	Rd 3 /2005	Rd 4 /2006	Rd 5 /2007	Rd 6 /2008
Retail						
Office Space						
Mixed-Use						
Industrial/Mfg.						
For-Sale Housing						
Community Facility						
Other – please specify:						

What were the total *dollar* amount of loans to real estate businesses as of 12/31/09?

	Rd 1 /2002	Rd 2 /2003-4	Rd 3 /2005	Rd 4 /2006	Rd 5 /2007	Rd 6 /2008
33a. Total *dollar amount* of loans to real estate businesses	$	$	$	$	$	$

33. Please break down by type below	Rd 1 /2002	Rd 2 /2003-4	Rd 3 /2005	Rd 4 /2006	Rd 5 /2007	Rd 6 /2008
Retail	$	$	$	$	$	$
Office Space	$	$	$	$	$	$
Mixed-Use	$	$	$	$	$	$
Industrial/Mfg.	$	$	$	$	$	$
For-Sale Housing	$	$	$	$	$	$
Community Facility	$	$	$	$	$	$
Other (from Q32):	$	$	$	$	$	$

Part Six. Deploying Allocations -- Other

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 12/31/2009.

34. As of 12/31/09, what was the total number for each of the following?	Rd 1 /2002	Rd 2 /2003-4	Rd 3 /2005	Rd 4 /2006	Rd 5 /2007	Rd 6 /2008
a. Equity investments in other CDEs.						
b. Loans to other CDEs.						
c. Loan purchases from other CDEs.						
d. Financial counseling and other services provided.						

35. As of 12/31/09, what was the total dollar amount for each of the following?	Rd 1 /2002	Rd 2 /2003-4	Rd 3 /2005	Rd 4 /2006	Rd 5 /2007	Rd 6 /2008
a. Equity investments in other CDEs.	$	$	$	$	$	$
b. Loans to other CDEs.	$	$	$	$	$	$
c. Loan purchases from other CDEs.	$	$	$	$	$	$
d. Financial counseling and other services provided.	$	$	$	$	$	$

Part Seven. Deploying Allocations – Economically Distressed or Underserved Communities

36. As of 12/31/09, what was the **total number of QLICIs** that you made in each of the following categories of economically distressed or underserved communities?

Please enter the total number of transactions for each category.	Rd 1 /2002	Rd 2 /2003-4	Rd 3 /2005	Rd 4 /2006	Rd 5 /2007	Rd 6 /2008
a. Poverty Rates >30%						
b. Median Incomes <60%						
c. Unemployment ≥ 1.5 times the national average						
d. Federally-designated EZ, EC, or RC						
e. SBA-designated HUB Zones						
f. Brownfield redevelopment areas						
g. Areas encompassed by a HOPE VI redevelopment plan						
h. Federally-designated Native American, Alaskan Native area, Hawaiian Homelands, or Tribal area						
i. Area designated as distressed by the Appalachian Regional Commission or the Delta Regional Authority						
j. Colonias areas designated by HUD						
k. Federally-designated medically underserved areas						
l. CDFI Hot Zone						
m. Projects serving Targeted Populations						
n. High migration rural county						
o. USDA Champion Communities or Rural Economic Area Partnership (REAP) Zones						
p. State or local tax increment financing districts, EZs or other locally designated areas of distress						
q. 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						
r. Non-metro areas: >25% Poverty, <70% Median Family Income, >1.25 times the national unemployment rate						

	Rd 1 /2002	Rd 2 /2003-4	Rd 3 /2005	Rd 4 /2006	Rd 5 /2007	Rd 6 /2008
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?						

37TP. Has your CDE invested in a QALICB that qualified for a NMTC investment using the Targeted Population guidance? Note: Under the NMTC statute the definition of a "low income community" includes "Targeted Population" defined as certain individuals, or an identifiable group of individuals, including an Indian Tribe, who are Low-Income Persons; or) otherwise lack adequate access to loans or equity investments.

1. Yes
2. No

37TPyes. If yes, enter the number of these types of investments for each year.

	2002	2003-2004	2005	2006	2007	2008
Number for each year:						

Part Eight. Pipeline of Investments

Please answer the following questions based on your current pipeline of QALICBs seeking NMTC financing and your experience to date in terms of deploying QLICIs over a 12 month period. This section is designed to determine the demand for NMTC financing.

	Rd 1 /2002	Rd 2 /2003-4	Rd 3 /2005	Rd 4 /2006	Rd 5 /2007	Rd 6 /2008
38. What is the total number of transactions in your pipeline that you anticipate closing between 1-1-2010 and 12-31-2010?						
39. What is the total dollar amount of transactions in your pipeline that you anticipate closing between 1-1-2010 and 12-31-2010?	$	$	$	$	$	$

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)

A1. Has an investor withdrawn or otherwise been unable to close a QLICI transaction as anticipated? ___Yes ___ No
A2. If yes, please describe: ____

B1. Has an investor changed the terms, conditions, or pricing of its QEI investment? ___Yes ___ No
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? ___Yes ___ No
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? ___Yes ___ No
D2. If yes, please describe? ____

41. Are there any other changes or trends you would like to note?

42a. 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?
___Yes ___ No
42b. If yes, please describe.

Part Ten. NMTC Investment Descriptions

Reminder: Please send to the NMTC Coalition your descriptions of any NMTC investments that you closed on or before 12/31/2009. The descriptions can be press releases or other short summaries of the business or real estate transaction that you have on hand.

For reference, you may view prior year Progress Reports at:
http://www.nmtccoalition.org/new-markets-tax-credit/reports-case-studies/

Please email descriptions to Rapoza Associates at NMTCCoalition@rapoza.org.

Suggestions: If you'd like to share your reactions to this survey and provide suggestions for its improvement, please do so in the space below.

Thank you for taking the time to complete the survey!

Appendix B:
A New Markets Tax Credit Timeline

2000	
December	■ NMTC Program signed into law as part of the *Community Renewal Tax Relief Act of 2004* (P.L. 105-554)
2001	
December	■ IRS releases temporary NMTC regulations ■ 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	■ *American Jobs Creation Act of 2004* (P.L. 108-357) passed with a provision expanding the definition of low income communities to include Targeted Population ■ 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 of 2005* (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 Population
Fall/Winter	■ Fourth-round allocation agreements signed
December	■ *Tax Relief and Health Care Act of 2006* (P.L. 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 Fund releases NMTC Qualified Equity Investment Report and announces $7.7 billion in finalized QEIs
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 releases NMTC Qualified Equity Investment Report and announces $10.3 billion in finalized QEIs
October	■ The CDFI Fund awards $3.5 billion in sixth-round allocations
2009	
February	■ *American Recovery and Reinvestment Act of 2009* (P.L. 111-5) (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 $13.3 billion in QEIs by allocatees
	■ The CDFI Fund awards $1.5 billion in additional 2008 allocations made available through ARRA to 32 CDEs
Summer	■ *New Markets Tax Credit Extension Act of 2009* (H.R. 2628, S. 1583) introduced in the House of Representatives by Congressmen Neal (D-MA) and Tiberi (R-OH) and in the Senate by Senators Rockefeller (D-WV) and Snowe (R-ME)
December	■ The House of Representatives passes the *Tax Extenders Act of 2009* (H.R. 4213) which extends the NMTC through 2010 with $5 billion in NMTC allocation
2010	
February	■ President Obama's Fiscal Year 2011 Budget calls for a two-year extension of the NMTC, through 2011, with $5 billion in annual allocation authority and AMT relief for NMTC Investors
March	■ Senate passes an amended version of H.R. 4213 with the NTMC extension through 2010 with $5 billion in NMTC allocation authority
	■ House passes *Small Business and Infrastructure Jobs Act of 2010* (H.R. 4849) providing AMT relief for NMTC investments made from March 2010 through January 2012
April	■ CDFI Fund releases allocation applications for $5 billion in Round VIII (2010)
May	■ CDFI Fund releases NMTC Qualified Equity Investment Report and announces $16 billion in finalized QEIs
June	■ Eighth-round NMTC (2010) allocation applications submitted to CDFI Fund with 250 applications requesting $23.5 billion for $5 billion in available allocations
	■ IRS issues Revenue Ruling 2010-16 which clarifies that an individual's acquisition of a QEI in a CDE is not subject to passive activity limitations

Appendix C:
The *New Markets Tax Credit Extension Act of 2009* (H.R. 2628) and accompanying "Dear Colleague" letter from Representatives Neal and Tiberi

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.

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

---

A BILL

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

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "New Markets Tax Credit Extension Act of 2009".

SEC. 2. EXTENSION OF NEW MARKETS TAX CREDIT.

(a) EXTENSION.—

(1) IN GENERAL.—Subparagraph (D) of section 45D(f)(1) of the Internal Revenue Code of 1986 (relating to national limitation on amount of invest-

ments designated) is amended by striking "2009" and inserting "each of calendar years 2009 through 2013".

(2) CONFORMING AMENDMENT.—Section 45D(f)(3) of such Code is amended by striking "2014" and inserting "2020".

(b) INFLATION ADJUSTMENT.—Section 45D(f) of the Internal Revenue Code of 1986 is amended by inserting at the end the following new paragraph:

"(4) INFLATION ADJUSTMENT.—

"(A) IN GENERAL.—In the case of any calendar year beginning after 2009, the dollar amount in paragraph (1)(f) shall be increased by an amount equal to—

"(i) such dollar amount, multiplied by

"(ii) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year, determined by substituting 'calendar year 2008' for 'calendar year 1992' in subparagraph (B) thereof.

"(B) ROUNDING RULE.—If a dollar amount in paragraph (1)(D), as increased under subparagraph (A), is not a multiple of $1,000,000, such amount shall be rounded to the nearest multiple of $1,000,000.".

(c) ALTERNATIVE MINIMUM TAX RELIEF.—Section 38(c)(4)(B) of such Code is amended by redesignating clauses (v) through (viii) as clauses (vi) through (ix), respectively, and by inserting after clause (iv) the following new clause:

"(v) the credit determined under section 45D to the extent that such credit is attributable to a qualified equity investment which is designated as such under section 45D(b)(1)(C) pursuant to an allocation of the new markets tax credit limitation for calendar year 2009,".

(d) EFFECTIVE DATES.—

(1) IN GENERAL.—The amendments made by this section shall take effect on the date of the enactment of this Act.

(2) SUBSECTION (c).—The amendments made by subsection (c) shall apply to credits determined under section 45D of the Internal Revenue Code of 1986 in taxable years ending after the date of the enactment of this Act and to carrybacks of such credits.

○

Congress of the United States
Washington, DC 20515

October 28, 2009

Dear Colleague:

Please join us in extending the New Markets Tax Credit (NMTC) by co-sponsoring the New Markets Extension Act of 2009 (HR 2628), which we introduced earlier this year.

Stimulating investment and economic growth into low-income communities, especially those overlooked by conventional markets, is the purpose of the NMTC. The NMTC supplies investors with a seven-year, 39-percent federal tax credit for investments made through Community Development Entities (CDEs). These CDEs utilize capital raised with the NMTC to finance loans and investments in businesses and economic development projects in low-income areas. Low income communities have benefited from more than $14 billion in funds invested through the NMTC program.

In our two districts we have seen firsthand the tremendous impact of this program and how the private investment NMTC attracts to distressed communities can bring jobs and needed capital to our cities and small towns. In Springfield, Massachusetts, the NMTC was instrumental in helping a small organic food business relocate and expand operations into a larger manufacturing space in the city, creating jobs for residents in a community with high unemployment and economic distress. In Columbus, Ohio, the NMTC was used to leverage investment dollars necessary to complete the multi-tenant Point of Pride development, which was instrumental in the revitalizing a distressed neighborhood in the city by providing retail, office space, and jobs for residents.

Our bill, HR 2628, extends the NMTC for a period of five years and provides $5 billion in annual NMTC allocation authority. It would also allow investors to use NMTC to offset the Alternative Minimum Tax (AMT). During these uncertain economic times, the NMTC is a proven economic tool that can help with economic development around the country. We hope you will join us in supporting its extension.

If you would like to co-sponsor of this legislation, please contact Dan Houton (Representative Neal) at 225-5601 or Adam Francis (Representative Tiberi) at 225-5355 .

Sincerely,

Congressman Richard E. Neal

Congressman Patrick J. Tiberi

PRINTED ON RECYCLED PAPER

Appendix D: The *New Markets Tax Credit Extension Act of 2009* (S. 1583) and accompanying "Dear Colleague" letter from Senators Rockefeller and Snowe

111TH CONGRESS
1ST SESSION

S. 1583

To amend the Internal Revenue Code of 1986 to extend the new markets tax credit through 2014, and for other purposes.

IN THE SENATE OF THE UNITED STATES

AUGUST 5, 2009

Mr. ROCKEFELLER (for himself and Ms. SNOWE) introduced the following bill; which was read twice and referred to the Committee on Finance

---

A BILL

To amend the Internal Revenue Code of 1986 to extend the new markets tax credit through 2014, and for other purposes.

Be it enacted by the Senate and House of Representatives of the United States of America in Congress assembled,

SECTION 1. SHORT TITLE.

This Act may be cited as the "New Markets Tax Credit Extension Act of 2009".

SEC. 2. EXTENSION OF NEW MARKETS TAX CREDIT.

(a) EXTENSION.—

(1) IN GENERAL.—Subparagraph (F) of section 45D(f)(1) of the Internal Revenue Code of 1986 is

amended by striking "2009" and inserting "each of 2009 through 2014".

(2) CONFORMING AMENDMENT.—Section 45D(f)(3) of such Code is amended by striking "2014" and inserting "2021".

(b) INFLATION ADJUSTMENT.—Subsection (f) of section 45D of the Internal Revenue Code of 1986 is amended by adding at the end the following new paragraph:

"(4) INFLATION ADJUSTMENT.—

"(A) IN GENERAL.—In the case of any calendar year beginning after 2009, the dollar amount in paragraph (1)(F) shall be increased by an amount equal to—

"(i) such dollar amount, multiplied by

"(ii) the cost-of-living adjustment determined under section 1(f)(3) for the calendar year, determined by substituting 'calendar year 2008' for 'calendar year 1992' in subparagraph (B) thereof.

"(B) ROUNDING RULE.—If a dollar amount in paragraph (1)(F), as increased under subparagraph (A), is not a multiple of $1,000,000, such amount shall be rounded to the nearest multiple of $1,000,000.".

3

(c) ALTERNATIVE MINIMUM TAX RELIEF.—Subparagraph (B) of section 38(c)(4) of the Internal Revenue Code of 1986 is amended—

(1) by redesignating clauses (v) through (viii) as clauses (vi) through (ix), respectively, and

(2) by inserting after clause (iv) the following new clause:

"(v) the credit determined under section 45D to the extent that such credit is attributable to a qualified equity investment which is designated as such under subsection (b)(1)(C) of such section pursuant to an allocation of the new markets tax credit limitation for calendar years 2009 through 2014,".

(d) EFFECTIVE DATES.—

(1) IN GENERAL.—The amendments made by this section shall take effect on the date of the enactment of this Act.

(2) SUBSECTION (c).—The amendments made by subsection (c) shall apply to credits determined under section 45D of the Internal Revenue Code of 1986 in taxable years ending after the date of the

enactment of this Act and to carrybacks of such credits.

United States Senate

WASHINGTON, DC 20510

October 21, 2009

Dear Colleague:

We are writing to ask that you join us in supporting the extension and expansion of the New Markets Tax Credit (NMTC) by co-sponsoring S. 1583, the New Markets Tax Credit Extension Act. Many of you are already aware of the successful track record of the NMTC and like us have witnessed its ability to generate investment and economic activity in some our poorest urban and rural communities.

The NMTC, authorized in the Community Renewal Tax Relief Act of 2000, was designed to stimulate investment and economic growth in low-income communities that are traditionally overlooked by conventional capital markets. It does this by providing investors with a seven-year, 39-percent federal tax credit for investments made through investment vehicles known as Community Development Entities (CDEs). The CDEs use the capital raised with the NMTC to finance loans and investments in businesses and economic development projects in low-income areas.

To date, more than $14 billion has been invested in low income communities thanks to the NMTC. This capital financed a wide variety of businesses and economic development initiatives including, among others, the financing of child care and health care facilities, manufacturing businesses, grocery-anchored retail centers, and numerous other commercial and mixed-use real estate projects needed in low income areas. NMTC financed projects have bolstered local economies, increased economic opportunity, created jobs, and improved the lives of many Americans.

The NMTC is set to expire this year, and our bill, the New Markets Tax Credit Extension Act, would extend the NMTC for five years and provide $5 billion in annual NMTC allocation authority. Our legislation would also allow investors to use the NMTC to offset the Alternative Minimum Tax (AMT), thereby granting the NMTC the same consideration under AMT as the Low Income Housing Tax Credit, Historic Tax Credits, and other federal tax credits.

We have seen first hand how the NMTC can make a difference in our communities and we hope you will join us in supporting its extension. If you have any questions or would like to co-sponsor S. 1583, please contact Jorge Castro (Senator Rockefeller) at 224-6472 or Matthew Berger (Senator Snowe) at 224-8493.

Sincerely,

Jay Rockefeller

JOHN D. ROCKEFELLER IV
United States Senator

Olympia Snowe

OLYMPIA J. SNOWE
United States Senator

Appendix E:
Treasury Department Press Release – February 18, 2010

U.S. Treasury Department
Office of Public Affairs

For Immediate Release: February 18, 2010
Contact: Sandra Salstrom, Treasury Public Affairs, 202-622-2960

TREASURY SECRETARY GEITHNER ANNOUNCES PROPOSALS TO EXTEND AND ENHANCE THE NEW MARKETS TAX CREDIT
FY 2011 Budget Provides $5 Billion for Credit to Speed Recovery in Hardest Hit Communities

DURHAM – Demonstrating the Administration's commitment to economic recovery in America's hardest hit communities, Treasury Secretary Tim Geithner traveled to Raleigh-Durham today to meet with individual and small business recipients of New Markets Tax Credits (NMTC) to discuss how the credits can be used to attract additional investments to help revitalize distressed communities.

After touring the facilities at the Golden Belt Complex in Durham, a six-building, mixed-use complex that was renovated with private financing made possible by the NMTC, Secretary Geithner participated in a roundtable discussion hosted by Self Help Ventures Fund, a Community Development Financing Institution (CDFI) that invested $12 million in the renovation of the Golden Belt complex, including more than $8 million in capital it attracted with the help of the NMTC. During the roundtable, the group discussed the challenges distressed communities face in attracting new investments, and how the NMTC and other financing tools can help spur job creation and economic revitalization. In remarks made following the roundtable, Secretary Geithner announced the President's proposal to improve, extend and broaden the NMTC under the FY 2011 Budget.

"Distressed communities and their small businesses have a hard time attracting investments even in the best of times," said Secretary Geithner. "The New Markets Tax Credit helps these communities attract new investors and ensure they stay invested long enough for businesses to overcome obstacles and grow. That's why the President expanded the New Markets Tax Credit through the Recovery Act last year and why we're seeking to reform, extend and broaden the reach of these credits going forward."

NMTC are designed to spur growth in distressed communities by catalyzing private sector investments that create jobs and enhance access to capital for small businesses and community development. To restore demand and broaden the credit's appeal, Secretary Geithner announced today that the President is asking Congress to change the NMTC so it can be used to offset not only investors' regular federal income taxes but also the taxes they owe under the Alternative Minimum Tax (AMT), including where NMTC allocations have been made but where money has not yet been invested.

CDFI Fund Director Gambrell said, "These latest enhancements are a part of a broader commitment on the part of the Obama Administration to increasing opportunities for small businesses and community development where it is needed most. Allowing the credit to off-set the AMT will help this tool to speed recovery in the hardest hit communities by greatly increasing its ability to attract private investors."

Under the Recovery Act, the Obama Administration expanded the allocation for the credits to $5 billion for each of 2008 and 2009. Secretary Geithner today highlighted the proposal in the President's FY 2011 Budget to provide for an additional $5 billion in New Markets Tax Credits allocation in 2010 and still another $5 billion in 2011. In addition, Treasury and the IRS are developing guidance to help provide investors greater certainty whether they will qualify for and be able to benefit from the credit. The Secretary today stressed that Treasury is committed to making further enhancements to the NMTC to encourage greater investment in small businesses.

The NMTC has been highly successful, with recipients investing more than $12 billion in distressed communities through 2008, helping to create, save or support hundreds of thousands of local jobs. The NMTC has helped finance a variety of activities in distressed urban and rural communities throughout the United States, including alternative energy companies, charter schools, health care facilities, timberlands, child care providers, supermarkets, manufacturers, processors, distributors, and business incubators.

For a fact sheet on the New Markets Tax Credit and the enhancements in the FY 2011 Budget request, click here.

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Appendix F:
NMTC Coalition Letter to IRS Requesting Guidance
July 21, 2009

NEW MARKETS TAX CREDIT COALITION

July 21, 2009

Internal Revenue Service
Room 5203
PO Box 7604
Ben Franklin Station
Washington DC 20044

Re: Request for Guidance regarding Portfolio Credit

On behalf of the New Markets Tax Credit Coalition, a 150-member organization that advocates on behalf of the New Markets Tax Credit ("NMTC") Program, we request that the Internal Revenue Service issue guidance regarding the treatment under the passive activity rules of Internal Revenue Code Section 469 of tax credits generated by the New Markets Tax Credit Program, Internal Revenue Code Section 45D.

The purpose of the New Markets program is to promote the flow of private sector capital to low income communities. Under the NMTC Program, Community Development Entities (CDEs) are the investment vehicle. A CDE can be a partnerships or a limited liability corporation, and is typically affiliated with a non-profit or for-profit entity with a history of lending or investing in low income communities. CDEs seek allocations of New Markets Tax Credits from the CDFI Fund. Upon receiving an allocation, a CDE markets to the Credits to federal income taxpayers. Upon receiving an investment from a taxpayer, the CDE uses the funds to make a qualified investment loans or equity investments -- to a qualified business in a low income community.

From its first award round in 2002 through the present, the NMTC program has been able to generate $13.7 billion in investment activity. It is a testament to the power of this tax credit that investments in businesses in low income communities have proceeded so quickly. However, with the economy suffering, CDEs are trying to broaden their investor base to attract new investors to the program. The new investor groups include S Corporations and individuals. Their interest in participating in the program is diminished by the lack of guidance in this area.

<u>Passive Activity Guidance Request</u>
Internal Revenue Code ("IRC") Section 469 limits the ability of certain taxpayers to use losses and tax credits generated from passive activities. However, it is currently unclear as to how the passive activity rules apply to NMTCs generated from an investment in a Community Development Entity ("CDE"). If the CDE is a C corporation, then presumably the NMTC would be a portfolio credit, as dividends generated from the C corporation would be portfolio income, and gains or losses from the sale of C corporation stock would be portfolio gains or losses.

The question is more complicated if the CDE is a flow-through entity. We believe that since the credit is generated through investment in a CDE, and the act of investing is a portfolio activity,

1331 G Street, NW, 10th Floor, Washington, DC 20005
202-204-4500•fax: 202-393-3034•www.nmtccoalition.org

the credit is not a passive activity credit. The type of activity the CDE is engaged in should not impact its treatment, under Section 469, even if the CDE is a flow-through entity.

Although some might argue that directly tracing the investment made to the qualified active low-income businesses to determine the nature of the activity would yield the most exact answer, we

believe the most exact answer is the credit should not be considered a passive activity credit. Unlike the low-income housing tax credit or the investment tax credit, the NMTC arises from the investment in a CDE, not from activity of the underlying business. This view also avoids the logistical nightmare and the increased administrative and financial burden of the CDE that would result if the use of the investment by the CDE impacted the determination.

The NMTC Coalition believes that guidance is needed from the IRS regarding the treatment of the NMTC as an active credit, passive credit or portfolio credit. In order to create increased interest in the NMTC, we recommend that the IRS consider characterizing the NMTC as a portfolio credit. Since the NMTC program is designed to spur investment activity, treatment of the NMTC as a portfolio credit in all circumstances would be consistent with the objectives of the NMTC Program.

Please do not hesitate to contact us if you have any questions regarding our request.

Sincerely,

Robert A. Rapoza

CC: NMTC Coalition Board of Directors
Donna J. Gambrell, Director, CDFI Fund
Matthew Josephs, Program Manager, NMTC Program, CDFI Fund
Paul Handelman, Esq.

Appendix G: IRS Revenue Ruling 2010-16 – June 8, 2010

Part I

Section 469.--Passive Activity Losses And Credits Limited

26 CFR 1.469-1: General rules.
(Also: § 45D; 1.45D-1; 1.469-4; 1.469-5T; 1.469-9).

Rev. Rul. 2010-16

ISSUE

Where the acquisition of the qualified equity investment in a qualified community development entity (CDE) is not in connection with the conduct of a trade or business (or in anticipation of a trade or business), is the new markets tax credit allowable under § 45D a passive activity credit under § 469?

FACTS

Situation 1. On February 1, 2010, X, an individual, acquires a qualified equity investment (as defined in § 45D(b)) in a CDE (as defined in § 45D(c)). Because X holds the qualified equity investment on February 1, 2010, the initial credit allowance date (as defined in § 45D(a)(3)), a new markets tax credit under § 45D is allowable to X. X's acquisition of the qualified equity investment in the CDE is not in connection with the conduct of a trade or business by X (or in anticipation of a trade or business).

Situation 2. On February 1, 2010, ABC, an entity treated as a partnership for federal tax purposes, acquires a qualified equity investment (as defined in § 45D(b)) in a CDE. Because ABC holds the qualified equity investment on February 1, 2010, the initial credit allowance date (as defined in § 45D(a)(3)), a new markets tax credit under § 45D is allowable to ABC. ABC allocates the new markets tax credit to its partners A, B, and C, in accordance with § 704(b). ABC's acquisition of the qualified equity investment in the CDE is not in connection with the conduct of a trade or business by ABC (or in anticipation of a trade or business).

LAW AND ANALYSIS

Section 45D(a)(1) provides that for purposes of § 38, in the case of a taxpayer who holds a qualified equity investment on a credit allowance date (as defined in § 45D(a)(3)) of the investment that occurs during the taxable year, the new markets tax credit determined under § 45D for the taxable year is an amount equal to the applicable percentage (as defined in § 45D(a)(2)) of the amount paid to the CDE for the investment at its original issue. Section 7701(a)(14) defines the term "taxpayer" to mean any person subject to any internal revenue tax. Section 7701(a)(1) provides that the term "person" shall be construed to mean and include an individual, a trust, estate, partnership, association, company, or corporation.

Section 45D(b)(1) provides that an equity investment in a CDE is a "qualified equity investment" if, among other requirements, the CDE uses substantially all of the cash from the investment to make qualified low-income community investments.

Section 45D(d) defines the term "qualified low-income community investment" as (A) any capital or equity investment in, or loan to, any qualified active low-income community business, (B) the purchase from another CDE of any loan made by such entity which is a qualified low-income community investment, (C) financial counseling and other services specified in regulations prescribed by the Secretary to businesses located in, or residents of, low-income communities, and (D) any equity investment in, or loan to, any CDE.

Section 469(a) provides that for any taxable year of any individual, estate, trust, closely-held C corporation, or personal service corporation, neither the passive activity loss, nor the passive activity credit for the taxable year will be allowed.

Section 469(d)(2)(A) defines "passive activity credit" as the amount (if any) by which (A) the sum of the credits from all passive activities allowable for the taxable year under (i) subpart D of part IV of subchapter A, or (ii) subpart B (other than § 27(a)) of part IV, exceeds (b) the regular tax liability of the taxpayer for the taxable year allocable to all passive activities.

Section 469(c) defines a "passive activity" as (1) any activity which involves the conduct of any trade or business, and in which the taxpayer does not materially participate, and (2) any rental activity, except as provided by § 469(c)(7).

Section 469(c)(6) provides that, to the extent provided in the regulations, "trade or business" includes (A) any activity in connection with a trade or business, or (B) any activity with respect to which expenses are allowable as a deduction under § 212.

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Section 1.469-1(e)(2) of the Income Tax Regulations provides that trade or business activities are activities that constitute trade or business activities within the meaning of § 1.469-4(b)(1).

Section 1.469-4(b)(1) defines "trade or business activities" as activities, other than rental activities or activities that are treated under § 1.469-1T(e)(3)(vi)(B) as incidental to an activity of holding property for investment, that (i) involve the conduct of a trade or business (within the meaning of § 162), (ii) are conducted in anticipation of the commencement of a trade or business, or (iii) involve research or experimental expenditures that are deductible under § 174.

Section 1.469-9(b)(1) provides that a trade or business is any trade or business determined by treating the types of activities in § 1.469-4(b)(1) as if they involved the conduct of a trade or business, and any interest in rental real estate, including any interest in rental real estate that gives rise to deductions under § 212.

Section 469(h)(1) provides that a taxpayer will be treated as materially participating in an activity only if the taxpayer is involved in the operations of the activity on a basis that is regular, continuous, and substantial.

The new markets tax credit under § 45D is subject to the provisions of § 469 since it is a credit allowable under subpart D of part IV of subchapter A of the Code. A credit may be disallowed under § 469 for a taxable year if the credit attributable to the taxable year arises in connection with the conduct of a passive activity. Allowance of the new markets tax credit under § 45D is predicated on acquiring a qualified equity investment in the CDE. The CDE does not pass through the new markets tax credit to the person claiming the new markets tax credit. Rather, the amount of the new markets tax credit is determined based on a percentage of the amount paid to the CDE for the qualified equity investment at its original issue. Accordingly, in determining whether the new markets tax credit under § 45D is disallowed under § 469, the determination depends on whether the acquisition of the qualified equity investment in the CDE arises in connection with the conduct of a passive activity. The determination of whether the new markets tax credit under § 45D is disallowed under § 469 does not depend on the taxpayer's interest or extent of participation in the CDE's trade or business.

To be a passive activity, the activity of acquiring a qualified equity investment in the CDE must be in connection with the conduct of a trade or business in which the person claiming the new markets tax credit does not materially participate, or be a rental activity. Because the activity of acquiring an equity investment in a CDE is not a rental activity, the only issue is whether the acquisition activity is in connection with the conduct of a trade or business activity (or in anticipation of a trade or business) in which the person claiming the new markets tax credit does not materially participate.

The term "trade or business" is not defined in either the Code or the regulations. The determination of what constitutes a trade or business depends on the facts and circumstances of each case. The Supreme Court, in Commissioner v. Groetzinger, 480 U.S. 23 (1987), has held that there are generally two requirements for an activity to constitute a trade or business: the activity must be conducted for income or profit, and the activity must be engaged in with some regularity and continuity.

If it is determined that the acquisition of a qualified equity investment in a CDE is in connection with the conduct of a trade or business activity (or in anticipation of a trade or business), a determination must next be made as to whether the person claiming the new markets tax credit materially participates in the activity. If the person claiming the new markets tax credit materially participates in the activity, the new markets tax credit under § 45D will not be disallowed under § 469.

In Situation 1, X's activity of acquiring a qualified equity investment in the CDE is not in connection with the conduct of X's trade or business activity (or in anticipation of a trade or business). Consequently, X's new markets tax credit under § 45D will not be disallowed under § 469.

In Situation 2, ABC allocates to A, B, and C the amount of the new markets tax credit that ABC claims. This allocation must be made in accordance with § 704(b) (which provides rules regarding a partnership's allocation of income, gain, loss, deduction, or credit (or item thereof) among the partners). ABC's activity of acquiring a qualified equity investment in the CDE is not in connection with the conduct of ABC's trade or business activity (or in anticipation of a trade or business). Consequently, the new markets tax credit allowable to ABC, and claimed by A, B, and C, individually, will not be disallowed under § 469.

HOLDING

1. Where an individual's acquisition of a qualified equity investment in a CDE is not in connection with the conduct of the individual's trade or business (or in anticipation of the individual's trade or business), the new markets tax credit allowable to an individual under § 45D will not be a passive activity credit under § 469.

2. Where a partnership's acquisition of a qualified equity investment in a CDE is not in connection with the conduct of the partnership's trade or business (or in anticipation

of the partnership's trade or business), the new markets tax credit allowable to the partnership under § 45D will not be a passive activity credit under § 469.

DRAFTING INFORMATION

The principal author of this revenue ruling is Benjamin H. Weaver of the Office of Associate Chief Counsel (Passthroughs & Special Industries). For further information regarding this revenue ruling, contact Benjamin H. Weaver at (202) 622-3050. For information regarding issues under § 45D, contact Julie Hanlon Bolton of the Office of Associate Chief Counsel (Passthroughs & Special Industries) at (202) 622-3040. These are not toll-free calls.

Notes

Notes

New Markets Tax Credit Coalition

1331 G Street, NW, 10th Floor
Washington, DC 20005
202-204-4500 (Phone)
202-393-3034 (Fax)
www.nmtccoalition.org