The New Markets Tax Credit

Progress Report 2008

A Report by the New Markets Tax Credit Coalition

May 2008

New Markets Tax Credit Coalition

1250 Eye Street NW, Suite 902 • Washington, DC 20005
(202) 204-4500 • (202) 393-3034 fax • www.newmarketstaxcreditcoalition.org

This report was prepared by Rapoza Associates for the New Markets Tax Credit Coalition. Bob Rapoza, Alison Feighan, Janet Gregor and Melanie Bowers with the National Development Council, contributed to the report.

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

New Markets Tax Credit Coalition Board of Directors:

The New Markets Tax Credit

Progress Report 2008

A Report by the New Markets Tax Credit Coalition

May 2008

■

Acknowledgements:

The following provided generous financial support for this publication:

Rosalyn Ciulla, Key Community Development Corporation, Cleveland, OH

Cathy Dolan, Wachovia Bank, N.A., Charlotte, NC

Eric Finley, Capital One, Dallas, TX

James Howard, TransCapital, Phoenix, AZ

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

Gary Perlow, Reznick Group, Baltimore, MD

Matthew Reilein, JP Morgan Chase, Chicago, IL

Eric Rosen, SunTrust Community Development, Atlanta, GA

Mike Ross, Virchow, Krause & Company, LLP, Madison, WI

Daniel Sheehy, Impact Community Capital CDE, LLC, San Francisco, CA

Michael Taylor, National City Bank, Cleveland, OH

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

Harbor Bankshares Corporation, Baltimore, MD

JP Morgan Chase, New York, NY

Kentucky Highlands Investment Corporation, London, KY

National Trust Community Investment Corporation, Washington, DC

Rockland Trust Community Development Corporation, Rockland, MA

Self-Help Venture Fund, Durham, NC

The Southern Appalachian Fund, Oak Ridge, TN

Contents

List of Charts and Table

INTRODUCTION

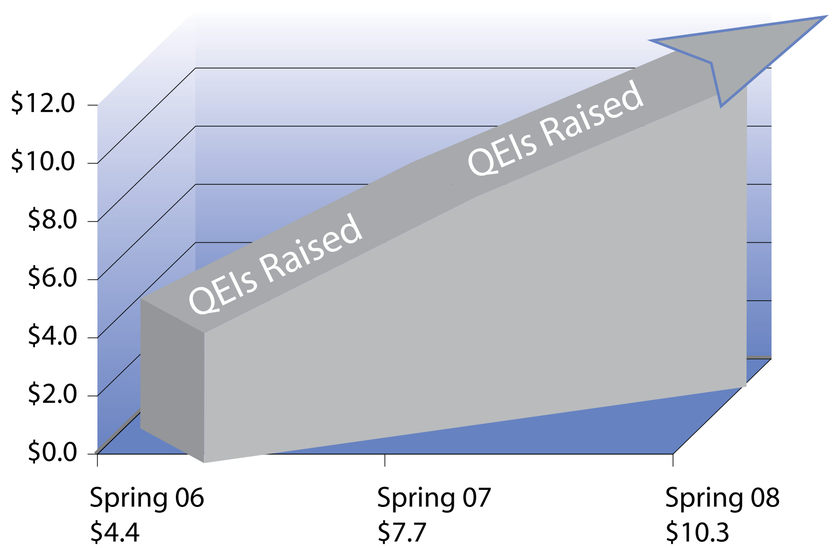
The New Markets Tax Credit (NMTC) program continues to exceed expectations as it boosts critical investment in low-income communities across the country. Since 2006, over $6 billion in New Markets Tax Credit investments have been made, a significant commitment to revitalizing the poorest communities in our nation. (see chart 1 below)

For the first time, President Bush this year included extension of this important program in his annual budget proposal. In addition, the NMTC program was heralded this spring when it was selected as one of the Top 50 Programs in the final round of the prestigious 2008 Innovations in American Government Award administered by the Kennedy School of Government at Harvard University. The NMTC program was chosen from 1,000 programs nationwide representing all levels of government.

Clearly, in just a few short years, the program has demonstrated its ability to stimulate development in distressed communities. Further, demand for the Credit far exceeds the allocation amount. And yet, the New Markets Tax Credit is at a critical juncture as its future is far from certain. At a time when many are calling for the Credit to be increased; the Credit is instead set to expire this year and Congress has not yet acted to extend its authorization.

Chart 1 illustrates the rapid pace of investment growth in just two years. As of May 2008, New Markets Tax Credits had raised $10.3 billion in Qualified Equity Investments (QEIs) for investment in our nation's poorest communities; nearly a 35 percent jump over a 12 month period and far above the $4.4 billion amount raised through 2006.

Chart 1:
New Market Tax Credit Investment 2006–2008
(QEIs raised in billions)



Source: CDFI Fund website

The 2008 Progress Report

This *2008 Progress Report*, prepared by the New Markets Tax Credit Coalition, a national membership organization that advocates on behalf of the Credit, is the Coalition's fourth report on the implementation of the New Markets Tax Credit (NMTC). The report is designed to provide policymakers and practitioners with an update on the Credit and its impact on low income communities across the country.

For its *2008 Progress Report* the Coalition surveyed Round I (2003), Round II (2004), Round III (2005) and Round IV (2006) Allocatees. The results of the survey show that Credit recipients are continuing to raise capital from investors and deploy it into qualified businesses at a remarkably fast pace. In fact, the results indicate that demand for the Credit by Allocatees and investors have made the program a more efficient development tool and have encouraged greater targeting to communities experiencing severe economic distress.

As with the previous three reports, the *2008 Progress Report* includes a series of stories from the field, which illustrate how Credit recipients 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. The stories also describe the reach of the Credit into both urban and rural areas of states such as North Carolina, Texas, Maryland, Louisiana, Tennessee and Massachusetts.

Background on the New Markets Tax Credit

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

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

The Department of the Treasury's Community Development Financial Institutions (CDFI) Fund, which administers the New 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 begin implementing its New Markets Tax Credit business strategy.

Authorized NMTC Investment Exceeds $19 Billion

In the 109th Congress, $4.5 billion in Credit authority was added to the NMTC – $3.5 billion in Credit Authority and $1 billion for Gulf Coast communities – bringing the total program authorization to $19.5 billion. The original authorization, part of the Community Renewal Tax Relief Act (P.L. 106-554), provided $15 billion in Credit allocations between 2000 and 2007, which has been divided out over five allocation rounds. The additional $1 billion in New Markets Tax Credit allocations was directed to Gulf Coast communities devastated by Hurricane Katrina. The additional $3.5 billion in Credit authority through 2008 included language requiring the Department of Treasury to better target the Credit to non-metro areas.

As of May 2008, the CDFI Fund has awarded five rounds of Credit allocations totaling $16.009[1] billion. Allocations are currently pending for the sixth allocation round. The CDFI Fund received more than $21 billion in requests from 239 CDEs for the $3.5 billion of available Credits for 2008. Under the CDFI schedule, applications were submitted in March 2008 and Credit awards will be announced in fall 2008.

If the NMTC is extended this year, the seventh NMTC allocation round will commence in spring of 2009.

The most recent information from the Treasury Department reports that CDEs have raised over $10.35 billion in Qualified Equity Investments. (Chart 1) Therefore, the Credit has already brought over $10 billion in new investment capital to low income communities.

Soaring Demand for Credits Magnifies Impact

When a CDE submits an application to the CDFI Fund, it must detail its intended efforts in four areas: business strategy, capitalization strategy, management capacity, and community impact. Each of these four areas is scored equally, and the stiff competition 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 in fact exceed the standard for raising and deploying capital, as well as for penetrating areas of high economic distress, as established by law and regulation. The CDFI Fund has thus dictated a set of higher benchmarks[2], as described further in the body of this report.

1 This figure includes $9 million in allocation authority that was rescinded by the CDFI Fund from prior-year allocatees and re-allocated in the 2007 allocation round.

2 CDFI Fund, NMTC Allocation Application Debriefing Document

As shown in Table 1, the demand to date has outstripped the availability of credits by more than $136 billion. This *2008 Progress Report* will detail how Credit recipients from the first four allocation rounds are responding to this competition by continuing to surpass the statutory and regulatory standards established for the New Markets Tax Credit while meeting or exceeding the elevated standards of success delineated by the CDFI Fund in its application.

Table 1:
Allocation Availabilty and Demand

Application Round	Available Allocation	Application Demand
Round I (2003)	$2.5 billion	$26 billion
Round II (2004)	$3.5 billion	$30 billion
Round III (2005)	$2 billion	$23 billion
Round IV[3] (2006)	$4.1 billion	$28 billion
Round V (2007)	$3.9 billion	$28 billion
Round VI (2008)	$3.5 billion	$21 billion
TOTAL	**$19.5 billion**	**$156 billion**

Survey Findings

The Survey Sample

The CDFI Fund made 233 allocation awards to 187 Community Development Entities (CDEs) in Rounds I, II, III and IV. Through the first four rounds of the NMTC Program, the 233 awards totaled $12.1 billion in tax credit allocation authority. This year's survey sample includes 129 New Markets Tax Credit allocation awards or fifty-five percent of the total awards to 84 CDEs from those four rounds. The CDEs that responded to this year's survey hold $7.4 billion in NMTC allocations – more than $1.8 billion in Round I Credits, over $1.5 billion in Round II allocation awards, $1.4 billion in Round III awards and $2.7 billion in Round IV awards – or 64 percent of the total $12.1 billion made available in Rounds I, II. III and IV.

Of the CDEs surveyed:

- Forty-five percent received a Round I allocation, 32 percent a Round II allocation, 29 percent a Round III allocation and 48 percent received a Round IV allocation;
- Forty-five received one allocation award and 39 received awards in two or more rounds;

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

- Forty-two percent represent a national service area, 15 percent a multi-state area, 19 percent a statewide service area, and 27 percent a local service area[4].

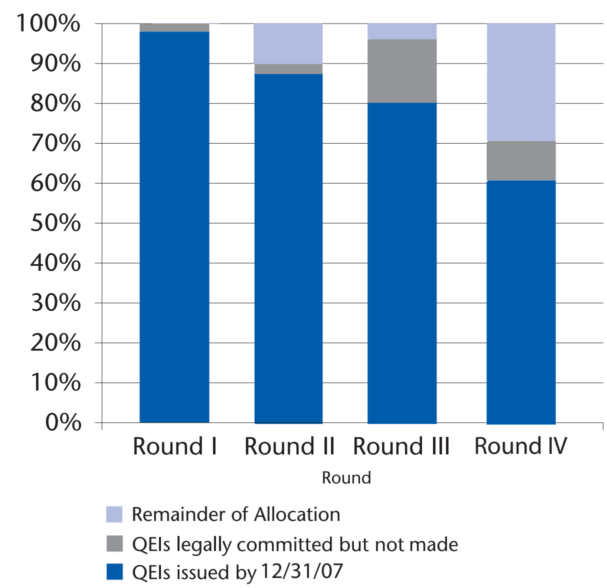
CDEs Issuing QEIs at Increasingly Rapid Pace

CDE survey respondents were asked to report on their progress in securing capital from investors in the form of Qualified Equity Investments (QEIs), which are made in exchange for the Credit. CDEs continue to secure investments and issue QEIs at a faster pace than required by law or regulations. By law, a CDE must issue its QEIs within five years of receiving a Credit allocation. However, the CDFI Fund states that in face of the keen competition for Credits, CDE applicants in Round II and beyond must demonstrate the ability to raise 80 percent of its investment capital within two years and 100 percent within three years[5].

By the end of 2007, the Round I CDEs surveyed had already issued $1.8 billion (98 percent) of their Credit allocations as QEIs and had legally committed[6] an additional $41 million (Chart 2). The Round II award recipients had issued $1.4 billion (89 percent of their Credit allocations as QEIs and had legally committed another $43 million (Chart 2). By the same time, Round III CDEs surveyed had issued $1.1 billion in QEIs (81 percent) and had legally committed $197 million (Chart 2). Finally, Round IV respondents had issued $1.7 billion (60 percent) and legally committed another $270 million. It appears that Round III and IV CDEs have issued and committed QEIs at a slightly faster rate than their predecessors in previous reports.

In aggregate, the Rounds I-IV Allocatees surveyed had issued over $6 billion in QEIs – 80 percent of their total allocations – and legally committed another $551 million (7

Chart 2:
QEIs Issued and Committed
by Percent of Allocations (by Round)



Source: Survey Respondents.

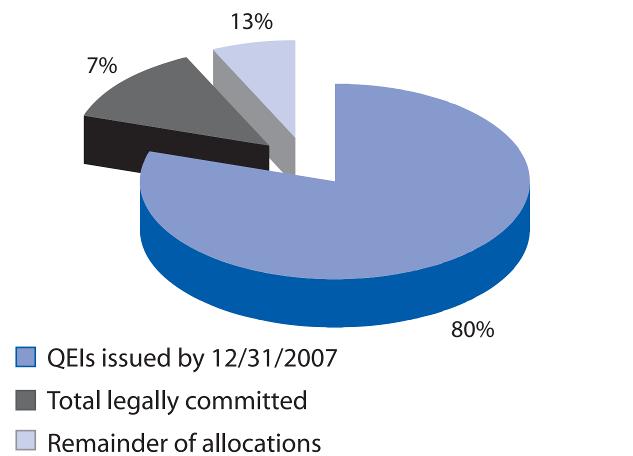
4 Percentages total greater than 100 percent because one multi-round Allocatee is serving different service areas for two separate allocation rounds.

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.

percent) as of December 31, 2007. By the end of 2007, these CDEs report that 87 percent of their allocations, or $6.5 billion, will be issued as QEIs. (Chart 3)

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



Source: Survey Respondents.

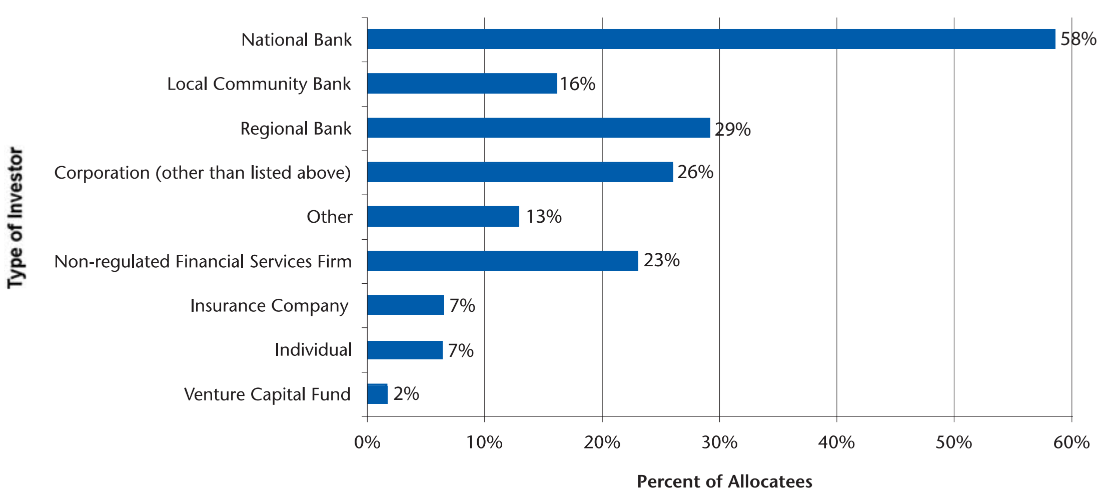
NMTC Investor Market Continues to Develop

CDEs were asked to indicate 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.

Chart 4 shows the diversity of institutional investors engaged in the Credit, displaying the percentage of survey respondents that issued at least one QEI to each investor type. The most commonly utilized investment sources are national banks (58 percent), regional banks (29 percent), and corporations (26 percent).

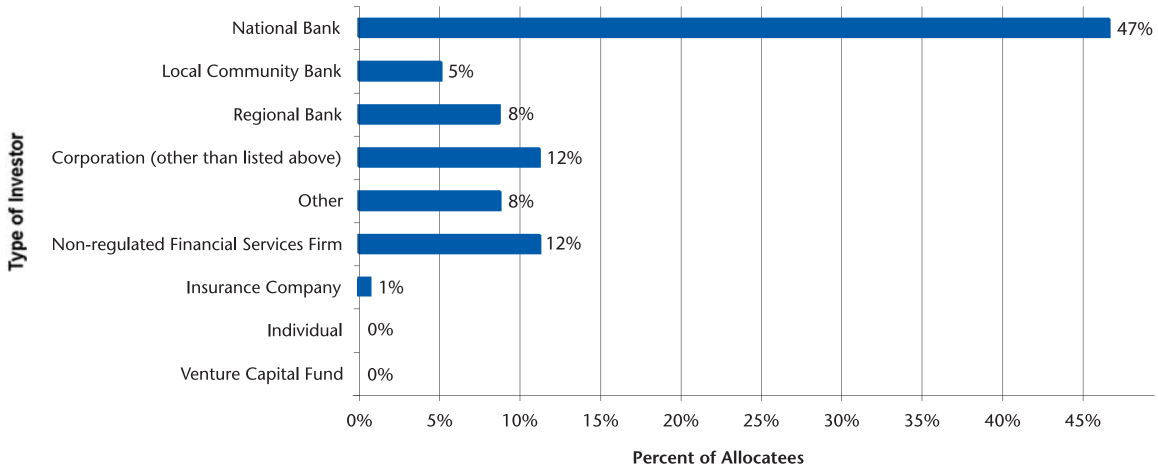
As represented in Chart 5, the bulk of QEIs are issued to private regulated financial institutions. Sixty percent of CDE respondents received a majority of their investments from regulated national, regional, or local banks. That said, this year's results indicate less activity with local community banks but some trending upwards with corporations and non-regulated

**Chart 4:
Percent of CDEs Issuing at Least One QEI to Investor Type**



Source: Survey Respondents. (NB: Some CDEs have multiple investors)

Chart 5:
Percent of CDEs Issuing More Than 50 Percent of QEIs to Investor Type



Source: Survey Respondents. (NB: Some CDEs have multiple investors)

financial services firms. In particular, Chart 5 shows that non-regulated financial entities and corporations continue to play a significant role as investors in CDEs: 12 percent of CDEs stated they had issued more than 50 percent of their QEIs to non-regulated financial services firms or corporations.

The “Other” sources of investment reflected in Charts 4 and 5 include leveraged funds, community development corporations, pension funds, government sponsored enterprises, foundations, nonprofits, and limited partnerships, representing even further diverse sources of capital invested in underserved communities through the NMTC program.

Other data collected by the Coalition reveals that 58 percent of survey respondents issued all of their Rounds I-IV QEIs to one type of investor, often to a single private financial institution. Thirty percent of the CDEs issued 100 percent of their QEIs to national banks while 11 percent of the CDEs issued 100 percent of their QEIs to corporations. Forty-nine percent of all CDEs that issued QEIs to national banks and 30 percent of CDEs that issued QEIs to community banks did not secure investments from any other type of investor.

At the same time it is important to note that 19 percent of CDEs responding were themselves regulated banks. It is not uncommon for these institutions to be both Allocatees and NMTC investors, and in some cases to self-invest, which may contribute to the predominance of these investor types.

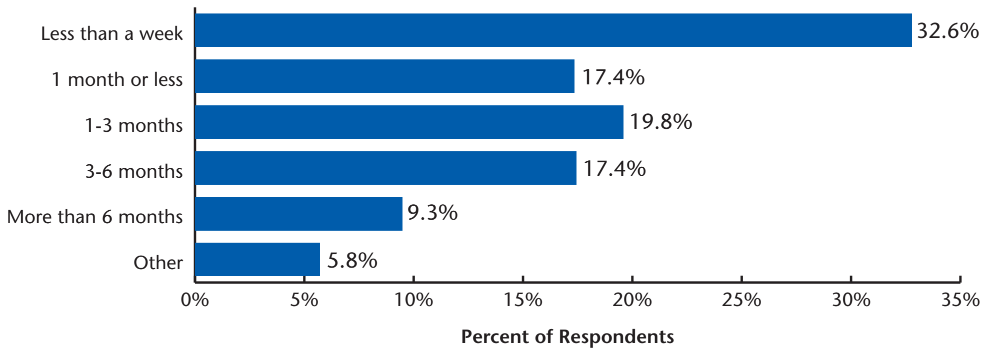
Progress Deploying New Markets Tax Credit Capital

CDEs responding to the survey continue to get loans and investments into the field at a faster rate than required by law and faster than the standard set by the CDFI Fund. The law requires CDEs to have “Substantially All” (at least 85 percent by regulation) of their QEIs deployed in

Qualified Low Income Community Investments (QLICIs) within one year of issuance. This requirement means that once a CDE raises its investment capital and issues a QEI to the investor, it has one year to get the capital deployed into QLICIs.

Thirty-two percent of the CDEs surveyed indicated that they deploy their capital in less than a week after issuing a QEI, 50 percent within thirty days, and nearly 70 percent deploy their capital within three months (Chart 6).

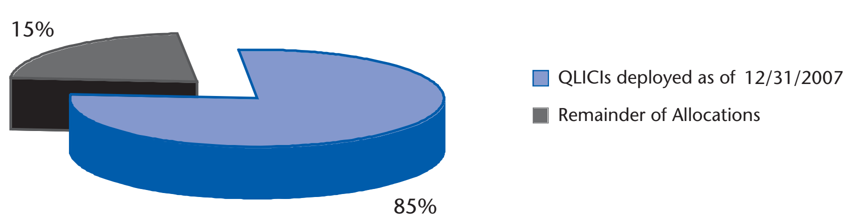
Chart 6:
Time (Required) to Deploy Capital (Requirement is One Year)



Source: Survey Respondents.

As of December 31, 2007, survey respondents had collectively made a total of 2,532 QLICIs totaling $6.3 billion. This dollar figure exceeds the reported $6 billion in QEIs issued because some CDEs have redeployed their allocations, maximizing its utility. That figure also represents 85 percent of the total $7.4 billion in allocations for the survey respondents.

Chart 7:
Percentage of Capital Deployment, Rounds I–IV



Source: Survey Respondents.

Types of Loans and Investments

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

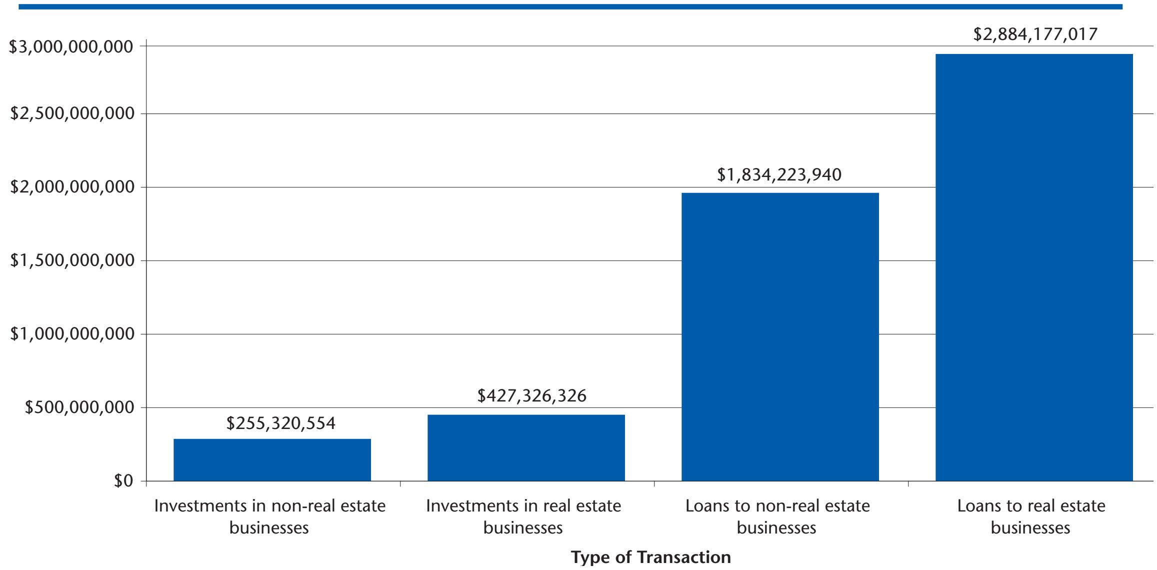
Most of the nearly $ 6.3 billion in QLICIs deployed by the CDEs surveyed as of December 31, 2007 fall under the first category: investments or loans to qualified businesses. Eighty-seven percent of the total QLICIs took the form of debt financing to QALICBs (Qualified Active Low-Income Community Business) while 13 percent was invested as equity.

Approximately forty percent of respondents indicated that they use the Credit to provide both debt and equity products to qualified businesses, often packaging them together. This is a seven percent increase from last year's finding that one third of the CDEs combined debt and equity products.

Of note is the finding that survey respondents have issued nearly $6.3 billion in QLICIs or $300 million more than their actual QEIs issued of $6 billion. This indicates a trend of CDEs making new QLICIs as principal is paid back to the CDE and redeployed back into the community for optimal impact.

The CDEs report that more than $2.0 billion in debt and equity financing went to non-real estate businesses and more than $3.3 billion in debt and equity went to real estate businesses[7] (Chart 8). As Chart 9 indicates, non-real estate transactions account for 35 percent of the

Chart 8:
Loans and Investments in Real Estate and Non-Real Estate Businesses

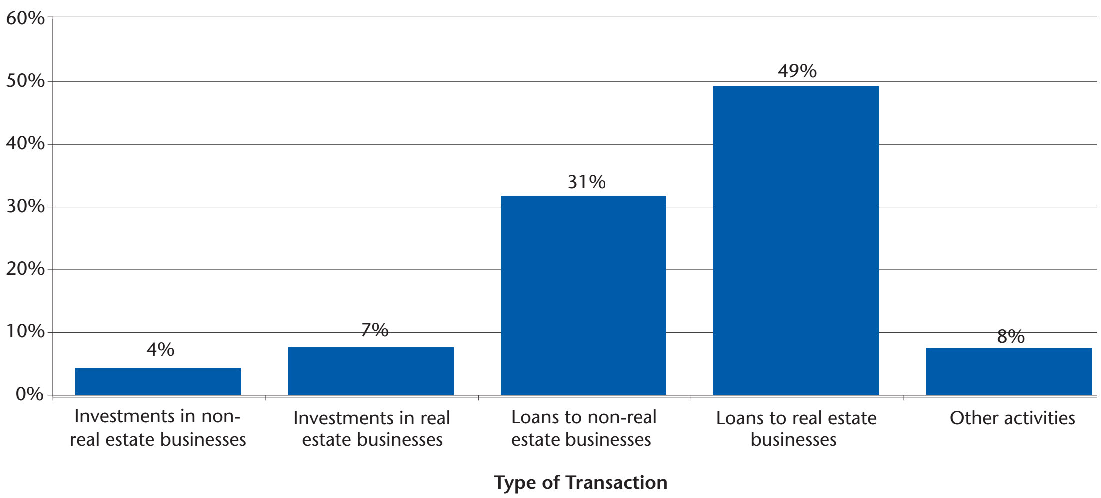


Source: Survey Respondents.

7 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.

overall QLICIs reported and real estate transactions account for 56 percent. These findings are in line with the Coalition's three previous reports and other studies released by the CDFI Fund. More detailed data on "other activities" can be found in Chart 13.

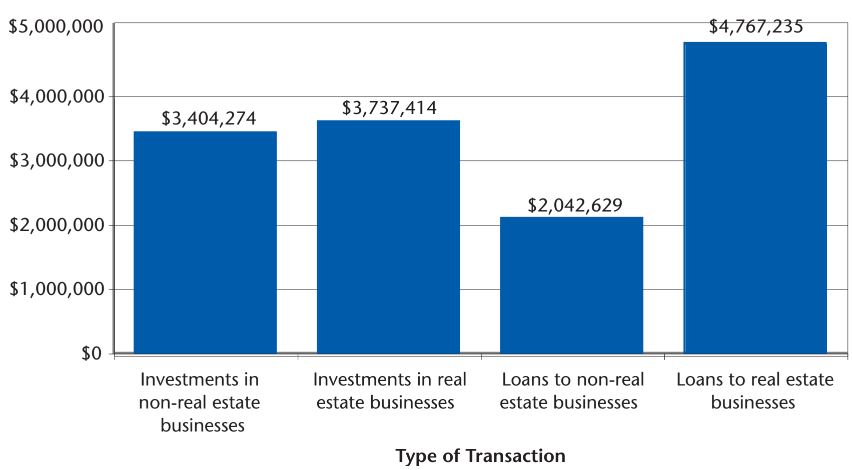
Chart 9:
Type of Transactions as Percentage of Overall Transactions



Source: Survey Respondents.

Previous survey reports have found that the average size of NMTC loans are larger than equity investments (Chart 10) and real estate transactions are typically larger than non-real estate transactions, although loans to non-real estate businesses dropped from an average of $2.4 million in 2007 to $2.0 million this year.

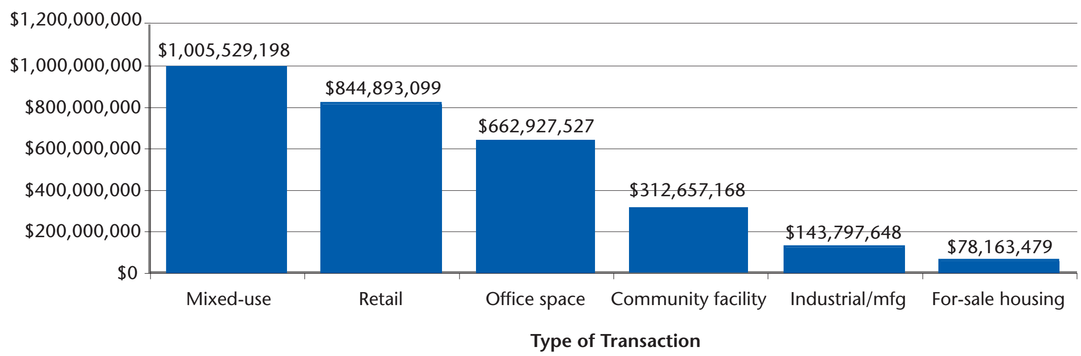
Chart 10:
Average Size of NMTC Transactions by Type



Source: Survey Respondents.

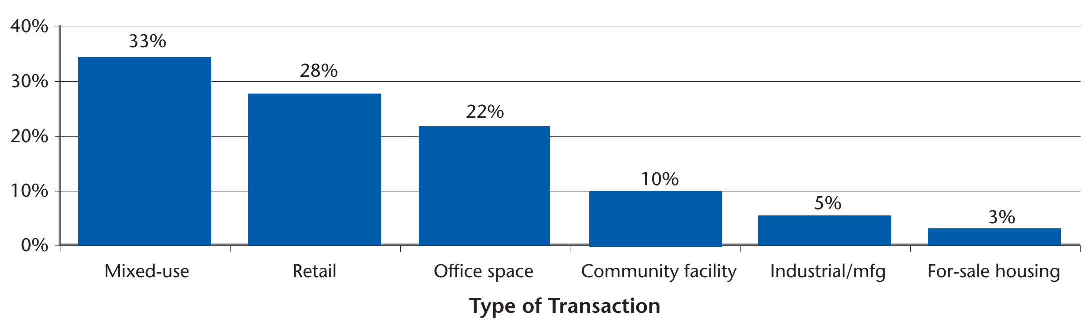
Charts 11 and 12 reveal the prominence of mixed use and retail projects among the real estate. Mixed use deals account for 33 percent ($1 billion) of real-estate transactions made by the survey respondents. The second most common real estate project type is retail (at $844 million), or 28 percent of all real estate deals. These findings are consistent with previous reports.

Chart 11:
Total Value of Real Estate Transactions by Type



Source: Survey Respondents.

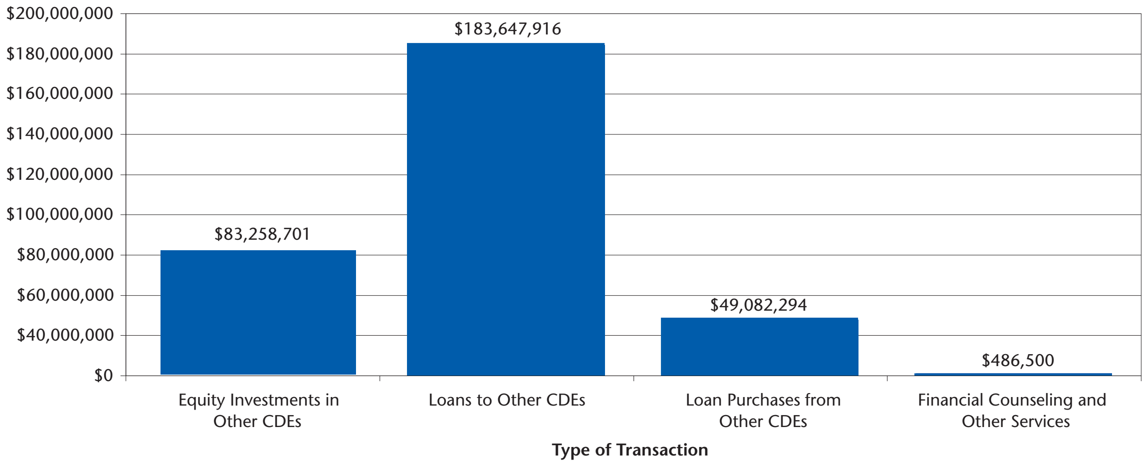
Chart 12:
Percent of Total Real Estate Transactions by Type



Source: Survey Respondents.

Survey responses indicated dramatic growth in the category of "other" investment activities tracked by the CDFI Fund including equity investments in other CDEs, loans to other CDEs, loan purchases from other CDEs, and financial counseling. These activities represent 8 percent of the total QLICIs (from Chart 9) deployed by CDE respondents, up from just 3 percent in 2007. As can be seen in Chart 13, the most utilized of these other activities is loans to other CDEs.

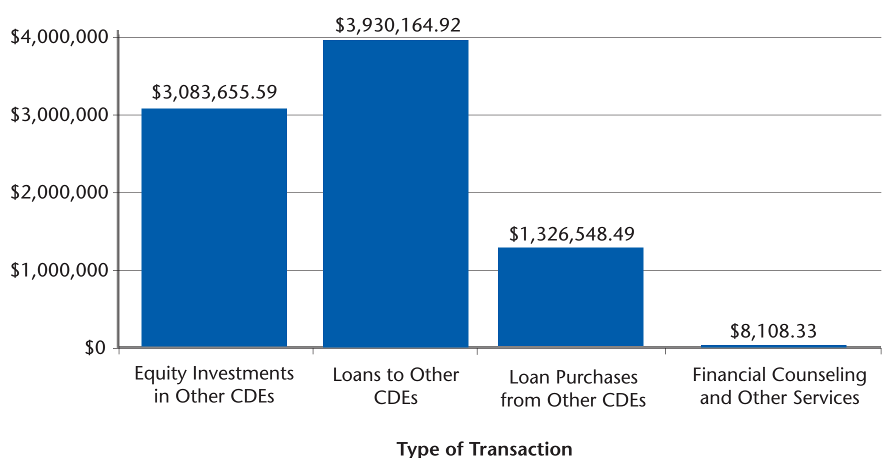
**Chart 13:
Value of Other Investment Activities by Type**



Source: Survey Respondents.

In many cases the Allocatees that provide loans to other CDEs are large, established organizations that not only direct needed capital to low income communities; they also build the capacity of smaller, locally grown CDEs. There was an expectation in the design of the NMTC Program that CDE Allocatees would use their allocations to make loans to and purchase loans from other CDEs. This *2008 Progress Report* found that loans to other CDEs had more than doubled from the 2007 report. Further, equity investments in other CDEs jumped from $0 reported in 2007 to over $83 million this year. Overall, the amount invested in these "other" activities jumped by nearly $200 million over last year. Clearly, this indicates a growing diversity in the types of investments being made. Chart 14 shows the average transaction size for these other activities, specifically loans to other CDEs, loan purchases from other CDEs and financial counseling.

**Chart 14:
Average Size of Other Investment Activities by Type**



Source: Survey Respondents.

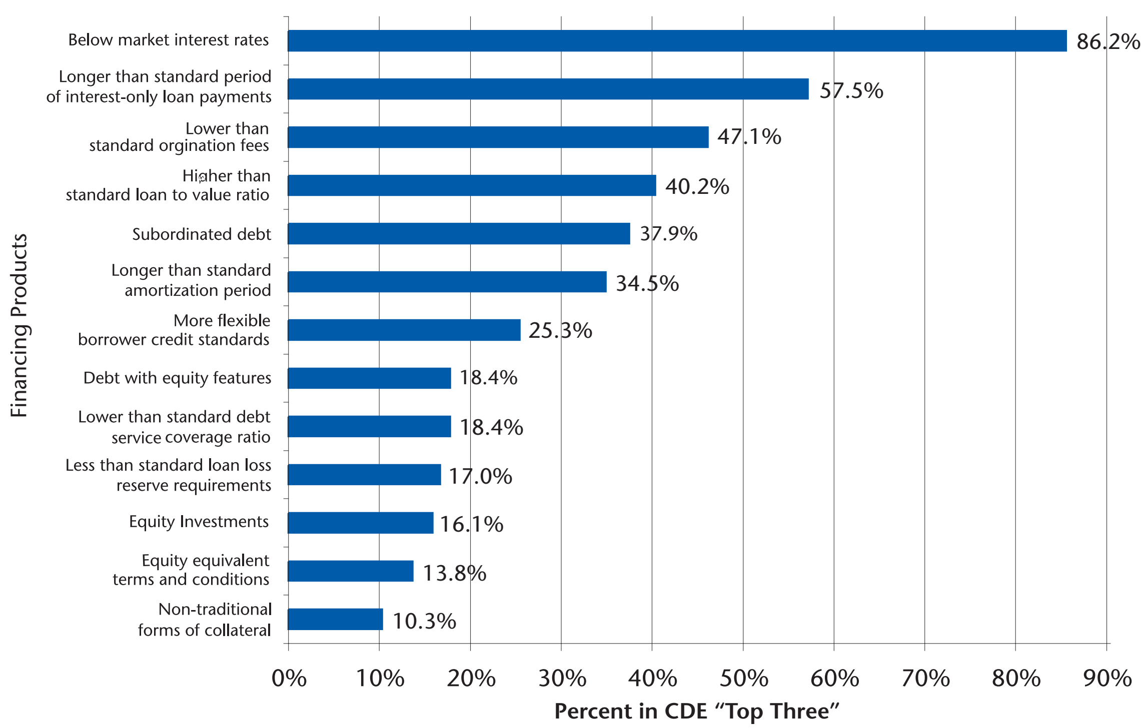
Offering Patient, Flexible Financing Products

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

In fact, in order to succeed in the competitive allocation process, CDEs must show how they will target investment in poor communities and demonstrate how the Credit will be used to provide patient, flexible capital at terms and conditions not otherwise available on the market.

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 15).

Chart 15:
Most Popular Flexible or Non-traditional Financing Products



Source: Survey Respondents.

Over 86 percent of survey respondents indicated that providing debt with below market interest rates is among the most utilized products. Among other "top three" products offered by the CDEs surveyed:

- Longer than standard period of interest only loan payments – 57 percent

- Lower than standard origination fees – 47 percent
- Higher than standard loan to value ratio – 40 percent

As seen previously in Chart 8, the majority of financing to businesses in low income communities through the NMTC has come in the form of debt. Accordingly, the majority of the flexible or non-traditional financing products listed in Chart 15 relate to debt products.

While most CDEs continue to use the Credit to provide flexible debt financing products, it is important to note that CDEs are also using the Credit to offer equity, equity-like and near equity products. Patient capital, particularly equity capital, is often the most difficult financing to secure particularly for projects in low income communities.

Leveraging Additional Investment into Target Communities

Neither the law nor regulation requires Allocatees to leverage additional resources from outside investors or lenders when financing deals. The New Markets Tax Credit program is by its very definition leverage: as originally authorized, the program translates $4.3 billion[8] in federal tax credit subsides into $15 billion of investment in poor communities. However, at the same time CDEs have proven adept at securing other sources of financing for projects in low income communities.

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

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

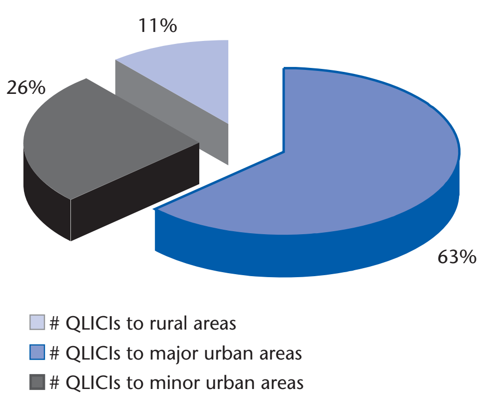
To further explore the magnitude of additional leveraging performed by CDEs, the Coalition asked a leveraging question in its survey. Five of the 78 respondents to this question reported having solely financed 100 percent of their deals at the project level. The remaining 73 respondents reported that on average, nearly 41 percent of their total project costs were financed using the NMTC financing dollars. Put another way, close to 60 percent of the average cost of a transaction financed with the Credit comes from other public and private sources.

8 Estimated Revenue Effects of the Community Renewal Tax Relief Act of 2000 prepared by the Joint Committee on Taxation

Credit Activity in Rural, Major Urban, Minor Urban Areas

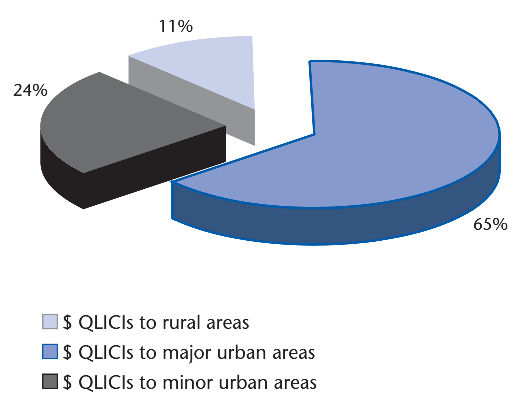
Charts 16 and 17 below illustrate the continuing trend of lower participation in rural areas for deployment of QLICIs, both in the number and dollar levels. In terms of dollar amounts deployed in those areas, survey responses totaled $556 million for rural areas, $3.3 billion for major urban areas and $1.2 billion for minor urban areas.[9]

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



Source: Survey Respondents.

Chart 17: Percent of QLICIs in Dollars to Rural, Major Urban and Minor Urban Areas



Source: Survey Respondents.

Of note, while the overall percent and dollar amount of QLICIs to rural areas is considerably less than QLICIs to major and minor urban areas, findings this year indicate the average size of the investments in all three areas is relatively similar to each other (Chart 18).

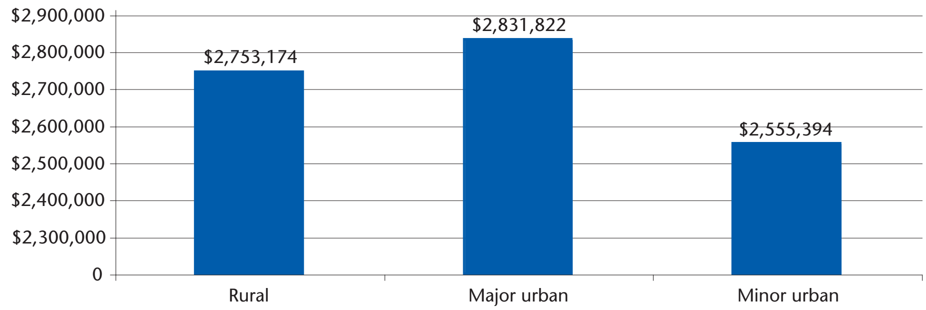
The Tax Relief and Health Care Act of 2006, which extended the Credit through 2008, also included language to ensure that a proportional allocation of QEIs will be provided in non-metropolitan counties. Starting in 2008, the Fund will ensure that at least 20 percent of QLICIs made by allocatees under the 2008 Allocation Round are invested in non-metropolitan counties. The Coalition will track and report on the impact of these new requirements in future reports.

---

9 CDFI Fund Definitions:

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

Chart 18:
Average Size of Transaction to Rural, Major Urban and Minor Urban Areas



Source: Survey Respondents.

Targeting Communities of High Distress

The law and regulations that govern the Credit require CDEs to invest in low income communities, which are defined as census tracts with (1) a poverty rate of at least 20 percent; (2) a median family income of up to 80 percent of the metropolitan area or statewide median, whichever is greater; or (3) for non-metro census tracts, a median family income of up to 80 percent of the statewide median. However, the application process is so competitive that, according to the CDFI Fund, an applicant must show that at least 80 percent of its QLICIs will be in communities of high economic distress that exceed the minimum benchmarks set by the law in order to be successful[10].

Therefore, the CDFI Fund tracks other indicators of high distress to determine how CDEs are targeting NMTC dollars to the communities with the greatest need. Recognizing that different communities face different barriers to economic development, the CDFI Fund utilizes an extensive list of high distress criteria. (See p.49)

Survey respondents were asked to report on the number of QLICIs that were made in these areas of high economic distress. Overall, the CDEs report that 91 percent of their total QLICIs were made in communities with an average of two or more high economic distress factors. Most notably, the greatest percentage of survey respondents pointed to working in communities with the following criteria of high economic distress (Chart 19):

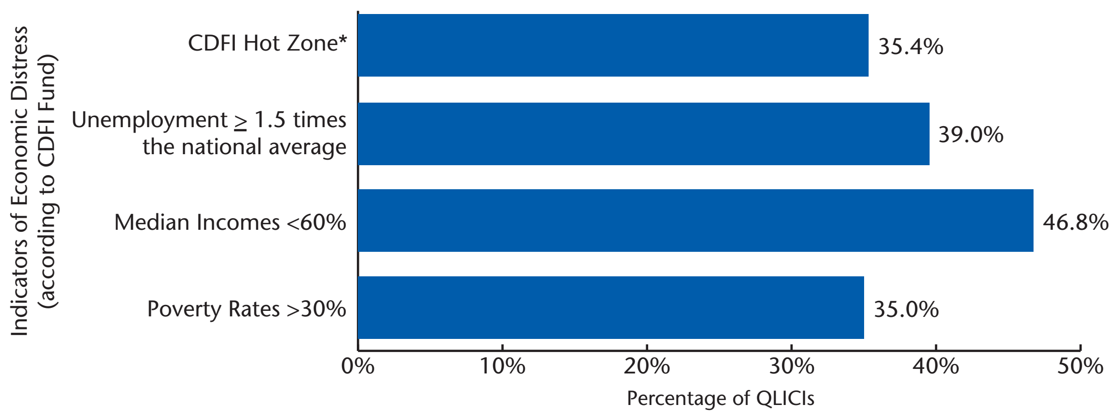
- Forty-six percent of the QLICIs are in areas with median incomes of less than 60 percent of area median income;
- Thirty-five percent of the QLICIs are in areas where the poverty rate is greater than 30 percent; and

10 CDFI Fund, NMTC Allocation Application Debriefing Document

- Thirty-nine percent of the QLICIs are in areas with unemployment greater than 1.5 times the national average.

Two factors contribute to this high level of targeting to more economically distressed communities. First, there is significant need and demand for flexible investment capital in low income communities. Second, as represented in Table 1, CDE demand ($107 billion) for Credits in the first four allocation rounds significantly exceeded the amount available ($12.1 billion), and CDEs that target their investments to more economically distressed areas are more competitive in the application process.

Chart 19:
QLICIs in Areas of Economic Distress



* CDFI hot zones are inactive but still listed as a distress factor

Source: Survey Respondents (NB: One investment can feature multiple indicators of distress at the same time)

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: Putting the New Markets Tax Credit to Work Revitalizing the GO Zone

Allocatee:	Chase New Markets Corporation
Headquarters:	New York, NY
Service Area:	Nationwide
Allocation:	$185 million: $75 million (Round III) and $50 million (Round IV); $60 million (Round V)

JPMorgan Chase & Co (JPMC) is a leading global financial services firm and has been an active participant in the New Markets Tax Credit (NMTC) industry from the beginning as both an investor as well as a CDE Allocatee.

JPMC has an established track record as a financial institution with a commitment to community development. It provides capital and expertise to finance businesses, nonprofit organizations, and community facilities in low and moderate income communities and to leverage the resources necessary for continued development. In 2004, JPMC committed to investing $800 billion in communities across the country over the next 10 years. This was the largest pledge of its kind by a financial services company and in the first three years of its 10-year pledge, JPMC has made significant progress towards this goal investing $339 billion in low and moderate income families, neighborhoods, and small businesses across the country.

JPMC saw the introduction of the NMTC in 2003 as an ideal way to further its goal of investing in low income communities and creating opportunities for low income persons. At first, the bank was involved in the NMTC strictly as an investor making equity and leveraged equity and debt investments in Community Development Entities (CDE) Allocatees across the country.

In 2004, JPMC established its own CDE, Chase New Markets Corporation (CNMC), which allowed the bank to apply directly for its own NMTC allocation while at the same time continuing to be an active NMTC investor in other CDE Allocatees. In 2005, CNMC was awarded its first NMTC allocation of $75 million. The goal was to make below market rate loans to support businesses and development projects that would not otherwise meet the underwriting or profitability guidelines of its parent company JPMC.

JPMC, as the parent organization and controlling entity, finances CNMC's operations which allow CNMC to internalize the costs associated with administering a NMTC operation. With the parent JPMC assuming the administrative costs, CNMC can eliminate project fees and maximize the capital that flows directly into projects. JPMC is also the sole NMTC investor into CNMC.

After securing its first NMTC allocation in 2004, CNMC was awarded a $50 million allocation in 2005 as part of the $1 billion in NMTC allocations dedicated to revitalizing communities along the Gulf Coast that were devastated by Hurricane Katrina. CNMC was one of 13 Allocatees awarded Credits to work in the Gulf Opportunity Zone (GO Zone). CNMC has committed to using its additional NMTC allocation to provide patient, below market priced loans to businesses, commercial real estate projects and community facility development in impacted communities throughout Mississippi, Alabama, and Louisiana.

Most recently, in 2007 CNMC received a $60 million Round V NMTC allocation to continue providing NMTC debt products throughout its national service area with a conscious effort to continue working with businesses in the GO Zone.

To date, JPMC and CNMC have been a part of a number of NMTC transactions either as an investor in another CDE Allocatee or directly as a CDE using its own allocation. Most of the transactions are direct financing of NMTC qualified businesses, but JPMC also participates in a number of NMTC pools and funds. As part of this activity, CNMC has closed five NMTC financed loans to CDFIs which use the NMTC capital to provide loans to NMTC qualified businesses. JPMC also acts as a leveraged lender in many investment vehicles where the bank is also the tax credit investor.

The NMTC has allowed CNMC to provide below market and subordinated debt products to finance commercial real estate projects, nonprofit community facilities and for-profit small businesses, offering acquisition, construction and mini-permanent loan capital for real estate projects and financing for small business equipment purchase, facility expansion and leasehold improvements. By acting as both the investor and CDE, CNMC has maximized the flexibility of the NMTC and financed loans as small as $1.6 million and as large as $22 million.

The NMTC has enabled CNMC to offer loans with interest rates between 300 and 500 basis points below JPMC conventional rates, eliminate origination fees, and offer no amortization and an interest only period of seven years. The CNMC is using NMTC to provide financing for those projects in the neediest communities and as a result, only finances projects that pass its strict social benefit screen and could not be financed without the Credit.

Kress-Knox-Levy Project

As one of the first CDEs to be awarded a NMTC allocation to work in the GO Zone, CNMC has committed its $50 million allocation to five projects in the Gulf Coast, including the construction of an emergency-worker training facility in Lafayette, Louisiana, the recapitalization of a hospital in New Orleans, the construction of an imaging and x-ray facility, a commercial building also in New Orleans, and a mixed use project in Baton Rouge, Louisiana.

One of these projects is the Kress-Knox-Levy Project, named after the three 19th century buildings being revitalized to help meet the demands of the growing population in Baton Rouge's central downtown district, an area with a 27 percent poverty rate.

Baton Rouge is one city impacted by the changing economy and the effect of in-migration of residents from devastated coastal areas inland. During hurricane Katrina, more than 250,000 New Orleans residents fled to Baton Rouge and the surrounding area. This included the relocation of individuals and families as well as commercial businesses that relocated offices from New Orleans to Baton Rouge permanently or established temporary offices in order to maintain operations and mitigate interruption in the event of a future disaster. In the long run, it is estimated that Baton Rouge's population increased by 50,000 after Hurricane

Photo: Chase New Markets Corp.

Katrina. The city was not prepared to absorb this 20 percent growth in population that has generated a huge demand for commercial services, office space and housing.

The Kress-Knox-Levy Project will revitalize three 19th century buildings in Baton Rouge's central business district that formerly served as mercantile establishments and later office space. The buildings are on the National Register of Historic Places and the historic renovation will rejuvenate 65,000 square feet as mixed use development, including office and retail space, 16 rental apartments and 3 condominiums. The buildings lie at the north end of the city's primary entertainment and retail strip, but are surrounded by underutilized property. The project is intended to not only meet the growing demand for high quality office space and housing brought on by the influx of New Orleans residents and businesses, but also to prompt the revitalization of the area, including the reuse of two vacant buildings located near the site.

CNMC used the NMTC to provide the project with a $7.6 million construction and mini-permanent loan with a seven year interest only period, a seven year no amortization period, and an interest rate that was 300 basis points below JPMC's conventional rate. This below market loan leveraged a $7.6 million conventional loan from JPMC that, in combination with the below market loan, allowed the project to move forward. Rents in the area would not have supported the acquisition and renovation of the buildings without a below market component.

Once completed, the Kress-Knox-Levy Project will have created 150 construction jobs, saved three historic buildings from demolition and brought them back into use, and created 75 new permanent jobs in a growing community. Thus, with the help of the NMTC, JPMC is helping Baton Rouge address three important issues: a lack of high-quality commercial and residential space; the need to preserve its architectural history; and the need to continue the revitalization of its central business district.

Story from the Field: The Largest Minority Owned Institution in Baltimore Puts the New Markets Tax Credit to Work Transforming Neighborhoods

Allocatee:	Harbor Bankshares Corporation
Headquarters:	Baltimore, MD
Service Area:	Local (Baltimore, MD)
Allocation:	$50 million (Round II)

The Harbor Bank of Maryland (Harbor Bank), Baltimore's largest minority owned financial institution, was started in 1982 as a vehicle to provide commercial banking products and services to the largely unbanked minority community in Greater Baltimore. Over the last 26 years, Harbor Bank has earned a reputation as a well respected community lender and has grown to be one of the top ten minority owned financial institutions in the country, while staying true to its mission of serving underserved and low income communities throughout Baltimore.

As a Community Development Financial Institution (CDFI) Harbor Bank assumed a leadership role in originating a large number of community development loans throughout its Baltimore service area. The CDFI Fund also awarded the bank five Bank Enterprise Awards (BEA) for over $1.25 million which the bank used to expand its offering of financial services and products in the community, to fund mortgage education services, financial literacy classes and helping low income community families obtain computers to close the digital divide.

Harbor Bank is a regulated private financial institution. The bank operates with a lending limit of approximately $3 million to any single borrower. Therefore in 1992, Harbor Bankshares Corporation (HBC) was created as a bank holding company, with Harbor Bank as one of its primary subsidiaries, in order to provide the institutions with more flexibility and ability to respond more fully to the needs of the community while advancing the mission of the organization.

HBC was certified in 2001 as a Community Development Entity (CDE) and in 2004 applied for and was awarded a $50 million NMTC allocation. The NMTC has enabled HBC to offer subordinated, below market loans with longer amortization and interest only periods and higher loan to value ratios than traditional financing.

HBC has deployed 100 percent of its $50 million allocation making loans to large scale community development projects with the potential to transform some of poorest neighborhoods in Baltimore that have long suffered from economic neglect and disinvestment. HBC deployed a $25.5 million NMTC financed loan to the Life Sciences and Technology Park in East Baltimore, a $10.0 million NMTC financed loan to finance the construction of a mixed used building in Baltimore's Inner Harbor East community, and a $14.5 million NMTC financed loan to the University of Maryland at Baltimore (UMB) Biotech Building on the west side of the city.

Unlike many banks that have been awarded NMTC Allocations, HBC did not look to its affiliate bank for qualified equity investments. Instead, HBC saw the NMTC as an opportunity to attract large private investors into the Baltimore market and to leverage new investment partners, including U.S. Bank and Capmark.

East Baltimore Development

Photo: Harbor Bankshares Corp.

In 2002 when the City of Baltimore decided to redevelop 88 acres in one of the most severely blighted neighborhoods on the east side of town, it created an organization that would be charged with the mammoth task, East Baltimore Development Incorporated (EBDI).

EBDI approached Harbor Bank to make a $100,000 unsecured venture capital loan into EBDI as a new nonprofit Community Development Financial Institution (CDFI) that had the potential to be a valuable partner to the community and the bank in its efforts to revitalize the city. Six years later, EBDI has been recognized by Harvard's Kennedy School of Government as one of the Top 10 Programs of the 2008 Innovations in American Government Awards for its work in spearheading the comprehensive redevelopment of a neighborhood that has ranked amongst the highest in the country in terms of poverty, crime and homelessness, and is seen as the new model for revitalizing the nation's cities.

EBDI took the lead in assembling a network of public and private partners to work on the redevelopment effort and develop a master plan for the 88-acre parcel with the city of Baltimore, the impacted communities, local and national foundations, private developers, and Johns Hopkins Hospital working together.

The master plan calls for a three phase development effort that will transform 88-acres of blighted, under-utilized land into a thriving mixed-income, mixed use community that will include a state-of-the-art two million square foot Life Sciences and Technology Park, neighborhood retail and commercial office space, streetscape improvements, and a new pre-K through Grade 8 school.

The total project cost, covering all three phases of the development, is projected to be $1.8 billion and the total project cost of Phase I, which includes the Life Sciences Building as the anchor project, is approximately $100 million.

HBC dedicated $25.5 million of its $50 million NMTC allocation to finance the development of the 138,000 square foot Life Sciences Building. Capmark Capital collaborated with U.S. Bank as HBC's NMTC investor for the project structuring a leveraged NMTC investment. By issuing QEIs to U.S. Bank and Capmark, HBC brought two valuable private investor partners to the project and HBC was able to finance a seven year, interest only subordinated loan to finance 25 percent of the project. The transaction was structured to ensure that $5 million would be converted to an equity investment in EBDI, the CDFI entity responsible for the overall development of the project and management of the parcel.

The $5 million benefit to EDBI will help fund the various operational costs and services associated with managing the redevelopment initiative such as property acquisition, public and private financing coordination, housing relocation services, workforce development, child and family services, diversity inclusion, and other expenses involved in such a redevelopment effort.

Without the creative utilization of NMTC providing both debt and equity in the transaction, EBDI would not have the financing necessary to carry out its vital co-developer and management roles. In addition to working with HBC and taking advantage of its NMTC expertise, EBDI is working with two other NMTC Allocatees, Enterprise Community Partners and Bank of America CDC.

Over the course of project construction and completion, the Life Sciences and Technology Park will create up to 6,000 new jobs for all skill levels ranging from high school graduates to those with advanced college degrees. In addition, the site will bring 1,200 new and renovated homes for mixed-income buyers and renters, including town homes, duplex homes, apartments and senior housing. Low income, moderate and market rate housing will be available for rent and purchase.

Photo: Harbor Bankshares Corp.

There is evidence that Bio-Tech Parks are economic engines that spawn economic activity and HBC expects the Life Sciences and Technology Park will spur additional private investment throughout Baltimore and encourage new private investors to move into the city. For example, it is expected that the Johns Hopkins Technology Park will attract medical professionals from around the world, thus creating a demand for additional housing, international cuisine, personal services companies (banks, barbers, etc.) and a demand for quality community facilities including education and arts facilities. Local residents will benefit from job creation, improved housing, schools and infrastructure, and overall hope and improved quality of life.

On Baltimore’s impoverished West Side, Harbor Bank made a series of loans to a minority developer in 1994 who was working to upgrade the housing stock along Martin Luther King Blvd. in the impoverished Poppleton neighborhood. This area has historically been the virtual dividing line between economic progress and economic despair. Harbor Bank’s initial investments in the neighborhood paved the way for the University of Maryland at Baltimore to develop plans for a $500 million Bio-Tech park that would occupy six buildings in the community and act as an anchor for future economic growth. In 2007, HBC working with its NMTC investors, U.S. Bank and Capmark, made a $14.5 million NMTC loan to the project to replicate the model used in East Baltimore.

Story from the Field: Pairing the NMTC with the Historic Tax Credit to Maximize Community Impact

Allocatee:	National Trust Community Investment Corporation
Headquarters:	Washington, DC
Service Area:	National
Allocation:	$240 million: $127 million (Round I), $53 million (Round IV), and $60 million (Round V)

The National Trust Community Investment Corporation (NTCIC) was created in 2000 as a subsidiary of the National Trust for Historic Preservation (the Trust) a private, nonprofit membership organization formed in 1949 to preserve and revitalize historic places and communities throughout the country. The Trust created NTCIC as a financing subsidiary of the Trust with the power to make equity investments in real estate projects that qualify for the federal historic tax credit (HTC) and when available, state historic tax credits. NTCIC was certified as a Community Development Entity (CDE) in 2002 and was the first CDE to effectively pair the New Markets Tax Credit (NMTC) with the federal HTC.

Approximately two-thirds of all of the buildings eligible for the HTC throughout the country are located in NMTC-eligible census tracts. Understanding the potential of the NMTC to further its mission, NTCIC applied for and received NMTC allocations in Rounds I, IV and V, totaling $240 million in allocation authority. NTCIC was the first CDE to sign a NMTC allocation agreement and the first to report a Qualified Equity Investment to the CDFI Fund. Working with its primary investor, Bank of America, and several other one-time investors, its allocations have been used to provide equity and equity equivalent loans to real estate projects that rehabilitate historic vacant properties and bring community facilities, jobs, and/or goods and services to low income communities.

Pairing the NMTC with the federal HTC has enabled NTCIC to significantly enhance the community impact of its real estate projects. The federal HTC offers investors a tax credit equal to 20 percent of the rehabilitation costs of a qualified historic structure and the NMTC offers investors a tax credit equal to 39 percent of the qualified equity investment (QEI) made in a CDE, which then invests in qualified projects. Combining the HTC and the NMTC has enabled NTCIC to provide 35 to 40 percent more equity to its real estate projects than would be possible using only the HTC or only the NMTC.

Offering the additional equity capital infusion to NTCIC projects has lowered rents and lease arrangements to residents, entrepreneurs, business owners, and community facilities that improve access to quality goods, services and community facilities for low income community residents and low income persons.

To date, NTCIC has financed 50 real estate projects in 21 states, a majority of which paired the NMTC with the HTC. In total, these projects have directed more than $200 million in net equity historic rehab projects located in economically distressed communities.

Heimann Building – San Antonio, Texas

The Cattleman Square Historic District in San Antonio, Texas was once the center of Alamo City's commercial district and home to high-end retail establishments. The construction of an interstate highway in the 1970s, however, isolated the neighborhood and led to disinvestment and the deterioration of the once vibrant community. Today, the Cattleman Square Historic District is one of the poorest and most neglected areas of the city, with a 44 percent poverty rate and an unemployment rate that is 2.5 times higher than the national average. The neighborhood sits in the middle of a federally designated Empowerment Zone, a State Enterprise Zone, and an SBA designated HUBZone.

The Heimann Building, a once luxury hotel designed by noted architect Atlee B. Ayers, sits in the middle of this community. In 1907 the Heimann Building boasted the first hotel telephone line as well as the first air conditioning system in the city, but the building was abandoned and gutted over 30 years ago and until recently, was inhabited only by transients. With the help of NTCIC and the NMTC, the Heimann Building has become a sign of hope for the community and an example of the Cattleman Square neighborhood's potential.

Photo: National Trust Community Investment Corp.

In 1995, the Heimann Building was donated to AVANCE, a national nonprofit organization that provides Latino families support for parent education and early childhood development through programming and educational materials. AVANCE was interested in expanding its San Antonio learning center; taking possession of the Heimann Building would facilitate that expansion in a community with a large Latino population and a strong demand for the organization's childcare and Head Start services.

Although the building was donated to AVANCE, the structure needed substantial work before it could be occupied and the organization lacked the resources to handle the $6 million cost of the renovation. AVANCE mounted a capital campaign that raised $2.1 million for the project, leaving a gap of $3.9 million that AVANCE would have to finance through a conventional lender at market rates. AVANCE was concerned it would be unable to cover the cost of conventional debt service while maintaining affordable rents for its social service tenants and sustaining the affordability of its child care services.

AVANCE approached the city of San Antonio and local community development organizations for assistance. In 2003 the organization was directed to NTCIC as a potential partner in the renovation. NTCIC immediately saw the Heimann Building as an opportunity to combine the federal HTC with the NMTC to renovate a historic property and at the same time bring vital services and jobs to a low income community. The building was located in a high poverty census tract and made the project NMTC eligible, and approximately $3.2 million of the $6 million renovation cost was eligible for the federal HTC.

NTCIC made an initial equity investment of $246,965 in the Heimann Building renovation using a portion of its Round I NMTC Allocation. In addition, Bank of America made a $650,000 HTC investment in the project which enabled the bank to assume the 20 percent HTC on the $3.2 million of HTC eligible renovation costs. The combined NMTC/HTC equity investment in AVANCE was $904,635 and both investments were structured to remain in the project after the 7-year NMTC credit and 5-year HTC compliance periods end.

In combination with the additional equity infusion made possible by pairing the NMTC with the HTC, AVANCE was able to use the $2.1 million raised through their capital campaign to fund 50 percent of the project cost with equity, thus allowing the organization to finance the remaining $3 million through a conventional lender at a rate that was well below what was initially offered.

The renovation of the Heimann Building, which was completed in July of 2004, has had a significant impact on the Cattlemen Square Historic District. The renovation generated more than 160 construction jobs and AVANCE's expanded childcare facility has created 23 new permanent jobs in the neighborhood. Additionally, the expanded childcare and Head Start facility serves more than 60 low income Latino families daily through affordable, quality child care for young children that helps parents maintain employment.

Story from the Field: Using NMTC to Revitalize Massachusetts and Rhode Island and Attract Venture Capital

Allocatee:	Rockland Trust Community Development Corporation
Headquarters:	Rockland, MA
Service Area:	Multi-State (southeastern Massachusetts and Rhode Island)
Allocation:	$75 million: $30 million (Round II) and $45 million (Round IV)

Rockland Trust Company is a commercial bank serving Cape Cod, southeastern Massachusetts, and Rhode Island. Founded in 1907, the bank has been devoted to community service for over 100 years. Many southeastern Massachusetts and Rhode Island communities have seen once thriving industries, such as textile mills, shoe manufacturing, and whaling, significantly decline or leave the area altogether. The CDFI Fund has designated approximately 66 percent of the low-income census tracts in southeastern Massachusetts and Rhode Island as areas of high economic distress due to their unemployment, poverty rates and low income levels. These dire economic needs prompted Rockland Trust to form Rockland Trust Community Development Corporation and its wholly-owned community development subsidiary (the Rockland CDE) and apply for a NMTC award.

The Rockland CDE received $30 million and $45 million NMTC awards in 2004 and 2007, respectively, and has rapidly and completely deployed both awards, financing 70 different non-real estate and real estate business loans, ranging in size from $50,000 to $8,000,000. Rockland Trust is the sole owner of, and investor in, the Rockland CDE. This arrangement has enabled the Rockland CDE to expedite the deployment of its NMTC awards because Rockland Trust controls all NMTC compliance responsibilities while originating NMTC loans, providing credit administration, and absorbing virtually all of the other operating costs of the Rockland CDE. This arrangement has also enabled the Rockland CDE to offer NMTC products, such as amortizing loans and financial counseling to promote venture capital funding, that CDEs working with unrelated investors have had difficulty offering.

Photo: Rockland Trust Community Development Corp.

The Rockland CDE makes below market rate amortizing loans that permit NMTC qualified business borrowers to reduce the principal amount owed as loans are repaid. The Rockland CDE has maximized the impact of its initial NMTC award by promptly reinvesting all loan principal repayments into new loans, so that its initial $30 million allocation has already generated almost $33 million in NMTC loans. The Rockland CDE has also effectively used its NMTC loan products to leverage additional private capital investments in low-income communities because the approximately $80 million in total NMTC loans made to date has attracted an additional $45 million in debt and equity financing for the bank's business borrowers.

The NMTC loans made by the Rockland CDE have, in the aggregate, thus far helped finance the acquisition and/or redevelopment of over 2.1 million square feet of real estate and helped create over 1,200 jobs. The Rockland CDE has also collaborated with state and local government agencies, educational institutions, and other economic development agencies to assist the businesses and/or residents of low-income communities in accessing capital.

Transforming a Vacant, Historic Building into an Artistic Haven: The Grant Building – 250 Main Street, Pawtucket, Rhode Island

The city of Pawtucket, Rhode Island is the site of historic mills which, in the era between 1790 and 1810, helped start the industrial revolution. At the beginning of this century, however, Pawtucket was a struggling city, full of abandoned mills and empty storefronts. Recognizing how arts can contribute to economic revitalization, Pawtucket targeted the artistic business community with supportive tax incentives and subsidies to position the city as an affordable alternative for artists who could no longer afford to do business in nearby Providence, Rhode Island. The vacant building located at 250 Main Street in the heart of Pawtucket's downtown arts district is listed in the National Register of Historic Places and was once the home of the popular department store W.T. Grant. The property known as The Grant Building was a prime example of a vacant site that needed transformative change.

In 2006, the Rockland CDE made a $350,000 NMTC loan to a start-up entity formed by an architect and a graphic designer to acquire and develop The Grant Building. The NMTC program enabled the Rockland CDE to make a below market interest rate loan to a highly leveraged, speculative project that, when combined with subordinate financing from The Urban Revitalization Fund of Rhode Island, a certified CDFI, provided favorable financing for a $650,000 project that would likely not have occurred if not for its NMTC component.

Today, The Grant Building is a mixed use, open, collaborative arcade style business "incubator" for design and arts-related businesses. The building houses 18 entrepreneur artist tenants, including an interior designer, web and print designers, a sculpture gallery and work studio, and an advertising agency. One tenant, the Flying Shuttle Weaving and Art Studio, is an affiliate of the nonprofit Arc of Blackstone Valley, an organization which provides residential, developmental, employment, and recreational programs and services to citizens of Pawtucket and surrounding areas with intellectual and developmental disabilities. The Flying Shuttle employs 26 disabled artist adults, who receive on-the-job training and are paid through state funding. Through the Flying Shuttle studio storefront, hand woven rugs, greeting cards, and jewelry are offered for sale.

The rents made possible by the NMTC financing have helped attract artists to The Grant Building and the concentrated, creative force housed there has attracted attention, visitors, and revenue to a once struggling downtown area that is now on its way to becoming an urban arts center. The project has been held up as a model preservation project and, in April 2007, The Grant Building hosted the closing reception for the Rhode Island Statewide Preservation Conference.

Using Financial Counseling and Other Services to Attract Venture Capital and Promote Federal Grant Programs

Recognizing the role that venture capital funding and federal grant programs can play in accelerating business development, the Rockland CDE has devoted a portion of its NMTC awards to finance targeted financial counseling and other services ("FCOS") intended to promote venture capital funding for, and to make government grant programs more available to, low income community businesses.

- The Rockland CDE has funded a series of five venture capital forums for the nonprofit Southern New England Entrepreneurs Forum (SNEEF) to educate start-up and expanding technology entrepreneurs on venture capital funding and provide much needed networking opportunities with venture capital firms, "angel investors," and fellow entrepreneurs. The SNEEF forums are held at the University of Massachusetts-Dartmouth's Advanced Technology and Manufacturing Center in Fall River, Massachusetts, a 60,000 square foot state-of-the art business incubator and research center located in a particularly economically distressed census tract, whose mission is to provide early stage and transition technology companies with an environment where they can grow and develop.

- The Rockland CDE also funded a FCOS investment in the QUEST Center, a New Bedford, Massachusetts marine technology business incubator strategically located within 40 miles of both the U.S. Naval Undersea Warfare Center in Newport, Rhode Island and the Woods Hole Oceanographic Institution in Falmouth, Massachusetts. This FCOS investment specifically funded two seminars that explained the federal Small Business Innovation Research (SBIR) grant program and its business plan application requirements to low income community businesses.

Story from the Field: Taking Advantage of the NMTC's Flexibility to Revitalize Durham, North Carolina

Allocatee:	Self-Help Ventures Fund
Headquarters:	Durham, NC
Service Area:	National
Allocation:	$170 million total: $75 million (Round I) and $95 million (Round III)

Self-Help is a mission-driven nonprofit Community Development Financial Institution (CDFI) with a 23 year history of community development lending and investing. Based in Durham, North Carolina, Self-Help's mission is to create and protect ownership and economic opportunity for people of color, women, rural residents and low-wealth families and communities. It pursues this mission by providing a wide range of financing products including small business loans, home mortgage loans, and loans to nonprofit organizations. Self-Help Ventures Fund, an affiliate of Self-Help, manages Self-Help's higher risk business loans, real estate development and home loan secondary market programs. Self-Help Credit Union offers socially responsible deposit accounts nationwide and operates three full service community credit unions serving members in North Carolina.

Self-Help Ventures Fund was certified as a CDE in 2001 and in 2003 it applied for and secured a $75 million allocation making it one of the pioneering Round I CDEs. The Self-Help Ventures Fund also received a $95 million allocation in Round III. To date investors have been secured for the full $170 million allocation and $127 million in NMTC capital has already been deployed to finance 38 qualified businesses in 7 states through a leveraged blind pool structure.

With NMTCs, Self-Help can offer loans with lower interest rates, more attractive terms, and loans that are significantly larger than the loans Self-Help was previously able to provide. Using the blind pool structure, Self-Help has made NMTC loans as small as $114,000 and as large as $40 million. In addition, the NMTC program has allowed Self-Help to expand its geographic reach far beyond North Carolina to include 5 other states and the District of Columbia.

Providing these larger loans has enabled Self-Help Ventures Fund to significantly expand its financing of commercial real estate and community facilities in low income communities and to respond to the needs of developers and nonprofit organizations working in these communities. The annual amount of Self-Help's commercial lending nearly doubled after the Ventures Fund secured its first allocation, from an average of $29 million a year for the four years prior to receiving an allocation to $56 million annually in the four years since.

NMTC Projects Large and Small in Downtown Durham

While the NMTC has enabled Self-Help to work across the country, the organization continues to dedicate significant energy and resources to its home base of North Carolina. The NMTC has been instrumental in financing several projects that have sparked a surge in private investment in downtown Durham.

Throughout the late 19th and much of the 20th century, downtown Durham was a vibrant manufacturing center engaged in the tobacco and textile industries. As these industries declined in the 1960s so too did the vitality of downtown Durham. Steady disinvestment led to physical deterioration, made worse by the industrial waste left behind as a legacy of the area's manufacturing history. The eastern edge of downtown now hosts a HOPE VI redevelopment area, a CDFI Fund designated Hot Zone and a Brownfield Redevelopment area with more than 35 percent of the population living in poverty, and an area unemployment rate that is 3 times the national average.

Self-Help Ventures Fund was approached to help finance the rehabilitation of the Golden Belt Manufacturing Company complex. Golden Belt was a textile factory that produced pouches for Bull Durham loose leaf tobacco and then paper cartons when cigarettes came into vogue. When tobacco moved out, the demand for ancillary services disappeared and the Golden Belt complex was donated to the Durham Housing Authority (DHA). As landlords, DHA provided space for the Center for Employment Training's operations and sought partners to redevelop the larger facility. After a series of dead ends, the DHA put the majority of the facility on the market in 2004 and Scientific Properties, LLC, a North Carolina-based real estate and development company purchased the property in 2006. Scientific Properties approached Self-Help with a plan to convert the historic site into a mixed use commercial, arts, and residential space, and a request for a $12 million loan to launch the project.

Jeremy Lange ©2008

Self-Help recognized the project's potential to anchor the area's revitalization, but was hesitant to commit $12 million of its NMTC allocation. To stretch its remaining allocation, Self-Help worked with Wachovia utilizing a portion of Wachovia's NMTC allocation. Self-Help made an $8.15 million loan from its Round III allocation and secured $3.85 million from Wachovia's NMTC allocation to re-lend to Scientific Properties, together reaching the $12 million necessary to make the project viable.

Self-Help Ventures Fund provided a loan with a 7 year term, amortizing over 25 years with an initial 18 month interest only period. The interest rate, blended between Self-Help's and Wachovia's NMTC debt products, is fixed at 5.4 percent, more than 250 basis points below Self-Help's standard rate. The CDE also offered loan fees that were 90 basis points below standard.

Two previous owners of the Golden Belt complex had tried to revitalize the site but were unable to secure the financing needed for such a significant and costly renovation in a low income community that is perceived by conventional lenders as a high risk market. The $12 million below market rate loan offered by Self-Help Ventures Fund and Wachovia, combined with $10 million in NMTC-enhanced state and federal historic tax credit equity allowed the project developers to ensure affordable rents and leases for the community.

Once completed, the Golden Belt complex will have created 140 construction jobs and more than 400 permanent jobs in the downtown corridor by putting six warehouses back into use. The project team has utilized environmentally friendly design features in order to secure LEED certification for the complex once completed. The Golden Belt complex will provide affordable commercial and office space for local businesses and nonprofit organizations that serve community residents, including the Center for Employment Training. The project will provide 35 artist studios at below market rents, an art gallery, 37 affordable loft apartments, office space, a live music venue and ground floor retail space. The development will generate essential foot traffic in the area and contribute to other development efforts in the neighborhood.

The NMTC program has also allowed Self-Help to provide better terms to smaller projects that are more typical of Self-Help's lending. A year prior to the Golden Belt project, Self-Help provided NMTC financing to Urban Ministries of Durham, just blocks away from the Golden Belt site. Urban Ministries is a local nonprofit service agency that provides emergency food, shelter, clothing and other support services to the area's homeless. The 25 year old agency needed to upgrade its facilities to accommodate increased demand. With weak collateral and cash flow dependent on donations, the organization found it nearly impossible to secure a loan from a conventional lender for the renovation cost which was estimated at $428,000. Self-Help used its NMTC allocation to provide a $330,000 loan with a 20 year term and amortization schedule and a variable rate starting at 5 percent which is more than 250 basis points below Self-Help's standard loan rate. The loan was interest only for the first six months and is structured with no prepayment penalties. This loan allowed the borrower to launch a fundraising campaign to pay down the loan and save the organization money. With the financing provided by Self-Help, Urban Ministries has added a second floor, upgraded its soup kitchen and generally increased the functionality of the space to better accommodate the needs of its clientele.

Photo: Self-Help Ventures Fund

The NMTC program has allowed Self-Help to increase its scope of work, both by facilitating the expansion of its service area and by increasing the size and risk profile of its loans. Without the NMTC, Self-Help would not have been able to provide financing to Golden Belt or Urban Ministries at the rates and terms necessary to make these critical projects feasible. Together, Self-Help's NMTC investments in large scale commercial real estate and small scale local businesses and nonprofits are helping to turn around downtown Durham.

Story from the Field: The New Markets Tax Credit and the New Markets Venture Capital Program Working to Finance Businesses in Appalachia

Allocatee:	Southern Appalachian Fund
Headquarters:	Oak Ridge, TN
Service Area:	Multi-State (Southern Appalachia)
Allocation:	$2 million (Round I)

The New Markets Venture Capital Program (NMVC) and the New Markets Tax Credit (NMTC) were both signed into law in 2000 with the common goal of increasing the flow of private capital to businesses operating in low income communities. The NMVC is administered by the Small Business Administration (SBA) and is designed to provide debenture based leverage as well as operational assistance grants to NMVC Companies that are licensed by the SBA to provide venture capital to businesses located in low income communities. To date, only one NMVC Company is a CDE and that entity is the Southern Appalachian Fund.

The Southern Appalachian Fund was created through a collaboration between Technology 2020 Finance Corporation, a CDFI based in Oak Ridge, Tennessee and Kentucky Highlands Investment Corporation, a CDFI based in London, Kentucky. The Southern Appalachian Fund's primary purpose is to leverage financial and technical resources to create a community development venture capital fund providing equity for seed, early-stage, and growth companies throughout the southern Appalachian region which according to the Bureau of the Census has one of the highest concentrations of high unemployment and low-income census tracts in the country. Approximately 86 percent of the census tracts in the service area meet the NMTC definition of low income and 85 percent of the counties have been designated as persistently poor since 1970 by the US Department of Agriculture.

In 2001 the Southern Appalachian Fund was conditionally approved by the SBA as a NMVC Company and between July, 2001 and July, 2003 raised the $5 million in private capital required to become a New Markets Venture Capital Company and to qualify for the SBA guaranteed debentures made available through the NMVC program. In addition, after raising the required match an additional $3 million in operational assistance grant funding was made available to the Southern Appalachian Fund to support the business ventures in which it invests. In 2003, the Southern Appalachian Fund also applied for and secured a $2 million NMTC allocation as one of the Round I NMTC Allocatees.

As the only entity that is both a licensed NMVC Company and a certified CDE, the Southern Appalachian Fund is the only entity to have financed businesses using capital raised with the NMTC as well as capital raised with SBA debentures.

Since 2003, the Southern Appalachian Fund has invested a total of $6.6 million in eight portfolio companies of which $1.7 million, or 25 percent of the capital, was generated by

NMTC investments. The remainder was generated by private capital and SBA debentures. At the time the investments were made, the eight portfolio companies employed a total of 76 individuals and as of December 31, 2007 the companies employed 201 persons, an increase of 125 jobs.

The $6.6 million in NMVC/NMTC investment has effectively leveraged an additional $40.3 million in private investment in the eight growing companies. This represents approximately $6 in leverage for each $1 invested by the Southern Appalachian Fund and the investments have resulted in a $12 million increase in gross revenues for the portfolio companies. In addition, wages have increased by $6 million and payroll taxes increased by more than $1 million.

Six of the ten investors in the Southern Appalachian Fund invested to take advantage of the NMTC. The other four investors are nonprofit organizations without federal tax liability and therefore unable to claim the benefits of a federal tax credit. As the Southern Appalachian Fund makes a capital call in order to invest in a business the QEIs are issued on a pro-rata basis according to the amount each NMTC investor has invested in the Fund.

SmartFurniture, Inc.

One of the eight portfolio companies that the Southern Appalachian Fund has invested in is SmartFurniture, Inc., a furniture company that has a patented shelving product and is based in Chattanooga, Tennessee. The company designs and distributes its unique furniture products to customers in all 50 states and Canada. The company is headquartered in a SBA designated HUBZone in downtown Chattanooga in a census tract with more than 26 percent of the population living in poverty.

Photo: SmartFurniture, Inc.

The Southern Appalachian Fund invested in the company early on when the company's only employee was its owner and founder. Between 2004 and 2007, the Southern Appalachian Fund closed five investments with the company totaling $923,525. Of this total investment $157,000 or 17% was derived from NMTC investments the remaining $766,525 was derived from SBA debenture financing.

The investment of patient equity growth capital has enabled SmartFurniture, Inc. to leverage an additional $5.6 million in outside private capital which would not have otherwise been available to the company.

In addition, using the operational assistance grant funding provided by the SBA the Southern Appalachian Fund provided the company on site intensive assistance in managing its growth and development. The operational assistance provided to the company between 2004 and 2007 included assistance in product development and design, executive recruitment, market research and marketing, and website design and is valued at $218,051.

Photo: SmartFurniture, Inc.

The Southern Appalachian Fund investment and the capital it leveraged enabled the company to increase its annual gross revenue by more than 600 percent, from $393,668 in 2003 to $2.4 million in 2007. In addition, the investments enabled the company to expand from a single employee shop in 2004 to employing 37 individuals in 2007 with all employees enjoying full health benefits as well as retirement benefits.

Conclusion

What We Can Report

This year's survey response was the strongest yet with 84 respondents holding over 64 percent of dollar allocations for Rounds I-IV.

While the *Progress Report* survey sample varies from year to year there remain consistent identifiable trends. For 2008, as in our past reports, survey findings indicate CDEs issue QEIs in a timely fashion; CDEs offer patient flexible capital on concessionary terms to qualified businesses; financing of real estate, particularly with debt, is the most favored activity; and communities with multiple, high levels of indicators of distress are the principal targets of NMTC investments. However, this year's survey reveals several new findings of note:

- A substantial increase in CDEs making qualified investments in other CDEs. Our *2007 Progress Report* indicated a level of $123 million in this activity. For this report, survey respondents reported a level of $315 million. Of this amount, loans to other CDEs more than doubled – from $76 million to $183 million. A total of $83 million was used to make equity investments in other CDEs; the 2007 number was zero. The increased level of activity highlights the flexibility of the Credit in responding to market conditions and the potential of the Credit to make capital available through a variety of delivery systems all with the goal of getting appropriate financial products and services to economically distressed people and communities.
- NMTC capital is growing as CDEs are revolving their QLICIs back into their communities. As QLICIs are being paid back, CDEs are turning them around into new QLICIs and making new investments in their communities. An additional $300 million of redployment was reported in this year's survey.
- From last year, the number of QLICIs almost doubled from 1,324 to 2,532. In addition, the total value of QLICIs increased from $3.9 billion to $6.3 billion.
- Equity investments in non-real estate businesses jumped dramatically from $49.7 million reported in last year's report to $255 million this year (from 1 to 4 percent overall).

The program's momentum continues apace as allocatees effectively raise private capital, develop flexible financing products not otherwise available in the market, and invest in businesses and development projects in very poor communities.

The demand for Credits continues to be exceptionally strong. This competitive market has been an effective force in driving CDEs to provide products not otherwise available for financing businesses or development in low income communities. Further, this competitive market is taking a federal program that is already targeted to low income communities and driving it to serve the very poorest areas.

While there is no statutory or regulatory requirement that CDEs use NMTC financing to leverage additional capital to support the businesses they finance, both the survey and the

NMTC Stories from the Field reveal that CDEs are doing just that. The survey found that on average CDEs are financing just 40 percent of a total project's cost using NMTC financing and leveraging public and private financing sources to cover the remaining 60 percent of the project. Therefore the $6.3 billion reported in NMTC financing reported in this year's survey has generated more than $15 billion in additional financing in low income communities.

That said, it is important to note that some projects are totally dependent on NMTC financing to move forward and it is critical that CDEs have the flexibility to finance 100 percent of such a project. On the other end of the spectrum, CDEs can use the NMTC to finance a critical 10 percent capital gap that has prevented a project from closing and that too is a critical role for the NMTC. In fact, it is important to remember that the NMTC is itself a leveraging tool that CDEs use to attract capital to communities that have traditionally been overlooked by private investors.

Beyond the survey results, our analysis of recent CDFI Fund QEI reports validates the premise of the New Markets Tax Credit: that there are sound business opportunities in economically distressed urban and rural communities and a modest federal subsidy will be a sufficient incentive to spur private sector investment in those communities.

In fact, between Spring 2006-2008, CDEs raised some $6 billion in investment in low income communities through the New Markets Tax Credit. In a time of declining expenditures in federal community development grant programs, the investment of NMTC into low income urban neighborhoods and rural areas is proof of the importance of the Credit as a revitalization tool.

Further, the demand for the Credit has far exceeded the allocation amount. The total allocation amount through 2008 is $19.5 billion but demand for the Credit totaled $156 billion. The growing efficiency of the program in terms of the timeliness of investments, the low cost to the federal government, the types of communities receiving assistance and the ability of the Credit to put private sector capital to use in low income communities are all compelling reasons to approve a substantial increase in New Markets Tax Credit authority.

In addition to the Administration's support for a seamless continuation of the New Markets Tax Credit program through 2009, over 70 Members of Congress have sponsored legislation to extend the Credit for a full 5 years. All these indicators point to both the need and desire to expand the program and extend its length. The Credit is set to expire at the end of 2008 although legislative efforts are advancing to extend the Credit through 2009.

The time has come to build on these efforts and for the Congress and Administration to call for a substantial expansion of the New Markets Tax Credit program through 2014 with an annual $500 million increase in credit authority. Under this plan the credit would rise to a level of $6.5 billion in 2014 – each dollar invested costs the federal government only 39 cents — and is still far below the application demand of $21 billion in 2008.

The Coalition's annual NMTC Progress Reports are an important tool to make the compelling case for the extension of this vital program. This report coupled with the 2007

GAO report and transaction reports released by the CDFI Fund all point to the New Markets Tax Credit as a program that is fulfilling its mission – to attract private capital to low income communities that have been overlooked by traditional investor markets.[11]

This is a crucial year for the Credit as well as the New Markets Tax Credit Coalition. The success of the Coalition's work is directly tied to the good work of CDEs and investors and the impact of the Credit on low income communities across the country.

The Coalition will continue to report on the activity of the vibrant and growing New Markets industry and work to deepen support for the Credit in Washington, DC.

Information about the New Markets Tax Credit Extension Act of 2008 can be found in Appendix C (page 53) and additional information on the Coalition's efforts to support this legislation can be found on the New Markets Tax Credit Coalition's website (www.newmarketstaxcreditcoalition.org).

11 Government Accountability Office, *New Markets Tax Credit Appears to Increase Investment by Investors in Low-Income Communities, But Opportunities Exist to Better Monitor Compliance*, GAO-07-296 Tax Policy (Washington, DC: Jan. 31, 2007)

Appendices

Appendix A:

NMTC Survey of Round I, II, III & IV Allocatees

Part I. Basic Information

Name of Allocatee:____

Name of Parent/Controlling Entity:______________________________________

Allocatee Service Area – check all those that apply to allocations you have received:
__ Local
__ Statewide
__Multi-state
__National

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

If Allocatee Service Area is Statewide, please specify the state: _________________________

For all Rounds, if Allocatee Service Area is Multi-state or National, please list all the states in which you have at least one QLICI as of 12/31/2007:

____

____

Rounds Receiving Allocations:
__ Round I
__ Round II
__ Round III
__ Round IV

Contact Person and Title:____

Telephone:____

E-mail: ____

Would you like additional information about the NMTC Coalition?____Yes _____No

Are you willing to engage in a follow-up interview after completing this written survey?
____Yes _____No

NMTC Survey of Round I, II, III & IV Allocatees

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

		Round I	Round II	Round III	Round IV
13.	What is the total dollar amount of your NMTC Allocation award in Rounds I, II, III, and/or IV?	$	$	$	$
14.	What date did you sign your Allocation Agreement (mm/dd/yyyy)?				
15.	As of 12/31/07, what was the total dollar amount in QEIs your CDE had issued?	$	$	$	$
16.	As of 12/31/07, what was the total dollar amount in QEIs legally committed but not yet issued?	$	$	$	$
17.	What is the total dollar amount of ***additional*** QEIs you anticipate issuing by December 31, 2008? (This figure should reflect the total dollar amount of QEIs you anticipate issuing between 1/1/08 and 12/31/08.)	$	$	$	$

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

Regulated National Bank ____%
Regulated State or Regional Bank ____%
Regulated Local Community Bank ____%

Unregulated financial services firm
(e.g., GE Capital, Capmark Finance, Bear Stearns, etc.) ____%
Insurance company ____%
Venture capital fund ____%

Corporation (other than listed above) ____%
Individual ____%
*Other (please specify below) ____%

*Other: ______________________________

NMTC Survey of Round I, II, III & IV Allocatees

Part III: Deploying Qualified Low Income Community Investments (QLICIs)

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

- ❏ Less than one week
- ❏ One month or less
- ❏ 1-3 months
- ❏ 3-6 months
- ❏ More than 6 months
- ❏ *Other (please specify below)

*Other: ____

20. What are the flexible or non-traditional financing products offered most frequently by your CDE? Please check the top three.

- ❏ *Equity Investments*
- ❏ *Equity Equivalent* terms and conditions
- ❏ Debt w/equity features
  (e.g., debt w/royalties; debt w/warrants; convertible debt)
- ❏ Subordinated debt
- ❏ Below market interest rates
- ❏ Lower than standard origination fees
- ❏ Longer than standard period of interest only loan payments
- ❏ Higher than standard loan to value ratio
- ❏ Longer than standard amortization period
- ❏ More flexible borrower credit standards
- ❏ Non-traditional forms of collateral
- ❏ Lower than standard debt service coverage ratio
- ❏ Loan loss reserve requirements that are less than standard

NMTC Survey of Round I, II, III & IV Allocatees

Part IV: Deploying QLICIs – Rural, Minor Urban & Major Urban Areas[1]

Part IV. Instructions:
In this section, we are looking to get a sense of the total number of Qualified Low Income Community Investments (QLICIs) and dollar amount of those QLICIs you directed towards rural, major urban, and minor urban areas as of 12/31/2007.

By QLICI, we mean an individual transaction that could take 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.

	Round I	Round II	Round III	Round IV
21. As of 12/31/07, what was the total number of QLICIs that you deployed for each round?				
22. As of 12/31/07, what was the total dollar amount of QLICIs that you deployed for each round?	$	$	$	$
23. As of 12/31/07, what was the total number of QLICIs that you deployed to rural areas for each round?				
24. As of 12/31/07, what was the total number of QLICIs that you have deployed to major urban areas for each round?				
25. As of 12/31/07, what was the total number of QLICIs that you deployed to minor urban areas for each round?				
26. As of 12/31/07, what was the total dollar amount of QLICIs that you deployed to rural areas for each round?	$	$	$	$
27. As of 12/31/07, what was the total dollar amount of QLICIs that you deployed to major urban areas for each round?	$	$	$	$
28. As of 12/31/07, what was the total dollar amount of QLICIs that you deployed to minor urban areas for each round?	$	$	$	$

1 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.

NMTC Survey of Round I, II, III & IV Allocatees

Part V: Deploying QLICIs – Non-Real Estate & Real Estate Businesses[2]

Part V. Instructions:

In this section please indicate the types of Qualified Low Income Community Investments (QLICIs) that were made using your allocation(s) in Round I, II, III and/or IV in *non*-real estate and real estate businesses as of 12/31/2007. You will be asked about the total number of QLICIs and dollar amount of QLICIs (first for equity investments and then for loans further down on the page) for both non-real estate and real estate.

29. What % of total project was financed with NMTC vs. other sources of funding?

	Round I	Round II	Round III	Round IV
	Investments in non-real estate businesses			
30. Total *number* of equity investments in *non*-real estate businesses.				
31. Total *dollar* amount of equity investments in *non*-real estate businesses.	$	$	$	$
	Investments in real estate businesses			
32. Total *number* of equity investments in real estate businesses (and please break down by type below).				

Each project should be recorded only once. For example, if you list an investment here for a Mixed Use project, you should not also list it under Office Space.

The number of investments for each round in question 34 should add up to the total in question 33.

33. Retail				
Office Space				
Mixed Use				
Industrial/Mfg.				
For-Sale Housing				
Community Facility				
*Other (please specify in question 41)				

34. *Please specify "Other" equity investments from question 34: ______________________

35. Total *dollar* amount of equity investments in real estate businesses (please break down by type below).	$	$	$	$
Retail	$	$	$	$
Office Space	$	$	$	$
Mixed Use	$	$	$	$
Industrial/Mfg.	$	$	$	$
For-Sale Housing	$	$	$	$
Community Facility	$	$	$	$
Other	$	$	$	$

2 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.

NMTC Survey of Round I, II, III & IV Allocatees

	Round I	Round II	Round III	Round IV
	Loans to non-real estate businesses			
36. Total *number* of loans to *non*-real estate businesses.				
37. Total *dollar* amount of loans to *non*-real estate businesses.	$	$	$	$
	Loans to real estate businesses			
38. Total number of loans to real estate businesses (please specify below).				

Each project should be recorded only once. For example, if you list a loan here for a Mixed Use project, you should not also list it under Office Space.

The number of loans for each round in question 40 should add up to the total in question 39.

	Round I	Round II	Round III	Round IV
39. Retail				
Office Space				
Mixed Use				
Industrial/Mfg.				
For-Sale Housing				
Community Facility				
*Other				

40. *Please specify "Other" loans from question 40:______________________________

	Round I	Round II	Round III	Round IV
41. Total dollar amount of loans to real estate businesses (please break down by type below).	$	$	$	$
Retail	$	$	$	$
Office Space	$	$	$	$
Mixed Use	$	$	$	$
Industrial/Mfg.	$	$	$	$
For-Sale Housing	$	$	$	$
Community Facility	$	$	$	$
Other	$	$	$	$

NMTC Survey of Round I, II, III & IV Allocatees

Part VI: Deploying QLICIs — Other

Part VI. Instructions:
In this section, you will be asked about 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 12/31/2007.

	Round I	Round II	Round III	Round IV
	Investments in other CDEs			
42. Total number of equity investments in other CDEs.				
43. Total dollar amount of equity investments in other CDEs.	$	$	$	$
	Loans to other CDEs			
44. Total number of loans to other CDEs.				
45. Total dollar amount of loans to other CDEs.	$	$	$	$
	Loan purchases from other CDEs			
46. Total number of loan purchases from other CDEs.				
47. Total dollar amount of loan purchases from other CDEs.	$	$	$	$
	Financial counseling and other services			
48. Total number of financial counseling and other services provided.				
49. Total dollar amount of financial counseling and other services provided.	$	$	$	$

NMTC Survey of Round I, II, III & IV Allocatees

Part VII: Deploying QLICIs – Economically Distressed or Underserved Communities

	Round I	Round II	Round III	Round IV
50. As of 12/31/06, what was the **total number of QLICIs** that you made in each of the following classifications of economically distressed or underserved communities? *Note: The CDFI Fund's* Transaction Level Report *requires this documentation and we recognize that more than one category may be checked for a single transaction*. Please do not merely check the categories "yes" or "no" – again, the total number of transactions is needed.				
Poverty Rates >30%				
Median Incomes <60%				
Unemployment ≥ 1.5 times the national average				
Federally-designated EZ, EC, or RC SBA-designated HUBZones				
Brownfield redevelopment areas				
Areas encompassed by a HOPE VI redevelopment plan				
Federally-designated Native American, Alaskan Native area, Hawaiian Homelands, or Tribal area				
Area designated as distressed by the Appalachian Regional Commission or the Delta Regional Authority				
Colonias areas designated by HUD				
Federally-designated medically underserved areas				
CDFI Hot Zone				
Projects serving Targeted Populations				
High migration rural county				
USDA Champion Communities or Rural Economic Area Partnership Zones				
State or local tax increment financing districts, EZs or other locally designated areas of distress				
Counties for which FEMA has issued a "major disaster declaration" and determined the county eligible for both "individual and public assistance" provided that, with the exception of GO Zone, initial investment will be made within 18 months of disaster declaration				

51. What percentage of your total number of QLICIs was used to finance activities in one or more of the economically distressed areas identified above?	%	%	%	%

NMTC Survey of Round I, II, III & IV Allocatees

Part VIII: Pipeline of QLICIs

Part VIII. Instructions:
Please answer the following questions based on your current project pipeline and your experience to date in terms of deploying Qualified Low Income Community Investments (QLICIs). This question is designed to determine the demand for NMTC financing.

		Round I	Round II	Round III	Round IV
52.	What is the total number of transactions in your pipeline that you anticipate closing between 1/1/07 and 12/31/07?				
53.	What is the total dollar amount of transactions in your pipeline that you anticipate closing between 1/1/07 and 12/31/07?	$	$	$	$

Part IX: Describe a NMTC Project

Part IX. Instructions:
Please send to the NMTC Coalition a description (or descriptions) of a NMTC project (or projects) that you closed on or before 12/31/2007. The description should be a press release or a short project summary <u>that you have on hand.</u>

As with the Coalition's three previous reports, the *2008 Progress Report* will include "Stories from the Field" to highlight the ways the Credit is creating jobs and economic opportunities in underserved communities.

We are also continuing to expand our database of projects to use when advocating for the NMTC Program on Capitol Hill.

Please send all examples to Rapoza Associates at Rapoza@rapoza.org.

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 (PL 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	■ Corporate Tax Bill (HR 4520) 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 (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.

continued on page 52

2006	
March	■ The CDFI Fund announces plans to award the first $600 million in targeted Credits to CDEs working in qualified GO Zone communities
June	■ CDFI Fund awards $3.5 billion fourth-round allocations and $600 million in Credits for GO Zone
	■ IRS issues notice on Targeted Populations
Fall/Winter	■ Fourth-round allocation agreements signed
December	■ Tax Relief and Health Care Act (PL 109-432) including one-year reauthorization of NMTC and language targeting Credit to non-metro areas, signed into law
2007	
March	■ Fifth-round allocation applications submitted to CDFI Fund with $28 billion in demand for $3.5 billion in available allocations
	■ CDFI announces $7.7 billion in QEIs issued by first, second, and third-round allocatees
April	■ New Markets Tax Credit Extension Act of 2007 introduced in Congress (H.R. 2075, S. 1239)
October	■ The CDFI Fund awards $3.5 billion in fifth-round allocations and $400 million in credits for GO Zone
2008	
Winter	■ Fifth-round allocation agreements signed
February	■ President Bush calls for a one-year extension of the NMTC in his FY 2009 Budget
March	■ Sixth-round allocation applications submitted to CDFI Fund with $21 billion in demand for 3.5 billion in available allocations
May	■ CDFI Fund announces 10.3 billion in QEIs by Allocatees

Appendix C:
H.R. 2075, New Markets Tax Credit Extension Act of 2007

110TH CONGRESS
1ST SESSION

H. R. 2075

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

APRIL 30, 2007

Mr. NEAL of Massachusetts (for himself, Mr. LEWIS of Kentucky, Mr. MCDERMOTT, Mr. ENGLISH of Pennsylvania, Mrs. JONES of Ohio, Mr. RAMSTAD, Mr. BLUMENAUER, Ms. PRYCE of Ohio, Mr. JEFFERSON, Mr. BISHOP of Georgia, and Mr. LUCAS) 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 2007".

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 investments designated) is amended by striking "2006, 2007, and 2008" and inserting "each of calendar years 2006 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 2008, the dollar amount in paragraph (1)(D) 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 2007' 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) EFFECTIVE DATE.—The amendments made by this section shall take effect on the date of the enactment of this Act.

Appendix D: House of Representatives Dear Colleague Letter from Representatives Richard Neal (D-MA) and Ron Lewis (R-KY)

Congress of the United States
Washington, DC 20515

April 16, 2007

Dear Colleague:

Many of you are already aware of the successful track record of the New Markets Tax Credit (NMTC) over the last few years. Through fiscal year 2005, the NMTC has generated financing for the construction or rehabilitation of over 43 million square feet of real estate, and had helped to create or retain 72,000 construction jobs and 20,000 full time equivalent jobs in low-income community businesses. That is why we will soon be filing legislation to extend this successful tax credit and we hope you will join us.

Our bill will extend for five years the allocation authority, which is currently set to expire next year. The credit was last extended in December of 2006, but was first enacted in 2000 as part of the Community Renewal Tax Relief Act. The credit was designed to stimulate investment and economic growth in low-income urban neighborhoods and rural communities. Investors receive a seven-year, 39% federal tax credit for Qualified Equity Investments made through investment vehicles known as Community Development Entities (CDE). These CDEs use capital derived from the tax credits to make loans to or investments in businesses and projects in low-income areas.

A recent GAO report found that the program is very effective at increasing investment in low-income communities. The credit program is actually administered by the Department of Treasury through the Community Development Financial Institutions (CDFI) Fund. To date, NMTC investments in low income communities total over $7.7 billion. The tax credit has been used to support a wide variety of community and economic development initiatives including, among others, the financing of charter schools, health care facilities, manufacturing businesses, grocery-anchored retail centers, and numerous other commercial and mixed-use real estate projects.

If you would like to be an original cosponsor of this legislation, please contact Melissa Mueller (Rep. Neal) at 225-5522 or Eric Bergren (Rep. Lewis) at 225-3501.

Sincerely,

Richard Neal
Rep. Richard Neal

Ron Lewis
Rep. Ron Lewis

Appendix E:
Co-Sponsors of H.R. 2075 as of May 15, 2008

Representative Ron Lewis (R-KY)

Representative Jim McDermott (D-WA)

Representative Phil English (R-PA)

Representative Stephanie Tubbs Jones (D-OH)

Representative Jim Ramstad (R-MN)

Representative Earl Blumenauer (D-OR)

Representative Deborah Pryce (R-OH)

Representative William Jefferson (D-LA)

Representative Sanford Bishop (D-GA)

Representative Frank Lucas (R-OK)

Representative Artur Davis (D-AL)

Representative Christopher Shays (R-CT)

Representative John Lewis (D-GA)

Representative Michael Michaud (D-ME)

Representative Jerry Weller (R-IL)

Representative John McHugh (R-NY)

Representative Rahm Emanuel (D-IL)

Representative Robert Cramer (R-AL)

Representative Diane Watson (D-CA)

Representative Sue Wilkins Myrick (R-NC)

Representative Michael McCaul (R-TX)

Representative Jim Marshall (D-GA)

Representative Xavier Becerra (D-CA)

Representative Collin Peterson (D-MN)

Representative Jeff Fortenberry (R-NE)

Representative Allyson Schwartz (D-PA)

Representative Dale Kildee (D-MI)

Representative Richard Baker (R-LA)

Representative David Price (D-NC)

Representative Steve Chabot (R-OH)

Representative Joe Baca (D-CA)

Representative Zachary Space (D-OH)

Representative Thomas Allen (D-ME)

Representative David Wu (D-OR)

Representative Dan Boren (D-OK)

Representative Jerry McNerney (D-CA)

Representative Jean Schmidt (R-OH)

Representative Charles Wilson (D-OH)

Representative Tim Ryan (D-OH)

Representative Marcy Kaptur (D-OH)

Representative Michael Turner (R-OH)

Representative Steven LaTourette (R-OH)

Representative Betty Sutton (D-OH)

Representative Eleanor Holmes Norton (D-DC)

Representative Brian Higgins (D-NY)

Representative Tom Cole (R-OK)

Representative Mary Fallin (R-OK)

Appendix F:
S. 1239, New Markets Tax Credit Extension Act of 2007

II

110TH CONGRESS
1ST SESSION

S. 1239

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

IN THE SENATE OF THE UNITED STATES

APRIL 26, 2007

Mr. ROCKEFELLER (for himself, Ms. SNOWE, Mr. SCHUMER, Mr. KERRY, Mr. BINGAMAN, Ms. STABENOW, Mr. SMITH, Mr. BROWN, and Mrs. DOLE) 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 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 2007".

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 (re-

lating to national limitation on amount of investments designated) is amended by striking "2006, 2007, and 2008" and inserting "each of calendar years 2006 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 2008, the dollar amount in paragraph (1)(D) 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 2007' 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) EFFECTIVE DATE.—The amendments made by this section shall take effect on the date of the enactment of this Act.

Appendix G: Letter from Senators John D. Rockefeller, IV (D-WV) and Olympia J. Snowe (R-ME) to Senate Finance Committee Leadership

United States Senate
WASHINGTON, DC 20510

The Honorable Max Baucus
Chiarman
Committee on Finance
219 Dirksen Senate Office Building
Washington, D.C., 20510

The Honorable Chuck Grassley
Ranking Member
Committee on Finance
219 Dirksen Senate Office Building
Washington, D.C., 20510

Dear Mr. Chairman and Ranking Member:

We are writing to ask that you support authorizing a multi-year extension of the New Markets Tax Credit (NMTC). The NMTC has proven effective in putting private investment capital to work in some of our most economically distressed communities and we urge you to support its long term extension.

The NMTC was enacted in December 2000 as part of the Community Renewal Tax Relief Act and is designed to stimulate private investment and economic growth in low-income communities that are often overlooked by traditional investors. The NMTC attracts private sector investors to low income areas by offering a 39 percent federal tax credit over seven years for a qualified equity investment (QEI) made in a community development entity (CDE). The CDE in turn uses the capital derived from the Credit to make loans and investments in businesses and economic development projects in targeted communities

The CDFI Fund reports more than $8.3 billion has already been invested in low-income urban and rural communities thanks to the Credit. These investments have been used to finance a wide range of businesses and community economic development initiatives including manufacturing ventures, grocery-anchored retail centers, charter schools, health care facilities, and mixed-use real estate projects.

According to the CDFI Fund over 600 distinct investors, including local and national financial institutions as well as corporate investors, have already taken advantage of the NMTC. A recent GAO report on the NMTC found that the vast majority of investors would not have invested if not for the NMTC which indicates that the Credit is meeting its stated goal of attracting new investment to targeted low income communities.

Last December Congress extended the NMTC Program through 2008 as part of the Tax Relief and Health Care Act of 2006. Applications for the 2008 NMTC Allocation of $3.5 billion will be submitted to Treasury this winter and unless Congress votes to extend the Credit beyond 2008 that will be the final allocation and the NMTC initiative will come to an end.

We can not afford to lose this economic development tool that has proven to be so effective in revitalizing low income communities and we ask that you support a multi-year extension of the NMTC.

Sincerely,

Jay Rockefeller

Olympia J. Snowe

John F. Kerry

Orrin G. Hatch

Maria Cantwell

Ron Wyden

John Ensign

Robert Menendez

Appendix H: Co-Sponsors of S. 1239 as of May 15, 2008

Senator Olympia Snowe (R-ME)

Senator Charles Schumer (D-NY)

Senator John Kerry (D-MA)

Senator Jeff Bingaman (D-NM)

Senator Debbie Stabenow (D-MI)

Senator Gordon Smith (R-OR)

Senator Sherrod Brown (D-OH)

Senator Elizabeth Dole (R-NC)

Senator Mary Landrieu (D-LA)

Senator Norm Coleman (R-MN)

Senator Hillary Rodham Clinton (D-NY)

Senator Trent Lott (R-MS)

Senator Johnny Isakson (R-GA)

Senator Ken Salazar (D-CO)

Senator Richard Burr (R-NC)

Senator Joseph Lieberman (I-CT)

Senator Tim Johnson (D-SD)

Senator Maria Cantwell (D-WA)

Senator George Voinovich (R-OH)

Senator Mel Martinez (R-FL)

Senator Mark Pryor (D-AR)

Senator Edward Kennedy (D-MA)

Senator Barbara Boxer (D-CA)

Senator John Ensign (R-NV)

Senator Richard Durbin (D-IL)

Senator Ron Wyden (D-OR)

Senator James Inhofe (R-OK)

Appendix I:
H.R.6049, Energy and Tax Extenders Act of 2008 (Passed by the House on May 21, 2008)

HR 6049 IH

110th CONGRESS

2d Session

H. R. 6049

To amend the Internal Revenue Code of 1986 to provide incentives for energy production and conservation, to extend certain expiring provisions, to provide individual income tax relief, and for other purposes.

IN THE HOUSE OF REPRESENTATIVES

May 14, 2008

Mr. RANGEL (for himself, Mr. MCDERMOTT, Mr. LEWIS of Georgia, Mr. NEAL of Massachusetts, Mr. POMEROY, Mr. LARSON of Connecticut, Mr. BLUMENAUER, Mr. CROWLEY, Mr. VAN HOLLEN, Mr. MEEK of Florida, Mr. DAVIS of Alabama, Mr. ARCURI, Ms. GIFFORDS, Mr. HALL of New York, Mr. HODES, Mr. MCNERNEY, Ms. SHEA-PORTER, and Mr. WELCH of Vermont) introduced the following bill; which was referred to the Committee on Ways and Means

SEC. 223. NEW MARKETS TAX CREDIT.

Subparagraph (D) of section 45D(f)(1) is amended by striking `and 2008' and inserting `2008, and 2009'

REPORT LANGUAGE FROM HOUSE REPORT 110-658

3. Extend the new markets tax credit (Sec. 223 of the bill and sec. 45D of the Code)

PRESENT LAW

Section 45D provides a new markets tax credit for qualified equity investments made to acquire stock in a corporation, or a capital interest in a partnership, that is a qualified community development entity (`CDE').[114]

[Footnote] The amount of the credit allowable to the investor (either the original purchaser or a subsequent holder) is (1) a five-percent credit for the year in which the equity interest is purchased from the CDE and for each of the following two years, and (2) a six-percent credit for each of the following four years. The credit is determined by applying the applicable percentage (five or six percent) to the amount paid to the CDE for the investment at its original issue, and is available for a taxable year to the taxpayer who holds the qualified equity investment on the date of the initial investment or on the respective anniversary date that occurs during the taxable year. The credit is recaptured if at any time during the seven-year period that begins on the date of the original issue of the investment the entity ceases to be a qualified CDE, the proceeds of the investment cease to be used as required, or the equity investment is redeemed.

[Footnote 114: Section 45D was added by section 121(a) of the Community Renewal Tax Relief Act of 2000, Pub. L. No. 106-554 (2000).]

A qualified CDE is any domestic corporation or partnership: (1) whose primary mission is serving or providing investment capital for low-income communities or low-income persons; (2) that maintains accountability to residents of low-income communities by their representation on any governing board of or any advisory board to the CDE; and (3) that is certified by the Secretary as being a qualified CDE. A qualified equity investment means stock (other than nonqualified preferred stock) in a corporation or a capital interest in a partnership that is acquired directly from a CDE for cash, and includes an investment of a subsequent purchaser if such investment was a qualified equity investment in the hands of the prior holder. Substantially all of the investment proceeds must be used by the CDE to make qualified low-income community investments. For this purpose, qualified low-income community investments include: (1) capital or equity investments in, or loans to, qualified active low-income community businesses; (2) certain financial counseling and other services to businesses and residents in low-income communities; (3) the purchase from another CDE of any loan made by such entity that is a qualified low-income community investment; or (4) an equity investment in, or loan to, another CDE.

A `low-income community' is a population census tract with either (1) a poverty rate of at least 20 percent or (2) median family income which does not exceed 80 percent of the greater of metropolitan area median family income or statewide median family income (for a non-metropolitan census tract, does not exceed 80 percent of statewide median family income). In the case of a population census tract located within a high migration rural county, low-income is defined by reference to 85 percent (rather than 80 percent) of statewide median family income. For this purpose, a high migration rural county is any county that, during the 20-year period ending with the year in which the most recent census was conducted, has a net out-migration of inhabitants from the county of at least 10 percent of the population of the county at the beginning of such period.

The Secretary has the authority to designate `targeted populations' as low-income communities for purposes of the new markets tax credit. For this purpose, a `targeted population' is defined by reference to section 103(20) of the Riegle Community Development and Regulatory Improvement Act of 1994 (12 U.S.C. 4702(20)) to mean individuals, or an identifiable group of individuals, including an Indian tribe, who (A) are low-income persons; or (B) otherwise lack adequate access to loans or equity investments. Under such Act, `low-income' means (1) for a targeted population within a metropolitan area, less than 80 percent of the area median family income; and (2) for a targeted population within a non-metropolitan area, less than the greater of 80 percent of the area median family income or 80 percent of the statewide non-metropolitan area median family income.[115]

A qualified active low-income community business is defined as a business that satisfies, with respect to a taxable year, the following requirements: (1) at least 50 percent of the total gross income of the business is derived from the active conduct of trade or business activities in any low-income community; (2) a substantial portion of the tangible property of such business is used in a low-income community; (3) a substantial portion of the services performed for such business by its employees is performed in a low-income community; and (4) less than five percent of the average of the aggregate unadjusted bases of the property of such business is attributable to certain financial property or to certain collectibles.

[Footnote] is Under such Act, a targeted population is not required to be within any census tract. In addition, a population census tract with a population of less than 2,000 is treated as a low-income community for purposes of the credit if such tract is within an empowerment zone, the designation of which is in effect under section 1391, and is contiguous to one or more low-income communities.

[Footnote 115: 12 U.S.C. 4702(17) (defines `low-income' for purposes of 12 U.S.C. 4702(20)).]

The maximum annual amount of qualified equity investments is capped at $2.0 billion per year for calendar years 2004 and 2005, and at $3.5 billion per year for calendar years 2006, 2007, and 2008.

REASONS FOR CHANGE

The Committee believes that the new markets tax credit has proved to be an effective means of providing equity and other investments to benefit businesses in low income communities, and that it is appropriate to provide for the allocation of additional investments for another calendar year.

EXPLANATION OF PROVISION

The provision extends the new markets tax credit for one year, through 2009, permitting up to $3.5 billion in qualified equity investments for that calendar year.

EFFECTIVE DATE

The provision is effective on the date of enactment.

Appendix J:
S.2886, Alternative Minimum Tax and Extenders Tax Relief Act of 2008 (Introduced in Senate)

S 2886 IS

110th CONGRESS

2d Session

S. 2886

To amend the Internal Revenue Code of 1986 to amend certain expiring provisions.

IN THE SENATE OF THE UNITED STATES

April 17, 2008

Mr. BAUCUS (for himself, Mr. GRASSLEY, Mr. SALAZAR, Mr. SCHUMER, Ms. STABENOW, Mr. SMITH, Mr. CRAPO, Mr. ROCKEFELLER, Mr. KYL, and Ms. SNOWE) introduced the following bill; which was read twice and referred to the Committee on Finance

SEC. 302. NEW MARKETS TAX CREDIT.

Subparagraph (D) of section 45D(f)(1) (relating to national limitation on amount of investments designated) is amended by striking `and 2008' and inserting `2008, and 2009'.

New Markets Tax Credit Coalition
1250 Eye Street NW, Suite 902
Washington, DC 20005
(202) 204-4500
(202) 393-3034 fax
www.newmarketstaxcreditcoalition.org