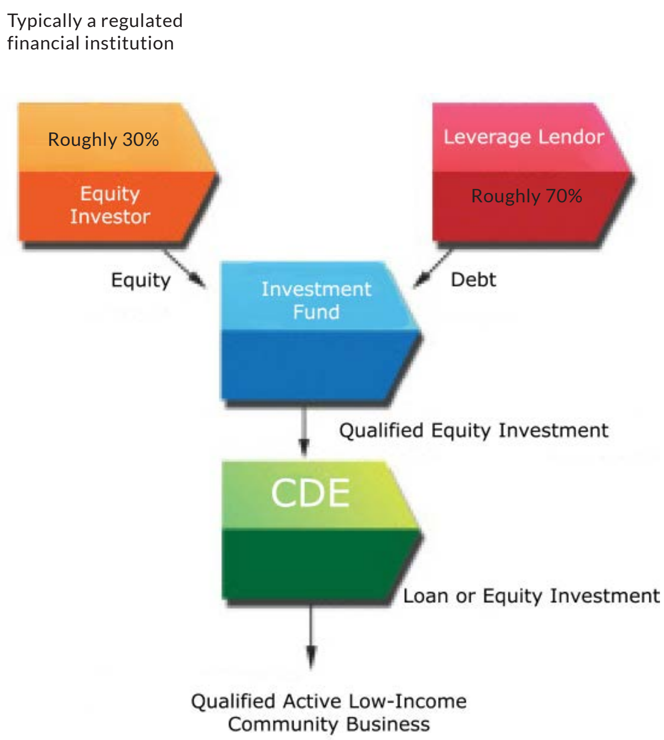
2019 NMTC Projects

INVESTOR TRENDS

THE LEVERAGE STRUCTURE

Nearly all NMTC investments involve the "leverage structure," which helps deliver more capital to qualified businesses than might be offered through a direct equity investment. In the leverage structure, an intermediary entity, typically called the "investment fund," structured as an LLC or partnership, can receive equity investments from NMTC investors (usually regulated financial institutions), as well as debt from other sources. All of the investment fund's proceeds (debt and equity) are then invested as a QEI into the CDE. In return, the CDE passes the federal tax credits to the Investment Fund (its QEI investor). In 2019, all qualified equity investments reported by survey respondents utilized the leverage structure.

When a CDE and a business work to finance an NMTC project through the leverage structure, they must secure an equity investor and sources of debt.



SOURCES OF EQUITY

Regulated financial institutions have historically provided a majority of the equity for NMTC transactions, and 2019 was no exception. Ninety-seven percent of equity investments into the investment fund came from regulated financial institutions. The balance came from corporations.

NMTC CREDIT PRICING

There is a limited amount of NMTC allocation available and investors must compete for NMTC projects. When NMTC investors pay a higher price in exchange for the Credit, more benefit flows to the low-income community business. The Coalition asked survey respondents to report the average price investors paid in exchange for the NMTC. The price paid by investors for NMTC in exchange for NMTCs ranged between 73 and 91 cents, with an average price of 83.2 cents, down a bit from last year (86.5 cents).

Investor Motivation

Returns for NMTC investors are modest. The following factors motivate investors:

1. Compliance with the Community Reinvestment Act (CRA). Most NMTC investors are private financial institutions and receive credit for investing in low-income census tracts, as defined by CRA*;
2. A low-risk, low return investment. NMTC investors typically receive an average annual after-tax return of between 3 and 5 percent over 7 years;
3. A commercial interest in moving into new communities that are eligible under NMTC;
4. Supporting existing customers and bolstering an under-performing market in the bank's footprint; and
5. Corporate Social Responsibility priorities.

*The Office of the Comptroller of Currency made major changes to CRA in 2020. For more, see page 13.