

Community Development Financial Institutions' (CDFIs) Participation in the New Markets Tax Credit (NMTC) Program

A CDFI Coalition Analysis of the First Four Rounds of New Markets Tax Credit Allocations

June 2006

On June 1, 2006, Treasury Secretary John Snow and CDFI Fund Director Art Garcia announced that 63 organizations had been selected to receive allocations of New Markets Tax Credits under the fourth round of the NMTC program. This year, 16 of the allocatees (or 25.4%) are certified CDFIs or affiliates of certified CDFIs. CDFIs received allocations totaling \$973 million (or 23.7%) of the \$4.1 billion in allocations available in 2006. The NMTC Program, administered by the CDFI Fund, provides tax credit allocations to Community Development Entities (CDEs) on a competitive basis. The CDFI Coalition is a strong proponent of the NMTC program and in assuring that CDFIs participate fully in utilizing this important community development tool.

Background

The New Markets Tax Credit program was enacted in December 2000 as part of the Community Renewal Tax Relief Act of 2000 (PL 106-554). The NMTC program provides \$15 billion in tax credits to investors who make qualified equity investments through Community Development Entities (CDEs). Certified by the CDFI Fund, CDEs are organizations with a primary mission of serving or providing investment capital to low-income communities. In addition, CDEs must demonstrate accountability to residents of low-income communities. CDEs apply to the Fund for awards of tax credit allocations, which they then pass on to investors. CDEs use the capital generated by the tax credit to make a range of qualified investments in low-income communities. The credit provided to the investor totals 39% of the cost of the investment and is claimed over a seven-year period.

In addition to the \$15 billion in tax credits authorized by the initial legislation, the Community Renewal Tax Relief Act of 2000, Congress added an additional \$1 billion in tax credits to the NMTC program in late 2005 in the wake of Hurricane Katrina. The legislation made \$300 million in tax credit allocations available in 2005, another \$300 million in 2006, and the remaining \$400 million in 2007. The CDFI Fund chose to incorporate the awarding of the new Katrina-related credits for 2005 and 2006 into the fourth round of NMTC allocations. The Fund released guidance and provided special consideration for application deadline extensions for applicants impacted by Hurricane Katrina.

**Participation of CDFIs and CDFI Affiliates in the First Four Rounds of
New Markets Tax Credit Allocations**

NMTC Round (Allocations Announced)	Total Number of Allocatees	Number of Allocatees that are CDFIs or CDFI affiliates	Percentage of Allocatees that are CDFIs or CDFI affiliates	Total Allocation (in \$billions)	Allocation to CDFIs or CDFI affiliates (in \$billions)	Percentage of Allocation going to CDFIs or CDFI affiliates (in dollars)
Round 1 (3/14/03)	66	27	40.91%	\$2.50	\$0.7565	30.26%
Round 2 (5/6/04)**	63	13	20.63%	\$3.50	\$0.523	14.94%
Round 3 (5/11/05)	41	11	26.83%	\$2.00	\$0.494	24.47%
Round 4 (6/1/06)	63	16	25.40%	\$4.10	\$0.973	23.73%
TOTALS	233	67	28.76%	\$12.10	\$2.7465	22.70%

** Round 2 encompassed FY 2003-2004.

Over the course of four rounds of allocations, a total of \$12.1 billion has been awarded to 233 Community Development Entities (CDEs). Of this total, 67 (or 28.76%) of the 233 CDE recipients of NMTC allocations have been CDFIs or CDFI affiliates. \$2.7465 billion (or 22.70%) of the \$12.1 billion NMTC allocations disbursed thus far have been made to certified CDFIs or affiliates of certified CDFIs.

Sixteen (or 25.40%) of the 63 allocatees in the fourth round were certified CDFIs or affiliates of certified CDFIs. The 16 certified CDFI allocatees accounted for \$973 million (or 23.73%) of the \$4.1 billion in tax credits allocated in the fourth round.¹

Thirteen CDEs received allocations under the additional \$600 million allocation provided for the Hurricane Katrina rebuilding. Two of the thirteen allocatees were CDFIs – Liberty Bank and Trust Company and Enterprise Corporation of the Delta.

¹ See appendix for profiles of the 16 Fourth Round CDFI NMTC allocatees.

CDFI NMTC Recipients of Additional Gulf Opportunity Zone Allocation Demonstrate the Capacity of CDFIs to Respond Effectively and Efficiently to Disasters

Following Hurricane Katrina, CDFIs were among the first financial institutions in the Gulf Region able to assist in the massive rebuilding effort. With their intimate knowledge of local communities, CDFIs were well positioned to respond. While numerous CDFIs in the region sustained damage from the storm, staff at CDFIs managed to salvage financial records and, in some cases, were forced to relocate offices elsewhere. In the face of adversity, CDFIs continued to serve the communities and customers included in their footprint before the storm.

When the additional \$600 million was made available for investments in the Gulf Opportunity (GO) Zones in the fourth round of NMTC allocation, two CDFIs – Liberty Bank and Trust Company and Enterprise Corporation of the Delta – were among the 13 CDEs receiving allocations as part of this special allocation.

Liberty Bank and Trust (LB&T) Company based in New Orleans is one of the five largest African-American owned financial institutions in the United States. Founded in 1972, LB&T has been a model community development bank providing access to products and services to underserved communities. For three decades, Liberty Bank and Trust has followed the motto, “Doing good, while doing well.”

LB&T provides banking services to the diverse New Orleans market, with particular focus on the African-American community. Liberty Bank received an allocation of NMTCs for use in the recovery and redevelopment of the Hurricane Katrina GO Zone. It will use its NMTC allocation to create the Greater New Orleans Renewal Fund, which will provide capital to real estate and non-real estate business affected by Hurricane Katrina. Rates and terms will be customized to meet individual business needs, and will include: interest rates that are significantly below market, higher than standard loan-to-value, longer amortization, and equity products.²

The Enterprise Corporation of the Delta (ECD) is a private, nonprofit CDFI that provides commercial financing, mortgage loans and technical assistance to support businesses, entrepreneurs, homebuyers and community development projects. ECD's mission is to strengthen communities, build assets and improve lives of people in economically distressed areas of Arkansas, Louisiana and Mississippi. Hope Community Credit Union is a subsidiary of ECD providing financial services and products to low- and moderate-income residents in the three state footprint of ECD. Enterprise Corporation of the Delta and the Hope Community Credit Union are helping to rebuild in areas affected by Hurricanes Rita and Katrina by providing an array of products and services to individuals, businesses and nonprofits in Federal designated assistance areas.³

ECD is offering special products tailored to the needs of the victims of Hurricane Katrina including Business Recovery Loans, and Consumer Recovery Products and Services. In addition to products for victims of the disaster, ECD has created a special fund, the Hurricane Katrina

² CDFI Fund Fourth Round (2005) NMTC Allocation Recipients By Organization, June 1, 2006. http://www.cdfifund.gov/docs/nmtc/2006/Profiles%20Document%20FINAL_alpha_.pdf

³ ECD, <http://www.ecd.org>

Relief Fund to collect donations to support their efforts in the region. For more information, please visit ECD's [website](#) or see the appendix to learn more about ECD's NMTC allocation.

CDFIs May Use the NMTC to Increase Their Community Impact Without Receiving an Allocation Directly

There are advantages to a CDFI of becoming certified as a Community Development Entity⁴ even if the CDFI has no intention of applying for a NMTC allocation. Certain NMTC allocatees are actively pursuing strategies to partner with CDFIs in many of their NMTC investments. CDEs, including CDFIs, may receive investments from or sell loans to for-profit CDEs with a NMTC credit allocation. CDFIs can be excellent sources of qualifying equity investments in targeted markets.

In the fourth round of the NMTC allocations, four NMTC recipients, Merrill Lynch Community Development Company, Chase New Markets Corporation, PNC Community Partners Inc., and Sovereign Community Development Company along with a host of other allocatees from previous rounds are pursuing strategies to deploy tax credits through the nationwide network of CDFIs. For more information about each of these four allocatees, please see Appendix B for each of the four profiles.

Conclusion

On September 29, 2005, Representative Ron Lewis (R-KY) introduced House Resolution 3957 and Senator Olympia Snowe (R-ME) introduced Senate Bill 1800 to provide reauthorization for the New Markets Tax Credit (NMTC) Program when the program expires in 2007. The reauthorization would extend the tax credit for another five years with approximately \$3.5 billion in tax credit allocations available in each of the next five years. The CDFI Coalition strongly supports passage of H.R. 3957 and S. 1800, the New Markets Tax Credit Reauthorization Act of 2005. CDFIs have every incentive to work with other CDEs and community development practitioners to urge Congress to extend and reauthorize the NMTC so it will remain a valuable tool for the community development finance industry.

By utilizing their specialized knowledge of local markets and community development needs, CDFIs have accomplished a great deal using the New Markets Tax Credit during the first several years of the program. The CDFI industry is well positioned to demonstrate a continued record of success during the last year of available NMTC allocations and beyond.

For more information, contact the CDFI Coalition at info@cdfi.org or 703-294-6970.

⁴ Entities already certified as a CDFI by the CDFI Fund may register on the CDFI Fund's website and automatically qualify as a Community Development Entity (CDE).

Appendix A

Profiles of the Fourth Round CDFI and CDFI Affiliate NMTC Allocatees⁵

Boston Community Capital Inc. (\$60,000,000) – Boston, MA

BCC will use its NMTC allocation to provide loans to support businesses and real estate development in low-income communities. This award will enable BCC to provide more flexible terms to borrowers, such as below market interest rates, lower origination fees, higher loan-to-value ratios, and longer interest-only loan payment periods; and continue to expand its lending to underserved communities throughout its national service area. BCC will use this additional equity to create programs that will (1) pioneer the use of NMTC credits to finance small businesses by reducing transaction costs, and (2) create a secondary market in small business loans in highly distressed areas.

Carver Community Development Corporation of Carver Federal Savings Bank (\$59,000,000) – New York, NY

Carver Community Development Corporation will use its NMTC Allocation to expand capital to businesses -- particularly non-profits and small, local and minority developers – that provide critical services to low-income communities throughout New York City's boroughs of Manhattan, Queens, the Bronx and Brooklyn. Carver CDC will offer products and services that are more favorable than market, including: construction loans up to 300 basis points below prevailing market rates and interest only payments from 12-36 months; predevelopment loans up to 650 basis points below prevailing market rates, and loans with up to 90% loan-to-value ratios on commercial and mixed-use property.

City First New Markets Fund II, LLC of CFBanc Corporation (\$90,000,000) – Washington, DC

City First will provide equity capital and loans to high-impact development projects that have the potential to be catalysts for change in the surrounding neighborhood. City First will focus primarily on using the NMTC program to support community facilities, although it will also finance retail, light industrial, mixed-use, office and similar commercial projects that have the potential to influence the character of a community. The NMTC program subsidy allows City First to finance projects with much more flexible terms, including lower down payments, lower interest rates, partial debt forgiveness, and/or long periods of interest-only payments.

The Clearinghouse CDFI (\$37,000,000) – Lake Forest, CA

Clearinghouse CDFI will make direct loans for commercial, industrial, and community facility projects, as well as direct loans and equity investments in real estate projects that create new affordable for-sale family housing. The NMTC allocation will allow Clearinghouse CDFI the ability to offer borrowers below-market interest rate loans and greater flexibility in underwriting standards. Interest rates for NMTC loans will generally be 200-500 basis points below what Clearinghouse CDFI typically offers. This NMTC allocation will enable Clearinghouse CDFI to target critically underserved markets and expand its lending programs throughout the State of California.

Coastal Enterprises, Inc. (\$120,000,000) – Wiscasset, ME

Coastal Enterprises, Inc. (CEI) will direct its NMTC loans and investments primarily to operating companies, (non-real estate for-profit and non-profit entities), providing flexible debt for rural, natural resource-based businesses; small and medium-sized enterprises needing less than \$2 million in capital; and high community-impact businesses with capital needs between \$2 million and \$20 million. The NMTC allocation will allow CEI to structure deals that make capital available at rates significantly below

⁵ CDFI Fund Fourth Round (2005) NMTC Allocation Recipients By Organization, June 1, 2006.
http://www.cdfifund.gov/docs/nmtc/2006/Profiles%20Document%20FINAL_alpha_.pdf

market, up to 400 basis points below prevailing rates, and on more flexible and favorable terms, such as substantial interest-only payment periods (often a full seven years), with loan amortizations that are much longer than standard, lower-than-standard cash flow coverage ratios, and higher-than-standard loan/value ratios. In addition, CEI will launch several small and medium enterprise revolving loan funds that will offer term debt in amounts of \$100,000 to \$2 million to help fund smaller projects.

Dakotas America, LLC of South Dakota Rural Enterprise, Inc. (\$50,000,000) – Sioux Falls, SD
Dakotas America, LLC will provide debt and equity capital to support emerging businesses in North Dakota and South Dakota in the energy, food/commodity processing, technology, retail service, health care and tourism sectors. Its service area includes regional Native American reservations, areas of extreme rural out-migration, EZ/EC communities, and low-income communities that exhibit some of the nation's most adverse economic conditions. The NMTCs may be used to create loans that offer significantly lower rates, and other more favorable terms such as higher loan-to-value ratios, unsecured status, lower solvency requirements, extended maturity or reduced payments, and "quasi-equity" characteristics in support of gap financing.

Empowerment Reinvestment Fund, LLC of Structured Employment Economic Development Corporation (\$40,000,000) – New York, NY

Empowerment Reinvestment Fund LLC (ERF) will use the New Markets Tax Credit Program to support: 1) large scale job creation; 2) small business development; and 3) institutions serving minority customers. The NMTC allocation will enable ERF to continue to expand the size and scope of its programmatic activity and to offer a broad array of flexible/nontraditional products, including: equity, equity-equivalents, debt with equity features, subordinated debt, below market interest rates, reduced or eliminated origination fees, higher loan-to-value ratios, lower debt service coverage ratios, longer interest-only periods, and longer amortizations.

Enterprise Corporation of the Delta (\$15,000,000) – Jackson, MS

The Enterprise Corporation of the Delta (ECD) received an allocation of tax credits to support the recovery and redevelopment of the Hurricane Katrina Gulf Opportunity (GO) Zone. ECD will concentrate its financing for permanent commercial mortgages to facilitate construction lending. Other uses of funds will include fixed assets and working capital. ECD will target specific sectors that will redevelop the infrastructure of the region, including healthcare, childcare and residential housing construction. The NMTC allocation will allow for reduced interest rates and longer term financing.

Liberty Bank and Trust Company (\$60,000,000) – Baton Rouge, LA

Liberty Bank and Trust provides banking services to the diverse New Orleans market, with particular focus on the African-American community. Liberty Bank received an allocation of NMTCs for use in the recovery and redevelopment of the Hurricane Katrina Gulf Opportunity (GO) Zone. It will use its NMTC allocation to create the Greater New Orleans Renewal Fund, which will provide capital to real estate and non-real estate business affected by Hurricane Katrina. Rates and terms will be customized to meet individual business needs, and will include: interest rates that are significantly below market, higher than standard loan-to-value, longer amortization, and equity products.

Local Initiatives Support Corporation (\$140,000,000) – New York, NY

Local Initiatives Support Corporation (LISC) has a national service area consisting of the communities served by its 33 local offices and rural program. LISC expects to use nearly all of its NMTC allocation to make loans and investments that finance office, retail, and mixed-use real-estate developments, as well as community facilities such as charter schools. LISC intends to offer loans in its program areas with interest rates from 200 to 500 basis points below market rates with amortization schedules of 25 years or more. LISC also intends to provide equity on more favorable terms than those available from private market sources.

Massachusetts Housing Investment Corporation (\$90,000,000) – Boston, MA

The Massachusetts Housing Investment Corporation (MHIC), a certified CDFI, will use this NMTC allocation to providing financing to support commercial real estate acquisition and development and to spur revitalization of the state’s most distressed, low-income communities. The NMTC allocation enables MHIC to offer interest-only construction and permanent first mortgage loans, zero to 5% interest-only subordinate loans, and equity investments that represent up to 25% of total project costs (40% when combined with Historic Tax Credits). Eligible projects will include community centers, office and retail space, theatres and performing arts centers, public markets, community health centers, artist studios and gallery space, light industrial/small business centers as well as other projects.

Midwest Minnesota Community Development Corporation (\$80,000) – Detroit Lakes, MN

Midwest Minnesota Community Development Corporation (MMCDC) will provide loan capital for rural value-added agricultural projects, sustainable energy projects, the commercialization of new technologies, and smart growth development projects of office and retail space. It is anticipated that 75% of the allocation will be provided in rural Minnesota, where low cost capital is critical to value-added agricultural products. The NMTC allocation will allow MMCDC to provide loan capital with flexible and below market rates and terms, including: seven-year interest-only payment periods, subordinated debt, lower origination fees (less than 1%), significantly reduced interest rates, and loan to value ratios of 95% or more.

Nonprofit Finance Fund (\$20,000,000) – New York, NY

The Nonprofit Finance Fund (NFF) serves small- and medium-size nonprofits with a variety of financial products through its seven regional offices across the country. Dedicated exclusively to nonprofits, NFF's borrowers provide much needed services in Low Income Communities, including childcare, senior care, education, health care and recreation. NFF will use its NMTC allocation to create a new product, an equity equivalent financial instrument that will help nonprofit clients to develop a range of facilities projects priced significantly below market. This equity component will enable nonprofits to complete the financing for their projects more quickly and with a more stable financial underpinning.

Northside Community Development Fund (\$2,000,000) – Pittsburgh, PA

The Northside Community Development Fund (Northside Fund) will use its NMTC allocation to capitalize a new line of business: housing development financing to address the unique credit needs of qualifying small businesses engaged in the production of for-sale housing. The Northside Fund will provide debt and equity at below-market rates to fuel the development of new and renovated homes within Pittsburgh’s Northside neighborhood. The NMTC allocation will enable the Northside Fund to: 1) attract real estate businesses into the distressed, urban community; 2) leverage \$28 million for the development of for-sale housing; 3) produce a cost savings of \$10,000 for each homebuyer by reducing financing costs; and, 4) attract new residents and stabilize the population of an urban community which lost over 12% of its population, and experienced a 32% increase in housing vacancies, between 1990 and 2000.

The Reinvestment Fund, Inc. (\$75,000,000) – Philadelphia, PA

The Reinvestment Fund (TRF) is a non-profit CDFI serving Pennsylvania, Delaware, New Jersey and Maryland. TRF will utilize the NMTC allocation in three niches: select charter schools in the Mid-Atlantic region, supermarkets in underserved areas of Pennsylvania, and other eligible commercial real estate developments across in its Mid-Atlantic service area. It will provide combination of flexible debt and below market rate equity. Its products will include such features as no origination fees, 100% loan to value products for non-profits (and 90% loan to value products for other borrowers), and leasehold and subordinate collateral positions.

Shorebank Enterprise Pacific (\$35,000,000) – Ilwaco, WA

ShoreBank Enterprise Pacific's (SEP) business strategy is to provide flexible, low cost investments in larger amounts than it has historically as (1) subordinate loans to businesses, and (2) subordinate debt and equity to commercial, industrial, brownfield, home ownership and community facility real estate projects. Investments will be targeted to select rural natural resource dependent communities in Oregon and Washington experiencing severe economic distress. Maximum investment amounts will increase from \$750M to \$3MM. The NMTC allocation will enable SEP to offer subordinated debt; interest rates that are 25-50% lower than market-rate offerings; and other more flexible terms.

Appendix B

Profiles of Additional Fourth Round NMTC Allocatees Utilizing CDFIs to Deploy NMTC Credits⁶

Chase New Markets Corporation of JP Morgan Chase & Co. (\$50,000,000) – New York, NY

Chase New Markets Corporation (CNMC) received an allocation of NMTCs for use in the recovery and redevelopment of the Hurricane Katrina Gulf Opportunity (GO) Zone. CNMC will use its allocation to provide subordinated and senior debt products to small and middle market businesses, commercial real estate ventures, community-based facilities, and CDFIs/CDEs. The NMTC Allocation will enable CNMC to offer products with a variety of more flexible and non-traditional terms and conditions, including: subordinated debt and senior debt with interest rates up to 250 bps below standard for businesses and real estate development and up to 500 bps below standard for CDFIs and CDEs; lower origination fees; longer interest only periods and amortizations; higher loan to value ratios; lower debt service coverage ratios, and more flexible credit standards.

Merrill Lynch Community Development Company of Merrill Lynch Bank USA (\$93,000,000) – New York, NY

The Merrill Lynch Community Development Company (MLCDC) will use its NMTC Allocation to provide low-cost, flexible financing to CDFIs and other mission-driven CDEs. The MLCDC will: 1) provide equity investments and senior and subordinated loan products; 2) purchase loan portfolios; and 3) offer technical expertise and financial structuring. The NMTC allocation will enable MLCDC to provide long-term risk capital in the form of equity or debt with equity features, make loans at interest rates significantly below market rates and with reduced up-front fees, and develop products with relaxed underwriting standards.

PNC Community Partners Inc. of PNC Bank (\$75,000,000) – Pittsburgh, PA

PNC Community Partners, Inc. (PNCCPI) will make loans and investments to finance commercial real estate, charter school facilities, early child-care facilities, for-sale housing, and CDFI-type organizations and projects. Loans will be structured with innovative terms and underwriting standards not otherwise available under normal market conditions, such as below market interest rates of up to 400 basis points less than its controlling entity offers, loan to value ratios as high as 90%, debt service coverage ratios as low as 1.10 to 1, amortizations schedules greater than 20 years, and interest only periods of up to 7 years.

Sovereign Community Development Company of Sovereign Bank (\$94,000,000) – Reading, PA

The Sovereign Community Development Company (SCDC) will focus its NMTC investments on business, real estate (mixed-use, office, industrial, retail, historic, and community facilities) borrowers, and CDFIs with CDE designations. The allocation will allow SCDC to make investments in the forms of loans with more flexible terms and conditions, including reduced interest rates of 200 to 400 basis points below market; debt coverage ratio floors of as low as 1.10; loan-to-value limits of as high as 90%; no origination fees, and more flexible credit standards such as lower credit scoring thresholds. SCDC has also designed a product to extend the benefits of the NMTC beyond the seven year compliance period.

⁶ CDFI Fund Fourth Round (2005) NMTC Allocation Recipients By Organization, June 1, 2006. http://www.cdfifund.gov/docs/nmtc/2006/Profiles%20Document%20FINAL_alpha_.pdf