



Community Development Financial Institutions (CDFI) Fund

**2010 NMTC Program and Application
Overview
May 4, 2010**





NMTC Presentation Roadmap

- **Overview of CDFI Fund Programs & Initiatives**
- **Overview of NMTC Program**
- **Applying for CDE Certification**
- **Applying for NMTC Allocations**
- **Prior NMTC Award Information**
- **Contact Information**



CDFI Fund Overview

- Created in 1994
- The mission of the CDFI Fund is to expand the capacity of financial institutions to provide credit, capital, and financial services to underserved populations and communities in the United States.



CDFI Fund Overview

The CDFI Fund achieves its mission by directly investing in and supporting Community Development Financial Institutions (CDFIs), Community Development Entities (CDEs), and other financial institutions through the following programs and initiatives:

- **New Markets Tax Credit Program**
- **Bank Enterprise Award Program**
- **CDFI Program**
- **Capital Magnet Fund Program**
- **Native Initiatives**
- **Financial Education and Counseling Pilot**



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NMTC Program Overview

Enacted on 12/21/2000; Part of the Community Renewal Tax Relief Act of 2000

| | | | |
|--------------|---------------------|-----|-----------------------------|
| 2002 | \$2.5 billion | ☐ → | Includes 2001 Round |
| 2003 | \$1.5 billion | ☐ → | Combined for 2004 Round |
| 2004 | \$2 billion | | |
| 2005 | \$2 billion | | |
| 2006 | \$3.5 billion | | + \$600 million GO Zone |
| 2007 | \$3.5 billion | | + \$400 million GO Zone |
| 2008 | \$3.5 billion | | +\$1.5 billion Recovery Act |
| 2009 | \$3.5 billion | | +\$1.5 billion Recovery Act |
| 2010 | <u> ?</u> | | |
| TOTAL | \$26 billion | | |

Unallocated investment authority may be carried over from year to year through 2014.



NMTC Program Overview

- Provides a credit against Federal income taxes for investors that make Qualified Equity Investments (QEIs) into Community Development Entities (CDEs)
- CDEs are a domestic corporation or partnership that is an intermediary vehicle for the provision of loans, investments or financial counseling in “Low-Income Communities” (LICs).
- CDEs use the proceeds of QEIs to make Qualified Low-Income Community Investments (QLICIs)
- QLICIs include, among other things, investments in businesses and real estate projects in low-income communities



Credit Amount

- The credit is taken over a 7-year period
- The credit rate is:
 - 5% of the original investment amount in each of the first three years
 - 6% of the original investment amount in each of the final four years
- Equals 39% of amount of original investment amount



Example

The Fund awards an allocation of \$1 million to a CDE. The CDE offers the tax credit to a single investor in exchange for a \$1 million equity investment. How much can the investor claim as a credit on its Federal taxes?

- Years 1-3 Tax Credit at 5% Value \$50,000 per year
- Years 4-7 Tax Credit at 6% Value \$60,000 per year
- **TOTAL VALUE OVER 7 YEARS.....\$390,000**



What is a “Low Income Community?”

- “Low-Income Communities” (LICs) are census tracts:
- With at least 20% poverty rate; *or*
- Where the median family income does not exceed 80% of the area median family income; *or*
- That have a population of less than 2,000, are contained within a Federally designated Empowerment Zone, and are contiguous to at least one other LIC; *or*
- Where the median family income does not exceed 85% of the area median family income, provided the census tract is located in a high migration rural county.



Low Income Communities (cont'd)

Projects not located within LICs, but that otherwise serve *Targeted Populations*, may also qualify for NMTC investments.

Targeted Populations include:

1. Low-Income Persons, to the extent the project is located in a census tract with a median family income at or below 120% of the applicable area median family income; or
2. For Gulf Opportunity (GO) Zone allocations, individuals that have been displaced from their homes and/or have lost their principal source of employment in the wake of Hurricane Katrina.

Refer to IRS and CDFI Fund guidance for additional details.



Qualified Equity Investment (QEI)

- An equity investment in a CDE by an investor – either stock in a corporation or a capital interest in a partnership - in exchange for NMTCS.
- The equity investment must be acquired by the investor at its original issue solely in exchange for cash
- The equity investment must meet the substantially-all requirement
- The equity investment must be designated by the CDE; and
- QEIs must remain invested in the CDE during a **7-year** credit period - investors claim credits as of the date a QEI is initially made.



Timing of Investments

- CDEs must offer NMTCs to investors within **5 years** of receiving an allocation.
- **“Substantially all”** of the QEI proceeds must be invested in QLICs within 12 months.
 - Years 1-6: Substantially All = 85% of amount paid by investor at original issue. Generally, returns of equity, capital or principal must be reinvested within 12 months.
 - Year 7: Substantially All = 75%. Reinvestment is not required in the final year of the 7-year credit period.
- * *At all times, 5% of the original QEI issue amount may be used for certain reserves by the CDE and count towards meeting the substantially-all requirement.*



Recapture

NMTCs may be recaptured from investors during the 7-year credit period if:

- The QEI fails the “**Substantially all**” requirement
 - w failure to invest 85% as allowed; or
 - w failure to meet QALICB requirements; or
 - w failure to meet one-year investment requirement
- The CDE ceases to qualify as a CDE
- The CDE redeems the investment

** It is not an event of recapture if a CDE files for bankruptcy. An investor may continue to claim NMTCs.*



Qualified Low-Income Community Investment (QLICIs) include:

- Any capital or equity investment in, or loan to, any “Qualified Active Low-Income Community Business” (QALICB)
- Purchase of a loan from another CDE if the loan is a QLICI
- Any equity investment in, or loan to, any CDE
- “Financial Counseling and Other Services” (FCOS) to businesses located in, or residents of, LICs



Qualified Active Low-Income Community Business (QALICB) examples:

- An operating business located in a LIC
- A business that develops or rehabilitates commercial, industrial, retail and mixed-use real estate projects in a LIC
- A business that develops or rehabilitates community facilities, such as charter schools or health care centers, in a LIC
- A business that develops or rehabilitates for-sale housing units located in LICs



Qualified Active Low-Income Community Business (QALICB) Requirements

- At least 50% of the total **gross income** is from the active conduct of a qualified business in Low-Income Communities (LICs); and
- At least 40% of the **use of tangible property** of the business is within LICs; and
- At least 40% of the **services performed** by the business' employees are performed in LICs.



Qualified Active Low-Income Community Business (QALICB) Requirements (con't)

- Less than 5% of the average of the aggregate unadjusted bases of the property is attributable to **collectibles** (e.g., art and antiques), other than those held for sale in the ordinary course of business (e.g., inventory); and
- Less than 5% of the average of the aggregate unadjusted bases of the property is attributable to **non-qualified financial property** (e.g., debt instruments with a term in excess of 18 months).



Purchasing Loans from Other CDEs

CDEs may purchase loans – but **not** investments – from other CDEs if:

- The purchased loans were originated by an entity that was a CDE at the time the loan was sold; and
- The loans qualified as QLICIs at **either** the time the loan was:
 - Originated; or
 - Purchased by the allocated CDE



Financial Counseling and Other Services (FCOS)

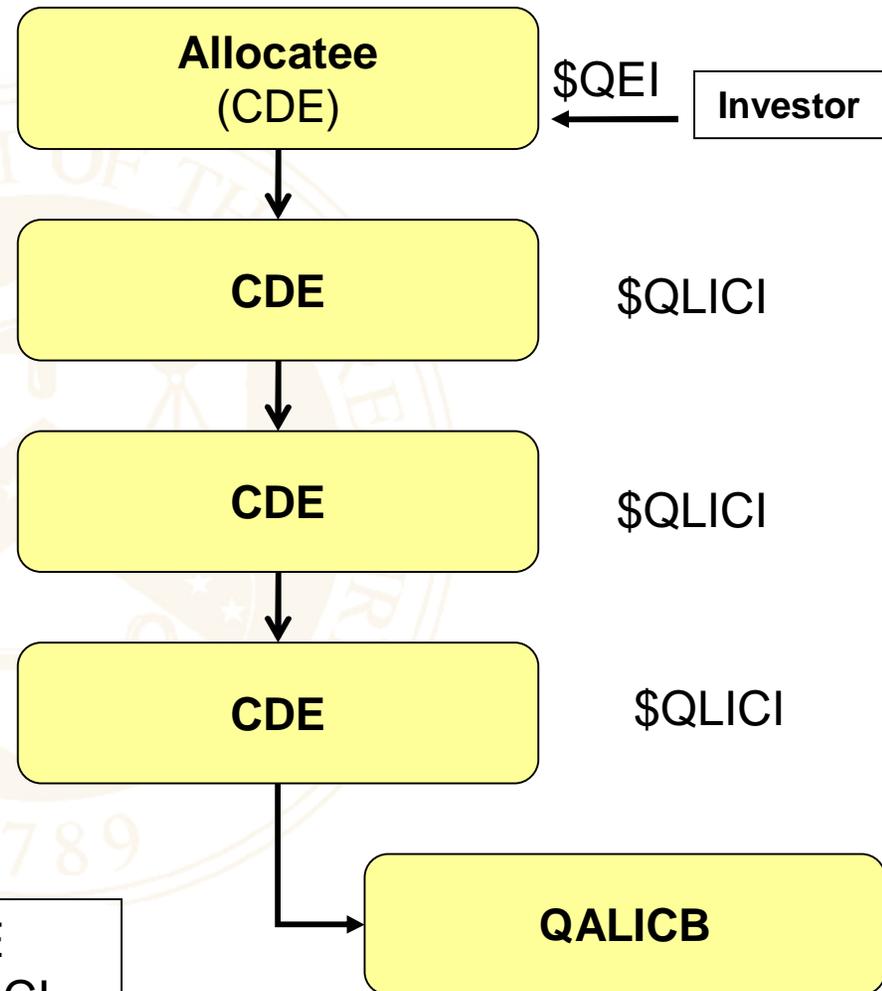
FCOS is “advice provided by the CDE relating to the organization or operation of a trade or business.”

- **Possible FCOS activities:**
 - Business plan development
 - Assistance with business financials
 - Operating assistance to not-for-profit organizations



Investing in Other CDEs

- Investments may be made through multiple layers of CDEs (i.e., up to 4 CDEs)
- The last CDE recipient needs to demonstrate that it used those dollars to:
 - Make loans to or investments in QALICBs; and/or
 - Provide FCOS to businesses or residents of LICs



All time limits must be met as if the CDE with the allocation directly made the QLICI.

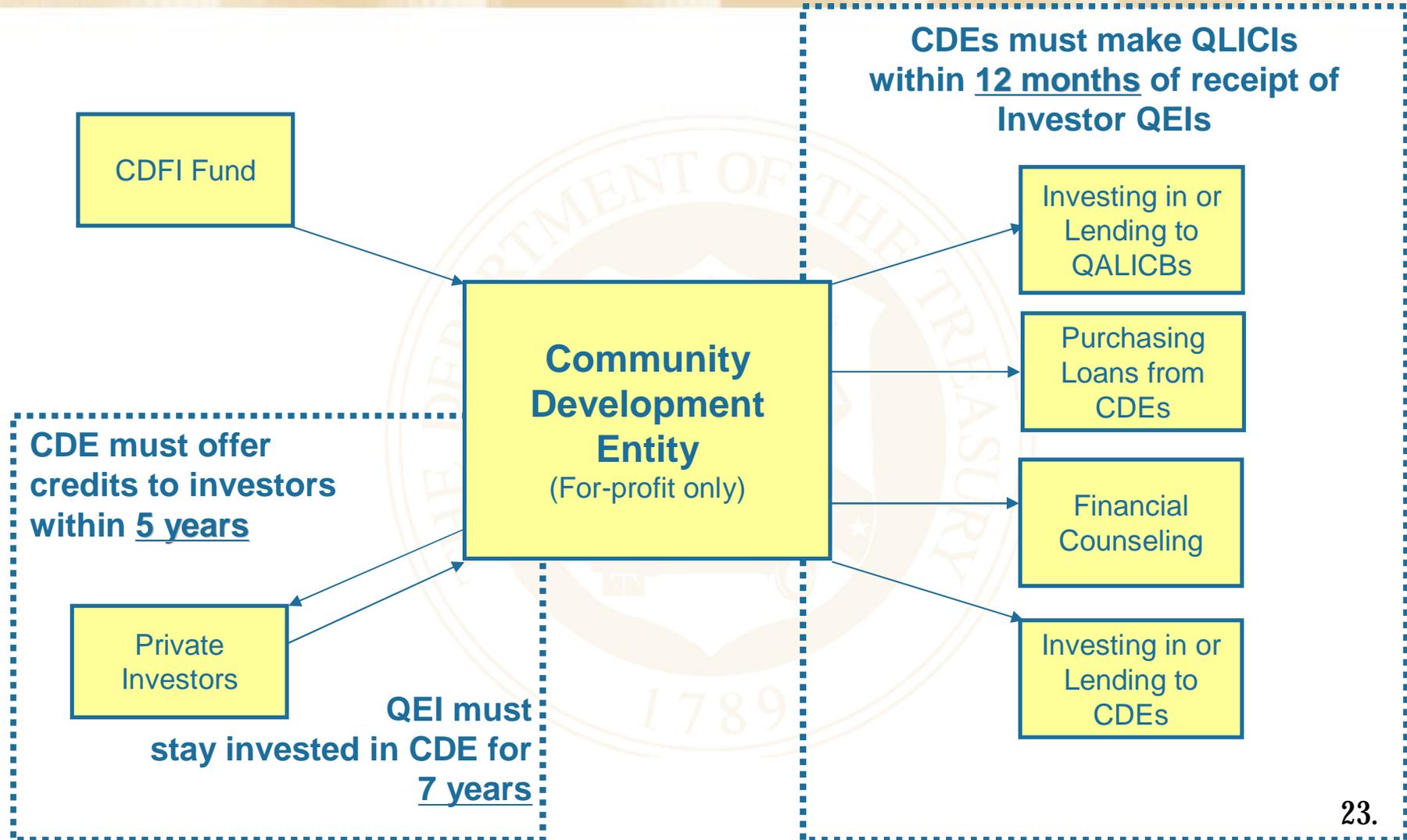


Ineligible Activities

- Residential rental property:
 - Buildings or structures which derive 80% or more of its gross rental income from renting dwelling units
- Certain types of businesses:
 - **Golf courses**
 - **Race tracks**
 - **Gambling facilities**
 - **Certain farming businesses**
 - **Country clubs**
 - **Massage Parlors**
 - **Hot tub facilities**
 - **Suntan facilities**
 - **Stores where the principal business is the sale of alcoholic beverages for consumption off premises**
- Refer to IRS regulations for additional details



Summary Graphic





NMTC Presentation Roadmap

- Overview of CDFI Fund Programs & Initiatives
- Overview of NMTC Program
- **Process Overview & Applying for CDE Certification**
- Applying for NMTC Allocations
- Prior NMTC Award Information
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Process Overview

- **Step 1:** Entities apply to the Fund for CDE certification.
- **Step 2:** Entities apply competitively to the CDFI Fund for a NMTC allocation.
- **Step 3:** The CDFI Fund selects CDEs to receive NMTC allocations.
- **Step 4:** CDEs enter into an Allocation Agreement with the CDFI Fund.
- **Step 5:** CDEs offer NMTCs to investors for cash.
- **Step 6:** CDEs use proceeds to make “Qualifying Low-Income Community Investments” (QLICIs).



Why Apply to Become a Certified CDE?

- For-profit CDEs may raise capital by offering tax credits to investors.
- All CDEs (including not-for-profits) are eligible to receive loans and investments from or sell loans to CDEs that have been issued tax credit allocations by the CDFI Fund.



Timeframe to Apply for CDE Designation

- Generally, CDE applications are accepted on a rolling basis.
- Any entity not yet certified as a CDE that intends to apply for an allocation of NMTCs in the 2010 round must submit a CDE certification application that is:

Postmarked on or before April 26, 2010



Certified CDFIs and SSBICs

- Automatically qualify for CDE certification
- May register as CDEs electronically at www.cdfifund.gov
- To apply for an allocation of NMTCs under the 2010 round, CDFIs/SSBICs must register as CDEs **by April 26, 2010.**
- Affiliates and subsidiaries of CDFIs and SSBICs
 - Do not automatically qualify as CDEs
 - Must complete a CDE Certification Application



CDE Certification Criteria

- **Legal Entity**— Be incorporated or formed as a domestic corporation or partnership for federal tax purposes;
 - § The entity must have a valid and distinct EIN (Employer Identification Number)
- **Primary Mission**— Serving a LIC or Low-Income People
- **Accountability**— CDE is accountable to LICs in the service area



Primary Mission Criteria

Step 1:

Provide organizational documents evidencing an appropriate primary mission. Such organizational documents may include:

ü Bylaws

ü Articles of incorporation or organization

ü Partnership agreements

ü Board resolutions



Primary Mission Criteria (cont'd)

Step 2:

Submit “Certification of Authorized Representative” demonstrating that at least 60% of products and services are and will continue to be directed to:

- Low-Income Persons (LIPs)
- Low-Income Communities (LICs) or
- Organizations serving LIPs or LICs.



Accountability Criteria

Step 1:

Identify a service area.

- ü Local (e.g., city; county; metropolitan area; Indian Reservation)
- ü Statewide or territory-wide
- ü Multi-state
- ü National



Accountability Criteria

Step 2:

Complete the “Accountability Tables” to:

- demonstrate that 20% of the members of **either** the governing board **or** advisory board(s) represent LICs in the service area

Applicants using multiple advisory boards must complete information for each advisory board.



Accountability Criteria (cont'd)

Step 2 (cont'd):

Applicant CDEs fulfilling accountability through an advisory board will need to provide a narrative indicating:

- How advisory board members are selected;
- How often the advisory board convenes;
- How it solicits feedback from the community; and
- How it impacts the actions of the governing body.



Who is Representative of LICs?

A board member must either:

- Reside in a LIC in the service area; or
- Represent the interests of residents of LICs in the service area

Examples of representation include:

- A small business owner whose business is located in a LIC in the service area
- An employee or board officer of a community-based or charitable organization primarily serving LICs in the service area
- An employee of a governmental agency that principally provides services benefiting LICs



Who is not Representative of LICs?

Board members who are principals or staff members of the Applicant CDE, its affiliated entities or its investors cannot be deemed representative of LICs.

Board members that are also on the board of an affiliate may be representative of LICs, if:

- The board members are not principals or staff members of the Applicant CDE, its affiliated entities or its investors; and
- The board members can be deemed representative of LICs through means other than their association with the affiliated entity.



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2010 Round Deadlines

| | Date |
|--|------------------------------|
| Release of NOAA and application materials | <u>April 7, 2010</u> |
| CDE Certification Applications must be postmarked on or before | <u>April 26, 2010</u> |
| Last day to contact the CDFI Fund | <u>May 31, 2010</u> |
| Online Submission of Allocation Application on or before 5:00 pm ET | <u>June 2, 2010</u> |
| Attachments must be uploaded on or before 5:00 pm ET | <u>June 4, 2010</u> |
| Date by which prior-year allocatees must issue the requisite percentage of QEIs | <u>July 21, 2010</u> |

Additional details are addressed in NOAA



Who Can Apply for NMTC Allocations?

- Both for-profit and not-for-profit entities may apply.
- In its Allocation Application, a not-for-profit applicant must discuss its strategy to:
 - Form at least one for-profit subsidiary
 - Transfer its entire allocation to for-profit subsidiaries



Preparing for the Online Application

- Register as a user through myCDFI Fund
- Ensure you have sufficient internet access
- Familiarize yourself with the paper application
- Start constructing your responses in MS Word or other word processing software
- **Give yourself plenty of time to submit.**

Application deadline: June 2, 2010 @ 5:00 PM ET



Review Criteria

- Maximum of 110 points
- Four sections of 25 points each:
 - Business Strategy
 - Community Impact
 - Capitalization Strategy
 - Management Capacity

Applicants may earn an additional 10 “priority” points



Priority Points

“Priority” points given under Business Strategy section to:

- 1) Applicants with a **track record** of having successfully provided capital or technical assistance to disadvantaged businesses or communities-may earn up to 5 priority points



Priority Points- Related Entities

2) Applicants that commit to use “substantially all” of their QEI proceeds to make investments in one or more businesses in which persons unrelated to the Applicant hold the majority equity interest may earn 5 priority points.

**Whether a QALICB is related to a CDE is determined under IRC Sections 267(b) and 707(b)(1).*

**Additional information provided in the Application Q&A*



Business Strategy

To score favorably, an Applicant must demonstrate:

- that its products and services are significantly more flexible or non-traditional than industry standards
- an excellent track record (including serving LICs) of providing products and services similar to those it intends to deploy with QEI proceeds
- a strong pipeline of proposed projects
- that the NMTCs will add significant value to the proposed products and services



Business Strategy: Tips

- Deploy debt or equity capital, or offer products and services which:
 - Are designed to meet the needs of underserved markets
 - Focus on customers or partners that typically lack access to conventional sources of capital
- Applicants without a track record can reference the track record of an identified Controlling Entity.
- Projected activities are best discussed with appropriate details, including examples.
- Projected deployment levels should be consistent with the applicant's track record and proposed pipeline of transactions.



Community Impact

To score favorably, an Applicant must demonstrate:

- ü A high percentage of its QLICIs will be made in areas of higher economic distress
- ü The ability to identify QLICIs in particularly distressed or underserved communities
- ü The ability to achieve selected community development outcomes
- ü Commitment to finance projects that result in affordable housing (if applicable)
- ü The ability to track projected outcomes
- ü Activities that will catalyze other non-NMTC investments in the low-income communities



Community Impact: Tips

- Provide at least 75% of QLICIs to severely economically distressed areas.
- Articulate how the Applicant has actively engaged and fostered partnerships or collaborative efforts with LIC stakeholders
- Select and describe outcome measures for which the Applicant has experience tracking
- Discuss how data will be collected going forward.



Management Capacity

To score favorably, an Applicant must articulate its management team's past experiences, as well as its anticipated duties and responsibilities, in the following areas:

- Deploying capital in LICs
- Asset management & program compliance
- Managing the addition of NMTC activities
- Obtaining meaningful feedback from community representatives
- Ability to operate *successfully* as a going concern



Capitalization Strategy

To score favorably, an Applicant must demonstrate

- ü A track record of raising capital close to the requested allocation amount – particularly at market or near-market terms
- ü It has secured QEI commitments from equity and non-equity investors, or has a strong fundraising strategy for doing so
- ü It can issue QEIs in the near term
- ü The economic benefits of NMTC will be passed through to borrowers and investees
- ü It intends to deploy more than 85% of its QEI proceeds into QLICIs
- ü Compensation and profits (e.g. QEI proceeds, fees, interest rate spreads etc.) are below market or well-justified



Selection Process

Peer Review

External reviewers evaluate and score applications.

During Panel the CDFI Fund will review past transactions from Prior Allocatees.

Panel Review

Applications that meet minimum scoring thresholds in each of the four major application sections are sent to a CDFI Fund panel for consideration.

Adjustments may be made to the final pool to ensure proportional representation from CDEs serving Non-Metropolitan Counties.

Selection of Applicants

Selecting Official makes final determinations based upon panel recommendations.



Non-Metropolitan Counties

- The CDFI Fund will ensure proportional allocation of QLICIs in Non-Metropolitan Counties:
 - The proportion of awardees that are Rural CDEs is equal to the proportion of applicants in the Phase 2 review pool that are Rural CDEs.
 - At least 20 percent of QLICIs made using QEI proceeds are invested in Non-Metropolitan Counties.
- Rural CDEs:
 - Historically dedicated at least 50 percent of activities to Non-Metropolitan Counties; and
 - Commit at least 50 percent of NMTC activities will be conducted in Non-Metropolitan Counties.

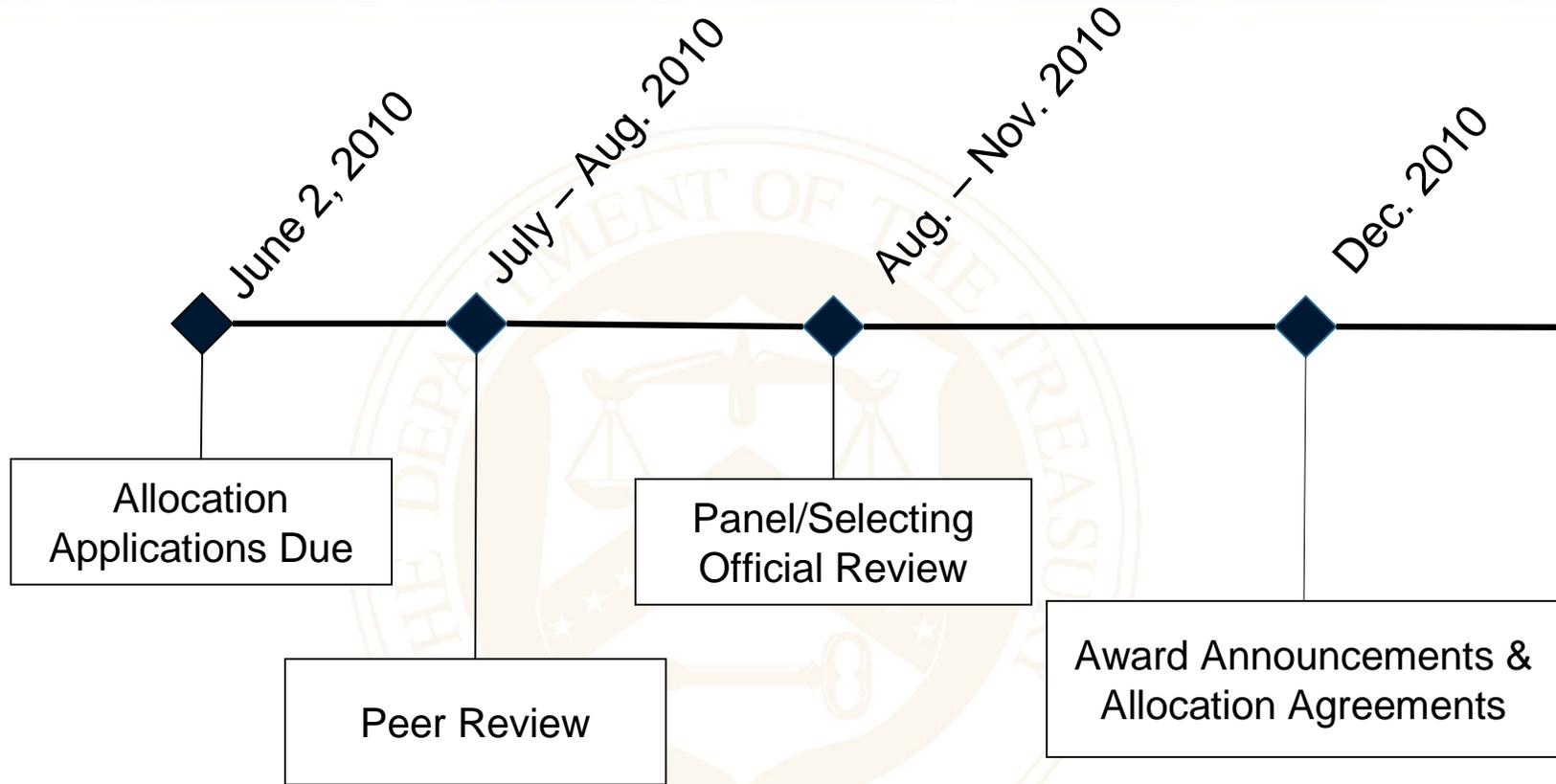


Non-Metropolitan Counties (Cont'd)

- Applicants will establish minimum and maximum percentage of total NMTC activity in Non-Metropolitan Counties.
- There will be no adjustments or alterations made during the Peer Review or Panel Review process.
- Adjustments may be made after the applicants are initially selected for awards. Specifically, the CDFI Fund will review the distribution of awards and awardees to determine whether:
 - (i) Additional “Rural CDEs” need to be added to the awardee pool, to ensure a proportional representation from Rural CDEs; and/or
 - (ii) Awardees will be required to meet an amount higher than their minimum projected level of investments in Non-Metropolitan Counties, to ensure that at least 20 percent of QLICIs are invested in such counties.



Review Process Timeline





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Activities to Date

- Over \$15.2 billion in QEIs made into CDEs that received awards between CY2002-CY2008.
- Through 2008, CDEs have reported making over \$12.7 billion of NMTC loans and investments.
- These investments have financed:
 - **small and large businesses**
 - **for-sale housing**
 - **retail shopping**
 - **manufacturing**
 - **community facilities**
 - **alternative energy co.**

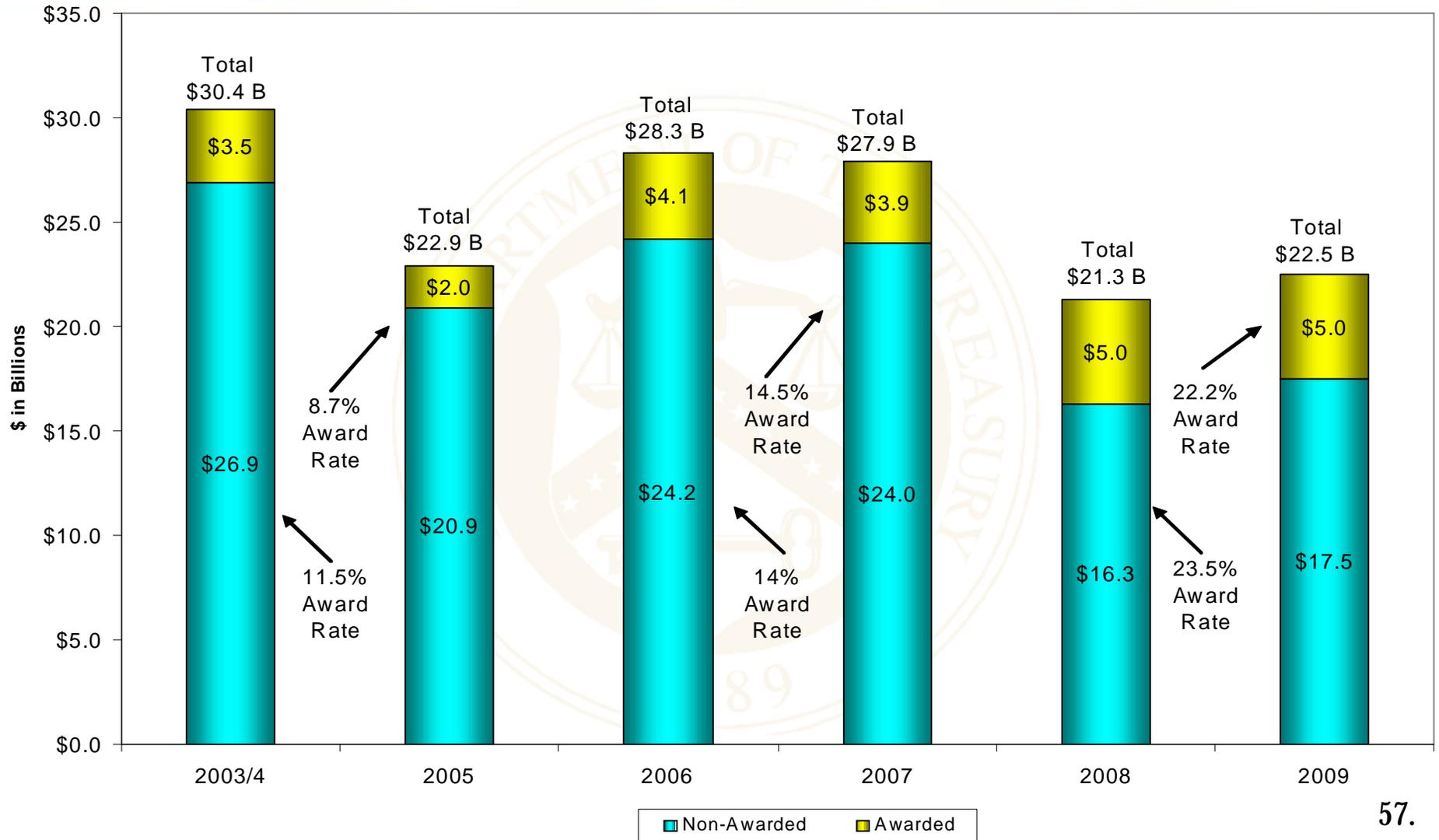


Awards to Date

- The Fund has certified approximately 4,203 entities as CDEs.
- In allocation calendar year rounds CY2002-CY2008, the CDFI Fund received 1,816 applications for allocation of NMTCs.
- These entities collectively requested nearly \$179 billion in allocation authority.
- The CDFI Fund has made 495 awards totaling \$26 billion in allocation authority.



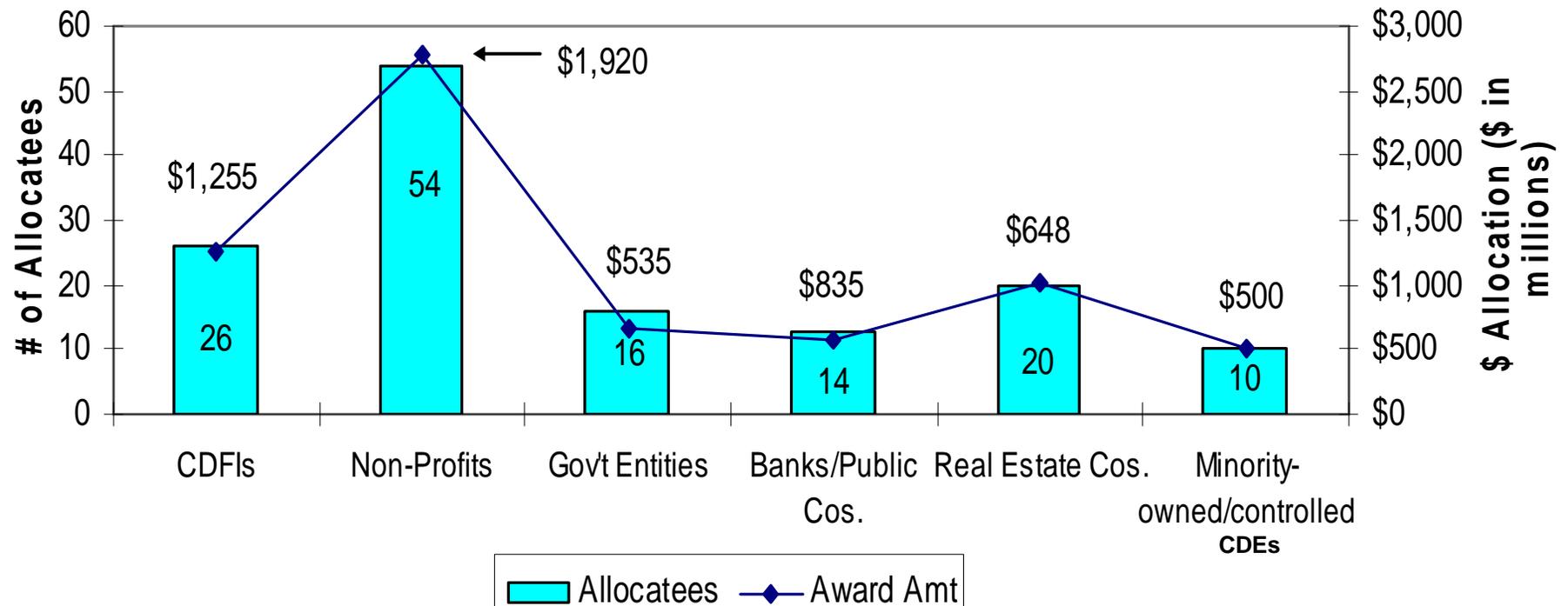
\$ Requested / \$ Awarded / Award Rates





2009 Round Allocatees*

Allocation by Entity Type

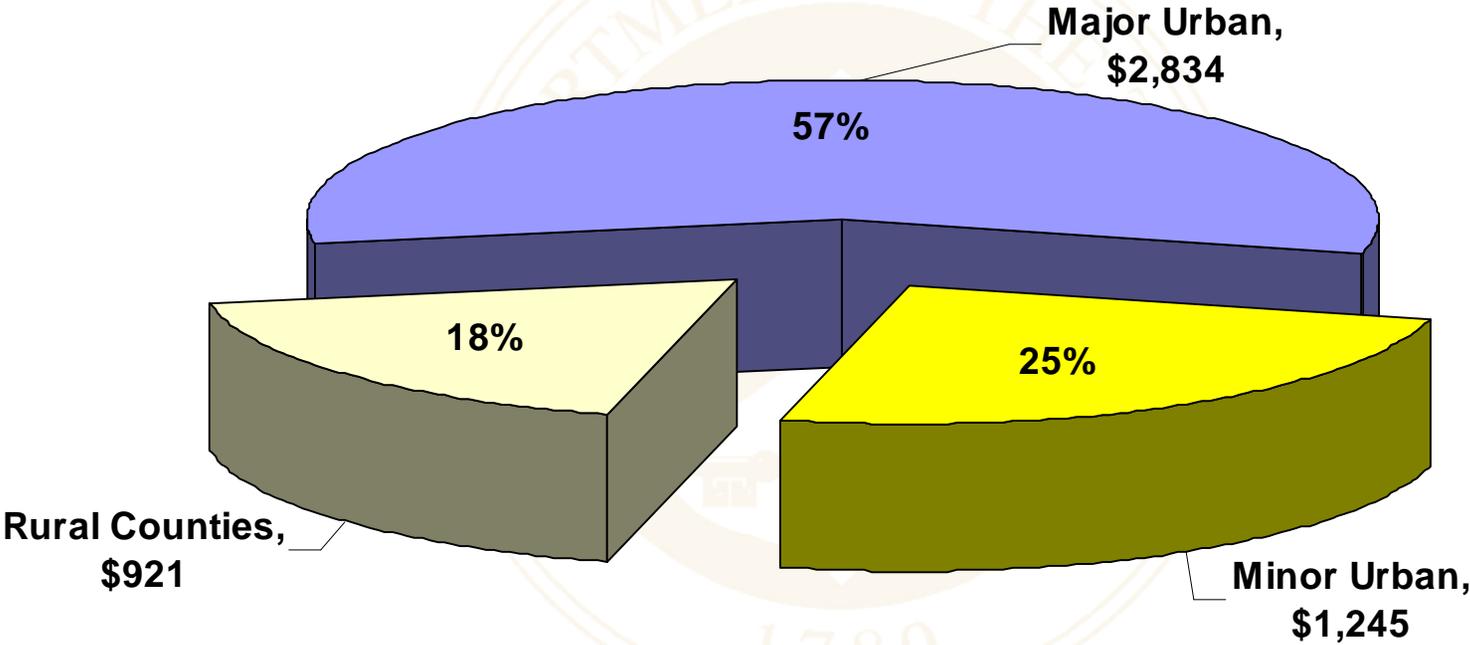


- Note that the number of allocatees represented in the chart above does not total 99, since some allocatees are classified in more than one entity type category (e.g. some CDFIs are also counted as not-for-profits) and some allocatees do not fall under any of the categories identified.



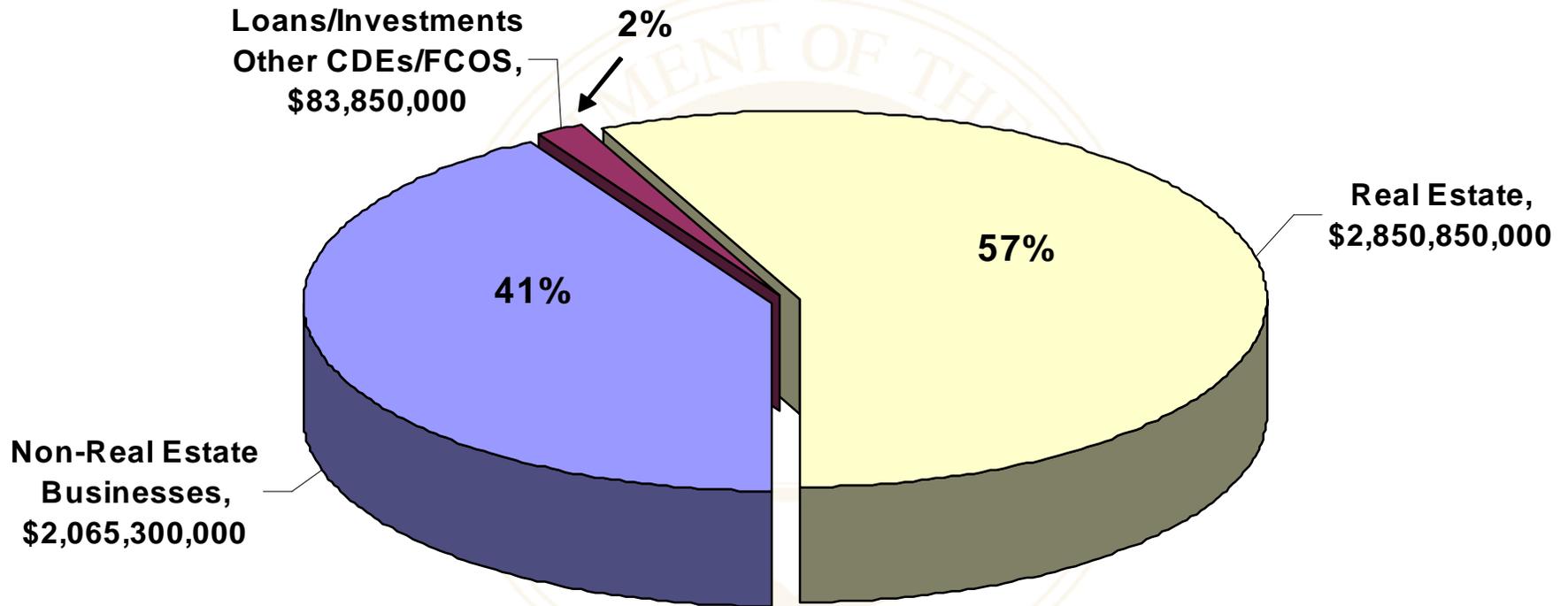
Markets Served (2009 Allocatees)

Investment Target Area
(in millions)





Projected Investment by Category 2009 Allocates





Other Facts About 2009 Allocatees

- All 99 of the allocatees committed to offering preferential rates and terms.
- 96 of the 99 allocatees indicated that 100% of their investment dollars would be made either in the form of equity, or in the form of debt that is at least 50% below market and/or is characterized by multiple concessionary features.
- 96 of the allocatees indicated that they would invest at least 95 percent of QEI dollars into qualified low-income community investments.
 - In real dollars, at least \$630 million above and beyond what is minimally required by the NMTC Program will be invested in low-income communities.



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Contact Information

Visit the CDFI Fund's website at www.cdfifund.gov

Contact the CDFI Fund directly:

Program Support

Ph: (202) 622-6355 (option 3)

Fax: (202) 622-7754

Email: cdfihelp@cdfi.treas.gov

IT Support

Ph: (202) 622-2455

Email: ithelpdesk@cdfi.treas.gov

Contact IRS at new.market.tax.credit@irs.gov

For questions about:

IRS Regulations, Eligibility of possible QLICI activities and Other tax implications of the program