U.S. Department of Treasury
New Markets Tax Credit (NMTC) Program
Minority CDE Training & Technical Assistance
Contract # TFSACDF15C0004

U.S. DEPARTMENT OF TREASURY
NEW MARKETS TAX CREDIT (NMTC) PROGRAM

Minority CDE Training & Technical Assistance Program
Training Outline

1. Module 1: Program Overview: Getting Us All on the Same Page
2. Module 2: Community Outcomes: The Reason We are Here
3. Module 3: Strategic Planning for the CDE/Allocatee
4. Module 4: Underwriting a NMTC Project – for Leverage Lender and Allocatee
5. Module 5: Pipeline
6. Module 6: Management and Staffing of the CDE
7. Module 7: Portfolio and Asset Management
8. Module 8: Financial Results: The CDE, the Investor, the Leverage Lender; wrap-up discussion of what the NMTC Program means for the participants.
### Agenda

#### Thursday, March 16th/17th, 2017

<table>
<thead>
<tr>
<th>Time</th>
<th>Session Topics</th>
<th>Facilitator(s)</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>7:30 AM</td>
<td>Continental Breakfast and Registration</td>
<td>NCIF</td>
<td></td>
</tr>
<tr>
<td>8:20 AM</td>
<td>Group Introductions</td>
<td>NCIF</td>
<td></td>
</tr>
<tr>
<td>8:20 AM</td>
<td>CDFI Fund Opening Remarks: Introduction of the Training and Technical Assistance Initiative</td>
<td>CDFI Fund + NCIF</td>
<td></td>
</tr>
<tr>
<td>9:00 AM</td>
<td>Training and Technical Assistance Initiative</td>
<td></td>
<td></td>
</tr>
<tr>
<td>9:00 AM</td>
<td>Topic: Module 1 Program Overview</td>
<td>RJ</td>
<td></td>
</tr>
<tr>
<td>9:45 AM</td>
<td>Break</td>
<td></td>
<td></td>
</tr>
<tr>
<td>10:00 AM</td>
<td>Topic: Module 2 Community Outcomes</td>
<td>RJ</td>
<td></td>
</tr>
<tr>
<td>11:15 AM</td>
<td>Topic: Module 3 Strategic Planning for the CDE /Allocate</td>
<td>KW</td>
<td></td>
</tr>
<tr>
<td>12:30 PM</td>
<td>Lunch and Discussion: NMTC Program Update From CDFI Fund</td>
<td>SD</td>
<td></td>
</tr>
<tr>
<td>1:30 PM</td>
<td>Topic: Module 4 Underwriting a NMTC Project - for Leverage Lenders and Allocators</td>
<td>SD</td>
<td></td>
</tr>
</tbody>
</table>

| 2:45 PM  | Topic: Module 5 NISTC Pipeline        | RJ             |       |
| 3:45 PM  |                                      |                |       |
| 4:05 PM  | Topic: Module 6 Management and Staffing of the CDE | KW         |       |
| 5:05 PM  |                                      |                |       |
| 5:15 PM  | Closing Remarks Day 1                 | NCIF           |       |
| 6:00 PM  | Networking Reception Hosted by NCIF for Participants at a Minority Owned Operated Restaurant |                |       |

#### Friday, March 17th/24th, 2017

<table>
<thead>
<tr>
<th>Time</th>
<th>Session Topics</th>
<th>Facilitator(s)</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>7:30 AM</td>
<td>Continental Breakfast and Networking</td>
<td></td>
<td></td>
</tr>
<tr>
<td>8:15 AM</td>
<td>Group Reflection on Day 1</td>
<td>NCIF</td>
<td></td>
</tr>
<tr>
<td>8:45 AM</td>
<td>Topic: Module 7 Portfolio and Asset Management</td>
<td>KW</td>
<td></td>
</tr>
<tr>
<td>10:00 AM</td>
<td>Topic: Module 8 Financial Results: The CDFI, the Investor, the Leverage Lenders: Wrap up discussion of what the NMTC program means</td>
<td>NCIF + KW/RJ/SD</td>
<td></td>
</tr>
<tr>
<td>12:00 PM</td>
<td>Complete Training Evaluations</td>
<td>NCIF</td>
<td></td>
</tr>
<tr>
<td>12:30 PM</td>
<td>Closing Remarks</td>
<td>NCIF + CDFI Fund</td>
<td></td>
</tr>
<tr>
<td>1:00 PM</td>
<td>TO GO Lunches</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

**END OF TRAINING**
U.S. Department of Treasury
New Markets Tax Credit (NMTC) Program
Minority CDE Training & Technical Assistance
Contract # TFSACDF15C0004

TRAINING CURRICULUM

Module 1
Module #1

Program Overview:
Getting Us All On the Same Page

**Goal:** Quick overview of NMTC program history, oversight, key players, terminology, and methods.
History of the NMTC Program

The NMTC program was created in late 2000 in the Community Renewal Tax Relief Act of 2000. The bipartisan act was introduced by Rep. Bill Archer (R-TX) with support of House Speaker Dennis Hastert (R-IL) and President Bill Clinton.
What Is the NMTC Program?

Federal Tax Credit to incentivize private sector investment capital into Low Income Communities (LICs) to help achieve quantifiable community outcomes:

- Provides access to capital in Low-Income Communities.
- Creates community outcomes in Low-Income Communities (monitored by the CDFI Fund as part of a competitive process).
- Federal Government foregoes tax revenue to channel investment capital to achieve program goals.
- The competitive NMTC Application process continues to result in quality community outcomes.
Key Events

- The first NMTC Application Round was launched in June 2002 when the Treasury Department issued the proposed regulations for the NMTC program through the IRS, along with the release of the first Notice of Allocation Availability (NOAA).


- Other notable events include clarification of targeted populations, proportionality between metropolitan and rural counties, additional allocation authority in response to national disasters, and a catch-up year resulting in $7 billion in allocations in 2016.
Government Agency Roles

- **CDFI Fund**
  - Co-administers the NMTC Program with the IRS
  - CDFI Fund's mission is to expand economic opportunity for underserved people and communities by supporting the growth and capacity of a national network of community development lenders, investors, and financial service providers.
  - CDFI Fund Director is Annie Donovan; NMTC Program Manager is Bob Ibanez.

- **Internal Revenue Service**
  - Investments must comply with regulations outlined in Section 45D of the Internal Revenue Code.
The Other Players

- NMTC Investor
- Leverage Lender
- Community Development Entity (CDE)
- Secondary CDE (if utilized)
- Qualified Active Low-Income Community Businesses
- Low-Income Community Representatives
Key Terms

- Community Development Entity (CDE)
- Substantially All (Sub-All)
- Qualified Equity Investments (QEI)
- Qualified Low-Income Community Investments (QLICI)
- Qualified Active Low-Income Community Businesses (QALICB)
- Low-Income Community (LIC)
- Financial Counseling and Other Services (FCOS)
- Subsidiary Community Development Entity (Sub-CDE)
How NMTCs Work

- NMTCs provide a credit against Federal income taxes for investors that make Qualified Equity Investments (QEIs) in certified financial intermediaries called Community Development Entities (CDEs).

- CDEs, in turn, use the proceeds of these QEIs to make Qualified Low-Income Community Investments (QLICIs), such as business loans, in Low-Income Communities into Qualified Active Low Income Businesses (QALICBs).
Example of an Unleveraged Structure

First round was launched in 2002, based on a simple model of a single tax credit investor investing cash in a CDE:

Max 15% Load equals $1.5mm:
- Start-up and org. costs
- Asset management
- Offering Costs
Max 5% Loan Loss Reserves equals $0.5mm

$3.9mm NMTC
Annual Interest Payments

QEI - $10mm Equity
Certification of CDE
Allocation of NMTCs

CDFI Fund (Dept. of Treasury)

QLICI - $8mm loan or equity

CDE

NMTC Investor

QALICB

Annual Interest Payments
Program Users Brought Innovation

While the first model is sometimes used, most NMTC transactions now use a “leverage lender” model, authorized by IRS ruling in January, 2003:
Sample NMTC Leverage Structure

**Alternative 1**
- Leveraged Lender
  - Loan
  - 100% Interest
  - LIC Advisory Board
  - Managing Member of Sub-CDE
  - QEI 99.99% Interest
  - Sub-CDE
  - Equity
  - QALICB
  - Sub- Allocation Fee

**Alternative 2**
- Leveraged Lender
  - Loan
  - LIC Advisory Board
  - LIC Advisory Board
  - QEL
  - Sub-CDE
  - Secondary-CDE
  - QLICI Loan A
  - QLICI Loan B
  - QALICB

Compliance: IRS
Program Administrator: CDFI Fund
Latest Round (CY 2015-16) $7B Awarded, Catch-up for 2 Years

<table>
<thead>
<tr>
<th>Number of Allocatees</th>
<th>Number of Awards</th>
<th>Percent of Total</th>
<th>Amount of Awards</th>
</tr>
</thead>
<tbody>
<tr>
<td>Total</td>
<td>120</td>
<td>100%</td>
<td>$ 7.0 B</td>
</tr>
<tr>
<td>CDFIs</td>
<td>41</td>
<td>34.2%</td>
<td>$ 2.1 B</td>
</tr>
<tr>
<td>Minority Owned/Controlled CDEs</td>
<td>17</td>
<td>14.2%</td>
<td>$870 M</td>
</tr>
<tr>
<td>Rural CDEs</td>
<td>14</td>
<td>11.6%</td>
<td>$870 M</td>
</tr>
</tbody>
</table>

- Next round to open during first quarter, 2017, likely sometime in March.
- Currently authorized for $3.5 billion.
- Goal is to make awards during calendar 2017.
Non-Metropolitan Counties

- The CDFI Fund awards tax credits ensuring that a proportional amount of investments are made in Non-Metropolitan Counties (known as the Rural Set-Aside).

- The number of rural CDEs in the awardee pool are proportional to the number of Rural CDEs that meet minimum scoring thresholds.

- A goal to invest 20 percent of QEI proceeds into Non-Metropolitan Counties.
How NMTCs Work - Revisited

- NMTCs provide a **credit** against Federal income taxes for **investors** that make **Qualified Equity Investments (QEIs)** in certified financial intermediaries called **Community Development Entities (CDEs)**.

- **CDEs**, in turn, use the proceeds of these QEIs to make **Qualified Low-Income Community Investments (QLICIs)**, such as business loans, in **Low-Income Communities** into **Qualified Active Low Income Businesses (QALICBs)**.
Qualified Low-Income Community Investment

- Any capital or equity investment in, or loan to, a 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, a CDE.
- “Financial Counseling and Other Services” (FCOS) to businesses located in, or residents of, Low-Income Communities (LICs).
Qualified Active Low-Income Community Business

- 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; and
- Less than 5% of the average of the aggregate unadjusted basis of the property is attributable to collectibles, other than those held for sale in the ordinary course of business; and
- Less than 5% of the average of the aggregate unadjusted basis of the property is attributable to non-qualified financial property (e.g. debt instruments with a term in excess of 18 months).
- Not a “sin” business; conducts operations within 3 years.
Recapture

- NMTCs may be recaptured from investors during the 7-year credit period under certain conditions.
- Events triggering recapture include:
  - The QEI fails the “substantially-all” requirement.
  - Failure to invest 85% of original QEI; or
  - Failure to meet “Qualified Active Low-Income Business” (QALICB) requirements; or
  - Failure to meet one-year investment/reinvestment requirement
- The CDE redeems the investment before the 7 year credit period has ended.
- The CDE ceases to qualify as a CDE.
What It Means for LICs

- Lack of access to capital for investment is one of the many causes of the creation and perpetuation of low income communities.
  - *Government intervention (subsidy) is helpful to mitigate conditions that do not support use of private capital.*

- NMTC subsidy provides a risk cushion to incentivize private capital in areas facing severe conditions.
  - *New projects and operating businesses provide goods, services, jobs, and catalytic development to change LIC dynamic.*
In Summary

- NMTC is now nearly 14 years old.
  - NMTC program has been very successful in bringing in private sector dollars with a majority of transactions using the Leveraged Model;
  - Very significant impact in rural and urban America.

- While being a Community Development Entity and becoming an Allocatee is an important role, it is far from the ONLY role. Other roles include becoming:
  - A Leveraged Lender
  - An NMTC Investor
  - A Qualified Business (QALICB)
  - A Secondary CDE to collaborate with experienced CDEs to create impact, earn income and develop expertise
# The Road Map

## Road Map: Community Outcomes

**Examples of Community Outcomes:** Job Creation | Jobs for Low Income People | Goods and Services  
Community Services | Minority Businesses | Affordable Housing | Environmental Impacts

<table>
<thead>
<tr>
<th>Allocatee Strategy</th>
<th>CDE Staff Skills</th>
<th>CDE Pipeline Considerations</th>
<th>Underwriting</th>
<th>Asset and Portfolio Management</th>
</tr>
</thead>
<tbody>
<tr>
<td>Mission strategy</td>
<td>Community Development Expertise</td>
<td>Threshold Criteria</td>
<td>Viability</td>
<td>Monitoring</td>
</tr>
</tbody>
</table>
| Board selection    | Nexus to Community | Analysis:  
- Measurable  
- Relevant to actual need in low income community  
- Refine impact with other projects in area | Measurability | Enforcement |
| Financial Product Development | | Reliable Methodology | Timeliness | Workout |
| Board policies on community impact goals and standards | | | Enforceability | Reporting |
| Pipeline Priorities | | QALICB Ability & Willingness | | Tracking |
| Strategic Partnerships | | | | |