



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/23rd, 2017				
Time	Session Topics		Facilitators	
7:30 AM	50	8:15 AM	Continental Breakfast and Registration	
8:20 AM	30	8:50 AM	Group Introductions	
8:50 AM	30	9:00 AM	CDFI Fund Opening Remarks: Introduction of the Training and Technical Assistance Initiative	
			Goals of the Training and Technical Assistance Initiative	
9:00 AM	40	9:40 AM	Topic: [Module 1] Program Overview	
			Goal: Quick overview of NMTC program history, oversight, key players, terminology and methods	
9:40 AM	15	10:00 AM	Break	
10:00 AM	75	11:15 AM	Topic: [Module 2] Community Outcomes	
			Goal: Discuss role of CDE-Allocatee in generating community outcomes and effects of various types of mission goals; consider impact of outcomes mission on CDE organizational design.	
11:15 AM	75	12:30 PM	Topic: [Module 3] Strategic Planning for the CDE /Allocatee	
			Goal: Creating a business strategy that is consistent with the CDE mission.	
12:30 PM	45	1:30 PM	Lunch and Discussion: NMTC Program Update From CDFI Fund	
			Potential Keynote CDFI Fund Director (DC) Program Manager (Chicago)	
1:50 PM	75	2:45 PM	Topic: [Module 4] Underwriting a NMTC Project - for Leverage Lender and Allocatee	
			Goal: Cover the primary aspects of underwriting a NMTC project: financial analysis/due diligence, compliance, and community impacts. The module will break out specific aspects of underwriting for the Leverage Lender and Allocatee.	

2:45 PM	60	3:45 PM	Topic: [Module 5] NMTC Pipeline		RJ
			Goal: Discuss pipeline formation, community and board involvement, project screening, early underwriting, and when to walk away.		
3:45 PM	15	4:00 PM	Break		
4:00 PM	75	5:15 PM	Topic: [Module 6] Management and Staffing of the CDE		KW
			Goal: Discuss the business plan of a successful CDE: board recruitment, corporate forms, financial products, pipeline, QEI, capital deployment, financial and community outcomes underwriting, compliance management, outcomes enforcement.		
5:15 PM	5	5:20 PM	Closing Remarks Day 1		NCIF
6:00 PM	120	8:30 PM	Networking Reception Hosted by NCIF for Participants at a Minority Owned/Operated Restaurant		
Friday, March 17th/24th: 2017					
7:30 AM	45	8:15 AM	Continental Breakfast and Networking		
8:15 AM	30	8:45 AM	Group Reflections on Day 1		NCIF
8:45 AM	75	10:00 AM	Topic: [Module 7] Portfolio and Asset Management		KW
			Goal: Cover the essential aspects of asset and portfolio management systems that ensure the entity's portfolio stays in compliance throughout the loan compliance period.		
10:00 AM	120	12:00 PM	Topic: [Module 8] Financial Results: The CDE, the Investor, the Leverage Lender; wrap-up discussion of what the NMTC program means		NCIF KW/RJ/SD
			Goal: Share cost, revenue, and return information for each key role; group discussion of how their organizations might participate; if CDE allocatee is right for them, and why.		
12:00 PM	30	12:30pm	Complete Training Evaluations		NCIF
12:30 PM	30	1:00 PM	Closing Remarks		NCIF + CDFI Fund
1:00 PM	30	1:00 PM	TO GO Lunch		
			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*

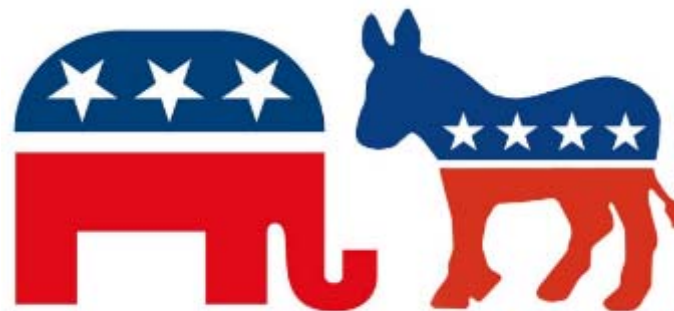
**Goal:** Quick overview of NMTC program history, oversight, key players, terminology, and methods.

# 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).
- The IRS issued IRS Revenue Ruling 2003-20 permitting the Leveraged Structure on January 23, 2003.
- 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**)

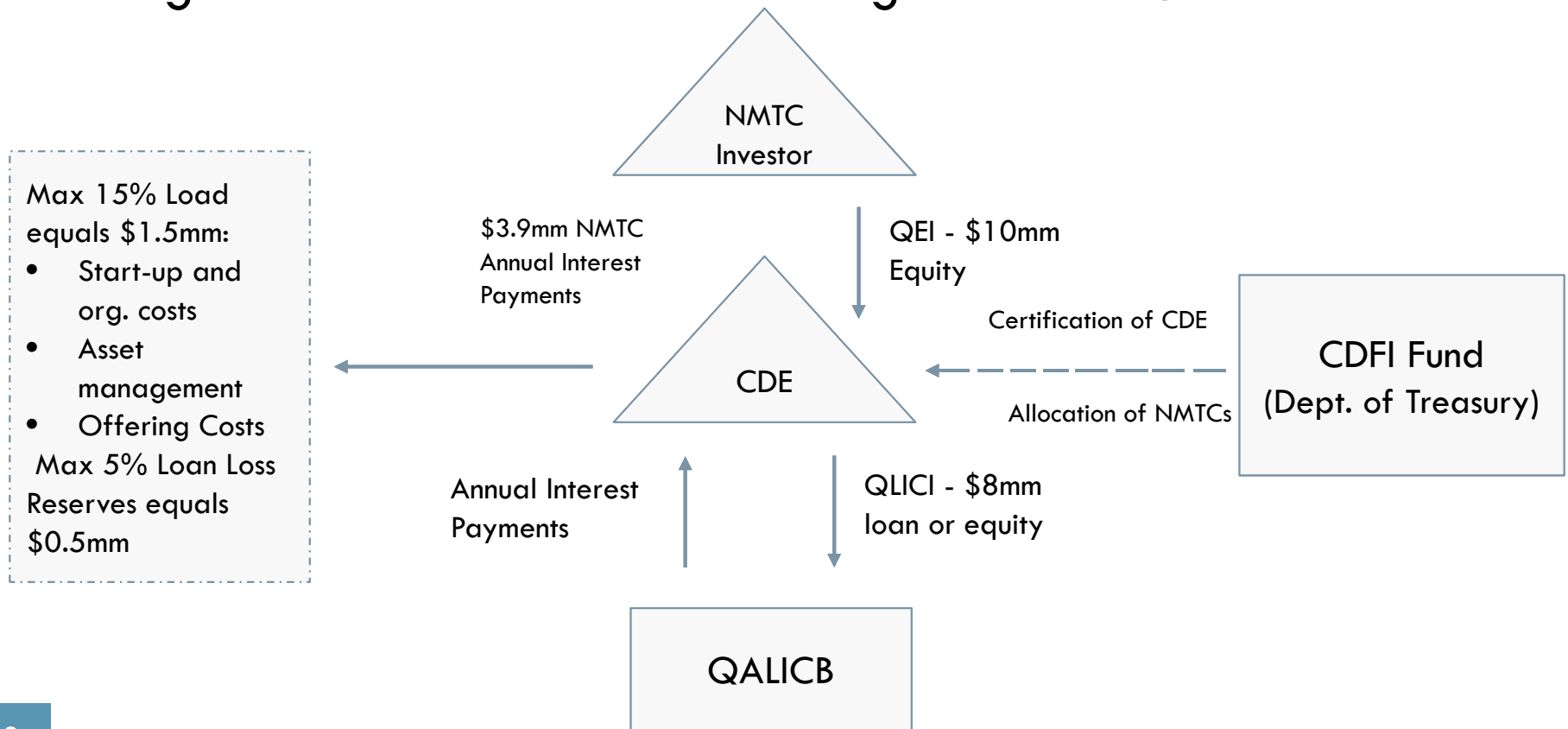
## How NMTCs Work

---

- 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)**.

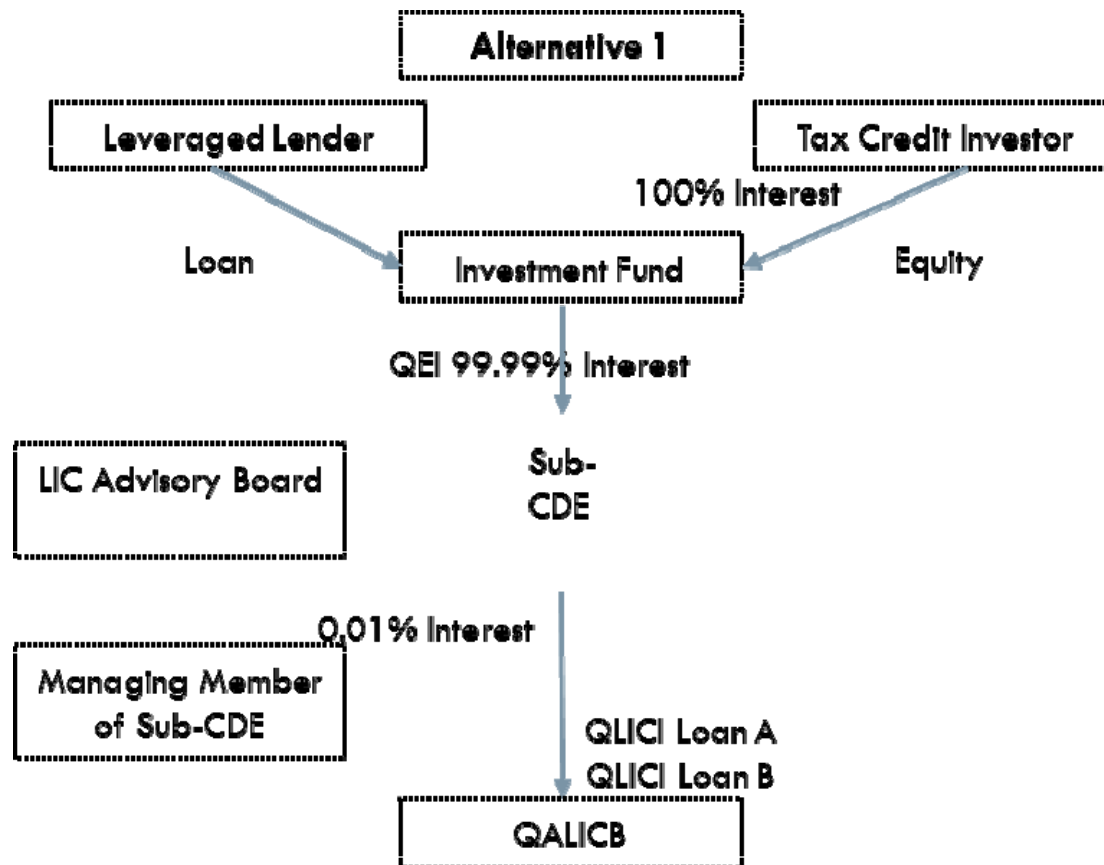
# Example of an Unleveraged Structure

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

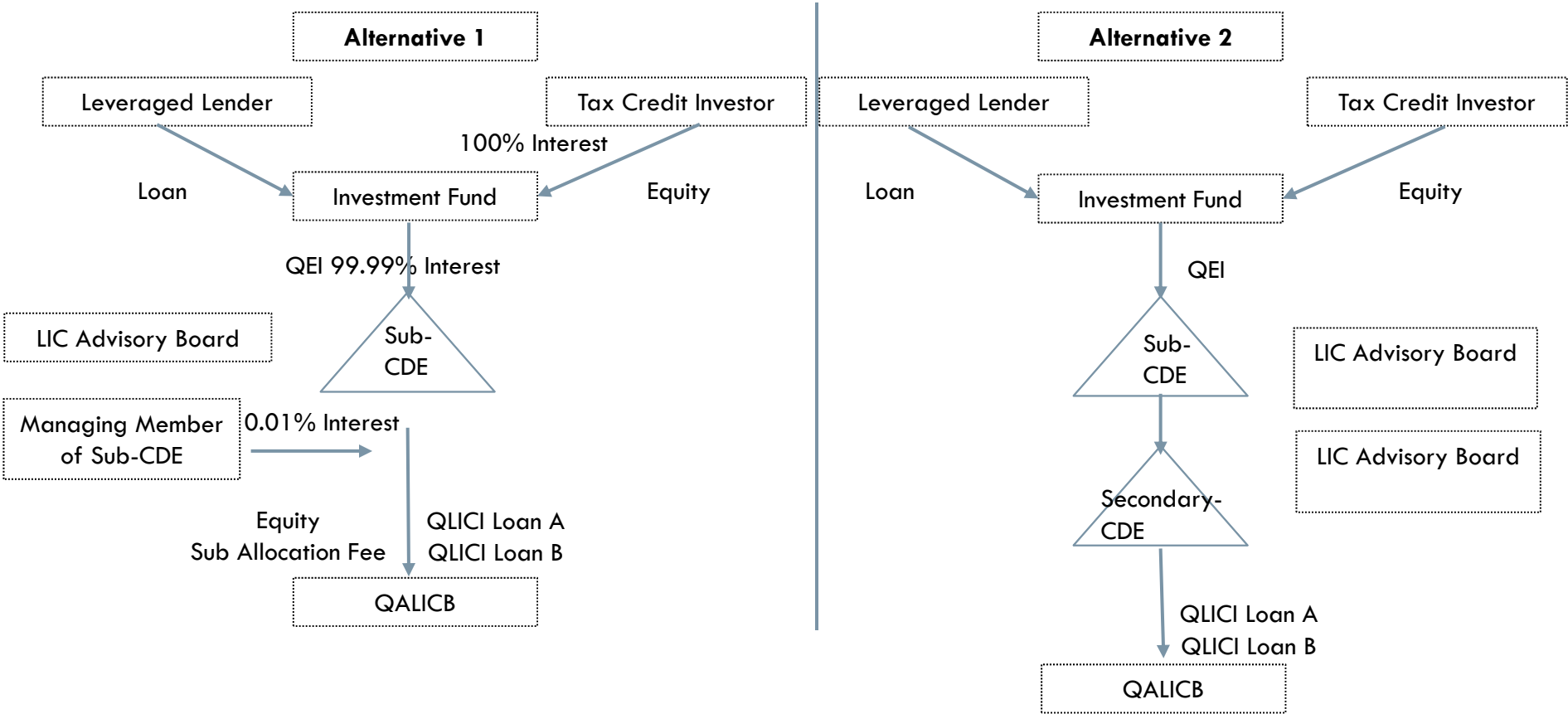


# Program Users Brought Innovation

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



Compliance: IRS  
 Program Administrator: CDFI Fund

## Latest Round (CY 2015-16) \$7B Awarded, Catch-up for 2 Years

Number of Allocatees	Number of Awards	Percent of Total	Amount of Awards
Total CDFIs	120	100%	\$ 7.0 B
	41	34.2%	\$ 2.1 B
Minority Owned/ Controlled CDEs	17	14.2%	\$870 M
Rural CDES	14	11.6%	\$870 M

- 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				
Allocatee Strategy	CDE Staff Skills	CDE Pipeline Considerations	Underwriting	Asset and Portfolio Management
Mission strategy	Community Development Expertise	Threshold Criteria	Viability	Monitoring
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				