Community Development
Financial Institutions (CDFI) Fund

New Markets Tax Credit Program Overview
2011 EDFS Peer Networking Conference
August 2011
Overview of the NMTC Program

• Enacted on December 21, 2000.

• Part of the Community Renewal Tax Relief Act of 2000.

• Provides a credit against Federal income taxes for investors that make Qualified Equity Investments (QEIs) into Community Development Entities (CDEs).

• CDEs in turn use the proceeds of these investments to make Qualified Low-Income Community Investments (QLICIs).

• QLICIs include, among other things, investments in businesses and real estate projects in low-income communities.
• **What is a typical QALICB?**
  
  – 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.
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.
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
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
NMTC Unleveraged Structure

Investor

CDE, LLC

Allocatee

QEi $1,000,000

NMTC $390,000

Cost & fees $50,000

QLICI $950,000 Loan @ 5.00%

QALICB
NMTC Leverage Structure

Bank

Investment Fund, LLC
$1,000,000 Capitalization

Allocatee

Equity Investor

CDE, LLC

Loan payments

$750,000 loan @ 7.5%

QEI
$1,000,000

NMTC
$390,000

Equity
($200,000)

QALICB

Loan A
($750,000 @ 7.50%)

$950,000 QLICI

Costs & Fees
$50,000

$250,000 equity

Tax Credits
$390,000
CDEs must make QLICIs within 12 months of receipt of Investor QEIs

- Investing in or Lending to QALICBs
- Purchasing Loans from CDEs
- Financial Counseling
- Investing in or Lending to CDEs

Community Development Entity (For-profit only)

- CDFI Fund
- Private Investors

CDE must offer credits to investors within 5 years

QEI must stay invested in CDE for 7 years
NMTC Program Overview

<table>
<thead>
<tr>
<th>Year</th>
<th>Estimate</th>
<th>Notes</th>
</tr>
</thead>
<tbody>
<tr>
<td>2002</td>
<td>$2.5 billion</td>
<td>Includes 2001 Round</td>
</tr>
<tr>
<td>2003</td>
<td>$1.5 billion</td>
<td>Combined for 2004 Round</td>
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<tr>
<td>2004</td>
<td>$2 billion</td>
<td></td>
</tr>
<tr>
<td>2005</td>
<td>$2 billion</td>
<td></td>
</tr>
<tr>
<td>2006</td>
<td>$4 billion</td>
<td>(includes $600 million GO Zone)</td>
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<tr>
<td>2007</td>
<td>$3.9 billion</td>
<td>(includes $400 million GO Zone)</td>
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<tr>
<td>2008</td>
<td>$5 billion</td>
<td>(includes $1.5 billion Recovery Act)</td>
</tr>
<tr>
<td>2009</td>
<td>$5 billion</td>
<td>(includes $1.5 billion Recovery Act)</td>
</tr>
<tr>
<td>2010</td>
<td>$3.5 billion</td>
<td></td>
</tr>
<tr>
<td>2011</td>
<td>$3.5 billion*</td>
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</table>

**TOTAL** $33 billion

* Unallocated investment authority may be carried over from year to year through 2015.

Enacted on 12/21/2000; Part of the Community Renewal Tax Relief Act of 2000
How to Tap-in to CDEs with Allocations

- Contact CDE allocatees or consultants that are working with CDE allocatees.
- Contact NMTC trade association.
- Get your transaction(s)/project(s) into future NMTC Allocation Applications.
- Use the CDFI Fund’s Website as a resource:
  - QEI Investment Report
  - Allocatee Profiles
## NMTC Qualified Equity Investment Report

The CDFI Fund is pleased to be able to make available on its website the New Markets Tax Credit (NMTC) Qualified Equity Investment (QEI) Issuance Report (Report). The Report identifies, among other things, each entity that has received allocations of NMTCs; the total allocation amount received by each entity; the dollar amount of allocation authority that has been issued to investors; the amount remaining to be issued to investors; and the predominant markets to be served by each entity.

Users may download this Report and use either the Find toolbar or the Search PDF window to locate a word, series of words, or partial word in the PDF document bearing in mind that it is case sensitive. Users may also find it useful to cross-reference this Report with the Fund’s reports on States served by Allocators for each round of the New Markets Tax Credit Program. These reports are available in the New Markets Tax Credit Program section of the Fund’s website. The States served reports allow users to quickly identify Allocators serving particular geographic areas of interest that users could then look-up in the QEI Issuance Report that lists Allocators in alphabetical order. The Fund, on a monthly basis, will update the Report based on information reported by Allocators. Annually, after the Fund completes its competitive review process and successful applicants are selected, the Fund will add those organizations selected to receive allocations of NMTCs to the Report.

NOTES: 1) Allocatee information reflects the most current information on file with the CDFI Fund as of the date reflected on the QEI Issuance Report. Please contact the Allocate-identified Contact Person to obtain up-to-date information. 2) The Total Allocation for Round 5 includes $9 million of NMTC allocation authority that was reallocated by the CDFI Fund from prior Round 1 allocations and subsequently re-allocated in Round 5.

### Summary By Round

<table>
<thead>
<tr>
<th>Year</th>
<th>Total Allocation</th>
<th>Amount Finalized</th>
<th>Amount Committed</th>
<th>Amount Remaining</th>
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<tbody>
<tr>
<td>Round 1</td>
<td>$29,500,000,000.00</td>
<td>$22,326,395,813.96</td>
<td>$117,394,838.70</td>
<td>$7,055,705,347.34</td>
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<tr>
<td>Round 2</td>
<td>$32,000,000,000.00</td>
<td>$3,463,399,061.87</td>
<td>$8,570,000.00</td>
<td>$285,816,000.00</td>
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<td>Round 3</td>
<td>$3,500,000,000.00</td>
<td>$3,463,399,061.87</td>
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<tr>
<td>Round 4</td>
<td>$3,500,000,000.00</td>
<td>$3,463,399,061.87</td>
<td>$8,570,000.00</td>
<td>$285,816,000.00</td>
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<tr>
<td>Round 5</td>
<td>$3,500,000,000.00</td>
<td>$3,463,399,061.87</td>
<td>$8,570,000.00</td>
<td>$285,816,000.00</td>
</tr>
<tr>
<td>Total</td>
<td>$9,500,000,000.00</td>
<td>$22,326,395,813.96</td>
<td>$117,394,838.70</td>
<td>$7,055,705,347.34</td>
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### QEI Investment Report

<table>
<thead>
<tr>
<th>Name of Allocatee:</th>
<th>Key Community Development New Markets LLC</th>
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<tr>
<td>Year of Award:</td>
<td>2002</td>
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<tr>
<td>Service Area:</td>
<td>National</td>
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<tr>
<td>Controlling Entity:</td>
<td>Key Community Development Corporation (KCDC) and KeyCorp</td>
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<tr>
<td>Contact Person:</td>
<td>Susann Terrell, (216) 689-5546, <a href="mailto:susann_terrel@keybank.com">susann_terrel@keybank.com</a></td>
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<tr>
<td>Predominant Financing</td>
<td>Not Available</td>
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<tr>
<td>Predominant Market Served:</td>
<td>California, Florida, New York, Oregon, Texas, Utah, Washington</td>
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<tr>
<td>Total Allocation:</td>
<td>$150,000,000.00</td>
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<tr>
<td>Amount Finalized:</td>
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<td>Amount Committed:</td>
<td>$0.00</td>
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<tr>
<td>Amount Remaining:</td>
<td>$0.00</td>
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| Year of Award:     | 2007                                       |
| Service Area:      | National                                   |
| Controlling Entity:| Key Community Development New Markets LLC |
| Contact Person:    | Rosalyn Ciula, (216) 689-4472, rosalyn_ciula@keybank.com |
| Predominant Financing | Real estate financing: Mixed-used (housing + commercial) |
| Predominant Market Served: | Colorado, Indiana, Maine, New York, Ohio, Oregon, Washington |
| Total Allocation:  | $100,000,000.00                           |
| Amount Finalized:  | $25,475,000.00                            |
| Amount Committed:  | $74,525,000.00                            |
| Amount Remaining:  | $0.00                                     |

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<thead>
<tr>
<th>Name of Allocatee:</th>
<th>KHC New Markets CDE, LLC</th>
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<tr>
<td>Year of Award:</td>
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<td>Service Area:</td>
<td>National</td>
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<tr>
<td>Total Allocation:</td>
<td>$134,000,000.00</td>
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<tr>
<td>Amount Finalized:</td>
<td>$122,650,000.00</td>
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Key Community Development New Markets LLC

Controlling Entity Name: KeyCorp

Headquarters (city, state): Cleveland, OH

Allocation Amount: $100,000,000

Principal Financing Activity: Real estate financing: Mixed-used (housing + commercial)

Profile:

Key Community Development New Markets (KCDNM) will use its allocation to promote community and economic development, primarily in Key Bank’s 13 state retail footprint. KCDNM intends to offer subsidized financing for small business loans; and commercial real estate debt and equity for retail centers, single-family housing, industrial developments, small offices, community facilities and mixed-use buildings which are catalytic to the redevelopment of low-income areas. With its NMTC allocation, KCDNM will be able to offer interest rates up to 400 basis points below-market, and also offer more flexible credit terms including higher than normal loan to value ratios, lower origination fees, longer amortization periods and lower debt service coverage ratios.

Service Area: National [Colorado, Indiana, Maine, New York, Ohio, Oregon, Washington]

% major urban vs. minor urban vs. rural:
Major Urban: 70 %
Minor Urban: 25 %
Rural 5 %

Contact Person:
Rosalyn Ciulla, (216) 689-4472, rosalyn_ciulla@keybank.com
Case Study: Mixed-Use Development

- 3-story mixed-use project (commercial/residential)
  - Commercial units (4)
  - Residential units (21)
    - 80% AMI 10
    - 120% AMI 7
    - Market Rate 4
- Adjacent to $35M HOPE VI development in a Federal Empowerment Zone

PARTICIPANTS:
- Minority Developer
- Debt Investor
- Equity Investor
- CDE Sponsor
NMTC Project Structure

**UPPER TIER**

- **New Markets Tax Credit Investor (Capmark)**
  - $2,500,000 NMTC Equity Investor Member 100% Ownership Interest
- **Leverage Fund**
  - $10,000,000 Qualified Equity Investment ("QEI") Investor Member 99.99% Ownership Interest
- **Fund Lender**
  - $7,500,000 Fund Loan Lender 0% Ownership Interest

**LOWER TIER**

- **CDE Sponsor NMTC Allocatee**
  - Managing Member 0.01% Ownership Interest
- **CDE**
  - $7,500,000 Senior Loan (Loan terms determined by Fund Lender)
  - $2,500,000 Subordinate Loan (Loan terms determined by CDE)
  - Qualified Low Income Community Investment ("QLICI")
- **Fund Lender**
  - Asset Manager and Servicer
- **Project Borrower Real Estate Owner ("QLICB")**
Community Benefits

- Provide quality affordable homeownership opportunities for 21 households. 40% of the households will have incomes less than 80% of the area median.

- Provide a 4,841 sq. ft. venue for small business opportunities for retailers and service providers offering quality goods and services to local area the residents.

- Help competitively position the local housing agency to win future HUD HOPE VI awards.

- Recruitment and training of workforce from local low-income residents.

- Support capacity building of a well respected local minority development company, enabling it to undertake larger projects.

- NMTC experience to first time leverage debt provider.
Sample Activities:

• An emergency worker training facility in Lafayette, LA, developed in the aftermath of Hurricane Katrina, which will train more than 240 students per year and provide more than 60 permanent jobs.

• A loan to a Native American business woman, who operates a pharmacy in western Montana, will enable her to own her business facility for the first time, and create jobs in a high poverty rural community.

• The development of a high-tech business incubator in Detroit that will provide opportunities for minority and women business owners.

• A 161,000 square-foot manufacturing facility in rural Iowa that manufactures parts for wind turbines.

• The development of a charter school, serving 450 middle school and high school students, in the Crenshaw neighborhood of south Los Angeles.
Contact Information

- 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

  Visit the Fund’s website at www.cdfifund.gov

Contact the 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