

# NMTC REPORT

A MONTHLY PUBLICATION ON THE NEW MARKETS TAX CREDIT INDUSTRY

June 2002, Volume I, Issue I, Published By Novogradac & Company LLP

## CDFI Fund Manager Discusses Goals, Offers Insight On Program Progress

By Jane Bowar Zastrow, Editor, Novogradac & Company LLP

When the New Markets Tax Credit (NMTC) was signed into law on December 21, 2000 as part of the Community Renewal Tax Relief Act of 2000, Congress intended for the program to show CEOs that distressed areas of the country could be viable places for them to open businesses and that the program would help bring those areas into the economic mainstream. The Community Development Financial Institutions Fund (CDFI Fund), a division of the US Department of Treasury that administers the New Markets Tax Credit program, has not lost sight of that intent.

What difference can an investment of capital make? "Look at Alabama, it has four or five major auto factories that have opened up in areas where, previously, people would not have done business. They are changing, dramatically, the economics of the area," says Linda Davenport, manager of the New Markets Tax Credit Program for the CDFI Fund. "We want to build a track record in communities like these, [a record] that allows players to see with successful examples that these are competitive locations that have been overlooked."

According to Davenport, if communities begin to see actual reliable sources of capital will flow to them, the NMTC will not only have the ability to make investments with its dollars but it will spur investment by others. "We hope people will use the tax credits in ways that others will recognize — for needed capital and projects — and adopt in their communities," she says.

A former Fannie Mae managing director who helped launch the American Communities Fund, Davenport brings experience in generating equity investments for hard-to-finance community revitalization transactions. She led investment teams on \$150 million of redevelopment investments in addition to assessing investment opportunities in a number of communities across the country.

Responsible for administering the certification and allocation portions of the New Markets Tax Credit program, the CDFI Fund certifies Community Development Entities (CDE), domestic corporations, partnerships or limited liability companies that are certified as having a primary mission to serve or provide investment capital for low-income communities or low-income persons while maintaining accountability to residents of low-income communities through their representation on a governing or advisory board of the CDE. The CDFI Fund is also responsible for running the competitive tax credit allocation

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## NMTC WATCH

Policy issues have led the IRS to decline to rule on a private letter ruling request dealing with the manner in which the New Markets Tax Credit (NMTC) can be allocated in a partnership basis. The ruling request sought a decision that would allow the NMTC to be allocated in the same manner as an allocation of basis adjustment. This would have allowed a partnership

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# CDFI Fund

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process. The Internal Revenue Service, the other federal agency with responsibility for the NMTC, develops the rules and regulations that govern the use and claiming of tax credit by taxpayers.

Davenport says the CDFI Fund staff will continue to certify CDEs – more than 250 had received their designation by mid-May – in an ongoing, open process. “There is a great deal of demand, with the potential for many more [CDE certifications] than we have seen to date,” she says.

The bulk of the applications for certification, all but about 50, have come from Community Development Financial Institutions (CDFI) or Small Business Investment Companies (SBIC). Davenport says that all 250-plus certified CDEs probably will not apply for tax credits; some could be sellers of loans or recipients of the tax credits. Only time, and the publication of the notice of allocation availability (NOAA) and subsequent allocation applications will tell how many of the certified CDEs will apply for tax credits.

The publication of the long-awaited NOAA has been promised yet this spring. At press time in mid-May, Davenport said that the deadline is “looking good still; it’s a few weeks away.”

The CDFI Fund’s goal is to make the program operational this year to permit awards made in 2002 by those CDEs ready to hit the ground running to bring in investors and do actual transactions in 2002. “We’re working hard at gathering the elements that will make it all come together,” Davenport says.

On the CDFI Fund’s June schedule is a round of visits to nine or 10 cities where it will be doing official outreach workshops, explaining the allocation process from the perspective of the agency that will be making the allocations. More on these meetings will be available on the CDFI Fund’s web site at [www.cdfifund.gov](http://www.cdfifund.gov).

The CDFI Fund’s user-friendly web site can also help answer all manner of questions, including whether a census tract is located in qualifying area. “We don’t want anyone not to use the [NMTC] program because things are hard to figure out,” says Davenport. Additional help from CDFI Fund staff can be obtained by calling a special help line at 202.622.7373.

As with all new programs, no “successful projects” have yet been identified. Rather, says Davenport, “the whole team is looking forward to seeing creative ways in which applicants take the capital and use it in communities. We hope investors realize the potential to jump start economic development with this additional financial tool.”

The future looks bright for the NMTC program and the CDFI Fund is going to take its cue from this year’s numbers to gear up for whatever future demand exists. Davenport says she expects that more CDEs will be certified in the second and third years of the program as people learn how to apply. ❖

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