NMTC MONTHLY REPORT

A MONTHLY PUBLICATION ON THE NEW MARKETS TAX CREDIT INDUSTRY

May 2006 Volume V, Issue V, Published By Novogradac & Company LLP

CDFI Fund Announces Preliminary Analysis of NMTC Transaction Data

By Alex Ruiz, Managing Editor, Novogradac & Company LLP

In late March, the Community Development Financial Institutions (CDFI) Fund released the preliminary results of its analysis of transaction level data submitted by New Markets Tax Credit (NMTC) program allocatees. According to the data, in 2004 almost $1.3 billion was invested into the nation's low-income communities and more than 90 percent of the loans and investments went to communities that have higher levels of distress than the NMTC program's threshold requirements. In addition, allocatees report that 100 percent of these loans and investments were made at better than market rates and terms.

"We are very pleased with the reports on the initial investments made using the NMTC program," said CDFI Fund Director Arthur A. Garcia on March 24. "The investments being made are reaching underserved communities and making needed investments to improve the prospects for jobs and prosperity in those communities."

Throughout the life of the NMTC program, the CDFI Fund is authorized to allocate to community development entities (CDE) the authority to issue to their investors as much as an aggregate amount of $16 billion in equity; including $1 billion for specific use in the recovery and redevelopment of low-income communities in the Hurricane Katrina disaster area. In the three rounds to date, the CDFI Fund has made 170 awards totaling $8 billion in tax credit authority.

First NMTC Transactions Reported in CIIS

CDEs that made qualified low-income community investments (QLICIs) during their 2003 and 2004 fiscal years (FY) were required to report these transactions through the web-based data collection system known as the Community Investment Impact System (CIIS). These are the first NMTC transactions on which reports have been received.

A total of 50 allocatees (mostly Round I allocatees) reported making $1.265 billion in QLICIs through FY 2004. Of that amount, $1.239 billion was invested directly in qualified active low-income community businesses (QALICBs) to support business operations and/or real estate development and rehabilitation in low-income communities. The remaining $26 million was used for investments in other CDEs, loan purchases or the provision of financial counseling and other services.

CIIS Basics

The CDFI Fund created CIIS in 2004 in response to both industry and government requests for more detailed information on the use of federal resources, and in particular to enable the agency to assess the impact that its programs are having on the communities in which the investments are made. Both community development financial institutions (CDFIs) that receive awards and CDEs that receive NMTC allocations are required to submit CIIS reports annually. CIIS reports are due, along with audited financial statements, 180 days after the end of each awardee's or allocatee's fiscal year — which in most cases is December 31.

(continued on page two)

CDFI Fund Announces

(continued from page one)

Analysis of 2004 Data

Business Investment

Allocatees provided $218 million in fixed asset and working capital financing to businesses, which will help to maintain as many as 8,600 full-time equivalent jobs and to create as many as 4,100 full-time equivalent jobs. The CDFI Fund reports that allocatees provided an additional $84 million to operating businesses to construct or rehabilitate the facilities from which these businesses intend to conduct their operations.

Real Estate Investment

Allocatees reported making $856 million in commercial, mixed-use and housing development financing to projects that will be leased or sold. These real estate projects are projected to:

- Create as many as 49,000 construction jobs.
- Develop or rehabilitate 11 million square feet of office, retail and manufacturing space in low-income communities.
- Develop or rehabilitate 1,100 housing units.

Rural Investment

According to the CDFI Fund's analysis, approximately 18 percent of NMTC transactions were made in non-metropolitan areas, which is just slightly lower than the portion of the U.S. population residing in non-metropolitan areas (20 percent).

Investments Made in Areas of Higher Distress

To qualify for NMTC investments, a project generally must be located in a census tract with a poverty rate of 20 percent or greater or a median family income at or below 80 percent of the area median family income. Based on 2000 census data, approximately 39 percent of the census tracts in the country satisfy at least one of these criteria.

CIIS requires allocatees to provide information on their investments, which permits the CDFI Fund to determine whether the areas in which the investments are made meet the minimal qualifying criteria, or have higher levels of distress than minimally required under the NMTC program. The fiscal year 2004 CIIS report shows that 92 percent of the loans and investments allocatees reported were made in such areas of higher distress, that more than half (53 percent) of the loans and investments were made in areas that met three or more of the higher distress criteria, and that one-third were made in areas that met four or more of the higher distress criteria.

Investments Made At Better than Market Terms

In addition, CIIS requests data on whether the terms on which such investments are made are more favorable than generally available in the market. According to reports submitted by allocatees, 100 percent of the loans and investments were made at better than market rates and

(continued on page three)

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CDFI Fund Announces

(continued from page two)

terms. Such features include, among other things: equity and equity equivalent terms and conditions; subordinated debt; below-market interest rates; reduced origination fees, and higher than standard loan-to-value ratios. In all, 61 percent of the reported transactions met three or more of the better-rates-and-terms criteria and nearly half (48 percent) met four or more criteria.

(continued on page five)

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