

## CDFI Fund Awards Sixth Round Allocations, Prepares for Seventh Round in 2009

By Alex Ruiz, Managing Editor, Novogradac & Company LLP

U.S. Treasury Deputy Secretary Robert M. Kimmitt and Community Development Financial Institutions (CDFI) Fund Director Donna Gambrell announced on October 20 the names of the 70 organizations that were selected to receive \$3.5 billion in tax credits under the 2008 round of the New Markets Tax Credit (NMTC) program.

The allocatees are headquartered in 29 states and the District of Columbia, but anticipate serving 46 states and the District of Columbia. In the six rounds to date, the CDFI Fund has made 364 awards totaling \$19.5 billion in NMTC authority. In the sixth round, 239 community development entities (CDEs) applied for allocations, requesting a total of \$21.3 billion. The CDFI Fund made allocation awards totaling \$3.5 billion, or 16.4 percent of the total amount requested by applicants. Seventy CDEs (or 29 percent of the total applicant pool) were provided with allocation awards. The average allocation award amount was \$50 million for the 2008 round and allocation awards range in size from \$6.25 million to \$112 million. The median allocation award amount was \$45 million.

Forty of the allocatees (or 57 percent) are not-for-profit organizations or subsidiaries of not-for-profit organizations. They received allocations totaling \$1.92 billion. Twenty-three of the allocatees (or 33 percent) are certified CDFIs or subsidiaries of certified CDFIs. They received allocations totaling \$1.17 billion. Thirteen of the allocatees (or 17 percent) are governmentally controlled entities or subsidiaries of such entities. They received allocations totaling \$535 million. Fifteen of the allocatees (or 21 percent) are banks or bank holding companies, publicly traded institutions, or subsidiaries of such entities. They received

allocations totaling \$828 million. Six of the allocatees (or 9 percent) are real estate development companies or subsidiaries of such entities. They received allocations totaling \$297 million.

Based on information reported by the allocatees, it is anticipated that approximately \$1.772 billion (or 51 percent) will be invested in major urban areas; approximately \$833 million (or 24 percent) will be invested in minor urban areas; and approximately \$895 million (or 26 percent) will be invested in rural areas.

As detailed in the 2008 notice of allocation availability (NOAA), the CDFI Fund sought to ensure that: an appropriate proportion of awards were provided to "rural CDEs" (i.e., CDEs that provide at least 50 percent of activities to non-metropolitan counties); and that at least 20 percent of all dollars invested by allocatees under the 2008 allocation round are invested in non-metropolitan counties. With respect to the first objective, nine allocatees, or about 13 percent, met the criteria for "rural CDE" designation. These nine rural CDEs received allocations totaling \$532 million. With respect to the second objective, 38 allocatees (or 54 percent) indicated that they would be willing to deploy some or all of their investments in non-metropolitan counties. These CDEs received allocations totaling more than \$2.27 billion. Based upon their stated commitments, they will be required to deploy, at a minimum, at least \$722.1 million in non-metropolitan counties (20.6 percent of the \$3.5 billion available this round.)

All the sixth round allocation information can be found online at [www.newmarketscredits.com](http://www.newmarketscredits.com).

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# CDFI Fund Awards

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## CDFI Fund Reports on NMTC Program Data Through 2007

In a related announcement, the CDFI Fund on October 20 also released a report on NMTC program data through 2007. The report titled, "The New Markets Tax Credit Program: Promoting Investment in Distressed Communities," is based on data collected by the CDFI Fund between 2002 and 2007. The findings in the report indicate that, among other things, NMTC investments are being made in communities with significantly higher levels of distress than are minimally required under program rules. More than 75 percent of NMTC-financed projects were located in census tracts that met one or more of the CDFI Fund's distress criteria.

"I am encouraged by these findings and the progress of the NMTC program to date," said CDFI Fund Director Donna J. Gambrell. "Investing in low-income communities involves risks, both real and perceived, that can be difficult to overcome. The evidence in this report shows that the NMTC program offers an efficient and valuable means to help mitigate these risks, thus facilitating the flow of capital in underserved and often untested

markets."

The report also indicates that there is a strong demand for tax credit allocations. The total amount requested by community development entities, or CDEs, since program inception is more than eight times the amount of allocation authority available.

A very encouraging finding in the report suggests that the NMTC program is tremendously cost effective. As the report shows, every \$1 of federal tax revenue foregone as a result of the credit is estimated to induce more than \$14 of investments in projects in low-income communities. In addition, the CDFI Fund reports that CDEs have been successful in securing investor capital. Through 2007, investors placed more than \$9 billion into CDEs, or approximately 75 percent of the \$12.1 billion in allocation authority awarded in the first four allocation rounds.

Another of the report's interesting finding is that the NMTC program is fostering new investor relationships. The CDFI Fund says that more than 76 percent of NMTC investors were not affiliated with the CDEs in

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### New Markets Tax Credit Report Information

Novogradac & Company LLP

246 First Street, 5th Floor

San Francisco, CA 94105

E-mail: cpas@novoco.com

Address all correspondence and editorial submissions to:

Jane Bowar Zastrow

Telephone: 415.356.8034

Address inquiries regarding advertising opportunities to:

Junhee Byun

Telephone: 415.356.8037

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which they made an investment, and more than 61 percent of the dollars invested came from entities that had never before made an investment in the CDE.

In addition, the CDFI Fund's data suggests that virtually all NMTC product offerings include non-traditional rates and terms. More than 98 percent of the transactions offered preferential rates and terms to the borrowers. The most common features are below market interest rates (83 percent of transactions), lower origination fees (59 percent of transactions), and longer-than-standard periods of interest-only payments (54 percent of transactions). A copy of the report can be found online at [www.newmarketscredits.com](http://www.newmarketscredits.com).

## New Markets Tax Credit Extended

In a surprising but welcome turn of events last month, the Senate added extenders legislation to H.R. 1424, a \$700 billion mortgage backed securities bailout

package. The bill, which is now law, extended the new markets tax credit for one year. After its initial rejection by the House, H.R. 1424, entitled the Emergency Economic Stabilization Act of 2008, passed the Senate the evening of September 30 and was approved by the House on October 3. President George W. Bush quickly signed the bill the same day.

"I am very pleased that the New Markets Tax Credit program has been extended through 2009 as part of the Emergency Economic Stabilization Act, passed by the House this afternoon and now signed into law," Gambrell said in a statement released on October 3.

In a speech to the National Bankers Association 81st Annual Conference on October 7, Gambrell said the CDFI Fund will open the next award round in January 2009. ♦

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