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Round 11 NMTC Awardees Discuss Program's Future, Plans for Allocations

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The Community Development Financial Institutions (CDFI) Fund in June awarded approximately \$3.5 billion in new markets tax credit (NMTC) allocation to 87 community development entities (CDEs) in the program's 11th allocation round. Because the most recent NMTC program extension expired Dec. 31, 2013, Round 11 is technically the last round of awards under the current program. As such, nearly all conversations about the Round 11 awards also touch on the legislation that has been introduced to extend the NMTC program. The EXPIRE Act of 2014 (S. 2260) would extend the program through 2014 and 2015. S. 2260 at press time awaits consideration on the Senate floor. In the House, the New Markets Tax Credit Extension Act (H.R. 4365) would make permanent the NMTC program. H.R. 4365 has been referred to the House Committee on Ways and Means.

"Unfortunately, the NMTC award announcements always bring good news to some ... and not so good news to many more. Making the program permanent, which we are all striving for, would help take some of the sting out of not receiving an award. The uncertainty of the program itself definitely makes it much harder for allocatees not receiving an award," said Deborah La Franchi, president of the National New Markets Fund (NNMF), which received a \$60 million award in Round 11. "The tremendous amount of time and capital resources that go into reauthorizing the program every few years would be so beneficial if put

toward improving the program. It is such a great program, but there are always improvements that could be made with more time and effort."

The 87 CDEs that received allocation awards in the 11th round are headquartered in 32 states and the District of Columbia and were selected from a pool of 310 applicants requesting more than \$25.9 billion in credit authority. This is \$4 billion more than the \$21.9 billion requested in Round 10. While there were 28 more applicants in Round 11 than there were in Round 10, there were only two more awardees. With an increase in the demand for credits, as demonstrated by the number of applicants and amount of NMTCs requested, industry experts say that it makes sense that individual awards have gotten smaller. "It is important the allocations are spread between the high number of allocatees," said Scott Spote, chief lending officer at Capital Impact Partners, which received a \$43 million award in Round 11. Capital Impact Partners has received six awards during the last eight rounds. "The benefit [of having more awardees] is that the credits have a further reach."

Amy Laughlin, director of NMTCs at Low Income Investment Fund (LIIF), which received \$48 million in tax credits this round, said, "As the market has become more familiar with new markets tax credits, demand from borrowers and the ability of awardees to deploy them are

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both increasing.” Laughlin said that the pool of qualified applicants seems to be getting stronger, which speaks to the success of the CDFI Fund’s program and the industry’s ability to utilize the credits.

In Round 11, award sizes range from \$15 million to \$60 million, with an average award amount of \$40.2 million, which is only slightly lower than the \$41.2 million average award size in Round 10. However, while the average award amounts were nearly equal in rounds 10 and 11, there were some differences. In Round 10, the largest individual award was \$80 million, which two CDEs received. The largest award in Round 11 was \$20 million less; this year, 11 CDEs received awards of \$60 million.

“It is interesting to note that the ceiling has come down and the floor has come up,” said Ashley Dills, vice president of finance at Civic Builders, of the shifting award sizes. Civic Builders, which is based in New York, is a two-time awardee. It received \$15 million in awards in Round 10 and \$23 million in Round 11. “It seems as though [the CDFI Fund] is interested in getting more players in the market, looking to spread the award to more eligible CDEs.”

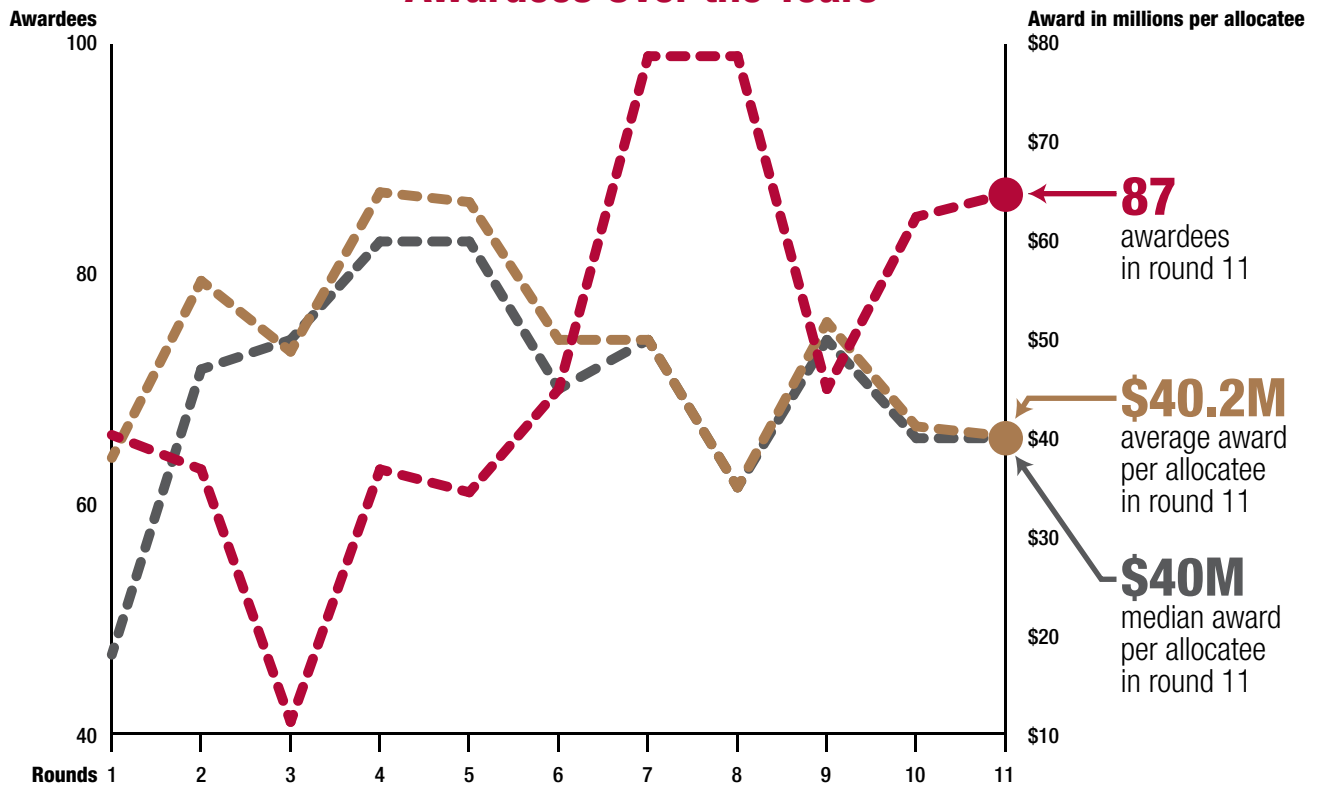
Successful Applicants

Laughlin said LIIF focused its application on two key elements, “We have a strong track record of proving capital to the low-income communities targeted by the program,” said Laughlin. “In addition, LIIF has a clear strategy of deploying new markets tax credits in programs that advance our mission.” Laughlin said that LIIF’s focus is poverty alleviation. As such, LIIF uses the tax credits to finance the development of charter schools, child care and health centers and transit oriented housing developments. In total, LIIF has received \$313 million in NMTC awards since the inception of the program.

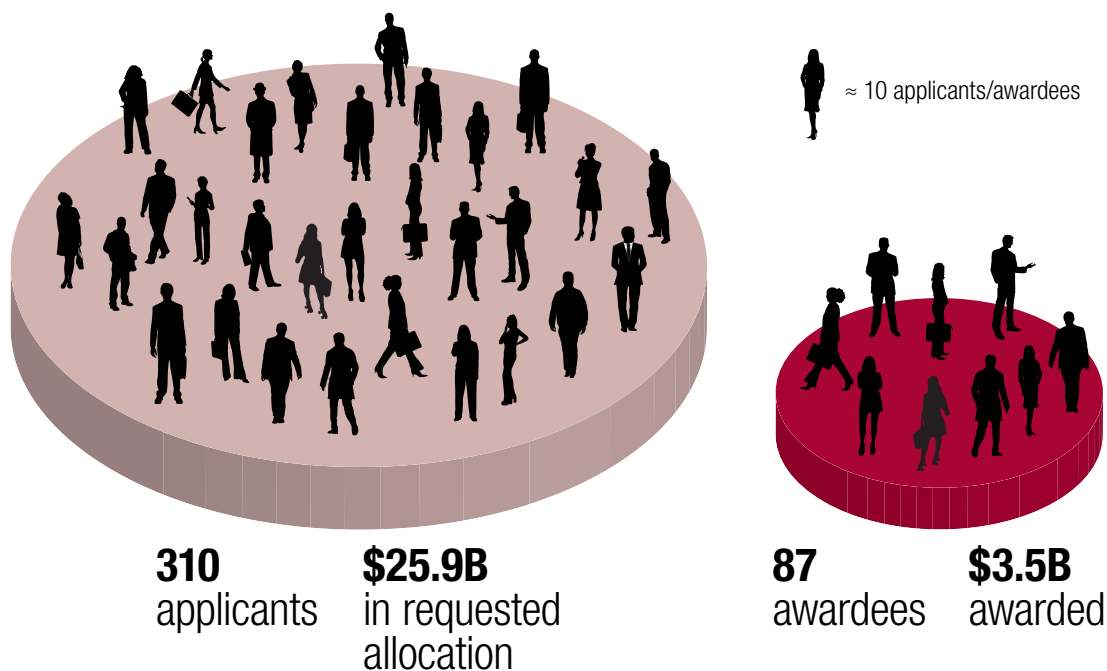
PNC Bank will invest its \$60 million allocation within its retail footprint. “Through our business strategy, we look to meet special needs in the communities where we live and work,” said David Gibson, senior vice president, NMTC product manager at PNC Bank. “We partner up with local stakeholders to understand what is most needed in the community and what projects meet those needs.” To date, PNC has received five awards totaling \$303 million.

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Awardees Over the Years



Round 11 NMTC Allocations



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Economic Benefits of the NMTC

In the first 11 rounds of the NMTC program, the CDFI Fund has made 836 awards for \$40 billion in tax credit authority. Of that, \$31.1 billion in NMTCs have been invested in low-income communities from the program's inception through FY 2012. The CDFI Fund reports that for every \$1 invested by the federal government, the NMTC program generates \$8 of private investment. And, the majority of these investments are made in distressed areas. But the program does more than just generate capital. Since the inception of the program, an estimated 561,873 jobs have been created or retained, according to the CDFI Fund. The program has supported the construction of 22 million square feet of manufacturing space, 71.9 million square feet of office space and 55.3 million square feet of retail space, according to the CDFI Fund.

The awards from Round 11 are expected add to the ever growing number of jobs created, private capital being invested in highly distressed census tracts and growing amount of office, retail and manufacturing space being developed across the country. CDEs will help finance the construction of new charter schools, manufacturing

facilities, operating businesses, real estate projects and much more.

Dills said that Civic Builders is interested in financing the development of charter schools. "We are solely focused on charter school development ... The demand is through the roof," said Dills. "You have no idea how rewarding it is to be able to build these schools and turn them over to the students."

Capital Impact Partners, which received a \$43 million award in Round 11, will help finance health facilities, healthy food projects, education and elder care developments. Its focus for Round 11 funds will be revitalizing the city of Detroit. "We will target as much of our allocation as possible in Detroit and Southeast Michigan," said Spote. "We continue to increase our investments in Detroit because there is such a high need there."

Chase will also be financing health care facilities, educational programs and healthy food initiatives with its \$60 million award.

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Gibson said that PNC is looking to finance operating businesses, commercial real estate and community facilities, such as YMCAs, health centers and charter schools. Furthermore, a portion of PNC's investment will be targeted toward rural communities. "We have committed at least 20 percent of our award to be used to finance qualified active low-income community businesses in rural areas," said Gibson.

Looking For Success in Future Rounds

Because of the ever increasing number of applicants and demand for the NMTCs, industry experts say that it is increasingly difficult to receive credits, especially for a first-time applicant. Eric Rosen, NMTC program director at SunTrust, said, "The CDFI Fund did, in fact, give a large percentage of its awards to experienced CDEs, which have been in the industry and part of the story of the program." SunTrust received \$43 million in Round 11.

"There continues to be relatively few wholly new allocatees in the mix, which is consistent with the program becoming more focused on measuring actual outcomes, and creating accountability for achieved projected outcomes in previous applications," said Kevin Goldsmith, division manager of Chase New Markets Tax Credit Group. "The awardees all have a proven successful track record of using NMTC allocations to invest in projects that are revitalizing neighborhoods. You need to show that your organization has been an active and consistent leader in community development. Actual hard metrics that tie between projected outcomes and actual outcomes are becoming more and more important. Overall, this focus on accountability and tangible impacts will benefit the program." ♦

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