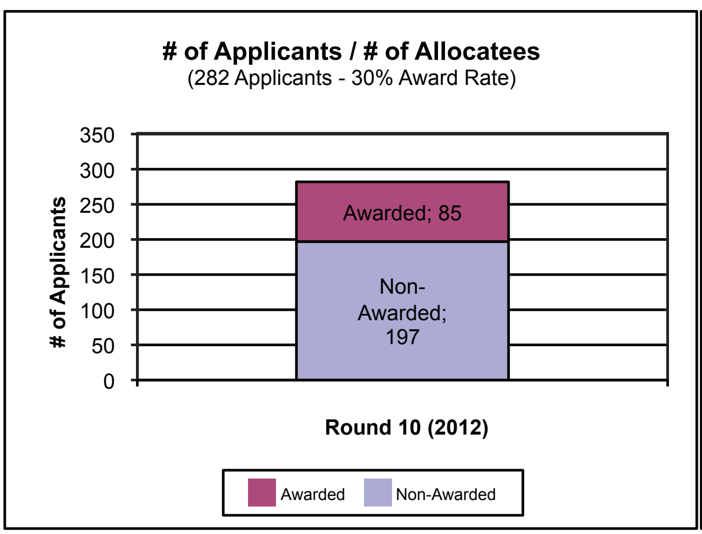
Highlights of Allocation Round

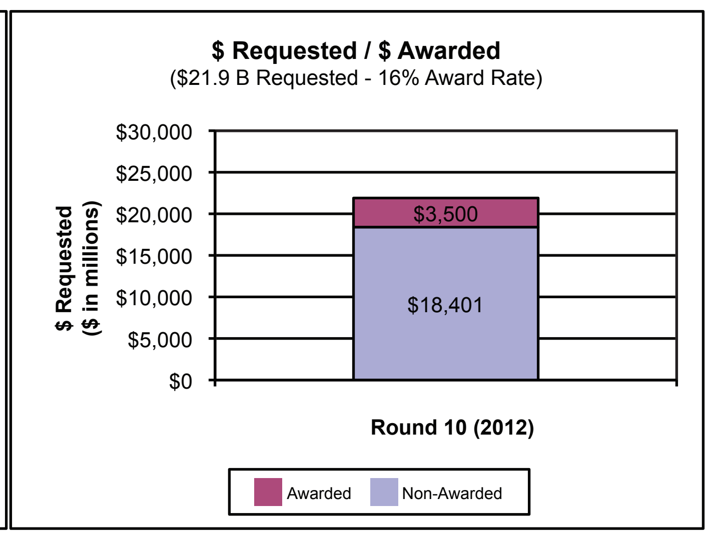
2012 New Markets Tax Credit Program Allocation: Tenth Round Highlights

In April 2013, the Community Development Financial Institutions Fund (CDFI Fund) announced that 85 Community Development Entities (CDEs) had been selected to receive allocations of New Markets Tax Credits (NMTCs) through the 2012 round of the New Markets Tax Credit Program (NMTC Program). These 85 CDEs are authorized to issue to their investors a combined total of $3.5[1] billion in equity for which NMTCs can be claimed. In the ten rounds to date, the CDFI Fund has made 749 allocation awards totaling $36.5 billion in tax credit authority, including $3 billion in Recovery Act awards and $1 billion that was specifically set aside for recovery and redevelopment in the wake of Hurricane Katrina.

What is the distribution of allocations in the 2012 round?

- 282 CDEs applied for allocations, requesting a total of approximately $21.9 billion in allocations.
- The CDFI Fund made allocation awards totaling $3.5 billion, or about 16 percent of the total amount requested by applicants.
- 85 CDEs (or 30 percent of the total applicant pool) were provided with allocation awards.
- Allocation awards range in size from $15 million to $80 million. The median allocation amount was $40 million and the average allocation amount was about $41.2 million.

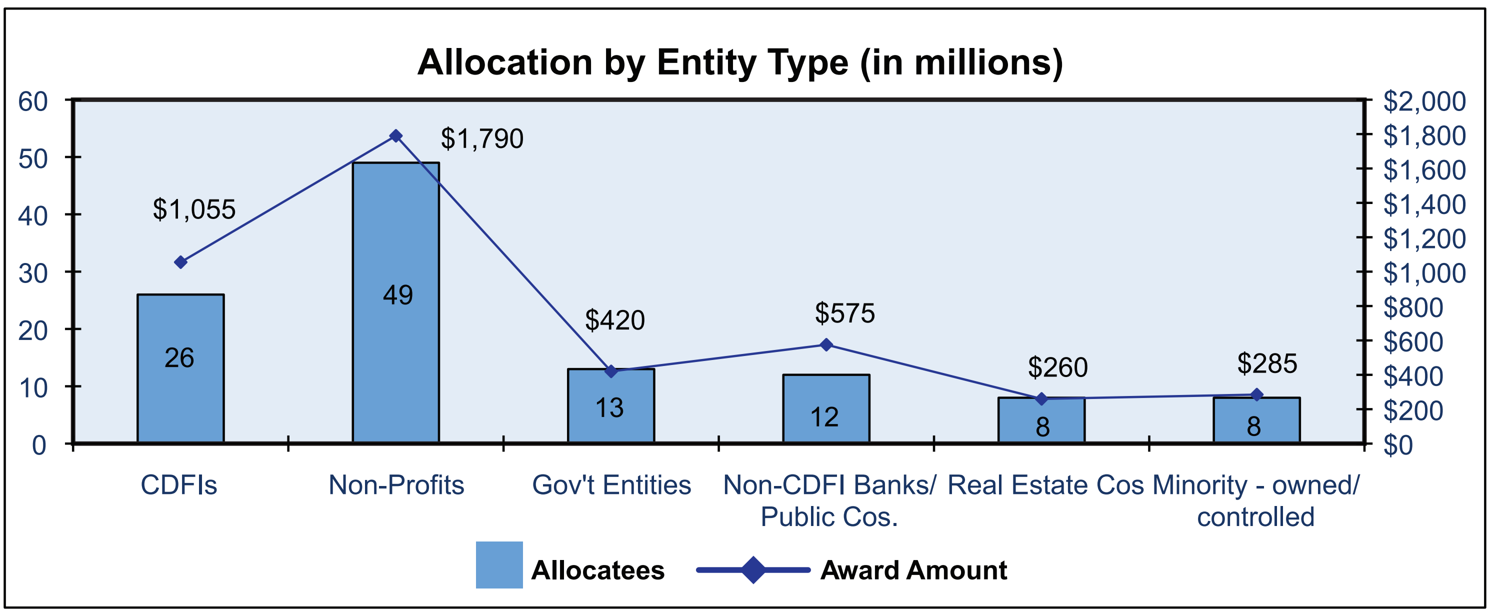




1 The American Taxpayer Relief Act of 2012 provided $3.5 billion in allocation authority for the CY2012 Round.

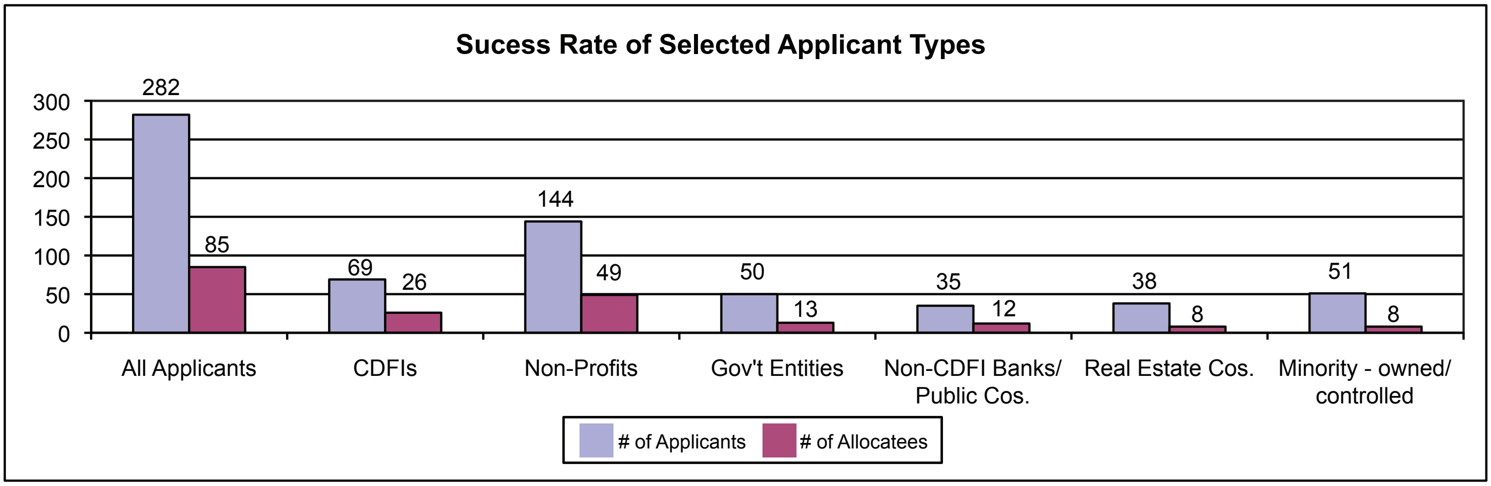
What are some of the characteristics of the 85 allocatees?

- 49 of the allocatees (or 57.6 percent) are non-profit organizations or subsidiaries of non-profit organizations. They received allocations totaling $1.790 billion.
- 26 of the allocatees (or 30.6 percent) are certified Community Development Financial Institutions (CDFIs) or subsidiaries of certified CDFIs. They received allocations totaling $1.055 billion.
- 13 of the allocatees (or 15.3 percent) are governmentally controlled entities or subsidiaries of such entities. They received allocations totaling $420 million.
- 8 of the allocatees (or 9.4 percent) are minority-owned or controlled entities. They received allocations totaling $285 million.
- In all, 53 of the allocatees (or 62.4 percent) are CDFIs, non-profit organizations, governmentally controlled entities, minority-owned or controlled entities, or subsidiaries of such organizations. They received allocations totaling $2.020 billion.
- 12 of the allocatees (or 14.1 percent) are non-CDFI banks or bank holding companies; publicly traded institutions; or subsidiaries of such entities. They received allocations totaling $575 million.
- 8 of the allocatees (or 9.4 percent) are real estate development companies or subsidiaries of such entities. They received allocations totaling $260 million.



Note that the number of allocatees represented in the chart above does not total 85, since some allocatees are classified in more than one entity type category (e.g., some CDFIs are also counted as non-profits) and some allocatees do not fall under any of the categories identified.

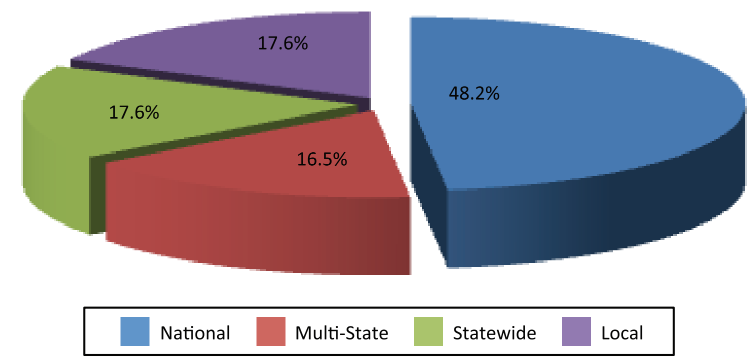
The chart below shows the success rate of receiving an allocation for the entire applicant pool and six different applicant types. Overall, about 30 percent of all applicants were awarded an allocation. CDFIs had a success rate of 37.7 percent; non-profits had a success rate of 34.0 percent; governmentally-controlled entities had a success rate of 26.0 percent; non-CDFI banks and publicly-traded companies had a success rate of 34.3 percent; real estate development companies had a success rate of 21.1 percent, and minority-owned/controlled entities had a success rate of 15.7 percent.



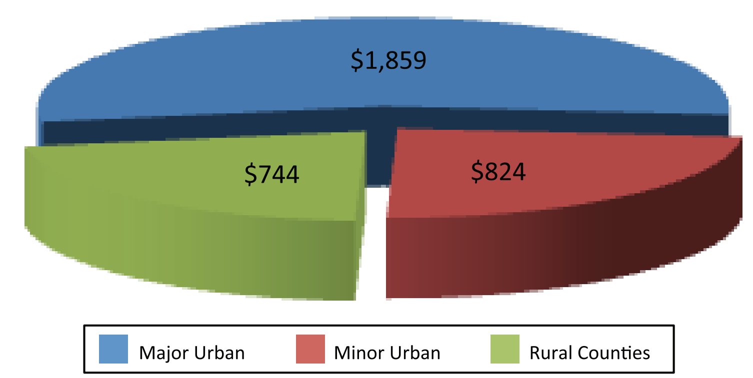
Note that the number of applicants represented in the chart above does not total 282, since some applicants are classified in more than one entity type category (e.g., some CDFIs are also counted as non-profits) and some applicants do not fall under any of the categories identified. Real Estate Companies includes for-profit, non-profit, and publicly controlled developers.

Where will the investments be made?

Market Served by Allocatees



Investment Target Area (in millions)



- 41of the allocatees (or 48 percent) will focus investment activities on a national service area; 14 of the allocatees (or 16 percent) will focus on a multi-state service area; 15 of the allocatees (or 18 percent) will focus activities on a statewide service area; and 15 of the allocatees (or 18 percent) will focus on local markets (e.g., a citywide or countywide area).
- Based on initial estimates of allocatees, it is anticipated that approximately $1.859 billion (or 54.3 percent) will be invested in major urban areas; approximately $824 million (or 24.0 percent) will be invested in minor urban areas; and approximately $744 million (or 21.7 percent) will be invested in rural areas.[2] Notwithstanding these initial estimates, the CDFI Fund will require awardees to invest $691 million in non-metropolitan counties, as discussed further below.
- Since the inception of the NMTC Program, NMTC investments (QLICIs) have been made in all 50 states, the District of Columbia, and Puerto Rico. However, as part of the 2012 NMTC Program application process the CDFI Fund identified 10 states[3], Puerto Rico, and the Island Areas of the U.S.[4] as areas that have received fewer investments as measured by dollars of investment in proportion to their statewide population residing in Low-Income Communities. Applicants were asked what percentage of their allocation they were willing to commit to investing in these areas. The 2012 NMTC allocatees committed to investing a minimum of $421 million in these states or areas.
- The 85 allocatees are headquartered in 28 different states and the District of Columbia. For more detailed information about the states where allocatees anticipate investing their allocations, please see the CDFI Fund's website: www.cdfifund.gov/statesserved.

2 Figures do not sum to $3.5 billion, as they subtract a portion of the QEI that CDEs retain to cover program administration.

3 These states include Alabama, Arkansas, Florida, Georgia, Idaho, Kansas, Nevada, Tennessee, Texas, and West Virginia.

4 American Samoa, Commonwealth of the Northern Mariana Islands, Guam, U.S. Virgin Islands

How did the CDFI Fund ensure that a proportional amount of investments would be made in rural communities?

- As detailed in the 2012 Notice of Allocation Authority (NOAA), the CDFI Fund sought to ensure that: (i) an appropriate proportion of awards were provided to "Rural CDEs" (i.e., CDEs that have provided at least 50 percent of their direct financing activities to non- metropolitan counties over the past five years and commit to investing at least 50 percent of its NMTC financing activities to those areas); and (ii) that at least 20 percent of all dollars invested by allocatees under the 2012 allocation round are invested in non-metropolitan counties. When calculating the requirements for non-metropolitan deployment, the CDFI Fund excludes CDE administrative expenses.
- With respect to the first objective, seven allocatees met the criteria for "Rural CDE" designation. These seven Rural CDEs received allocations totaling $420 million.
- With respect to the second objective, thirty-eight allocatees (or about 45 percent) will be required to deploy some or all of their investments in non-metropolitan counties. These CDEs received allocations totaling over $1.920 billion. Based upon their stated commitments, and after taking into account CDE administrative expenses, they will be required to deploy approximately $691 million in non-metropolitan counties, 20 percent of the QLICIs to be made with this allocation round.

How is the New Markets Tax Credit Program involved in the Healthy Food Financing Initiative?

The Healthy Food Financing Initiative (HFFI) is an interagency initiative involving the U.S. Department of the Treasury, the U.S. Department of Agriculture, and the U.S. Department of Health and Human Services. HFFI represents the federal government's first coordinated step to eliminate "food deserts" – low-income urban and rural areas in the United States with limited access to affordable and nutritious food – by promoting a wide range of interventions that expand the supply of and demand for nutritious foods, including increasing the distribution of agricultural products; developing and equipping grocery stores; and strengthening producer-to-consumer relationships. In addition, the financing of these projects brings needed economic development and job creation to these underserved communities.

While there was no specific set-aside of tax credits for healthy food financing in the 2012 NMTC allocation round, applicants were asked to indicate if they intend to devote a percentage of their allocation to Healthy Food Financing activities. 70 of the 85 allocatees (or 82.3 percent) indicated that they intend to devote some portion of their NMTC allocation to Healthy Food Financing activities.

Will investments be made in particularly economically distressed communities?

- While all allocatees are required to invest substantially all (generally 85 percent) of the qualified equity investments they receive in low-income communities, most applicants committed to make investments in areas characterized by more severe economic distress (i.e., areas that have significantly higher poverty rates and lower median family incomes than those minimally required under the NMTC Program; areas that have unemployment rates at least 1.5 times the national average; and/or areas that have been designated for economic development through other governmental programs, such as Brownfields and SBA Designated HUB Zones).
- All 85 of the allocatees committed to providing at least 75 percent of their investments in areas characterized by: 1) multiple indicia of distress; 2) significantly greater indicia of distress than required by NMTC Program rules;[5] or 3) high unemployment rates.
- The CDFI Fund will require these allocatees, through their allocation agreements, to meet the benchmarks identified in their applications.

What types of eligible investment activities do allocatees plan to make?[6]

NMTC investments may be used to finance a wide variety of activities, including:

- Loans to or equity investments in businesses.[7] Approximately $2.012 billion (58.7 percent) of NMTC investment proceeds will likely be used to finance and support loans to or investments in businesses in low-income communities. Allocatees have proposed strategies ranging from small business lending to multi-million dollar equity investments in neighborhood redevelopment projects.
- Loans to or equity investments in real estate projects. Approximately $1.394 billion (40.7 percent) of NMTC investment proceeds will likely be used to finance and support real estate projects in low-income communities. Most real estate projects, with the general exception of projects consisting mainly of residential rental housing, are permissible under program regulations. Allocatees have indicated that they intend to make investments in commercial, retail, industrial, mixed-use and homeownership projects, as well as in community facilities such as daycare centers, healthcare centers, and charter schools.
- Capital to other CDEs. Approximately $20.202 million (0.6 percent) of NMTC investment proceeds will likely be used to provide capital to other CDEs. Allocatees may make direct loans to or investments in other CDEs to finance NMTC-eligible activities, or may purchase NMTC-eligible loans originated by other CDEs. This will help ensure continued availability of capital in low-income communities.

---

5 For example, indicia of higher distress include census tracts with poverty rates greater than 30%, census tracts with a median family income of less than 60% Area Median Income, Federal Native areas, and Brownfields. A complete list of indicia of distress can be found on pages 20-21 of the 2012 NMTC Allocation Application.

6 Figures do not sum to $3.5 billion, as they subtract a portion of the QEI that CDEs retain to cover program administration.

7 This data reflects projections by allocatees in their application which were submitted prior to the IRS publishing final regulations related to non-real estate investments on September 28, 2012.

What types of products do allocatees intend to offer?

- All 85 of the allocatees have committed to offering preferential rates and terms.
- All 85 allocatees indicated that 100 percent of their NMTC investment dollars would be made either in the form of equity, equity equivalent financing, or debt that is at least 50 percent below market and/or is characterized by at least five concessionary features. Such features include, among other things, reduced origination fees, higher than standard loan-to-value ratios, lower than standard debt service coverage ratios, non-traditional collateral, and longer than standard amortization periods.
- The CDFI Fund will require these allocatees, through their allocation agreements, to meet the benchmarks identified in their applications.

Will allocatees invest more than is minimally required in low-income communities?

- The IRS's NMTC Program regulations generally require that at least 85 percent of QEI proceeds be invested in Qualified Low-Income Community Investments (QLICIs).
- All 85 of the allocatees indicated that they would invest at least 95 percent of QEI dollars into QLICIs.
- In real dollars, this means at least $451 million above and beyond what is minimally required by the NMTC Program will be invested in low-income communities.
- The CDFI Fund will require these allocatees, through their allocation agreements, to meet the benchmarks identified in their applications.

How much capital has been invested into Community Development Entities?

- As of March 1, 2013, over $31.18 billion in qualified equity investments have been made into CDEs since the NMTC Program's inception. This figure represents over 94 percent of the $33 billion in allocation authority issued to CDEs through calendar year 2011 round. In addition, while allocatees are by statute allowed up to five years to raise investor dollars, each of the allocatees has committed to making a substantial portion of their investments within three years.

How have the allocatees from previous rounds been investing these dollars?

Reports covering transaction-level data are due to the CDFI Fund, along with audited financial statements, 180 days after the end of each allocatee's fiscal year – which in most cases is December 31st. Reports covering fiscal year 2011 have been received by the CDFI Fund. Analysis shows that:

- Over 95 percent of the transactions offered preferential rates and terms to the borrowers. The most common features were below market interest rates (76 percent of transactions), lower origination fees (71 percent of transactions), and longer than standard periods of interest-only payments (69 percent of transactions).
- All NMTC investments must be made in low-income communities, which are generally defined as census tracts with a poverty rate of 20 percent or greater, or with a median family income at or below 80 percent of the area median family income. However, the NMTC Program has been effective in channeling investments into communities with much higher indicia of distress - over 70 percent of NMTC investments have been made in census tracts with a poverty rate of 30 percent or greater or with a median family income at or below 60 percent of the area median family income.

To Learn More About the 2012 NMTC Program Allocatees

Full profiles of the 2012 NMTC Program allocatees can be found in the CDFI Fund's Searchable Award Database at www.cdfifund.gov/awards.

Looking for allocatees serving a particular state? View our NMTC Program Allocatees States Served map at www.cdfifund.gov/statesserved.