TOOLKIT

NEW MARKETS TAX CREDITS

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Community Economic Development Toolkit

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COMMUNITY ACTION PARTNERSHIP

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INTRODUCTION

This New Markets Tax Credits (NMTCs) Guide is intended for use by community development organizations for the following purposes:

1. Organizations wanting to learn about NMTCs
2. Organizations considering applying for a NMTC allocation from Treasury
3. Organizations looking to use NMTCs in their projects

The NMTC program was established in 2000 and has become a very important financing tool for non-housing community development, business and real estate development projects. Despite current economic conditions, NMTCs are a reliable incentive for attracting equity and debt capital to projects in economically disadvantaged communities from major commercial financial institutions. Through the sales of the credits, equity is brought into community development projects, usually to fill a critical gap in financing.

NMTCs are allocated by the US Treasury through the Community Development Financial Institutions Fund. Through a competitive process, Community Development Financial Institutions (CDFIs) apply for credits through a designated development entity (approved by the CDFI Fund). These development entities, in turn, allocate credits to projects in eligible geographies. The project developer will subsequently sell the tax credits to investors. The investment becomes project equity and the investor receives tax credits against their Federal income tax. The equity must remain in the project for seven years.

The CDFI Fund's NMTC program reported that "Since the NMTC Program's inception, the CDFI Fund has made 594 awards allocating a total of $29.5 billion in tax credit authority to CDEs through a competitive application process. This $29.5 billion includes $3 billion in Recovery Act Awards and $1 billion of special allocation authority to be used for the recovery and redevelopment of the Gulf Opportunity Zone."[1]

Existing eligible CDFIs can apply to become an "allocatee" and would receive an allocation of credits. The CDFI allocatee would seek eligible projects and appropriately allocate credits. This strategy is ideal for CDFIs serving distressed regions that are seeking a proven finance tool to incent the development (and attraction) of job creating businesses and real estate projects.

From the standpoint of community development organizations, NMTCs are a very important tool and financing incentive. In most cases, projects sponsored by community development organizations are eligible under the NMTC program since they tend to serve low and moderate income communities. For project developers, they will seek an allocatee that has credits available for their project. Once the credits are sold to an investor, the net result is added equity into the project.

[1] CDFI Fund Summary NMTC Program Overview, US Treasury, www.cdfifund.gov

This Guide will discuss the process of becoming an allocatee and will emphasize how community based organizations can use NMTCs in business and real estate (non-housing) community development projects.

BACKGROUND: NMTC Program

The US Department of Treasury's NMTC Program's overview summarizes the program as follows:

> *"The New Markets Tax Credit Program (NMTC Program) was established by Congress in 2000 to spur new or increased investments into operating businesses and real estate projects located in low-income communities. The NMTC Program attracts investment capital to low-income communities by permitting individual and corporate investors to receive a tax credit against their Federal income tax return in exchange for making equity investments in specialized financial institutions called Community Development Entities (CDEs). The credit totals 39 percent of the original investment amount and is claimed over a period of seven years (five percent for each of the first three years, and six percent for each of the remaining four years). The investment in the CDE cannot be redeemed before the end of the seven-year period."*[2]

The demand for NMTCs has grown dramatically. Through 2010 (8 rounds), Treasury has allocated a total of $29.5 Billion in NMTCs (in 594 awards). For 2011, applicants requested just under $26.7 Billion dollars with the total allocation available being only $3.5 Billion. The growth in demand for credits is attributed to two main factors. First, the financial markets are more familiar and comfortable with the NMTC program and its successes and secondly, it is the only incentive that allows commercial lenders the opportunity to participate in projects with lower development risks (besides the developer, there is an additional partner (the investor) with a strong interest in the project's success since the tax credits are subject to penalty and recapture if they are not used properly).

> *"The strong, continuous demand for New Markets Tax Credits allocation authority demonstrates the critical need for investments in our nation's low-income communities," said CDFI Fund Director Donna J. Gambrell. "The New Markets Tax Credit is an effective – and cost-effective – way to create jobs and drive investment in communities with high rates of poverty and unemployment."*
>
> *"With many of these communities still trying to get back on their feet after the recent economic downturn, Director Gambrell said that "it isn't surprising that we have such a high demand for New Markets Tax Credits. The economic development industry has long known how valuable a tool these tax credits are for bringing together the final layer of financing for essential economic development and community service projects."*[3]

[2] Ibid, CDFI Fund, NMTC, US Treasury Website
[3] Ibid, CDFI Fund, Website

The New Markets Tax Credit Coalition's Fact Sheet summarizes some of the key accomplishments of the program:[4]

1. $50 billion: Amount of capital generated to date in investments to projects and businesses in low-income communities.
2. 3,000: Approximate number of businesses and projects financed using NMTCs.
3. 94 percent: The percentage of NMTC investments located in designated areas of higher economic distress.
4. 500,000: Estimated number of jobs created or retained through NMTC investments using Recovery Act standards.
5. $12,000: Amount of federal investment per job created under NMTC program versus standard cost of $92,000.
6. 74 million: Square feet of manufacturing, retail, and community space developed with the support of NMTCs.
7. $12: The amount of private investment generated for every $1 of federal investment.
8. $15.5 billion: Amount of NMTC investments issued through 2009.
9. $34 billion: Additional investments that came from other public and private sources of capital that would not have been possible without NMTCs.
10. 100 percent: Compliance rate for the over 3,000 projects financed by the NMTC program.
11. $200 billion: Amount of demand for NMTC allocation from over 1,800 potential investors since 2003.

The New Markets Tax Credit Coalition summarized key NMTC facts[5]:

1. NMTC investments target economically-challenged communities. Over 90 percent of NMTC activity is in areas with distress levels in excess of government requirements for the program.
2. Examples of projects and businesses financed through New Markets include an airplane parts manufacturer, bakeries, community health centers, high-tech business incubators, a soup kitchen, supermarkets, and worker training facilities.
3. As a result of NMTCs, hundreds of thousands of construction and full-time jobs have been created, and financing provided for small and medium-sized businesses in hard-hit urban and rural areas.

BECOMING AN ALLOCATEE - NMTC PROCESS:

Becoming a NMTC allocatee is a long process and the credits are in very high demand and continually oversubscribed. US Treasury's Community Development Finance Institutions (CDFI) Fund has seven programs with two relating directly to NMTCs. The first is the Community Development Entity (CDE) certification program, a relatively simple process. The second is the NMTC program where you would apply for a NMTC allocation. This is a very extensive application. The application process is heavily weighted to very strong, experienced entities.

[4] New Markets Tax Credits Coalition, "By the Numbers", www.nmtccoalition.org

[5] Ibid, NMTC Coalition

CDFIs compete with all types of commercial banking institutions, investment funds, local government created entities and non-profit intermediary organizations.

> *"Under the New Markets Tax Credit (NMTC) Program, taxpayers may claim a credit against Federal income taxes for Qualified Equity Investments made to acquire stock or other capital interests in designated CDEs. Substantially all of the Qualified Equity Investments must be used by the CDE to, among other things, make loans to, or equity investments in, qualified businesses or CDEs operating in Low-Income Communities (LICs). The investor (either the original purchaser or a subsequent holder) receives a tax credit for a seven-year period equal to five percent of the total amount paid for the stock or capital interest, at the time of purchase, for each of the first three years, and six percent annually for the remaining four years."*[6]

Becoming a CDE: To become a CDE, apply to the CDFI Fund (US Treasury). Qualifications include:

- The entity must be a domestic corporation or partnership at the time of the certification application
- They must demonstrate a primary mission of serving, or providing investment capital for low-income communities or low-income persons
- There must be accountability to residents of low-income communities through representation on a governing board of or advisory board to the entity.

The CDFI fund allocates NMTC through a competitive application process announced in the Federal Register (Notice of Allocation Availability). Both non-profit and for-profit CDEs are eligible however a non-profit CDE must demonstrate that it controls one or more for profit subsidiary CDEs and that it plans to transfer the entire NMTC allocation to the for-profit CDE. For-profit entities are required for tax reasons.

The CDE application is available at the website: www.cdfi.org under the NMTC program summary. Beyond meeting the criteria above, the CDE must show evidence that the applicant CDE principally serves Low Income Persons or Low Income Communities (LICs). At least 60% of its products and services are directed to Low Income Persons, to individuals, businesses or organizations that serve Low Income Persons or residents of LICs. *(NOTE: the NMTC website lists the eligible census tracts. Also see the NMTC Coalition website for an interactive map).* Activities include:

1. Investing in, lending to or providing technical assistance to businesses that are located in *LICs* and/or are owned by *Low-Income Persons;*
2. Lending to *Low-Income Persons* or residents of *LICs;*
3. Investing in or providing loans to support commercial properties that are located in *LICs;* or
4. Investing in, lending to or providing technical assistance to organizations (e.g., *CDEs* or *CDFIs*) engaged in activities that promote community development in *LICs* or for the benefit of *Low-Income Persons.*

[6] CDFI Fund CDE Application, www.cdfifund.gov

The application includes the following:

1. Identification of Service Area
2. Accountability to Low Income Communities (residential representation in the entities including governing board or advisory board)
3. Products and Services

Applying for NMTC Allocation: As noted earlier, the application process for a NMTC Allocation is intensive and very competitive. Law firms and investment bank services offer assistance and expertise in filling out applications but are very costly. The NMTC program is annually authorized by Congress, so certainty and continuity for Affordable Housing Tax Credits is not evident. (The lower investor purchase price for NMTC versus Affordable Housing Credits is partially a result of this uncertainty). Once the program and funding are authorized, the CDFI Fund will announce the timetable for the application process (also found on the Federal Register).

The following will highlight some of the key areas of the application: *NOTE for 2011, the application was 75 pages and required about 18 tables*

1. Business Strategy:
    a. Products, Services and Investment Criteria
        i. Qualified Low-Income Community Investments
        ii. Types of loans (Business, Real Estate)
        iii. Financial Counseling and Other Services
        iv. Equity, Equity Equivalent, Senior or Subordinated Debt
        v. Interest rates
    b. Prior Performance
        i. Other Qualified Low-Income Investment Activities
        ii. If so, what results
    c. Projected Business Activity
        i. Number of Investments
        ii. Pipeline of Activities
        iii. Anticipated Change
    d. Non Metropolitan Counties (activities)
    e. Investments in Unrelated Entities
2. Community Impact
    a. Targeting Use of Qualified Low Income Community Investments (Level of Distress and other Federal or State Designations)
    b. Community Development Outcomes – Prior Performance
        i. Job Creation, Job Quality, Financing Minority Businesses, Housing Units, Services to Low Income Communities or Healthy Foods Financing
        ii. How tracked
        iii. Community Involvement
3. Management Capacity
    a. Organizational Staffing and Key Personnel
    b. Direct Experience

    c. Asset and Risk Management Experience
    d. Delinquencies or Defaults
    e. Program Compliance Experience
    f. Portfolio Management and Reporting
    g. Investment Strategy
    h. Low Income Community Representation
    i. Controlling Entity Compliance and Capacity
4. Capitalization Strategy
    a. Investment Partnerships
    b. Investment Strategy
    c. Process of Securing NMTC Investor Commitments
    d. Distribution of Benefits
    e. Sources and Uses of Capital
5. Previous Award Information (If Any)
    a. Track Record
    b. Results
6. Tables and Exhibits

USING NMTC IN PROJECTS

This section is intended for community development organizations interested in incorporating New Markets Tax Credits in their project (or project developed by their constituency: businesses or developers). Recently, there have been innovative uses of NMTC to the benefit of low income communities and their residents. This section will explain how the NMTC process works in projects, discuss some innovative uses, and afford tips and strategies if you are considering using NMTCs in your project.

Process:

The CDFI Fund will review applications and make allocations to CDEs. Allocations have occurred annually and averaged about $3.5 Billion Dollars. The CDFI Fund uses external reviewers to score applications based on a criteria that mirrors the application. Specifically, the sections are:

1. Business Strategy
2. Community Impact
3. Management Capacity
4. Capitalization Strategy

Applicants must meet or exceed a minimum scoring threshold in each section (and the total). A secondary phase includes a process where CDFI Fund officials determine which applicant receives allocations and how much (this is based on scoring rank). Higher scores usually reflects greater experience and capacity.

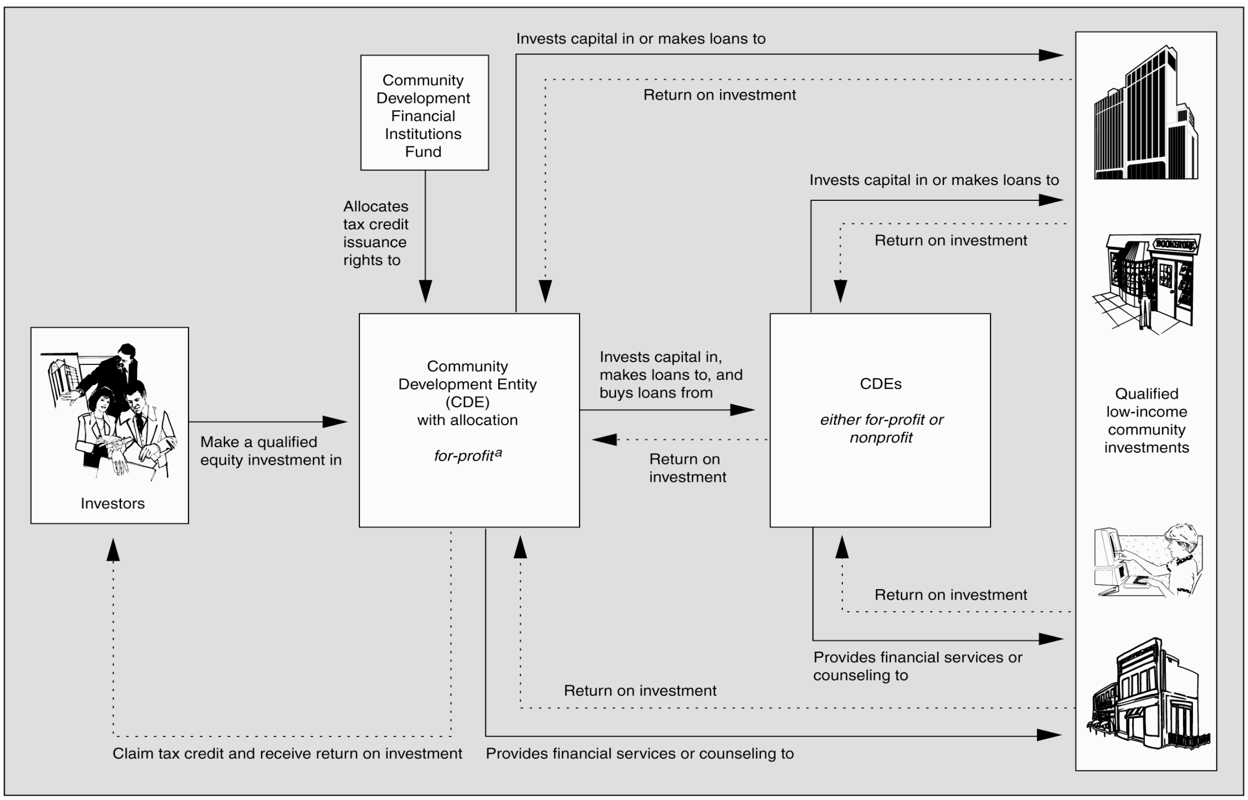
Investors (mostly banks and financial institutions, will make Qualified Equity Investments (QEI) by acquiring stock or capital interest in the CDE. The CDE is the entity that invests proceeds into Qualified Low-Income Community Investments (QLICI) in qualified low income communities.

The CDFI Fund defines low income communities and for the NMTC program. For the program, 39% of all census tracts qualify and about 36% of the US population resides in these tracts.

There are four types of eligible QLICIs:

1. Loans to or investments in Qualified Active Low-Income Community Business (QALICBs)
2. Financial counseling and other services
3. Loans to or investments in other CDEs provided that those funds are in turn used to finance QALICBs or financial counseling and other services
4. Purchase of qualifying loans from other CDEs.

NMTC Process for Using Allocated Tax Credits to Make Qualified Low-Income Community Investments



Source: GAO.

Source: GAO-07-296[7]

For-Profit Entity: "For-profit and nonprofit CDEs can apply for and receive NMTC allocations, but only for-profit CDEs can offer NMTCs to investors because, by definition, nonprofit organizations generally do not have access to equity investment. When a nonprofit CDE receives a NMTC allocation, it must transfer the allocation to one or more of its for-profit subsidiaries. The for-profit subsidiaries do not have to be formed when the nonprofit CDE applies for an

[7] Government Accountability Office (GAO), Report to Congressional Committees, "Tax Policy, New Markets Tax Credit Appears to Invrease Investment by Investors in Low Income Communities but Opportunities Exist to Better Monitor Compliance, GAO-07-296, page 14

allocation. However, the subsidiary must submit a CDE certification application to the CDFI Fund within 30 days of receiving a Notification of Allocation from the CDFI Fund and must be a certified CDE before entering into an allocation agreement."[8]

Most non-profit applicants are mission driven organizations that include local government agencies. These entities will form a for-profit subsidiary as their CDE. The NMTC program requires that all CDEs have community members serve on their board. The goal is to ensure that projects reflect the concerns and needs of the community, however the definition includes owners of businesses and residents as well as representatives of community groups and charities within the qualified community. By definition, mission-driven CDEs focus more on meeting low income community needs and generally provide more benefits (technical assistance and pricing) for projects with substantial community benefits. National examples of mission driven organizations include the Enterprise Foundation's affiliate: Enterprise Social Investment Corporation (ESIC) and the Local Initiatives Support Corporation's (LISC) affiliate organization, the National Equity Fund.

Once the funds are invested into a qualified equity investment, the investor may claim tax credits over a 7 year period totaling 39% of their original investment (the credit is a dollar-for-dollar reduction in tax liability).

> *"The NMTC is a nonrefundable tax credit, meaning taxpayers do not receive payments for tax credits that exceed their total tax liability. Investors can cease to qualify for the NMTC, and trigger a recapture event if the CDE (1) ceases to be a certified CDE, (2) does not satisfy the "substantially all" requirement, or (3) redeems the investment. A recapture event means that an investor will no longer be able to claim the credit, and that the investor that originally purchased the equity investment and subsequent holders of the investment are required to increase their income tax liability by the credits previously claimed plus interest for each resulting underpayment of tax."*[9]

Once the CDE receives a qualified investment, they have one year to invest most of the funds (85%) into qualified projects.

Management and ongoing success of the project is very important, especially to the investor. Once investors begin claiming the credit on their tax returns, three things can trigger a recapture event (meaning that the investor will no longer be able to claim the credit because the investment no longer qualifies for NMTCs, and must repay benefits used to date).

"The NMTCs can be subject to a recapture if the CDE :

1. Ceases to be certified as a CDE
2. Does not satisfy the "substantially all" requirement
3. Redeems the investment.

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[8] Government Accountability Office (GAO), Report to Congressional Committees, "New Markets Tax Credit, The Credit Helps Fund a Variety of Projects in Low-Income Communities, but Could be Simplified", GAO-10-334, January 2010, page 10

[9] Ibid, GAO-10-334, Page 10

In general, a recapture event means that the investors that originally purchased the equity investment and subsequent holders of the investment are required to increase their income tax liability by the credits previously claimed plus interest for each resulting underpayment of tax."[10] If NMTCs are used in loan funds, the loans must be invested in projects. If there is an early repayment, the funds need to be reinvested into a qualified project.

NMTC Structures:

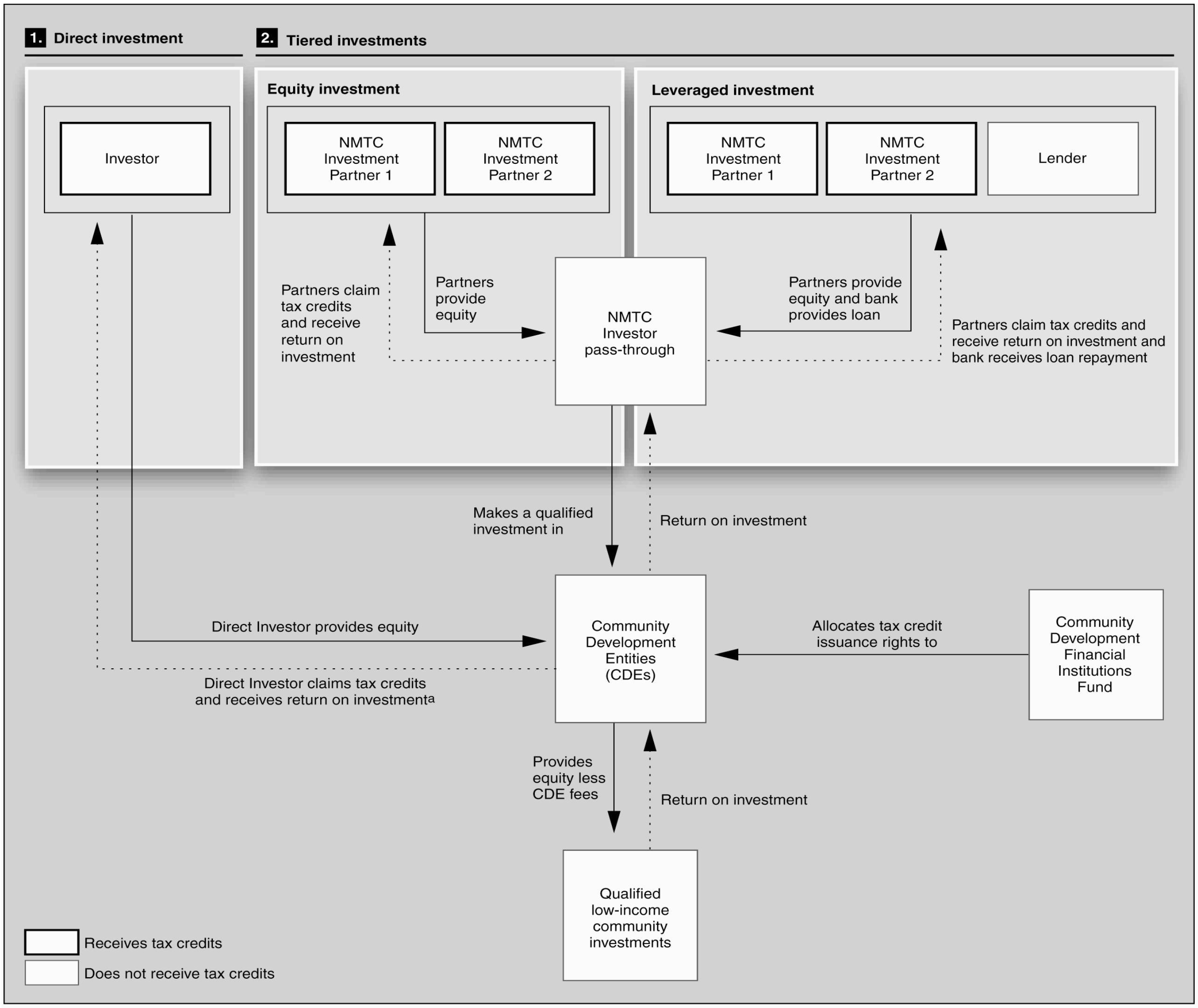
The 2007 GAO report summarizes two basic legal and programmatic structures for NMTC investments. They are: (see chart below)

1. Direct NMTC investments: In a direct NMTC investment, an investor makes a QEI in a CDE that reinvests the money in a low-income community.
2. Tiered NMTC investments: In tiered investment structures, which include equity investments and leveraged NMTC investments, investors provide equity or loans to a pass-through entity that combines funds from several sources, and the pass-through entity makes the QEI in a CDE. In both direct and tiered investment structures, equity investors in a CDE are able to claim the NMTC on their tax returns and, after leaving the equity investment in the CDE for the 7 years during which they are eligible to claim the credit, they can redeem their original equity stake in the CDE.
    a. Equity Investments: In a tiered equity investment structure, the dollars invested in the investment fund consist entirely of equity investments from multiple investors
    b. Leveraged NMTC Structure: In a tiered leveraged investment structure, a portion of the money being invested in the investment fund comes from equity investors and a portion of the money originates from a debt investment (loan).

Comparison of NMTC Investment Structures[11]

(See following page)

[10] GAO-07-296, Op Cit, Page 15
[11] Ibid, Page 25



Source: GAO.

* Investors in a CDE cannot redeem any of the original QEI during the 7-year period while they are allowed to claim the credit. However, equity investors can receive a return on their investment in a CDE, in the form of dividends or partnership income, for example.

The 2007 GAO report further describes an example of a leveraged structure:

> *"The leveraged investment structure may make NMTC investment more attractive to some investors because it allows investors to invest in the CDE who may not be able to claim tax credits but could still benefit from the economic returns. The investment structure can be used to separate the tax benefits of the investment from the economic benefits of the investment. For example, an investment fund partnership makes a $1 million leveraged qualified equity investment in a CDE where $400,000 of the money comes from the equity investors in the partnership and the other $600,000 comes from a bank as an interest-only loan to the investment partnership with a balloon payment after 7 years. The CDE that receives the QEI reinvests the money by loaning "substantially all" of the $1 million to a QALICB. In this structure, the economic and tax*

benefits are separated: the bank receives interest payments on the loan to the CDE and, after 7 years, the bank will also be entitled to collect principle payments on the loan while the equity investors are entitled to claim the NMTC for 7 years, totaling 39 percent of the total $1 million QEI—not just the $400,000 that was originally invested as equity. NMTC equity investors may also receive a return on their investment, in the form of dividends or partnership income, for example, during the 7-year period while they can claim the credit. However, neither the investment fund partnership nor the underlying investors can redeem any portion of the QEI during this period and still remain eligible to claim the credit.

The leveraged investment structure may also offer a more attractive combination of risk and return than direct investment. From the bank's perspective in the example above, this investment structure may be attractive because the loan-to-value ratio is more favorable than it would have been if the debt was not being combined with the investors' equity. The more favorable ratio may compensate the bank for assuming a greater degree of risk, most notably if the business that receives the loan from the CDE defaults on its loan agreement. In that case, the bank's investment is only secured by the equity in the original investment partnership ($400,000 in the example above). From the equity investor's perspective, if the business defaults on its loan, they are still allowed to claim the full amount of the credit—as long as the business that receives the funds is a qualifying business in the year the loan is made."

Loans: CDEs may decide to use investment capital to provide loans to QALICBs. These loans are usually made to businesses in disadvantaged areas in dire need of capital. The majority of CDEs receiving NMTC allocations are CDFIs with successful histories and experience in lending in markets they serve. Loans could be structured in many different ways with the most common being below-market rates. Other features may include:

1. Lower fees
2. Longer terms
3. Higher loan to value ratios
4. Subordination to other debt
5. Interest only payments

The NMTC capital must however be part of the QALICB for a seven year period, precipitating the interest only structure that allows the capital to remain in the project. Early repayment of loans will require redeployment (re-lending) of the capital.

Un-Leveraged Versus Leveraged NMTCs:
Un-Leveraged: Simple examples of an un-leveraged structure would be a bank or loan fund receiving an allocation of NMTCs. The allocatee (entity receiving credits from the CDFI Fund) would sell the credits to an investor (in the case of a bank, they would likely purchase the credits internally). The investor would use the proceeds to make direct loans or use the investment to lower interest rates on their loan pool. The loans would be made to eligible businesses or real estate projects for a seven year period and adhere to all the rules on use of NMTCs.

Leveraged: A development of a community center (or any community facility) with a development cost of $10 million dollars. The project is designed to have no debt since the tenants have unreliable sources of funding and may not be able to make ongoing debt payments. Under the NMTC program, your project would be eligible for a net $2 million in NMTC generated equity. The math is simplified as follows:

Project's Eligible Basis:	$10,000,000	
NMTC is a 39% Credit:	$ 3,900,000	in credits
Credits sold at $.65 per $1 of credits	$ 2,535,000	in gross equity
NMTC Expenses:	$ 535,000	(fees, legal expenses, closing)
Net Equity	$ 2,000,000	

What is not shown in the example above is how the $8,000,000 in grants and other public and private sector funding becomes eligible under the leveraged structure. All grants in the project will need to be consolidated in the form a taxable loan. The loan is provided by a bank but the term is overnight. Thus the loan is closed, funded, and immediately repaid.

In the case of commercial, retail, or office projects, there might be the need for debt (loans) in the project. In times of very tight credit, it is difficult to find major commercial lenders (as well as some of the CDFIs) to provide both a loan and tax credit investment in fear of having too much exposure (risk).

Projects structured with no debt generally have significantly less risk of default and are more easily marketed to investors.

"But For": One of the key goals of the NMTC program is to provide private investment where the investment was likely not to have taken place in the absence of the NMTCs. In most transactions the investment is used as "gap financing", funding needed to fill the final financing shortfall. Over the years, NMTC investments in projects have averaged about 10% of the total development cost.

ISSUES:

Fixed Costs: The 2010 Government Accountability Office (GAO), Report to Congressional Committees, "New Markets Tax Credit, the Credit Helps Fund a Variety of Projects in Low-Income Communities, but Could be Simplified", noted one of the major issues related to NMTCs. They found that the "the complexity of NMTC transaction structures appears to make it more difficult for CDEs to execute smaller transactions and results in less equity ending up in low-income community businesses than would likely end up there were the transaction structures simplified".[12]

Leveraged structures are very expensive. Costs are driven primarily by two reasons, legal fees and NMTC fees. Legal fees are extremely high and are a result of the number of legal entities needed to get investment capital to the project. Under the simplest structure there are at least five entities which are part of the financing structre: the NMTC investor, leveraged lender (bank), the investment fund (where the loan funds and equity is pooled – affiliated with the project sponsor), the Community Development Entity (the for-profit entity that will invest into the project), and finally the Qualified Active Low Income Business (this is your project).

[12] Op. Cit., GAO 2010

Attorneys represent the lender, investor, CDE and the project. They will negotiate the documents creating these entities (entity documents and partnership agreements) and documents that ensure that the funds flow to and for its intended use (loan documents and funding agreements).

In many projects there may be other entities that are part of the process such as a guarantor, additional co-lender(s), additional CDE (tax credit provider) and possibly the tenant (if it is not the developer). As a result, legal fees could range from $200,000 to $500,000(+).

Additionally, CDEs that are not mission driven can have exorbitant fees. Mission driven CDE's will have a single fee in the range of 4-5% while some non mission driven organizations have a series of fees nearing 10%. Because the NMTCs are severely oversubscribed, projects accept these higher fees. The net is less equity to the project and more funding diverted to the "NMTC cost of doing business".

More recently, many of the larger financial institutions and intermediaries with significant annual NMTC activity (as an investor and/or credit provider), have been successful in lowering transaction costs. This has been accomplished by using lawyers well versed in NMTC structures and is familiar with the documents needed for various project structures.

The general comfort in the program and how deals are structured have driven expenses lower. This trend was evident in the Affordable Housing Tax Credit program (very similar but less complex tax credit and equity structure). The advantages of the Affordable Housing Tax Credit program is that it does not need to be appropriated annually (program continuity), has a much simpler structure, and is a deeper credit (generates more equity needed to create housing affordability).

Program continuity gives comfort to financial markets (investors) as it becomes a known investment with a solid performance record. This track record and product familiarity results in more competitive (higher) pricing.

The GAO analysis did not study NMTC pricing and fees associated with NMTC transactions. They were aware that these costs reduced the amount of the subsidy ultimately reaching low-income communities. According to practitioners (banks and CDFIs) active in the use of NMTCs the net equity to a project in a leveraged structure is about 15–23%, a significantly large range (expenses as high $800,000 in a $10 million dollar project). Besides the reduction in equity to projects, the high fixed costs create a floor for projects based on their development costs.

The net percentage of investment equity into projects also varies significantly based on the purchase price for the credits; the smaller purchase price results in less equity and a higher percentage used for fixed costs. For smaller projects (or projects that receive a lower price for the purchase of credits), the majority of equity will be used to pay fees and expenses.

Lastly, high fixed costs hinder innovative use of NMTCs. Projects cannot afford to use NMTCs on complex or innovative projects which require participation and support from many entities. Each new partner, guarantor or funding resource will significantly increase legal fees for all participants.

Real Estate Focus: Lauren Lambie-Hansen's working paper titled "Addressing the Prevalence of Real Estate Investments in the NMTC Program"[13] and noted the prevalence of real estate projects in the NMTC program. This was true for direct investments in real estate development projects and those made as business loans (although they were business loans, the funds were used for real estate development or improvements). The downside of real estate versus business investment is the fewer number of jobs created in low income communities. Business investment and expansion create long term jobs and job opportunities.

> *"Although the number of NMTC investments made to operating businesses and real estate businesses is roughly even (49 percent were made to operating businesses vs. 51 percent made to real estate businesses), approximately 66 percent of the NMTC dollars invested have been invested in real estate businesses."*[14]

Much of the NMTC business investment activity has been made to real estate developers to finance the acquisition or rehabilitation of commercial, residential, and mixed-used real estate property or real estate for their own use.

Investor comfort in real estate lending and investment is partially responsible as is the ease to meet the seven year investment requirement. When used for business financing, early repayment or business failure, result in the need to redeploy funds quickly into an eligible business in an eligible location.

Value of Credits: The market value of credits (what investors will pay for credits) varies significantly. The internal rate of return for credits (for profitable corporations) is typically very high due to the higher perceived risk of NMTCs (versus Low Income Affordable Housing Tax Credits (LIHTCS). LIHTCs have been in the marketplace for over 17 years and have a strong and proven track record. LIHTCs do not need annual approvals and have become a very viable business, especially due to the requirements of the Community Reinvestment Act (CRA) which mandates investment, service and lending to all communities where banks draw their deposits.

In mid 2008 (before the full economic downturn), LIHTCs were selling for over $1.00 per $1.00 of credits, driven by banks needing to meet CRA requirements. At the height of the downturn credits were selling for less than $.70. When LIHTCs were first introduced they were selling for $.30 - $.50., but as the market began to understand credits, the value rose to $.80-.90 with many "non-bank" corporate investors looking for tax benefits.

Prior to the downturn NMTCs peaked at approximately $.70-.75 and has dropped to $.65-.68 cents in the current market (2012). As always, the credits are subject to market demand.

Uneven Field: The annual demand for New Markets Tax Credits overwhelms the supply of credits. Once the CDFI Fund makes awards to eligible applicants, the Fund will list entities who were granted funds, the amount, the geographic community or state they are targeting. This

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[13] Lambie-Hansen, Lauren, " Addressing the Prevalence of Real Estate Investments in the NMTC Program", Community Development Investment Center, Federal Reserve of San Francisco, Fall 2008

[14] Ibid, page 6

means that in any given year, some regions will not have any NMTCs to serve the needs of their community or marketplace. In other instances a winning CDE in your community may already have reserved their award for projects they have reviewed and are part of their “pipeline”. Lastly, your project may not be ready or could not wait for a possible allocation to the CDE supporting your project. Timing and luck are part of obtaining credits and being ready to use them.

Meeting the time frame to use NMTCs can be difficult for community development projects. Non profit projects typically need lengthy predevelopment time to structure and obtain financing commitments. For-profit developers can better estimate development time schedules and do not depend on multiple approvals and applications.

The best strategy is to talk to many entities planning to submit for the next round of credits. In most cases they will seek projects to include in their application to show “readiness”. This is not a commitment to you. However if they do get credits and your project timeline meets the application and award process, you are able to proceed.

Larger NMTC investors and tax credit applicants have extensive networks of partners they usually work with. Investors work with many CDEs and the projects they support. Larger investors can usually locate organizations that may still have credits for your project. A good example is US Bank. US Bank has invested in the purchase of over 50% of the NMTCs in the market today and received an allocation in almost every year they applied. If they do not receive an allocation, they would be able to tell you might have credits available.

DEVELOPMENT TIPS:

Some key development tips to remember include:

1. Becoming an established CDE and applying for a NMTC allocation is a very difficult process. Most successful applicants have a significant amount of experience and have functioned as a successful CDE or CDFI.
2. Organizations can work with existing experienced CDE’s (CDFIs, financial institutions and local government) to make sure projects (businesses and real estate projects) know and understand that the NMTC resource exists. Staffs at these institutions are usually very receptive to providing training on how the credits work. If your economic development project fits the parameters for NMTC, they will likely include them in their next application, or if excess credits are available, will allocate them accordingly.
3. Remember, timing is essential. The NMTC Program approval and appropriations occur annually and are uncertain due to economic and political restraints. Additionally, the credits are annually oversubscribed and credit providers usually focus on projects that are ready or will be ready to close within the year. In many instances, non-profit projects have multi-levels of financing and time constraints are tied to many factors that are not controllable.
4. Work closely and talk to the NMTC providers that serve your clientele (or your organization) and if the timing is right, stay in their pipeline or processing queue.
5. Manage Expenses: Transaction costs are very high for NMTCs. Check the fee structure for tax credit providers and remember mission driven organizations will typically have the

lowest costs. Make sure you use legal counsel experienced in NMTCs and that they have worked with the investor on previous occasions and on similarly structured projects.

6. Technical Assistance: The NMTC process is complex and expensive but there are many resources for technical assistance, especially from investors and credit providers active in NMTCs.

Final Note:

Becoming a tax credit provider is a difficult and competitive process. Using NMTCs in projects provides another very important source of equity and can define financial success for your project. It is most important to have staff dedicated to the project, and if they do not have the expertise, locate resources to support and guide the effort.

This document is intended to be a guide that outlines some of the key issues and identifies possible solutions and steps. It is not intended to be your only source since every project has its own issues, concerns and peculiarities, and its own unique solutions. The document is not intended to encourage any organization into project development but only to lay out some of the key steps and issues once the decision is made to proceed.

APPENDIX A - FOR MORE INFORMATION: *Resources Websites:*

New Markets Tax Credit Coalition (NMTCC): (www.nmtccoaliton.org) "The New Markets Tax Credit Coalition (NMTCC) is a national membership organization representing Community Development Entities (CDEs) and investors working with the NMTC. The NMTC Coalition was formed in 1998 with the principal purpose of advocating for the enactment of a federal tax credit to spur economic development in underserved areas. The Coalition works to ensure that the NMTC can effectively be used to attract private capital and generate economic development in poor communities.

The Coalition played a central role in developing the initial concept for New Markets and successfully worked with Congress for enactment of the Credit. Once the law was enacted the Coalition worked on implementation of the Credit including extensive consultation with the Treasury Department on the initial interim rule, the final rule and subsequent guidance. The Coalition maintains an ongoing relationship with the Department's Community Development Financial Institutions (CDFI) Fund, which administers the Credit, as well as the Office of Tax Policy and the Internal Revenue Service, which are responsible for tax provisions of NMTC."

Novogradac & Company LLP: (www.novo.com/new_markets/index.php) "Novogradac is a national certified public accounting and consulting firm headquartered in San Francisco, Calif., with offices in metro Atlanta, Ga.; Kansas City, Mo.; and Washington, D.C.; as well as in Austin, Texas; Dover, Columbus and Cleveland, Ohio; Boston, Mass.; Portland, Ore.; New York, N.Y.; and Long Beach, Calif. The firm maintains clients in a broad range of industries with a major emphasis in the real estate sector, providing publicly and privately held national and multinational enterprises with a full spectrum of audit, tax, valuation, trust and litigation support and general consulting services". The firm is active in community development and maintains a "New Markets Tax Credits Resource Center" and publishes numerous publications and reports and organizes seminars and training on NMTCs.

Department of Treasury NMTC Program: (www.cdfifund.gov) Treasury website contains reports, applications, information on the NMTC Program and latest updates on funding and legislation.

Opportunity Finance Network: (www.ofn.org) "Opportunity Finance Network (OFN) is a national network of community development financial institutions (CDFIs) investing in opportunities that benefit low-income, low-wealth, and other disadvantaged communities across America.

OFN Members are performance-oriented, responsible investors that finance community businesses, sparking job growth in the areas that need it most, and delivering both sound financial returns and real changes for people and communities.

Our Network has originated more than $23.2 billion in financing in urban, rural, and Native communities through 2009. With cumulative net charge-off rates of less than 1.4%, we have demonstrated our ability to lend prudently and productively in unconventional markets often overlooked by conventional financial institutions."

Coalition of Community Development Financial Institutions (CDFI Coalition): (www.CDFI.org) "Formed in 1992 as an ad-hoc policy development and advocacy initiative, the Coalition of Community Development Financial Institutions (CDFI Coalition) is the lead national organization in the United States promoting the work of community development financial institutions (CDFIs). Through its member organizations, the Coalition represents CDFIs working in all 50 states and the District of Columbia. This national network of CDFIs includes community development loan funds, community development banks, community development credit unions, microenterprise lenders, community development corporations and community development venture capital funds. The CDFI Coalition coordinates industry wide initiatives to increase the availability of capital, credit and financial services to low-income communities across the nation."

FOR MORE INFORMATION: *Websites, Organizations*

National:

Low Income Investment Fund (LIIF): (www.liif.org) : "LIIF is a community development financial institution (CDFI) that provides innovative capital solutions that support healthy families and communities. As a CDFI, LIIF invests in projects that have high social value but may not be able to access the services offered by traditional financial institutions. In this way, LIIF connects low income communities with the capital markets. LIIF offers a wide range of products, including community capital loans, New Markets Tax Credits, grants and technical assistance. LIIF's mission-driven approach combined with its market and industry knowledge have distinguished it as a CDFI that creates flexible, affordable financing solutions that work for community organizations and investors. In 2011, LIIF invested over $1.1 Billion."

Enterprise Community: (www.enterprisecommunity.com): "Enterprise Community Partners is a national nonprofit that:

- Provides expertise to our local developer partners
- Carries out our policy work and initiatives
- Operates national programs such as Enterprise Green Communities, our national green initiative.
- Makes grants to partners to help them strengthen their operations or plan projects. These grants come from money that we need to raise every year from our donors-– individuals, corporations, foundations and the government.

Our socially motivated for-profit subsidiary, Enterprise Community Investment, is one of the main vehicles through which we bring capital into projects, including:

- Low-Income Housing Tax Credit equity
- New Markets Tax Credits
- Debt and multifamily financing
- Development and consulting

Enterprise also brings capital into projects through our nonprofit subsidiary, Enterprise Community Loan Fund, a community development lender (a Community Development Financial Institution or CDFI)."

Financial Institutions:

U.S. Bancorp Community Development Corporation (USBCDC): (www.usbank.com): " USBCDC is proud to invest in the communities where we live and work. We provide resources and expertise for the rehabilitation of historic buildings, construction of affordable and market-rate homes, development of renewable energy facilities and generation of commercial economic activity in low income communities. Our goal is to add lasting value to all of our ventures and customer interactions. We measure our success by the opportunities we create for our customers and partners. As one of the nation's largest tax credit investors, USBCDC has invested more than $8 billion nationwide, in hundreds of transactions, including New Markets (NMTC), Historic (HTC), Renewable Energy (ITC), and Affordable Housing (LIHTC) projects. These equity investments have provided needed revitalization and new resources to communities throughout the country. Our track record speaks for itself. Our expert staff addresses each project's unique needs and challenges. By working directly with our clients through every phase of the project, we tailor each transaction to suit their needs.

New Markets Tax Credits (NMTC): USBCDC is the nation's leading NMTC investor, both in dollars invested and transactions closed. We are experts in structuring both leveraged and non-leveraged NMTC transactions, incorporating varied sources of capital, and combining NMTC with other tax credit programs. Our strong commitment to economic revitalization in low income communities has generated more than $2 billion dollars of Qualified NMTC Investments in more than half of the nation's states. Our success has been built on our creative and flexible approach."

J.P. Morgan Chase: (www.chase.com): "Chase has received five successive rounds of NMTC authority. Through our Community Development Banking group, we use these five proprietary NMTC allocations to provide clients—CDEs, CDFIs, not-for-profits, real estate developers and operating businesses—with senior debt at interest rates substantially below the market rate. Our efficient lending model offers low fees and efficient closing timelines, making us a powerful ally for NMTC borrowers.

Tax Credit Equity Investor: In addition to using our own NMTC allocation, Chase also acts as a tax credit equity investor in the NMTC allocations third-party CDE allocates. As a tax credit equity investor, we have financed a wide variety of projects across the U.S., including:

- A state-of-the-art charter school in Brooklyn ($75 million QEI)
- A multipurpose YWCA facility in Los Angeles—including a jobs training and educational center, a student dormitory, recreational facilities, and offices ($50 million in QEI).
- A renovated and expanded historic theater and performing arts complex in Rochester, New York ($39 million in QEI).
- A technical jobs training facility in Chicago ($9 million).

Chase invests in the full spectrum of eligible asset types under the NMTC program, including small businesses, not-for-profit and for-profit real estate projects, community development financial institutions, NMTC loan funds, and more."

We prioritize investments that:

- Have the greatest possible positive community impact
- Are located in areas of higher economic distress
- Are located in the bank's retail banking footprint, including: New York City, New York state, the Midwest, the Pacific Northwest, the Southwest, California and Florida.

Wells Fargo: (www.wellsfargo.com): "Making high-impact loans and investments in underserved communities is critical. The New Markets Tax Credit (NMTC) program is a powerful vehicle for Wells Fargo to help meet the needs of these communities.

The NMTC program is a federal tax incentive authorized by Congress in 2000 to help spur the investment of capital in small businesses and commercial real estate located in communities of need. Through NMTC allocations, Wells Fargo reduces borrowing costs for non-profits and entrepreneurs, enabling higher risk loans and investments that shoulder collateral shortfalls and credit risks."

Eligible businesses:

Community facilities
- Charter schools & child care centers
- Healthcare clinics
- Community and performing arts centers

High-impact real estate development
- Redevelopment projects
- Mixed-use and transit-oriented developments
- Neighborhood-serving retail

Job creation & small business finance
- Owner-occupied facilities finance
- Expansion capital

Bank of America: (www.bankofamerica.com) "As a market leader in the community development industry, Bank of America Merrill Lynch has made a commitment to the revitalization and stabilization of low-income communities. Through our New Markets Tax Credit (NMTC) investments, Bank of America Merrill Lynch provides capital to highly distressed low-income communities. Bank of America Merrill Lynch supports projects that create permanent full-time jobs for low-income individuals; provide job training opportunities; and bring goods, services, and community facilities to underserved communities.

Bank of America Merrill Lynch is committed to making an impact through targeted investments in low-income communities and strives to:

- Generate permanent full-time jobs with opportunities for advancement for low-income individuals
- Provide vocational training for low-income individuals
- Bring goods and services to underserved communities
- Develop community facilities that provide educational, cultural, and recreational programming for residents of low-income communities

Bank of America Merrill Lynch's integrated delivery approach ensures that the right mix of NMTC and conventional products are combined to provide a total financing solution. We currently offer various NMTC financing structures to qualifying projects, the most popular of which is the Equity Builder Term Debt Product.

In order to carry out our mission, Bank of America Merrill Lynch seeks projects that deliver the maximum economic impact to underserved low-income communities."
Preferred property types include the following:

- Industrial
- Community facilities
- Retail

Regional:

Clearinghouse CDFI: (www.clearinghousecdfi.com): "At Clearinghouse CDFI we believe in providing equal access to credit in neighborhoods of all income levels and ethnicities. We spend the time and energy required to find creditworthy borrowers whose projects create assets in the community. These borrowers, because of their unique circumstances, are rejected or not even considered by traditional lenders.

Community development lending must be profitable in order to be sustained. As with conventional lenders, we carefully evaluate each applicant's ability to repay the loan. Unlike traditional lenders, we do not have predefined loan programs. We analyze each loan application individually. Every loan we make benefits the community in a measurable way.

Clearinghouse CDFI is a Community Development Financial Institution serving low-income communities and families throughout the State of California. Through our two lines of business, Core and NMTC lending, we have funded $760 million in loans and equity investments in low-income communities. Our 1,232 loans have assisted borrowers such as nonprofits and other community development groups to create 3,005 affordable housing units, enable 846 first-time homebuyers, create 4,270 construction and permanent jobs, and serve 215,000 clients of low-income communities annually."

Coastal Enterprises Inc (CEI): (www.ceimaine.org) "CEI in 2012 is a Maine-based organization with strategic expansions outside of Maine, serving more rural communities directly or through alliances and having an ever greater impact on poverty, which is documented with data. The organization has a high financial sustainability ratio, thanks to new and expanded sources of funds through private giving, public funds, and income from funds and venture capital. CEI has a metric for looking at the balance of the 3 Es—economy, equity and environment—through all initiatives, and has a group in place measuring impact, scanning for opportunities, and developing policy."

Community Based:

People Incorporated Financial Services: (www.peopleinc.net) "People Incorporated Financial Services was created in 2001 to address business development financing needs throughout

Virginia. This People Incorporated affiliate administers the microenterprise development and small business financing activities for People Incorporated

As a Community Development Financial Institution certified by the U.S. Department of Treasury, People Incorporated Financial Services offers loans, development services and financial products to small and emerging businesses. People Incorporated Financial Services works to strengthen local economies in 17-jurisdiction service areas.

People Incorporated Financial Services has extensive experience providing small business and microenterprise development and lending services in low-income communities, and is the only CDFI headquartered in rural Virginia. Since its inception in 1992, the People Incorporated Financial Services loan portfolio has grown to include 308 microenterprise and business loans, which to date have created 475 jobs and retained 180 more."

Specialty:

ExED (www.exed.net): "ExED serves as a key resource for charter schools to overcome one of the most challenging obstacles they face: financing the construction of facilities where students can thrive. In particular, ExED has pioneered new funding sources for facility financing, and continues to be a leader in ensuring that charter school students have access to great facilities. ExED partnered with the U.S. Treasury Department to create a brand-new use for the federal New Markets Tax Credit (NMTC) Program, harnessing a funding mechanism typically used for community redevelopment to make low-interest loans to build and improve facilities at charter schools. ExED has won three NMTC allocations in highly competitive national contests, resulting in the allocation of $94 million to benefit students in underserved neighborhoods throughout the Los Angeles area.

So far, 17 schools serving more than 7,500 students are receiving these NMTC subsidies from ExED and its affiliates. More than 90% of these students qualify for the federally subsidized free or reduced price lunch program, and more than 99% are persons of color.

Through capital investments from a variety of funding sources, ExED and its affiliates have become the leading providers of facility financing to charter schools in Los Angeles. Our financial partners include US Bank, Citibank, JP Morgan Chase and The Broad Foundation, among many others. Our close relationship with leaders in the financial community has enabled thousands of students to study in new or adaptively reused, state-of-the-art facilities, leveraging private-sector funds for the benefit of our neediest students.

In addition to NMTC financing, ExED also helps charter schools with packaging of loans and other funds, and with consulting support to overcome development challenges, such as securing school sites and selecting development professionals."

APPENDIX B: PROJECT EXAMPLES:

Project:	**Imagine Schools, Inc., El Centro, CA**
NMTC Investor :	US Bancorp CDC
Leverage Lender:	Clearinghouse CDFI
NMTC Provider (CDE):	Clearinghouse CDFI
Project Sponsor:	Private Developer
Tenant:	Imagine Schools, Inc

Imagine Schools, Inc. is an organization that manages and operates over 70 charter schools across the nation. It is the fastest growing charter school organization, with over 3,600 teachers and staff educating 36,000 students nationwide

Project Summary:
Acquisition/rehabilitation of a 56,000 SF former Sears store unit within a single story retail mall Building Private Developers planned to renovate the unit into a charter school facility that will provide high quality education to a projected 470+ students in grades K-4 in Year 1, increasing up to 830+ students in grades K-8 by Year 5

NMTC financing provided the Developers low cost capital (approx. $2MM) to convert an underutilized, vacant building into a much needed charter school facility

Source: Karp, Tim, US Bank CDC "Nevada NMTC Workshop", June 2011

Project:	**Pacific Gateway Incubator/Offices, Honolulu, HI**
NMTC Investor:	US Bancorp CDC
Leverage Lender:	Project Sponsor Affiliate
NMTC Provider (CDE):	Alaska Growth Capital BIDCO, Inc.

Pacific Gateway Center is a 35-year old non profit whose mission is to help immigrants, refugees and low-income residents of Hawaii gain access to opportunities and services that will lead to self-sufficiency
Project Summary:

- Acquisition/rehabilitation of a 10,200 sq. foot historic commercial building located in the Chinatown neighborhood of downtown Honolulu
- Pacific Gateway acquired the building in 2003 and construction had occurred through the years as grants and other financial contributions to the organization became available
- NMTC financing provided low-cost capital (approx. $800K) needed to finally complete the Paradise Enterprise Center renovation – a facility to house PGC's main offices, retail incubator, business center and restaurant

Source: Bustria-Glickman, Maria, US Bankcorp CDC, CCEDA Teaching and Learning Conference, October 2010

Project:	**Sunwheel Energy Partners (Solar Installation Company)**
Project Sponsor:	McCormack Baron Salazar
NMTC Provider:	US Bank McCormack Baron Salazar
NMTC Investor:	US Bank

"U.S. Bank, one of the nation's largest commercial banks, joined with developer McCormack Baron Salazar (MBS) to finance the installation of solar-energy systems on 11 existing affordable multifamily housing communities in various locations throughout California.
This transaction involved three main entities and their related affiliates:

- MBS, a for-profit affordable and market-rate housing developer with a focus on "green" architecture and sustainable design;
- Sunwheel Energy Partners, an MBS affiliate that finances, operates, and maintains photovoltaic solar systems; and
- U.S. Bank, the investor.

The financing structure used a combination of state rebates and federal tax credits under the new markets tax credit (NMTC) and investment tax credit (ITC) programs.
Sunwheel installed solar panels on 11 rental housing communities in California. In separate financial transactions, MBS had previously developed several of the affordable-housing communities using low-income housing tax credits. The solar power generated by the solar panels lowers utility costs in the affordable housing community and, in some cases, the benefits are shared with the tenants, through reduced utility bills.

An affiliate of Sunwheel entered into solar agreements with the host sites by which the affiliate would operate and manage the solar installation. "Due to differences in the local utilities' solar programs around the state, the Sunwheel affiliate needed to be flexible and had to tailor the solar agreements for the sites based on their location," said Michael Steinbaum, Sunwheel's Chief Operating Officer. In some areas, the host entered into a power purchase agreement. In other locations, they used a solar equipment lease."

Source: Van't Hof, Darren, "US Bank Invests in Solar Installations in Affordable Housing Communities", Community Developments Investments, July 2011 www.occ.gov:

Project:	**Sharp Health Care Center, San Diego, CA**
Project Sponsor:	Sharp Health Care
NMTC Provider:	The East Los Angeles Community Union (TELACU) Lowe Enterprises Citi Community Capital
NMTC Investor:	Citi Community Capital

"Citi Community Capital, the community development lending and investing arm of Citi, along with Lowe Economic Development Company ("LEDC") and The East Los Angeles Community Union ("TELACU") will provide $39.7 million of New Market Tax Credit ("NMTC") allocation to assist Sharp HealthCare to build a new 68,350-square foot health care facility in downtown San

Diego. The financing makes it possible for Sharp HealthCare to save funds to apply towards other important goals in accordance with its mission.

Sharp HealthCare ("Sharp"), an award-winning health care provider of integrated health services, provides a substantial amount of benefits to the low-income communities which it serves including providing employment opportunities, medical services at subsidized rates, educational programs, support to community clinics, and contributions of staff time to community non-profit organizations. Along with the expected 250 predevelopment and construction jobs created to build the facility, Sharp will maintain 236 permanent full-time jobs and add 16 additional full-time positions once the facility is operational in late 2012."

Source: www.citigroup.com CITIFORCITIES, Urban Focus "Citi Backs Sharp Healthcare to Help Low Income Families"

Project:	**Gateway Town Center**
Project Sponsor:	Junior Achievement Workforce Readiness Center
NMTC Provider:	Clearinghouse CDFI
NMTC Investor:	City National Bank
Leveraged Loan:	City of Compton
Permanent Loan:	Clearinghouse CDFI

"The Gateway Towne Center is a retail shopping center anchored by Home Depot, Best Buy and Target. It is also home to the Jr. Achievement Workforce Readiness Center, which educates students in grades K-12 about entrepreneurship, work readiness and financial literacy through experiential, hands-on programs.

Clearinghouse CDFI provided a $29 million permanent NMTC loan for the project. This loan was one of the first uses of the American Recovery and Reinvestment Act of 2009 resources in the country. The opening was hailed by city leaders as a sign of the rebirth of Compton and was welcomed by residents.

CDFI Fund Director Donna J. Gambrell attended the grand opening of the Jr. Achievement Workforce Readiness Center, and stated, "It is truly an honor to visit Junior Achievement's Workforce Readiness Center and see first-hand the tremendous positive impact the Gateway Towne Plaza is having on the re-birth of the City of Compton. This is a project that speaks to the economic recovery that is taking place in underserved communities across the country and the extraordinary transformational potential of the New Markets Tax Credit for these communities."

Source: NMTC Loans, www.clearinghousenmtc.com

Project:	**Lighthouse Charter School, Bronx, NY**
Project Sponsor:	Lighthouse Academies
NMTC Provider:	Low Income Investment Fund
NMTC Investor:	JPMorgan Chase
Subordinate Loan:	JPMorgan Chase

Jr. Loan:	Low Income Investment Fund

"Lighthouse Academies, a not-for-profit charter school management organization that operates schools in six states, partnered with concerned New York City citizens to found the Bronx Lighthouse Charter School (BLCS) with the intention of providing children with an arts-infused education. The school opened in 2004 with a kindergarten, first grade and second grade, and for the past seven years has added a grade each year. The inaugural class of second graders will enter the ninth grade in the fall of 2011, filling the existing building. BLCS plans to continue its practice of adding one grade each year until it reaches grade 12. To alleviate crowded conditions, BLCS will use a new markets tax credit (NMTC) investment from the Low Income Investment Fund (LIIF) and JPMorgan Chase to build a state-of-the-art facility for the class of 2015 and beyond. "The [NMTC] program provides a way for the school to finance its dream building," said Priscilla Forsyth, vice president of Lighthouse Academies' New York region.

BLCS worked with JPMorgan Chase and LIIF to finance the project. LIIF's $14.5 million NMTC investment resulted in $4.1 million in equity through the Chase LIIF NMTC Fund for High Performing Charter Schools. Chase provided a $7 million subordinate loan and LIIF provided $3.1 million in junior debt. "It's really an extension of an existing program for kids in grades K through eight. We saw it as a benefit to the community and students. … [It] really fulfilled a need that we saw," said Sarah Schulte, Chase vice president. Chase has earmarked $325 million for charter school investments throughout the country.

Blitzer said that the NMTCs helped the school obtain financing at an extremely low interest rate, a rate that it would not have been able to get with conventional financing. LIIF and Chase negotiated all the upper tier documents at the fund level, streamlining discussions with the school and reducing the NMTC transaction costs. "The financing is coming at the exact needed time. … It filled a very important gap and enabled BLCS to get low-cost money to build its high school campus," Blitzer said."

Source: Dockery, Jennifer, Novogradac Journal of Tax Credits "NMTCs Expand Bronx Charter School" August 2011, pg 1

Project:	**YWCA Jobs Corps Urban Campus, Los Angeles, CA**
Project Sponsor:	YWCA
NMTC Provider:	Enterprise
	Local Initiatives Support Corporation
	Los Angeles Development Fund
NMTC Investor:	JPMorgan Chase
	Bank of America (Sub-Allocation)

"The YWCA is expanding its capacity to provide job training and placement opportunities to area youths with a new Job Corps Urban Campus. A 155,000-square-foot building will house the YWCA Job Corps Center and enable the YWCA to consolidate the program's housing and services—scattered across six sites—into one location. The seven-story U-shaped building will feature a commercial kitchen for culinary training, a dining hall, classrooms, a health suite, and an exterior courtyard. Four floors are residential, with 200 dormitory-style rooms, lounges, laundry facilities, and study rooms that will house 400 Job Corps trainees. The building also will feature a gated entry and 24-hour security

The total development cost of $77.2 million is financed primarily by New Markets Tax Credit (NMTC) equity: a $15.5 million allocation from Enterprise, $14.7 million from LISC and $20 million from the Los Angeles Development Fund. JPMorgan Chase is the investor for tax credits from all three sources. In addition, Bank of America is the investor for $20 million in NMTC from its own sub-allocation."

Source: www.enterprisecommunity.com "YWCA Job Corps Urban Campus"