For Immediate Release
March 24, 2006

Contact: Bill Luecht
(202) 622-8042

NEW MARKETS TAX CREDIT
TRANSACTIONS REPORTED TO THE CDFI FUND

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

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

First NMTC Transactions Reported in CIIS

Community Development Entities (CDEs) that made Qualified Low-Income Community Investments (QLICIs) during their 2003 and 2004 fiscal years were required to report these transactions through the Fund's web-based data collection system known as the Community Investment Impact System (CIIS)[i]. These are the first NMTC transactions on which reports have been received.

A total of 50 allocatees (mostly Round I allocatees) reported making $1.265 billion in Qualified Low Income Community Investments (QLICIs) through FY 2004.

- $1.239 billion was invested directly in Qualified Active Low Income Community Businesses (QALICBs) to support business operations and/or real estate development and rehabilitation in low-income communities.

- The remaining $26 million was used for investments in other CDEs, loan purchases, or the provision of Financial Counseling and Other Services.

Preliminary analysis[ii] shows that:

Business investment

- Allocatees provided $218 million in fixed asset and working capital financing to businesses that will help to maintain up to 8,600 full-time equivalent jobs and to create up to 4,100 full-time equivalent jobs[iii].

- Allocatees provided an additional $84 million to operating businesses to construct or rehabilitate facilities from which these businesses intend to conduct their operations.

Real Estate investment

- Allocatees made $856 million in commercial, mixed use and housing development financing to projects that will be leased or sold to others.

- The real estate projects are projected to:
  - Create up to 49,000 construction jobs.[iv]
  - Develop or rehabilitate 11 million square feet of office, retail and manufacturing space in low-income communities.
  - Develop or rehabilitate 1,100 housing units.

Rural Investment

- Approximately 18% of NMTC transactions were made in non-metropolitan areas, which is just slightly lower than the portion of the U.S. population residing in non-metropolitan areas (20%)[v].

Investments made in areas of Higher Distress

- To qualify for NMTC investments, a project must generally be located in a census tract with: 1) a poverty rate of 20% or greater; or 2) a median family income at or below 80% of the area median family income. Based on 2000 census data, approximately 39% of the census tracts in the country satisfy at least one of these criteria.

- CIIS requires allocatees to provide information on their investments which permits the Fund to determine whether the areas in which the investments are made meet the minimal qualifying criteria, or have higher levels of distress than minimally required under the NMTC Program (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, Empowerment Zones and Renewal Communities). In addition, CIIS requests data on whether the terms on which such investments are made are more favorable than generally available in the market.

- The fiscal year 2004 CIIS report shows that 92% of loans and investments were made in such areas of higher distress, that more than half (53%) of the loans and investments were made in areas that met 3 or more of the higher distress criteria, and that one-third were made in areas that met 4 or more of the higher distress criteria.

Investments made with Better than Market Terms

- CIIS requests data on whether the terms on which such investments are made are more favorable than generally available in the market.

- 100% of loans and investments were made at better than market rates and terms. Such features include, among other things: equity and equity-equivalent terms and conditions; subordinated debt; below market interest rates; reduced origination fees, and higher than standard loan to value ratios. In all, 61% of transactions met 3 or more of the better rates and terms criteria and nearly half (48%) met 4 or more criteria.

The CDFI Fund plans to release a written report of its findings in the near future.

How does the NMTC program work?

The $15 billion NMTC Program is expected to stimulate economic and community development and job creation in the nation's low-income communities by attracting capital from the private sector.

The NMTC Program provides tax credits to investors who make qualified equity investments in privately managed investment vehicles called Community Development Entities – or CDEs. CDEs are required to invest the proceeds of the qualified equity investments in low-income communities. Low-income communities are generally defined as those census tracts with poverty rates of greater than 20 percent and/or median family incomes that are less than or equal to 80 percent of the area median family income.

CDFI Fund • 601 Thirteenth Street, NW • Suite 200 South • Washington, DC • 20005 • (202) 622-8662

The credit provided to the investor totals 39 percent of the investment in a CDE and is claimed over a seven-year credit allowance period. In each of the first three years, the investor receives a credit equal to five percent of the total amount paid for the stock or capital interest at the time of purchase. For the final four years, the value of the credit is six percent annually. Investors may not redeem their investments in CDEs prior to the conclusion of the seven-year period.

Throughout the life of the NMTC Program, the Fund is authorized to allocate to CDEs the authority to issue to their investors up to the aggregate amount of $16 billion in equity as to which NMTCs can be claimed; including $1 billion for specific use in the recovery and redevelopment of low-income communities in the Hurricane Katrina disaster area. This is the third allocation round. In three rounds to date, the Fund has made 170 awards totaling $8 billion in tax credit authority.

What is the Community Investment Impact System?

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

CIIS has been recognized as the type of tool the government needs to demonstrable whether or not federal programs are having the positive impacts they are intended to have in the communities in which they operate. The Fund's efforts to measure impact have been recognized by Alan Greenspan, former Chairman of the Federal Reserve Board of Governors:

"Community developers have made important strides in establishing performance parameters and developing information systems to promote rigorous evaluation of programs and organizations. Data collection programs have produced insights into the markets that community economic development lenders serve and the characteristics and financial performance of the institutions providing these services. <u>For example, the Department of Treasury's Community Development Financial Institutions (CDFI) Fund launched its Community Investment Impact System in mid-2004, with the goal of establishing a comprehensive repository of data on community development finance institutions and activities.</u> (emphasis added) The systematic collection and standardization of information on these institutions' customers, transactions, and markets holds promise for increasing

understanding of the institutions' impact on the communities and populations they serve." (March 18, 2005)§

- END -

[i] Allocatees are required to submit performance reports 180 days after their fiscal year end. While a small number of allocatees have submitted their FY 2005 performance reports, the majority of allocatees have December fiscal year ends and will not submit their FY 2005 performance reports until June 2006.

[ii] The results are preliminary because the CDFI Fund has not completed the process of reviewing the QLICI data submitted by allocatees for completeness and accuracy. The Fund anticipates minor changes to the final data, but does not expect the results reported herein to change significantly.

[iii] For allocatees reporting 2004 data, jobs maintained and projected jobs to be created were optional fields (these have since been changed to mandatory fields). Jobs maintained estimates are based on data submitted for 70 out of 79 business loans and investments. These jobs data show one full-time equivalent job maintained for every $25,126 loaned or invested. When this average cost of $25,126 per job is applied to the entire $217,360,277 of business financing reported in FY 2004, the total estimated jobs maintained are 8,651 jobs.

Job creation estimates are based on jobs data submitted for 37 out of 79 business loans and investments. These jobs data project one full-time equivalent job to be created for every $52,524 loaned or invested. When this average cost of $52,524 per job is applied to the entire $217,360,277 of business financing reported in FY 2004, the total projected job creation is 4,138 jobs.

[iv] For allocatees reporting 2004 data, construction job was an optional field (this has since been changed to a mandatory field). Construction job estimates are based on jobs data submitted for 92 of 136 commercial real estate loans and investments. These construction jobs data show one construction job to be created for every $19,251 loaned or invested. When this average is applied to the $940,495,663 in real estate financing ($84 million plus $856 million), the total projected construction job creation is 48,854 jobs.

[v] $86 million (7%) of QALICB dollars financed projects in non-metropolitan areas. The source of the U.S population figures is the Bureau of the Census.

CDFI Fund • 601 Thirteenth Street, NW • Suite 200 South • Washington, DC • 20005 • (202) 622-8662