

# New Markets Tax Credits

## The Community Reinvestment Fund Experience

2004 Community Reinvestment Conference

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Presented by  
Frank Altman  
President  
Community Reinvestment Fund



# What is CRF?

- A national non-profit financial services organization based in Minnesota
- Provides capital to communities by purchasing economic development and affordable housing loans from community development lenders
- Helped establish New Markets Tax Credit as member of NMTC Coalition



# CRF's track record

- Has purchased more than \$300 million in loans
- Has issued \$208 million in debt securities
- Has privately placed \$54 million in loans with individual investors
- Loss ratio is less than 0.5%
- Delinquencies currently 0.29%
- Loans from 103 sellers in 24 states



# New Markets Tax Credit – The basics

## What is a *Low-income Community*?

- Defined almost entirely as census tracts
- Eligible census tracts have:
  - Median incomes less than 80% of either metropolitan or statewide median; and/or
  - Poverty levels of 20% or greater
- Website has census tract finder – [www.cdfifundhelp.gov](http://www.cdfifundhelp.gov)



# New Markets Tax Credit – The basics

## What is a *Qualified Active Low Income Community Business*?

1. Business must be located in an eligible census tract
2. Business must derive at least 50% of income from the conduct of business in eligible census tracts
3. At least 40% of tangible assets must be located in eligible census tracts
4. At least 40% of employees must work in eligible census tracts
5. *If #3 or #4 are 50% or more, item #2 is deemed to have been met*



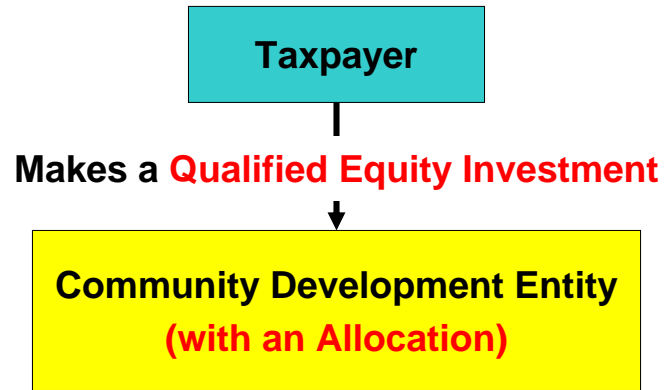
# New Markets Tax Credit – The basics

## What is a *Community Development Entity*?

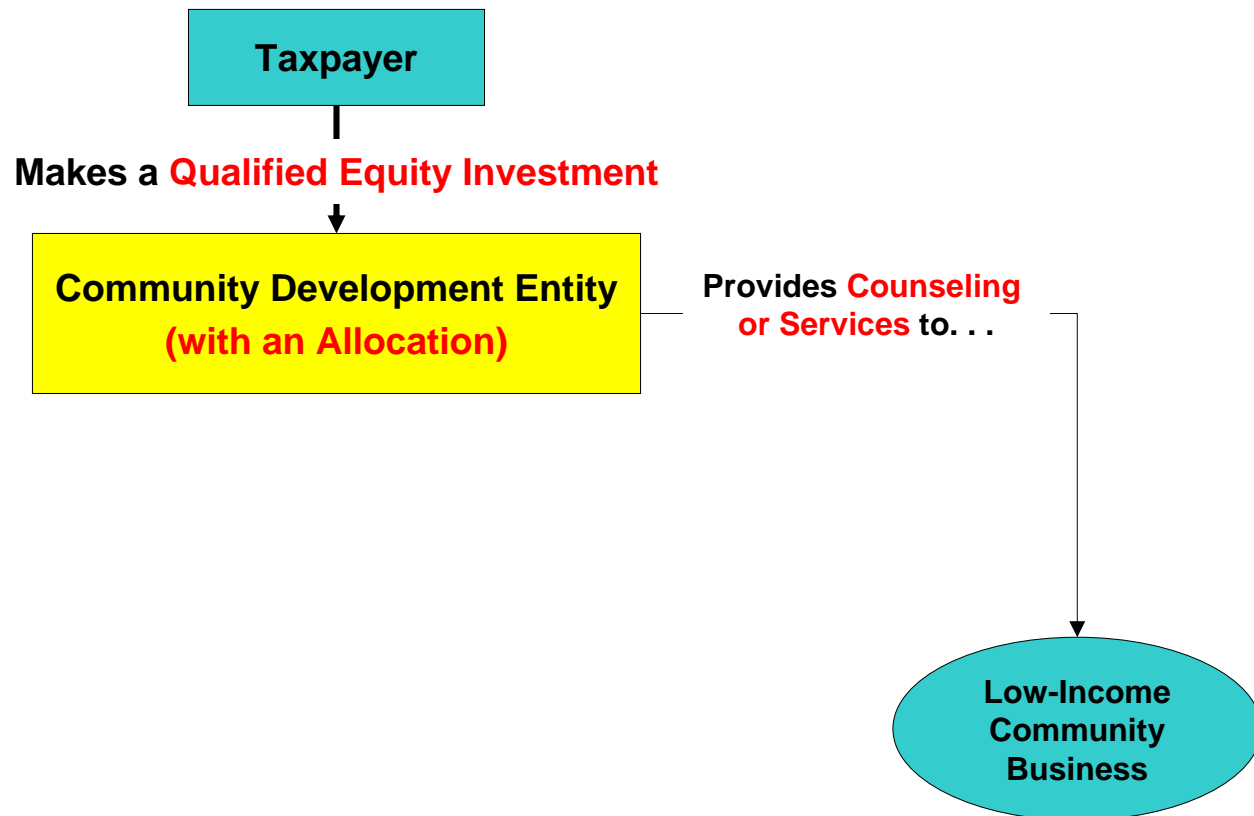
- An organization:
  - with the primary purpose of serving low-income communities and/or low-income persons
  - that maintains accountability to the communities it serves through membership on its advisory and/or governing board
  - that is a corporation or a partnership



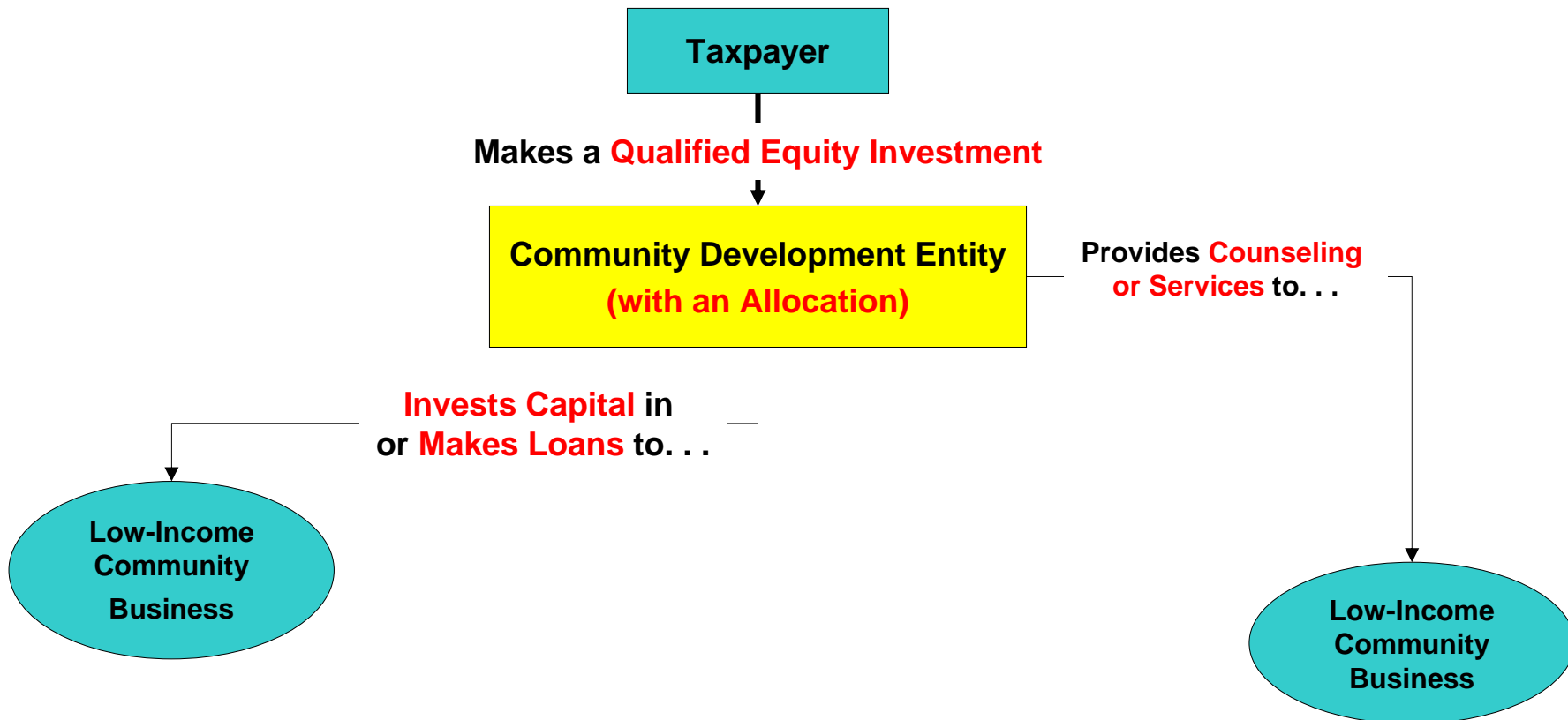
# Many paths to take to get benefit to businesses



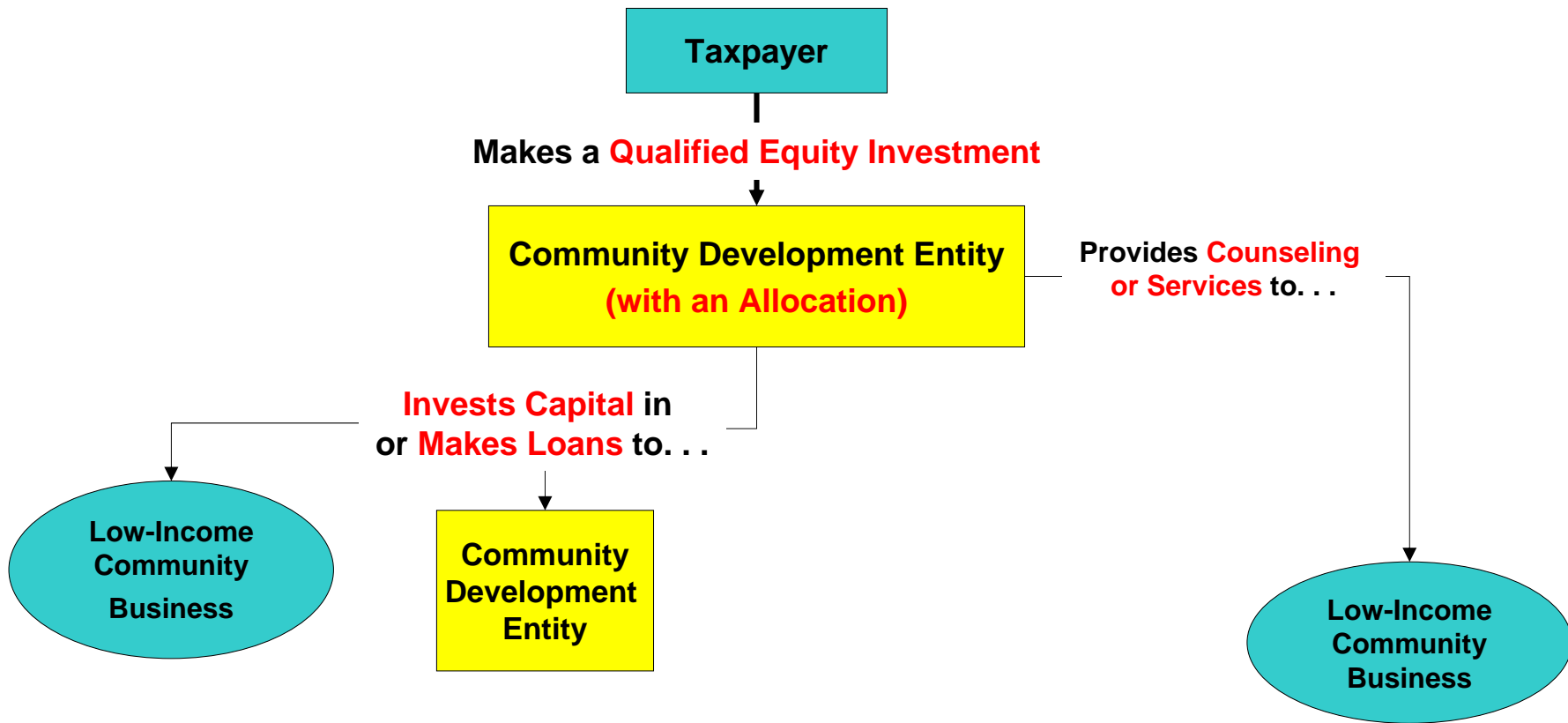
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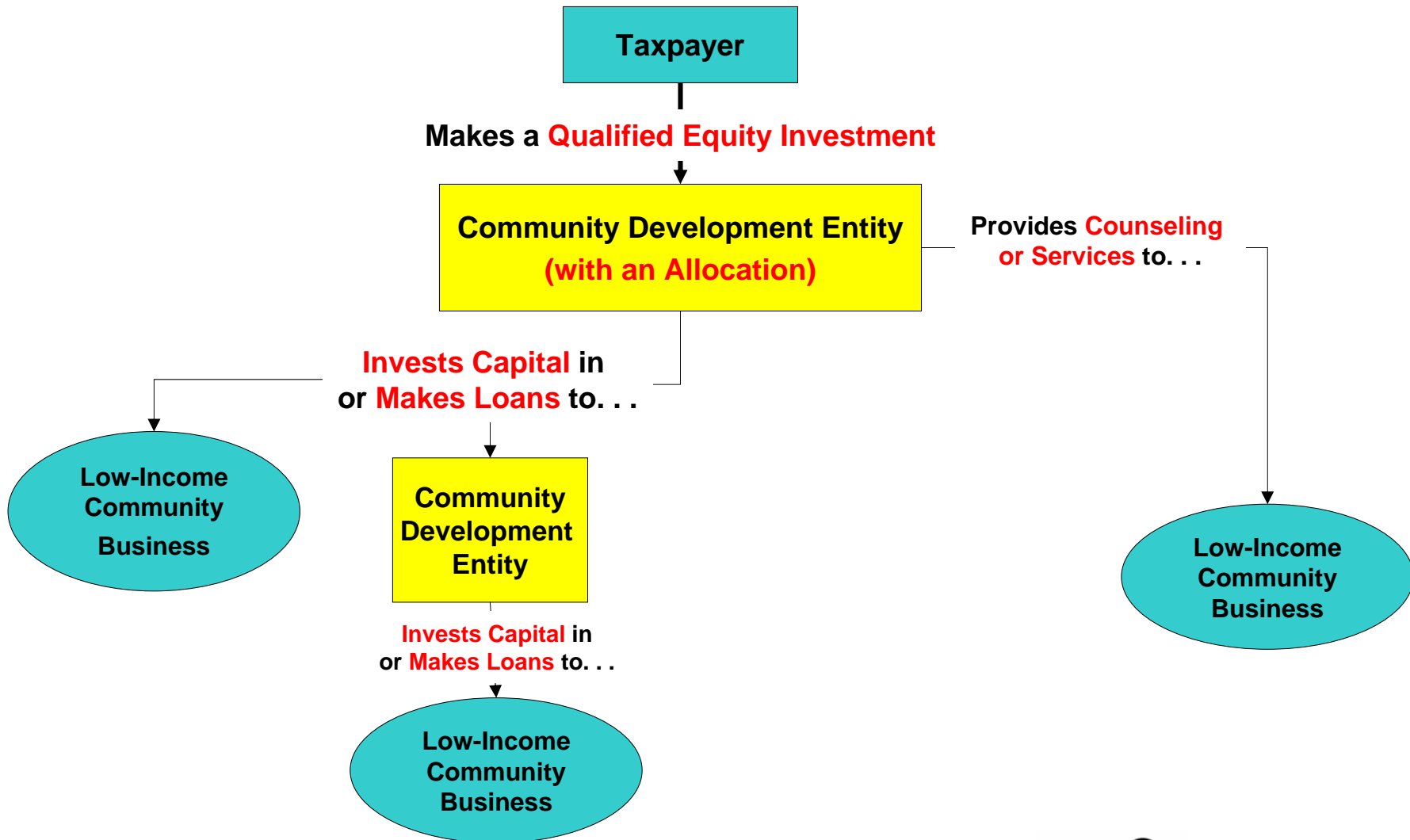
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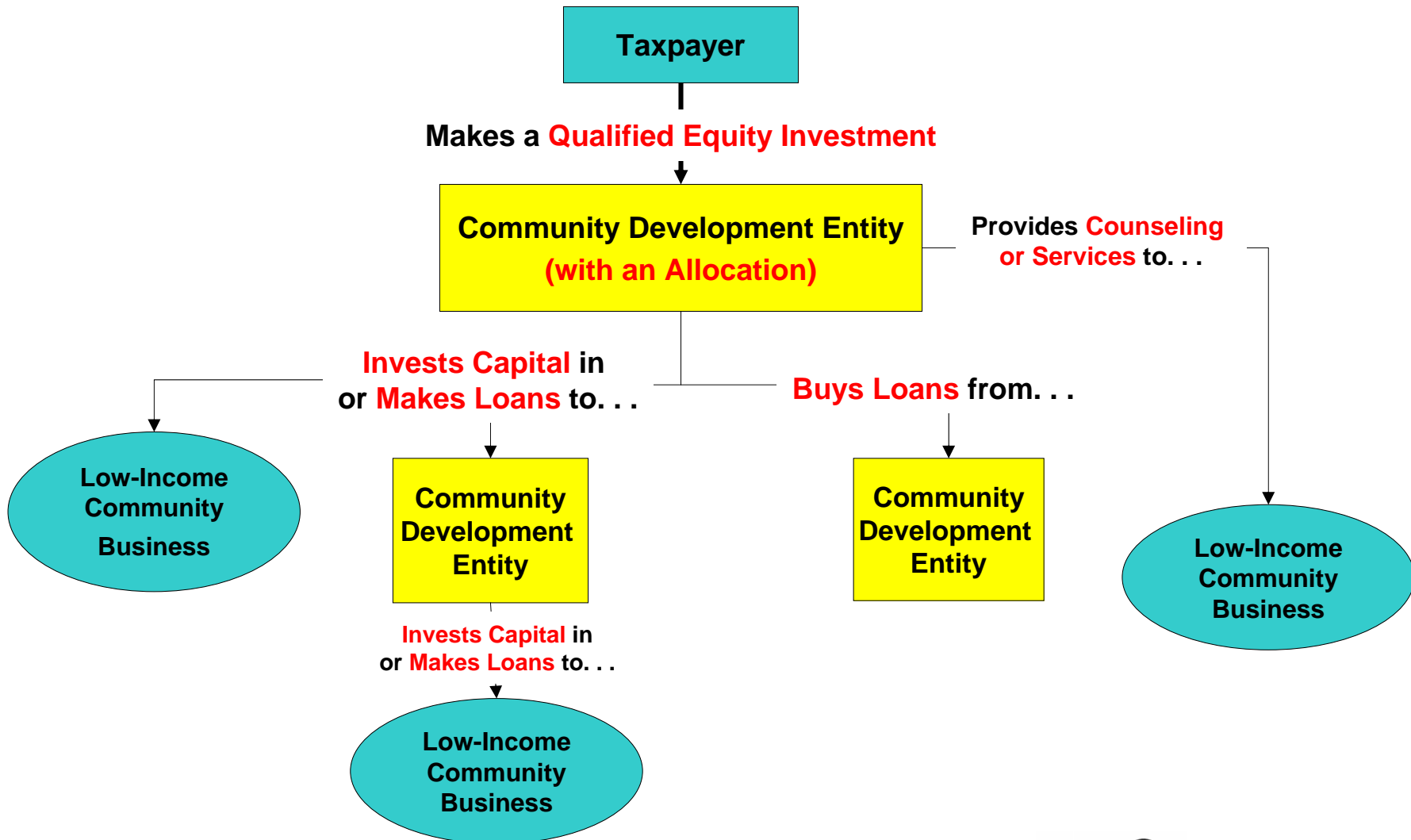
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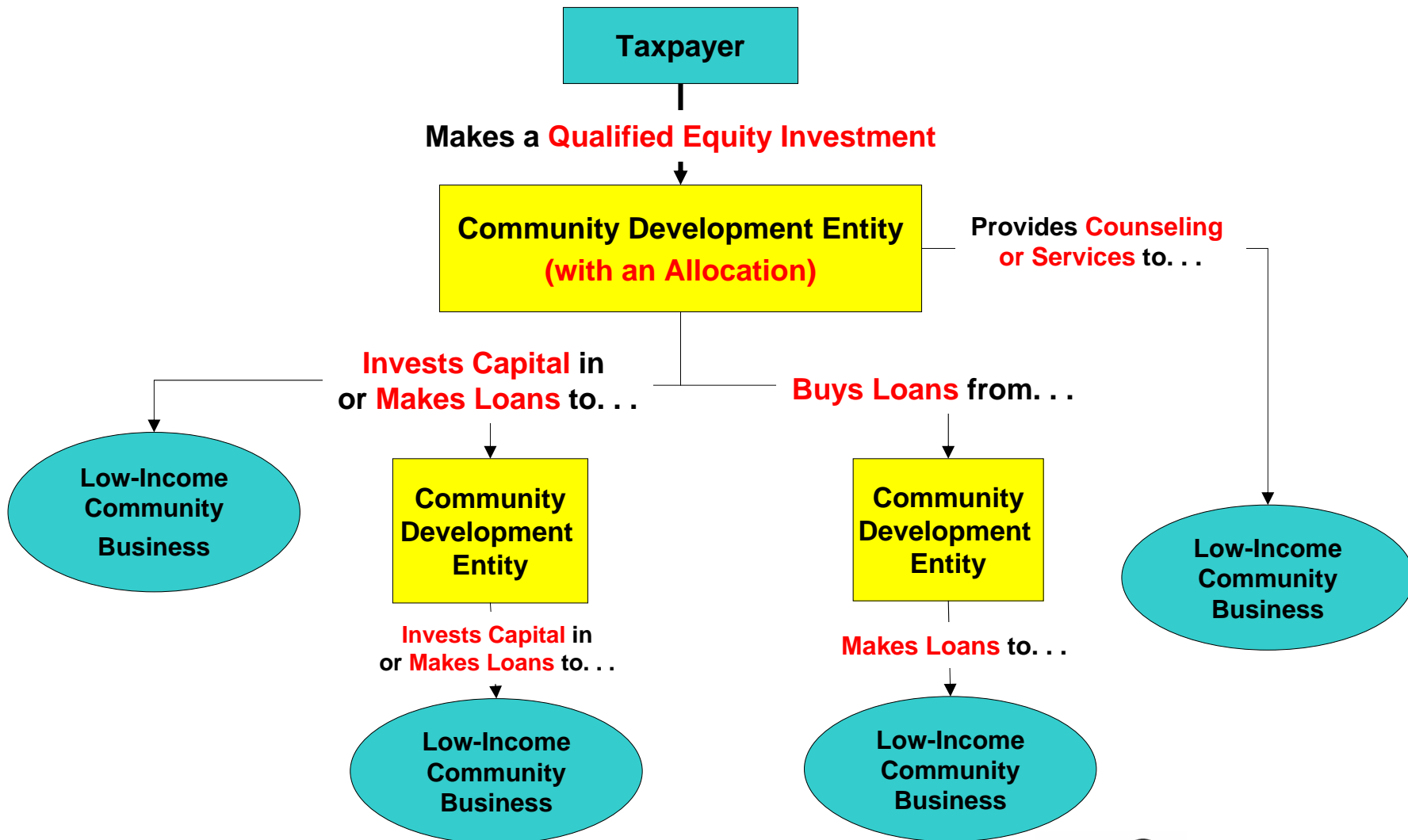
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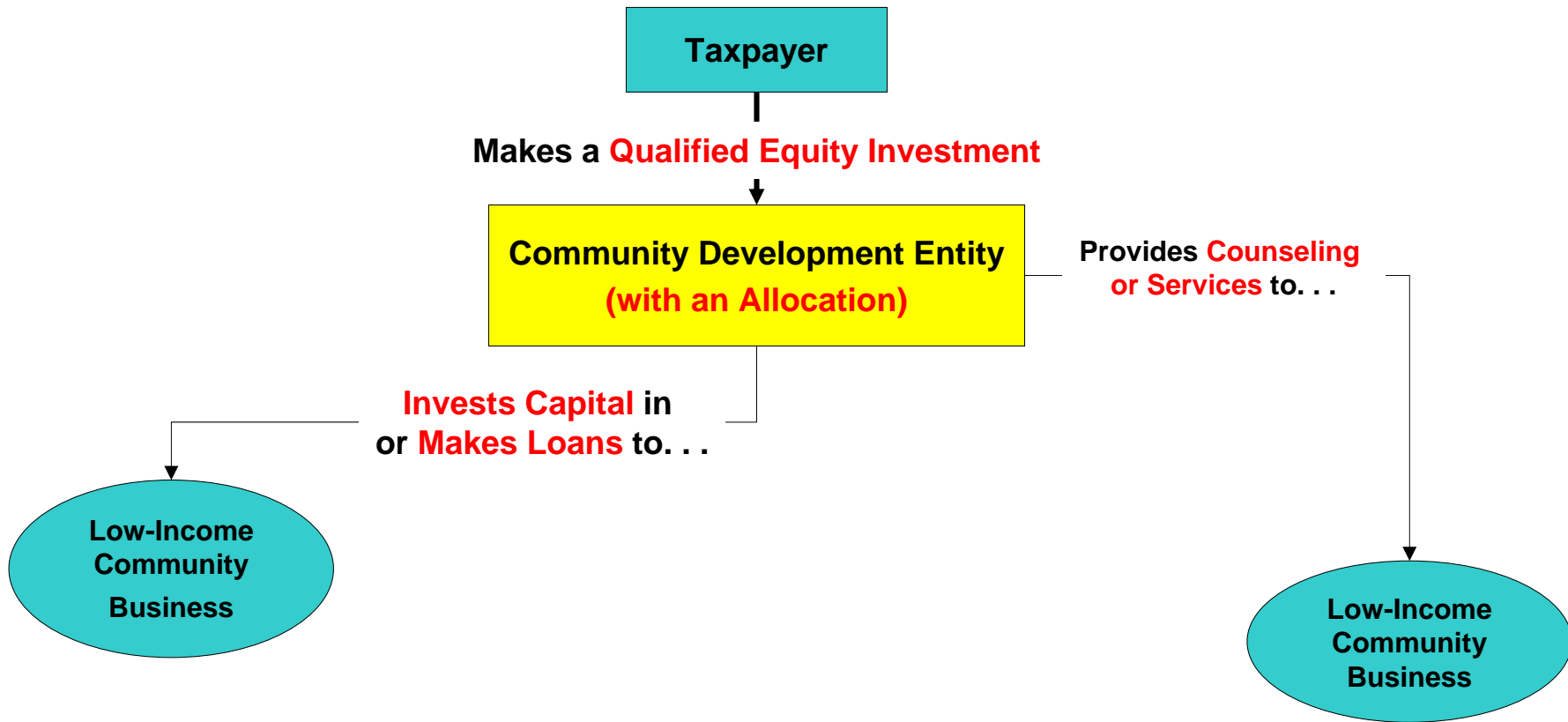
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# Many paths to take to get benefit to businesses



# The “Go It Alone” Approach



# Go It Alone Issues

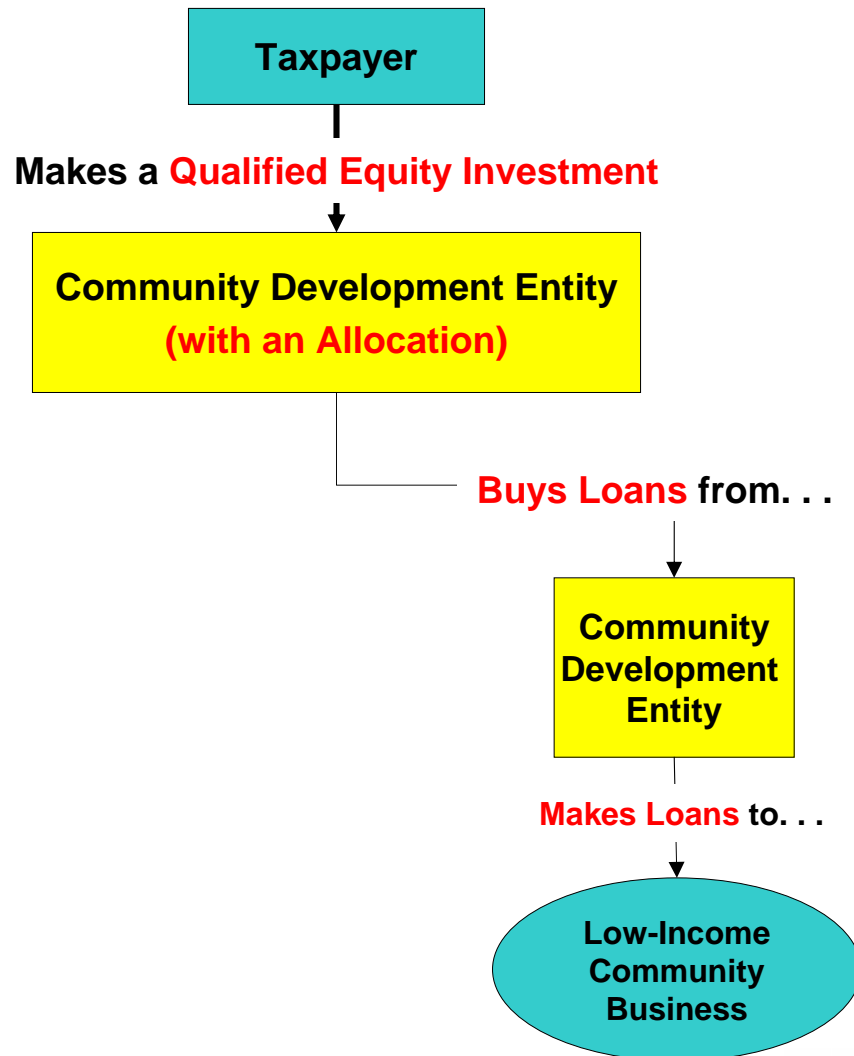
- Requires lender to form for-profit organization to receive allocation of tax credits from CDFI Fund
- Assumes that the lender lines up investors
- Requires lender to report use of credits to investors and IRS



# The “Team Up” Approach



# CRF's "Team Up" Approach



# Team Up Issues

- Requires lender to become a CDE only
- For-profit not required on part of lender
- Investors not required on part of lender
- No reporting to IRS by lender



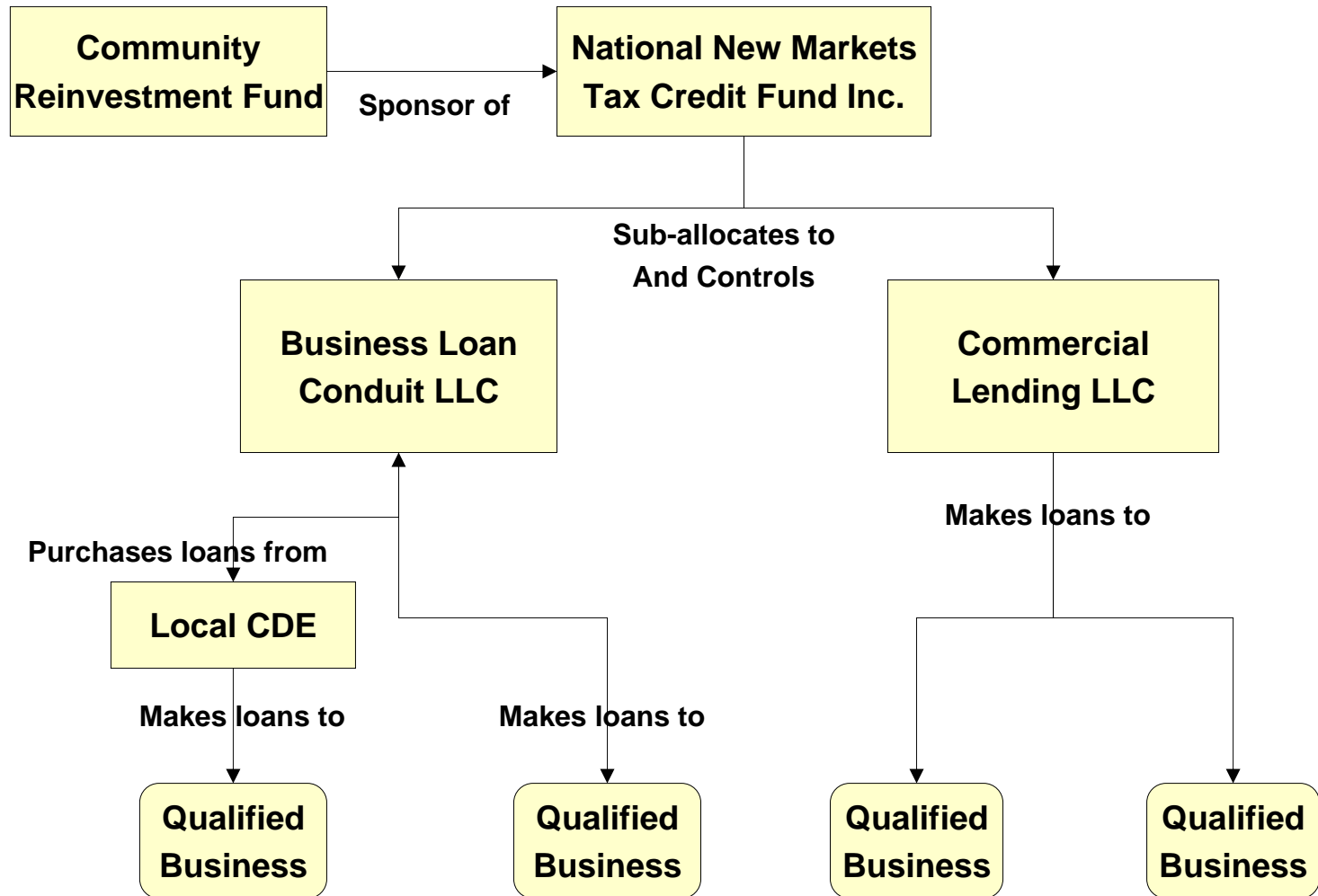
# Community Reinvestment Fund Round 1 Allocation

## The CRF NMTC Allocation

- \$162.5 Allocation to be used nationally
- 40 community development lenders serving communities in 30 states joined in the application
- Two subsidiary allocatees
  - Business Loan Conduit LLC
  - Commercial Lending LLC



# Community Reinvestment Fund Round 1 Allocation



# The Community Reinvestment Fund Experience

## Commercial Lending LLC

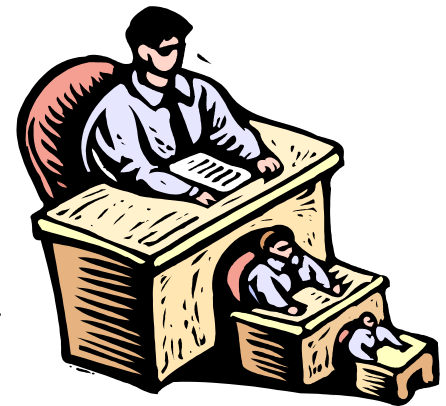
- Single Investor Fund
- \$82.5 million sub-allocation
- Facility closed in November
- Will make commercial loans averaging \$8 million
- QEI received on March 3



# The Community Reinvestment Fund Experience

## Business Loan Conduit LLC

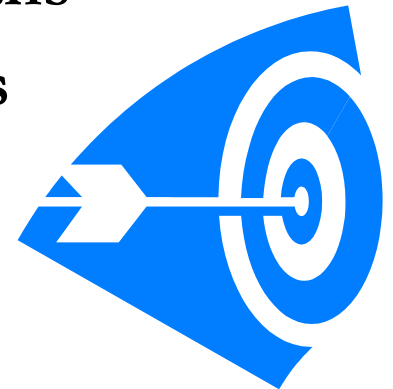
- Multi-Investor Leveraged Fund
- \$80 million sub-allocation
- Facility expected to close in April
- Will make small business loans secured by real estate averaging \$500,000
- Range from \$50,000 to \$2.5 million
- QEI expected to come in over 12 months



# The Community Reinvestment Fund Experience

## Business Loan Conduit

- Modeled after CRF's current business
- 32 local lending partners – most are CDEs, some are not
- CRF will either make or purchase loans
- Local lending partner responsibilities
  - Determine NMTC eligibility
  - Underwrites loans
  - Uses loan documents approved by CRF
  - Originates or packages loan for funding by CRF



# The Community Reinvestment Fund Experience

## Business Loan Conduit – Implementation issues

- Programmatic vs. Project approach
- Negotiating for the “common good” vs. Needs of a single, motivated developer
- Prospective pool vs. Known project



# The Community Reinvestment Fund Experience

## Business Loan Conduit – Implementation issues

- Negotiate Lending Criteria with Investors
- Develop a borrower certification form you can actually use
- Teach lending partners how to qualify borrowers for NMTC
- Keep loan product marketable given the “hassle factor”



# For More Information

If you would like more information about the New Markets Tax Credit program, please contact us.

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