

Trends and Observations from the CDFI Fund Director

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As Director of the Community Development Financial Institutions (CDFI) Fund, and as a former banker, I am all too familiar with the challenges of making investments in underserved markets.¹ There are risks in these markets, both real and perceived, that are not often overcome through traditional banking and underwriting criteria. I believe that the New Markets Tax Credit (NMTC) program is a valuable tool for mitigating the risks of these transactions and stimulating economic development activities in underserved markets. To date, the Fund has made 170 awards totaling \$8 billion in allocation authority. Though the NMTC program is still young, I have seen several trends that I find particularly encouraging.

1. Interest in the NMTC program is extraordinary. In less than four years, the CDFI Fund has certified over 1,950 entities as Community Development Entities (CDEs). Through three allocation rounds, the CDFI Fund has received allocation applications from 824 CDEs collectively requesting over \$79 billion in total allocation authority. In any given allocation round, the CDFI Fund receives total requests for allocations that are approximately ten times greater than the total amount of allocation authority available.
2. A wide variety of CDEs have applied for and received allocations of tax credits. NMTC allocatees include CDEs created by state and local governmental entities; local non-profit organizations; CDFIs; national, regional and local banks; investment banking and securities firms; real estate development companies; and venture capital companies. Approximately 50 percent of the NMTC allocation awards made to date have been provided to entities sponsored by governmental or mission-driven organizations (e.g., non-profits, CDFIs). NMTC allocatees are headquartered in 38 different states and the District of Columbia, and their target markets encompass 48 different states, the District of Columbia and the U.S. Virgin Islands.
3. Allocatees have committed to achieving benchmarks well above what is minimally required by the NMTC program statute and regulations. In the Allocation Application, the Fund asks applicants to commit to achieving results that extend beyond the minimum requirements of the NMTC program. The allocatees from the 2005 allocation round were successful because they committed to achieving high benchmarks. For example:
 - Thirty-seven of the 41 allocatees indicated that at least 75 percent of their activities

¹ The CDFI Fund, established in 1994, is a wholly owned government corporation within the Department of the Treasury. Its mission is to expand the capacity of financial institutions to provide affordable credit, capital and financial services to underserved populations and communities in the United States.

would be undertaken in communities characterized by significantly higher indices of distress than those minimally required by program rules and/or in communities that have been designated for economic development through other governmental programs, such as Empowerment Zones, Renewal Communities, and Brownfields.

- All 41 of the allocatees indicated that at least 75 percent of their loans and investments will have flexible or non-traditional features (e.g., equity and equity-equivalent terms and conditions, subordinated debt, below market interest rates, or reduced origination fees), and 36 of the 41 allocatees indicated that 100 percent of their loans and investments would have flexible or non-traditional features.
- All 41 of the allocatees indicated that they would invest more than the minimally required 85 percent of Qualified Equity Investment (QEI) dollars into qualified low-income community investments, and 35 of the 41 allocatees indicated that at least 95 percent of their QEI dollars would be invested into qualified low-income community investments.

In all cases the CDFI Fund will require these allocatees, through their allocation agreements, to meet the specific benchmarks identified in their applications.

4. Investors have been quick to embrace the NMTC program. By statute, CDEs have five years from the date of allocation to receive QEIs from investors. However, due to strong investor interest and the capabilities of allocatees, QEIs are being issued at a much faster pace. In less than two years after receiving their allocation agreements, 50 of the 66 first round allocatees have received investments totaling \$1.28 billion. And in just over one year after receiving their allocation agreements, 39 of the 63 second round allocatees have received a total of \$1.19 billion of QEIs from investors. The cumulative amount of QEIs received to date is \$2.47 billion – or 41 percent of the \$6 billion allocated under the first two allocation rounds.
5. CDEs are financing an array of community and economic development projects. The NMTC program provides a very flexible financing tool. CDEs have used NMTC proceeds to finance a variety of activities in distressed urban and rural communities throughout the United States, including: a sustainable forestry project and paper mill in rural Maine; a technology business incubator in Detroit; a coal mining company in West Virginia; a charter school in Los Angeles; a large commercial mall in Everett, Washington; a cultural and community center in San Diego, California; and an airline parts manufacturing company in rural Oklahoma. In most if not all of these cases, the allocatees indicate that the projects would not have been undertaken without NMTC subsidy.

The CDFI Fund is pleased with the progress of the NMTC program to date. We recognize, however, that there is much analysis that needs to be done on this young program. To this end, we will soon be soliciting bids from independent contractors to perform a longitudinal evaluation of the NMTC program. It is our hope that over time it will be possible to more fully understand and measure the benefits of the tax credit and the impacts that NMTC investments are having on low-income communities. In the interim, I am excited by the program's early successes in stimulating private sector investment in low-income communities, and in making a real difference in the lives of the people in these communities.