Remarks by
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at

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New Markets Tax Credit Program Summit

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Good morning! Thank you for that kind introduction.

As you know, my name is Art Garcia and I am the Director of Treasury's Community Development Financial Institutions Fund – or CDFI Fund. And I am glad that I have this opportunity to talk to you about the important activities of the CDFI Fund, and specifically about the New Markets Tax Credit Program.

The CDFI Fund is an integral part of Treasury's strategy for promoting a prosperous U.S. economy and helping to create jobs for those that need them. The mission of the CDFI Fund is to expand the capacity of financial institutions to provide capital, credit and financial services in underserved markets. The Fund accomplishes this mission by providing monetary awards, training and tax credit allocations to financial institutions and other entities focused on serving low-income communities and underserved populations.

As a former banker, I am all too familiar with the challenges of making investments in underserved markets. 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.

First, let me provide a quick overview of the program. The New Markets Tax Credit Program was established by Congress in December 2000. The program permits taxpayers to receive a credit against their Federal income taxes for making Qualified Equity Investments in organizations known as Community Development Entities. These CDEs are responsible for making qualified investments with those dollars into low-income communities. Through this mechanism, the NMTC Program has the potential to bring a total of $15 billion in private sector money to work in some of our nation's most distressed areas over the life of the program.

To date, the Fund has made 170 awards totaling $8 billion in allocation authority to 154 organizations. Though the NMTC Program is still young, I have seen several trends that I find particularly encouraging.

We are excited by the high level of interest demonstrated in this program over the last several years and by the potential this program has to stimulate private sector investment in the economic development of low-income communities and its potential to make a real difference in the lives of the people in these communities.

Now, 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.

The application deadline for the fourth round of the New Markets Tax Credit Program was last week - September 21. As of the application deadline we received 241 applications requesting $25.99 Billion – which is 7½ times the $3.5 Billion that is being made available this round. In addition, another 13 organizations that were directly impacted by the recent natural disasters have been provided with extensions.

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. <u>Allocatees have committed to achieving benchmarks well above what is minimally required by the NMTC Program statute and regulations.</u>

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 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; 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 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. <u>Investors have been quick to embrace the NMTC Program.</u>

By statute, CDEs have five years from the date of allocation to receive Qualified Equity Investments (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, 51 of the 66 first round allocatees have received investments totaling $1.33 billion.

And in just over one year after receiving their allocation agreements, 42 of the 63 second round allocatees have received a total of $1.25 billion of QEIs from investors.

The cumulative amount of QEIs received to date is $2.58 billion – or 43 percent of the $6 billion allocated under the first two allocation rounds.

5. <u>CDEs are financing an array of community and economic development projects.</u>

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.

Let me share a few more facts about the activities that may be financed by the allocatees from first three rounds (based on their applications):

- <u>Loans to or equity investments in businesses</u>. Approximately $486 million (24%) of NMTC proceeds will likely be used to finance and support loans to or investments in businesses in low-income communities. Allocatees have proposed strategies ranging from microenterprise lending to multi-million dollar venture capital investments.

- Loans to or equity investments in real estate projects. Approximately $1.21 billion (61%) of NMTC proceeds will likely be used to finance and support real estate projects in low-income communities. Most real estate projects, with the general exception of projects consisting mainly of residential rental housing, are permissible under program regulations. Allocatees have indicated that they intend to make investments in commercial, retail, industrial, mixed-use and homeownership projects, as well as in community facilities such as daycare centers, healthcare centers, and charter schools.

- Capitalization of other CDEs. Approximately $292 million (15%) of NTMC proceeds will likely be used to provide capitalization for other CDEs. Allocatees may make direct loans to or investments in other CDEs to finance NMTC-eligible activities, or may purchase NMTC-eligible loans originated by other CDEs. This will help ensure continued availability of capital in low-income communities.

While all allocatees are required to invest in low-income communities, most of the third round applicants also committed to invest NMTC proceeds in areas characterized by more severe economic distress, i.e. areas that have significantly higher poverty rates and lower median family incomes than those minimally required under the NMTC Program.

By this, I mean 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.

- Of the 41 third round allocatees, 37 indicated that at least 75% of their activities will be provided in these areas of more severe economic distress, and 20 indicated that 100% of their activities will be provided in such areas.

- All 41 of the allocatees indicated that at least 75% of their loans and investments will have flexible or non-traditional features, 39 said at least 95% of their investments would have such features and 36 of the 41 allocatees indicated that 100% of their loans and investments will have flexible or non-traditional features. Such features include, among other things: equity and equity-equivalent terms and conditions; subordinated debt; below market interest rates; and reduced origination fees.

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- All 41 of the allocatees indicated that they would invest more than the minimally required 85% of QEI dollars into qualified low-income community investments, and 35 of the 41 allocatees indicated that at least 95% of their QEI dollars would be invested into qualified low-income community investments. In real dollars, this means at least $200 million above and beyond what is minimally required under the NMTC program will be invested in low-income communities.

In all these cases the Fund will require these allocatees, through their allocation agreements, to meet the benchmarks identified in their applications. This is an important point to stress, as we do hear from time to time a concern that allocatees may describe a terrific business strategy, but go on to invest in transactions which simply meet the minimum statutory requirements.

Looking back over the past three years, I must tell you that 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.

We at the Fund look forward to your applying to this important program and to working with you to improve the communities you work so hard in every day.

Thank you.