Comptroller of the Currency
Administrator of National Banks

Community Developments

Community Affairs
Department

Fact Sheet

New Markets Tax Credits

What are New Markets Tax Credits?

The New Markets Tax Credit (NMTC) Program is an economic development tax incentive administered by the United States Department of the Treasury's Community Development Financial Institutions (CDFI) Fund. The purchase of NMTCs by investor banks provides equity capital to further commercial economic development activities in underserved geographies.

NMTCs are allocated by the CDFI Fund to community development entities (CDEs) under a competitive application process.

To qualify as a CDE, an entity must be a domestic corporation or partnership that:

- has a mission of serving, or providing investment capital for, low-income communities or low-income persons;
- maintains accountability to residents of low-income communities through their representation on a governing board of, or advisory board to, the CDE; and
- has been certified as a CDE by the CDFI Fund.

What are the benefits to banks?

- Bank investors receive a credit against federal income taxes for making qualified equity investments in CDEs. NMTCs, when combined with interest income on loans to small businesses located in underserved geographies can provide banks with competitive returns.
- The credit totals 39 percent of the cost of the investment and is claimed over a seven-year period.
- Bank investments in NMTCs are a CRA-eligible activity.

How can banks utilize NMTCs?

- *Bank-operated CDE Model*
  A bank can form a subsidiary CDE and apply to the CDFI Fund for an allocation of NMTCs.
  - The CDE can apply for certification on the CDFI Fund's Web-site (www.cdfifund.gov)
  - CDFI Fund-certified CDEs are eligible to apply for NMTC during the Treasury Department's annual funding round.

- *Third-party Model*
  A bank can invest in another entity's CDE. Some non-bank CDEs that have received NMTC allocations are seeking investors to provide equity by purchasing the tax credits.
  - The CDFI Fund's Web-site contains a listing of NMTC awardees by state.

What are the key risks and regulatory considerations with NMTC investments?

- An investor bank should consider the CDE's management, experience, and compliance capabilities. A bank should also consider the credit and liquidity risks of any investment in NMTCs.
- NMTCs are subject to recapture for seven years after an equity investment is made in a CDE if:
  - A CDE ceases to be a certified CDE, or
  - "Substantially all" of the equity investment proceeds are no longer used for qualified Low-Income Community Businesses, or
  - The CDE redeems the equity investment.
- The National Bank Act, 12 USC 24 (Eleventh), and the OCC's Part 24 rules implementing that section of the Act enable national banks to make equity investments in certain CDEs as well as in NMTC investment funds.

For more information

- OCC's February 2007 Community Developments *Insights* report entitled *"New Markets Tax Credits: Unlocking Investment Potential"* at: www.occ.gov/cdd/InsightsNMTC.pdf
- OCC's Summer 2004 *Community Developments Investments* entitled " *New Markets Tax Credits – Bridging Financing Gaps"* at: www.occ.gov/cdd/index.html
- CDFI Fund's Web-site at: www.cdfifund.gov
- OCC's Web-site for information about the Part 24 community development investment authority at: http://www.occ.treas.gov/cdd/pt24toppage.htm
- OCC's District Community Affairs Officers whose contact information can be obtained at: www.occ.treas.gov/cdd/commfoc.htm