

New Markets Tax Credit: Opportunities for CDFIs and Financial Institutions

Federal Reserve Bank of Boston

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How CDFIs Participate In NMTC

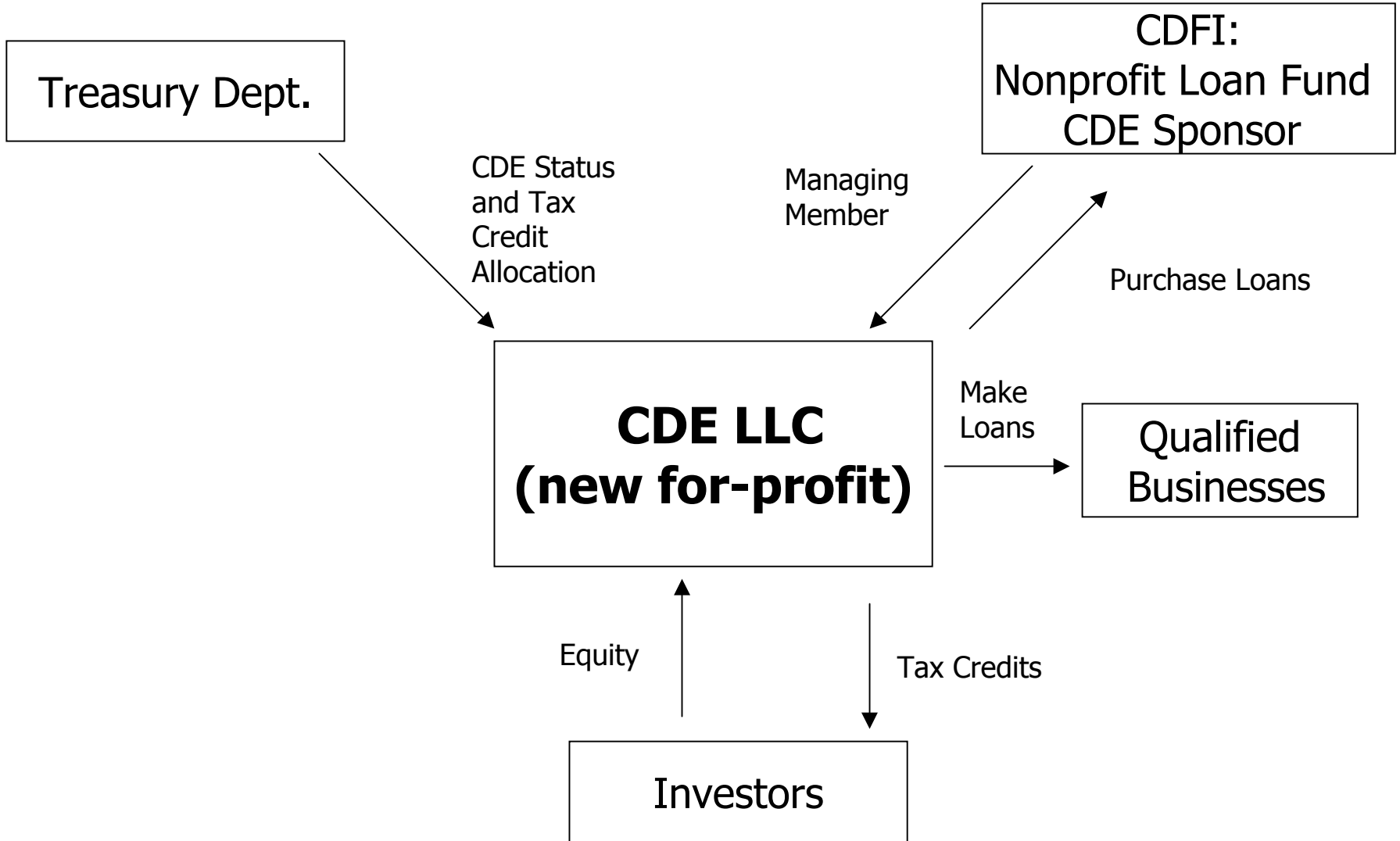
- CDFI Direct Model:
 - CDFI apply directly or through a subsidiary/affiliate for an allocation
- CDFI Indirect Model:
 - CDFI partners with an intermediary

CDFI Direct Model

- Loan Fund: Non-profit loan fund set up for-profit CDE to purchase or originate loans
 - Venture Fund: For-profit venture fund can apply directly or set-up separate CDE
 - Bank: CD bank can apply directly for allocation
- Type of financing include business, community facilities, some housing, commercial real estate

CDFI Direct Model

A sample non-profit loan fund



CDFI Direct Model:

A sample non-profit loan Fund

- New LLC applies for tax credit allocation
- Partners include city and local CDCs
- Recruits investors--return comprised of:
 - Return of capital in 7 years
 - NMTC totaling 39% of investment
 - Fixed annual dividend/interest
- Use of proceeds
 - Purchase “qualified loans” from non-profit parent
 - Originate new loans

CDFI Direct Model

A sample non-profit loan fund (cont.)

Recapture risk management

- Not draw down funds until ready to close on deals or purchase loans.
- Have “warehouse” of eligible loans to purchase at non-profit
- Initially have over 90% of proceeds out (statutory requirement is 85%)

CDFI Indirect Model

Different models (and intermediaries)

- CDFI receives loan or investment from intermediary
- CDFI sells “qualified loans” to intermediary
- Intermediary invests directly in local CDFI projects

NMTC Investments in CDE Intermediaries

