



Partnership for Progress

A Program for Minority-Owned
and De Novo Institutions
from the Board of Governors
of the Federal Reserve System

The Key to Growing Strong Communities



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New Markets Tax Credit Overview

How NMTCs Work

How Minority Banks Can Participate

H. Robert Tillman, Esq.

Special Advisor

Federal Reserve Bank of Philadelphia

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Partnership for Progress

“...was created by the Fed to help minority banks confront their unique challenges, cultivate safe and sound practices, and compete more effectively in today's marketplace.”

-Chairman Bernanke (July '08)

“...is a Federal Reserve initiative launched last year in recognition of the importance of healthy minority depository institutions to the overall strength of communities in this country.”

-Governor Duke (July '09)



Challenges

Minority CDEs have not received awards in proportion to representation in application pool:

- Relatively few minority CDEs have applied for NMTC allocation awards.
- Minority CDEs tend to be smaller, and smaller CDEs have been less successful in NMTCs.
- Minority CDEs tend not to apply in multiple rounds, which contributes to a disadvantage.



Challenges

Difficult to demonstrate:

- Experience in investing in low-income communities
- Ability & Capacity to use the NMTC capital
- Track record in large projects that would appear to generate significant impacts
- Capacity to complete projects that compare favorably to impact described by larger CDEs



Challenges

- Complexity of NMTC may favor larger CDEs
- Consulting fees and staff time deter some Minority CDEs/banks from applying
- Lack of experience with the NMTC Application Process
- Difficulty accessing the capital markets



Observations

On average, Minority CDEs score highest in the management capacity section and lowest in the capitalization strategy section.

Minority-owned banks scored higher than all other Minority CDE types.



3Q 2009 Comparisons

	Minority Banking Industry	Overall Banking Industry
Tier 1 Risk Based Capital	14.11%	11.14%
Tier 1 Leverage Capital	10.13%	8.69%
Noncurrent Loans (Noncurrent Loans/Total Loans)	4.0%	5.0%
Mortgage Charge-offs	1.2%	1.9%
Total Assets (Growth YTD- Actual)	9.7%	-3.6%



Tax Credit Structure

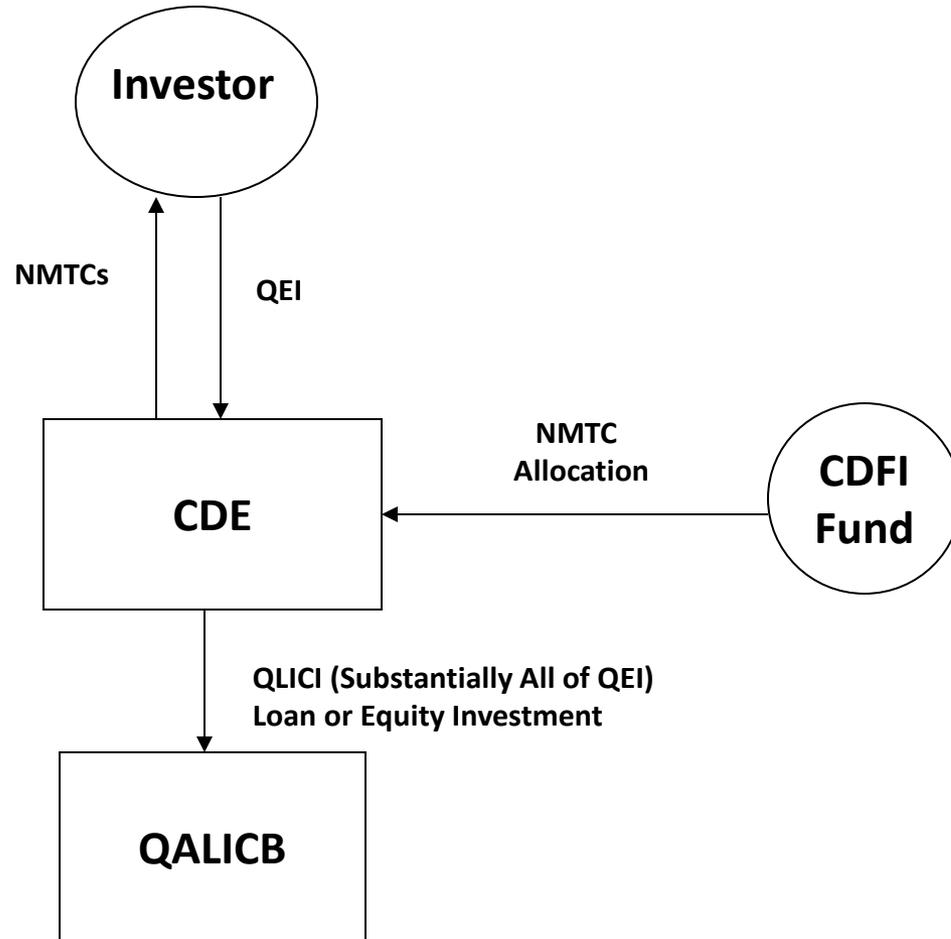
Basic Parties and Process:

CDFI Fund allocates
NMTCs to CDE

Investor makes QEI
in CDE

CDE makes QLICI of
Substantially All of QEI
to QALICB

Investor allocated NMTCs
from CDE





Consortium/Partnerships

CDEs, Investors, Lenders

Qualified Investment

Benefits:

Lower Cost Per Transaction

Gain Experience

Broaden Network

Serve Community

Possible CRA Credit



Consortium/Partnerships

Investor (taxpayer) makes “Qualified Equity Investment” (QEI) in a CDE

- Investor entitled to offset federal tax
39% of Investor’s QEI
- NMTC claimed by Investor over 7 years
5% of QEI in years 1 - 3
6% of QEI in years 4 – 7
- Consider Investor Group: 1 has capital, 1 located in LIC, 1 has NMTC expertise



Consortium/Partnerships

Investor/Taxpayer (3 Partners) \$10 Million QEI in CDE
Each share claim for \$3,900,000 of NMTCs (39% x \$10 million) over a 7 year period:

<u>Years</u>	<u>Shared Equally</u>	<u>Group Amt</u>	<u>%</u>
1-3	\$166,666	\$500,000	5
4-7	\$200,000	\$600,000	6
Total	\$1.3 million	\$3.9 million	



Consortium/Partnerships

CDE is domestic corporation, partnership, or LLC certified as a CDE by CDFI Fund

- Consider CDE Group of Partners
- CDFIs and Specialized Small Business Entities treated as CDEs
- Strengthen App for NMTC Allocation

Consult your Legal and Tax Advisor for the best consortium approach



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Contacts In Your District

www.fedpartnership.gov/contacts

Resources for Minority Banks

www.fedpartnership.gov

Resources for Businesses & Entrepreneurs

www.fedpartnership.gov/businesses