

NEW MARKETS TAX CREDIT PROGRAM
Community Development Financial Institutions Fund
United States Department of the Treasury

General Overview: The New Markets Tax Credit (NMTC) Program, created through legislation that was enacted in December of 2000, permits taxpayers to receive a credit against Federal income taxes for making Qualified Equity Investments (QEIs) in designated Community Development Entities (CDEs). Substantially all of the QEIs must in turn be used by the CDE to provide qualified investments in low-income communities. The credit provided to the investor totals 39 percent of the cost of the investment and is claimed over a seven-year credit allowance period. In each of the first three years, the investor receives a credit equal to five percent of the total amount paid for the stock or capital interest at the time of purchase. For the final four years, the value of the credit is six percent annually. Investors may not redeem their investments in CDEs prior to the conclusion of the seven-year period. The Community Development Financial Institutions Fund (the Fund), a wholly owned government corporation within the United States Department of the Treasury, will allocate NMTCs to CDEs through an annual competitive application process. General information on the NMTC Program may be found in the Fund's General Guidance (66 Federal Register 21846, May 1, 2001).

CDE Certification: To qualify as a CDE, an entity must be a domestic corporation or partnership that: 1) has a mission of serving, or providing investment capital for, low-income communities or low-income persons; 2) maintains accountability to residents of low-income communities through their representation on a governing board of or advisory board to the entity; and 3) has been certified as a CDE by the Fund. Information on the CDE certification process may be found in the Fund's CDE Certification Guidance (66 Federal Register 65806, December 20, 2001).

Allocation of NMTCs: Throughout the life of the NMTC Program, the Fund is authorized to allocate to CDEs the authority to issue to their investors up to the aggregate amount of \$15 billion in equity as to which NMTCs can be claimed. The Fund published its first annual NMTC Program Notice of Allocation Availability (NOAA) in June of 2002 (67 Federal Register 40112, June 11, 2002). This NOAA invited CDEs to compete for tax credit allocations in support of an aggregate amount of \$2.5 billion in qualified equity investments. Applications are due to the Fund on August 29, 2002. The Fund anticipates making allocation decisions before the end of calendar year 2002.

Use of QEI Proceeds: A CDE that is awarded an allocation of NMTCs by the Fund will have five years from the date of notification of its allocation to close QEIs with its investors. The CDE will have 12 months to place "substantially all" of the proceeds from the QEIs into Qualified Low Income Community Investments (QLICIs), which generally are: 1) loans to, or investments in, qualifying businesses (including certain real estate projects); 2) loans to, or investments in, other CDEs; 3) the purchase of qualifying loans originated by other CDEs; and 4) financial counseling and other services. The requirements relating to how QEI proceeds must be used, including events that could trigger the recapture of NMTCs by the Internal Revenue Service, are described in the Temporary and Proposed Income Tax Regulations governing the NMTC Program (66 Federal Register 66307, December 26, 2001).

For more information on the NMTC Program and other Fund initiatives, please phone the Fund at 202-622-7373, email the Fund at cdfihelp@cdfi.treas.gov, or visit the Fund's website at www.cdfifund.gov.