

Remarks by
Tony T. Brown, Director

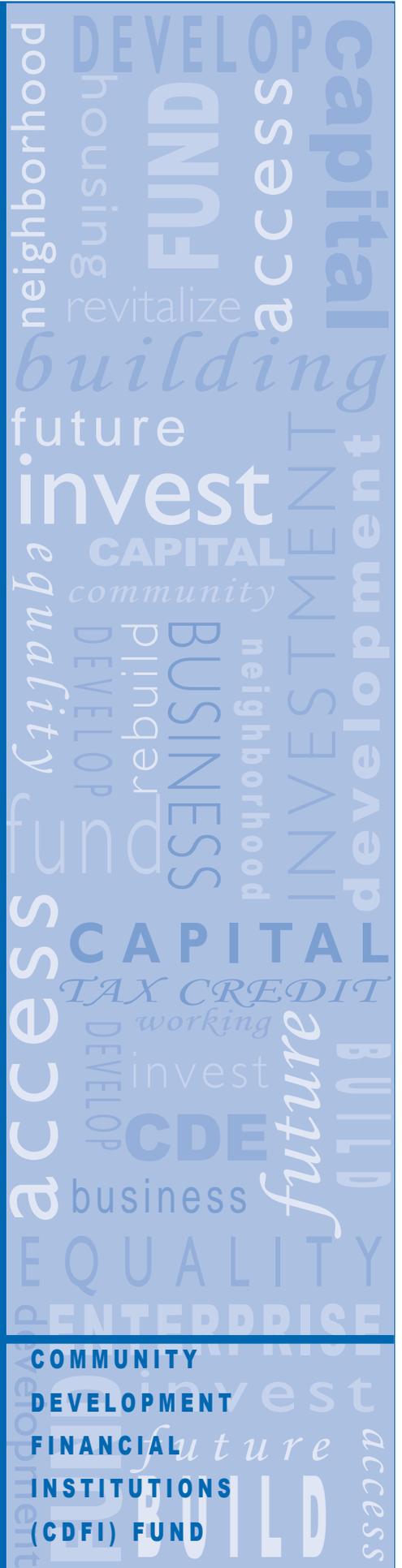
Community Development Financial
Institutions Fund (CDFI)

to the

1st Annual Conference
of the
New Markets Tax Credit Coalition

Marriott City Center
Oakland, California
Wednesday, October 30, 2002

CDFI
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DEVELOPMENT
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Community Development Financial Institutions Fund
U.S Department of the Treasury**
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Good morning! Thank you Mark, for your kind introduction and thank you for inviting me to share with you some thoughts on the CDFI Fund's newest program – the New Markets Tax Credit (NMTC) Program.

And I would also like to thank you, the audience, for your interest and work in low-income communities in our nation.

I commend the NMTC Coalition for launching this first annual conference because, for this program to be the success I believe it can be, we need to come together – CDEs, trade associations, investors and we, your government partners. We desire to see low-income communities thrive. Your presence here today is evidence of the same interest.

Today, you will learn of the origin of this program and the intent Congress had when crafting the legislation that created it. You will hear of the current status of the first competitive round for the allocation of the tax credits. You will share your thoughts about what the future holds for practitioner and the communities you desire to improve. You will debate the value of the program and the credit itself.

This is good. This is what will help make this program the success we all want it to be.

Now, let me get a feel about the audience and where everyone is relative to the NMTC Program. By a show of hands, please let me know:

1. If your organization has submitted an application to be certified as a CDE or whether it's already been certified as a Community Development Entity?
2. Who submitted an application in August for an allocation of NMTCs this first year?
3. Who missed the first year deadline and is waiting for the second round to submit an application?
4. Who in the audience represents investor interests and is looking for a vehicle to place sources of cash? Have your business cards ready, as your colleagues will surely corner you after this presentation!

Thanks for taking the Tony Brown NMTC Program Exit Poll. I now know how to tailor my remarks given your various interests.

Knowing that there would be a 'NMTC 101' session held earlier this morning, I prepared my comments to focus on NMTC Program issues at a more advanced level.

I also know everyone would like an update on the first allocation round of the New Markets Tax Credit Program.

- The desire to invest equity capital in low-income communities is significant as evidenced by the inaugural round of the NMTC Program. In August, the Fund received 345 applications requesting an aggregate of nearly \$26 billion in NMTC allocations.
- The Fund received allocation applications from CDEs based in 46 states and Washington, DC. Please note that this figure is based on where applicants are headquartered, not where they say they will do business. No applications were received from entities located in Kansas, Nevada, Rhode Island or Wyoming.
- The single largest NMTC application request was \$1.0 billion. The smallest allocation request was for \$300,000, indicating there is a wide range of proposed uses of the NMTC allocations.
- The state where the most allocation applications were generated was New York with 34 received for an aggregate request of \$3.804 billion. Second was California with 32 applicants, third is Ohio with 20 applicants, and fourth is Louisiana with 18 applicants.
- Most applicants proposed to engage in more than one of the qualified investment activities with a NMTC allocation. While there were a substantial number of applicants that indicated they would engage in real estate activities, over 240 of the 345 applicants indicated they would engage in non-real estate business activities.
- This was a highly competitive field of applicants; many applicants requested very large NMTC allocations. The average allocation amount requested was \$75 million.
- The Fund completed its first phase of application reviews; the next series of action steps include a review of each applicant's compliance with the Fund's other programs or with regulatory requirements (as applicable), a review of each applicant's eligibility for the NMTC Program, and consideration of a wide variety of other issues raised by the Fund's application reviewers.

Let me highlight the steps we are taking in preparation for the 2003 allocation round:

1. Next year, the Fund has authority to allocate up to \$1.5 billion in NMTCs. We have not yet established an allocation round schedule, but it may look very similar to this year's timeframe.
2. The Fund will perform a comprehensive evaluation of the 2002 allocation round before publicizing the 2003 allocation round. We consider your comments on the two applications and the overall allocation process to be very important. We are considering making public some of our findings on the 2002 applicant pool, as well as our findings on the process.
3. In upcoming weeks, the Fund expects to make available, on the Fund's website, the Allocation Agreement, which is the document that allocatees will be





required to execute in order to receive NMTC allocations.

4. IRS has recently informed the Fund that IRS does not plan to publish Final Regulations in the near term, and thus the program will continue to operate under the current Temporary Regulations. The IRS is waiting to see how the program works and how business transactions are structured so that when they do finalize the regulations, they can be sensitive to the business realities of how transactions are done.
5. The IRS recently issued a new Guidance, which can be found on the Fund's website at www.cdfifund.gov. This Guidance addresses the issue of using the NMTCs in conjunction with other federal tax benefits.
6. There may be additional issues addressed through similar IRS guidance in the future and the Fund will be sure to post each on its website. So I recommend that you periodically check it for updates.

The Fund is evaluating a number of changes related to its programs, including the NMTC Program. We believe that these changes reflect the organizational maturity of the Fund and of the CDFI industry itself. The Fund is poised to better connect our nation's distressed and underserved markets with resources needed to increase the economic health of these communities. I am grateful to have the energies and commitment of a bright and dedicated staff.

Thank you so much for your attention.