

July 17, 2017

The Honorable Orrin G. Hatch  
Chairman  
Committee on Finance  
United States Senate  
219 Dirksen Senate Office Building  
Washington, D.C. 20510

Re: Request for Tax Reform Recommendations

Dear Chairman Hatch:

Thank you for providing stakeholders and industry groups the opportunity to submit recommendations to the Senate Finance Committee as it works to develop a tax reform plan. **As the Committee develops its plan, we respectfully request that the New Markets Tax Credit (NMTC) Program is preserved and made permanent.**

Opportunity Finance Network (OFN) is a national network of more than 230 community development financial institutions (CDFIs) investing in opportunities that benefit low-income, low-wealth, and other under-resourced communities across America. Our members offer responsible financial products and services in all types of communities—urban, rural, and Native—across the U.S, connecting communities to capital that creates jobs, supports small businesses, builds affordable housing, cultivates healthy food and energy efficiency, and promotes safe borrowing and lending.

One of the programs leveraged by our members to attract private investment is the NMTC Program. This Program is a proven tool that can contribute to achieve your goals of strengthening businesses, stimulating growth, and creating jobs. Created in 2000 with bipartisan support and administered by the U.S. Department of the Treasury's Community Development Financial Institutions Fund (CDFI Fund), the NMTC Program stimulates economic activity in underserved rural and urban communities by providing a federal tax credit for investments in qualified businesses or economic development projects.

The CDFI Fund allocates tax credit authority through a competitive application process to certified Community Development Entities (CDEs) and CDFIs, specialized financial intermediaries with on the ground expertise about community needs. CDEs and CDFIs offer tax credits to investors in exchange for equity, which is used to make loans and investments to businesses operating in distressed areas. The flexible, affordable financing provide to businesses often has more favorable terms and conditions than the market typically offers such as lower interest rates, flexible provisions such as subordinated debt, lower origination fees, higher loan-to-values,



lower debt coverage ratios and longer maturities.<sup>1</sup> Investors, in return, receive a tax credit equal to 39% of the total Qualified Equity Investment (QEI) made in that CDE. The credit is realized over a seven-year period: 5% annually for the first three years, and 6% in years four through seven.

The impact of these credits is substantial: according to the CDFI Fund FY 2016 Annual Financial Report, NMTCs have generated nearly \$42 billion in investments in low-income communities and businesses, resulting in the creation or retention of more than 700,000 permanent and construction jobs.<sup>2</sup> It has also supported the construction of 37 million square feet of manufacturing space, 80 million square feet of office space, and 61 million square feet of retail space. As the CDFI Fund notes, “as these communities develop, they become even more attractive to investors, catalyzing a ripple effect that spurs further investments and revitalization.”<sup>3</sup>

In 2016 alone, NMTC allocatees made 1,146 loans or investments totaling \$3.16 billion. This financing created 10,932 jobs, financed 530 businesses and 660 affordable housing units. It also created a projected 26,700 in construction jobs and developed 10.1 million square feet of commercial real estate.<sup>4</sup>

Further, the credit is targeted to reach underserved communities and encourages investment decisions to be made at the community level, allow local decisions making over which projects to finance to have the greatest impact. More than 72 percent of NMTC investments have been in communities exhibiting severe economic distress either with unemployment rates more than 1.5 times the national average, poverty rates of 30 percent or more, or median income levels at or below 60 percent of the area median.<sup>5</sup>

The NMTC also generates economic activity in rural communities. Each year, the CDFI Fund awards a proportional amount of tax credits for investments in non-metropolitan counties. The number of rural CDEs in the awardee pool must be proportional to the number of rural CDEs that meet minimum scoring thresholds.<sup>6</sup> Between 2003 and 2014, NMTC delivered more than \$4.8 billion in total project financing to 223 rural manufacturing projects.<sup>7</sup>

The credit is also an efficient use of federal resources. NMTC provides a return on investment to the federal government, and the federal tax revenue generated by NMTC investments more than pays for the cost of the program. In fact, for every \$1

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<sup>1</sup> New Markets Tax Credit Program Fact Sheet, CDFI Fund, March 2017, [https://www.cdfifund.gov/Documents/NMTC%20Fact%20Sheet\\_Mar2017.pdf](https://www.cdfifund.gov/Documents/NMTC%20Fact%20Sheet_Mar2017.pdf).

<sup>2</sup> “Investing in Opportunity Fiscal Year 2016 Year in Review”, CDFI Fund, February 2017. [https://www.cdfifund.gov/Documents/CDFI\\_7554\\_YearInReview\\_2016\\_FINAL\\_web%2020617.pdf](https://www.cdfifund.gov/Documents/CDFI_7554_YearInReview_2016_FINAL_web%2020617.pdf)

<sup>3</sup> Id at 1.

<sup>4</sup> Id at 1.

<sup>5</sup> NMTC Fact Sheet, New Markets Tax Credit Coalition, December 2016, <http://nmtccoalition.org/wp-content/uploads/Dec-2016-NMTC-Fact-sheet.pdf>.

<sup>6</sup> <https://www.cdfifund.gov/Documents/2017%20Introduction%20to%20NMTC%20Program%20Presentati on%20For%20Release.pdf>.

<sup>7</sup> “New Markets Tax Credit at Work in Communities Across America”, New Markets Tax Credit Coalition, December 2016, <http://nmtccoalition.org/wp-content/uploads/NMTC-at-Work-2016.pdf>.



invested by the Federal government, the NMTC Program generates over \$8 of private investment.<sup>8</sup>

The NMTC Program is an effective, targeted and flexible economic development tool with a proven track record of generating economic activity in underserved communities. OFN urges you to preserve this important tax credit as part of any tax reform proposal. We appreciate the opportunity to weigh in on this important issue. If you have any questions or concerns, please do not hesitate to contact me via email or phone at [dwilliams@ofn.org](mailto:dwilliams@ofn.org) or 215.320.4318.

Thank you,

*Dafina Williams*

Dafina Williams  
Vice President, Public Policy

cc: Liz Lopez, Executive Vice President, Public Policy

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<sup>8</sup> Id at 1.