



FEDERAL NEW MARKET TAX CREDIT PROGRAM

The federal New Market Tax Credit (NMTC) Program authorizes the channeling of private investment capital to economically distressed areas through a Community Development Entity (CDE)—a privately owned, for-profit financial corporation. The goal is to improve access to capital in distressed areas.

Investors invest in a professionally managed CDE, and the CDE invests the capital it raises in projects in economically distressed areas. Investors receive a portion of CDE profits and the incentive of a credit against federal tax liability equal to 39% of their investment to be claimed over a seven-year period.

811 or 43% of Virginia census tracts qualify for NMTC investments as determined by the U.S. Department of Treasury.

A CDE makes investments—equity investments and business loans—in qualifying businesses in qualifying census tracts. Investment decisions are made at the community level and typically 90 to 97 percent of NMTC business and real estate investment involve more favorable terms and conditions than the market typically offers. Terms can include lower interest rates, flexible provisions such as subordinated debt, lower origination fees, higher loan-to-values, lower debt coverage ratios and longer maturity. NMTC funding is flexible, but it is not a grant.

A good candidate for NMTC funding is generally seeking \$2 million or more in NMTC funding and has:

- A clear and positive impact on the community
- Local support with bank involvement
- Sound financials

The Virginia Economic Development Partnership and the Virginia Department of Housing and Community Development assist in helping Virginia projects obtain NMTC funding.