

Breakout I:  
**New Markets Tax  
Credit Investment:  
A Unique Value  
Proposition**

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# New Markets Tax Credit Investments

*A Unique Value Proposition*



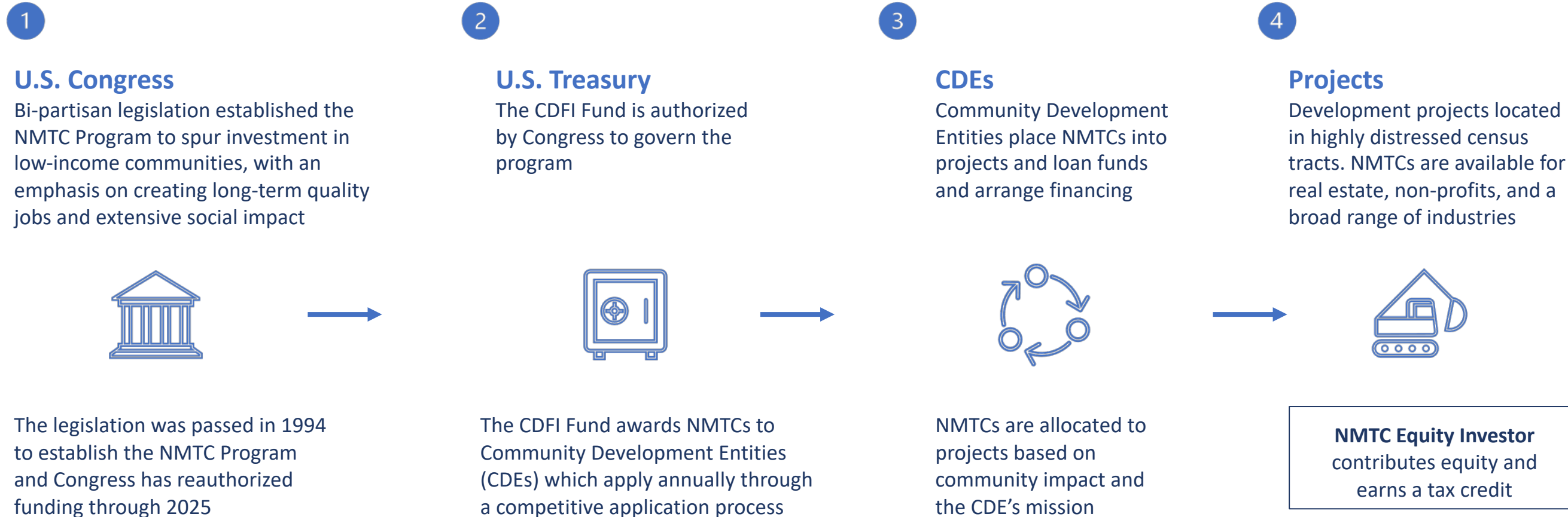
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January 30, 2023

# What is the New Markets Tax Credit Program?

The New Market Tax Credit Program is a \$91 billion federal subsidy that encourages private investment in highly distressed communities



Approximately 95% of NMTC Equity Investors are Banks or Financial Institutions

# Benefits for Low-Income Communities

## Community Goods & Services



## Funding to Over 7,500 Businesses



## Quality Job Creation



## Investments in Highly Distressed Areas



## Mixed-Use Projects



- Historically, over 76% of NMTC investments were made in **highly distressed areas** - communities with **high poverty, low median incomes and high rates of unemployment**
- Goods & Services to Low-Income Communities**
  - NMTCs have financed over **3,500 Federally Qualified Health Centers, schools, daycare centers, treatment facilities and other social services**
- Quality Job Creation** - Since its inception through 2021, the NMTC Program has created or retained more than **938,000 full-time jobs** to a wide range of employers, generally expanding businesses, and created over **512,219 construction jobs**
- Catalytic Impact** - NMTCs have supported the construction of 76.9 million square feet of **manufacturing** space, 118.3 million square feet of **office** space, and 77.1 million square feet of **retail** space
- Increase in **Affordable Housing Units** through **mixed-use** projects

# Community Reinvestment Act (CRA) Benefits to Banks

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## Community

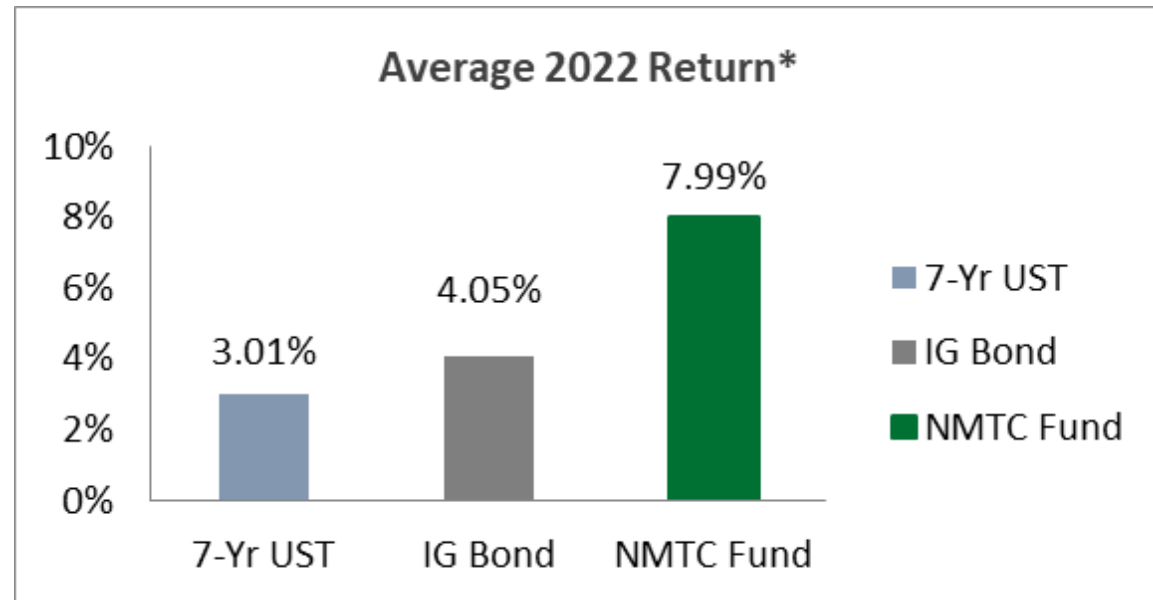
- Investment in **highly distressed areas**
- **Job creation** for **Low-Income Communities** or Residents of **Low-Income Communities**
- Access to community facilities and **commercial goods and services**
- Reduction in poverty rate
- Catalytic impact spurs additional growth



## Customers

- For customers, NMTCs can subsidize approximately 20% of a project's capital needs, usually in the form of low-interest, forgivable debt
- NMTC investments have flexible provisions such as subordinated debt, lower origination fees, higher loan-to-value, and longer maturities
- Access to **flexible and affordable financing** options
- Reduction in out-of-pocket project financing

# Investment Benefits for Banks and Institutions



- NMTCs can be used with other credit enhancements
- Increased Lending Opportunities
- Deposit and Marketing Prospects
- Investors can claim a tax credit worth 39% of their CDE equity stake over a seven-year period

\* Estimated 7-Yr US and IG Bond returns represent the pre-tax internal rate of return of each investment categorized as held-to-maturity. The seven-year investment grade bonds 7-Yr US and IG Bond for 2022 were determined based on a benchmark interest rate of the same maturity, plus the ICE BofA US Corporate Investment Grade Option-Adjusted Index. NMTC Fund return represents the pre-tax equivalent return based on average industry pricing which can fluctuate.



# NMTC Case Study - \$10,000,000 NMTC Investment

## Boys & Girls Club - Augusta, Georgia

- Renovation and expansion of the Boys & Girls Club Hagler Facility and the construction, equipment and furniture purchase, and operation of the new South Augusta Facility and the acquisition of a bus to provide transportation to children that would not otherwise have access to the facilities.
- The facility includes a commercial kitchen, laundry facilities, reading room, STEM lab, dance/exercise studio, game room, learning rooms, computer room, art room, and a Teen Center including a lounge area, gaming space, recording studio, and academic space.
- **Highly Distressed Low-Income Community**
  - Poverty Rate: 48.5%
  - Median Family Income: 40.9%
  - Unemployment Rate: 23.3%; 2.81x the national average



**25** Quality FTEs Created/Retained

- Pay living wage +
- Provide health and retirement benefits
- Offer promotion/career advancement
- Afford advanced education opportunities

**650+** Low-Income Persons Served Annually

- Mentoring and learning opportunities for youth
- Tutoring in various subjects and pathways to STEM and cyber-related careers
- Job training and career-building opportunities provided to youth and young adults
- Nutrition education to positively affect the food culture of families served

**100%** Accessible Jobs

- Jobs created are filled by low-income persons and those “harder to employ”
- People with lower levels of education, etc. who face persistent barriers to sustainable employment

# NMTC Investors\*

Investor Name	Average Investment	Principal Financing Activity	Location Preference	Preferred Service Area	Specialization Area
<b>Bank of America Merrill Lynch</b>	Varies	Real Estate/Non-Real Estate	Urban/Suburban/Rural	Bank of America's Operating Footprint	Community Facilities, Manufacturing, Arts, Grocery
<b>Capital One, N.A.</b>	Varies	Real Estate/Non-Real Estate	Urban /Suburban /Rural	National	All
<b>Chase</b>		Real Estate/Non-Real Estate	Urban /Suburban /Rural	National	All
<b>Dudley Ventures Valley National Bank</b>	5 Million+	Real Estate/Non-Real Estate	Urban /Suburban /Rural	National	All
<b>Farmers and Merchants Bank of LB</b>		Real Estate		Los Angeles & Orange County, California	
<b>New Markets Support Company</b>	Varies	Real Estate/Non-Real Estate	Urban /Suburban/Rural	National	All
<b>PNC Bank</b>	\$4 Million	Real Estate/Non-Real Estate	Urban/Suburban/Rural	National	Community Facilities, Manufacturing, Real Estate
<b>U.S. Bancorp Community Development Corporation</b>	\$5 Million	Real Estate/Non-Real Estate	Urban/Suburban/Rural	National	All
<b>Wells Fargo</b>	\$15 Million	Real Estate/Non-Real Estate	Urban/Suburban/Rural	National	General

\*New Markets Tax Credit Major Investors ([novoco.com](http://novoco.com))



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Valley, through its subsidiary **Dudley Ventures**, has substantial expertise in the complex legal, accounting, reporting, and regulatory compliance domains required for a successful **tax credit investment** and offers services including tax credit fund syndication, structuring, and placement, and credit enhancement of tax credit investments.



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## Appendix



This Overview is for informational purposes only and is intended for recipients having sufficient knowledge and experience to make an independent evaluation of the risks and merits of any financing. The New Markets Tax Credit program is extremely complex. Consult your legal counsel, tax counsel and accountant. This information and opinions included in this Overview do not, and are not intended to, constitute legal or tax advice. Dudley Ventures makes no representations or warranties of any kind, express or implied, as to the accuracy or completeness of the information or opinions. © 2023 Dudley Ventures, LLC, a Delaware limited liability company. All rights reserved.

# Risks & Mitigations Associated with NMTC Program\*

	<u>Risk</u>	<u>Mitigation</u>
<b>Recapture Risk</b>	<ul style="list-style-type: none"><li>• The NMTC Program has the following recapture-related risks:</li><li>• Deployment of the Investor’s Equity Funds by the CDEs within 12 months following investment.</li><li>• CDE Program Compliance (a CDE ceases to be a CDE).</li><li>• Investment redemption prior to expiration of the NMTC Compliance Period.</li></ul>	<ul style="list-style-type: none"><li>• Recapture risk can be mitigated by structuring transactions and staying on top of compliance</li></ul>
<b>Default Risk</b>	<ul style="list-style-type: none"><li>• The probability that the qualifying business fails to make full and timely payment of principal and interest</li></ul>	<ul style="list-style-type: none"><li>• Nonpayment risk can be mitigated with sound underwriting by both the CDE and the qualifying businesses</li></ul>
<b>Reputational Risk</b>	<ul style="list-style-type: none"><li>• Failure to identify and document the community benefits and impacts of the investment may result in a violation of the allocation agreement and negative publicity on the use of public funds for participating banks</li></ul>	<ul style="list-style-type: none"><li>• Reputation can be managed through proper business planning and periodic investment goal tracking</li></ul>
<b>Liquidity Risk</b>	<ul style="list-style-type: none"><li>• <b>NMTCs are highly illiquid</b>, because no secondary market exists for them</li><li>• <b>The NMTC investment is held for the full seven-year compliance period</b> to avoid recapture and get a full financial return</li></ul>	<ul style="list-style-type: none"><li>• Liquidity risk can be mitigated through conscious financial planning and analysis and by forecasting cash flow regularly</li></ul>

\*[New Market Tax Credits \(occ.gov\)](http://www.occ.gov) - Community Developments Fact Sheet 2016

# Regulatory Considerations

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## Accounting Issues

- Banks can invest in NMTCs through direct investments into a bank-owned or third-party CDE, through a bank-owned investment fund, or through a syndicated NMTC equity fund
- The accounting treatment for NMTC investments is dictated by rules governing partnerships and limited liability entities
- Institutions usually use the flow-through and deferral methods for NMTC accounting
- The Financial Accounting Standards Board's Emerging Issues Task Force is evaluating whether it should expand the proportional amortization method to investments in tax credits beyond LIHTC investments, including investments in NMTCs (below the line treatment), a change many expect to be adopted as early as the first quarter of 2023.

## Investment Authority

- **National banks**  
Under the OCCs public welfare investment authority, banks may invest in NMTC projects under 12 CFR 24.
  - The investment would receive consideration as a "qualified investment" under 12 CFR 25.53 of the CRA
  - PWIs and outstanding commitments cannot exceed 15 percent of capital and surplus
- **Federal Savings Associations**  
In addition to their general lending and investment, the FSA may use the following authorities to make PWIs and NMTC project investments:
  - Under De minimis investments, the FSA may invest up to 1% of its capital or \$250,000, in NMTC
  - Community development related investment in real estate under the HOLA Act, 12 CFR 160.30, and May 10, 1995, letter
  - Under the authority of 12 CFR 159, the FSA may make investments in service corporations and lower-tier entities that engage in community development activities