on ppt

NMI, rev3

New Markets Initiative

New Markets Venture Capital Firms

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What is New Markets Venture Capital (NMVC)?

- A Community Based Venture Capital Fund
- 5 Year Deferment of Interest
- Formed to Invest in Companies Requiring both Equity and Technical Assistance in LMI Areas

What Is the NMVC Target Market?

- Small Businesses in Rural Areas or Inner Cities that Require both Equity and Technical Assistance
- Small Business Has Unique Market Niche
- Moderate Growth Prospects
- Investments from $50,000 to $300,000

Overview: Goals and Need

APIC Adapted from:

SBA's Small Business Investment Companies

APIC Created to:

- Expand private investment in large-scale businesses in LMIs.
- Reach untapped markets in urban and rural areas.
- Complement HUD's existing programs for large-scale revitalization.
- Enable a wide variety of project types, including commercial real estate.

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America's Private Investment Companies

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APIC: Long-term Capital Targeted to Development Needs

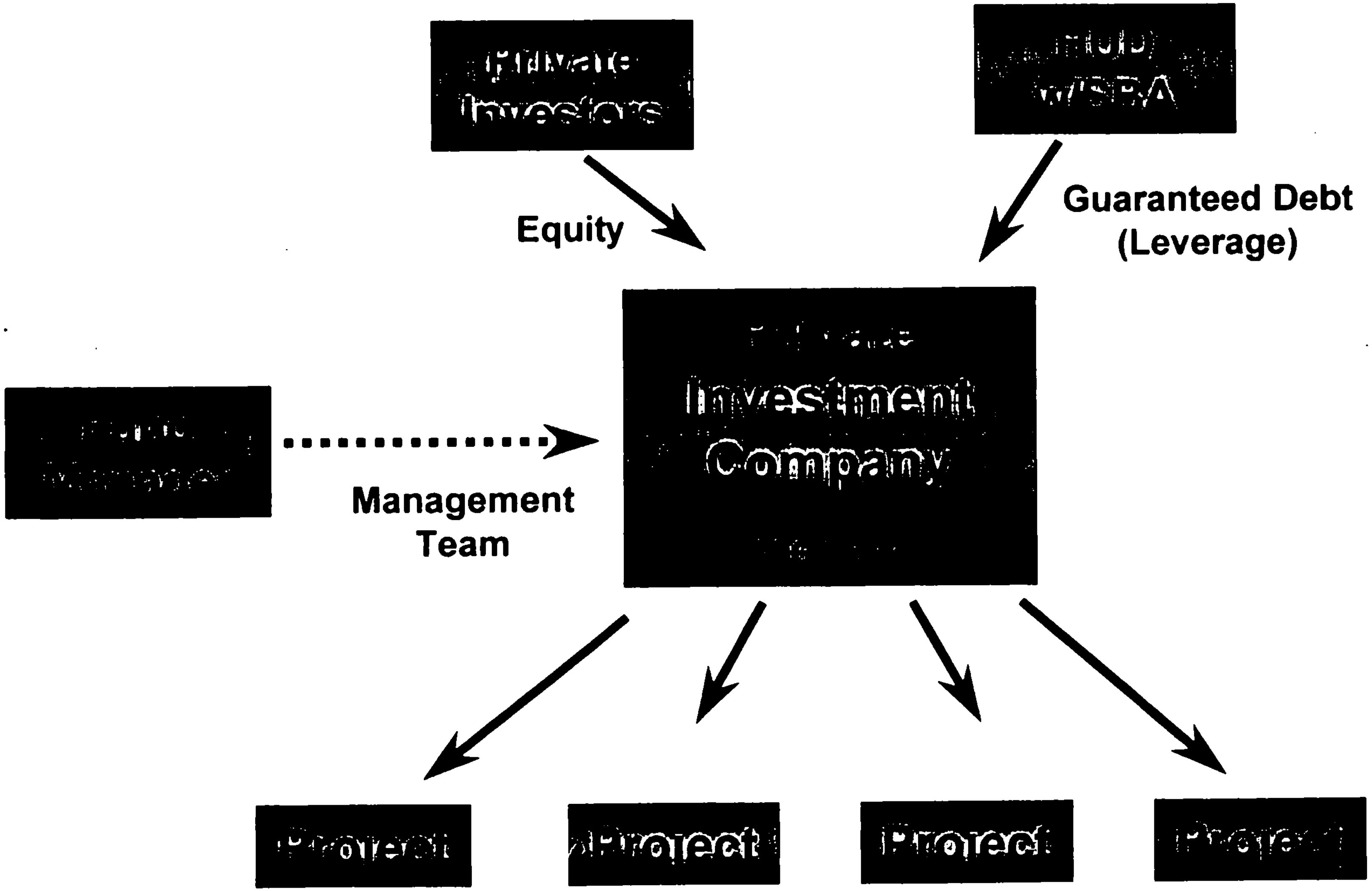
- Direct investments in active businesses
- "Patient capital" -- long-term equity and debt
- Eligibility for New Markets Tax Credit

Scale

- **$36M in credit subsidy leverages $1 billion in private loans and $500M in private equity** ($1.5 billion per year)

- **APIC will create large investment companies** (expected $75 - 450M) **able to fund large projects** (expected $5 - 50M)

How the APICs Will Work



The Investors

Broad Array Eligible:

- **Corporations**
- **Insurance Companies**
- **Banks** (eligible for CRA credit)
- **Pension Funds**
- **"Social Investors"**
- **Other Individual and Institutional Investors**

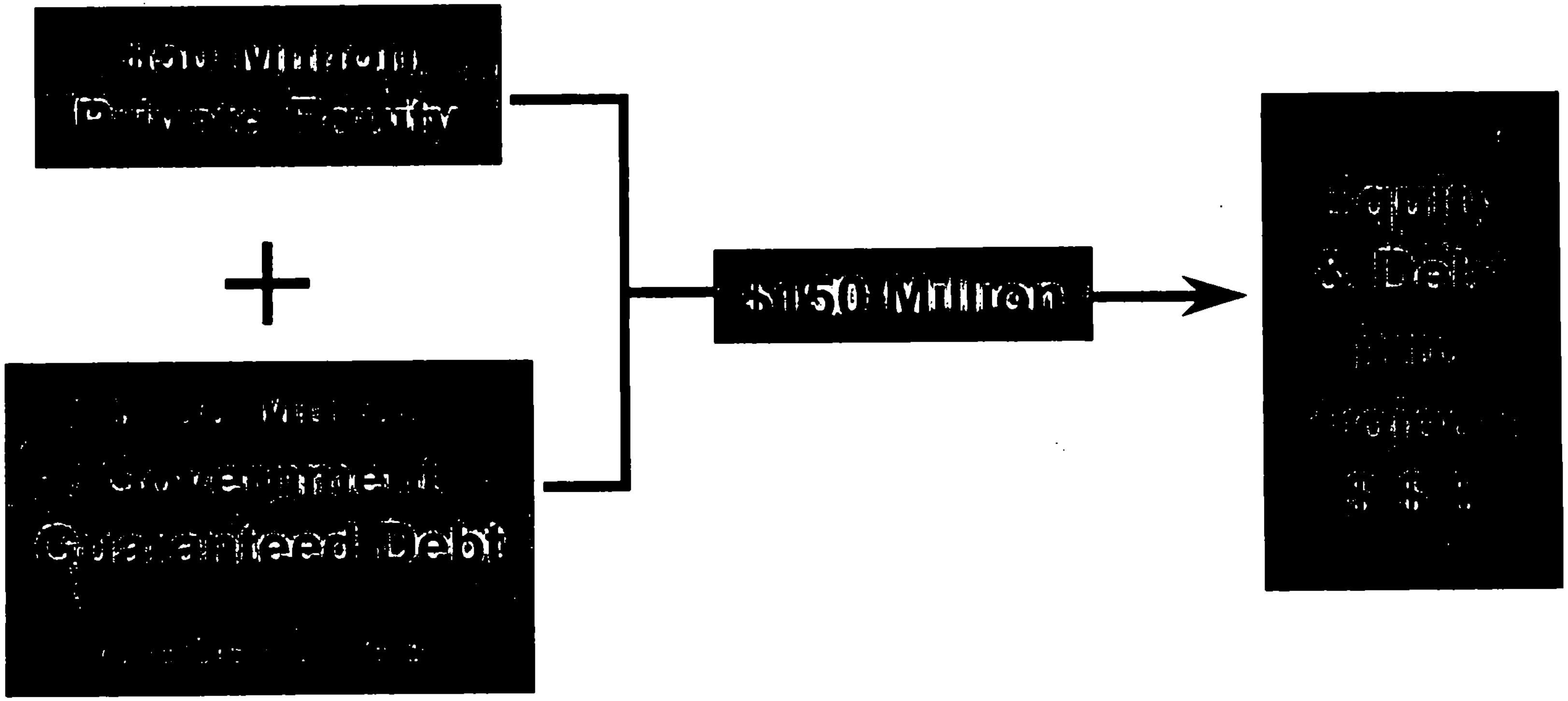
Selecting Experienced Fund Managers

Team Qualifications:

- Proven track record in direct equity investment and portfolio management
- Demonstrated ability to raise capital from private investors
- Experience in community development settings

APIC: Basic Numbers

Example



Ensuring Financial Soundness and Rewarding Performance

- Financial Soundness Review

- Performance Review
  - Local hiring, quality jobs, other community benefits target by APICs themselves

- High performers eligible for more favorable financing

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Community Development Financial Institutions (CDFIs)

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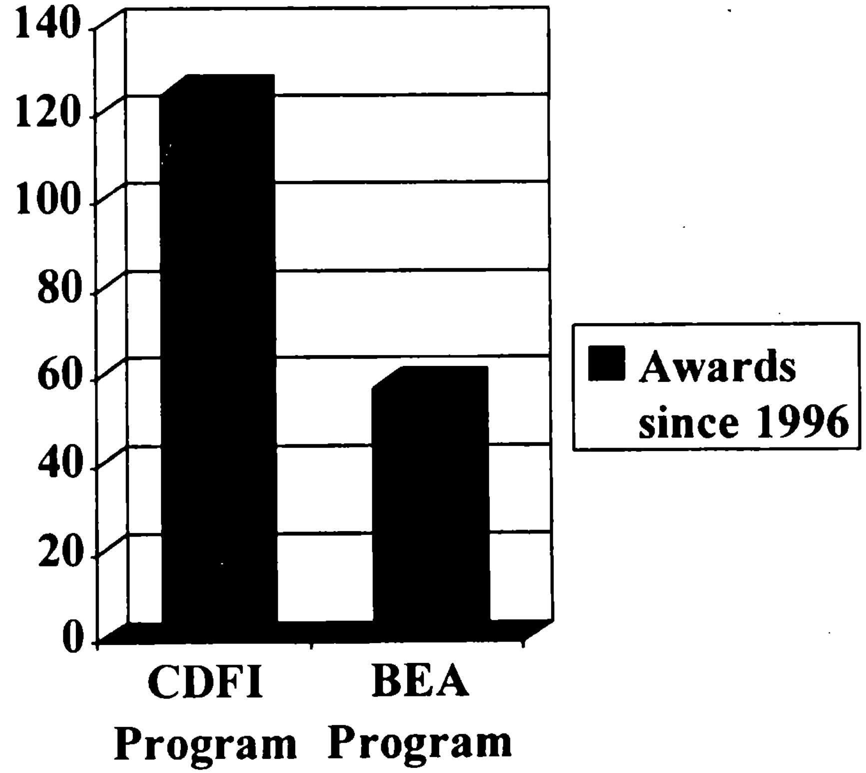
CDFI Fund Awards

- CDFI Program
  - 123 institutional awards
  - $122 Million
- BEA Program
  - 171 awards
  - $58 Million



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Microenterprise Lending and Technical Assistance

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New Micro-Enterprise Initiatives

- **President's Domestic Micro-Enterprise Agenda to increase funding by 159%, from $32M to $83M, including:**
  - $15M and new legislation for the CDFI Fund's Program for Investments in Micro-Entrepreneurs (PRIME)
  - Doubling technical assistance and lending in the SBA's Micro-Loan Program

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BusinessLINC

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BusinessLINC: Learning, Information, Networking and Collaboration

- In 1998, Vice President Gore launched Treasury/SBA's BusinessLINC.
- BusinessLINC encourages large businesses to work with small businesses to improve the competitiveness of firms located in economically distressed areas.
- The Vice President has released *BusinessLINC: Business-to-Business Relationships that Increase the Economic Competitiveness of Firms,* which details successful strategies.

BusinessLINC: Learning, Information, Networking and Collaboration

- A BusinessLINC website will serve as a national database to identify business linkages.
- BusinessLINCs help smaller firms...
  - Obtain technical advice
  - Enhance management development
  - Access sources of financing
  - Increase marketplace credibility
  - Enter subcontracts and joint ventures
- New private sector BusinessLINC coalition will work with local communities to foster more BusinessLINCs.

Eligible Community Development Entities

- **Community Development Financial Institutions:**
  Banks, Thrifts, Credit Unions, Venture Funds, Micro-Enterprises
- **Community Development Corporations (for-profit subsidiaries of nonprofits)**
- **Small Business Investment Companies Primarily Serving Low and Moderate- Income Communities**

Eligible Community Development Entities

- New Market Venture Capital Firms
- America's Private Investment Companies
- Funds that Invest in Other Community Development Entities
- Funds that Purchase, Pool and Sell Loans Made by Community Development Entities
- Other Targeted Investment Funds

New Markets Tax Credit

Qualified Business:

- Must be located in low or moderate-income area
- Must meet certain criteria to assure active business

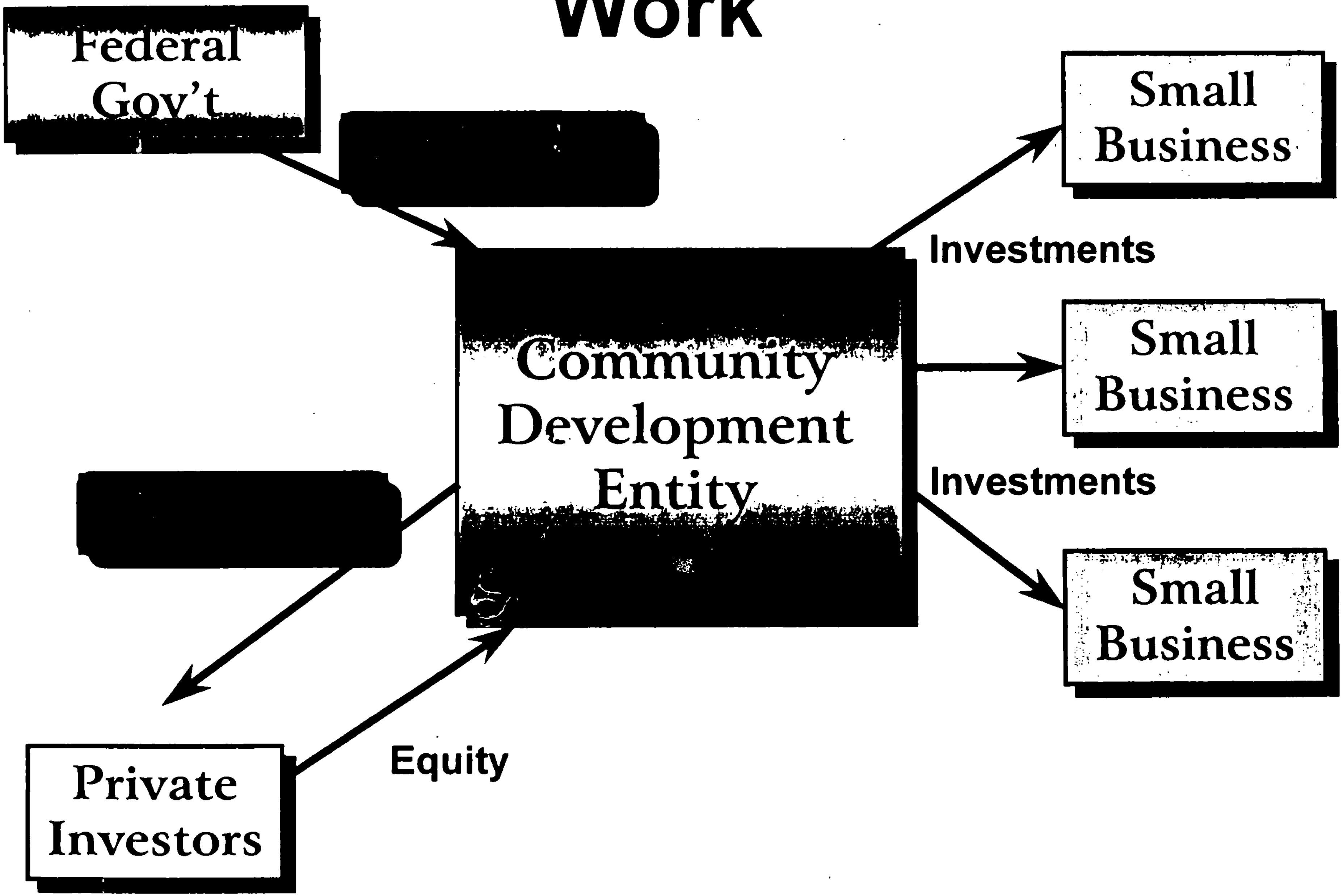
Examples of businesses that may qualify include:

- Small technology firms
- Inner-city shopping centers
- Manufacturers
- Retail stores

New Markets Tax Credit: How Would it Work?

- Community Development Entities apply for designation.
- Designated entities allocate a given amount of tax credits to investors.
- Community Development Entities use the tax credits to attract investment capital.
- Investors claim a 6% tax credit for 5 years on their investment.
- Designated Community Development Entities report tax credit allocations made and the use of investment to the Treasury Department.

How New Markets Tax Credits Work



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SBICs Targeted to New Markets (SBIC - LMI)

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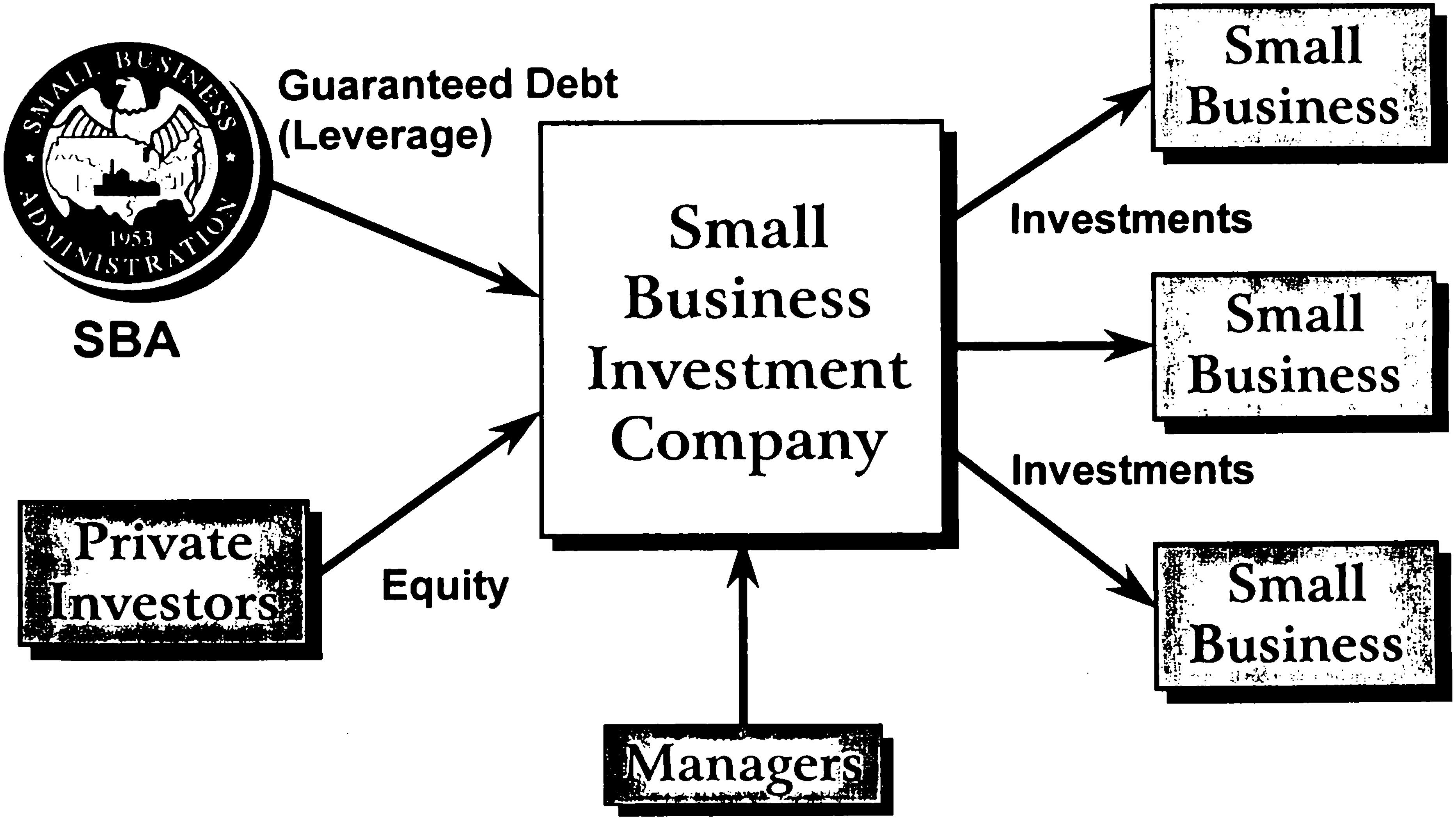
What is an SBIC?

- A Private Company
- With Private Management
- And Private Investors

Formed specifically to invest in small businesses, generally where equity participation is a significant component of the financial return.

How SBICs Work



What is an LMI (Low and Moderate Income)-Focused SBIC?

- A Regularly Licensed SBIC
- $5 Million Minimum Capital
- Up to 3:1 Debenture Leverage
- Five Year Deferment of Interest

Formed to invest in LMI areas where 20% of the population is below poverty level or median income is less than 80%.

What Is the SBIC/LMI Target Market?

- Growth Small Businesses in Rural Areas, Inner Cities, or
- 35% of Employees from LMI Areas
- Investments from $150,000 to $1 Million

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White House National Economic Council
U.S. Department of the Treasury
U.S. Department of Housing and Urban Development
U.S. Small Business Administration

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Goals of the
New Markets Initiative:

- Provide incentives to stimulate $15 billion of new private capital investment in targeted areas;
- Build a network of private investment institutions focused on economic development in underserved areas; and
- Provide the expertise to small businesses and microenterprises that will allow them to use new investment to grow.

Elements of the New Markets Initiative

- New Markets Tax Credit
- America's Private Investment Companies (APICs)
- SBICs Targeted to New Markets (SBIC- LMI)
- New Markets Venture Capital Firms (NMVCs)
- Microenterprise Lending and Technical Assistance
- Continued Growth for CDFIs
- BusinessLINC

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New Markets Tax Credit

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New Markets Tax Credit

"I remember from my time on Wall Street that there really had been no practical means, even for professional investors, to invest in inner cities even if they wished to do so. Hopefully the creation of CDFI and other vehicles, and this new tax credit, will interact to make investment opportunity more readily available and to provide incentive for such investment."

Robert E. Rubin, U.S. Treasury Secretary

New Markets Tax Credit

"Businesses must have equity capital before they are considered viable candidates for debt financing... Continued efforts to develop the markets for private equity investments will be rewarded by an innovative and productive business community. This is especially true in lower income communities, where the weight of expansive dept obligations on small firms can severely impede growth prospects..."

Alan Greenspan, Federal Reserve Board Chairman

New Markets Tax Credit

- Attract $6 Billion in New Equity Capital to Businesses located in Economically Distressed Communities
- Build the Capacity of Institutions with Business Development Expertise and Knowledge of their Local Community
- Promote Partnerships between Skilled Community Development Entities and Mainstream Sources of Capital

What Community Development Entities Can Use the New Markets Tax Credit?

- **A Flexible Approach**
- **The Community Development Entity Must meet a 3-Part Test:**
  - Primary mission to serve or provide investment capital for low and moderate-income communities
  - 60% of gross assets invested in qualified investments or residential property located in low-income communities
  - Accountable to residents of low-income communities