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First-Time NMTC Allocatees Plan to Commit Funds to Manufacturing, Real Estate, Job Creation

NICK DECICCO, SENIOR WRITER, NOVOGRADAC

Nine first-time recipients were among the 100 community development entities (CDEs) awarded allocation authority in September when the U.S. Department of the Treasury's Community Development Financial Institutions (CDFI) Fund announced its calendar year 2020 (CY 2020) new markets tax credit (NMTC) allocation awards.

Rural areas continue to be a focus for the CDFI Fund, with 16 allocatees meeting the criteria as a rural CDE. They received \$810 million in authority. Nearly \$1.1 billion of the \$5 billion CY 2020 allocation is expected to be invested in rural areas.

"The CDFI Fund's focus on investing in rural areas and manufacturing stayed strong in this allocation round," said Rebecca Darling, a partner in Novogradac's Atlanta office. "That's reflected in the number of first-time allocatees serving those areas and with those types of investments in their pipeline."

A Rural Emphasis

Seven of the nine first-time recipients—BXS Community Fund, DBL Equity Partners, Legacy Economic Growth Fund, New Market Opportunity Fund (The Opportunity Fund), Old National CDE Corporation, Pathway Lending and PB Community Impact Fund (PBCIF)—felt their attention to financial pursuits in rural areas was important to their application success.

Investing in such areas is exciting to Will Shurtleff, senior vice president and tax credit manager at BancorpSouth, which runs the BXS Community Fund CDE. BXS' service area covers a wide swath of southern states, from central Texas to the Florida panhandle.

"I like nonmetro deals because it can be a game-changer in that community," said Shurtleff. "When you put a critical access hospital in a new markets area and there's a ribbon-cutting, the entire community comes out because they haven't had that kind of investment in their community in 20 or 30 years. But it improves quality of life. Now they don't have to drive 30 or 40 miles for health care. To see the impact on a grassroots level in the community, to me, is the best thing."

Bob Poznanski, president of The Opportunity Fund, based in Indianapolis, said its award will serve a mixture of rural and urban endeavors, including a chocolate factory and agribusinesses, with the primary goal of bringing economic opportunities to communities across Indiana.

"What we are doing is supporting projects that provide jobs for people in these low-income communities to hopefully bring them out of poverty and into the economic mainstream," said Poznanski. "As a corollary, that will help revitalize the communities they live in."

Brandon Taylor, chief financial officer of Legacy Bank and Trust, which runs the Legacy Economic Growth Fund, has similar ambitions for his CDE's influx of tax credit allocation authority. Taylor said the allocation can bring capital to small businesses and

rural communities that may have been underserved in the past.

“It can be the missing piece to get a project to the finish line,” said Taylor. “We like being a problem solver. Things cost a lot more right now. Inflation is a major factor. We can be an answer that helps a small business reach its goals and that’s a win for everybody.”

Being a problem solver in rural communities is important to Old National CDE Corporation, too, said Mike Harbaugh, tax credit relationship manager vice president for Old National Bank. Harbaugh said Old National’s CDE was formed specifically to invest in the most highly distressed communities throughout Indiana, Kentucky, Michigan, Minnesota and Wisconsin with the goal of helping low-income residents to close the racial economic inequality gap.

“Our hope is to positively change the neighborhoods and communities we serve,” said Harbaugh. “Our intention is to find organizations that are already positively impacting their communities and to invest in a manner that allows the organization to grow beyond their current capacity. If done well, our investments will be magnified far beyond the dollars invested.”

Clint Gwin, president and CEO of Pathway Lending, said he feels part of his firm’s application’s success was because of their deep knowledge of those they plan to serve in Tennessee. Gwin estimated one-third of Pathway’s \$30 million allocation would go to rural areas in Tennessee.

“Our depth of experience and focus on the state of Tennessee and our ability to reach and understand all areas, urban and rural, of our home state sets us apart,” said Gwin. “We want to be one of the first CDEs people think of for both Tennessee and Alabama, two states perennially underserved by the NMTC program.”

Both Pathway Lending and PBCIF are focused on manufacturing in the South. Michael Tolleson,

chief financial officer at Peoples Bank in Jackson, Mississippi, which runs the PBCIF, said his CDE has several rural manufacturing and industrial projects in its pipeline as well as several small deals which will use their small-dollar loan fund.

“Our goal is to provide capital to create jobs in rural, underserved areas,” said Tolleson. “Jobs create opportunity. Opportunity creates hope. So I guess our goal is to create hope.”

DBL Equity Partners, the CDE of Fargo, North Dakota-based Dakota Business Lending, has three manufacturers and two community projects in its investment pipeline. Steve Dusek, the financier’s president and chief executive officer, said earning an award “was icing on the cake,” but feels the hard work is just beginning.

“Every day, since the award was announced is a new set of challenges and opportunities for us,” said Dusek. “Our hope is that we deliver on what we promised to Treasury, to contribute to and expand the economy of North Dakota by strengthening our small businesses and that we create quality, home-based employment opportunities for our citizens that enable them to better themselves, their families and their communities.”

An Eye on Real Estate

Pathway Lending plans to invest in catalytic, mixed-use real estate projects in Alabama in addition to primarily manufacturing and nonprofit entities in Tennessee. Pathway is one of three first-time awardees to prioritize real estate development in its pipeline.

Another is the Community Housing Capital CDE, which will focus its allocation exclusively on its Neighbor Works network, which delivers capital directly and exclusively to a collection of more than 240 permanent multifamily and single-family nonprofit developers. Dana Chestnut, chief lending officer at Community Housing Capital, said the CDE is in the process of combing through its network to maximize the impact of its \$30 million allocation.

“It’s a challenging endeavor for us, but it will be rewarding because the selected projects will provide badly needed dollars into that community,” said Chestnut. “We’re assessing how important an allocation will be for any selected town. How many jobs will the project create? We have a unique challenge of stepping back and looking at all of these things while also considering the overall community and network impact.”

Lendistry, a “fintech” blending technology and financial methods to target small business lending and real estate with its allocation, is focusing on disadvantaged communities as well as providing a larger portion to a loan fund designated for qualified active low-income community businesses. Everett Sands, the firm’s president and CEO, said the allocation allows Lendistry to deliver for small-business owners who need economic opportunities to thrive.

“Lendistry was launched in 2015 with a mission to provide access to capital to small-business owners who, for too long, have thought that the world of fair, responsible loans wasn’t meant for them,” said Sands. “We value the importance of locally owned businesses as a means for community advancement.”

The Secret Sauce

More than 200 CDEs applied in the CY 2020 round, meaning fewer than half were awarded funds, making for a competitive process.

What helped this year’s first-time recipients?

Showing how an allocation would benefit communities was a common theme among the first-timers. Shurtleff said narrowing BXS’ application’s focus to manufacturing and health care rather than casting a wider net for too many types of investment opportunities was a key part of their successful application. Community Housing Capital president and CEO Cindy Holler said building a robust pipeline was important, saying the CDE hosted webinars to better inform members of communities about NMTCs and how an allocation could benefit their network.

While the first-time allocatees were successful, they weren’t about to give up all of the tools of their success.

“This is the secret sauce. We don’t want to give away too much information,” joked Harbaugh.

Darling laughed at Harbaugh’s statement, but said there’s also truth in it. One of the keys to success for each CDE is to stay true to its mission and business strategy, she said.

“CDEs sometimes feel a pressure to be like other successful CDEs or change plans to better align with a perceived focus of the CDFI Fund,” said Darling. “However, each CDE has their own secret sauce and they should stay true to themselves and how they can best serve the low-income communities and people in their service area.” ❖

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