



**NEW YORK STATE
DEPARTMENT OF FINANCIAL SERVICES
FINANCIAL FRAUDS AND CONSUMER PROTECTION DIVISION**

One State Street
New York, NY 10004

PUBLIC SUMMARY

**COMMUNITY REINVESTMENT ACT
PERFORMANCE EVALUATION**

Date of Evaluation: March 31, 2016

Institution: Bank of Baroda, New York Branch
One Park Avenue
New York, NY 10016

Note: This evaluation is not an assessment of the financial condition of this institution. The rating assigned does not represent an analysis, conclusion or opinion of the New York State Department of Financial Services concerning the safety and soundness of this financial institution.

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GENERAL INFORMATION

This document is an evaluation of the Community Reinvestment Act (“CRA”) performance of the Bank of Baroda, New York Branch (“BOBNYB”) prepared by the New York State Department of Financial Services (“DFS” or the “Department”). This evaluation represents the Department’s current assessment and rating of the institution’s CRA performance based on an evaluation conducted as of March 31, 2016.

Section 28-b of the New York Banking Law, as amended, requires that when evaluating certain applications, the Superintendent of Financial Services shall assess a banking institution’s record of helping to meet the credit needs of its entire community, including low- and moderate-income (“LMI”) areas, consistent with safe and sound operations.

Part 76 of the General Regulations of the Superintendent implements Section 28-b and further requires that the Department assess the CRA performance records of regulated financial institutions. Part 76 establishes the framework and criteria by which the Department will evaluate the performance. Section 76.5 further provides that the Department will prepare a written report summarizing the results of such assessment and will assign to each institution a numerical CRA rating based on a 1 to 4 scoring system. The numerical scores represent an assessment of CRA performance as follows:

- (1) Outstanding record of meeting community credit needs;
- (2) Satisfactory record of meeting community credit needs;
- (3) Needs to improve in meeting community credit needs; and
- (4) Substantial noncompliance in meeting community credit needs.

Section 76.5 further requires that the CRA rating and the written summary (“Evaluation”) be made available to the public. Evaluations of banking institutions are primarily based on a review of performance tests and standards described in Section 76.7 and detailed in Sections 76.8 through 76.13. The tests and standards incorporate the 12 assessment factors contained in Section 28-b of the New York Banking Law.

For an explanation of technical terms used in this report, please consult the **GLOSSARY** at the back of this document.

OVERVIEW OF INSTITUTION'S PERFORMANCE

Overall CRA Rating: "Needs to Improve"

DFS evaluated BOBNYB's performance according to the community development test for wholesale or limited purpose banking institutions pursuant to Part 76.11 of the General Regulations of the Superintendent. The assessment period covered April 1, 2013 through March 31, 2016. BOBNYB is rated "Needs to Improve" indicating a less than satisfactory record of helping to meet community credit needs. This rating is a downgrade from the prior rating of "Satisfactory" based on DFS's Performance Evaluation dated March 31, 2013.

This rating is based on the following factors:

Community Development Test: "Needs to Improve"

BOBNYB demonstrated a poor level of responsiveness to the community development needs of its assessment area, considering its capacity and the need and availability of such opportunities for community development in its assessment area.

Community Development Lending: "Needs to Improve"

During the evaluation period, BOBNYB originated a \$6 million in new lending activities and had \$76,000 loan balance from the prior examination period. The ratio of community development loans to annualized total assets was 0.02%, which is a poor level of community development lending given the significant asset growth.

Community Development Qualified Investments: "Needs to Improve"

During the evaluation period, BOBNYB had \$2 million in new qualified community development investments including \$110,000 in grants. This demonstrated poor level of community development investing.

Community Development Services: "Needs to Improve"

BOBNYB demonstrated a poor level of community development services as there was only one community development involvement by the chief executive officer over the course of the evaluation period

Innovative or Complex Practices:

BOBNYB did not make use of any innovative or flexible practices in its community development activities.

Responsiveness to Credit and Community Development Needs: “Needs to Improve”

BOBNYB demonstrated a poor level of responsiveness to credit and community development needs, given its overall growth in assets and loans.

This Evaluation was conducted based on a review of the 12 assessment factors set forth in Section 28-b of the New York Banking Law and Part 76 of the General Regulations of the Superintendent.

PERFORMANCE CONTEXT

Institution Profile

BOBNYB is the only United States presence of the Bank of Baroda, a multi-national banking corporation headquartered in Mumbai, India. The Bank of Baroda has more than 5,330 branches in India, and offers a global link with 106 branches, representative offices, subsidiaries, and joint ventures internationally. BOBNYB was chartered by the New York State Department of Financial Services in 1978 and obtained its designation as a wholesale bank on October 2, 1997 for Community Reinvestment Act ("CRA") purposes by the Federal Deposit Insurance Corporation ("FDIC").

BOBNYB's main objective is to serve Indian business customers and to help finance trade between India and the United States by providing trade financing and extensions of credit to local Indian customers. The branch offers working capital demand loans, term loans, foreign exchange products, and installment loans to its commercial customers. As a wholesale institution, BOBNYB is not engaged in retail banking activities and does not offer small business loans, farm loans, or consumer loans. BOBNYB's assessment area includes the five boroughs of New York City. There was no change to the assessment area since the prior CRA evaluation.

As per its Report of Assets and Liabilities as of March 31, 2016, filed with the FDIC, BOBNYB reported total assets of \$10.3 billion, of which \$8.8 billion were net loans and leases. Over the evaluation period, the bank's total assets gradually increased by 54.2 percent and total gross loans by 78.4 percent mainly due to financing for trade between India and the United States. Commercial and Industrial loans decreased slightly to 8.0 percent of total gross loans since the prior evaluation.

The following is a summary of BOBNYB's loan portfolio, based on its Report of Assets and Liabilities of US Branches and Agencies of Foreign Banks - FFIEC 002 filed during the evaluation period.

TOTAL GROSS LOANS OUTSTANDING								
Loan Type	12/31/2013		12/31/2014		12/31/2015		3/31/2016	
	\$000's	%	\$000's	%	\$000's	%	\$000's	%
Loans to Banks in Foreign Countries	4,921,836	79.9	6,300,861	86.2	7,248,012	86.3	7,639,779	87.3
Commercial and Industrial Loans	788,632	12.8	707,467	9.7	718,149	8.6	698,068	8.0
Loans to Commercial Banks in the U.S.	450,000	7.3	300,000	4.1	80,000	1.0	115,000	1.3
Commercial Mortgage Loans	70	0.0	0	0.0	0	0.0	0	0.0
Loans to Other Financial Institutions	0	0.0	0	0.0	350,000	4.2	300,000	3.4
Total Gross Loans	6,160,538	100.0	7,308,328	100.0	8,396,161	100.0	8,752,847	100.0

As of the evaluation date, BOBNYB's total deposits grew by 70.8 percent to nearly \$7.0 billion from \$4.1 billion at the prior evaluation date, representing a loan-to-deposit ratio of 125 percent. According to the latest available comparative deposit data, as of June 30, 2016, BOBNYB ranked seventeenth with a market share of 0.6 percent among 108 deposit-taking institutions in the assessment area. During the prior evaluation, the bank ranked twenty-first with a market share of 0.4 percent among 119 deposit-taking institutions.

Examiners found no evidence of financial or legal impediments that had an adverse impact on BOBNYB's ability to meet the credit needs of its community.

Assessment Area

BOBNYB's assessment area is comprised of the five counties that make up New York City: Bronx, Kings, New York, Queens, and Richmond. There were no changes since the prior evaluation.

There are 2,168 census tracts in the assessment area, of which 336 are low-income, 633 are moderate-income, 645 are middle-income, 490 are upper-income and 64 are tracts with no income indicated. Bronx and Kings counties have the highest percentage of low-to-moderate income census tracts at 70.8 percent and 55.2 percent, respectively.

Assessment Area Census Tracts by Income Level							
County	N/A	Low	Mod	Middle	Upper	Total	LMI %
Bronx	10	143	97	60	29	339	70.8
Kings	13	125	295	213	115	761	55.2
New York	12	44	61	25	146	288	36.5
Queens	26	21	169	314	139	669	28.4
Richmond	3	3	11	33	61	111	12.6
Total	64	336	633	645	490	2,168	44.7

Demographic & Economic Data

The assessment area had a population of 8.2 million during the evaluation period. About 12.0 percent of the population were over the age of 65 and 19.1 percent were under the age of sixteen.

Of the 1.8 million families in the assessment area 31.8 percent were low-income, 17.2 percent were moderate-income, 16.5 percent were middle-income and 34.4 percent were upper-income families. There were 3.0 million households in the assessment area, of which 18.1 percent had income below the poverty level and 4.1 percent were on public assistance. The weighted average median family income in the assessment areas was \$65,513.

There were 3.3 million housing units within the assessment area, of which 40 percent were one- to four-family units, and 60.0 percent were multifamily units. A majority (61 percent) of the area’s housing units were rental-occupied, while 30.1 percent were owner-occupied. Of the one million owner-occupied housing units, 25.0 percent were in low- and moderate-income census tracts while 75.0 percent were in upper- income census tracts. The median age of the housing stock was 70 years, and the median home value in the assessment area was \$526,500.

There were 520,004 non-farm businesses in the assessment area. Of these, 76.1 percent were businesses with reported revenues of less than or equal to \$1 million, 6.3 percent reported revenues of more than \$1 million and 17.5 percent did not report their revenues. Of all the businesses in the assessment area, 83.6 percent were businesses with less than fifty employees and 92.1 percent operated from a single location. The major industry sectors in the assessment area were services at 50.2 percent, followed by retail trade at 15.6 percent, and finance, insurance and real estate at 9.1 percent.

According to the New York State Department of Labor, the unemployment rate for New York State continued to decline during the evaluation period, from 8.5 percent to 5.2 percent, as of March 31, 2016. This downward trend was also seen in the bank’s assessment area. Bronx County still has the highest average unemployment rate at the end of 2015 at 7.7 percent but improved when compared with 12.4 percent at the 2012 year-end. New York and Queens County unemployment rates were slightly below the statewide rate.

Assessment Area Unemployment Rate						
	Statewide	Bronx	Kings	New York	Queens	Richmond
2012	8.5	12.4	9.8	8.0	8.3	9.4
2013	7.7	11.7	9.3	7.5	7.7	8.9
2014	6.3	9.7	7.6	6.1	6.3	7.4
2015	5.3	7.7	5.9	4.8	5.0	5.8
3/31/2016	5.2	7.9	5.8	5.0	5.0	5.7

Community Information

Examiners contacted several organizations, within BOBNY’s assessment area, that focus on community development through affordable housing, economic development, and community services. The interviews with these organizations helped identify essential needs or credit opportunities available within BOBNY’s assessment area.

Community contacts included: a workforce and economic development organization in New York City that addresses the issues of poverty and under-employment by helping aspiring entrepreneurs to start businesses, as well as assisting first-generation immigrants who struggle with barriers to education and employment; a nonprofit organization whose mission is to revitalize the underserved neighborhoods

of New York City by creating and preserving affordable housing and providing for homeownership education, financial assistance and community leadership; and a not-for-profit organization that provides meals to elderly New Yorkers who can no longer shop or cook for themselves.

Community contacts indicated that although the economic conditions in the assessment area are improving both for housing and small business, there is still a need for additional affordable housing for low-income families, as well as small business loans for entrepreneurs, and community services for low- and moderate-income individuals. Also, the community contact pointed out the need for continued investment in affordable housing, with added emphasis on emergency repair funding for older housing stock in the more challenged low- to moderate-income neighborhoods of New York City.

In addition, community contacts commented on the growth in the senior citizen population as a major demographic change in New York City and the need for providing support to these individuals in housing and community services. Financial services directed toward LMI areas and residents are also an important assessment area need. The contacts identified the need for additional grants for local not-for-profit organizations to develop additional programs and services.

PERFORMANCE TEST AND ASSESSMENT FACTORS

DFS evaluated BOBNYB under the wholesale banks performance standards pursuant to the “community development test,” as provided in Section 76.11 of the General Regulations of the Superintendent. Performance criteria include (1) the number and amount of community development loans, qualified investments or community development services; (2) the use of innovative or complex qualified investments, community development loans or community development services and the extent to which investments are not routinely provided by private investors; and (3) the banking institution’s responsiveness to credit and community development needs. In addition, the following factors are also considered in assessing BOBNYB’s record of performance: the extent of participation by the board of directors or board of trustees in formulating CRA policies and reviewing CRA performance; any practices intended to discourage credit applications; evidence of prohibited discriminatory or other illegal credit practices; the bank’s record of opening and closing offices and providing services at offices; and process factors such as activities to ascertain credit needs; and the extent of marketing and special credit related programs. Finally, the evaluation considered other factors as delineated in Section 28-b of the New York Banking Law that reasonably bear upon the extent to which a banking institution is helping to meet the credit needs of its entire community.

The assessment period covered from April 1, 2013 through March 31, 2016.

At its prior Performance Evaluation, as of March 31, 2013, DFS assigned BOBNYB a rating of “2,” reflecting a “Satisfactory” record of helping to meet community credit needs.

Current CRA Rating: “Needs to Improve”

Community Development Test: “Needs to Improve”

BOBNYB’s community development performance demonstrated a poor level of responsiveness to the community development needs of its assessment area through community development loans, investments and services, considering its capacity, and the need and availability of such opportunities for community development in its assessment area.

Overall, BOBNYB’s community development lending activities for the evaluation period decreased to \$6.1 million from \$16 million at the prior evaluation, and its investment activities decreased to \$2.0 million from \$3.0 million. However, the bank’s total assets grew significantly to \$10.3 billion from \$6.7 billion at the prior evaluation period. In addition, BOBNYB’s community development service activities continue to need improvement.

A more detailed description of BOBNYB’s community development activities follows.

Community Development Lending: “Needs to Improve”

BOBNYB had a poor level of community development lending during the evaluation period. BOBNYB’s new lending was limited to annual renewals of an overdraft line of credit extended to an affordable housing organization totaling \$6 million over the course of the evaluation period. In addition, the outstanding balance of loans originated in prior evaluation periods was minimal at \$76,000.

BOBNYB’s lack of new community development lending activities at the current evaluation period, coupled with substantial average asset growth of 33.6 percent, worsened the current period performance. On an annualized basis, BOBNYB’s current level of \$6 million in community development loans represents 0.02 percent of average assets, compared with \$16 million in community development loans in the prior evaluation period, which represented 0.07 percent of average assets on an annualized basis.

Community Development Loans				
	This Evaluation Period		Outstanding from Prior Evaluation Periods	
Purpose	# of Loans	\$000	# of Loans	\$000
Affordable Housing	1	6,000	2	76
Economic Development				
Community Services				
Revitalize & Stabilize				
Total	1	6,000	2	76

Below are highlights of BOBNYB’s community development lending:

- BOBNYB renewed a \$2 million working capital line of credit from 2013 to 2015 for a nonprofit organization. The organization, operating in the bank’s assessment area, revitalizes underserved neighborhoods by creating and preserving affordable housing and providing opportunities for home ownership education, financial assistance, and community leadership. This brings about neighborhood revitalization by stimulating reinvestment in urban neighborhoods through a partnership of residents, government, and businesses.

Community Development Investments: “Needs to Improve”

During the evaluation period, BOBNYB renewed or invested \$1.9 million in certificates of deposit in new community development investments and \$105,000 in grants. There were no outstanding balances from prior evaluation periods. BOBNYB’s weak community development investment activities, coupled with substantial asset growth have worsened

the current period's performance. On an annualized basis, the current level of investment and grant activities of 0.006 percent represented a minimal percentage of average assets during the evaluation period, compared to the 0.01 percent at the prior evaluation.

Community Development Investments and Grants				
	This Evaluation Period		Outstandings from Prior Evaluation Periods	
CD Investments	# of Inv.	\$000	# of Inv.	\$000
Affordable Housing				
Economic Development	4	1,907		
Community Services				
Other (Please Specify)				
Total	4	1,907	0	0
CD Grants	# of Grants	\$000	<i>Not Applicable</i>	
Affordable Housing	3	40		
Economic Development				
Community Services	3	70		
Other (Please Specify)				
Total	6	110		

Below are brief descriptions of the community development investments and grants:

Economic Development

- BOBNYB renewed or invested in certificates of deposit in four certified community development financial institutions ("CDFI") totaling \$1.9 million during the evaluation period. These CDFIs provide services and are dedicated to the economic viability and revitalization of underserved neighborhoods.

Affordable Housing

- BOBNYB contributed \$35,000 to a nonprofit affordable housing organization that revitalizes underserved neighborhoods by creating and preserving affordable housing and providing opportunities for financial education.

Community Services

- BOBNYB donated \$70,000 to a New York City based organization that provides nutritious food to the underserved, frail and elderly, and low- and moderate-income individuals.

Community Development Services: “Needs to Improve”

BOBNYB continued to demonstrate a poor level of community development services during the evaluation period. BOBNYB’s chief executive officer served on the advisory board of a nonprofit affordable housing organization in New York City in 2013, 2014, and 2015. The organization, operating in the bank’s assessment area, revitalizes underserved neighborhoods by creating and preserving affordable housing and providing opportunities for home ownership education, financial assistance, and community leadership. The organization brings about neighborhood revitalization by stimulating reinvestment in urban neighborhoods through a partnership of residents, government, and businesses.

Innovative Practices

BOBNYB did not make use of any innovative or flexible practices in its community development activities.

Responsiveness to Credit and Community Development Needs

BOBNYB demonstrated a poor level of responsiveness to credit and community development needs, given BOBNYB’s overall growth in assets and loans. BOBNYB is encouraged to develop plans to learn about its communities’ needs and to contact community development groups which support those local communities.

Additional Factors

The extent of participation by the banking institution’s Board of Directors or Board of Trustees in formulating the banking institution’s policies and reviewing its performance with respect to the purposes of the CRA.

BOBNYB’s CRA performance is reported to and monitored by the New York Performance Monitoring Committee, which is the top management committee in New York, consisting of the chief executive officer, the chief compliance officer, assistant general managers, chief managers, and senior managers. Management should implement annual self-assessments to monitor community development activities and present them to the Performance Monitoring Committee for discussion and for further course of action.

Discrimination and other illegal practices

- *Any practices intended to discourage applications for types of credit set forth in the banking institution’s CRA Public File.*

DFS examiners did not note evidence of practices by BOBNYB intended to discourage applications for the types of credit offered by BOBNYB.

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- *Evidence of prohibited discriminatory or other illegal credit practices.*

DFS examiners did not note evidence of prohibited, discriminatory or other illegal practices.

The banking institution's record of opening and closing offices and providing services at offices

BOBNYB has not opened or closed any branches since the prior evaluation. As a wholesale bank, it does not offer retail services at its office.

Process Factors

- *Activities conducted by the banking institution to ascertain the credit needs of its community, including the extent of the banking institution's efforts to communicate with members of its community regarding the credit services being provided by the banking institution.*

BOBNYB has maintained close associations with only a few nonprofit organizations that revitalize underserved neighborhoods. No other activities or efforts to communicate with community groups were conducted during the evaluation period.

- *The extent of the banking institution's marketing and special credit-related programs to make members of the community aware of the credit services offered by the banking institution*

Since it is a wholesale bank BOBNYB had no direct programs or special credit-related programs to market its products and services to the LMI communities in its assessment area.

Other factors that in the judgment of the Superintendent bear upon the extent to which a banking institution is helping to meet the credit needs of its entire community.

DFS noted no other factors.

GLOSSARY

Aggregate Penetration Rate

The number of loans originated and purchased by all reporting lenders in specified categories as a percentage of the aggregate number of loans originated and purchased by all reporting lenders in the assessment area.

Community Development

“Community development”:

1. Affordable housing (including multifamily housing) for low- or moderate-income (“LMI”) individuals;
2. Community services targeted to LMI individuals;
3. Activities that promote economic development by financing business or farms that meet the size eligibility standards of the United States Small Business Administration (“SBA”) Development Company or Small Business Investment Company programs, or have gross annual incomes of \$1 million or less;
4. Activities that revitalize or stabilize LMI geographies; and
5. Activities that seek to prevent defaults and/or foreclosures in loans included in (1) and (3) above.

Community Development Loan

A loan that has its *primary purpose* community development. This includes but is not limited to loans to:

- Borrowers for affordable housing rehabilitation and construction, including construction and permanent financing for multifamily rental property serving low or moderate income (“LMI”) persons;
- Nonprofit organizations serving primarily LMI or other community development needs;
- Borrowers to construct or rehabilitate community facilities that are located in LMI areas or that primarily serve LMI individuals;
- Financial intermediaries including community development financial institutions, community development corporations, minority- and women-owned financial institutions, community loan funds or pools, micro-finance institutions, and low-income or community development credit unions that primarily lend or facilitate lending to promote community development;
- Local, state and tribal governments for community development activities; and
- Borrowers to finance environmental clean up or redevelopment of an industrial site as part of an effort to revitalize the LMI community in which the property is located.

Community Development Service

Service that has community development as its *primary purpose*, is related to the provision of financial services, and has not been considered in the evaluation of the banking institution's retail banking services. This includes but is not limited to:

- Providing technical assistance on financial matters to nonprofit, tribal or government organizations serving LMI housing or economic revitalization and development needs;
- Providing technical assistance on financial matters to small businesses or community development organizations;
- Lending employees to provide financial services for organizations facilitating affordable housing construction and rehabilitation or development of affordable housing;
- Providing credit counseling, home buyers and home maintenance counseling, financial planning or other financial services education to promote community development and affordable housing;
- Establishing school savings programs for LMI individuals;
- Providing seminars for LMI persons on banking and bank account record-keeping;
- Making ATM “Training Machines” available for extended periods at LMI community sites or at community facilities that serve LMI individuals; and
- Technical assistance activities to community development organizations such as:
 - ❖ Serving on a loan review committee;
 - ❖ Developing loan application and underwriting standards;
 - ❖ Developing loan processing systems;
 - ❖ Developing secondary market vehicles or programs;
 - ❖ Assisting in marketing financial services, including the development of advertising and promotions, publications, workshops and conferences;
 - ❖ Furnishing financial services training for staff and management;
 - ❖ Contributing accounting/bookkeeping services; and
 - ❖ Assisting in fund raising, including soliciting or arranging investments.

Geography

A census tract delineated by the United States Bureau of the Census in the most recent decennial census

Home Mortgage Disclosure Act (“HMDA”)

The Home Mortgage Disclosure Act, enacted by Congress in 1975, and subsequently amended, requires institutions to annually report data about applications for residential (including multifamily) financing.

Income Level

The income level for borrowers is based on household or family income. A geography's income is categorized by median family income for the geography. In both cases, the income is compared to the MSA or statewide nonmetropolitan median income.

Income level of individual or geography	% of the area median income
Low-income	Less than 50
Moderate-income	At least 50 and less than 80
Middle-income	At least 80 and less than 120
Upper-income	120 or more

Small Business Loan

A small business loan is a loan less than or equal to \$1 million.

Low or Moderate Income ("LMI") Geographies

Those census tracts or block numbering areas where, according to the 2000 U.S. Census, the median family income is less than 80% of the area median family income. In the case of tracted areas that are part of a Metropolitan Statistical Area ("MSA") or Primary Metropolitan Statistical Area ("PMSA"), this would relate to the median family income for the MSA or PMSA in which the tracts are located. In the case of BNAs and tracted areas that are not part of a MSA or PMSA, the area median family income would be the statewide non-metropolitan median family income.

LMI Borrowers

Borrowers whose income, as reported on the loan application which the lender relied upon in making the credit decision, is less than 80% of the area median family income. In cases where the residential property is located in a MSA or PMSA, this would relate to the median family income for that MSA or PMSA. Otherwise, the area median family income would be the statewide non-metropolitan median family income. In all instances, the area median family incomes used to measure borrower income levels are updated annually by the U.S. Department of Housing and Urban Development ("HUD").

LMI Individuals/Persons

Individuals or persons whose income is less than 80% of the area median family income. In the case where the individual resides in a MSA or PMSA, this would relate to the median family income for that MSA or PMSA. Otherwise, the area median family income would be the statewide non-metropolitan median family income. In all instances, the area median family incomes used to measure individual income levels are updated annually by HUD.

LMI Penetration Rate

A number that represents the percentage of a bank's total loans (for a particular product) that was extended to LMI geographies or borrowers. For example, an LMI penetration rate of 20% would indicate that the bank made 20 out of a total of 100 loans in LMI geographies or to LMI borrowers.

Low-Income Housing Tax Credit (LIHTC)

A dollar for dollar tax credit for affordable housing, created under the Tax Reform Act of 1986, that provides incentives to invest in projects for the utilization of private equity in the development of affordable housing aimed at low income Americans. It is also more commonly called Section 42 credits in reference to the applicable section of the IRC. The tax credits are more attractive than tax deductions as they provide a dollar for dollar reduction in a taxpayer's federal income tax. It is more commonly attractive to corporations since the passive loss rules and similar tax changes greatly reduced the value of tax credits and deductions to individual taxpayers.

New Markets Tax Credit (NMTC)

The New Markets Tax Credits (NMTC) Program was established by Congress in December 2000 to stimulate economic and community development and job creation in low-income communities. It permits individual and corporate taxpayers to receive a credit against federal income taxes for making qualified equity investments in Community Development Entities (CDEs). The credit provided to the investor totals 39% of the cost of the investment and is claimed over a 7-year period. CDEs must use substantially all of the taxpayer's investments to make qualified investments in low-income communities. The Fund is administered by the US Treasury Department's Community Development Financial Institutions Fund (CDFI).

Qualified Investment

A lawful investment, deposit, membership share or grant that has community development as its *primary purpose*. This includes but is not limited to investments, deposits, membership shares or grants in or to:

- Financial intermediaries (including community development financial institutions, community development corporations, minority- and women-owned financial institutions, community loan funds, micro-finance institutions and low-income or community development credit unions) that primarily lend or facilitate lending in LMI areas or to LMI individuals in order to promote community development;
- Organizations engaged in affordable housing rehabilitation and construction;
- Organizations, including, for example, small business investment corporations that promote economic development by financing small businesses;

- Facilities that promote community development in LMI areas or LMI individuals, such as youth programs, homeless centers, soup kitchens, health care facilities, battered women's centers, and alcohol and drug recovery centers;
- Projects eligible for low-income housing tax credits;
- State and municipal obligations, such as revenue bonds that specifically support affordable housing or other community development needs;
- Organizations serving LMI housing or other community development needs, such as counseling for credit, home ownership, home maintenance, and other financial services education; and
- Organizations supporting activities essential to the capacity of LMI individuals or geographies to utilize credit to sustain economic development, such as day care operations and job training programs that facilitate access to permanent jobs.