

## New Markets Tax Credit Basics

By:

**Charles A. Rhuda III, CPA**  
Novogradac & Company LLP  
Boston, MA  
617-330-1920 x116  
Charlie.Rhuda@Novoco.com

**Kristin A. DeKuiper**  
Holland & Knight LLP  
Boston, MA  
(617) 854-1432  
Kristin.DeKuiper@hklaw.com

**Robert Poznanski**  
New Markets Support Company (LISC)  
Kalamazoo, MI  
269-343-5472 x3  
rpoznanski@newmarkets.org

# Power of Place S u m m i t



**NOVOGRADAC  
& COMPANY LLP**  
CERTIFIED PUBLIC ACCOUNTANTS

**Holland & Knight**

An affiliate of LISC

**NMSc**

New Markets Support Company

**GrowSmartRI**

Sustainable Economic Growth  
& Quality of Place



Using New Markets Tax Credits to  
Finance Community Development  
Projects

Friday, May 11, 2012

**NEW MARKETS  
SUPPORT:**

Using New Markets Tax Credits to  
Finance Community Development  
Projects



**Holland & Knight**



## Community Renewal Tax Relief Act of 2000

December 21, 2000

# Amount of NMTC Investment Authority Available

2001	\$ 1.0 Billion
2002	\$ 1.5 Billion
2003	\$ 1.5 Billion
2004	\$ 2.0 Billion
2005	\$ 2.0 Billion
2006	\$ 3.5 Billion

2007	\$ 3.5 Billion
2008	\$ 5.0 Billion
2009	\$ 5.0 Billion
2010	\$ 3.5 Billion
2011	\$ 3.5 Billion
<b>TOTAL</b>	<b>\$ 32.0 Billion</b>

(Plus \$1 Billion GO Zone)

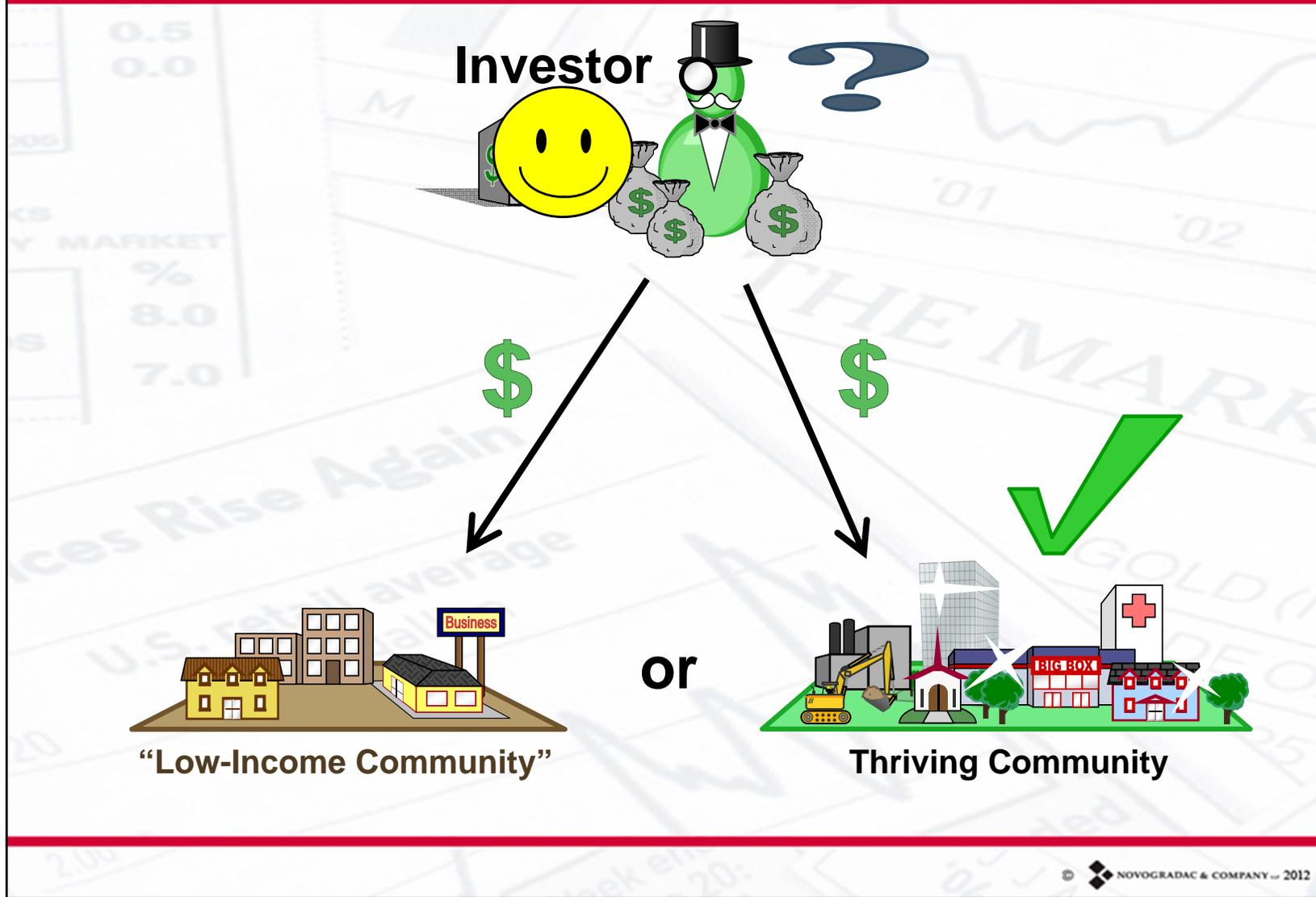
Unallocated investment authority may be carried over

**NEW MARKETS  
SUPPORT:**

Using New Markets Tax Credits to  
Finance Community Development  
Projects



**Holland & Knight**

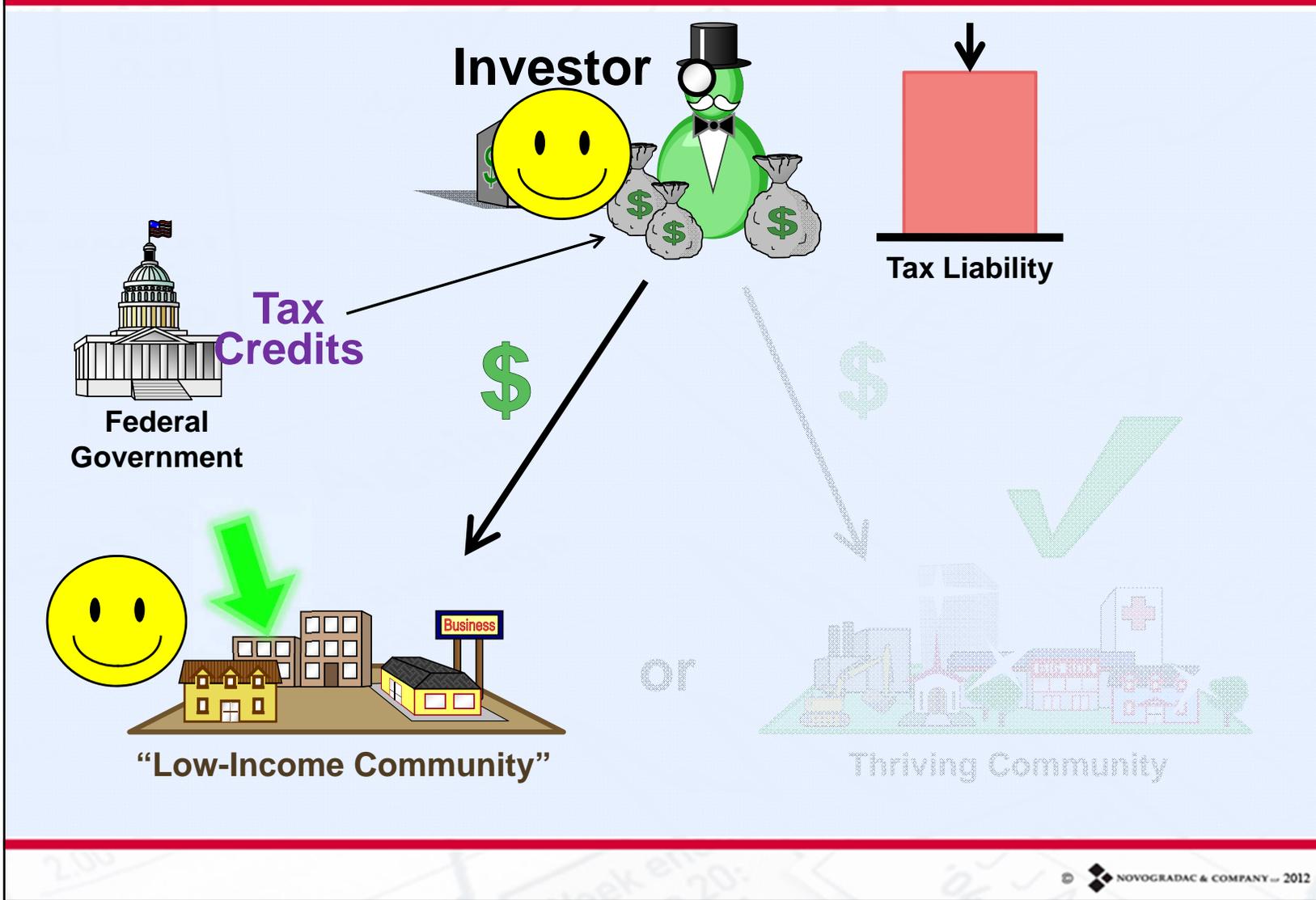


**NEW MARKETS  
SUPPORT:**

Using New Markets Tax Credits to  
Finance Community Development  
Projects



**Holland & Knight**



## New Market Tax Credits

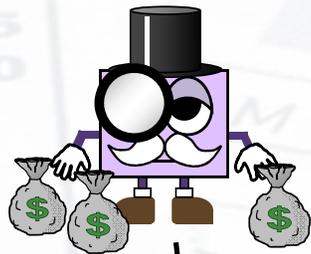
- 39% Federal tax credit (no grant in lieu of);
- Earned/claimed over 7 year compliance period;
- Program administered by the CDFI Fund;
- Competitive application process that awards allocations of NMTCs to Community Development Entities (**CDEs**);
- Credit based on Qualified Equity Investment (**QEI**);
- QEI needs to be deployed into a Qualified Active Low Income Community Business (**QALICB**) in the form of a Qualified Active Low Income Community Investment (**QLICI**);

**NEW MARKETS SUPPORT:**

Using New Markets Tax Credits to Finance Community Development Projects



Holland & Knight

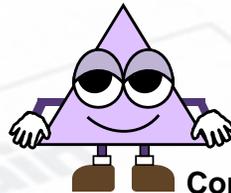


**TAX Return**



2011	\$5 million
2012	\$5 million
2013	\$5 million
2014	\$6 million
2015	\$6 million
2016	\$6 million
2017	\$6 million
<b>Total</b>	<b>\$39 million</b>

QEI = \$100 million



**\$39 million NMTC**

Community Development Entity

**NMTCs are 39% of each QEI**

## New Market Tax Credits (Cont.)

- Projects that receive QLICs need to be in low-income communities;
- Rural, low-income areas particularly popular with program participants;
- QLICI proceeds are usually deployed into to a project in the form of below market loans.
- Must be for commercial use (mixed use OK);

## New Market Tax Credits (Cont.)

- Current NMTC subsidy delivers roughly 15 – 20% of the QLICI to the project.
- Some states also offer an additional state NMTC... so even more subsidy

## New Market Tax Credits (Cont.)

- Projects seeking an allocation typically compete heavily for QLICIs;
- Job creation generally important to CDEs
- Structuring can be complicated. As such transaction costs are often perceived as high;

# Program Summary

Community Development Entities must use...

Substantially All of the proceeds from...

Qualified Equity Investments to make...

Qualified Low-Income Community Investments in...

Qualified Active Low-Income Community Businesses located in...

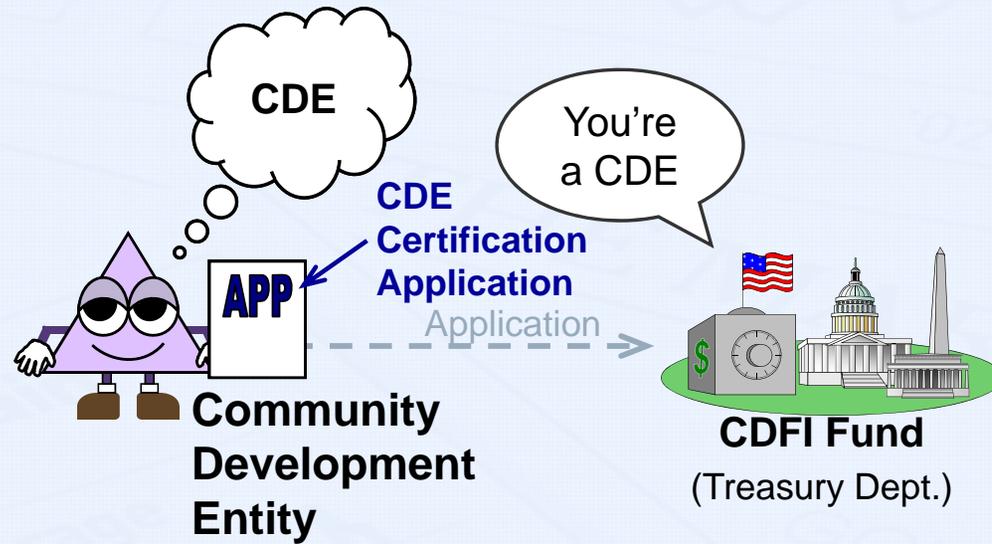
Low-Income Communities.

**NEW MARKETS  
SUPPORT:**

Using New Markets Tax Credits to  
Finance Community Development  
Projects



**Holland & Knight**

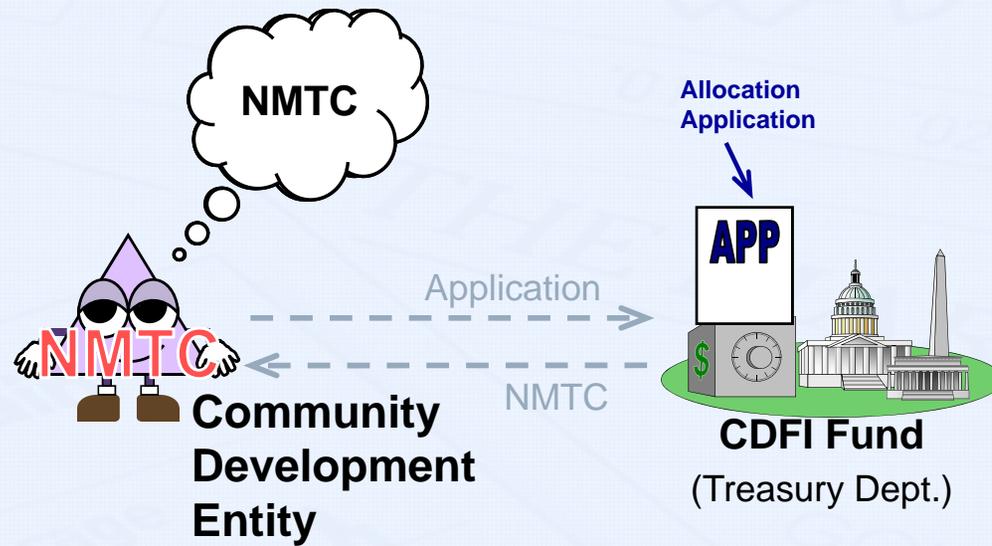


**NEW MARKETS  
SUPPORT:**

Using New Markets Tax Credits to  
Finance Community Development  
Projects



**Holland & Knight**

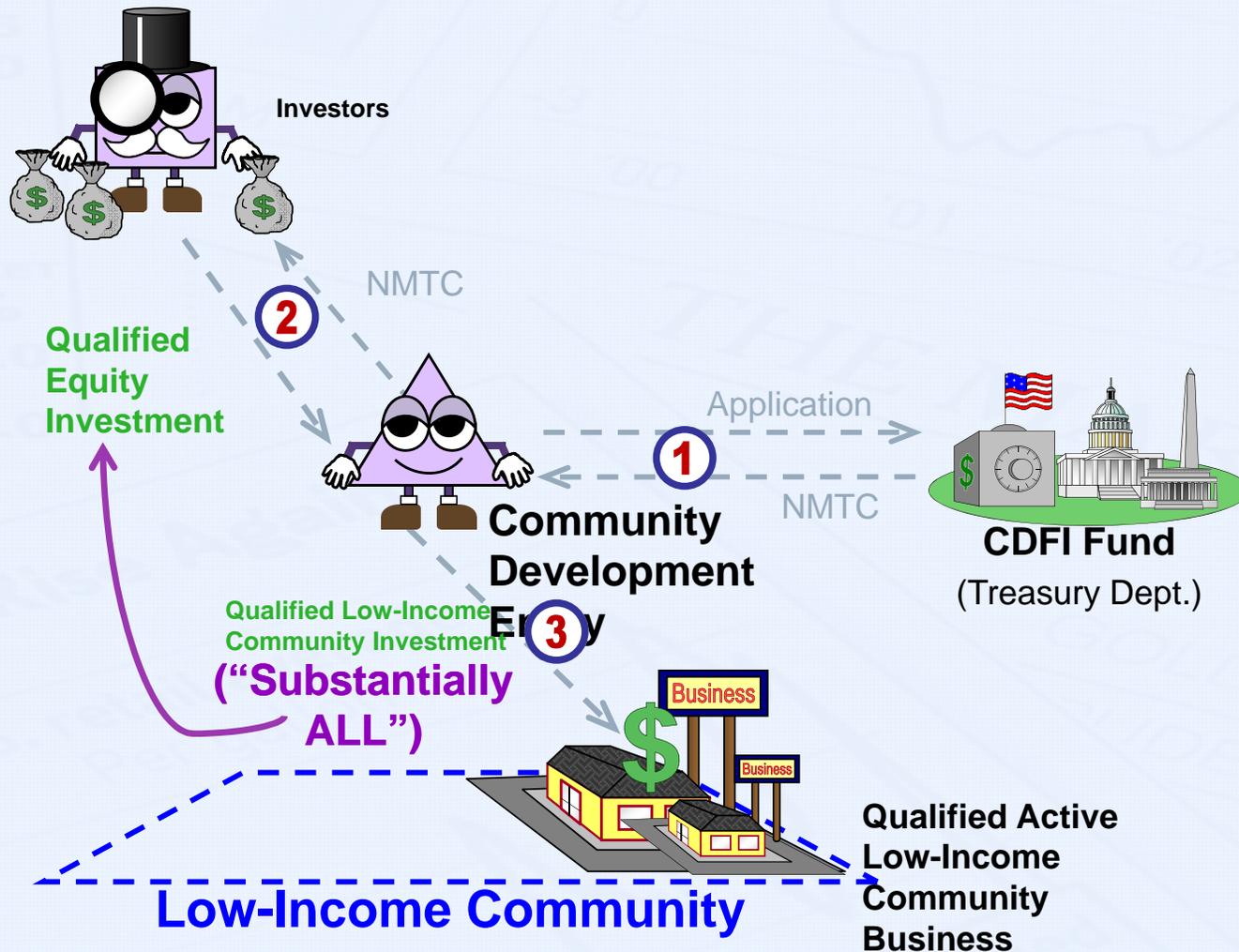


**NEW MARKETS SUPPORT:**

Using New Markets Tax Credits to Finance Community Development Projects



Holland & Knight



## Overview of NMTC Structures

By:

**Charles A. Rhuda III, CPA**  
Novogradac & Company LLP  
Boston, MA  
617-330-1920 x116  
Charlie.Rhuda@Novoco.com

**Kristin A. DeKuiper**  
Holland & Knight LLP  
Boston, MA 02116  
(617) 854-1432  
Kristin.DeKuiper@hklaw.com



**Holland & Knight**

An affiliate of LISC

**NMSC**

New Markets Support Company

**GrowSmartRI**

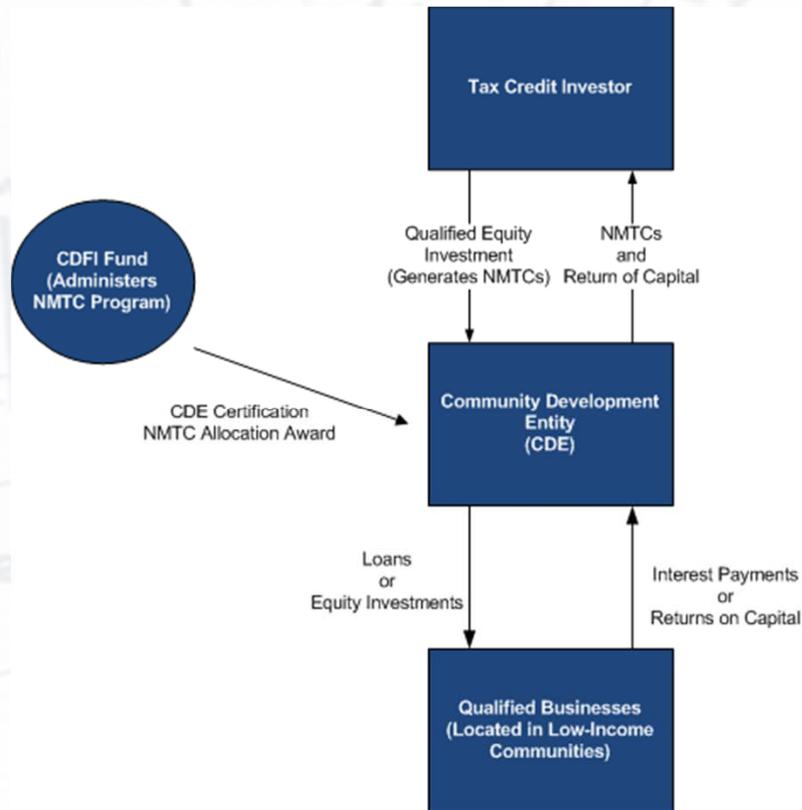
Sustainable Economic Growth  
& Quality of Place



Using New Markets Tax Credits to  
Finance Community Development  
Projects

Friday, May 11, 2012

## NMTC Structures: Simplified



### Basic Transaction:

- Investor invests \$10M in CDE
- CDE lends \$10M to QALICB
- QALICB receives below-market interest rate and other favorable terms
- Over 7-year term, CDE receives interest payments and distributes these to Investor
- At maturity, QALICB repays \$10M loan and CDE distributes \$10M to Investor
- Investor receives \$3.9M in tax credits to offset favorable terms provided to QALICB

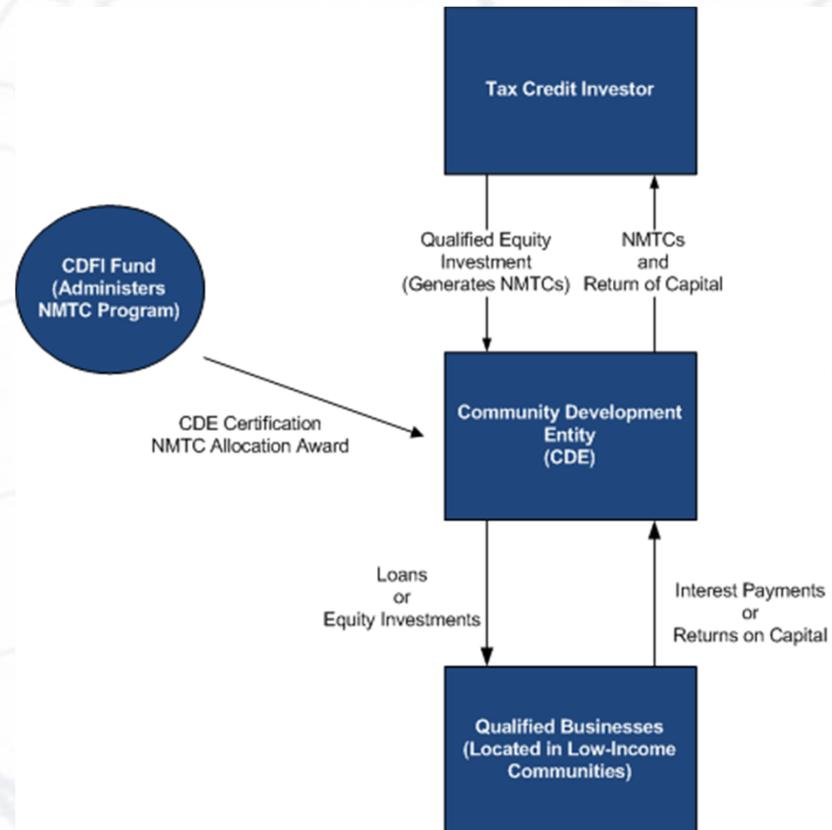
## NMTC Structures: Simplified

Advantages:

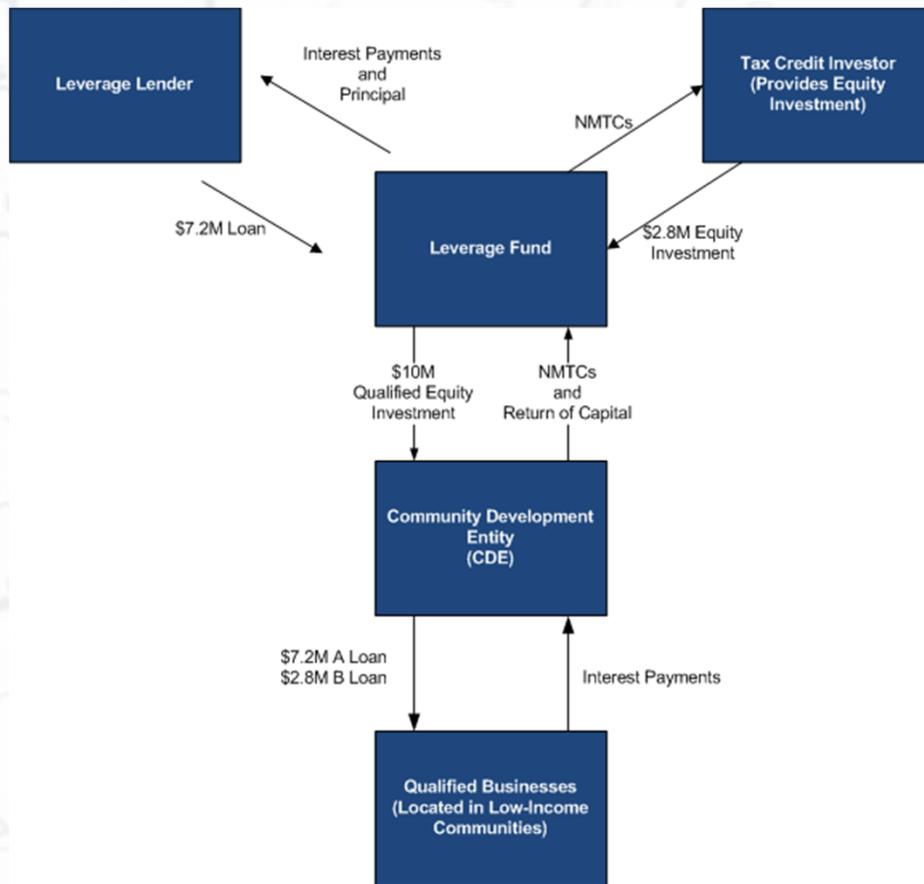
- Quicker to close
- Relatively inexpensive
- Simple exit
- Benefit easily calculated

Disadvantages:

- Inability to leverage other sources
- Limited participants in market



## NMTC Structures: Leverage Structure



### Basic Transaction:

- Investor invests \$2.8M in Leverage Fund
- Leverage Lender lends \$7.2M to Leverage Fund
- CDE lends \$10M to QALICB
- QALICB receives below-market interest rate and other favorable terms
- Over 7-year term, CDE receives interest payments and distributes these to Investor
- At maturity, QALICB repays "A" Loan and a Put/Call option may be exercised at Leverage Fund Level
- Investor receives \$3.9M in tax credits for its investment (plus any additional cash received after 7 year compliance period)
- Leverage Lender receives interest/ principal.

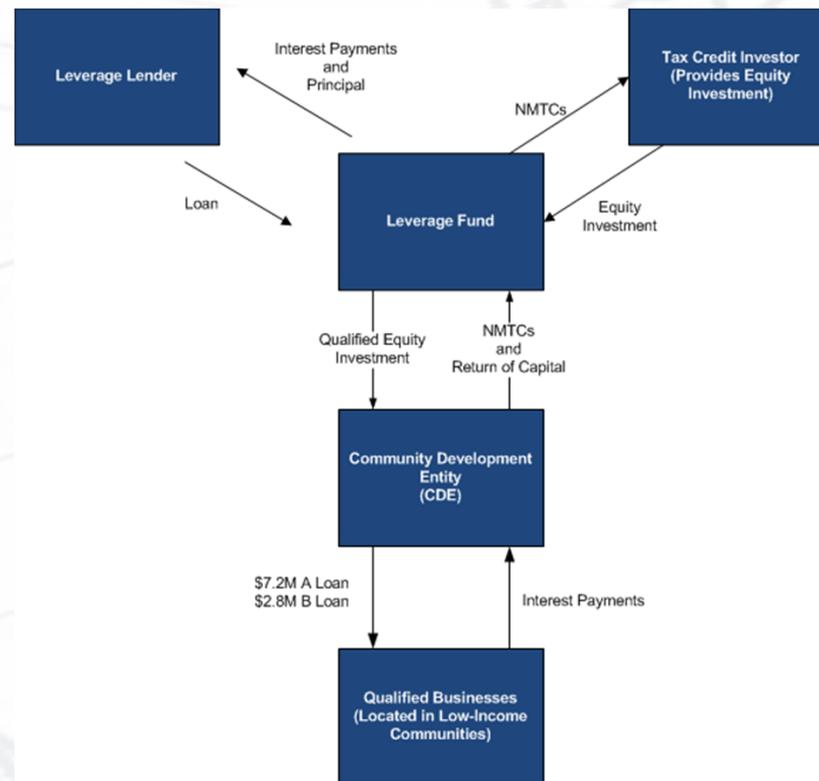
## NMTC Structures: Leverage Structure

### Advantages:

- Dramatically expands options in market
- Variety of sources can be leveraged

### Disadvantages:

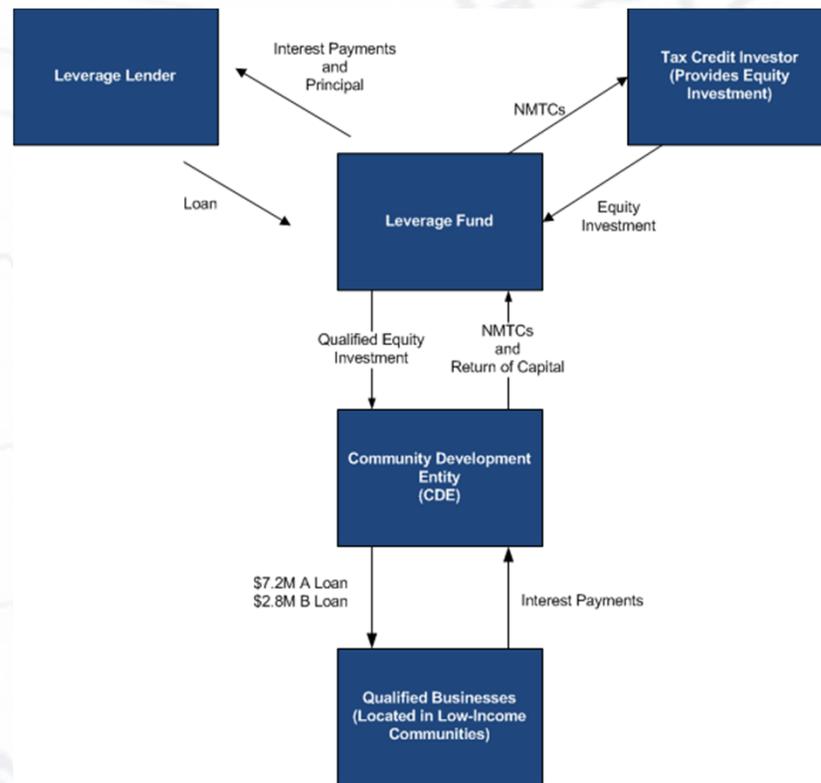
- More participants means:
  - More lead time in lining up participants
  - Longer closing timeline
  - Higher costs
- Constraints on leverage sources



# NMTC Structures: Leverage Structure

## Leverage Source Constraints and Risks

- No direct collateral at QALICB level
- Forbearance provisions
- Absent direct financing, limited privity with QALICB
- Can play role of servicer, but subject to termination due to “control” rules
- Amortization can be challenging to structure
- Risks with “leakage”



## The Role of the CDE

By:

**Robert Poznanski**

New Markets Support Company  
Senior Vice President, New Markets  
(269) 343-5472 x 3  
rpoznanski@newmarkets.org



**NOVOGRADAC  
& COMPANY LLP**  
CERTIFIED PUBLIC ACCOUNTANTS

**Holland & Knight**

An affiliate of LISIC

**NMSc**

New Markets Support Company

**GrowSmartRI**

Sustainable Economic Growth  
& Quality of Place

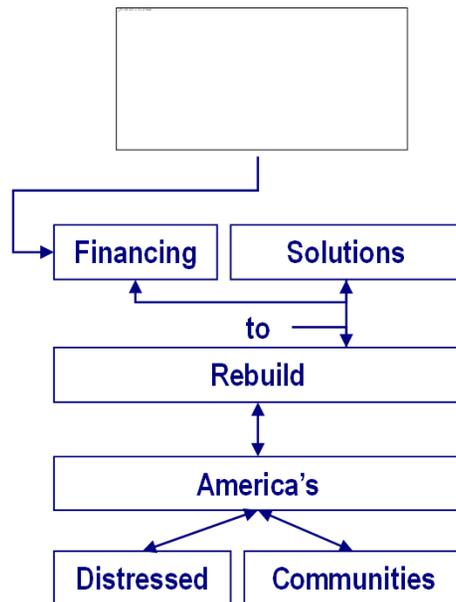


Using New Markets Tax Credits to  
Finance Community Development  
Projects

Friday, May 11, 2012

# Understanding New Markets Tax Credits

A presentation by:



## LISC NMTC Program

### Program Overview

Updated 05-03-12

For more information, visit: [www.newmarkets.org](http://www.newmarkets.org)

# Agenda

---

- **LISC NMTC Program**
- **Project Examples**

---

For more information, visit: [www.newmarkets.org](http://www.newmarkets.org)

# NMTC Overview

## What is the NMTC Program?

---

- Federal tax initiative administered by the Department of Treasury's CDFI Fund
- NMTCs awarded annually through a competitive process
- Designed to stimulate private investment capital into underserved markets
- Eligibility:
  - Generally based on geography (i.e., location of activities limited to qualified census tracts)
    - 80% of applicable area median income
    - 20% poverty
  - Targeted Populations Approach based on income of business owners, employees or customers / clients

---

For more information, visit: [www.newmarkets.org](http://www.newmarkets.org)

# NMTC Overview

## Eligible Uses of NMTCs

---

- Applies to a wide range of economic development and business activities
  - Commercial real estate
  - Community facilities
  - Industrial/Distribution
  - Business financing
  
- Ownership & operation of rental housing is specifically excluded BUT
  - Mixed-use projects are permissible if less than 80% of gross revenue is from dwelling units (or if the project is separated into residential and nonresidential components)
  - The development of housing to rent or sell is permissible, although it presents some significant NMTC financing challenges

---

For more information, visit: [www.newmarkets.org](http://www.newmarkets.org)

# NMTC Overview

## Acronyms

---

CDE: Community Development Entities must use...

Sub-All: Substantially All of the proceeds from...

QEI: Qualified Equity Investments to make...

QLICI: Qualified Low-Income Community Investments in...

QALICB: Qualified Active Low-Income Community Businesses located in...

LIC: Low-Income Communities

---

For more information, visit: [www.newmarkets.org](http://www.newmarkets.org)

# NMTC Overview

## Leveraged Financing Structure

---

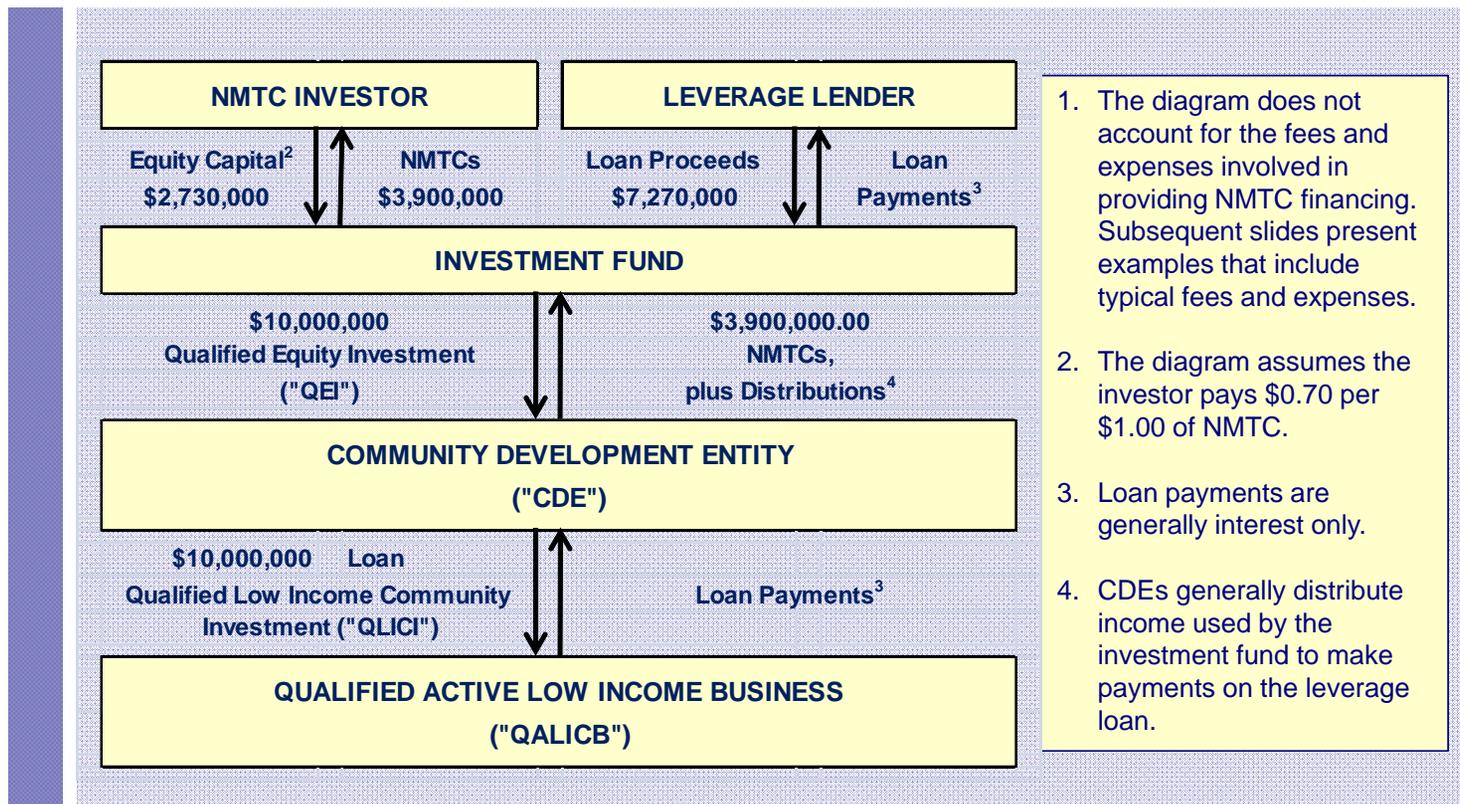
- NMTC leveraged financing can fill a 10% - 25% gap in a project's capital budget, with the percentage filled depending upon
  - Amount of financing provided
  - Pricing of NMTC equity
  - Whether ongoing NMTC fees & expenses are reserved at closing or paid out from project operating income
- The funding sources for the 75 – 80% of leveraged capital need to be willing to accommodate some of the requirements of a NMTC financing.
- Compared to 9% LIHTC projects, where the tax credit equity can be as much as 50% of the total development cost, NMTCs are a relatively shallow subsidy
- Unlike LIHTC and HTCs, NMTCs are generated by enhancing other project sources, rather than being based on project expenditures (“uses”)

---

For more information, visit: [www.newmarkets.org](http://www.newmarkets.org)

# NMTC Overview

## Leveraged Structure Diagram<sup>1</sup>



For more information, visit: [www.newmarkets.org](http://www.newmarkets.org)

# NMTC Overview

## Typical NMTC Financing

---

- Two Examples
  - Community Facility
    - Nonprofit sponsor / limited and uncertain operating income
    - Ongoing fees & expenses reserved at closing
  - Retail / Office Project
    - Financially strong for-profit developer & project
    - Ongoing NMTC fees & expenses paid from project cash flow
  
- \$10 million of NMTC Financing
  - Lies within the \$5 - \$15 million of NMTC financing that a single CDE is likely to provide to a transaction
  - Represents the “sweet spot” within that range
  
- NMTC equity pricing of \$0.70 / per \$1.00 of NMTC
  - Represents the midpoint of the current range of \$0.67 to \$0.72

---

For more information, visit: [www.newmarkets.org](http://www.newmarkets.org)

# NMTC Overview

## Community Facility

- Based on typical NMTC fees and expenses, a developer can expect to fill a 17% capital gap
- Under this approach, the developer pays:
  - The rate that its leverage sources, most likely
    - a nominal rate attached to a loan of grant funds and / or
    - the rate charged by a lender to bridge the sponsor's receipt of funds from a capital campaign) and
  - All of the costs associated with the NMTC Net Equity are paid from a reserve.

<i>NMTC Leverage Source(s):</i>	
<i>Project Grants, etc.</i>	\$ 8,301,156
<i>NMTC Net Equity</i>	\$ 1,698,844
	<hr/>
<b>LISC NMTC Financing</b>	<b>\$ 10,000,000</b>
	<hr/>
<b>Total Development Costs</b>	<b>\$ 10,000,000</b>

For more information, visit: [www.newmarkets.org](http://www.newmarkets.org)

# NMTC Overview

## Retail / Office Project

- Based on typical NMTC fees and expenses, a developer can expect to fill a 22.5% capital gap
- Under this approach, the developer pays:
  - The rate that its commercial loan bears and a nominal rate of interest (to itself) on the loan of its equity contribution
  - The ongoing fees and expenses, which are equivalent to an interest rate of 4.1% on the NMTC Net Equity. (This rate can range from 3% to 7%.)

<i>NMTC Leverage Source(s):</i>	
<i>Commercial Debt</i>	<i>\$ 6,749,897</i>
<i>Loan of Sponsor Equity</i>	<i>\$ 1,000,000</i>
<i>NMTC Net Equity</i>	<i>\$ 2,250,103</i>
	<hr/>
<b>LISC NMTC Financing</b>	<b>\$ 10,000,000</b>
	<hr/>
<b>Total Development Costs</b>	<b>\$ 10,000,000</b>

For more information, visit: [www.newmarkets.org](http://www.newmarkets.org)

# LISC NMTC Program

## LISC NMTC Activity To Date

- \$778 million received (largest cumulative NMTC award recipient)
- \$646 million deployed
  - 66 transactions
  - \$1.6 billion in total development costs
  - 7.3 million square feet of Commercial or Community Space
  - 390 housing units
  - 7,600+ Permanent Jobs Created or Retained

*New Central Hotel  
(Seattle, WA)*



\* As of November 1, 2011

For more information, visit: [www.newmarkets.org](http://www.newmarkets.org)

# LISC NMTC Program

## How is LISC using NMTCs?

- LISC brings NMTCs to communities served by LISC by financing transactions that advance the community development strategies of LISC's local programs, National Rural Program, & other national programs and affiliates
- LISC's NMTC activities build on its core competency in real estate financing for commercial space and community facilities
- LISC generally uses \$5-\$15 million in NMTC financing per transaction and can partner with other CDEs on larger transactions



*S&S Cycle  
(Viola & LaCrosse, WI)*

For more information, visit: [www.newmarkets.org](http://www.newmarkets.org)

# LISC NMTC Program

## Ideal LISC NMTC Transaction

---

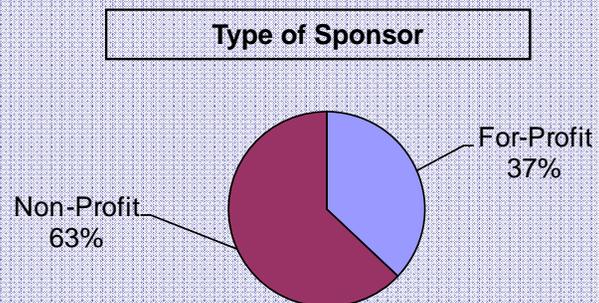
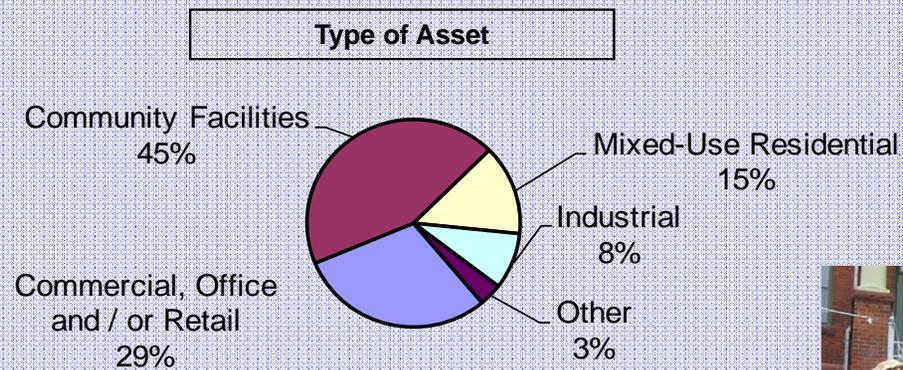
- LISC evaluates the following criteria to choose among NMTC financing requests:
  - Location Meets:
    - Basic NMTC Eligibility &
    - Higher Distress Criteria (in LISC's Allocation Agreement with the CDFI Fund)
  - Meets LISC's Social Investment Criteria & Will Generate Significant Community Impact:
    - Demonstrates Support From Local Community
    - Furthers the Local Programs of LISC and its Partners
    - Creates jobs, provides commercial/retail space, community services or facilities, and/or other community benefits
  - Project is Ready or Near Ready To Close (3 to 6 months out)
    - Clearly Defined Gap that Can Be Closed with a Straightforward Leveraged Structure
    - Sources of Leverage and other financing committed
    - Project defined, construction drawings complete and costs estimated with a Guaranteed Maximum Contract with general contractor
    - Site control and real estate issues in order

---

For more information, visit: [www.newmarkets.org](http://www.newmarkets.org)

# LISC NMTC Program

## Types of Projects and Financing



*Hope Street Child Care  
(Providence, RI)*



For more information, visit: [www.newmarkets.org](http://www.newmarkets.org)

# LISC NMTC Program

## LISC NMTC Investors (in order of volume)

Bank of America  
Bank of the James  
BB&T  
Chevron  
First NBC Bank  
First Niagara Bank  
Fifth Third Bank  
Goldman Sachs  
HSBC  
Huntington CDC  
JP Morgan Chase Bank  
KeyBank  
PNC Bank  
Trustmark National Bank  
Union Bank of CA  
US Bancorp  
Wachovia Bank  
Wells Fargo Bank

*Plaza Verde  
(Minneapolis, MN)*



For more information, visit: [www.newmarkets.org](http://www.newmarkets.org)

## LISC NMTC Project Snapshot

### Eastside V – Target at East Liberty (Pittsburgh, PA)



#### Community:

- 35.4% poverty rate
- Family income 41.3% of area median
- Unemployment Rate 10.6 times the National Average

#### Project Basics:

- Construction of a new Target department store
- Part of revitalization of a major gateway into the East Liberty neighborhood
- Located on a housing site which HUD previously foreclosed and which had been designated a brownfield
- Built to LEED Energy standards

For more information, visit: [www.newmarkets.org](http://www.newmarkets.org)

## LISC NMTC Project Snapshot

### Eastside V – Target at East Liberty (Pittsburgh, PA)

#### Financing:

##### *NMTC Leverage Source(s):*

Commercial Debt	\$20,000,000
Soft Debt	\$14,679,176
NMTC Net Equity	<u>\$11,029,774</u>

**NMTC Financing** **\$45,708,950**

Owner Equity	\$ 1,468,062
Direct Loan	\$ 700,000
Other Sources	<u>\$ 795,000</u>

**Total Development Costs** **\$48,672,012**

#### **NMTC Investor:**

PNC Bank



#### **Community Impact:**

- 148,000 s.f. of retail space
- 117 construction jobs
- 115 permanent jobs

For more information, visit: [www.newmarkets.org](http://www.newmarkets.org)

# LISC NMTC Project Snapshot

## Shops at Park Village (Washington, DC)



### Community:

- 44% poverty rate
- Family income 32% of area median
- Unemployment Rate 3.83 times the National Average

### Project Basics:

- Retail center anchored by a supermarket
- Supermarket is the first in area in nearly a decade, with full-service pharmacy, Staples office supply aisle, etc.
- Commercial component of larger mixed-use initiative to reuse and redevelop 7.5 acres of a vacant former army base (Camp Simms) in Congress Heights

For more information, visit: [www.newmarkets.org](http://www.newmarkets.org)

# LISC NMTC Project Snapshot

## Shops at Park Village (Washington, DC)

### Financing:

<i>NMTC Leverage Source(s):</i>	
<i>Commercial Debt</i>	\$ 12,165,000
<i>Developer / Sponsor Capital</i>	\$ 2,000,000
<i>NMTC Net Equity</i>	\$ 3,450,000
<hr/>	
<b>LISC NMTC Financing</b>	<b>\$ 17,615,000</b>
<b>Non-NMTC Sources</b>	<b>\$ 2,970,000</b>
<hr/>	
<b>Total Development Costs</b>	<b>\$ 20,585,000</b>



### Community Impact:

- 111,293 s.f. of commercial space
- 188 construction jobs
- 172 permanent jobs

### NMTC Investor:

Wachovia

For more information, visit: [www.newmarkets.org](http://www.newmarkets.org)

# LISC NMTC Project Snapshot

## Midtown Global Market (Minneapolis, MN)



### Community:

- 29% poverty rate
- Family income 44% of area median
- Unemployment Rate 2.93 times the National Average

### Project Basics:

- Public market component of the redevelopment of the largest building in Minneapolis.
- Undertaken by the Neighborhood Development Center, a LISC-supported business development nonprofit.
- The international theme provides entrepreneurial and employment opportunities to residents of the low-income, high-immigrant Lake Street community.

For more information, visit: [www.newmarkets.org](http://www.newmarkets.org)

# LISC NMTC Project Snapshot

## Midtown Global Market (Minneapolis, MN)

### Financing:

#### NMTC Leverage Source(s):

Commercial Debt	\$ 910,296
Soft Debt	\$ 1,412,096
Developer / Sponsor Grants	\$ 1,734,113
Historic Tax Credit Equity	\$ 1,235,024
NMTC Net Equity	\$ 2,153,620

**LISC NMTC Financing** \$ 7,445,149

**MMCDC NMTC Loan** \$ 8,912,500

**Non-NMTC Sources** \$ 157,157

**Total Development Costs** \$ 16,514,806

### NMTC Investor:

US Bank



### Community Impact:

- 86,084 s.f. of commercial space
- 474 construction jobs
- 206 permanent jobs

For more information, visit: [www.newmarkets.org](http://www.newmarkets.org)

# LISC NMTC Project Snapshot

## Boys & Girls Clubs (Phoenix, AZ)



### Community:

- 33% poverty rate
- Family income 55% of area median
- Unemployment 1.83 times national rate

### Project Basics:

- Boys & Girls Clubs of Metropolitan Phoenix operate 10 clubhouses and focus on 5 core program areas.
- The LISC NMTC transaction develops three Boys & Girls Clubs:
  - Jerry Colangelo Clubhouse
  - Ed Robson Family Clubhouse
  - Glandale Branch
- Each is to be used jointly with nearby public elementary schools.

### NMTC Investor:

JP Morgan Chase

For more information, visit: [www.newmarkets.org](http://www.newmarkets.org)

# LISC NMTC Project Snapshot

## Boys & Girls Clubs (Phoenix, AZ)

### Financing:

NMTC Leverage Source(s):

Capital Campaign Bridge Loan \$ 7,173,888

NMTC Net Equity \$ 2,339,852

**LISC NMTC Financing \$ 9,513,740**

**Total Development Costs \$ 9,513,740**

### Community Impact:

- 74,865 s.f. of community space
- 12 construction jobs
- 36 permanent jobs



For more information, visit: [www.newmarkets.org](http://www.newmarkets.org)

# LISC NMTC Program

LISC NMTC Website ([www.newmarkets.org](http://www.newmarkets.org))

The screenshot displays the website for NMSC (New Markets Support Company), an affiliate of LISC. The page features a navigation menu with options like 'About Us', 'LISC New Markets Program', and 'Other Programs and Services'. A sidebar on the left contains links for 'Mapping Tools', 'NOVOGRADAC & COMPANY', 'Reznor Group', and 'NMSC Apps'. The main content area highlights the 'Children's Campus of Kansas City' project, detailing its construction and the services it provides. Below this, a 'FEATURED' section lists two news items: 'LISC, Morgan Stanley launch pilot small business loan fund to fuel growth, create jobs in low-income communities' and 'Citi, NMSC launch \$25MM New Markets Tax Credit fund'.

For more information, visit: [www.newmarkets.org](http://www.newmarkets.org)

# LISC NMTC Program

## Preliminary Information Form

The screenshot shows a web browser window titled "LISC NMTC Pipeline Prospect Form - Windows Internet Explorer". The address bar shows the URL: [http://www.liscnewmarkets.org/PopUp/InitialDataSheet.aspx?PP\\_ID=&itemAction=INSERT&text=true](http://www.liscnewmarkets.org/PopUp/InitialDataSheet.aspx?PP_ID=&itemAction=INSERT&text=true). The page header includes the text "An affiliate of LISC" and the "NMSc" logo, with "New Markets Support Company" written below it. A blue banner contains the title "LISC NMTC Pipeline Prospect Form" and buttons for "Submit", "Close", and "Cancel".

Below the banner, a paragraph states: "In order to assess a project for eligibility for LISC New Markets Tax Credits and include a potential transaction in our pipeline, the following information is needed:"

The form fields include:

- Name of Transaction:
- Project Type:  (with a dropdown arrow and a note: *\* Please choose one or more of the following: office, industrial, retail, residential (for-sale), mixed-use (housing + of*)
- Brief Description:
- Total Development Cost:
- Amount of NMTC Financing:  (with a note: *\* The amount of NMTC financing generally equals four times the amount of the project financing gap that needs to*)
- Projected Closing Date:
- Pipeline Prospect Submitted By:  Email:
- Submitted On: 3/6/2012 Phone:

Below the form fields is a section for attachments, indicated by a paperclip icon and the text: *\* Please Attach Additional Material Pertaining To This Project*

A blue banner titled "Project Address" is followed by the following fields:

- Address Line 1 \*
- Address Line 2
- City \*  State \*  Zip

For more information, visit: [www.newmarkets.org](http://www.newmarkets.org)

# LISC NMTC Project Snapshot



## The Plant (Providence, RI)

### Community Impact:

- 27,264 s.f. of commercial space
- 32 residential units
- 107 construction jobs
- 75 permanent jobs

### Community:

- 36% poverty rate
- Family income 40% of area median
- Unemployment 1.9 times national rate
- Brownfield site

### Project Basics:

- \$20.4 million - Development Costs
- \$9.5 million – LISC NMTC Allocation
- US Bank – NMTC Investor
- Conversion of a former mill complex into 17 residential rental units, 15 live/work artist lofts, 27,264 sq. ft. of commercial space, and 114 parking spaces.



For more information, visit: [www.newmarkets.org](http://www.newmarkets.org)

# LISC NMTC Project Snapshot



## Hope Street (Woonsocket, RI)

### Community Impact:

- 14,200 s.f. of commercial space
- 95 construction jobs
- 36 permanent jobs
- 104 children served

### Project Basics:

- **\$5.7 million - Development Costs**
- **\$4.4 million – LISC NMTC Allocation**
- **Bank of America – NMTC Investor**
- **Renovation of historic school for lease to Connecting for Children and Families, a well-respected, non-profit child care organization.**

### Community:

- 26% poverty rate
- Family income 60% of area median
- Unemployment 2.1 times national rate



For more information, visit: [www.newmarkets.org](http://www.newmarkets.org)

# LISC NMTC Project Snapshot



## American Locomotive (Providence, RI)

### Community Impact:

- 199,706 s.f. of commercial space
- 333 construction jobs
- 780 permanent jobs

### Project Basics:

- **\$77 million - Development Costs**
- **\$14.6 million – LISC NMTC Allocation**
- **Chevron – NMTC Investor**
- Adaptive reuse of the American Locomotive Works on the north shore of the Woonasquatucket River near the city's center into office and retail space.

### Community:

- 31% poverty rate
- Family income 41% of area median
- Unemployment 2.0 times national rate
- Brownfield site



For more information, visit: [www.newmarkets.org](http://www.newmarkets.org)

# LISC NMTC Program

## LISC NMTC Origination Staff

---

Jill Steen  
NMTC Underwriter  
Phone: (312) 697-6187  
E-mail: [jsteen@newmarkets.org](mailto:jsteen@newmarkets.org)

Robert Poznanski  
Senior Vice President, New Markets  
Phone: (269) 343-5472 x 3  
E-mail: [rpozanski@newmarkets.org](mailto:rpozanski@newmarkets.org)

---

For more information, visit: [www.newmarkets.org](http://www.newmarkets.org)

## The Role of the Leverage Lender

By:

**Kristin A. DeKuiper**

Holland & Knight

Boston, MA 02116

(617) 854-1432

[Kristin.DeKuiper@hklaw.com](mailto:Kristin.DeKuiper@hklaw.com)

**Michelle Fonseca**

Holland & Knight

Boston, MA 02116

(617) 305-2164

[michelle.fonseca@hklaw.com](mailto:michelle.fonseca@hklaw.com)



**Holland & Knight**

An affiliate of LISC

**NMSC**

New Markets Support Company

**GrowSmartRI**

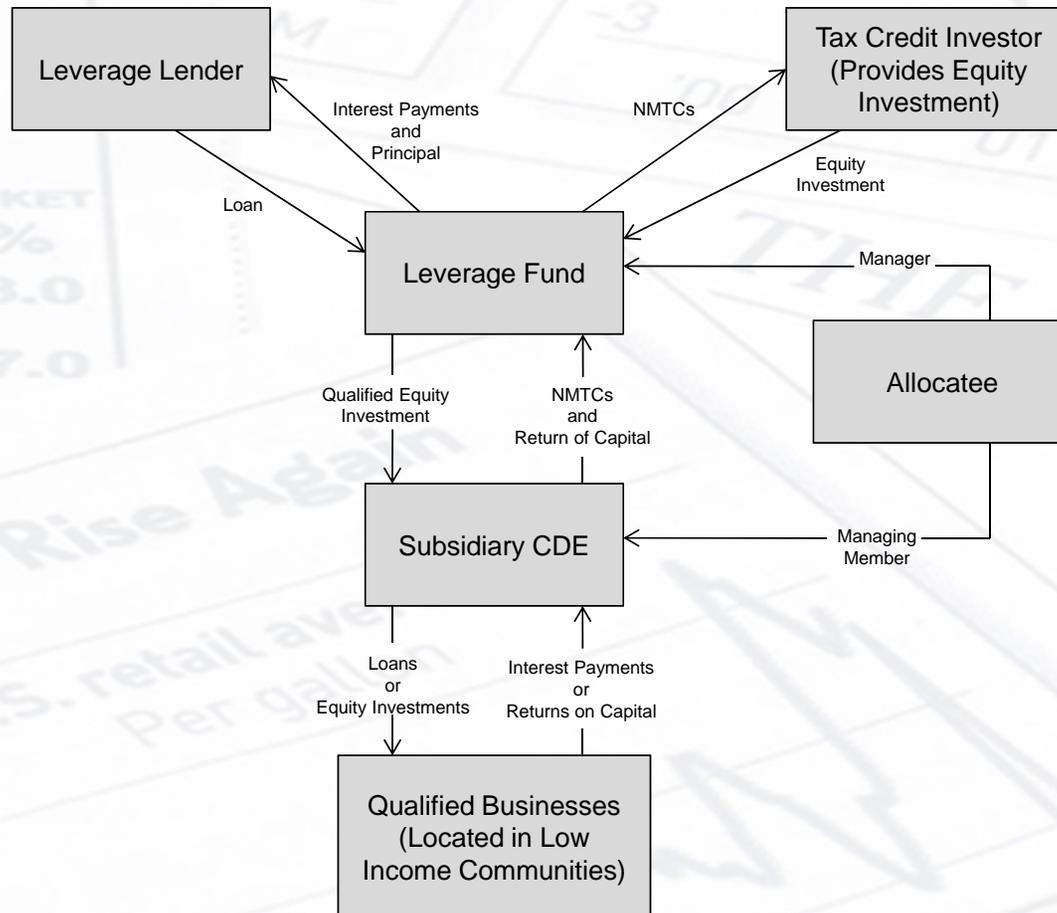
Sustainable Economic Growth  
& Quality of Place



Using New Markets Tax Credits to  
Finance Community Development  
Projects

Friday, May 11, 2012

# Basic Leverage Fund Model



Overview

In a basic “leveraged” transaction, a leverage fund is owned 100% by a tax credit investor and is managed by either the tax credit investor, an affiliate of the lender, or an affiliate of the CDE.

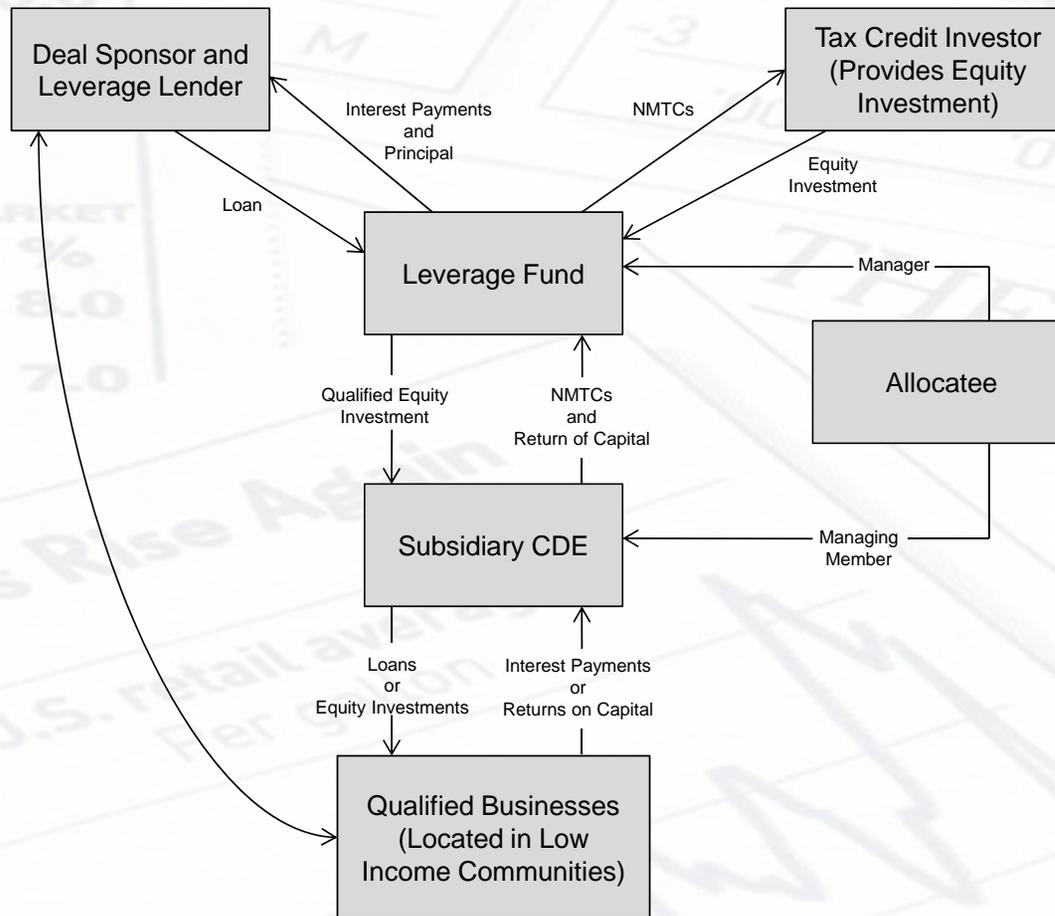
The leverage lender agrees to advance a loan to the leverage fund. This loan is secured by a pledge of the leverage fund’s sole asset – its interest in the CDE. According to IRS guidance, the leverage lender is specifically prohibited from having any security at the property level.

The funds received from the leverage lender are pooled with the tax credit investor’s equity to make the QEI into the CDE. The CDE in this case would be owned 99.99% by the leverage fund and .01% by the Allocatee. The CDE uses the QEI proceeds to make a loan to, or equity investment in, the QALICB.

The leverage lender typically agrees to a seven year forbearance from the exercise of any lien enforcement rights under the leverage loan documents that could result in the loss of credits.

There is typically a put-call agreement between investor and an affiliate of QALICB exercisable after the 7 year compliance period. Other exit strategies may be used.

# Basic Sponsor Leverage Fund Model



Overview

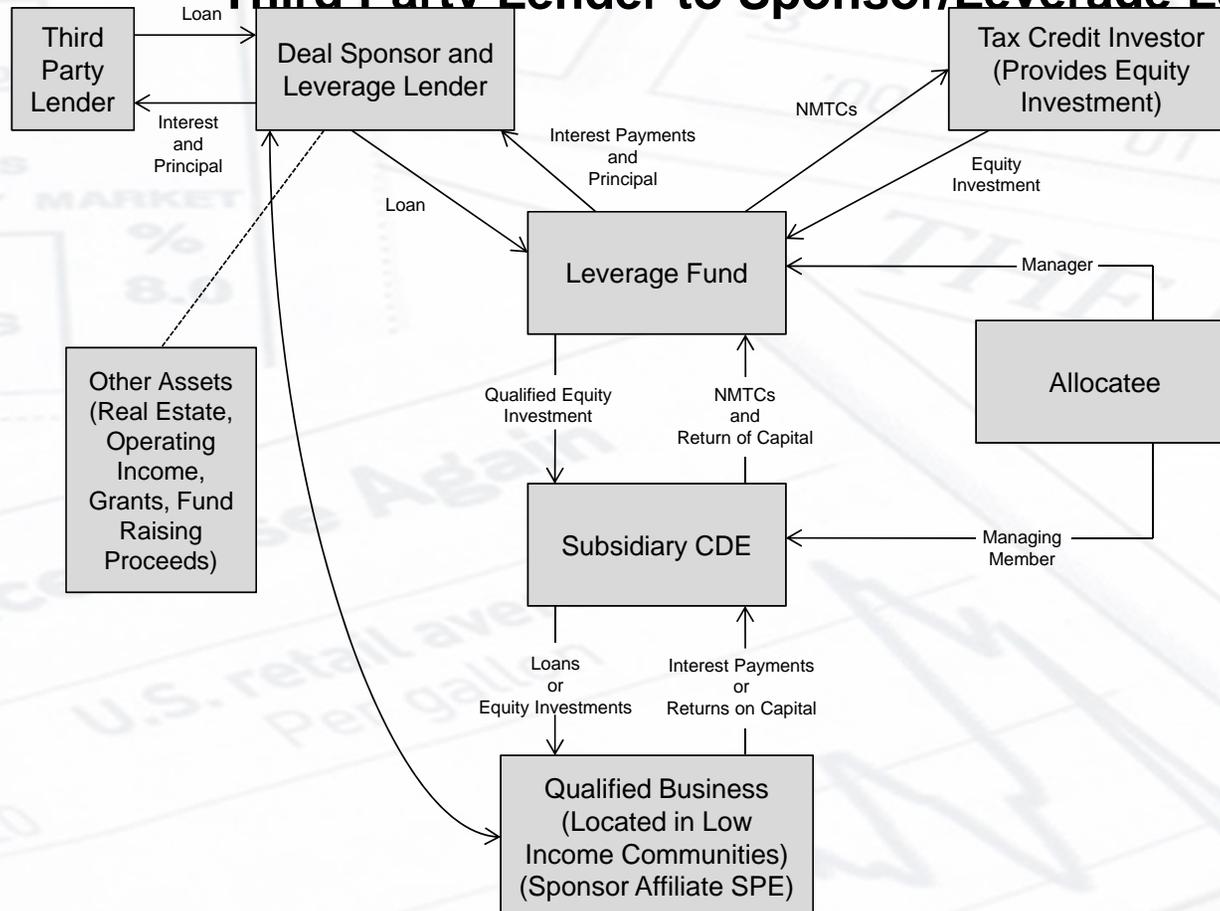
In this structure, an entity (the "Sponsor") has some sources to complete the transaction, but has a gap. By acting as the leverage lender, the Sponsor can generate NMTC equity for the deal. The Sponsor forms a separate SPE to own the real estate and act as the QALICB.

This structure is currently very common because there is no need for a 3<sup>rd</sup> party leverage lender.

However, many deals are done with both a Sponsor leverage loan and a 3<sup>rd</sup> party leverage loan where the Sponsor leverage loan is subordinate to the 3<sup>rd</sup> party leverage loan.

There is typically a put-call agreement between investor and Sponsor exercisable after the 7 year compliance period. Other exit strategies, including accrual of interest on the leverage loan, may be used.

## Sponsor Leverage Fund Model with Third Party Lender to Sponsor/Leverage Lender



Overview

In this structure, the Sponsor acts as the leverage lender and forms a separate SPE to own the real estate and act as the QALICB.

If the Sponsor has other assets and other sources of income, it may be able to borrow the funds for the Leverage Loan from a Third Party who will underwrite based on the Sponsor's assets and collateral. In this structure, the Third Party Lender can have remedies against the Sponsor's assets and can receive principal payments during the Compliance Period.

# Source of Leverage Loans

## Commercial Lenders

- Regional banks with a relationship to Borrower
- Prefer loan to established sponsor entity that is on-loaned to investment fund

# Source of Leverage Loans

Federal, state, or local grant or loan sources

- FHLB Direct Subsidy or Subsidized Advance
- Federal Department of Health Grants for Federally Regulated Health Centers – usually run through a local governmental agency.
- CDBG grants
- Section 108 loans and other loans from state and local government
- HOME funds if project has a residential component

## Source of Leverage Loans

Federal, state, or local grant or loan sources (cont)

- Other state and local grants

Required recorded restrictions and funding restrictions (sometimes must be on a reimbursement basis) can present issues.

# Source of Leverage Loans

## For non-profit developers

- Endowment – hospitals, universities sometimes have this source
- Fundraising proceeds (capital campaigns, etc.) – can be bridged by a commercial lender
- Grants or loans from private foundations (program related investments)

# Source of Leverage Loans

For non-profit developers (cont)

- Kresge Foundation
- Rosie O'Donnell Foundation
- Annie E. Casey Foundation
- Local Foundations

# Source of Leverage Loans

## Other Sources of Leverage

- Federal Historic Credit Equity
- State Historic Credit Equity

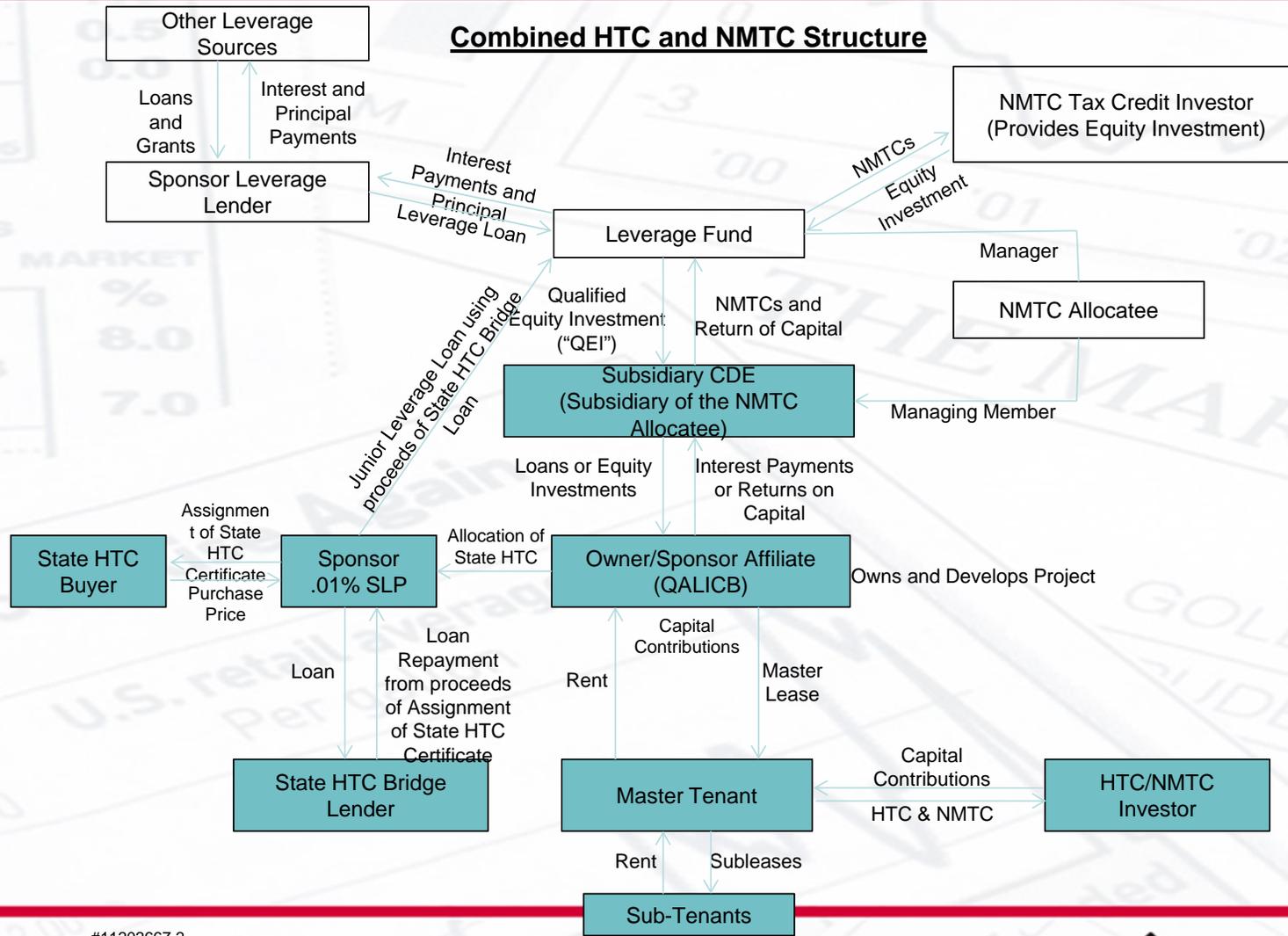
**NEW MARKETS SUPPORT:**

Using New Markets Tax Credits to Finance Community Development Projects



**Holland & Knight**

**Combined HTC and NMTC Structure**



#11202667.2



## Questions and Answers

**Charles A. Rhuda III, CPA**  
Novogradac & Company LLP  
Boston, MA  
617-330-1920 x116  
Charlie.Rhuda@Novoco.com

**Kristin A. DeKuiper**  
Holland & Knight  
Boston, MA 02116  
(617) 854-1432  
Kristin.DeKuiper@hklaw.com

**Robert Poznanski**  
New Markets Support Company (LISC)  
Kalamazoo, MI  
269-343-5472 x3  
rpoznanski@newmarkets.org