NEW MARKETS TAX CREDIT PROGRAM:

PART 2: STEPS AND STRUCTURING

FOR THE FINANCING OF REAL ESTATE, EQUIPMENT, AND BUSINESS/NONPROFIT OPERATIONS

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Introduction

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Community Reinvestment Associates, LLC is a national boutique financial consulting firm, which specializes in filling financing gaps by identifying and securing community and economic development subsidies on a contingent fee basis.

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We have facilitated over $4.2 billion of community and economic development financings, including $1.1 billion of new markets tax credits, historic tax credits and preservation easements, low-income housing tax credits, opportunity zone financing, USDA programs, CDFI Fund programs, taxable bonds, tax-exempt bonds, and various federal, state and local grants and subsidies, as well as facilitating private-public partnerships, including securing traditional debt, equity, and donations.

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Outline of NMTC Financing

Part 1: The Basics

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2. Good Borrower and Project Candidates
3. Economic Benefits
4. Facilitated by "Allocatees" and "CDEs"
5. Legal Requirements
6. Recapture of NMTCs
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Outline of NMTC Program Subsidy

Part 2: Steps and Structuring

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7. Leverage Sources Required to Facilitate the NMTC Program Subsidy
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9. Our Services to Secure NMTC Financing and other sources of financing

Recap of Economic Benefits of NMTC Financing

Generally, the economic benefits of the NMTC financing (whether in the form of the Forgivable NMTC Loan or the Non-Forgivable NMTC loan) include:

- gap financing;
- with approximate 1.5% interest-only payments during the 7-year NMTC compliance period;
- subordination to other creditors;
- nontraditional and favorable terms, and flexible underwriting criteria, such as:
- the Forgivable NMTC Loan being forgiven at the end of the 7-year NMTC compliance Period, or
- the Non-Forgivable NMTC Loan with a below-market interest rate and a term up to 40 years (and beyond any secured asset's useful life);
- ability to obtain additional financing;
- ability to "leverage" its other sources of financing for a multiplier economic benefit;
- "softer" foreclosure and enforcement rights if there is a default;
- if applicable, state NMTCs provide additional subsidy; and
- substantial community and economic impacts to residents in "Low-Income Communities" and "Targeted Populations," including "Low-Income Persons."

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Good Borrower and Project Candidates for NMTC Financing

Each of the following are good types of for-profit's and nonprofit's operations and projects for the NMTC financing:

- manufacturing facilities/operations;
- health care facilities/operations;
- grocery stores/operations;
- charter and independent schools/operations;
- qualified mixed-use projects (*i.e.*, those that satisfy the "80/20 Test");
- community facilities/operations; and
- renewable energy and recycling facilities/operations.

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Economic Benefits of NMTC Financing

- NMTCs are equal to 39% of the NMTC financing, which is a “qualified equity investment” (a **“QEI”**).
- None of the Borrower, its affiliates or owners recognize the NMTCs.
- NMTC Investors are typically financial institutions (or large corporations, which is less common).

- A NMTC Investor effectively “purchases” the NMTCs based on:
  - current market pricing;
  - desirability of participating in the particular NMTC financing; and
  - whether or not other NMTC Investors are competing to participate in the particular NMTC financing.

Forgivable NMTC Loan Test

Depending on the sizing of the overall financing (generally a $5 million threshold), the NMTC Program subsidy is generally provided to the borrower in the form of either:

- a **Forgivable NMTC Loan**, or
- a **Non-forgivable NMTC Loan**.

A borrower qualifies for the Forgivable NMTC Loan if (x) the gap in available financing (the **"Financial Gap"**) divided by (y) 33% is over $5 million (the **"Forgivable NMTC Loan Test"**).

Note: The Forgivable NMTC Loan Test doesn't require that the Forgivable NMTC Loan be over $5 million but rather the overall financing must be over $5 million.

A borrower generally qualifies for the Non-Forgivable NMTC Loan if:

- the Forgivable NMTC Loan Test is not satisfied; and
- the Financial Gap is between $500,000 and $5 million.

Note: The 33% used in the Forgivable NMTC Loan Test is based on $0.84 assumed market pricing for the NMTCs and typical NMTC transaction costs.

Forgivable NMTC Loan

Generally, with respect to the Forgivable NMTC Loan:

- the principal is provided by the proceeds of the NMTC Investor's "purchase price" for the NMTCs;
- it only requires approximate 1.5% interest-only payments during the 7-year NMTC compliance period; and
- it is forgiven at the end of the 7-year NMTC compliance period.

Additionally, the borrower needs to identify and secure a portion of the NMTC financing to be used as "leverage" in the IRS Approved Leverage Structure.

Non-Forgivable NMTC Loan

Generally, with respect to the Non-Forgivable NMTC Loan:

- a portion of the principal and the favorable terms of which are the provided by, or the result of, the NMTC Investor's "purchase" of the NMTCs;
- it only requires below-market interest-only payments during the 7-year NMTC compliance period; and
- after the 7-year NMTC compliance period, the loan amortizes through its maturity date of up to 40 years (which can be beyond the useful life of any secured assets).

However, the borrower does not need to identify and secure a portion of the NMTC financing to be used as "leverage" in the IRS Approved Leverage Structure (which the borrower of the Forgivable NMTC Loan must do).

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Economic Benefits of NMTC Financing

Why is there a $5 million threshold?

Answer: Transaction costs and the amount of time to close a NMTC financing offsets the NMTC Program subsidy benefit at this particular amount of NMTC financing.

Transaction costs include:

- the Allocatee's "sub-allocation" fees (which are generally approximately 3.5% of the Allocation "sub-allocated" to the CDE);
- legal and accounting fees; and
- other typical fees and costs of any other type of financing.

Therefore, the Financial Gap includes these transaction costs.

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Sneak Preview of How Forgivable NMTC Loan Works

- It is important to understand that the **Forgivable NMTC Loan** requires another NMTC loan (the proceeds of which are indirectly provided by 1 or more **Leverage Lenders**, which are the providers of the borrower's other sources of financing).

- The Forgivable NMTC Loan is equal to the (x) size of the NMTC financing (*i.e.*, the "qualified equity investment" (the **"QEI"**), times (y) the 39% NMTCs, and times (z) pricing of the NMTCs.
- The other NMTC loan (*i.e.*, the **"Senior NMTC Loan"**) is equal to (x) the NMTC Financing/QEI less (y) the amount of the Forgivable NMTC Loan.
- <u>Example</u>: If the size of the NMTC financing is $10 million and the current market pricing is $0.84 per $1.00 NMTC, then the Forgivable NMTC Loan is approximately <u>$3.3 million</u> (*i.e.*, $10 million NMTC financing x 39% NMTCs x $0.84 assumed pricing). Therefore, the Senior NMTC Loan is equal to <u>$6.7 million</u> (*i.e.*, $10 million NMTC financing less the $3.3 million **Forgivable NMTC Loan**), which is provided by the borrower's other available financing (used as Leverage Loan(s) and used in the IRS Approved Leverage Structure).

Non-Forgivable Loans

- Typically, NMTC financings less than $5 million occur in connection with NMTC financing to a pool of borrowers.
- Each borrower generally receives a <u>single</u> Non-Forgivable NMTC Loan with (a) a principal amount between $500,000 and $5 million; (b) a below-market interest rate; and (c) a longer than standard maturity date (which can be up to 40 years).
- <u>However</u>, sometimes these pool of borrowers may receive a Non-Forgivable NMTC Loan <u>and</u> a Forgivable NMTC Loan (although the principal amounts may vary from the percentages of principal amounts compared to a NMTC financing over $5 million).
- For example, if $1 million of NMTC financing is provided to a pool borrower, the Non-Forgivable NMTC Loan might be $800,000 (*i.e.*, 80% of the NMTC financing), and the Forgivable NMTC Loan might be $200,000 (*i.e.*, 20% of the NMTC financing).
- With respect to the typical Forgivable NMTC Loan in connection with a NMTC financing over $5 million, it is generally 33% of the NMTC financing based on assume market pricing.

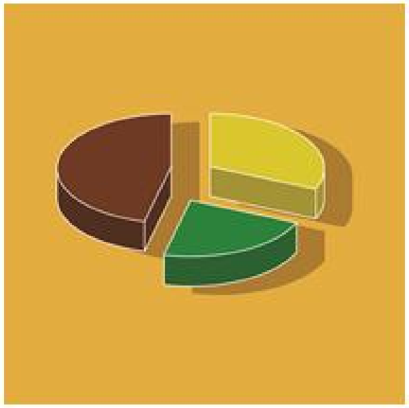
Sizing of New Markets Tax Credit Financing

Example #1:

- The financing is $10 million and there is a $3.3 million (*i.e.*, 33%) gap in financing.
- The NMTC financing (*i.e.*, the "Qualified Equity Investment" (a **"QEI"**)) is $10 million, which provides a $3.3 million Forgivable NMTC Loan.
- The Borrower will need to secure $6.7 million of leverage funds to be run through the IRS Approved Leverage Structure (which will provide the proceeds for the $6.7 million Senior NMTC Loan).

Example #2:

- The financing is $10 million but there is only a $1.5 million (*i.e.*, 15%) gap in financing.
- The NMTC financing/QEI is $4.5 million because the $1.5 million gap is 33% of such amount, which provides a $1.5 million Forgivable NMTC Loan.
- The Borrower will need to secure $3 million of leverage funds to be run through the IRS Approved Leverage Structure (which will provide the proceeds of the $3 million Senior NMTC Loan).



- Therefore, the remaining $5.5 million of the $10 million overall financing is closed outside of, but in conjunction with, the $4.5 million NMTC financing.

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Sizing of New Markets Tax Credit Financing

Example #3:

- The financing is $6 million and there is a $3 million gap in financing (*i.e.*, 50%).
- Borrower does not qualify for the Forgivable NMTC Loan (because there is a 50% gap); however, it does qualify for the Non-Forgivable NMTC Loan in the amount of $3 million (because it is less than $5 million threshold).
- If the Borrower were able to secure an additional $1 million so that the gap is then $2 million, the Borrower would qualify for a Forgivable NMTC Loan in the amount of $2 million because the gap in financing would be reduced to 33% of the $6 million financing.
- The Borrower will then need to secure $4 million of leverage funds to be run through the IRS Approved Leverage Structure (which will provide the proceeds for the $4 million Senior NMTC Loan).

Example #4:

- The financing is $4 million and there is a $4 million gap in financing (*i.e.*, 100%).
- Borrower does not qualify for the Forgivable NMTC Loan (*i.e.*, because there is a 100% gap and the overall financing is less than $5 million threshold); however, it does qualify for a $4 million Non-Forgivable NMTC Loan (because such amount is less than $5 million threshold).

Sizing of New Markets Tax Credit Financing

Example #5:

- Total financing is $50 million and there is a $6 million gap in financing (*i.e.,* 13%).
- Borrower qualifies for a $6 million Forgivable NMTC Loan (because $6 million divided by 33% is $18 million, which is above the $5 million threshold).
- The Borrower will then need to secure $4 million of leverage funds to be run through the IRS Approved Leverage Structure (which will provide the proceeds for the $4 million Senior NMTC Loan).
- Therefore, the remaining $32 million of the $50 million overall financing is closed outside of, but in conjunction with, the $18 million NMTC financing.

Example #6:

- Note in (a) Example 1 and 2, the Borrower qualifies for a $3.3 million and $1.5 million Forgivable Loan, respectively, and (b) Example 3, the Borrower qualifies for a $2 million Forgivable NMTC Loan (if it obtains an additional $1 million of financing).
- If any of these Borrowers is not able to obtain providers of leverage funds, they can otherwise apply for a Non-Forgivable NMTC Loan because the gap in financing is less than the $5 million threshold).
- The Borrower in Example 5 can also otherwise apply for a $5 million Non-Forgivable Loan but it will otherwise have to secure the remaining $1 million shortfall in financing.

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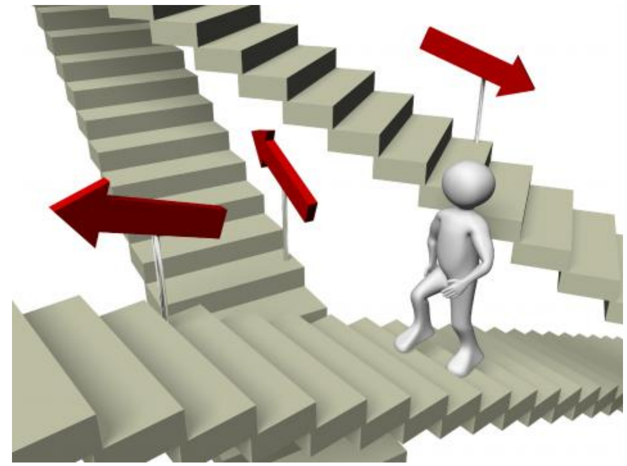
Steps in NMTC Financing: Forgivable NMTC Loan and Single Borrower

Assume:



- the borrower or its project satisfies all of the legal requirements to qualify for NMTC financing;
- the borrower needs $10 million of NMTC financing (and has secured approximately $6.7 million from other sources of financing which can be used for one or more **Leverage Loans**);
- the borrower applies to NMTC Investors and Allocatees, whose service areas and underwriting criteria closely match the borrower's NMTC financing's facts and circumstances;
- an Allocatee (which has received non-monetary NMTC Allocation Award of $50 million from the CDFI Fund), agrees to **"sub-allocate"** $10 million of its NMTC Allocation Award for the $10 million NMTC financing;
- the Allocatee spins off a separate CDE for the $10 million NMTC financing (and the remaining $40 million of its NMTC Allocation Award will be used for other borrowers and projects);

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Steps in NMTC Financing: Forgivable NMTC Loan and Single Borrower

- a NMTC Investor agrees to participate in the $10 million NMTC financing and agrees to purchase the 39% NMTCs for $0.84 per $1.00 NMTC, which would be $3.3 million (*i.e.,* $10 million x 39% NMTCs x $0.84 assumed market pricing);
- the NMTC Investor makes a $3.3 million capital contribution to its wholly-owned **Investment Fund**;
- the borrower's other sources of financing provide one or more **Leverage Loans** in the total amount $6.7 million to the Investment Fund;
- using the NMTC Investor's $3.3 million capital contribution and the $6.7 million of the proceeds of the Leverage Loan(s), the Investment Fund makes a $10 million capital contribution to the CDE;
- the Allocatee "sub-allocates" $10 million of its $50 million non-monetary Allocation Award to the CDE;

Steps in NMTC Financing: Forgivable NMTC Loan and Single Borrower

- the CDE designates the Investment Fund's $10 million capital contribution in the CDE as a "qualified equity investment" (a **"QEI,"** on which the $3.9 million NMTCs are based, which are allocated 100% to the NMTC Investor through its wholly-owned Investment Fund);

- the CDE provides the following NMTC financing to the borrower:

  - a $6.7 million Senior NMTC Loan (the terms of which match those of the Leverage Loans (including any rate of interest), except there can only be interest-only payments during the 7-year NMTC compliance period); and
  - a $3.3 million Forgivable NMTC Loan, the terms of which include:
    - 1.5% interest-only payments during the 7-year NMTC compliance period, and
    - forgiveness at the end of such period.

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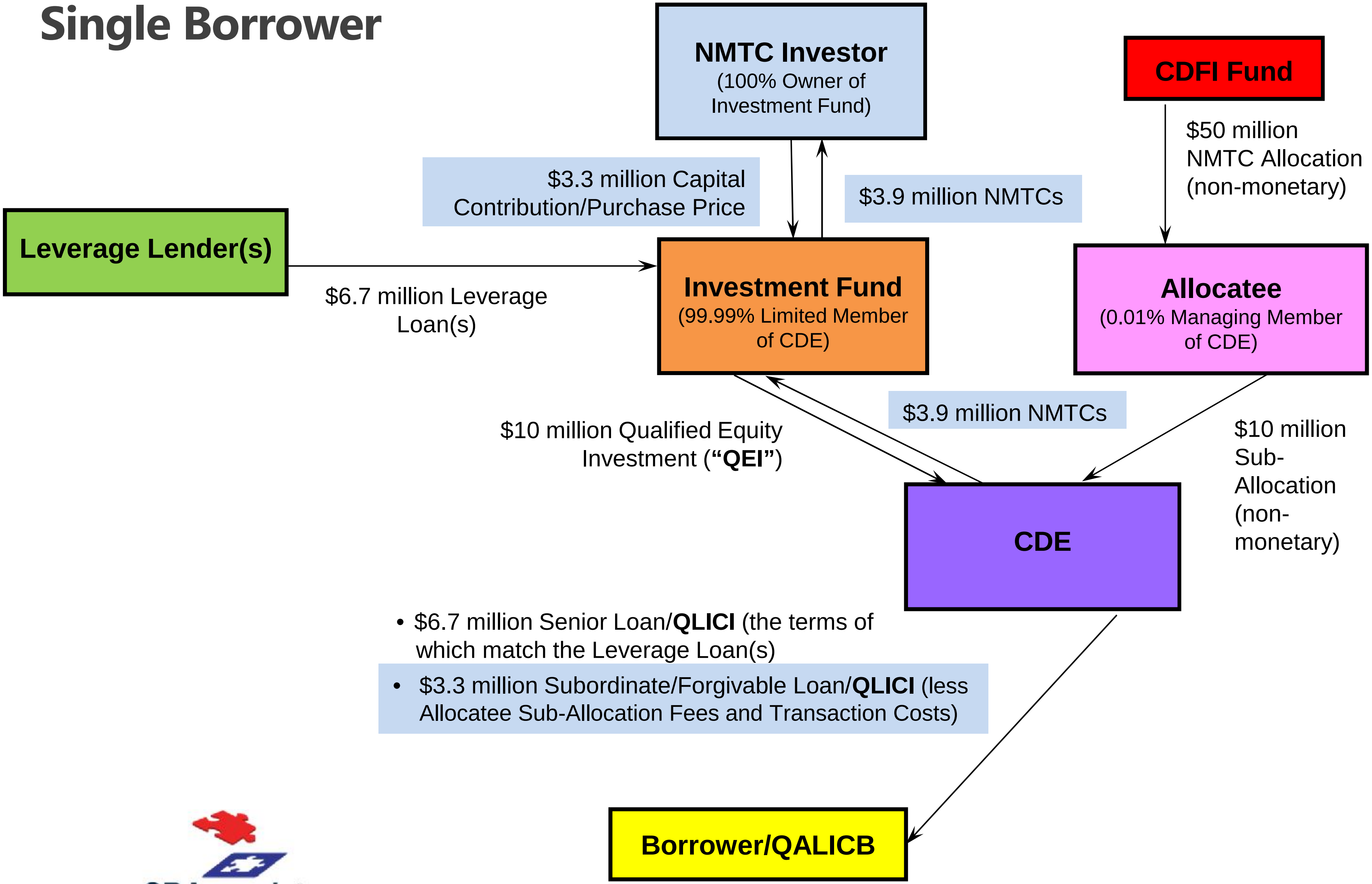
Steps in NMTC Financing: Non-Forgivable NMTC Loans and Multiple Borrowers

- Each of the steps relating to the NMTC financing in connection with the Forgivable NMTC Loan apply to those for the Non-Forgivable Loan, except that the borrower does not have to provide any source of leverage funds to be run through the Approved IRS Leverage Structure.
- This is because given the complexity of financing a pool of borrowers, adding several sources of leverage becomes too complex.
- In these scenarios, generally the NMTC Investor, Allocatee or one of their affiliates is the Leverage Lender.
- They are willing to take on such risk because of the diversification of borrowers rather than taking on the risk of a single borrower in a larger financing.
- Therefore, the NMTC Program subsidy is then generally in the form of a Non-Forgivable NMTC Loan in the amount between $500,000 and $5 million.

IRS Approved Leverage Structure: Forgivable NMTC Loan and Single Borrower



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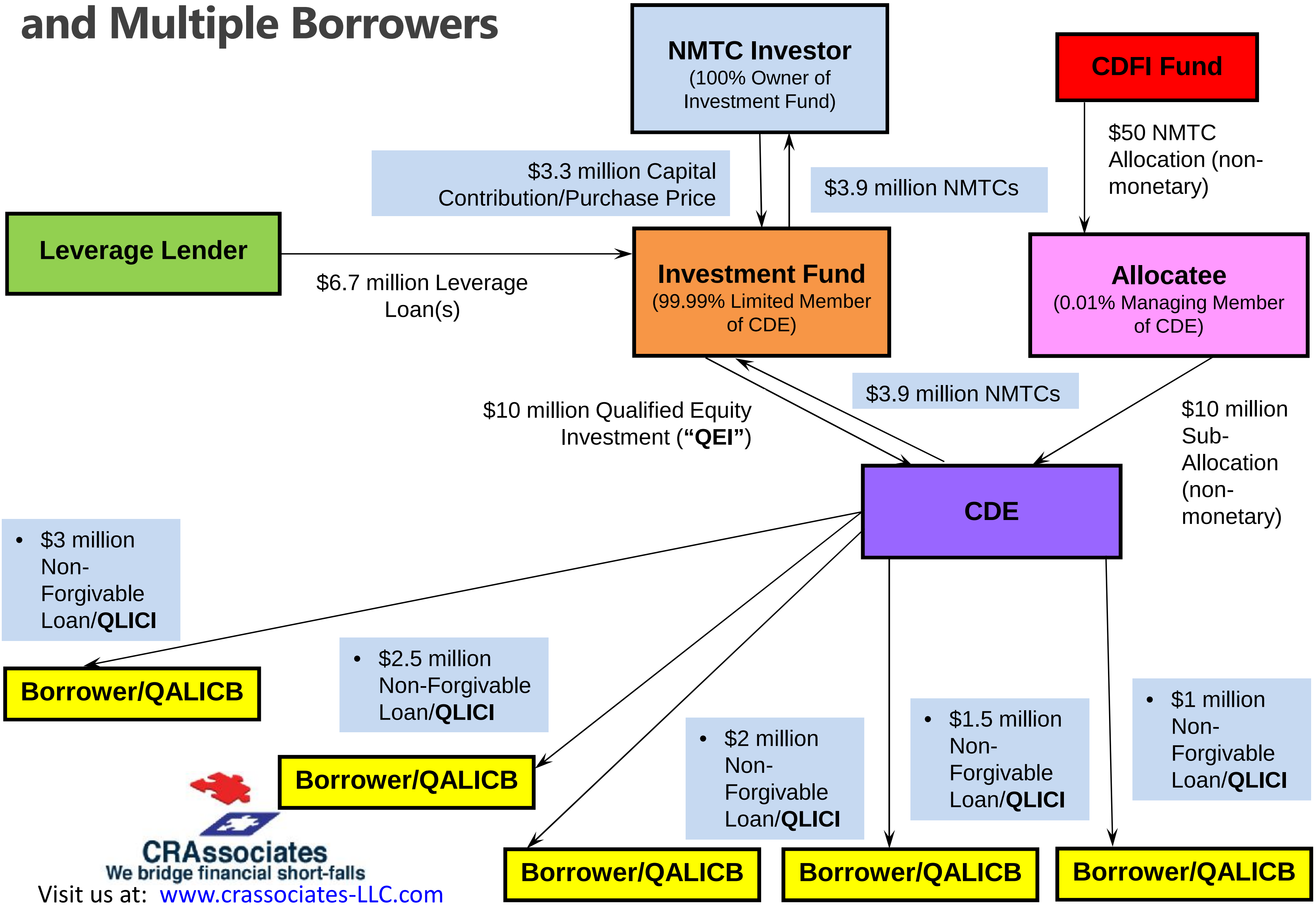
IRS Approved Leverage Structure: Non-Forgivable NMTC Loans and Multiple Borrowers



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Acronyms

Using the NMTC acronyms, the steps of a NMTC financing include:

- a NMTC Investor (through its wholly-owned Investment Fund), makes a "qualified equity investment" (a **"QEI"**)
- in a "qualified community development entity" (a **"CDE"**) (which entitles the NMTC Investor to "new markets tax credits" (**"NMTCs"**))
- then the CDE uses the QEI proceeds to make either (a) 2 "qualified low-income community investments" (**"QLICIs"**) (in the form of the Senior NMTC Loan and the Forgivable NMTC Loan), or (b) the Non-Forgivable Loans, as applicable)
- to a "qualified low-income community business" (a **"QALICB"**), which
- uses the QLICIs for its project or business, which is predominantly located in a "low-income community" (a **"LIC"**) and benefits residents of LICs and/or "Targeted Populations," including "low-income persons" (**"LIPs"**).

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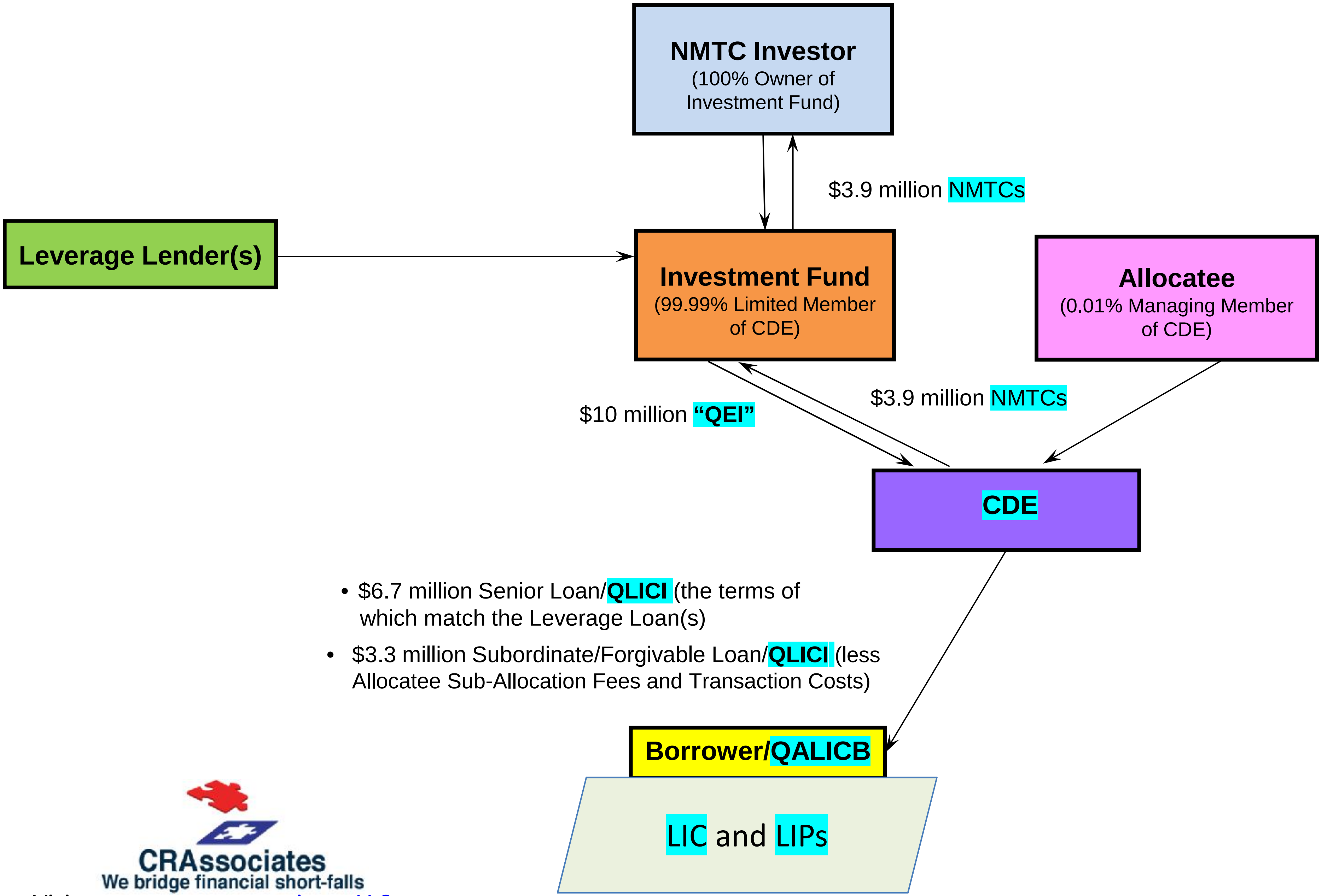
IRS Approved Leverage Structure: $10 Million Example



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Leveraging Sources Required to Facilitate the NMTC Program Subsidy

Generally, with respect to a NMTC financing involving the Forgivable NMTC Loan, identifying and securing Leverage Lender(s) to provide a sufficient amount of the Leverage Loan(s) is the most challenging.

This is because the Leverage Lender:

- cannot receive a mortgage or direct lien on the project or any of the borrower/QALICB's assets;
- must accept as its sole collateral is the Investment Fund's 99.99% ownership interest in the CDE;
- cannot require the borrower/QALICB (or its owners) to guaranty the Leverage Loan;
- can only require interest-only payments during the 7-year NMTC compliance period; and
- must agree to a 7-year forbearance agreement.

However, depending on the facts, this challenge can be alleviated by changes in the overall financing structure.

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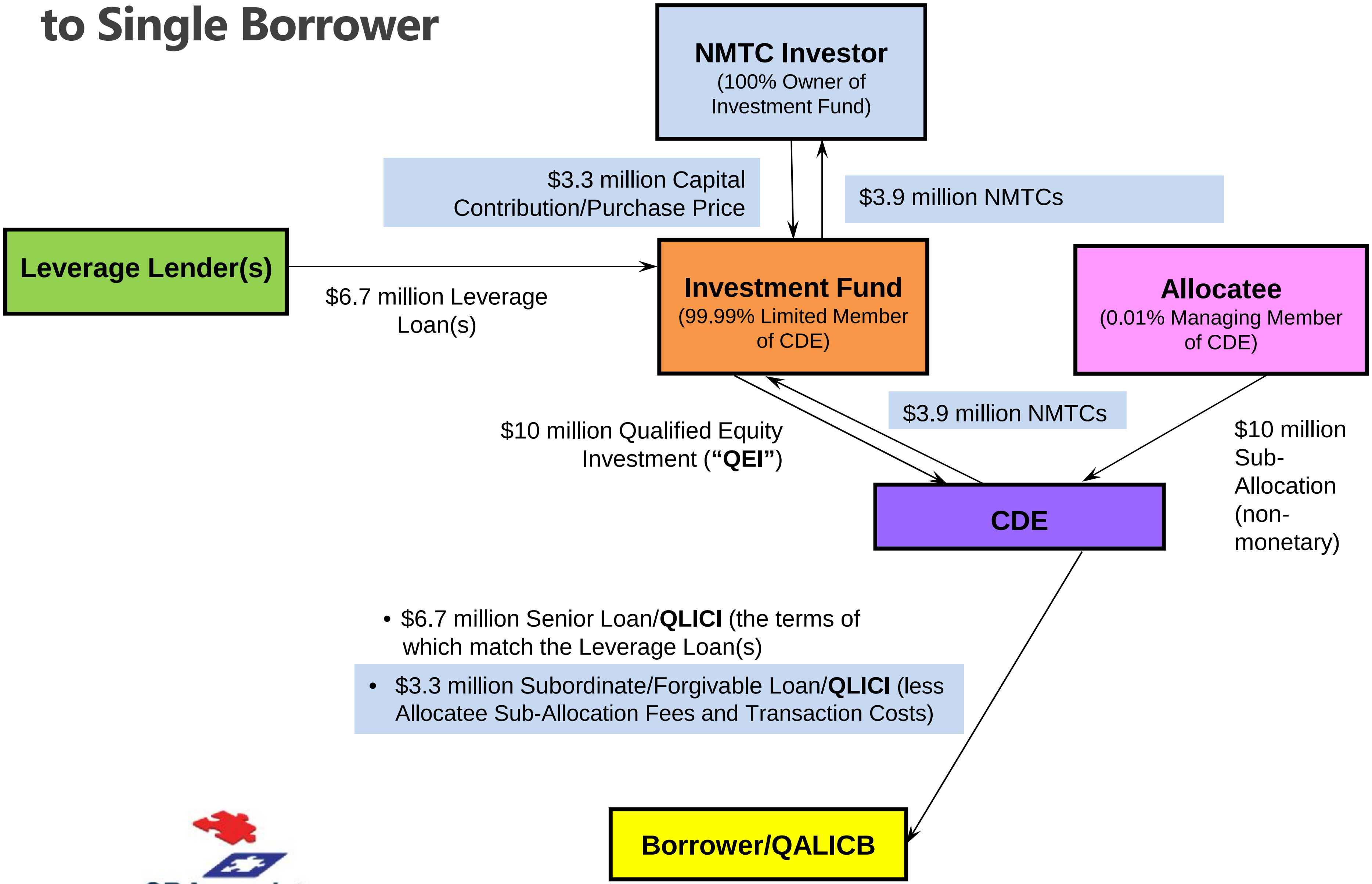
IRS Approved Leverage Structure: $10 Million NMTC Financing to Single Borrower



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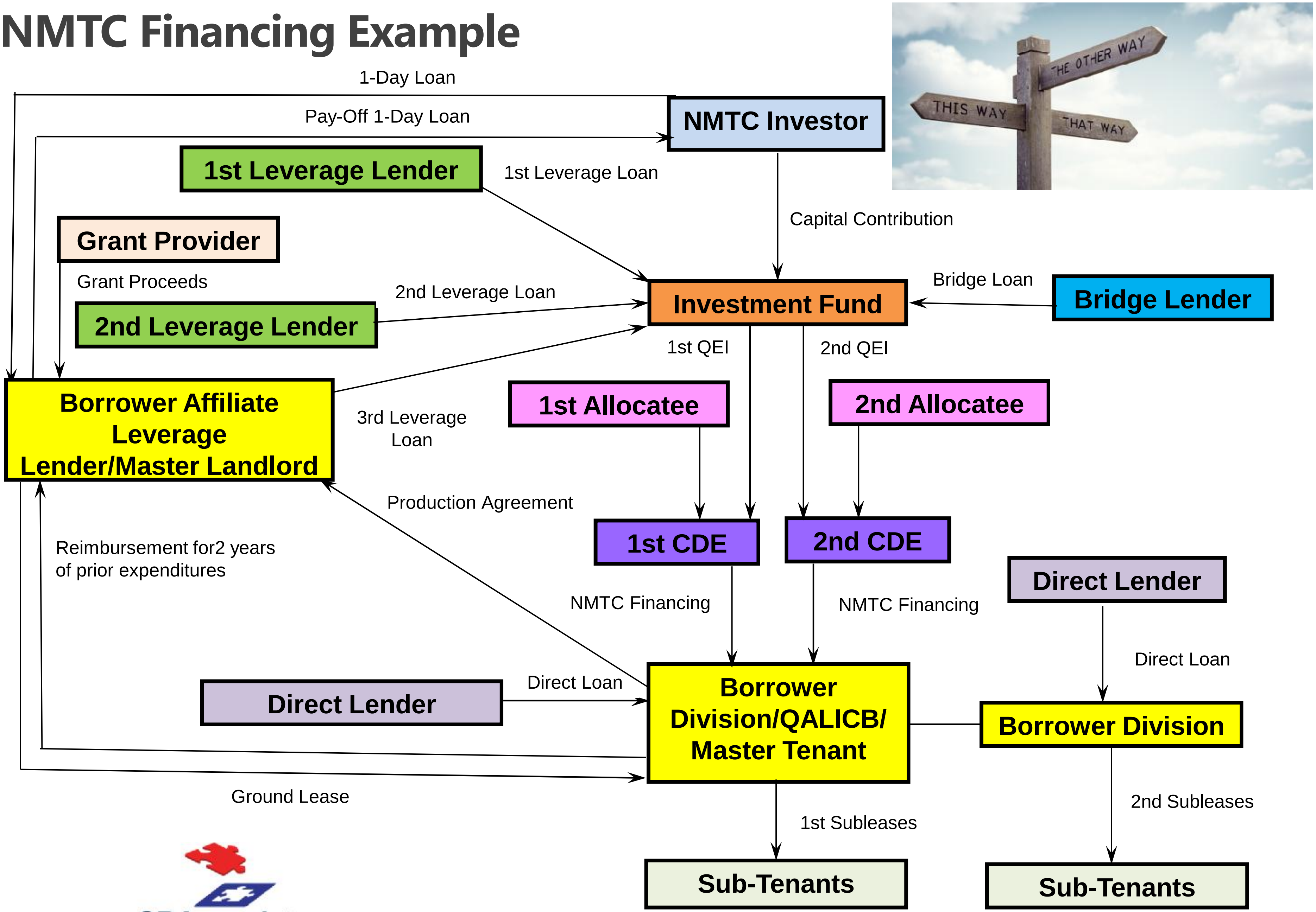
NMTC Financing Example



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Unwind after 7-Year NMTC Compliance Period: Forgivalbe NMTC Loan and Single Borrower

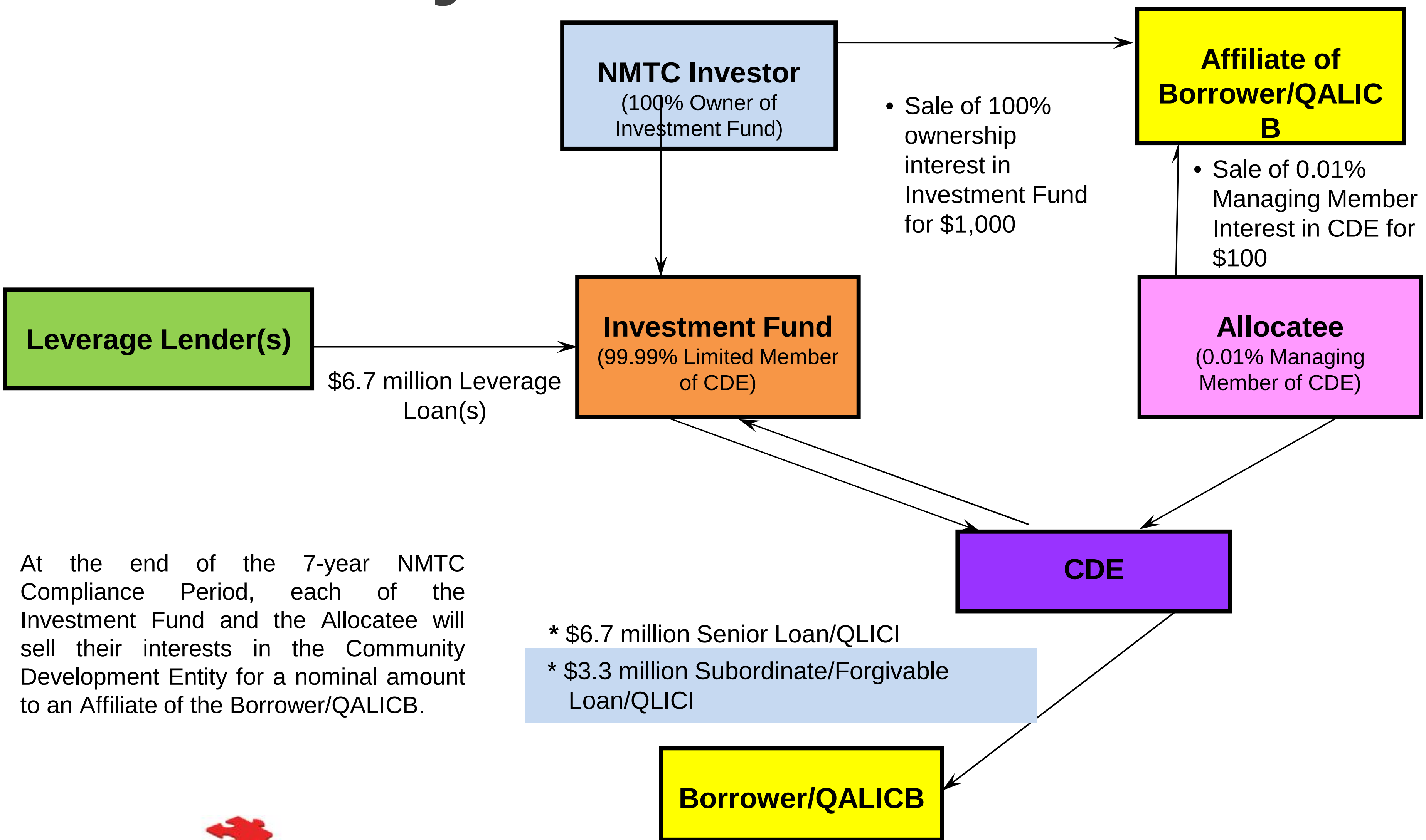
With respect to the Forgivable NMTC Loan to a single borrower, at the end of the 7-Year NMTC compliance period, the NMTC financing unwinds as follows:

- the NMTC Investor sells its 100% ownership interest in the Investment Fund to an affiliate of the borrower/QALICB for a nominal amount; and
- the Allocatee sells its 0.01% managing interest in the CDE to such affiliate of the borrower/QALICB for a nominal amount.

The effects of the unwind are:

- the Forgivable NMTC Loan/QLICI becomes an intercompany loan (*i.e.*, effectively forgiven); and
- the Senior NMTC Loan/QLICI also becomes an intercompany loan and, depending on the terms of the Leverage Loan(s), are: (a) amortized to maturity; (b) refinanced; (c) paid off; or (d) effectively forgiven if the Leverage Lender is an affiliate of the borrower/QALICB.

Unwind after 7-Year NMTC Compliance Period: Forgivable NMTC Loan and Single Borrower



At the end of the 7-year NMTC Compliance Period, each of the Investment Fund and the Allocatee will sell their interests in the Community Development Entity for a nominal amount to an Affiliate of the Borrower/QALICB.

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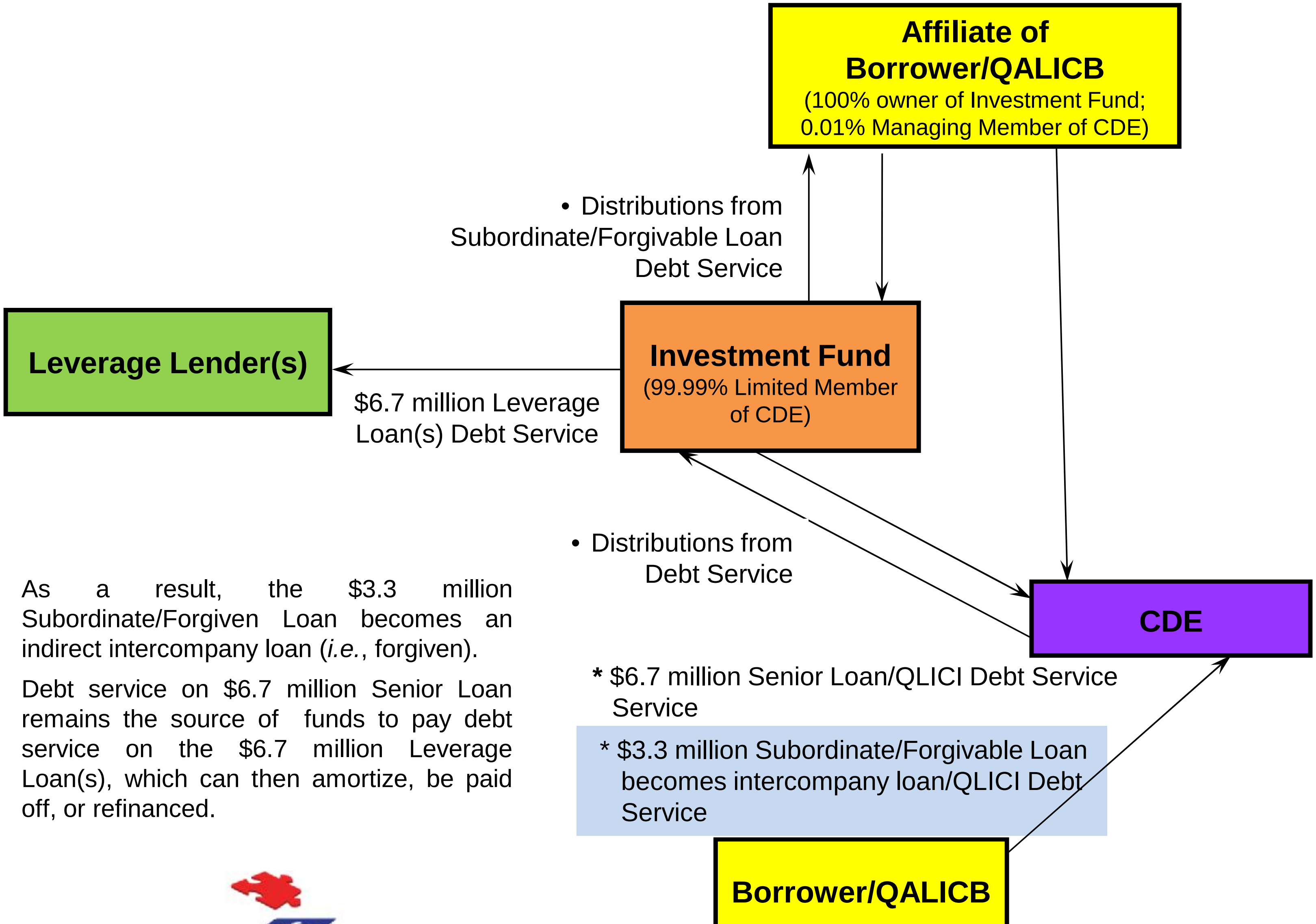
Unwind after 7-Year NMTC Compliance Period: Single Borrower



As a result, the $3.3 million Subordinate/Forgiven Loan becomes an indirect intercompany loan (*i.e.*, forgiven).

Debt service on $6.7 million Senior Loan remains the source of funds to pay debt service on the $6.7 million Leverage Loan(s), which can then amortize, be paid off, or refinanced.

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Unwind after 7-Year NMTC Compliance Period: Pool of Borrowers

With respect to the Non-Forgivable Loans to a pool of borrowers, using our $10 million example, at the end of the Compliance Period, the NMTC financing unwinds among the NMTC Investor, the Allocate and the Leverage Lender without any involvement from an affiliate of the borrower.

The effects of the unwind are:

- the Non-Forgivable Loan begins to amortize through its up to 40-year maturity date; and
- if applicable, a small portion of the Non-Forgivable Loan is forgiven (or a small Forgivable Loan) at such time or thereafter.

Our Services

- We have facilitated closing approximately \$1.1 Billion of NMTC financings over the past 20 years.
- Our financing, legal and accounting backgrounds as well as significant experience in community and economic development enables us to strategically underwrite, structure and close these complex financings on behalf of our clients.

- Generally, all of our fees are contingent upon the securing the NMTC financing.
- Upon engagement we will:
  - promptly provide our Comprehensive NMTC Financing Intake Form, complete application sections with respect to those relating to our services described below, and answer any questions relating to the questions in such form;
  - identify, profile and solicit (a) NMTC Investors (for best pricing and terms); (b) Allocatees (for maximum NMTC Allocation, low fees, maximum forgiveness of the Forgivable NMTC Loan, and other favorable terms); and (c) providers of Leverage Loans needed for the NMTC financing (to create a maximum economic multiplier effect);

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Our Services

- underwrite the NMTC financing to satisfy each of the unique underwriting requirements of each applicable NMTC Investor, Allocatee, and each provider of a Leverage Loan;
- identify and secure other sources of financing (including traditional financing, state NMTCs, and other federal, state and local subsidies);
- structure the overall financing (including not just the NMTC financing) to satisfy specific underwriting, legal and tax requirements of the NMTC Program, and as otherwise required;
- draft detailed and strategic marketing executive summaries of the borrower’s operations and project, including but not limited to: (a) a census tract distress analysis; (b) detailed analysis to support the quantification and qualification of community impacts; (c) support that all legal and tax requirements are satisfied; (d) support that all underwriting requirements are satisfied; and (e) support that any other requirements that are unique to the particular overall financing and the structure are satisfied;

Our Services

- prepare financial projections required for the overall financing;
- timely and strategically complete all intake forms from targeted NMTC Investors, Allocatees, and providers of Leverage Loans (as well any intake forms from any other sources of financings or subsidies);
- negotiate term sheets provided by NMTC Investors, Allocatees, providers of Leverage Loans, and any other debt or equity providers;
- provide an efficient timeline with benchmarks through the targeted closing date of the NMTC financing;
- facilitate each closing by collecting due diligence materials and creating a drop box;
- manage the closing and funding;
- provide ongoing asset management, compliance and reporting services; and
- provide such other services as set forth in our Consulting Agreement in order to "quarterback" the facilitation of the overall financing.

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Questions

If you have any questions regarding this presentation, please click on the green tab, entitled "Contact/Initial Intake Form," which is located at the top right side of Community Reinvestment Associates' main website page.

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