NEW MARKETS TAX CREDIT PROGRAM:

AN INTRODUCTION

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 $1.6 billion of new markets tax credits (which involve a NMTC Investor, “Allocatee(s)” and “Leverage Lender(s)”), 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 and public partnerships, securing traditional debt, equity, and donations.





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Outline of NMTC Program Subsidy

1. Intent of the NMTC Program
2. Economic Benefits and Flexible Underwriting Criteria
3. Permitted Uses and Prohibited Uses
4. Low-Income Census Tract/Highly Distressed
5. Community and Economic Impacts to Economically Distressed Communities
6. Good Borrower and Project Candidates
7. Sizing of NMTC Financing
8. Our Services to Secure NMTC Financing

Intent of the NMTC Program

- The intent of the federal new markets tax credit program (the **"NMTC Program"**) is to provide financial to low-income communities which have <u>historically lacked access to traditional financing</u>.
- The NMTC Program particularly focuses on the community and economic benefits to the residents in such low-income communities and targeted populations (such as low-income persons, minorities, women and other populations who lack access to quality jobs, and community and vital consumer goods and services).

- NMTCs are equal to 39% of the NMTC financing, which is known as a "qualified equity investment" (a **"QEI"**).
- The NMTC Program subsidy is provided from a NMTC Investor's effective purchase of the NMTCs (which are dollar-for-dollar offset against federal income taxes).
- The NMTC Investor does <u>not</u> receive any direct or indirect ownership interest in the borrower or any of its affiliates.

CDFI Fund and Allocatees

- The Community Development Financial Institutions Fund, which is a division of the U.S. Treasury Department (the **"CDFI Fund"**), administers the NMTC Program.
- Each year, the CDFI Fund provides $3.5 billion of <u>non-monetary</u> NMTC Allocation authority awards to qualified applicants.

- If an applicant receives such an award, it becomes an **"Allocatee."**
- An Allocatee is authorized to designate a NMTC financing as a QEI, which then permits the NMTC Investor to recognize NMTCs.
- An NMTC Investor makes a QEI in an affiliate of the Allocatee, and it is that affiliate that provides the NMTC financing to the borrower.
  - Borrowers must compete to obtain NMTC financing from Allocatees and Investors, which is an extremely competitive process.

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Permitted Uses of NMTC Financing

NMTC financing may only be used by a for-profits and nonprofits to:

- acquire, construct, renovate and expand bricks and mortar projects (including those relating to healthcare, education, manufacturing, retail, qualified mixed-use, cultural, community, renewable energy, and recycling etc.); and

- finance business and nonprofit operations (such as those in the nature, as described above), including the purchasing, refurbishing, retrofitting or leasing of equipment, and/or funding working capital, inventory, and staffing etc.

Prohibited Uses of NMTC Financing

NMTC financing may not be used to:

- generally, refinance or prepay existing debt (with certain exceptions);

- finance a so-called "sin business (such as a gambling facility, racetrack, or business the principle purpose of which is to sell alcohol off premises); or
- participate in any "abusive transaction" (*i.e.*, any transaction or series of transactions which are contrary to the intent of the NMTC Program).

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Economic Benefits of NMTC Financing

Generally, with respect to the **Forgiven Loan**:

- it only requires approximate 1.0% - 1.2% interest-only payments during the 7-year NMTC compliance period; and
- it is forgiven at the end of the 7-year NMTC compliance period.

Generally, with respect to the **Non-Forgiven Loan**:

- 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).

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Economic Benefits of NMTC Financing

Generally, the economic benefits of the NMTC Program subsidy (whether in the form of the Forgiven Loan or the Non-Forgiven Loan) include:

- gap financing;
- approximate 1.0%-1.2% interest-only payments (or slightly higher) during the 7-year NMTC compliance period;
- subordination to existing and subsequent creditors;
- flexible underwriting criteria;
- the Forgiven Loan being forgiven at the end of the 7-year NMTC compliance Period;
- the Non-Forgiven Loan and a term up to 40 years (and beyond any secured asset's useful life);
- 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;
- ability to obtain additional financing (based on the above benefits); and
- substantial community and economic impacts to residents in "Low-Income Communities" and "Targeted Populations," including "Low-Income Persons."

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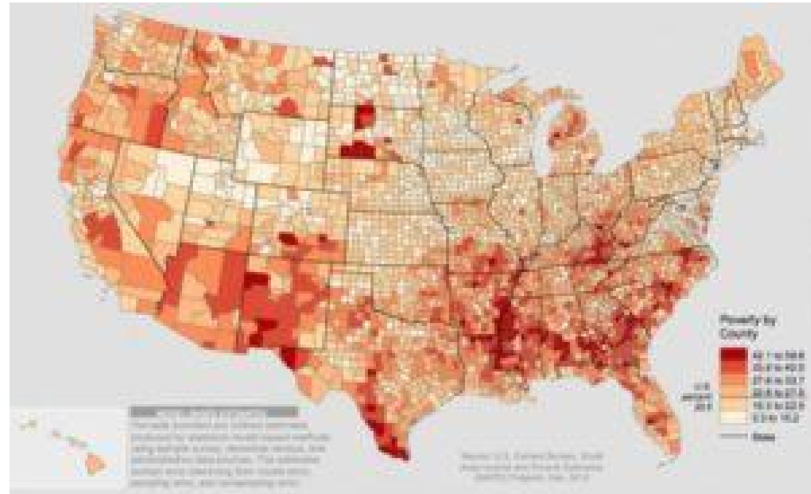
Low-Income Census Tract

The borrower financed or the project financed, as applicable, must be predominately located in a "low-income community" (a "**LIC**"), which is defined by U.S. Census data as a census tract with:



- a poverty rate of at least 20%, or
- either:
  - in the case of a tract located in a metropolitan area, the median family income ("**MFI**") for such metropolitan census tract does not exceed 80% of the greater of (x) the statewide MFI or (y) the metropolitan area MFI, or
  - in the case of a tract in a non-metropolitan area, the MFI for such non-metropolitan census tract does not exceed 80% of the statewide MFI.

"Highly Distressed" Low-Income Census Tract

- NMTC financing is much more likely to be provided to a borrower or project, which is located in a "Highly Distressed" "Low-Income Community" (**"LIC"**), which includes a census tract that has either:
  - at least 1 of 4 "primary distress criteria" (such as a poverty rate of at least 30% (compared to the statutory minimum of 20%), or being located in a rural community), or
  - at least 2 of several "secondary distress criteria" (such as poverty rates or at least 25% (compared to the statutory minimum of 20%) or satisfying any of the several other secondary criteria etc.).
- The more "Highly Distressed" the LIC, the more likely an "Allocatee" and a NMTC Investor will be interested in participating in the NMTC financing.

Substantial Community and Economic Impacts

- A borrower must qualitatively and quantitatively provide support of substantial community and economic impact to the residents of the "Low-Income Community" in which the borrower and/or project is located, surrounding communities and "Targeted Populations" including "Low-Income Persons," minorities, women and veterans), and execute a "Community Benefits Agreement."
- Such community and economic impact includes any of the following:
  - direct and indirect full-time and part-time job creation, job retention, construction jobs, which are accessible to low-income persons;

  - jobs that provide living wages, healthcare benefits, retirement plans, life insurance, job training, and/or continuing education;

  - consumer and/or community goods and services;
  - if the project has tenants, such tenants provide community impacts, and any nonprofit, or minority-owned or women-owned business tenants receive below-market lease rates and favorable terms;

  - if the project is mixed-use, affordable housing is partially provided;
  - "green" type benefits (such as satisfying LEED standards); and/or
  - any other community benefits.

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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;
- community facilities/operations; and
- renewable energy and recycling facilities/operations.

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Sizing of NMTC Financing

- The NMTC financing (*i.e.*, the "Qualified Equity Investment") is equal to the sum of:
  - (x) the NMTC Investor's purchase price for the NMTCs; and
  - (y) the leverage sources, which include:
    - the borrower's other sources of funds (which can include other debt and equity sources, and federal, state and local subsidies), and
    - 2 years of prior expenditures (to the extent that they are primarily (*i.e.*, greater than 50%) capitalizable/depreciable).

- NMTC financing may be only part of an overall larger financing.

- Generally, in order to receive the Forgiven NMTC Loan, there must be a short-fall in available financing of at least approximately $1.5 million and the leverage sources must be at least approximately $4.5 million.

- Generally, the Non-Forgiven NMTC Loan and the NMTC Financing each must be below approximately $2 million.

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Our Services

Our financing, legal, tax, 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.

Our fees are <u>contingent</u> upon securing NMTC financing.

Upon engagement we will:

- provide our client with our Comprehensive NMTC Intake Form;
- answer our client's questions in connection with completing such form;
- research to support that:
  - the structure of the overall financing satisfies legal, tax, underwriting and structuring requirements including:
    - all of the Allocatees', NMTC Investors', and Leverage Lenders' unique underwriting requirements will be satisfied;

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Our Services

- all applicable "primary" and "secondary" distress characteristics of the census tract are documented;
- direct and indirect community and economic impacts are quantified and qualified;
- there is strong local support;
- if applicable, there will be catalytic subsequent economic and community development;
- other relevant facts and circumstances are supported and documented; and
- manage the overall financing from start to finish.

We will identify and solicit Allocatees for:

- maximum "sub-allocation" of their NMTC Allocation Awards;
- maximum forgiveness of the Forgiven NMTC Loan;
- optimal economic terms;
- optional flexible financial underwriting criteria;
- low "sub-allocation" fees.

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Our Services

We will identify and solicit NMTC Investors for:

- optimal NMTC pricing;
- other optimal financing terms; and
- optimal flexible financial underwriting criteria.

We will identify and solicit Leverage Lenders to the extent that our client has not identified Leverage Lender(s) for the amount of leverage funds needed (or its 2 years of prior expenditures) for:

- optimal interest rate;
- other optimal financial terms; and
- optimal flexible financial underwriting criteria.

We quarterback each NMTC financing from start to finish, and our fees are <u>contingent</u> upon our <u>securing</u> such financing on behalf of our clients.

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Questions

If you have any questions regarding this presentation, please email us or 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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