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 $1.6 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

Part 1: The Basics

1. Intent of the NMTC Program
2. 4 NMTC Participants
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4. Good Borrower and Project Candidates
5. Facilitated by "Allocatees" and "CDEs"
6. Legal Requirements
7. Recapture of NMTCs
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Outline of NMTC Program Subsidy

Part 2: Steps and Structuring

1. Brief Recap of Part 1
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3. Steps to Apply for NMTC Financing
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5. IRS Approved Leverage Structure
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8. Unwind after 7-Year NMTC Compliance Period
9. Our Services to Secure NMTC Financing

Recap of Economic Benefits of NMTC Financing

Generally, the economic benefits of the NMTC financing (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;
- nontraditional and favorable terms, and 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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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.

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 does not receive any direct or indirect ownership interest in the borrower.
- Instead, a NMTC Investor receives a direct or indirect ownership interest in an Allocatee's affiliate, and such affiliate provides the NMTC financing to the borrower.
- 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.

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 (including such 2 years of prior expenditures) must be <u>at least</u> approximately \$4.5 million (the **“33% Forgiven NMTC Loan Test”**).

- Generally, in the case of the Non-Forgiven NMTC Loan, the short-fall in financing is less than \$2 million and the overall financing (including such 2 years of prior expenditures) is <u>less than</u> \$4.5 million.

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Forgiven Loan

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.

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-Forgiven Loan

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).

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 Forgiven Loan must do).

Economic Benefits of NMTC Financing

Why is there a $4.5 million threshold to qualify for the Forgiven Loan?

Answer: Transaction costs and the amount of time to close a NMTC financing begins to slowly offset 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 Forgiven Loan Works

- In the case of the **Forgiven Loan**, 2 NMTC financing loans are provided: the Senior Loan and the Forgiven Loan to a single borrower.
- However, in the case of the Non-Forgiven Loan, only 1 NMTC financing loan is generally involved: the Non-Forgiven Loan which is part of a pool financing of multiple borrowers.
- The Forgiven 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 Loan"**) is equal to (x) the NMTC Financing/QEI less (y) the amount of the Forgiven Loan.
- Example: If the size of the NMTC financing is $10 million and the current market pricing is $0.84 per $1.00 NMTC, then the Forgiven Loan is approximately $3.3 million (*i.e.*, $10 million NMTC financing x 39% NMTCs x $0.84 assumed pricing). Therefore, the Senior Loan is equal to $6.7 million (*i.e.*, $10 million NMTC financing less the $3.3 million **Forgiven Loan**), which is provided by the borrower's other available financing (used as Leverage Loan(s) and used in the IRS Approved Leverage Structure).

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Non-Forgiven Loans

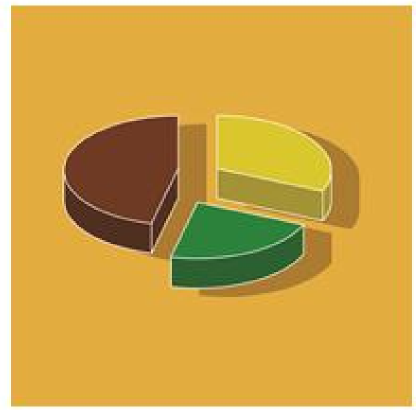
- Typically, NMTC financings of $2 million or less occur in connection with NMTC financing to a pool of borrowers.
- Each borrower generally receives a single Non-Forgiven Loan with (a) a principal amount between $1 million and $2 million; (b) a below-market interest rate; and (c) a longer than standard maturity date (which can be up to 40 years).
- However, sometimes these pool of borrowers may receive a Non-Forgiven Loan and a Forgiven Loan (although the principal amounts may vary from the percentages of principal amounts compared to a NMTC financing over $4.5 million).
- For example, if $1 million of NMTC financing is provided to a pool borrower, the Non-Forgiven Loan might be $800,000 (*i.e.*, 80% of the NMTC financing), and the Forgiven Loan might be $200,000 (*i.e.*, 20% of the NMTC financing).
- With respect to the typical Forgiven Loan in connection with a NMTC financing over $4.5 million, it is generally 33% of the NMTC financing based on assumed market pricing and NMTC transaction costs.

Sizing of New Markets Tax Credit Financing

Example #1:

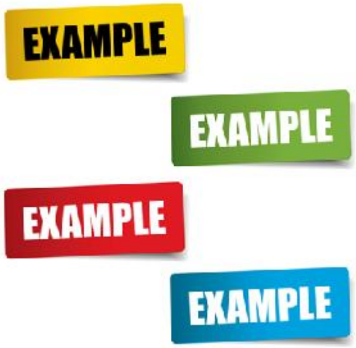
- The financing is $10 million and there is a $3.3 million (*i.e.*, 33%) gap in financing.
- The NMTC financing (*i.e.*, the "Qualified Equity Investment" (a **"QEI"**)) is $10 million, which provides a $3.3 million Forgiven Loan.
- The Borrower will need to secure $6.7 million of leverage funds to be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

Example #2:



- The financing is $10 million but there is only a $2.5 million (*i.e.*, 25%) gap in financing.
- The NMTC financing/QEI is $7.6 million because the $2.5 million gap is 33% of such amount (*i.e.*, $2.5 million divided by 33% = $7.6 million), which provides a $2.5 million Forgiven Loan.
- The Borrower will need to secure $5.1 million of leverage funds to be run through the IRS Approved Leverage Structure (which will provide the proceeds of the $5.1 million Senior Loan).
- Therefore, the remaining $2.4 million of the $10 million overall financing is closed outside of, but in conjunction with, the $7.6 million NMTC financing.

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%).
- The Borrower does not qualify for the Forgiven Loan (because there is a 50% gap); however, it does qualify for the Non-Forgiven Loan in the amount of $3 million (because it is less than the $5 million industry required 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 the Forgiven 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 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 Forgiven 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-Forgiven Loan (because such amount is less than $5 million threshold).

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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 Forgiven 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 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 Forgiven Loan, respectively, and (b) Example 3, the Borrower qualifies for a $2 million Forgiven Loan (if it obtains an additional $1 million of financing).
- If the applicable Borrower is not able to obtain providers of leverage funds, it can otherwise apply for a Non-Forgiven 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-Forgiven Loan but it will otherwise have to secure the remaining $1 million shortfall in financing.

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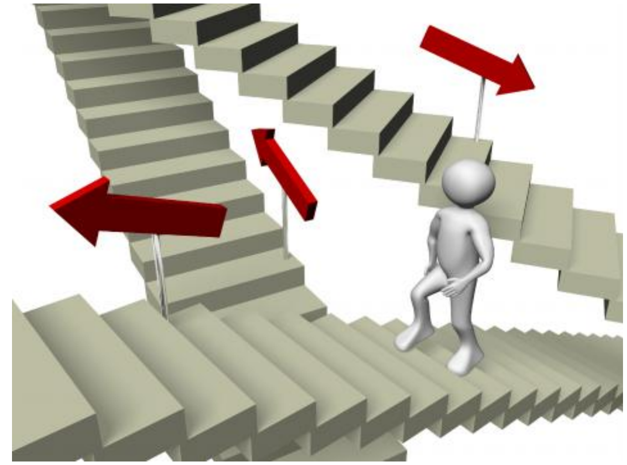
Steps in NMTC Financing: Forgiven Loan and Single Borrower

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);

Steps in NMTC Financing: Forgiven 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;

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Steps in NMTC Financing: Forgiven 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 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 Forgiven Loan, the terms of which include:
  - 1.0%-1.2% interest-only payments during the 7-year NMTC compliance period, and
  - forgiveness at the end of such period.

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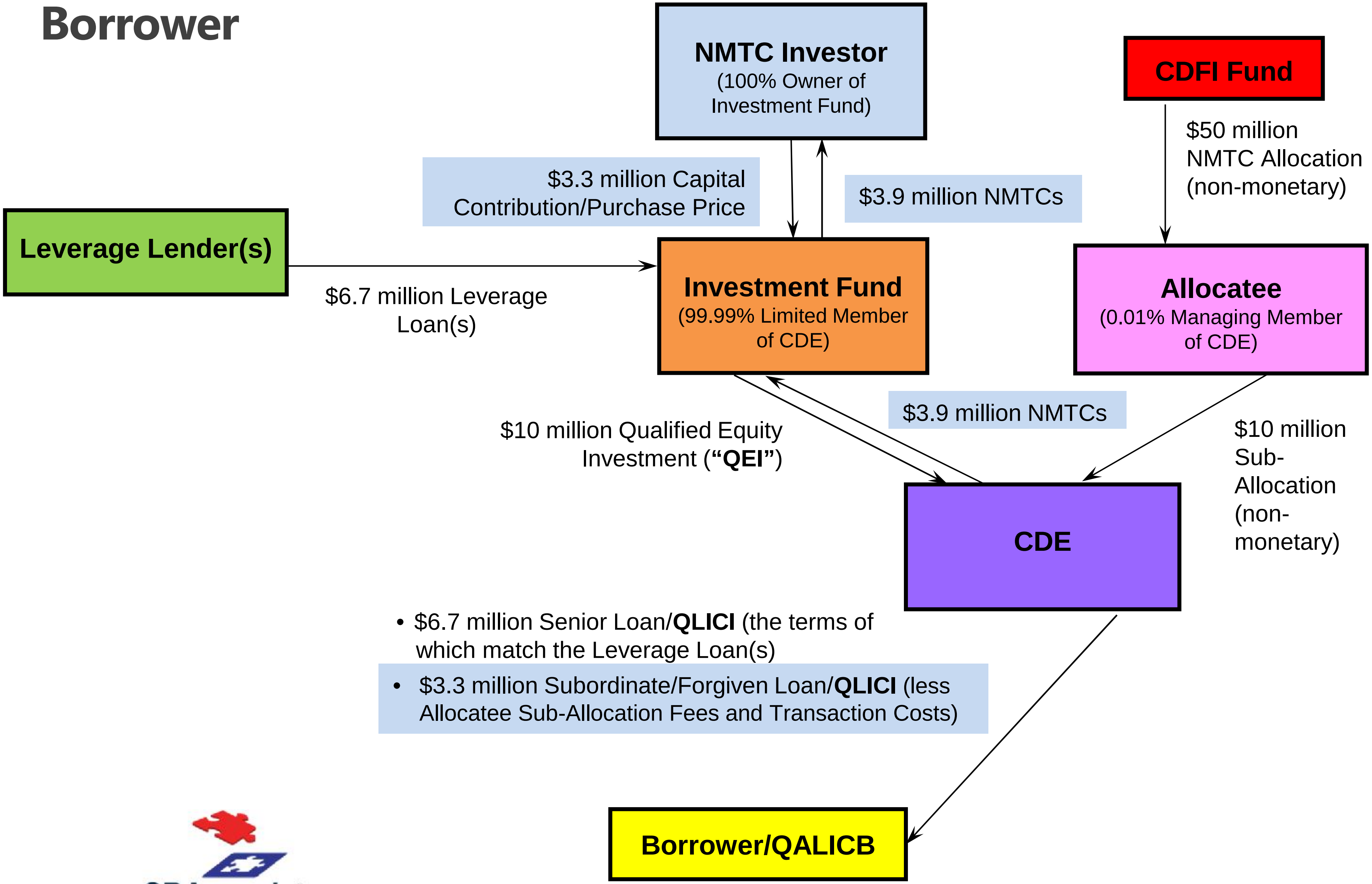
Steps in NMTC Financing: Non-Forgiven Loans and Multiple Borrowers

- Each of the steps relating to the NMTC financing in connection with the Forgiven Loan apply to those for the Non-Forgiven 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-Forgiven Loan in the amount between $500,000 and $5 million.

IRS Approved Leverage Structure: Forgiven Loan to a Single Borrower



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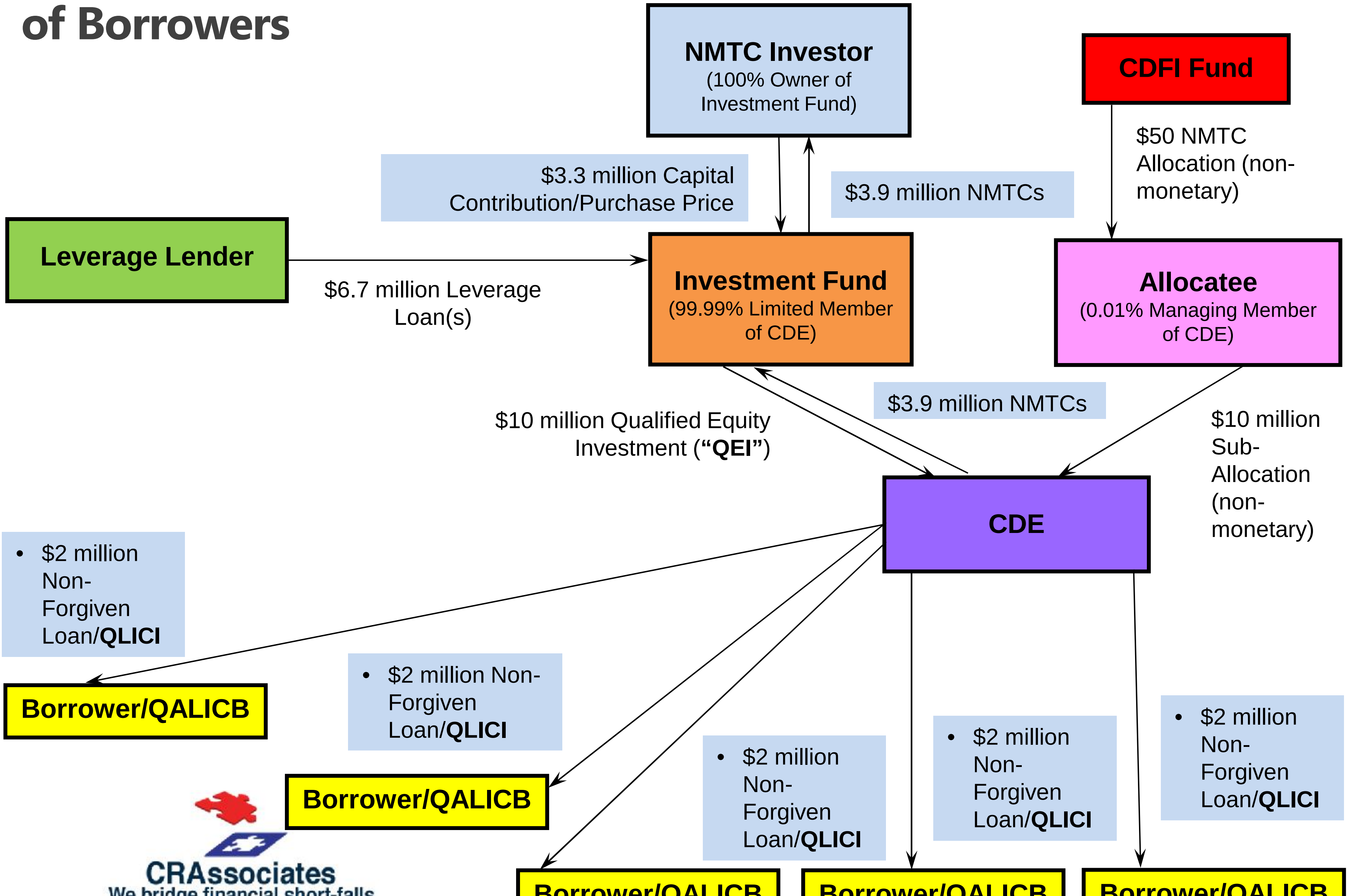
IRS Approved Leverage Structure: Non-Forgiven Loans to a Pool of Borrowers



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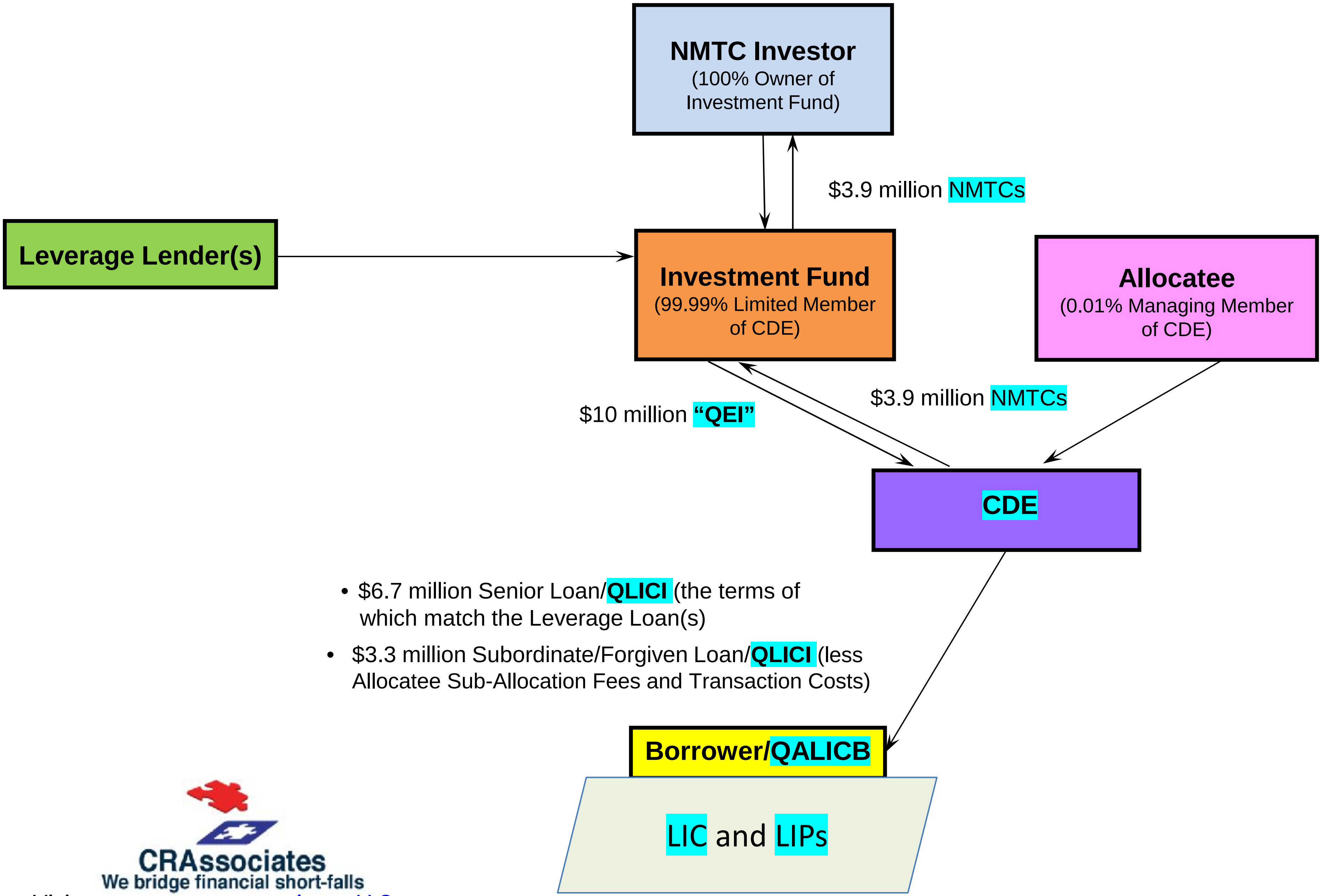
Acronyms

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 Loan and the Forgiven Loan), or (b) the Non-Forgiven Loans, as applicable)
- to a "qualified active 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"**).

IRS Approved Leverage Structure: $10 Million Example



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Leveraging Sources Required to Facilitate the NMTC Program Subsidy

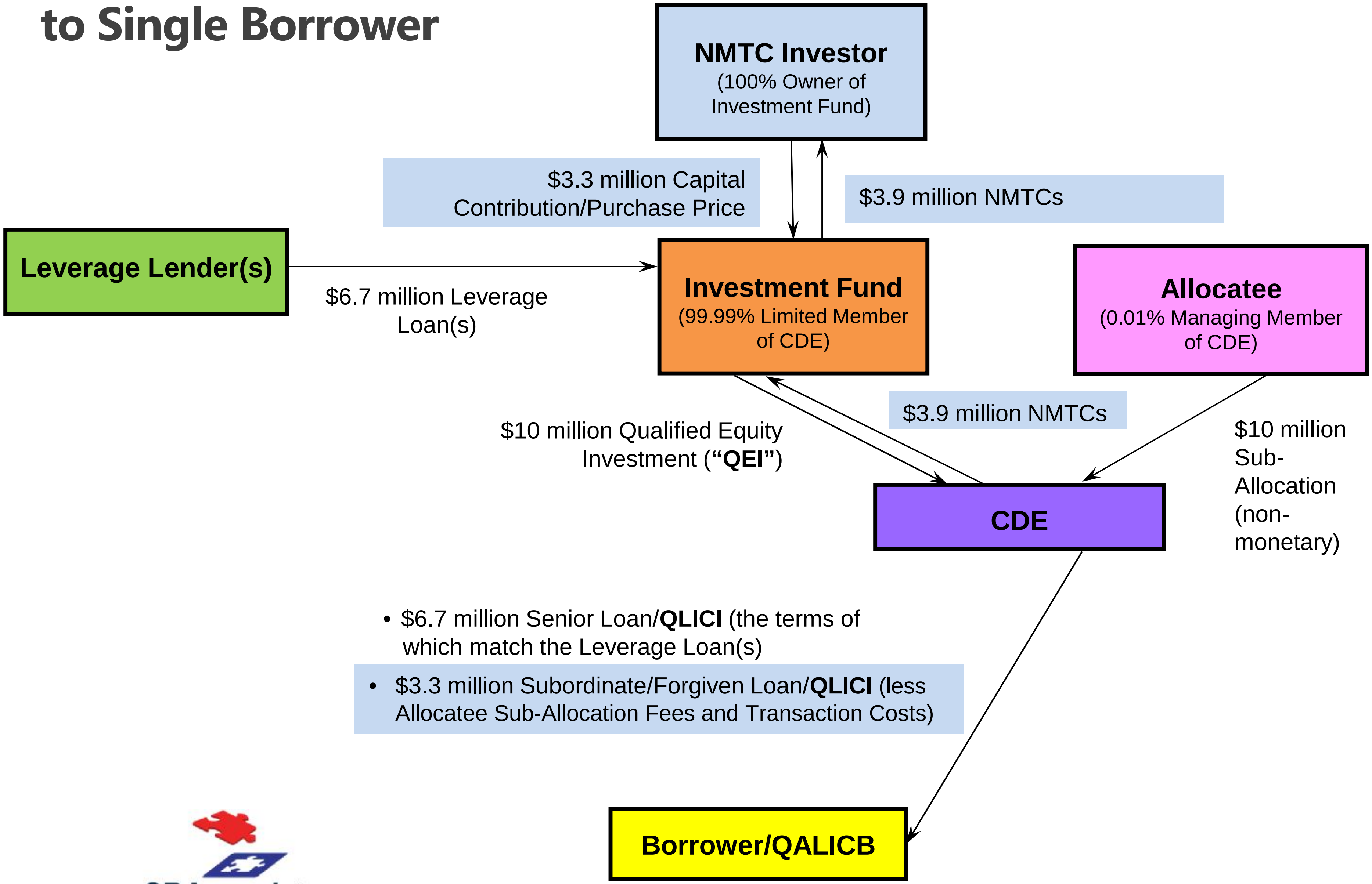
Generally, with respect to a NMTC financing involving the Forgiven Loan, identifying and securing Leverage Lender(s) to provide a sufficient amount of the Leverage Loan(s) is the most challenging.

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 (the **"99.99% CDE Interest"**);
- 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 from foreclosing on and obtain the 99.99% CDE Interest.

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

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



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2-Year Prior Expenditure Rule: Deemed Leverage Loan

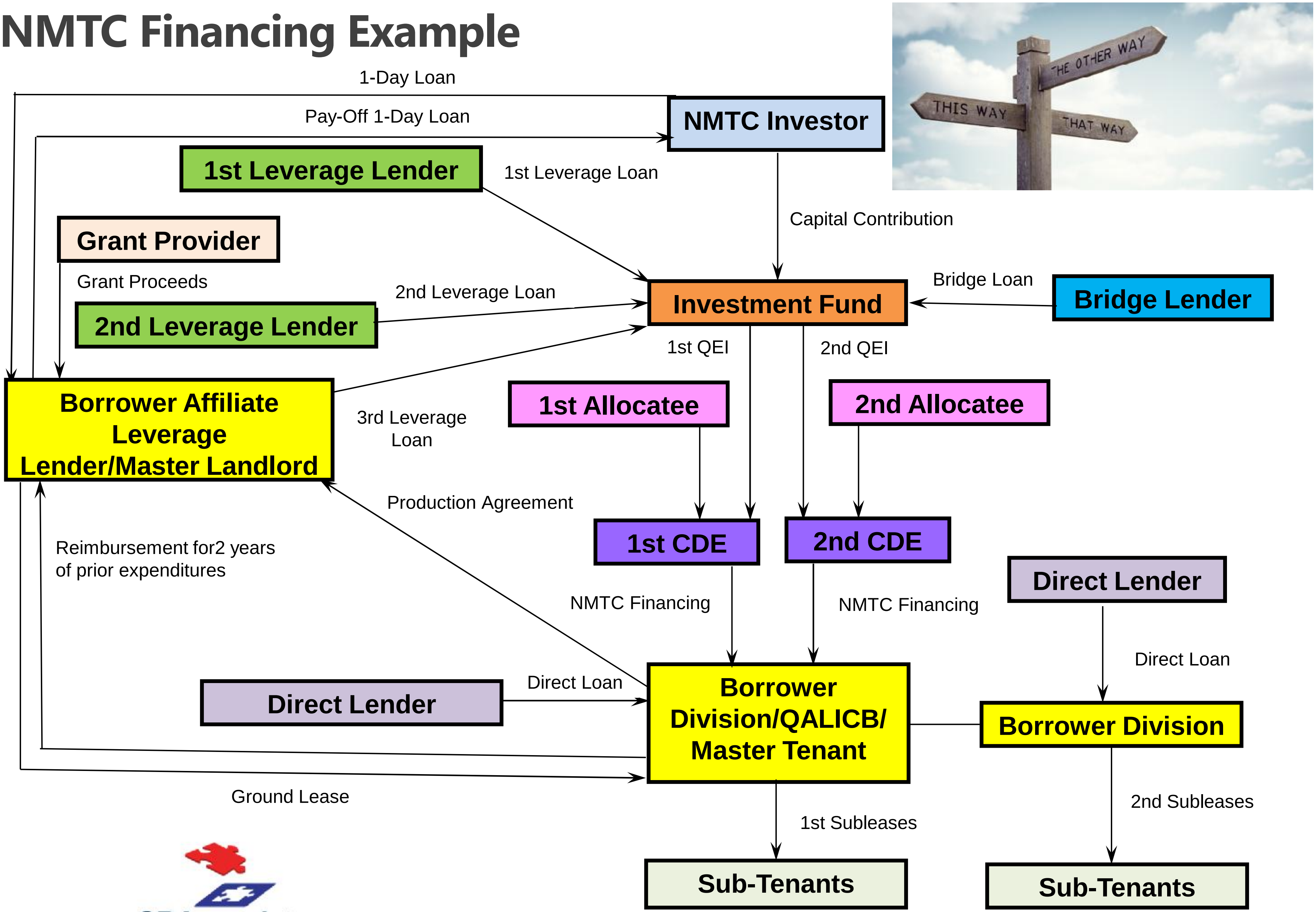
- Borrowers are permitted to use up to 2 years of prior expenditures as a "deemed" Leverage Loan if such expenditures:
  - directly apply to what is being NMTC financed, and
  - are "primarily" (*i.e.*, more than 50%) capitalized (*i.e.*, depreciable).

- **Example 1:** A borrower has incurred \$5 million of capitalized expenditures and \$2 million of noncapitalized expenditures 2 years prior to the funding of the NMTC financing.
  - The borrower may use the entire \$7 million of its prior expenditures because \$5 million is 71% of the total \$7 million of its prior expenditures.

- **Example 2:** A borrower has incurred \$2 million of capitalized expenditures and \$5 million of noncapitalized expenditures 2 years prior to the funding of the NMTC financing.
  - The borrower may use \$3.9 million of its \$7 million of prior expenditures because the \$2 million of capitalized expenditures is 51% of the \$3.9 million of its prior expenditures (*i.e.*, \$2 million divided by 51% equals \$3.9 million).

<u>Note</u>: It is possible and permitted that 100% of the Leverage Loan can be a "deemed" Leverage Loan.

NMTC Financing Example



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

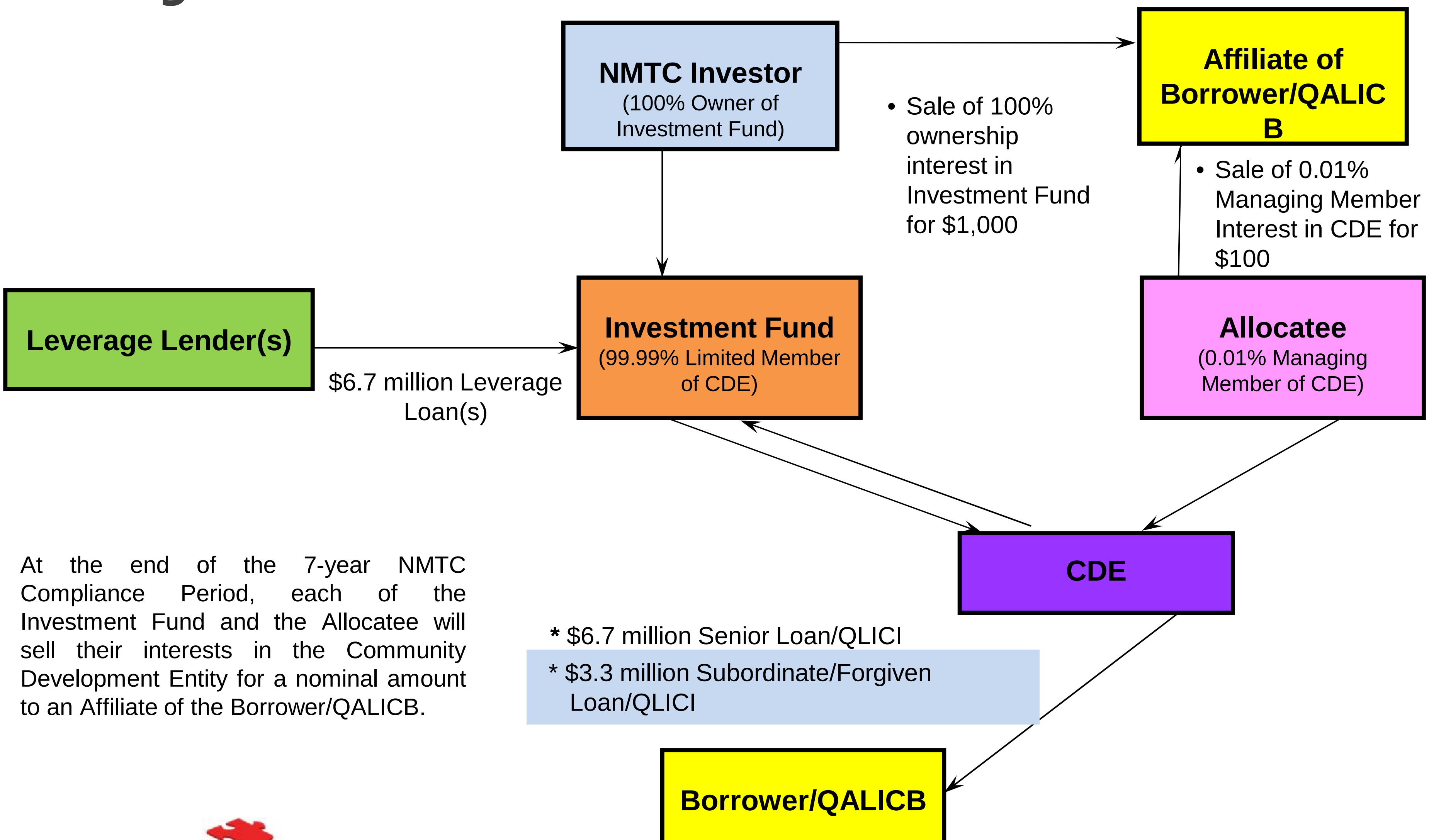
With respect to the Forgiven Loan to a single borrower, at the end of the 7-year NMTC compliance period, the NMTC financing unwinds as follows:

- 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 Forgiven Loan/QLICI becomes an intercompany loan (*i.e.*, effectively forgiven); and
- the Senior 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: Forgiven 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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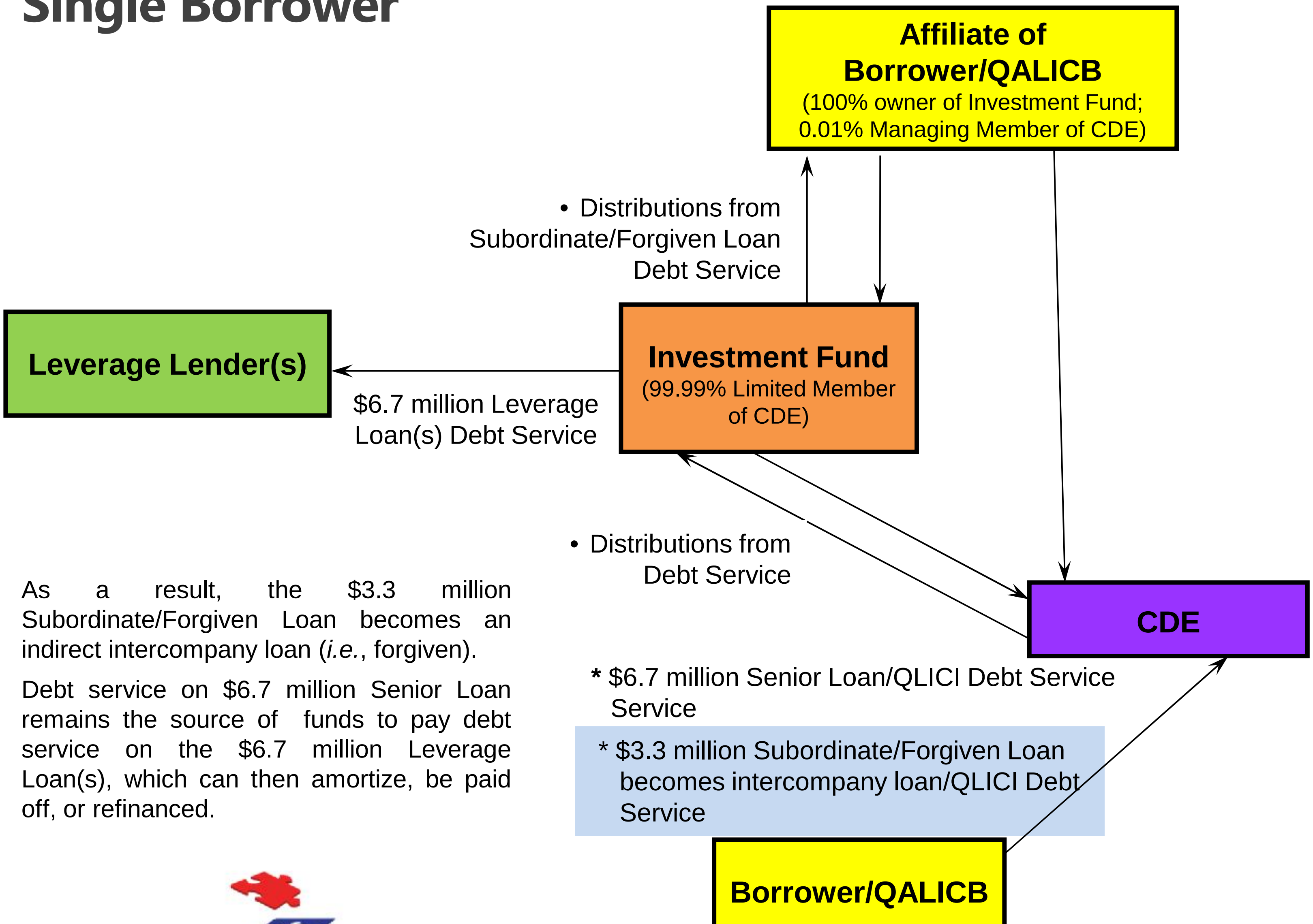
Unwind after 7-Year NMTC Compliance Period: Forgiven Loan to Single Borrower



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: Non-Forgiven Loans to Pool of Borrowers

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

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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 contingent 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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- 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.

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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