

New Markets Tax Credit Facts

Qualified Active Low-Income Community Business/Borrower

- Geographic Restrictions: Must be located in a severely distressed census tract (based on census data).
- >50% of gross income is derived from business in low-income community.
- >40% of tangible property is located in low-income community.
- >40% of services are performed by employees in low-income community.
- <5% of property is collectibles not held primarily for sale.
- <5% of property is “non-qualified financial property”



Why does the NMTC Program Work?

- It uses knowledge and expertise of Community Development Entities (CDE) with the tax credit incentive to make investors comfortable with investing in Low-Income Communities.
- CDEs use substantially all of their allocation to make investments in a Qualified Low-Income Community Business.
- Incentivizes taxpayer investor to provide capital into areas they wouldn't normally invest. The tax credit is a dollar for dollar reduction in their tax liability.
- Offers more favorable terms than the market typically offers. For example: 7 year interest only payments, lower interest rates (usually 50% below market), subordinated debt, lower origination fees, higher loan-to-values, lower debt service coverage ratios and longer maturities..
- At the end of 7 year compliance period, residual value is typically left with the borrower (estimated at 20%).

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.

CDEs must use...

Sub All of the proceeds from...

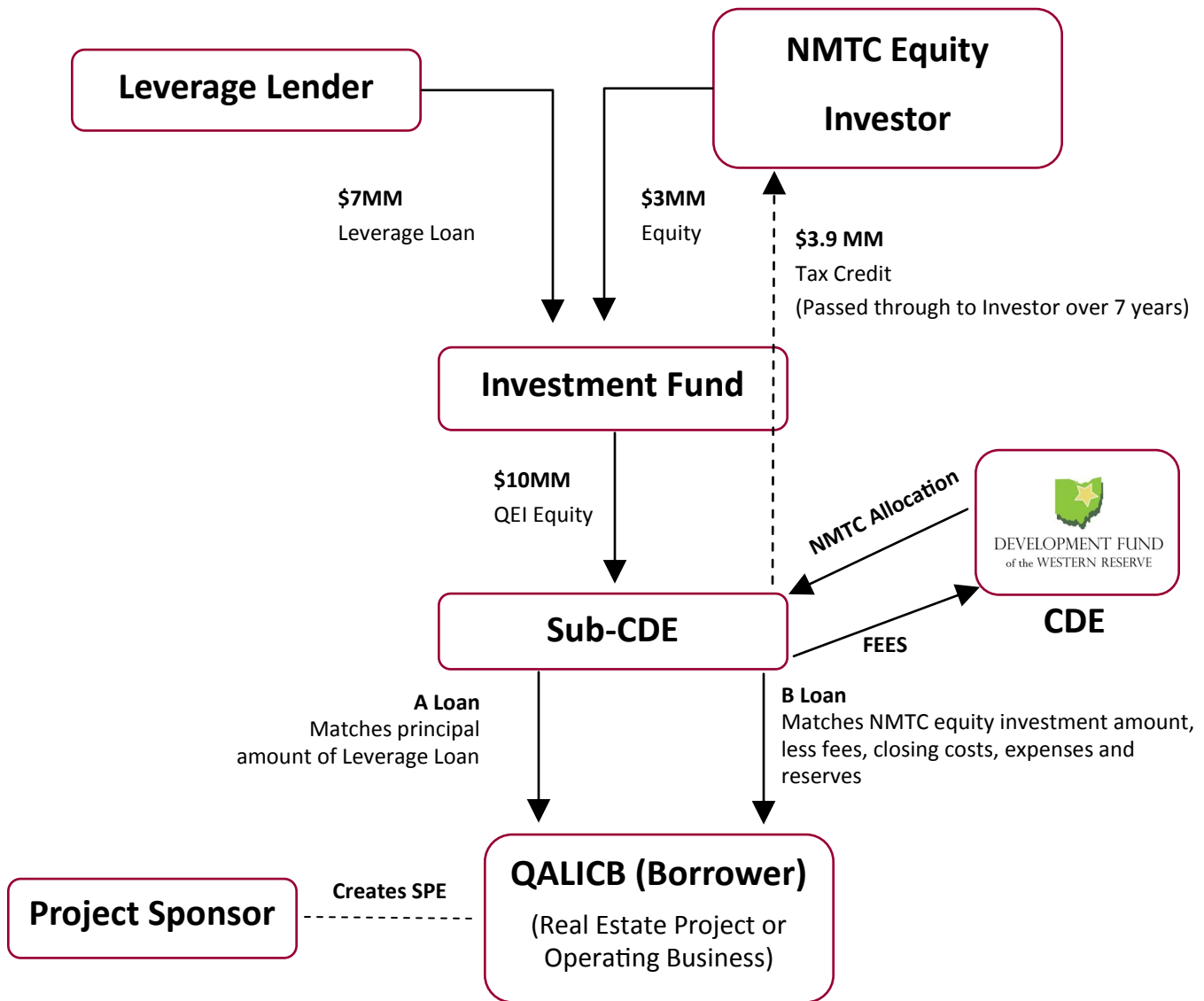
QEIs to make...

QLICs in...

QALICBs located in...

LICs.

SAMPLE NMTC LEVERAGE STRUCTURE



* At the end of 7 year compliance period, residual value is typically left with the borrower (estimated at 20% ; Roughly matches the B Loan).

NMTC Equity Investor: Purchases tax credits from CDE allocates. Borrower receives “equity-like” financing benefits from investor’s equity.

Community Development Entity (CDE) Allocatee: Receive NMTC allocation or authority from Treasury. Sell tax credits to the equity investor, and make QLICs (loans) to borrower.

Leverage Lender: Provides leverage into NMTC structure. Leverage loan sources include traditional providers like bank, capital campaign funds, or monies from grant programs.

Qualified Active Low-Income Community Business (QALICB): Typically a single purpose entity (SPE) created to act as the borrower for the NMTC funding as a Qualified Active Low-Income Community Business, per Treasury regulation.

Project Sponsor: The parent entity of the QALICB.