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Introduction to New Markets Tax Credit Program

Presentation to Minority Depository Institutions Advisory Council
Office of the Comptroller of Currency

April 16, 2024



LEVERAGING CAPITAL FOR CHANGE

History and Background

- ▶ Created in 2000 in the Community Renewal Tax Relief Act
- ▶ Goals are:
 - ▶ To incentivize private investment in Low-Income Communities (LICs);
 - ▶ Provide access to capital by businesses/developers and generates community outcomes in LICs
- ▶ Competitive NMTC Application process results in quality community outcomes

First NMTC Application Round
launched in 2000



19 allocation rounds
1563 awards
Total: \$72 billion allocations
Financed: \$135 billion of projects

Cumulative Impact – Since Inception*

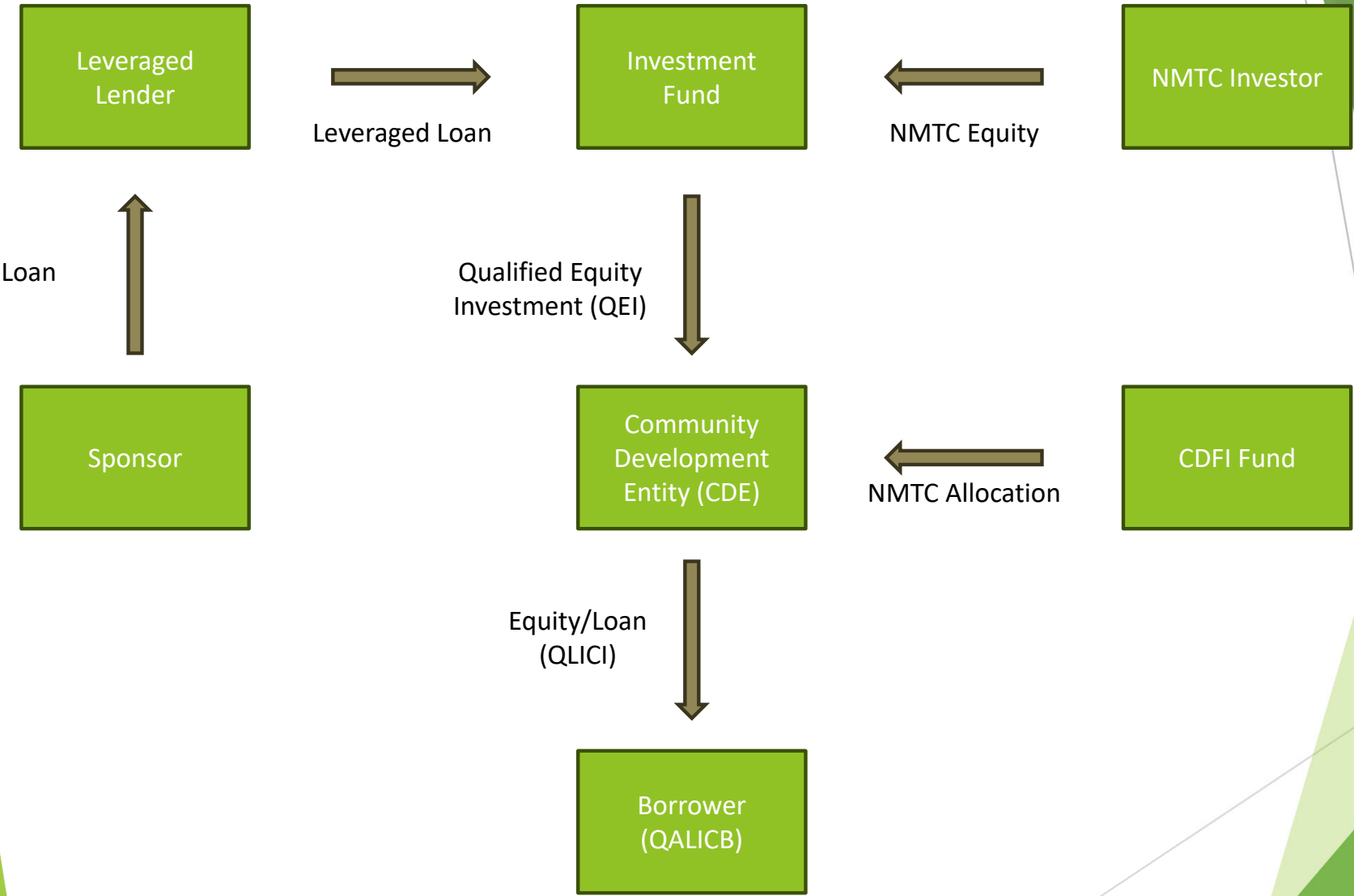
- ▶ Total NMTC Deployed: \$72 billion
- ▶ Total Projects Funded: \$135 billion
- ▶ # of Projects Financed: 8500
- ▶ Areas of Severe Distress: 80% of projects located there
- ▶ Rural: Over 30% of funding in rural areas
- ▶ Manufacturing: Jump started 2000 manufacturing businesses
- ▶ Jobs: Over 1.2 million jobs created

* Source: NMTC Coalition

Key Participants

- ▶ Government
 - ▶ CDFI Fund (US Treasury): Administers the program, runs annual competition for allocations
 - ▶ Internal Revenue Service: Regulates use of credits per Section 45D of the IRC
- ▶ Investor: gets attractive after tax yield on investments
- ▶ Lender: provides leverage to the tax credit provided by investors
- ▶ Community Development Entity (CDE): competes to obtain NMTC credits from the CDFI Fund
- ▶ Qualified Active Low-Income Community Businesses (QALICB)
- ▶ Low-Income Community (LIC) Representatives

Simplified Transaction Structure



Tax Credits translate to Cash Subsidy

Allocation Amount	\$10,000,000	
FV of Tax Credits	\$ 3,900,000	
PV of Tax Credits	\$ 2,866,112	28.7%
Year	Tax Credits	FV
0		
1	5%	\$ 500,000
2	5%	\$ 500,000
3	5%	\$ 500,000
4	6%	\$ 600,000
5	6%	\$ 600,000
6	6%	\$ 600,000
7	6%	\$ 600,000

NMTC subsidy is very valuable to borrower, bank and LIC

\$10 million allocation can generate \$2.8 million of cash investment by NMTC Investor; after fees and costs, the project is subsidized by 20-22% of project amount. As a result the borrower has to raise less loans strengthening their operations, increasing their creditworthiness, and increasing impact in LIC.



How can MDIs participate
in the NMTC Program?

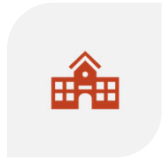
Ways to Participate in NMTC Program

- ▶ Grow Existing Businesses
 - ▶ Retain/win new customers - increase competitiveness due to 20-30% NMTC subsidy;
 - ▶ Book high quality loans;
 - ▶ Generate interest and fee income.
- ▶ Build New Business Lines
 - ▶ Compete to Become an NMTC Allocatee for additional fee income;
 - ▶ Become an NMTC investor to manage tax liability.
- ▶ Create Impact in Underserved Communities
- ▶ Receive CRA consideration

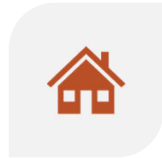
Application across Project Types



HOSPITALS &
FEDERALLY
QUALIFIED
HEALTH CLINICS.



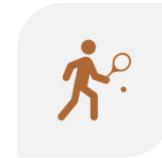
SCHOOLS



MIXED USE &
AFFORDABLE
HOUSING



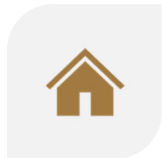
COMMERCIAL
REAL ESTATE
(RETAIL STRIP
MALLS)



SPORT
FACILITIES/
FITNESS
RECREATIONAL
FACILITIES



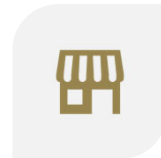
FOOD
PROCESSING



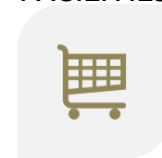
FOR SALE
HOUSING



COMMUNITY
CENTER
FACILITIES



NEIGHBORHOOD
MINI-MARKET



LOCAL FULL-
SERVICE
GROCERY

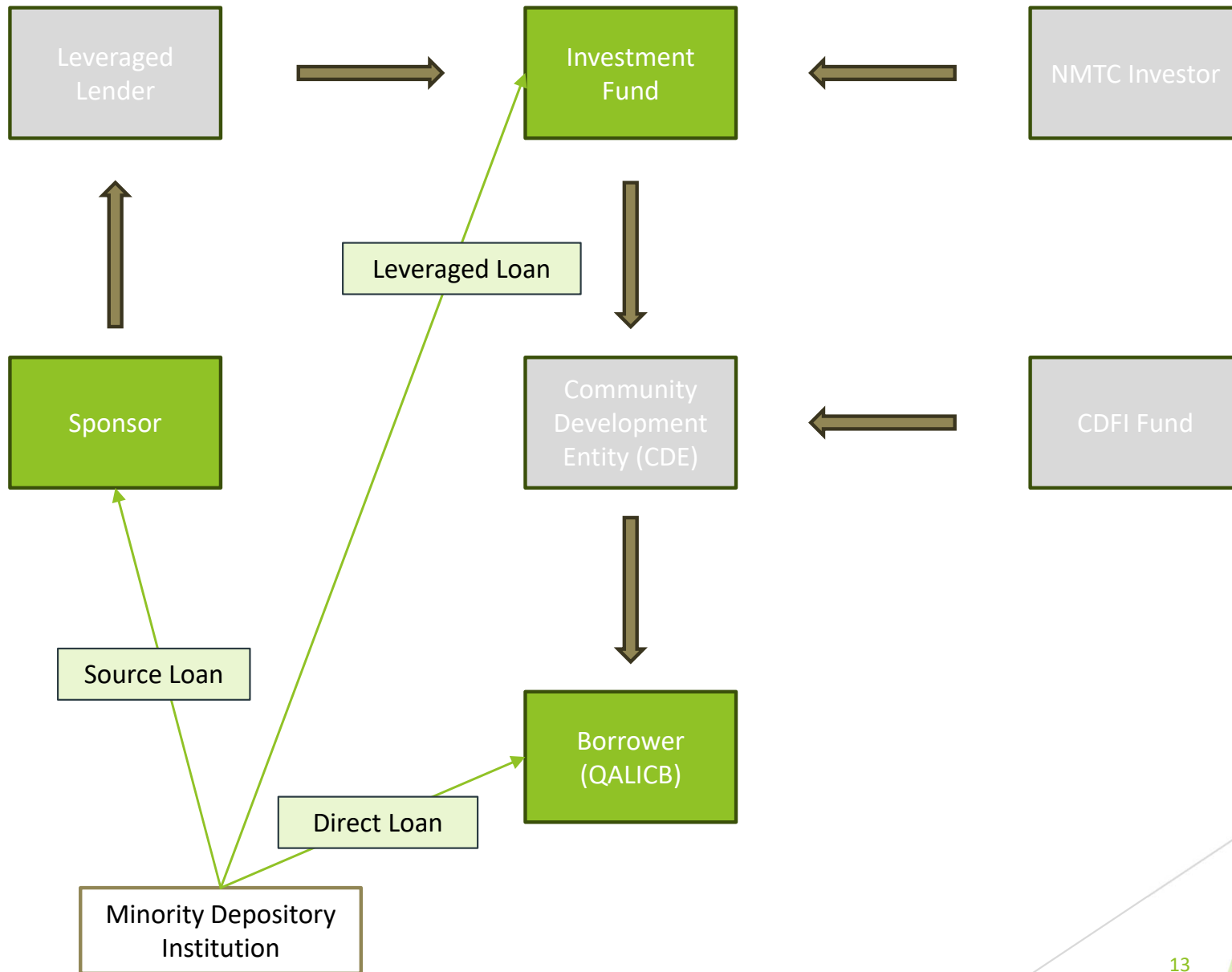
Prohibited Businesses

- ▶ Golf courses
- ▶ Massage parlors
- ▶ Race tracks
- ▶ Hot tub facilities
- ▶ Casinos and gambling facilities
- ▶ Suntan facilities
- ▶ Farming
- ▶ Country clubs
- ▶ Principal business is the sale of alcoholic beverages

Examples of Projects

Project Type	Deal Descriptions
Hospitals, FQHCs	An urgent care facility in the Alabama catering to the communities of the nearby counties. This urgent care facility includes exam rooms, a procedure room, diagnostic imaging, pharmacy services, lab services and wellness screening programs.
Sports Recreation Center	A nonprofit organization focused on CPS schools in the South Side of Chicago sought to build a tennis facility where they can train low-income, high performing kids to learn competitive tennis to earn scholarships from universities – a transformative impact
Adaptive Reuse of Closed Facility	A feed mill located in a severely distressed locality of Madison, Wisconsin was adapted to create a center for offices, restaurants, businesses and other sources of employment. Close to a 200 new affordable housing units facility.
For-Sale Housing	Constructed 8 three-story townhomes, each comprised of two 3-bedroom and 2-bathroom family sized units in a highly distressed neighborhood of Newark, NJ. The project subsidy allowed the homes to be offered at a purchase price below the cost of construction and the market value. This created generational wealth and jobs.
Community Center Facility	A 135,000 Sq ft community center built as a center of recreation space, community gathering, and learning space serving for people of all ages in the south side of Chicago. The site is comprised of three turf fields, one hardwood court, and class room space
Local Full-Service Grocery	A 29,000 Sq ft grocery store located on a 10 acre lot, once home to a car dealership and seafood restaurant. This neighborhood market is catering to the overcrowded market in Northampton, Massachusetts.
Mixed-use Rental Residential/Senior Living/Student Housing	A site acquisition and a group up construction in South Carolina to build a mixed-use building consisting of ground floor retail and 4 stories of student housing. This housing will be provided to students of nearby HBCUs.

Three Loan Options



Risk and Loan Structuring

	Source Loan/Leveraged Loan	Direct Loan to QALICB
Borrower	Sponsor	Special purpose entity owned by Sponsor
Term	Construction: 12-18 months (typical) Permanent – 5-7 years (typical)	
Amortization	Can be amortized	Cannot be amortized
Collateral	Indirect + Direct Collateralized by membership interests in investment fund that owns the CDE that has RE collateral in QALICB Outside collateral also possible	Direct collateral in SPE assets
DSCR	Typical	
Guarantors	Typical	
Forbearance	Typically loans cannot be accelerated during compliance period of 7 years; other assets can be used to repay debt	
Combination with government guarantees	Possible although some structuring needed	

Flexible Impact Metrics

- ▶ Location of the Project – must be in an investment area –
<https://www.policymap.com/newmaps#/widget/117/4D2AFE10710D41918F180775F0A353F2>
 - ▶ Poverty Rate, Area Median Income, Unemployment rate
 - ▶ Rural or Urban
- ▶ Targeted Populations
 - ▶ Jobs created or retained
 - ▶ Quality jobs, accessible jobs, minority jobs
 - ▶ Commercial goods or services
 - ▶ Community facilities – hospitals, schools, community centers,
 - ▶ Grocery stores, food distribution centers
 - ▶ Community goods or services
 - ▶ Housing units – rental or for-sale, affordability set-aside
 - ▶ Flexible lease rates for nonprofits or businesses
 - ▶ Environmentally sustainable outcomes
 - ▶ Other

Compliance and Reporting

▶ Front-End

- ▶ Compliance Underwriting – CDFI Fund and IRS rules
- ▶ Reasonable Expectations Test

▶ Ongoing

- ▶ Substantially All Test – 85% or more of the QLICI is continuously invested in LICs
- ▶ Operating Income Test – Distribution to the Investment Fund by the CDE is no more than the earned Operating Income

▶ Reporting

- ▶ CDFI Fund: at inception and ongoing via Award Management Information Services
- ▶ IRS: at inception to report investment of QEI

Return to NMTC Investor

XXXXXXXXX, LLC												
SUPPLEMENTAL SCHEDULE OF FORECASTED NMTC INVESTOR 7 YEAR RATE OF RETURN FOR THE PERIOD BEGINNING JANUARY 23, 2024 AND ENDING JANUARY 23, 2031												
Date	NMTC Capital Contributions	Put Proceeds	New Markets Tax Credits	Annual Return	Cumulative Return	Income/ (Loss)	Tax Savings / Cost from Income / Loss	Total Tax Benefits / (Costs)	Cumulative Net Benefits/(Costs)	Ending Capital Account		
2024	2,843,100	-	450,000	15%	15%	47,679	(11,777)	438,223	(2,404,877)	2,440,779		
2025	-	-	450,000	15%	31%	50,782	(12,543)	437,457	(1,967,420)	2,041,561		
2026	-	-	450,000	15%	46%	50,782	(12,543)	437,457	(1,529,963)	1,642,343		
2027	-	-	540,000	19%	65%	50,782	(12,543)	527,457	(1,002,506)	1,153,126		
2028	-	-	540,000	19%	83%	50,782	(12,543)	527,457	(475,050)	663,908		
2029	-	-	540,000	19%	102%	50,782	(12,543)	527,457	52,407	174,690		
2030	-	-	540,000	19%	120%	50,782	(12,543)	527,457	579,864	(314,527)		
2031	-	-	-	0%	120%	1,920	(474)	(474)	579,390	(312,608)		
2031	On Jan. 23	367	-	0%	118%	312,975	(77,305)	(77,305)	502,452	-		
						<u>\$ 2,843,100</u>	<u>\$ 367</u>	<u>\$ 3,510,000</u>		<u>\$667,267</u>	<u>\$ (164,815)</u>	<u>\$ 3,345,185</u>
Annual NMTC Only Internal Rate of Return									<u>5.22%</u>			
Annual After Tax Internal Rate of Return									<u>5.11%</u>			
Pre-Tax Annual Internal Rate of Return Equivalent									<u>6.78%</u>			

Assumptions:

- (1) Annual and cumulative returns are calculated (tax credits and income (loss)) using capital contributions, cash distributions, and tax credits.
- (2) Assumes combined effective federal and state income tax rate of 24.70%.
- (3) Assumes gain at disposition is taxed at the federal tax rate of 24.70%.
- (4) Cumulative net benefits/(costs) are tax savings/(costs) plus cash distributions less cash contributions.

NCIF At Glance

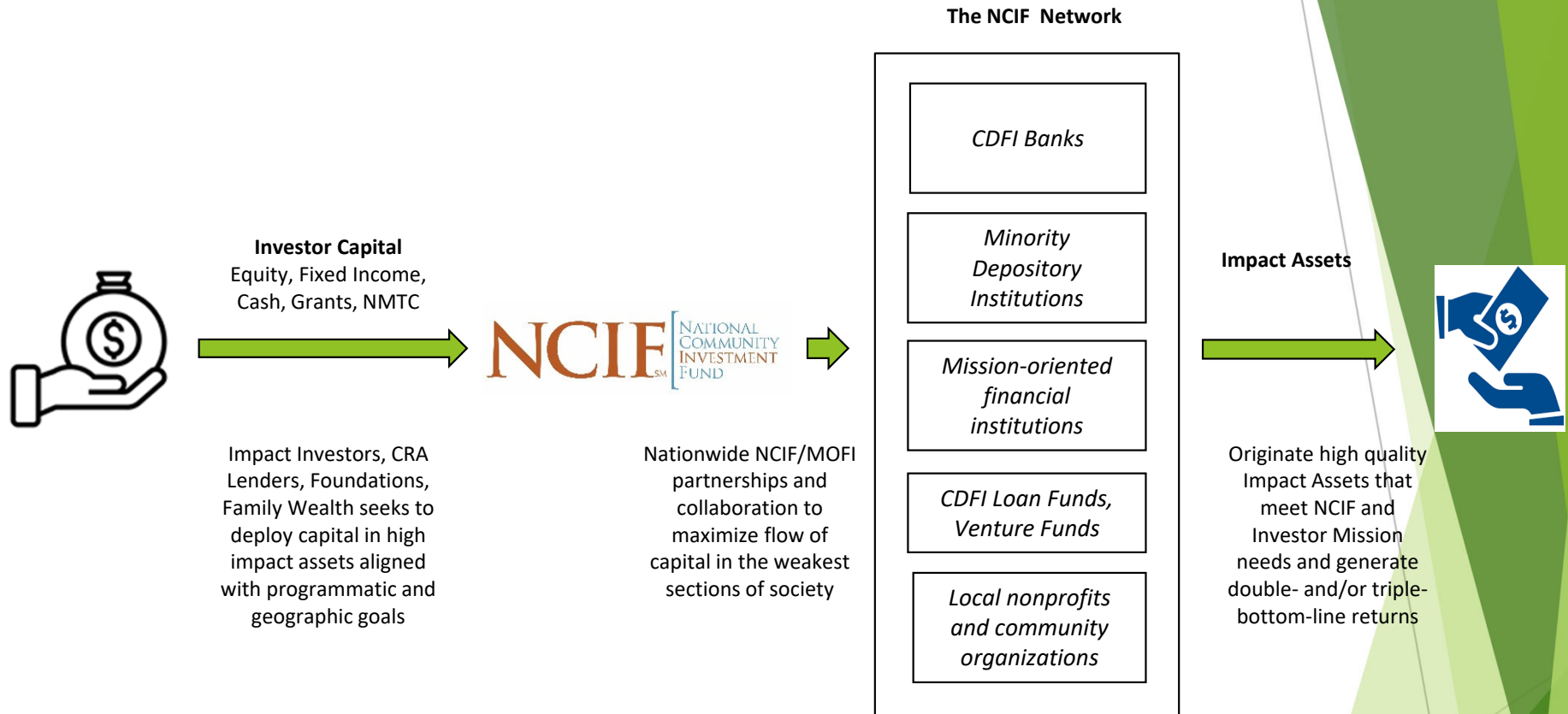
Overview

- Founded in 1996 and a national CDFI with 25+ years of investing and lending experience; part of ShoreBank family;
- Deployed over \$420 million in capital in underserved areas in 33 states;
- Largest investor in CDFI bank sector with investments in 31 mission-oriented banks and 1 Fintech company
- Received \$400 million in NMTC; catalyzed over \$1.5 billion in projects
- 7%+ annual book return in equity portfolio since inception with a loss rate of less than 1%
- Job creation – 16,054 direct and > 100,000 indirect jobs

NCIF Unique Competitive Advantages

- *Superior Origination Platform*: National presence via NCIF Network of 45+ mission oriented financial institutions, lenders, investors and consultants;
- *Complementary Capital Solutions*: Investment, lending, NMTC, and grant products provide ability to meet community needs while being responsive to investor goals;
- *Diversified Portfolio*: a low-risk portfolio with geographic and industry diversification for investors and lenders;
- *Strong Financial Condition* with minimal leverage and consistent profitability and substantial NCIF equity in CSF.

A Unique Impact Investing Platform



The NCIF Network originates high quality impact assets that generate impact and are aligned with investment goals of investors

Discussion