

New Markets Tax Credits Facts



DEVELOPMENT FUND
of the WESTERN RESERVE

Qualified Active Low-Income Community Business

Geographic Location

Must be in a severely distressed census tract (based on census data)

>50% of Gross Income

Derived from business activity in a low-income community

>40% of Tangible Property

Located in a low-income community

>40% of Services

Performed by employees within a low-income community

<5% Collectibles

Property cannot be collectibles not held primarily for sale

<5% Non-qualified Financial Property

Portfolio holdings must stay below this threshold

Why the NMTC Program Works

Dollar-for-dollar tax reduction

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.

Residual value at exit

At the end of 7 year compliance period, residual value is typically left with the borrower (estimated at 20%).

Allocation is Invested in QALICB

CDEs use substantially all of their allocation to make investments in a Qualified Low-Income Community Business.

CDE expertise + tax credit

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.

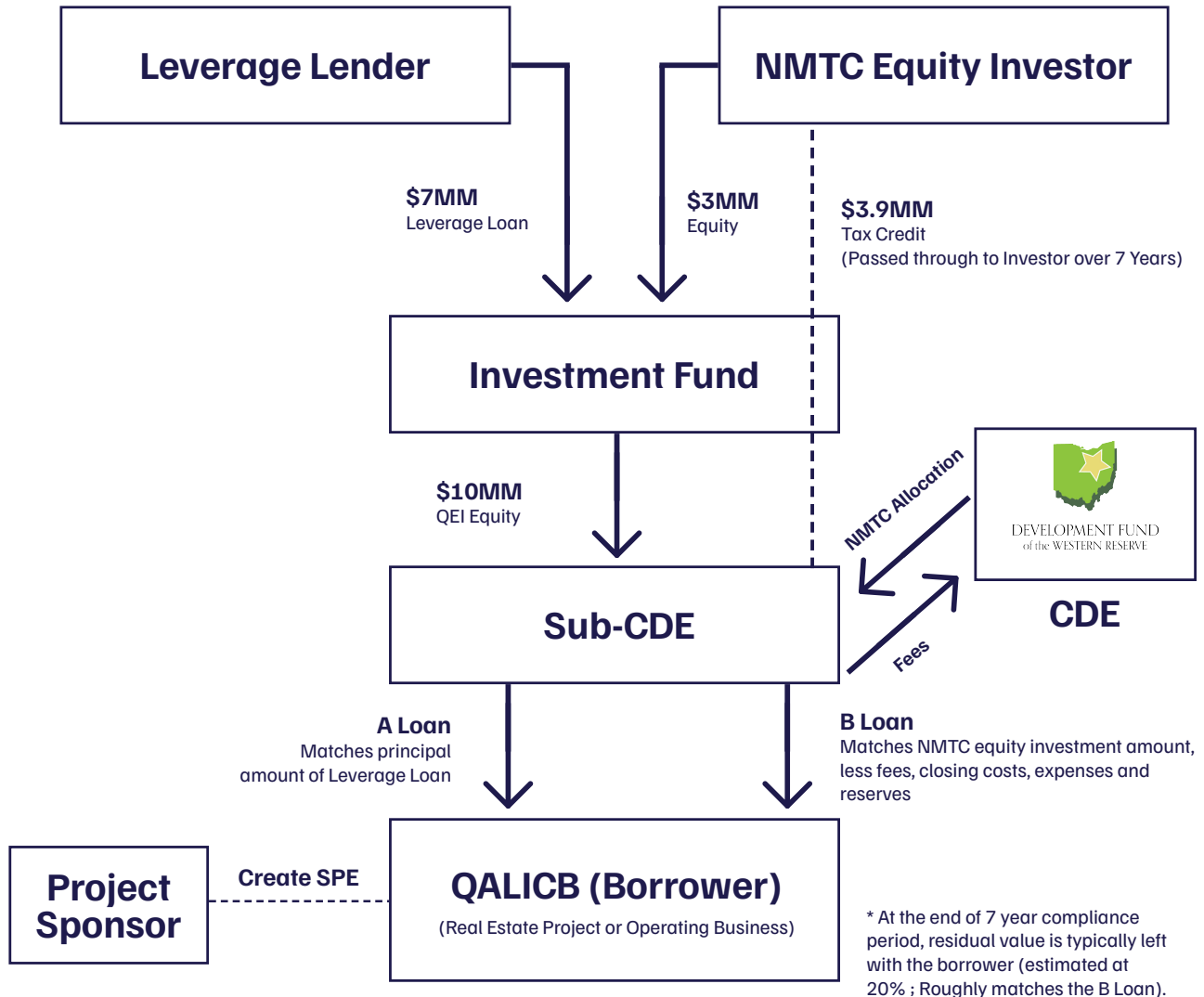
Below-Market Loan Terms

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

Community Development Entities (CDEs) must use Substantially All (Sub All) of the proceeds from Qualified Equity Investments (QEIs) to make Qualified Low-Income Community Investments (QLICIs) in Qualified Active Low-Income Community Businesses (QALICBs) located in Low-Income Communities (LICs).



Sample NMTC Leverage Structure Based on a \$10MM Allocation



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.