



The purpose of the New Markets Tax Credits (NMTC) program is clear: To stimulate new investment in low-income communities that would not otherwise occur.



The New Markets Tax Credit (NMTC) Program is a federal subsidy program designed to incentivize investment into low income communities, providing approximately 20% of a project cost in flexible funding that typically converts to equity. NMTC investors make investments in companies known as Community Development Entities (CDEs) that in turn invest in—or make loans to—businesses in low-income communities. The intent of the program is to spur positive economic revitalization in these areas.

NMTCs create benefits to tax credit investors, businesses that need capital, and state and local government and economic development authorities.

**NMTC benefits to borrowers:**

- Potential new or additional source of capital for qualified borrowers
- Because of the substantial benefits realized by the tax credit investors, the NMTC program can:

- Provide capital where previously unavailable;
- Result in availability of capital at substantially lower cost, and;
- Result in conversion of up to 20% of project debt to borrower equity

**NMTC benefits to investors:**

- NMTC essentially guarantees return of investment plus a return on the investment regardless of borrower performance
- Investors can further increase investment return and project subsidies with additional tax credits (e.g., historic and renewable tax credits)

**NMTC benefits to States, Municipalities and/orEDAs:**

- Opportunity to combine public funding with tax credits to induce development
- Potential additional sources of revenue to agency as a CDE

**TYPICAL NMTC TRANSACTION**

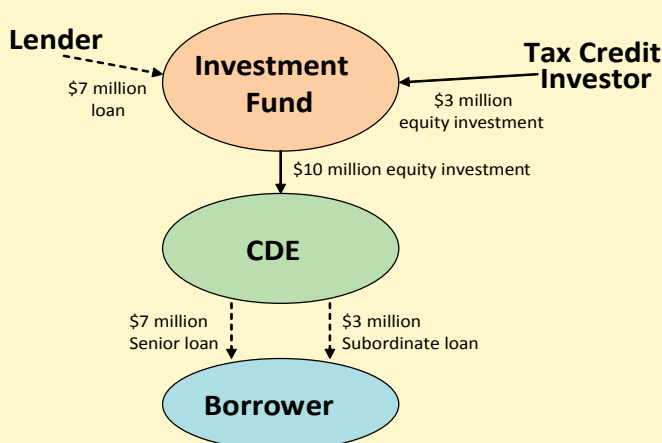
- Investor forms a new investment company and invests \$3,000,000 in the investment company
- Investment Company borrows \$7,000,000 at 7%
- Investment Company makes a \$10 million equity investment in a CDE
- CDE makes two loans to Borrower as follows:

Senior Loan	\$7M	Interest only for 7 years at 7%
Subordinate Loan	\$3M	Interest only for 7 years at a very low interest rate (e.g., 1%)

**Exit Strategy:**

- Generally, at the end of the 7 year credit period, the Senior Loan is repaid and the Subordinate Loan is effectively forgiven.
- In other words, the Borrower obtains a loan for \$10 million but ultimately is only required to repay \$7 million

**TRANSACTION STRUCTURE**



Tax Credit Received over 7 years is equal to 39% of investment.

Year 1	5%
Year 2	5%
Year 3	5%
Year 4	6%
Year 5	6%
Year 6	6%
Year 7	6%

# NEW MARKETS TAX CREDITS



BENEFIT TO INVESTOR	
\$3,900,000	Total tax credit
(\$3,000,000)	Investment
\$900,000	Total return over 7 year period (approx. 10% IRR)

## ELIGIBLE NMTC ACTIVITIES

- Investments:
  - Loans or investments to businesses located in low-income census tracts
  - Development of commercial, industrial and retail real estate projects (including community facilities) in low-income census tracts
  - Development of for-sale housing in low-income census tracts
- Financial Counseling & Other Services:
  - Advice provided by the CDE relating to the organization or operation of a trade or business.
  - Possible activities may include business plan development, assistance with business financials, operating assistance to non-profit organizations

BENEFIT TO BORROWER	
\$3,000,000	Debt eliminated
\$1,260,000	Interest savings on sub debt (assume 6% lower)
(\$1,200,000)	Tax on cancellation of subordinated debt*
(\$1,150,000)	Additional NMTC Transaction Costs
\$1,910,000	Total Subsidy

\* Calculated at 40% tax rate. The tax from debt cancellation can be deferred and does not apply to tax-exempt entities.

## HOW TO ACCESS NMTCs?

- Attract a CDE that has an allocation:
  - Appropriate for smaller, single projects
- Form a CDE and apply directly:
  - Appropriate for large projects or a pipeline of projects

- Less than 5% of its assets consist of “collectibles” (e.g., antiques, jewelry, wine, etc.);
- Less than 5% of its assets consist of “financial property” (e.g., stocks, bonds, cash other than reasonable working capital);
- 40% of its tangible assets are located in a Low Income Community;
- 40% of employee services are rendered in a Low Income Community.

## WHAT IS A CDE?

CDE is an acronym for “Community Development Entity”. A CDE is a company that has:

- Have a primary mission of serving low-income communities (LICs)
- Maintains accountability to the residents of targeted LICs
- Is certified as such by the federal government
- Received an allocation of new markets tax credits from the federal government

## WHAT IS A LOW INCOME COMMUNITY?

- Census tracts with at least 20% poverty, or
- Census tracts where the median family income is at or below 80% of the area median family income
- Or an organization can be eligible if they are not located in a NMTC eligible Census Tract but serve low income communities or if the majority of their employees live in eligible areas.

## WHAT REQUIREMENTS MUST BE MET BY THE BORROWER TO QUALIFY?

The Borrower Must be a Qualified Active Low-Income Community Business (QALICB)

- A QALICB is a business that meets the following requirements:
  - It is a corporation (for profit or non-profit), or a partnership;
  - It actively conducts any business except residential rental, development, sale or licensing of intangibles, golf course, golf club, massage parlor, hot tub facility, suntan facility, race track, off-sale liquor;



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