

New Markets Tax Credit Program - Basics

Retail Grocery Financing

2011

NCB Capital Impact

- 501(c)(3) Community Development Financial Institution
- Grocery lender since 1984
- \$409 million in NMTC allocations

New Markets Tax Credit: *Overview*

- 39% federal tax credit
- Spur low income investment
- Competitive award process
- Credits awarded to CDEs
- 8 rounds so far; 9th award in early 2012

NMTC Program Eligibility

Borrower Eligibility

- Qualified Active Low-Income Community Businesses (QALICB)
 - Located in low-income communities
 - Business activity in low-income communities
 - The business must meet various tests to be qualified-census tract alone is not enough
 - Targeted populations

Eligible Areas

- Facility is in census tract with:
 - At least 20% poverty rate and/or
 - Median income up to 80% of area or statewide median
- “Highly Distressed” criteria:
 - At least 30% poverty rate and/or
 - Median income up to 60% of area or statewide median and/or
 - Unemployment $> 1.5x$ national average *or*
 - Multiple other criteria (Enterprise Zone, Tribal Area, etc.)

NMTC Transaction Structure

Standard Leverage Model



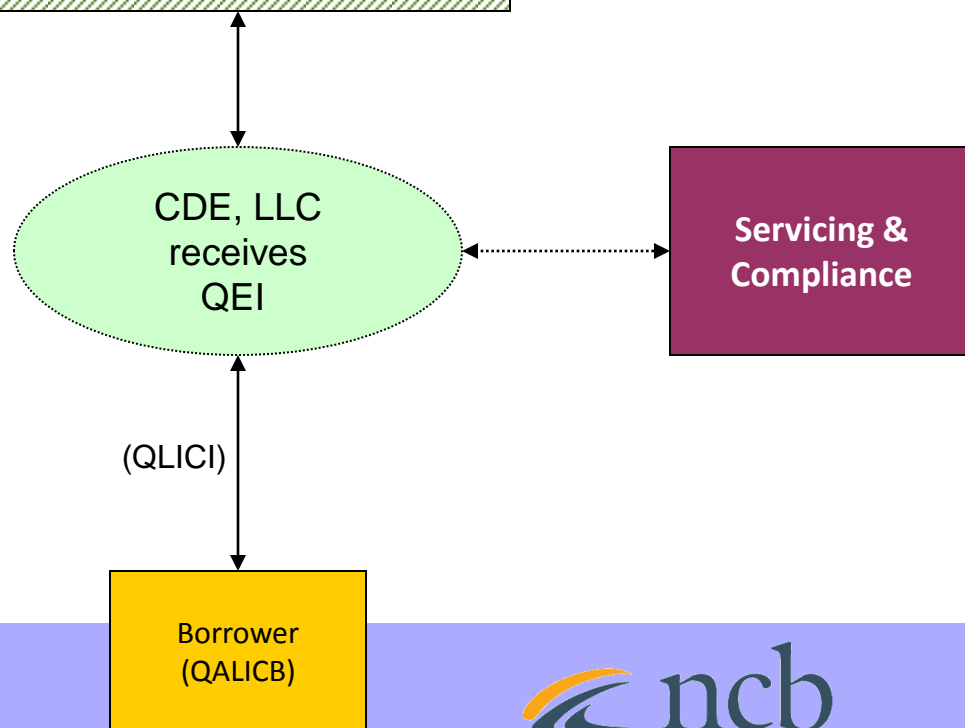
KEY TERMS

Community Development Entity (CDE) – NMTC eligible recipient of QEI

Qualified Equity Investment (QEI) – Funds for investment; determines amount of tax credit.

Qualified Active Low Income Community Business (QALICB) – Operating company & borrower responsible for repayment. Targeted tax credit beneficiary.

Qualified Low Income Community Investment (QLICI) – Takes the form of a loan to QALICB



Transaction Benefits to Borrower

- Favorable interest rate
- Potential for high LTV (90%+)
- Minimizes debt service due to rate and amortization
- Potential for substantial debt forgiveness (20-25%)

Leverage Lender
(\$3,500,000, 7.0%)

Tax Credit Equity Investor
(\$1,400,000)

Investment Fund LLC
(\$4,900,000)

Servicing & Compliance

CDE
(\$4,900,000
QEI)

1% Reserve
(\$49,000)

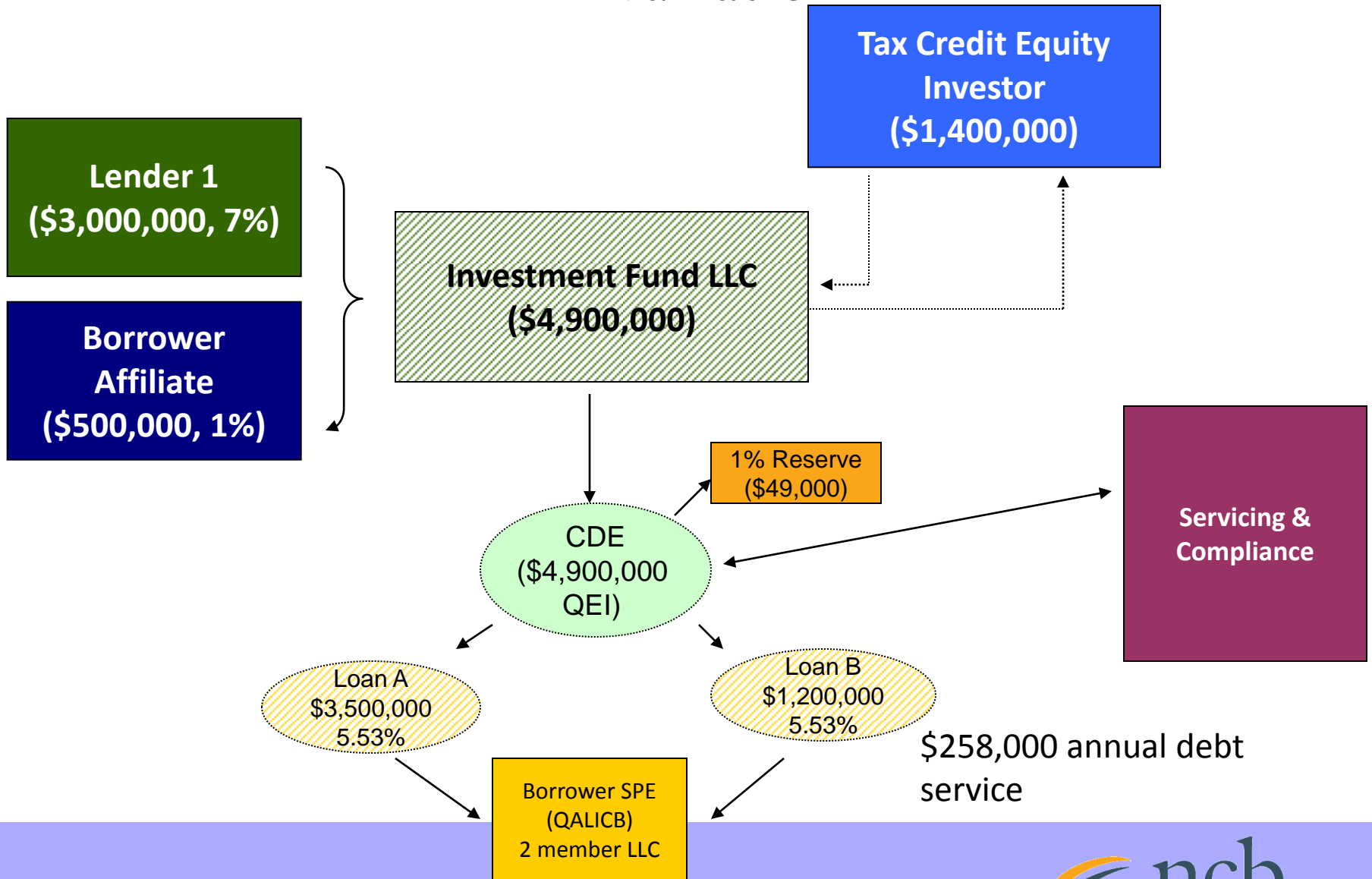
Loan A
\$3,500,000
6.17%

Loan B
\$1,172,000
6.17%

BORROWER
(QALICB)
REAL ESTATE

\$288,000 annual debt service

Variation



Considerations

- Transaction size (>\$5 million)
- B Note tax consequences
- No prepayment
- Balloon refinancing
- Limited supply of NMTCs

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