How a NMTC Deal Differs from a Standard Debt-financed Transaction

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Oak Park Family Health Center

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Similarities

- Will use the same basic agreements: loan, note, deed of trust, etc.
- Will need to provide standard real estate due diligence: appraisal, environmental, survey, proforma, etc.
- Will need to provide standard sponsor due diligence: financials, experience, etc.
- Have similar ongoing reporting requirements.

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Differences: the Negatives

- Take longer to close: ~3 months.
- Not dealing with just lender, but also tax equity investor and leverage lender.
- A lot more agreements required at close.
- High transaction costs and indemnification to tax credit investor required.
- Does not work as well with non-asset based lending.
- All of the money is advanced at close.

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Differences: Eligibility

Borrower needs to be a qualified business.

- Project located in a qualified census tract.
- 85%+ of tangible property in LICs (easiest).
- Collectibles limitations.
- Nonqualified financial property limitations.
- Restrictions on residential rental projects.
- Limitations on farming.
- No sin businesses.

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Differences: Flexible Terms

Examples

– Interest rate: at least 50% below market.
– Origination fees: 0%.
– Interest-only period: 7+ years.
– LTV: 90%+.
– Amortization period: 23 to 33 years.
– Collateral: no deed.
– DSCR: 1.00.
– Subordination: 3rd position.

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Differences: Focus on Areas of Distress

- 30% Poverty, 60% MFI, or 150% Unemployment.
- Non-Metropolitan Counties.
- Targeted Populations.
- 25% Poverty, 70% MFI, or 125% Unemployment.
- SBA HUB Zones.
- Brownfields.
- Hope VI Redevelopment.
- Federal Native Areas.
- ARC/DRA Areas.
- Colonias Areas.
- Federal Medically Underserved Areas.
- Federal, State, and Local Zones.
- FEMA Disaster Areas.
- Healthy Food Financing Initiative Designated Food Deserts.

Differences: Community Impacts

- Job Creation and Retention.
- Quality of Jobs.
- Jobs Accessible to Low-Income Persons or Residents of LICs.
- Commercial Goods or Services to LICs.
- Healthy Food Financing.
- Community Goods or Services to LICs.
- Financing Minority Businesses.
- Flexible Lease Rates.
- Housing Units.
- Environmentally Sustainable Outcomes.
- Part of Community Plan.
- Catalytic.

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Differences: Financial Benefit

Typical benefit to borrower:

- No origination fees.
- Low annual interest rate.
- Loans typically forgiven at end of seven years.
- Net benefit = ~20% of project cost .

QEI			$	10,000,000
Tax Credit	$	0.39	$	3,900,000
Gross Benefit	$	0.85	$	3,315,000
Fees		9.0%	$	(900,000)
Closing Costs	$	400,000	$	(400,000)
Net Benefit			$	2,015,000
				20.2%

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