U.S. Department of Treasury
New Markets Tax Credit (NMTC) Program
Minority CDE Training & Technical Assistance
Contract # TFSACDF15C0004

TRAINING CURRICULUM

Module 8
Module #8

Financial Results: The CDE, the Investor, the Leverage Lender; wrap-up discussion of what the NMTC program means for the participants.

Goal: Share cost, revenue, and return information for each key role; group discussion of how their organizations might participate; if CDE Allocatee is right for them, and why.
CDE Financial Results

- **CDE or Controlling Entity with an NMTC Allocation**
  - Manage Dependence on NMTC: No or Sparse (amount/frequency) allocations
  - Income Sources – current examples of fees
    - Allocation/Sponsor Fee: 1 time - at closing; examples range from 0.5% – 5.00%
    - Loan Origination Points: 1 time - at closing; examples range from 0.0% – 2.00%
    - Asset Management Fee: examples range from 0.5% – 1.0% of QEI annually

- **CDE or Controlling Entity without an NMTC Allocation**
  - Various sources of income (unrelated program income, loan interest, origination fees loan servicing fees, etc)
  - Lending Activity, Deposit Activity
  - Nonprofit Controlling Entity revenues
    - Federal Grants
    - State & Local Municipality support
    - Program Related Investments (PRI)
CDE Financial Results

- **Expenses:**
  - Start-up Cost
  - Business Strategy Implementation
  - Staffing – Size of Organization; expertise needed; shared?
  - Fixed Costs – infrastructure, systems, occupancy etc
  - Professional Fees (legal, accounting)
  - NMTC application cost
    - In-House – Time and Talent
    - Out-Source – Writer, Consultants
    - Professional Fees
    - Conferences
CDE with Allocation

Example of Income Statement (one time $30 million allocation)

![Trial Balance form](image)

![MTIC Income](image)
## CDE with Allocation

### Example of Income Statement (one time $30 million allocation)

<table>
<thead>
<tr>
<th></th>
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</tr>
</thead>
<tbody>
<tr>
<td>New Markets Tax Credits fee income</td>
<td>$1,500,000</td>
<td>$150,000</td>
<td>$150,000</td>
<td>$150,000</td>
<td>$150,000</td>
<td>$150,000</td>
<td>$150,000</td>
<td>$150,000</td>
</tr>
<tr>
<td>Interest and dividend income</td>
<td>$200,000</td>
<td>$200,000</td>
<td>$200,000</td>
<td>$200,000</td>
<td>$200,000</td>
<td>$200,000</td>
<td>$200,000</td>
<td>$200,000</td>
</tr>
<tr>
<td>Net assets released from restrictions - grants</td>
<td>$50,000</td>
<td>$50,000</td>
<td>$50,000</td>
<td>$50,000</td>
<td>$50,000</td>
<td>$50,000</td>
<td>$50,000</td>
<td>$50,000</td>
</tr>
<tr>
<td>Other earned revenue</td>
<td>$10,000</td>
<td>$10,000</td>
<td>$10,000</td>
<td>$10,000</td>
<td>$10,000</td>
<td>$10,000</td>
<td>$10,000</td>
<td>$10,000</td>
</tr>
<tr>
<td><strong>Total Revenue</strong></td>
<td>$1,760,000</td>
<td>$410,000</td>
<td>$410,000</td>
<td>$410,000</td>
<td>$410,000</td>
<td>$410,000</td>
<td>$410,000</td>
<td>$410,000</td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
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<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Personnel related expenses</td>
<td>$750,000</td>
<td>$750,000</td>
<td>$750,000</td>
<td>$750,000</td>
<td>$750,000</td>
<td>$750,000</td>
<td>$750,000</td>
<td>$750,000</td>
</tr>
<tr>
<td>Insurance</td>
<td>$15,000</td>
<td>$15,000</td>
<td>$15,000</td>
<td>$15,000</td>
<td>$15,000</td>
<td>$15,000</td>
<td>$15,000</td>
<td>$15,000</td>
</tr>
<tr>
<td>Interest expense</td>
<td>$10,000</td>
<td>$10,000</td>
<td>$10,000</td>
<td>$10,000</td>
<td>$10,000</td>
<td>$10,000</td>
<td>$10,000</td>
<td>$10,000</td>
</tr>
<tr>
<td>Professional fees</td>
<td>$35,000</td>
<td>$35,000</td>
<td>$35,000</td>
<td>$35,000</td>
<td>$35,000</td>
<td>$35,000</td>
<td>$35,000</td>
<td>$35,000</td>
</tr>
<tr>
<td>Travel</td>
<td>$10,000</td>
<td>$10,000</td>
<td>$10,000</td>
<td>$10,000</td>
<td>$10,000</td>
<td>$10,000</td>
<td>$10,000</td>
<td>$10,000</td>
</tr>
<tr>
<td>Occupancy expenses</td>
<td>$30,000</td>
<td>$30,000</td>
<td>$30,000</td>
<td>$30,000</td>
<td>$30,000</td>
<td>$30,000</td>
<td>$30,000</td>
<td>$30,000</td>
</tr>
<tr>
<td>Depreciation and amortization</td>
<td>$9,800</td>
<td>$9,800</td>
<td>$9,800</td>
<td>$9,800</td>
<td>$9,800</td>
<td>$9,800</td>
<td>$9,800</td>
<td>$9,800</td>
</tr>
<tr>
<td>Other expenses</td>
<td>$17,000</td>
<td>$17,000</td>
<td>$17,000</td>
<td>$17,000</td>
<td>$17,000</td>
<td>$17,000</td>
<td>$17,000</td>
<td>$17,000</td>
</tr>
<tr>
<td><strong>Total expenses</strong></td>
<td>$876,800</td>
<td>$876,800</td>
<td>$876,800</td>
<td>$876,800</td>
<td>$876,800</td>
<td>$876,800</td>
<td>$876,800</td>
<td>$876,800</td>
</tr>
</tbody>
</table>

| Change in net assets before security gain (loss) | $883,200 | $(466,800) | $(466,800) | $(466,800) | $(466,800) | $(466,800) | $(466,800) | $(466,800) |
| Realized gains (losses) on investments          | $-     | $-     | $-     | $-     | $-     | $-     | $-     | $-     |
| Change in unrealized gains (losses) on investments | $-     | $-     | $-     | $-     | $-     | $-     | $-     | $-     |
| Change in net assets after security gain (loss) | $883,200 | $(466,800) | $(466,800) | $(466,800) | $(466,800) | $(466,800) | $(466,800) | $(466,800) |
| Check                                         | $-     | $-     | $-     | $-     | $-     | $-     | $-     | $-     |
Investor Financials
Investor Financial Results

- Investors receive tax credits over seven years equating to 39% of the “allocation” provided to a transaction.
  - Investors collect credits over seven years at full face value – 100 cents
  - Investors typically unwind using put/call agreements

- Average pricing
  - During 2016 ran approximately 82-87 cents per credit (equating to IRR range of 4-6%). Pricing less than 100 cents per credit due to “time value” of money and fact that credits are collected over the seven year compliance period. This is where the investor gets its return on investment.

- Investor demand and hence the price for NMTC credits are driven primarily by CRA-motivated banks.
## Example of Investor Gross IRR

### FOR DISCUSSION ONLY

### Sample: Investor Return Pro Forma

**For The Period December 31, 2015 Through December 31, 2022**

<table>
<thead>
<tr>
<th></th>
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<th></th>
<th></th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>2015</td>
<td>$3,120,000</td>
<td>$100,000</td>
<td>$-</td>
<td>$500,000</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td>$10%</td>
<td>$16%</td>
<td>$952</td>
<td>$500,952</td>
<td>$2,619,048</td>
<td>$2,617,495</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td></td>
</tr>
<tr>
<td>2016</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td>$500,000</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td>$16%</td>
<td>$57%</td>
<td>$28,806</td>
<td>$528,806</td>
<td>$(2,990,312)</td>
<td>$2,041,689</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td></td>
</tr>
<tr>
<td>2017</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td>$500,000</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td>$40%</td>
<td>$75,806</td>
<td>$28,806</td>
<td>$528,806</td>
<td>$(1,461,457)</td>
<td>$1,465,082</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td></td>
</tr>
<tr>
<td>2018</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td>$600,000</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td>$10%</td>
<td>$87%</td>
<td>$28,806</td>
<td>$628,806</td>
<td>$(952,629)</td>
<td>$792,076</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td></td>
</tr>
<tr>
<td>2019</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td>$600,000</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td>$19%</td>
<td>$87%</td>
<td>$28,806</td>
<td>$628,806</td>
<td>$(303,822)</td>
<td>$114,270</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td></td>
</tr>
<tr>
<td>2020</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td>$600,000</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td>$19%</td>
<td>$100%</td>
<td>$28,806</td>
<td>$628,806</td>
<td>$324,964</td>
<td>$(361,357)</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td></td>
</tr>
<tr>
<td>2021</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td>$600,000</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td>$19%</td>
<td>$123%</td>
<td>$28,806</td>
<td>$628,806</td>
<td>$933,709</td>
<td>$(2,237,343)</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td></td>
</tr>
<tr>
<td>2022</td>
<td>(246,345)</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td>-8%</td>
<td>123%</td>
<td>$173,760</td>
<td>$66,029</td>
<td>$773,474</td>
<td>$(1,164,758)</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td></td>
</tr>
<tr>
<td>Disposition</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td>$100,000</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td>0%</td>
<td>123%</td>
<td>$1,165,758</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td></td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>$3,120,000</td>
<td>(246,345)</td>
<td>$1,000</td>
<td><strong>3,900,000</strong></td>
<td>$-</td>
<td><strong>3,900,000</strong></td>
<td>$-</td>
<td>$3,900,000</td>
<td><strong>534,655</strong></td>
<td>$-</td>
<td>$203,149</td>
<td>$(443,988)</td>
<td>$331,416</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td>$-</td>
<td></td>
</tr>
</tbody>
</table>

**Pre-Tax Annual Internal Rate of Return Equivalent:** 8.01%

**Annual After Tax Internal Rate of Return:** 4.95%

**Federal Tax Credits Only Annual Internal Rate of Return:** 8.71%

**State Tax Credits Only Annual Internal Rate of Return:** 0.00%

**Assumptions:**
1. Annual and cumulative tax savings/(costs) are calculated using capital contributions, cash distributions, and tax credits.
2. Assumes combined effective federal and state income tax rate of 38%.
3. Cumulative net benefits/(costs) are tax savings/(cost) plus cash distributions less cash contributions.
4. Internal Rate of Return assumes cash distributions and tax savings/(costs) are received quarterly.
5. Tax Credits Only Annual Internal Rate of Return is calculated using capital contributions, tax credits, and tax effect of NMTC basis reduction.
Leverage Lender
Leverage Lender Financials

- Leverage Lender – “Economically Driven/Market Rate Lender” as opposed to “Mission Driven Lender” like a CDE.

- Often familiar with either the borrower, area, or type of project involved in the NMTC transaction, and therefore familiar with the risk being undertaken.

- Major Risk is the default of the QLICI, (Remember – No “Hard” Collateral) and any negotiated forbearance agreement.
## Example of Leverage Lender Income Statement

### 1. Income and Operating Expenses

<table>
<thead>
<tr>
<th>Fiscal Year</th>
<th>2017</th>
<th>2018</th>
<th>2019</th>
<th>2020</th>
<th>2021</th>
<th>2022</th>
<th>2023</th>
<th>2023+</th>
<th>Total (% of Loan)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Leverage Loan:</td>
<td>Rate:</td>
<td>$7,000,000</td>
<td>$7,000,000</td>
<td>$7,000,000</td>
<td>$7,000,000</td>
<td>$7,000,000</td>
<td>$7,000,000</td>
<td>$7,000,000</td>
<td>70,000</td>
</tr>
<tr>
<td>Loan Fees:</td>
<td>1.00%</td>
<td>70,000</td>
<td>70,000</td>
<td>70,000</td>
<td>70,000</td>
<td>70,000</td>
<td>70,000</td>
<td>70,000</td>
<td>70,000</td>
</tr>
<tr>
<td>Interest Income:</td>
<td>4.00%</td>
<td>280,000</td>
<td>280,000</td>
<td>280,000</td>
<td>280,000</td>
<td>280,000</td>
<td>280,000</td>
<td>280,000</td>
<td>1,960,000</td>
</tr>
<tr>
<td>Other Income:</td>
<td>*</td>
<td>11,500</td>
<td>11,500</td>
<td>11,500</td>
<td>11,500</td>
<td>11,500</td>
<td>11,500</td>
<td>11,500</td>
<td>80,500</td>
</tr>
<tr>
<td>Total Income:</td>
<td>*</td>
<td>361,500</td>
<td>291,500</td>
<td>291,500</td>
<td>291,500</td>
<td>291,500</td>
<td>291,500</td>
<td>291,500</td>
<td>0</td>
</tr>
</tbody>
</table>

### 2. Expenses:

<table>
<thead>
<tr>
<th>(a) Fixed</th>
<th>(b) Variable</th>
<th>Total Expenses</th>
<th>Profit/(Loss)</th>
<th>Average Return:</th>
<th>IRR:</th>
</tr>
</thead>
<tbody>
<tr>
<td>18,000</td>
<td>139,000</td>
<td>157,000</td>
<td>343,500</td>
<td>4.02%</td>
<td>4.04%</td>
</tr>
</tbody>
</table>

### Assumptions

- **Leverage Loan Amount**: $7,000,000
- **Interest rate**: 4%
- **Origination Fee**: 1%

* Audit & Compliance
** Includes Audit & Labor Costs

84 months interest only, 276 months P&I thereafter
Mirrors CDE Covenants
Yes
Secondary CDE
Secondary CDE Investment

• Investment may be made through multiple layers of CDEs (e.g. up to 4 CDEs).

• The last CDE recipient needs to demonstrate that it used those dollars to:
  • Make loans to, or investments in QALICBs; and/or
  • Provide FCOS to businesses or residents of LICs.

All time limits must be met as if the CDE with the allocations directly made the QLICI.
Secondary CDE Financial Results

- Secondary CDE (CDE to CDE) - Collaborative Community Development Strategy.
  - Included in NMTC Application Question 13 as one of the options for a CDE’s financing activity.
  - Can be a good community development “tool”.

- Also cited as an Innovative Use of an NMTC Allocation
  - “Q18. Innovative Uses of an NMTC Allocation
    ...Investing in Unrelated CDEs that do not have NMTC Allocations;”

- May enable emerging CDEs build track record for applying for allocations in the future rounds.
Secondary CDE Financial Results

- Challenges for CDE that receives an Allocation
  - Compliance – Allocatee CDE must still track the use of the allocation
  - Fee Sharing – Allocatee CDE shares a portion of its fees with the Secondary CDE

- Opportunities for CDE that receives an Allocation
  - Access to Community Pipeline and Community relationships
  - Risk-Sharing with Secondary CDE

- Opportunities for Secondary CDE
  - Access to an Allocation without an application for customer needs
  - Earning fees
  - Building a track record of NMTC activity for future application
Bringing It All Together

- What does this mean for your organization?
- Where can you fit in?
  - CDE with Allocation
  - Leveraged Lender
  - NMTC Investor
  - Secondary CDE
  - Qualified Borrower

Even in Community Development, is the Bottom Line still the Bottom Line? (Maybe not. But if it doesn’t make Cents, it may not make Sense!) The Question may also be of Timing!
In Summary

- CDE Financials
  - CDE with an allocation
  - CDE without an allocation
- Investor Financials
- Leverage Lender Financials
- CDE to CDE Financials
- The Bottom Line