



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

# 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

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- 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)



Sample: CDE with Allocation Pro Forma

FOR DISCUSSION ONLY

Trial Balance form

Annual increase	Financial Statement Line Item	GL Account Number	GL Account Description	2017	2018	2019	2020	2021	2022	2023	2024
N/A - See NMTC income	New Markets Tax Credits fee income	4000	NMTC CDE Fees	\$ 1,500,000	\$ 150,000	\$ 150,000	\$ 150,000	\$ 150,000	\$ 150,000	\$ 150,000	\$ 150,000
	Interest and dividend income	4010	Interest Income	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000
	Interest and dividend income	4020	Dividend income	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000	\$ 100,000
	Net assets released from restrictions - grants	4030	Grant income	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000
	Other earned revenue	4040	Other income	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000
	Personnel related expenses	7000	Personnel fees	\$ 750,000	\$ 750,000	\$ 750,000	\$ 750,000	\$ 750,000	\$ 750,000	\$ 750,000	\$ 750,000
	Insurance	7100	Insurance expense	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000
	Interest expense	7200	Interest expense	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000
	Professional fees	7300	Legal fees	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000
	Professional fees	7350	Consulting fees	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000
	Professional fees	7400	Accounting/audit fees	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000
	Travel	7500	Travel expense	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000
	Other expenses	7600	Meals and entertainment expense	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000
	Occupancy expenses	7700	Occupancy/utilities expense	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000
	Other expenses	7800	Telephone and communications expense	\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,000	\$ 3,000
	Other expenses	7900	Computer, website, IT	\$ 4,000	\$ 4,000	\$ 4,000	\$ 4,000	\$ 4,000	\$ 4,000	\$ 4,000	\$ 4,000
	Depreciation and amortization	8000	Depreciation and amortization	\$ 9,800	\$ 9,800	\$ 9,800	\$ 9,800	\$ 9,800	\$ 9,800	\$ 9,800	\$ 9,800
	Other expenses	8100	Other operating expenses	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000	\$ 5,000
	Realized gains (losses) on investments	8200	Security gain/loss - Realized	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Change in unrealized gains (losses) on investments	8300	Security gain/loss - Unrealized	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
	Net income			\$ 883,200	\$ (466,800)	\$ (466,800)	\$ (466,800)	\$ (466,800)	\$ (466,800)	\$ (466,800)	\$ (466,800)

		NMTC income												
Closing fee Management fee	Assumes 5% closing fees in year of award, and 0.5% mgmt fees for 7 years thereafter													
		2017	2018	2019	2020	2021	2022	2023	2024					
	Award amount	\$ 30,000,000												
2017		\$ 1,500,000	\$ 150,000	\$ 150,000	\$ 150,000	\$ 150,000	\$ 150,000	\$ 150,000	\$ 150,000	\$ 150,000	\$ 150,000	\$ 150,000	\$ 150,000	\$ 150,000
2018			\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2019				\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2020					\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2021						\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2022							\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2023								\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2024									\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
2025										\$ -	\$ -	\$ -	\$ -	\$ -
	Total	\$ 1,500,000	\$ 150,000	\$ 150,000	\$ 150,000	\$ 150,000	\$ 150,000	\$ 150,000	\$ 150,000	\$ 150,000	\$ 150,000	\$ 150,000	\$ 150,000	\$ 150,000

# CDE with Allocation

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



FOR DISCUSSION ONLY

Sample: CDE with Allocation Pro Forma

	2017	2018	2019	2020	2021	2022	2023	2024
<b>REVENUES</b>								
New Markets Tax Credits fee income	\$ 1,500,000	\$ 150,000	\$ 150,000	\$ 150,000	\$ 150,000	\$ 150,000	\$ 150,000	\$ 150,000
Interest and dividend income	\$ 200,000	\$ 200,000	\$ 200,000	\$ 200,000	\$ 200,000	\$ 200,000	\$ 200,000	\$ 200,000
Net assets released from restrictions - grants	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000	\$ 50,000
Other earned revenue	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000
<b>Total Revenue</b>	<b>\$ 1,760,000</b>	<b>\$ 410,000</b>	<b>\$ 410,000</b>	<b>\$ 410,000</b>	<b>\$ 410,000</b>	<b>\$ 410,000</b>	<b>\$ 410,000</b>	<b>\$ 410,000</b>
<b>EXPENSES</b>								
Personnel related expenses	\$ 750,000	\$ 750,000	\$ 750,000	\$ 750,000	\$ 750,000	\$ 750,000	\$ 750,000	\$ 750,000
Insurance	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000	\$ 15,000
Interest expense	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000
Professional fees	\$ 35,000	\$ 35,000	\$ 35,000	\$ 35,000	\$ 35,000	\$ 35,000	\$ 35,000	\$ 35,000
Travel	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000	\$ 10,000
Occupancy expenses	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000	\$ 30,000
Depreciation and amortization	\$ 9,800	\$ 9,800	\$ 9,800	\$ 9,800	\$ 9,800	\$ 9,800	\$ 9,800	\$ 9,800
Other expenses	\$ 17,000	\$ 17,000	\$ 17,000	\$ 17,000	\$ 17,000	\$ 17,000	\$ 17,000	\$ 17,000
<b>Total expenses</b>	<b>\$ 876,800</b>	<b>\$ 876,800</b>	<b>\$ 876,800</b>	<b>\$ 876,800</b>	<b>\$ 876,800</b>	<b>\$ 876,800</b>	<b>\$ 876,800</b>	<b>\$ 876,800</b>
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

Date	Capital Contributions	Cash Distributions	Put Payment	Federal NMTC	State NMTC	Total New Markets Tax Credits	Annual Return	Cumulative Return	Federal Taxable Income/(Loss)	State Taxable Income/(Loss)	Federal Impact of State NMTC's	Taxable Income Savings (Costs)	NMTC and Tax Savings/(Costs)	Cumulative Net Tax Savings/(Costs)	Federal Ending Capital Account	State Ending Capital Account
2015	\$ 3,120,000	\$ -	\$ -	\$ 500,000	\$ -	\$ 500,000	16%	16%	\$ (2,505)	\$ -	\$ -	\$ 952	\$ 500,952	\$ (2,619,048)	\$ 2,617,495	\$ -
2016	-	-	-	500,000	-	500,000	16%	32%	(75,806)	-	-	28,806	528,806	(2,090,242)	2,041,689	-
2017	-	-	-	500,000	-	500,000	16%	48%	(75,806)	-	-	28,806	528,806	(1,561,435)	1,465,882	-
2018	-	-	-	600,000	-	600,000	19%	67%	(75,806)	-	-	28,806	628,806	(932,629)	790,076	-
2019	-	-	-	600,000	-	600,000	19%	87%	(75,806)	-	-	28,806	628,806	(303,822)	114,270	-
2020	-	-	-	600,000	-	600,000	19%	106%	(75,806)	-	-	28,806	628,806	324,984	(561,537)	-
2021	-	-	-	600,000	-	600,000	19%	125%	(75,806)	-	-	28,806	628,806	953,790	(1,237,343)	-
2022	-	(246,345)	-	-	-	-	-8%	125%	(173,760)	-	-	66,029	66,029	773,474	(1,164,758)	-
Disposition	-	-	1,000	-	-	-	0%	125%	1,165,758	-	-	(442,988)	(442,988)	331,486	-	-
	<u>\$ 3,120,000</u>	<u>\$ (246,345)</u>	<u>\$ 1,000</u>	<u>\$ 3,900,000</u>	<u>\$ -</u>	<u>\$ 3,900,000</u>			<u>\$ 534,655</u>	<u>\$ -</u>	<u>\$ -</u>	<u>\$ (203,169)</u>	<u>\$ 3,696,831</u>			

Pre-Tax Annual Internal Rate of Return Equivalent 8.01%

Annual After Tax Internal Rate of Return 4.96%

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

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- 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

Fiscal Year		2017	2018	2019	2020	2021	2022	2023	2023+	Total:	Total (% of Loan)
<b>1. Income by source:</b>											
Leverage Loan:	Rate:	7,000,000	7,000,000	7,000,000	7,000,000	7,000,000	7,000,000	7,000,000			
Loan Fees:	1.00%	70,000								70,000	1.00%
Interest Income:	4.00%	280,000	280,000	280,000	280,000	280,000	280,000	280,000		1,960,000	28.00%
Other Income:	*	11,500	11,500	11,500	11,500	11,500	11,500	11,500		80,500	1.15%
<b>Total Income</b>		<b>361,500</b>	<b>291,500</b>	<b>291,500</b>	<b>291,500</b>	<b>291,500</b>	<b>291,500</b>	<b>291,500</b>	<b>0</b>	<b>2,110,500</b>	<b>30.15%</b>
<b>2. Expenses:</b>											
(a) Fixed	**	18,000	18,000	18,000	18,000	18,000	18,000	18,000	13,000	139,000	1.99%
(b) Variable										0	0.00%
<b>Total Expenses</b>		<b>18,000</b>	<b>18,000</b>	<b>18,000</b>	<b>18,000</b>	<b>18,000</b>	<b>18,000</b>	<b>18,000</b>	<b>13,000</b>	<b>139,000</b>	<b>1.99%</b>
<b>Profit/(Loss)</b>		<b>343,500</b>	<b>273,500</b>	<b>273,500</b>	<b>273,500</b>	<b>273,500</b>	<b>273,500</b>	<b>273,500</b>	<b>(13,000)</b>	<b>1,971,500</b>	<b>28.16%</b>
										Average Return:	4.02%
										IRR:	4.04%
<b>Assumptions</b>											
Leverage Loan Amount		\$7,000,000		Repayment	84 months interest only, 276 months P&I thereafter						
Interest rate		4%		Covenants	Mirrors CDE Covenants						
Origination Fee		1%		Forebearance and Standstill	Yes						

\* Audit & Compliance

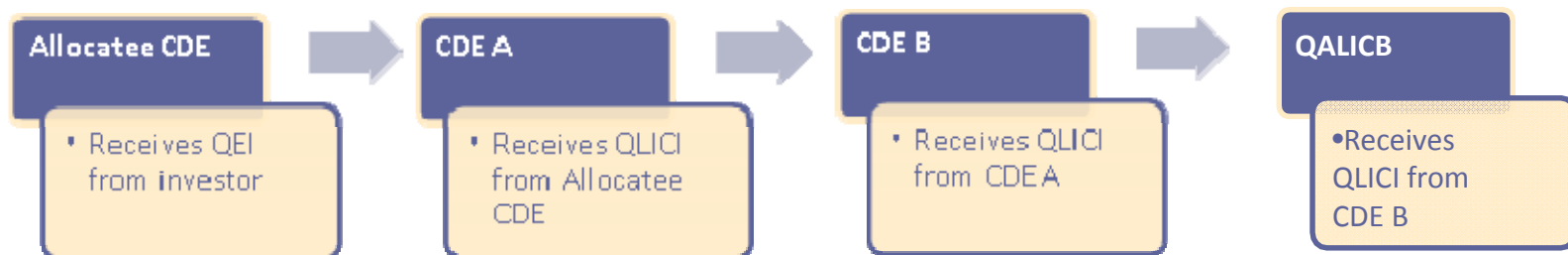
\*\* Includes Audit & Labor Costs

# 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

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- 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

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