NEW MARKETS TAX CREDITS USED TO FINANCE MIXED USE REAL ESTATE DEVELOPMENT

- Property located in highly distressed area in West Philadelphia.
- Mixed use property includes first and second floor retail and third through ninth floor multifamily rental.
- Deal structure – leveraged model with senior and sub-debt with investor being Sovereign Bank.
- CDE was The Reinvestment Fund, Philadelphia, PA
- Development located on campus of University of Pennsylvania with retail and apartments targeted to graduate students, faculty, and area residents.
- Strong support and cooperation from university and City of Philadelphia.
MIXED USE REAL ESTATE TRANSACTION LEVERAGED MODEL

ONE INVESTOR
$20 million QEI

QEI

CDE

$18,850,000 QLICI (94.25% Subst. All)

 NMTC

INTEREST

CDE Fee
$1,000,000 (5% of QEI)

QLICI

INTEREST

QLICI

Senior Debt
$14,137,500 (75% of QLICI)
QALICB

Sub-Debt
$4,712,500 (25% of QLICI)
QALICB

Transaction Costs
$150,000 (75bps)

5% Put and Call Price at Maturity ($235,625)
NEW MARKETS TAX CREDITS
USED TO FINANCE MIXED USE REAL ESTATE DEVELOPMENT

Benefits and problems encountered in this type of transaction:

**PROS**

- Same entity on both sides of deal
- QALICB receives add’l equity thru Put and Call in year 7
- Eliminates leveraged lender collateral issues
- 7-yr interest only relieves DSCR pressure in early years of stabilization of project

**CONS**

- Same entity on both sides of deal
- QALICB’s equity less than conventional deal
- High transaction costs
- 7-yr interest only does not allow repayment of principal. Will collateral value be high enough for refinance at maturity?
NEW MARKETS TAX CREDITS
USED TO FINANCE OTHER CDEs

• Parent of allocatee provides NMTC-qualified loan to its borrower which is a CDFI/CDE.

• Interest rate of 3.5% for ten years, interest only was recommended by Advisory Board and approved by lender’s executives.

• NOFA was sent to those CDFIs recommended by the Advisory Board.

• Each returned application was reviewed using a numeric scoring system. Successful applicants were geographically dispersed over parent’s market area.

• Loans were closed with the CDFIs and immediately were sold to the allocatee which “stepped into the shoes” of the lender.

• Each CDFI was given applications, checklists, and QALICB certifications to provide to each of their potential NMTC customers. Upon receipt, each customer’s paperwork was reviewed and approved by the allocatee. At that point, the ultimate QLICI could be made.

• CDFI has the flexibility to alter the loan terms from that which it received from the allocatee. Dollars received can revolve upon the repayment of a loan.

• 100% of loan repayable at maturity.
LOAN TO CDE/CDFI
From Lender
(Parent of Allocatee)

CDE/CDFI
100% of Proceeds Lend to NMTC-Qualified Projects

CDE (Allocatee)
Buys Loan w/in 30 days of closing

LOAN PROCEEDS
$1 MILLION

INTEREST

SALE OF LOAN

QEI
$1MM

NMTC
$390M

QALICB
$200M

QALICB
$200M

QALICB
$200M

QALICB
$200M

QALICB
$200M

JNA CAPITAL, Inc.
Benefits and problems encountered in this type of transaction:

PROS

Allows NMTC financing to reach small business owners

Allows CDFI to experience hands on the NMTC process

10-yr interest only period provides increased flexibility in loan terms, ability to redeploy money

Ability to amortize loans

CONS

Small QEI/QLICIs require greater compliance reporting

Working with company without NMTC experience

10-yr interest only period requires money to stay out 3 years past any NMTC benefit for lender

Increased due diligence to make certain Substantially All test met
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