



real estate advisory &  
development services

*Building with Purpose*

Webinar on  
New Market Tax Credits  
February 24, 2011

Presented by Brian Keenan, Director & President at READS

# Housekeeping

- Mute your phone, please.
- If you have questions, type them in the chat box on the left. They will be answered by the end of the webinar.
- Please do not put your phone on speaker. It creates static for others.
- There will be time for questions at the end of the call.
- This is a basic overview of NMTC and how the end-user can use and benefit from them.
- If you need technical assistance during the session, call Lauren at 732 635-1000 x114 or email her at [lbolline@readsusa.org](mailto:lbolline@readsusa.org)

# Who is Real Estate Advisory and Development Services (READS) anyway?

- READS is a nonprofit real estate development organization operating in New York, New Jersey and Delaware.
- Develop nonprofit facilities including schools, early centers, office buildings as well as affordable and special needs housing.
- Since READS' inception in 2003, READS has developed over \$100 million dollars of real estate, approximately 70% with New Market Tax Credits.

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# And What are New Market Tax Credits (NMTC)?

- Established in 2000 as part of the Community Renewal Tax Relief Act of 2000.
- Spur revitalization efforts of low-income and impoverished communities across the United States.
- Provides tax credit incentives to investors for equity investments in certified Community Development Entities, which invest in low-income communities.
- The credit equals 39% of the investment paid out over seven years. A Community Development Entity must have a primary mission of investing in low-income communities and persons.

# How are NMTC used?

- In short, and at their very core, NMTCs are a loan for the development of non-housing related real estate including: schools, hotels, daycare centers, office space, etc.
- It is not FREE money! You have to pay it back. It is not a grant.
- No, you can't use it to develop housing of any kind (except as a component of a mixed use project).

# What are the threshold requirements?

- The property has to be “commercial” meaning not residential.
- The property must be in a low-income census tract. Go to: [www.cdfifund.gov/what we do/census.asp](http://www.cdfifund.gov/what_we_do/census.asp) for details.
- You cannot refinance with NMTC.
- Must have at least 25% of construction costs.
- Must be a qualified entity.
- You will need collateral.

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# What are the terms of NMTC Loan?

- Often times, NMTC loans look very much like a traditional bank loan with interest and principle payments and a longer term amortization. We will call this Type A--Traditional Borrowings.
- Other times, NMTC loans will be an interest-only loan for a period of 7 years. This is structure that READS has used the most. We will call this Type B--Interest-only Borrowing.

# Type A – Traditional Borrowing Example

- Total Development Costs \$10M
- Appraised value of completed project \$10M
- Loan Amount \$7.5M
- Borrower Equity \$2.5M
- Term 7-25 years
- Interest rate 6.5%
- Annual debt service (mortgage payment) \$487,000



# Type B – Interest Only Borrowing Example

- Total Development Costs = \$10M
- Appraised Value of completed project = \$10M
- Loan Amount = \$10M
- Borrower Equity = \$0 (in theory not reality)
- Term = 7 years
- Interest rate = 6%
- Annual debt service (mortgage payments) = \$600,000
- Annual Sinking fund payment = \$70,000
- Outstanding debt at end of loan term = \$7,510,00

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# Refinance Amount

- In the last slide, NMTC allows you to borrow \$10M. You only pay interest on this loan for 7 years. At the end of the loan term, you repay \$7.51M. How so?
- A portion of the loan is equity. The equity investor gets a tax credit for providing this equity as their return.
- In a \$10M transaction, 80% of the loan (\$8M) is a loan and needs to be repaid. The other 20% (\$2M) is equity, and in theory, does not need to be repaid.
- Finally, you paid \$490,000 into a sinking fund which will further reduce the outstanding debt after seven years.

# Case Study: Learning Community CS



*Learning Community Charter School  
2495 JFK Boulevard  
Jersey City, NJ*

	<u>Amount</u>	<u>Interest Rate</u>
Loan A (Leveraged Loan)	4,840,750	6.54%
Loan B (Equity)	1,658,250	2.02%
Total Debt (Blended)	6,499,000	5.39%
Annual Debt Service	350,082	
Anticipated Equity	1,600,000	
Legal Costs	200,000	

# So What's the Catch?

It all sounds too good to be true, so what's the catch?

There are many:

- **Costs:** NMTCs are costly with legal fees alone in the hundreds of thousands of dollars. It does not work for a deal under approximately \$4M.
- **Time:** NMTCs are complex. The underwriting is lengthy, and in today's market, 6-9 months is not uncommon.
- **Multiple Parties:** There needs to be a leverage lender, equity investor and an allocatee to work with you.
- **Unique Asset Classes:** If you are a nonprofit, you are most likely developing a special-use facility further complicating the underwriting.

# Questions to ask yourself

Before you get excited about this financing vehicle, ask yourself the following questions:

- Is your project \$4M or more?
- Can you evidence the ability to repay the loan?
- Does your organization have the capacity to put together a NMTC transaction?
- Do you have collateral?
- Do you have sound financials?
- Do you have a real estate attorney on board who understands finance, NMTCs and real estate?

# How do you get started?

- Create a detailed development budget.
- Create a detailed operating budget evidencing your ability to repay debt with actual dollars, not hypothetical.
- Create a project narrative providing the lender with an overview of the project and repayment sources.
- Identify an allocatee.

# How Can READS Help?

Groups like READS that have put together numerous NMTC projects have extensive knowledge of the program and qualifying projects.

You can get help with the following:

- Evaluating the viability of your project
- Creating project budgets
- Identifying lenders, equity investors and allocatees
- Applying, negotiating and closing on financing
- Overseeing project construction/development

# Who in the area is a NMTC Allocatee?

- New Jersey Community Capital  
[www.newjerseycommunitycapital.org](http://www.newjerseycommunitycapital.org)
- The Reinvestment Fund [www.trfund.org](http://www.trfund.org)
- Local Initiatives Support Corporation [www.lisc.org](http://www.lisc.org)
- Low Income Investment Fund [www.liifund.org](http://www.liifund.org)
- Nonprofit Finance Fund  
[www.nonprofitfinancefund.org](http://www.nonprofitfinancefund.org)
- New list of allocatees available at:  
[www.cdfifund.gov/docs/2010/nmtc/2010NMTCProgramAllocateeList.pdf](http://www.cdfifund.gov/docs/2010/nmtc/2010NMTCProgramAllocateeList.pdf)



# Questions from Attendees

- Can they be used for day programs for adults with disabilities?
- Are there specific poverty demographics required in a census tract where the project will be created?
- Status of new allocations, performance of projects which have used this program (what happens at maturity)?

# Thank you for participating!

If you have further questions or would like to set-up a conference call or meeting, contact Lauren at [lbolline@readsusa.com](mailto:lbolline@readsusa.com) or 732-635-1000 x114.



224 Main St., Metuchen, NJ 08840

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