



LISC's New Markets Tax Credit Program (Frequently Asked Questions)

General Questions about the New Markets Tax Credit Program

- **What Are New Markets Tax Credits (NMTCs)?**
- **What Is A Qualified Active Low-Income Community Business (QALICB)?**
- **What Is A Low-Income Community?**
- **How Do CDEs Use NMTCs?**
- **How Do Investors Benefit From NMTCs?**
- **What Are The Risks Relating To NMTC Investments?**

LISC's Role in the NMTC Program

- **What Is LISC's Role In The NMTC Program?**
- **Where Does LISC Use Its NMTCs?**
- **How Does LISC Use Its NMTCs?**
- **What Types of Transactions Does LISC Finance?**
- **What Type Of Financing Does LISC Provide?**
- **What Are The Terms Of LISC's NMTC Financing?**

Additional Information

- **Where Can I Get More Information About LISC and the NMTC Program?**

Thank you for your interest in LISC's NMTC Program!

GENERAL QUESTIONS ABOUT THE NEW MARKETS TAX CREDIT (NMTC) PROGRAM

What Are New Markets Tax Credits (NMTCs)?

The *New Markets Tax Credit* program represents the largest federal community development tax initiative in nearly 20 years. It is designed to provide investors, such as banks, insurers, investment funds, corporations, and individuals, with credits against federal income tax in return for new investments made in eligible businesses and commercial projects in low-income areas. It is a flexible tool that can be applied to a wide range of qualified business activities, from small business lending to financial counseling to real estate development.

NMTCs are administered by the *Community Development Financial Institutions* (CDFI) Fund, which is part of the US Department of the Treasury. The CDFI Fund has been authorized to allocate \$19.5 billion in NMTC investment authority, including \$1 billion for use in the Gulf Opportunity (GO) Zone. The CDFI Fund has employed a competitive process through which it has made 294 allocation awards totaling \$16 billion in tax credit authority as of October 2007.

NMTCs are intended to spur the investment of new capital through *Qualified Equity Investments* (QEIs) in *Community Development Entities* (CDEs). Each CDE is certified as such by the CDFI Fund and must use substantially all of its QEIs to provide financial support (generally debt or equity financing) called *Qualified Low-Income Community Investments* (QLICIs) to *Qualified Active Low-Income Community Businesses* (QALICBs).

What Is A Qualified Active Low-Income Community Business (QALICB)?

QALICBs must satisfy certain tests regarding the proportion of their gross income, use of tangible property, and employee services that relates to *Low-Income Communities* (LICs). Although QALICBs can engage in a wide variety of business activity (including commercial real estate development and business conducted by nonprofits), there are several restrictions. These include limits on the amount of collectibles or nonqualified financial property that they can hold. In addition, certain business activity is ineligible, including the operation of residential rental property (although a mixed-use project would qualify if a building derives less than 80% of its income from residential dwelling units), the ownership of properties where no substantial improvements are made, the development or holding of intangibles, and the operation of other specified ineligible businesses (which include golf courses, race tracks, gambling facilities, certain farming businesses, and stores where the principal business is the sale of alcoholic beverages).

What Is A Low-Income Community?

A Low-Income Community is a census tract with at least 20% poverty or where the median family income is below 80% of the area median family income. Census tract eligibility can be determined through the CDFI Fund Mapping system (CIMS), available at http://www.cdfifund.gov/what_we_do/mapping.asp.

In addition, certain targeted populations may be treated as low-income communities. "Targeted populations" refer to individuals, or an identifiable group of individuals, who are low-income persons or otherwise lack adequate access to loans or equity investments. "Low-income" means having a family median income of no more than 80% of the applicable area median. An individual is considered to otherwise lack adequate access to loans or equity investments if the individual was displaced from his or her principal residence as a result of Hurricane Katrina

and/or the individual lost his or her principal source of employment as a result of Hurricane Katrina.

How Do CDEs Use NMTCs?

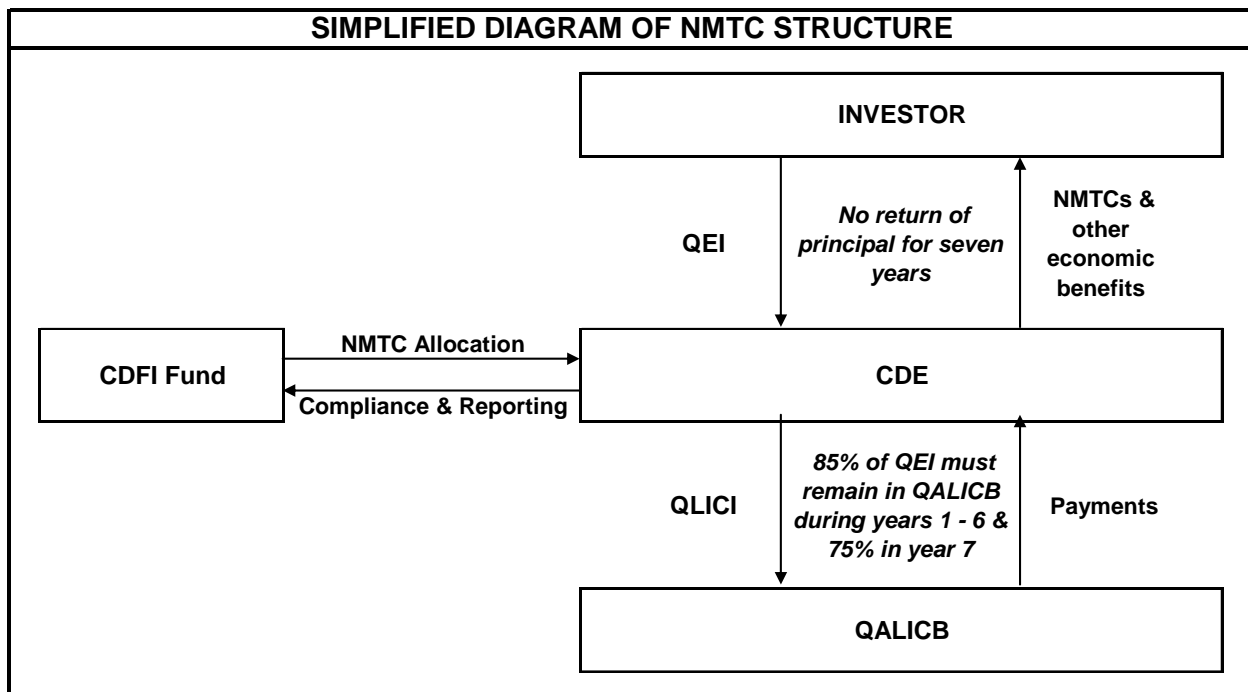
CDEs obtain NMTCs awards by submitting an application describing the business plan under which they will use NMTC financing to generate community benefits. In order to be competitive, CDEs generally agree (1) to use more than 85% of QEI proceeds to make QLICs, (2) to provide NMTC financing under terms and conditions significantly more favorable than those provided by conventional sources and (3) to make QLICs in communities characterized by greater distress than reflected in the NMTC eligibility criteria.

How Do Investors Benefit From NMTCs?

Under the terms of the NMTC program, an investor making a seven-year QEI in a CDE receives NMTCs equal to 39% of the cash equity investment amount over the investment period (5% in years 1-3 and 6% in years 4-7). In addition, the investor may receive economic benefits from the project. During the seven-year investment period, these economic benefits can only consist of some portion of the return on the capital invested, and after seven years, they can include the return of capital as well as the return on capital.

What Are The Risks Relating To NMTC Investments?

In addition to risks relating to the economic performance of the QALICBs in which a CDE invests, NMTCs are subject to recapture if (1) the CDE loses its certification from the CDFI Fund; (2) the CDE redeems the equity investment within seven years; or (3) the CDE proceeds fail to meet the "substantially all" test (85% of QEI proceeds must be in QLICs during the first six years; 75% during the seventh year). The amount recaptured equals all NMTCs claimed plus interest. In addition, NMTCs are subject to federal tax on capital gains.



LISC'S ROLE IN THE NMTC PROGRAM

What Is LISC's Role In The NMTC Program?

LISC has received four NMTC awards totaling \$428 million, which it has used to finance 30 transactions that are projected to generate 2.2 million square feet of commercial and community space, 677 homes, 6,487 construction jobs and 4,911 permanent jobs. The National Equity Fund, Inc. (NEF), LISC's equity subsidiary, manages LISC's NMTC activities.

Where Does LISC Use Its NMTCs?

LISC is bringing the value of the NMTCs to the communities that served by its other local and national programs. LISC operates in the communities served by its 30 local programs and the 75 community development corporations supported by its Rural LISC program. NMTC financing is also available in communities served by LISC's Gulf Rebuilding Initiative, which includes areas affected by hurricanes Katrina, Rita, and Wilma. The general areas covered by the LISC NMTC program are listed below. *For more detailed information about LISC programs and the communities they serve, please visit the LISC website at www.lisc.org.*

LISC Local Program Locations

- Boston, MA
- Buffalo, NY
- Chicago, IL
- Connecticut Statewide
- Detroit, MI
- Duluth, MN
- Greater Cincinnati & Northern KY
- Greater Kansas City, MO
- Greater Newark & Jersey City, NJ
- Hartford, CT
- Houston, TX
- Indianapolis, IN
- Jacksonville, FL
- Los Angeles, CA
- Michigan (*Primarily Ann Arbor, Kalamazoo, Flint, Grand Rapids, Lansing, & Muskegon*)
- Milwaukee, WI
- New York, NY
- Philadelphia, PA
- Rhode Island
- San Diego, CA
- San Francisco Bay Area, CA
- South Florida
- Toledo, OH
- Twin Cities, MN
- Virginia
- Washington State
- Washington, DC

LISC Multi-Location Programs

- *Gulf Region Rebuilding Initiative*: Portions of Alabama, Louisiana, and Mississippi affected by hurricanes Katrina, Rita, and Wilma.
- *Mid South Delta*: Portions of Arkansas, Louisiana, and Mississippi.
- *Rural LISC*: Portions of Alabama, Alaska, Arizona, Arkansas, California, Colorado, Florida, Hawaii, Indiana, Iowa, Kentucky, Louisiana, Maine, Maryland, Massachusetts, Michigan, Minnesota, Mississippi, Missouri, Montana, Nebraska, New Hampshire, New Jersey, New Mexico, New York, North Carolina, Ohio, Oklahoma, Oregon, Pennsylvania, South Carolina, South Dakota, Texas, Vermont, Virginia, Washington, West Virginia, and Wisconsin.

For more information, visit: www.liscnewmarkets.org

How Does LISC Use Its NMTCs?

LISC will only provide NMTC financing to projects that satisfy its social investment criteria – (1) demonstrated support of the local community, (2) likelihood of generating tangible economic and / or social benefits, (3) contribution to the longer-term development of a healthy, sustainable community and region, (4) environmental soundness and (5) need for NMTC financing to generate these benefits. LISC receives many more requests for NMTC financing than the amount of investment authority that it has available. LISC chooses among transactions that satisfy its social investment criteria based on the extent to which a transaction advances a LISC program's community development strategy.

What Types of Transactions Does LISC Finance?

LISC's NMTC financing activities build upon LISC's core competency of real estate development. The NMTC is particularly well suited to commercial real estate development, given the credit's longer-term investment requirement, the ability for project-based returns to bolster investor returns, and the geographic-based nature of the credit. LISC can use NMTCs for a broad array of non-housing real estate projects such as shopping centers, office space, educational and community facilities, child care centers, and community health centers. Under appropriate circumstances, LISC may also provide business financing.

What Type Of Financing Does LISC Provide?

LISC generally provides debt financing, although equity may be provided for transactions that involve historic tax credits, or under other appropriate circumstances. Financing generally has a seven-year term in the form of construction financing that converts to mini-perm financing.

What Are The Terms Of LISC's NMTC Financing?

LISC generally provides NMTC financing in amounts ranging from **\$5 to \$15 million** per transaction. (LISC will partner with other CDEs on transactions that require larger amounts of NMTC financing.) LISC generally employs a "leveraged structure" under which it blends the rates and terms of a number of sources of project financing, including first-mortgage debt, funds provided by government and philanthropic sources on advantageous terms and developer capital, with low-cost NMTC equity. This allows LISC to finance transactions in distressed communities where project rental income may be insufficient to support enough debt which, when combined with a commercially reasonable amount of developer equity and any other available financing sources, will cover project development costs. As shown in the example below, the use of low-cost NMTC equity can allow LISC to fill this capital gap by "stretching" these other sources by as much as 33%.

For example, it might cost \$11 million to build a super-market anchored commercial center in an underserved low-income community. Because an appraiser might consider this to be a weak rental market, it might appraise the completed project at \$8 million, and a commercial lender might be willing to make a \$6.4 million loan, based on an 80% loan-to-value. The developer might be able to raise \$1.5 million of equity based on the projects net operating income and \$700,000 of financing from government and foundation sources based on the community need for the jobs, goods and services generated by the project.

LISC may be able to fill the capital gap by issuing a \$10.1 million QEI that leverages the First-mortgage, Government and Foundation loans and using the proceeds to make a \$9.8 million QLICI. After subtracting \$300,000 in various costs related to closing the NMTC transaction, the project has access to \$2.4 million in additional financing.

INVESTMENT FUND			
SOURCES		USES	
Equity			
NMTC Equity	\$ 3,000,000	Qualified Equity Investment (QEI)	\$ 10,100,000
Loan(s)			
First-mortgage loan	6,400,000		
Foundation loan	200,000		
Government loan	500,000		
TOTAL SOURCES	<u>\$ 10,100,000</u>	TOTAL USES	<u>\$ 10,100,000</u>

LISC CDE			
SOURCES		USES	
Qualified Equity Investment (QEI)	\$ 10,100,000	QLICI Loan	\$ 9,800,000
		Fees, Expenses & Reserves	\$ 300,000
TOTAL SOURCES	<u>\$ 10,100,000</u>	TOTAL USES	<u>\$ 10,100,000</u>

QALICB			
SOURCES		USES	
QLICI Loan	\$ 9,800,000	Project Financing	\$ 11,000,000
Developer Equity	1,500,000	NMTC-related Costs	300,000
TOTAL SOURCES	<u>\$ 11,300,000</u>	TOTAL USES	<u>\$ 11,300,000</u>

The original project financing of \$7.1 million (consisting of the First-mortgage, Foundation and Government loans) is increased by \$2.4 million to \$9.5 million (which equals the QLICI loan amount minus NMTC-related costs).

LISC can also structure the transaction so that nearly all of this additional \$2.4 million may be cancelled at the end of the seven-year investment period.

ADDITIONAL INFORMATION

Where Can I Get More Information About LISC and the NMTC Program?

You can find information about the NMTC program at the following websites:

- CDFI Fund website: www.cdfifund.gov/what_we_do/programs_id.asp?programID=5
- NMTC Coalition website: www.newmarketstaxcreditcoalition.org/

Additional information about LISC NMTC program is available at:

- LISC NMTC website: www.liscnewmarkets.org

If you have a potential LISC NMTC opportunity, you should bring it to the attention of the staff of LISC office in which it is located or the LISC NMTC acquisition staff at NEF.

Robert Poznanski
Vice President, New Markets
LISC NMTC Program
National Equity Fund, Inc.
119 North Church Street, Suite 201
Kalamazoo, MI 49007
Phone: (269) 343-5472 x 3
Fax: (269) 343-5905
rpozanski@nefinc.org

Dawanda Asberry
NMTC Acquisition Officer
LISC NMTC Program
National Equity Fund, Inc.
120 South Riverside Plaza, 15th Floor
Chicago, IL 60606
Phone: (312) 697-5698
Fax: (312) 697-5694
dasberry@nefinc.org

Jill Steen
NMTC Underwriter
LISC NMTC Program
National Equity Fund, Inc.
120 South Riverside Plaza, 15th Floor
Chicago, IL 60606
Phone: (312) 697-6187
Fax: (312) 697-5694
jsteen@nefinc.org

Thank you for your interest in LISC's New Markets Tax Credit Program!

For more information, visit: www.liscnewmarkets.org