

NEW MARKETS TAX CREDITS

What are New Markets Tax Credits?

The New Markets Tax Credit (NMTC) program permits taxpayers to receive a credit against Federal income taxes for making qualified equity investments in designated Community Development Entities (CDEs). Substantially all of the qualified equity investment must in turn be used by the CDE to provide loans and investments in low-income communities. The credit provided to the investor totals 39% of the cost of the investment and is claimed over a seven-year credit allowance period. Investors may not redeem their investments in CDEs prior to the conclusion of the seven-year period. Recipients of the NMTC loans and investments typically receive a subsidy in the form of below market interest rates and an extended amortization period.

How Do I Know if a Project is Eligible for NMTC?

The NMTC is a geography-based program. While there are many components to determining eligibility, at a minimum, potential borrowers and their projects must be located in “Low Income Communities,” or census tracts that meet *at least one* of the following conditions:

- 1) A poverty rate of at least 20%; *or*
- 2) 80% or less of the median family income for the MSA or state, if the location is not in an MSA.

Self-Help, or another NMTC allocatee, can help you determine whether a project is eligible for NMTC.

What does a Typical NMTC Project Look Like?

The typical NMTC transaction provides debt for a large, real estate backed project, such as a charter school, office building, manufacturing plant, or mixed-use development. Consumer lending is *not* an eligible use of NMTC, and while business lending is permitted, it is ill-suited for NMTC due to the structure of the credit. If you know of a project that you think might be eligible for NMTC funding, please contact Self-Help or another NMTC allocatee.

Self-Help Credit Union Contacts

Program Information

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Self-Help New Markets Tax Credit Loans for Commercial and Mixed-Use Real Estate Projects

Low fixed rate financing for real estate projects in low-income areas.

Loan types:

- ü Construction to permanent
- ü Permanent, if refinancing a property having been substantially improved.

Eligible borrowers:

Sole proprietors, partnerships, LLCs, corporations, nonprofit or for-profit.

Eligible locations:

Continental U.S. The project to be financed must be located in a low-income census tract, defined for the purposes of the program as having either: (a) a poverty rate of at least 20% or (b) a median income no more than 80% of area median income.

Eligible property uses:

Office	Health care
Retail	Education
Residential, if part of mixed-use.	Other commercial uses
Industrial	Mixed-uses

At least 20% of property revenue must come from non-residential uses.

Loan size: \$250,000 – \$25,000,000

Term: 7 year

Amortizations: 12 – 24 month interest-only period on construction-permanent loans, converting to 20-year amortization upon stabilized debt service coverage of 1.20.

Interest rates: 7-year fixed. Rates for projects meeting underwriting criteria priced at 200 basis points over 7-year treasury.

Origination fee: 1%

Construction loan administration fee: case-by-case.

Debt service coverage: 1.20x

Loan to value: 75% - 80%

Minimum equity: case-by-case

Prepayment: no prepayment allowed for first seven years

To discuss a potential project, please contact:

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New Markets Tax Credit Charter School Loans

Product:	Construction and permanent loans for real property. Includes rehab projects and modular buildings.
Terms:	7-20 years
Amortization:	15-25 years after stabilized operations Interest only periods 0-24 months
Loan Size:	Average \$1 to \$5 million, may go higher
Maximum Loan-to-Value:	Preference of 70% LTV but often times higher and ability to go over 100% LTV
Minimum Debt Service Coverage Ratio:	1.10-1.20x after stabilization
Academic Performance:	Strong academic performance preferred; positive trend of improving academic performance acceptable
Leadership:	Strong school leadership and experience Strong board preferred.
Target:	Low and moderate income student population as shown by percentage of students eligible for the federal lunch program and minority student population Existing and start-up schools
Geography:	Preference in Southeastern United States and Texas but able to do loans nationally. Lower-income areas.
Interest Rate:	7 year Treasury + 160bps + risk pricing (for loans over \$1M) 7 year Treasury + 260bps + risk pricing (for loans under \$2M)
Origination Fee:	50 to 100 basis points plus fees for construction loan administration
Credit Enhancement:	Self-Help's lending to charter schools and its flexibility are supported by a Department of Education Charter School Enhancement Grant

American Tobacco Project

Summary Sheet

Description: Redevelopment of the American Tobacco Campus. The project is located in downtown Durham, one block from Self-Help's headquarters. The campus has 13 buildings and served as a tobacco products manufacturing facility from 1874-1987. Most of the buildings have been vacant since 1987. This is North Carolina's largest historic restoration project ever undertaken. Phase I involved the development of 7 of those buildings for 614,000 gross square feet/471,872 net leasable square feet of "class A" office and retail space. Plans for Phase II include the potential development of over 180,000 square feet of residential, retail, and office space. Through the NMTC program, Self-Help provided \$40mm in permanent financing.

Project Impact: This is a critical project for downtown Durham. Once complete, the complex will bring about 3,600 jobs and strives to ignite a revival of downtown Durham. The project is located across the street from the Durham Bulls minor league baseball park and near the proposed downtown Durham multi-modal transit station.

Borrower: American Campus, LLC (majority owned by Capitol Broadcasting Company Real Estate, or "CBC"). CBC is a diversified communications company with headquarters in Raleigh, North Carolina. Founded in 1937, CBC has annual sales in excess of \$130 million and assets over \$230 million. CBC's current holdings include television and radio stations, the world's largest satellite broadcasting network, and sports teams.

Tenants: The project is 92% leased to high quality tenants. The office tenants include Duke University, GlaxoSmithKline, Compuware, McKinney Silver (advertising firm), Little Architectural Consultana, Intersouth (VC fund), Square One Bank, and a host of smaller small businesses. Retail tenants include Starbucks, Mellow Mushroom, Café Zen, Tyler's Tap Room, and Symposium Café.

Partners: The following partners are involved in this project:

Owner:	Capitol Broadcasting Company
Parking provided by:	City and County of Durham
Tax Credit Investor:	Bank of America
Construction Lenders:	Wachovia/Self-Help
Permanent Lender:	Self-Help

Project: Gaston College Preparatory

CDE: Self-Help Ventures Fund

Through the New Markets Tax Credit program, Self-Help Ventures Fund has made three loans for \$800,000 to Gaston College Preparatory (GCP), a charter school located in rural northeastern North Carolina. GCP is part of the KIPP network of charter schools, a cutting-edge leader in modeling public school reform. Seventy percent of GCP's students qualify for federal meal subsidies or the federal meal program. Over 95% of students are minorities.

Since its launch in Fall 2002, GCP has qualified as a North Carolina School of Excellence for three years in a row. In the 2002-2003 school year, it ranked as the sixth top performing middle school in the state. When GCP's first class of fifth grade students entered the school, only 49% were proficient on their end of year tests. After three years, 100% of those students were at or above grade level in both reading and math as measured by the same test.

The first loan Self-Help made to GCP with NMTC financed the construction of a gymnasium – a rare feature at charter school facilities in North Carolina. Self-Help's most recent two loans to GCP supported the school in expanding its programming to include a high school. The school serves 320 students, and the population will continue to grow as the GCP adds successive grade levels over the next four years.

The lower cost of NMTC funds provided the extra boost Self-Help needed to get comfortable with the collateral exposure. The school's rural location and the special-use nature of its buildings are challenging to value. Self-Help used both a USDA Community Facilities Guarantee and a Federal Credit Enhancement Grant Guarantee to secure these loans.

GCP's success is attracting funding from conventional lenders. As Self-Help negotiates with GCP regarding progressive financing for future projects, it is finding that the school is receiving competitive bids from area banks.