



Capital at the point of impact.

## NMTC

### Frequently Asked Questions

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#### Program Background

The New Markets Tax Credit (NMTC) is a federal program created under the Community Renewal Tax Act of 2000 to stimulate economic and community development in America's low-income communities. The program, Section 45d of the Internal Revenue Code, provides investors with seven years of federal tax credits for making cash investments in a wide range of businesses located in low-income communities. The tax credits result in a dollar-for-dollar reduction of the investor's federal tax liability.

The NMTC is administered by the Department of Treasury through the Community Development Financial Institutions (CDFI) Fund. The CDFI Fund is also responsible for certifying the entities that receive the NMTC and monitoring the ongoing compliance of these entities with the program requirements. Entities that receive these credits, like TRF, attract investors with the tax credits, and then loan or invest the funds, often at below market interest rates to businesses in low-income communities.

#### What is TRF's NMTC Program?

In 2009, TRF was awarded \$90 million in NMTC which will be used to provide a combination of debt and equity to three project types: charter schools, full-service supermarkets and mixed-use developments in highly distressed areas in the mid-Atlantic region.

TRF's NMTC strategy builds directly from existing TRF portfolio that reflects more than 24 years of community development investment totaling \$900 million and major public-private initiatives in charter school and supermarket development.

TRF's received NMTC allocations in 2004, 2006 and 2008.

#### Are You Eligible to Participate?

To be eligible to receive NMTC financing, a business must be a Qualified Active Low-Income Community Businesses (QALICB). The CDFI Fund defines QALICBs as businesses that:

- Are located within Low-Income Communities. A Low-Income Community includes those communities that

have at least a 20% poverty rate or a median income of up to 80% of area or statewide median income. To check if your project's census tract is in an NMTC eligible Low-Income Community, type in your census tract at [www.policymap.com](http://www.policymap.com) to view an interactive map of your area. To confirm a particular community's eligibility, we also encourage you to visit the CDFI Fund's website.

- Have at least 50% of total gross income derived from the low-income community.
- Have at least 40% of the use of the tangible property in the low-income community.
- Have at least 40% of the services provided by the business' employees be in the low-income community.
- Have less than 5% of the cost of the business' property attributable to collectibles (i.e. antiques) held primarily for sale.
- Have less than 5% of the business' property attributable to nonqualified activities. The NMTC excludes specific activities under the definition of QALICB. For example, while the rental of substantially improved commercial real estate (i.e. office, retail, industrial, hotel) would qualify, residential rental property on its own would not qualify under the NMTC unless included in mixed-use projects. Some other ineligible businesses or projects include golf courses, race tracks, gambling facilities, liquor stores and single family residential mortgages.

#### Why Should You Participate?

The NMTC program is an outstanding resource to aid TRF's commitment to financing projects that have real impact benefits for low-wealth people and places. The NMTC program provides an incentive for the private sector to invest equity and loan capital in low-income areas to stimulate economic opportunity and create jobs in areas that most need it. This is especially beneficial for the projects in these areas that may not otherwise qualify for loans through conventional financing.

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## What Type of Loan is it?

TRF offers two basic loan products through its NMTC program:

- a) interest-only financing for seven years at interest rates substantially below market rates, or
- b) dual senior/junior loans with interest rates closer to market rates, with the junior loan having forgiveness\* features after seven years or with equity-like features.

TRF's NMTC financings will each have a few of the following characteristics:

1. **Lower than standard debt service coverage ratio** - For charter schools, supermarkets and other commercial and mixed-use projects TRF will require a lower debt service coverage ratio on interest-only financing than commercial standards of 1.25x for schools, 1.50x for supermarkets, and 1.25x for retail and mixed-use projects with significant principal amortization included.
2. **Non-traditional forms of collateral** - For all three project types TRF will offer financing on a leasehold basis, and without any form of collateral in the case of the equity or equity equivalent portion of the financing.
3. **More flexible borrower credit standards** - TRF will finance start-up charter schools and start-up supermarkets which have no credit history, and TRF will finance other commercial and mixed-use projects undertaken by smaller developers.

4. **Longer than standard amortizations, longer than standard interest-only payments** - By offering all three project types interest-only financing for seven years (no amortization of principal), TRF will both offer greatly extended interest-only periods as well as longer than standard amortizations.
5. **Higher than standard loan to value ratio** - For select non-profit businesses, TRF will offer up to 100% financing without a borrower cash equity component other than the equity financing created from the NMTC investment. For for-profit businesses TRF will provide financing up to a 90% loan to value basis.
6. **Lower than standard origination fees** – TRF will not charge qualifying businesses any origination fees or equity placement fees for the debt/equity offering, which will greatly reduce the up-front transaction costs. Certain transactions with an equity or equity-like component may have an exit fee after seven years.

\* The IRS does not permit forgiveness of NMTC transactions, rather TRF provides the borrower with the ability through an option agreement to take ownership of the junior loan after seven years.

**If your business qualifies for NMTC financing and you would like to learn more, contact us at [nmtc@trfund.com](mailto:nmtc@trfund.com) or call 215.574.5800.**