Credit Union Access to New Markets Tax Credits
A Proven Tool For Generating Opportunity in Low-Income Communities

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Impact of New Markets Tax Credit

• Considerable flexibility with respect to the types of projects that can be supported by NMTC-stimulated debt and equity investments. They can include for-profit and non-profit businesses for commercial, industrial, retail, manufacturing, and mixed-use projects as well as community facilities such as childcare or health facilities or charter schools.

• Activities ineligible for NMTC Investment include residential rental property - buildings or structures that derive **80% or more** of their gross rental income from renting dwelling units and certain types of “sin businesses”. Refer to IRS regulations for additional details.
NMTC Projects
NMTC Projects
The NMTC Program was authorized under the Community Renewal and Tax Relief Act of 2000. The NMTC Program is jointly administered by the CDFI Fund and the Internal Revenue Service (IRS). Investments made through the NMTC Program must comply with regulations outlined in Section 45D of the Internal Revenue Code. NMTCs provide a credit against Federal income taxes for investors that make Qualified Equity Investments (QEIs) in certified financial intermediaries called “Community Development Entities (CDEs).” Through the first fourteen rounds of the NMTC Program, the CDFI Fund has received 3,711 NMTC Allocation Applications and made a total of 1,105 allocation awards totaling $54 billion in allocation authority. This means approx. 30% of applications have been awarded since the program’s inception.
Summary

CDFI Fund

Community Development Entity (For-profit only)

- Investing in or Lending to QALICBs
- Purchasing Loans from CDEs
- Financial Counseling
- Investing in or Lending to CDEs

CDEs must make QLICIs within 12 months of receipt of Investor QEIs

CDE must offer credits to investors within 5 years

Private Investors

QEI must stay invested in CDE for 7 years

CDEs must make QLICIs within 5 years of receipt of Investor QEIs

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How Your Credit Union Can Access NMTCs

• Apply and receive an NMTC Allocation
• Make “leverage” loans to NMTC projects
• Receive a NMTC loan to fund a credit union project (e.g. branch) communities.
NMTC Allocation Process

• Determine your NMTC Service Area; create NMTC Advisory Board; develop NMTC organizational structure
• Apply for CDE certification from the CDFI Fund
• Submit an application for an NMTC allocation
• Receive an Allocation
NMTC Allocations: 2017 Round

- Competitive application
  - 2017 Round: 230 applicants requested $16.2B. 73 awards (32% success)

- $3.5B awarded.
  - ~60% went to non-CDFIs
  - # of credit union allocatees: ?

- $1.37B CDFIs
- Govt $500M M 15%
- For-Profits, $825M M 24%
- Banks, $565M M 16%
- Other $180M 5%
Advantages of Being an NMTC Allocatee

• Unique authority to issue NMTC tax credits to attract capital and fund capital in LICs
• Support high impact community projects
• Significant fee income
• Will need to develop an NMTC program
NMTC Allocation Application Process

- **Apply** for an allocation of NMTCs.
- The NMTC Application has five main sections:
  - Part I: Business Strategy
  - Part II: Community Outcomes
  - Part III: Management Capacity
  - Part IV: Capitalization Strategy
  - Part V: Information Regarding Previous Awards
- Applicants are also required to complete an Applicant Information section and tables.
## Overview of the Application and Scoring

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<th>Category</th>
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<th>Reviews</th>
<th>Total Points Possible</th>
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<tr>
<td>Community Impact</td>
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<tr>
<td>Priority Points</td>
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<td>x 3</td>
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<td>Three reviewers per application</td>
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<td>x 3</td>
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<td>Minus ½ Priority Points</td>
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<tr>
<td><strong>Total Points Possible</strong></td>
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Benefits of Becoming a CDE

• CDE Certification allows a for-profit or nonprofit domestic corporation or partnership to apply for an allocation of NMTCs to offer its investors in exchange for equity investments in the CDE and/or its subsidiaries.
  – A non-profit CDE NMTC Allocation awardee must demonstrate to the CDFI Fund, prior to receiving an Allocation Agreement, that: 1) it controls one or more for-profit subsidiary CDE(s); and 2) it intends to transfer the entire NMTC Allocation to its for-profit subsidiary CDE(s).
• CDE certification allows entities not applying for NMTC allocations to receive loans or investments from other CDEs that have received NMTC allocations.
• CDFIs automatically qualify as CDEs and do not need to complete a Certification Application. Simply register electronically for CDE certification on the CDFI Fund’s website.
Credit Union Affiliate as CDE/Allocatee

- **Self Help Ventures Fund** - Nonprofit loan fund affiliate of Self Help Credit Union. Unregulated.
- Loan pool model with $500,000 - $15,000,000 loans.
- 6 awards totaling $328 million in NMTC allocations.
- Focus: community nonprofit facilities-charter schools, food coops, and retail facilities.
- Also NMTC borrower (QALICB)
Credit Union Sponsor as CDE/Allocatee

- **Hope Enterprise Corporation** - nonprofit CDFI
- Sponsor of Hope Credit Union
- 6 awards totaling $155 million in NMTC allocations.
- Funded 97 businesses, community facilities and nonprofit organizations
- Credit union MBL “source loans” into leverage NMTC loans: rural hospital, charter school, mixed use project using credit enhancements & participations
- Maximum MBLs: $2.5MM
Upper Tier Debt Leverage Loan $7,100,000 (71%)

Investment Fund $10,000,000

CDE (Lender)

“A” Note $7,100,000

Available for Project $9,075,000

“B” Note $1,650,000

Tax Credit Equity $2,900,000 (29%)

Lender/CDE $400,000

Professional Services & Asset Management Fees $850,000

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Credit Unions as “NMTC Leverage Lenders”
Upper Tier Debt Leverage Loan $7,100,000 (71%)

Investment Fund $10,000,000

CDE (Lender)

“A” Note $7,100,000

Available for Project $9,075,000

“B” Note $1,650,000

Tax Credit Equity $2,900,000 (29%)

Lender/CDE $400,000

Professional Services & Asset Management Fees $850,000

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NMTC Leverage Lender Structure

- $3.5MM minimum
- Terms: 5-6.25%; 84 month term fully amortized
- Very complicated program that involves IRS regs and tax attorneys
- Hard collateral can be challenging
- 7 year forbearance period
- Foreclosure and redeployment limitations
- Leverage lender competitors: Big banks and CDFIs who have NMTC programs
Leverage Loans & MBL Regs

- **Rule 723 Challenges**
  - Maximum loan amount
  - Collateral
  - Construction and development loans
  - LTVs

- **Solutions**
  - CUSOs; Participations
  - NCUA/Federation/Credit Union NMTC task force
Credit Unions as NMTC Borrowers
Upper Tier Debt Leverage Loan $7,100,000 (71%)

Investment Fund $10,000,000

CDE (Lender)

“A” Note $7,100,000

Available for Project $9,075,000

“B” Note $1,650,000

Tax Credit Equity $2,900,000 (29%)

Lender $400,000

Professional Services & Asset Management Fees $850,000
NMTC Borrower: St. Louis Community Credit Union

• With approx. $4 million in NMTC financing, St. Louis Community Credit Union:
  – Built two new full service branches. (One - former Gateway Bank, the first African American owned and operated bank in Missouri).
  – Built a Wealth Accumulation Center, a multi-use facility that provides financial capability, affordable alternatives to payday lending and financial education.

• With approx. $3 million in NMTC financing, St. Louis Community Credit Union:
  – Upgraded two existing credit union branches
  – Built a Wealth Accumulation Center in a new credit union branch

Combined, these serve 10,000 low income persons
Benton Park (St. Louis City)
Wealth Accumulation Center
Questions
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