



North Carolina Affordable Housing Conference

New Markets Tax Credit

Deloitte Tax LLP

November 3-4, 2009

NMTC Program Overview

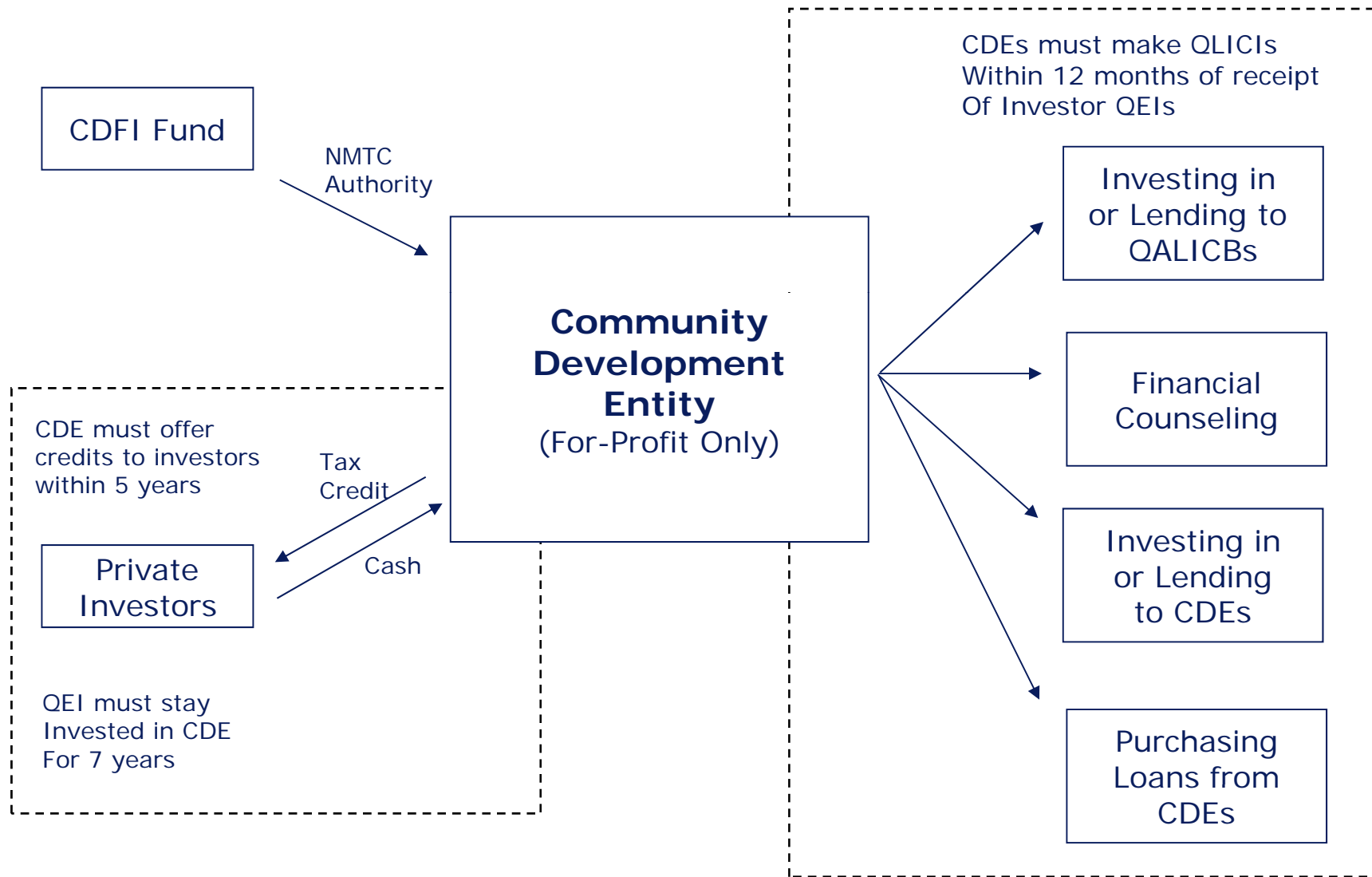
Basics of the Program

- **Purpose:** Leverage capital from private investment to spur economic development in urban and rural low-income communities
- Equity investors obtain a 39% federal income tax credit over seven years on investment in Community Development Entity (CDE) with a NMTC Allocation Award
 - 5% (first 3 years)
 - 6% (following 4 years)
 - Example - \$100 investment yields \$39 of tax credits
- Competitive credit allocation process

	<u>General Allocation</u>	<u>Katrina / GO Zone</u>	<u>Total</u>
– 2003 Round 1	\$2.5B	-	\$2.5B
– 2004 Round 2	\$3.5B	-	\$3.5B
– 2005 Round 3	\$2.0B	-	\$2.0B
– 2006 Round 4	\$3.5B	\$0.6B	\$4.1B
– 2007 Round 5	\$3.5B	\$0.4B	\$3.9B
– 2008 Round 6	\$3.5B +\$1.5B	-	\$5.0B
– 2009 Round 7	<u>\$3.5B</u> +\$1.5B	<u>-</u>	<u>\$5.0B</u>
	\$25.0B	\$1.0B	\$26.0B

NMTC Program Overview

How it Works



NMTC Program Overview

Why Banks Participate

- Competitive investment yields
- Ability to finance projects that previously were considered unattractive
- Combine other credits for additional equity (i.e. HTC)
- Pricing advantage to retain and attract credit worthy customers
- Favorable CRA considerations
- Reduction to the effective tax rate
- Result: 75-85% of all NMTC investments have been made by commercial banks

NMTC Allocations Overview

2009 Award Highlights - Banks

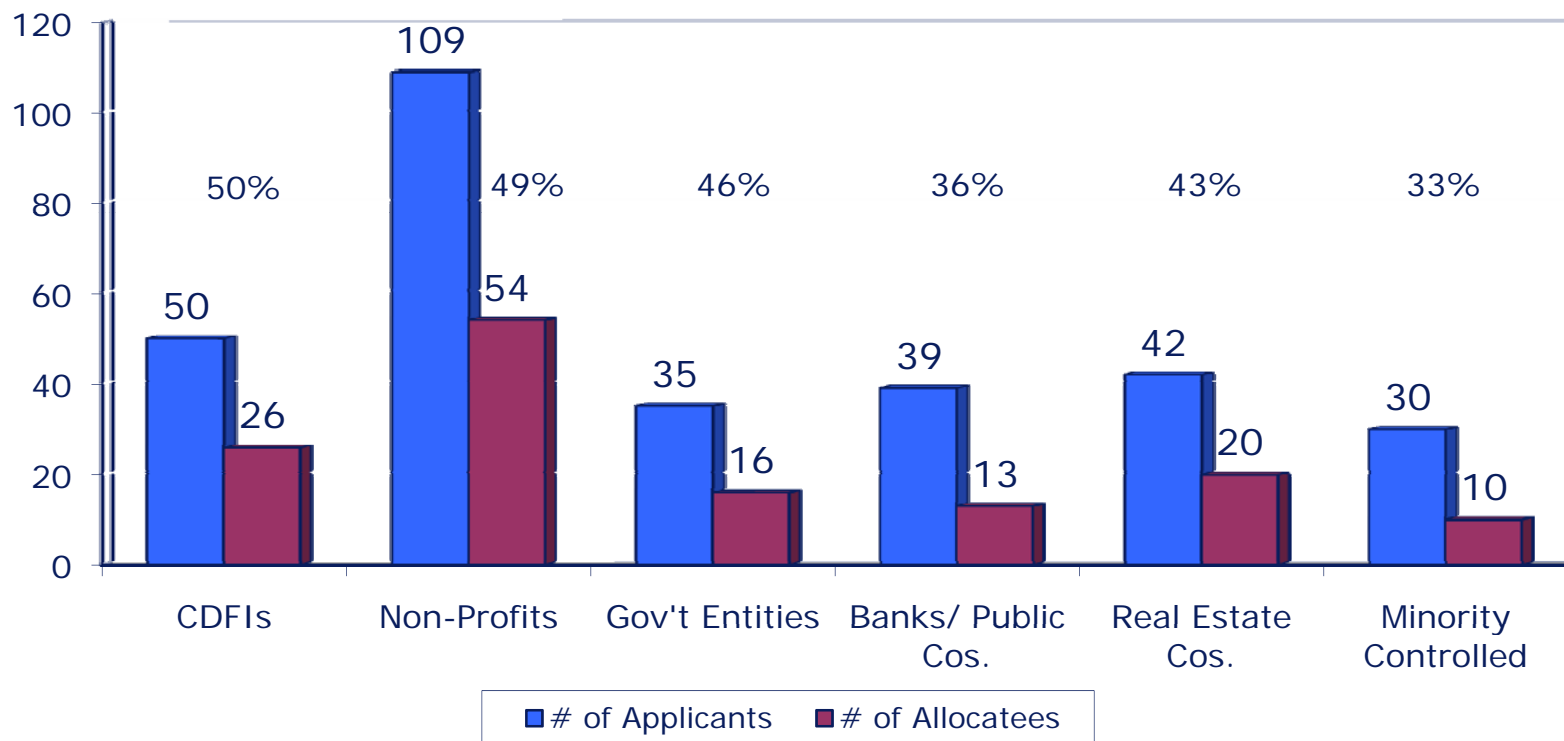
NMTC Bank Awards Announced October 30, 2009:

- US Bank (\$95mm)
- Citibank (\$90mm)
- Wells Fargo (\$90mm)
- Bank of America (\$70mm)
- SunTrust (\$70mm)
- Carolina First (\$60mm)
- Central Bank of Kansas City (\$55mm)
- Johnson Bank (\$50mm)
- Key Bank (\$50mm)
- M&I New Markets (\$40mm)
- Harbor Bank (\$20mm)

NMTC Allocations Overview

2009 Award Highlights – Applicant Types

Number of Applicants & Allocatees by Entity Type



Note: There were 249 applicants and 100 allocatees. The total number of applicants for each category does not equal the total numbers since some applicants are classified in more than one entity type and others do not fall under an identified category.

NMTC Allocations Overview

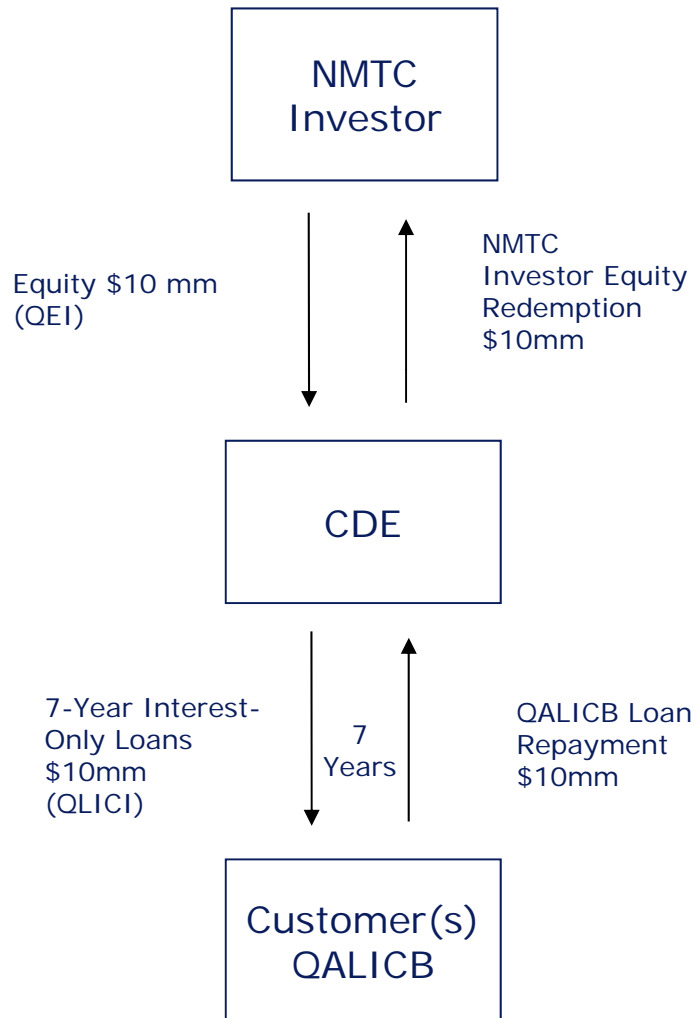
2009 Award Highlights - Housing

Potential for Housing and Affordable Housing Financing

- \$2.85 billion (57 percent) estimated for financing real estate projects in LICs
 - Commercial, retail, industrial, mixed-use, home ownership, and community facilities
- \$2.17 billion awarded to CDEs whose primary financing activity is mixed-use real estate financing
- \$120 million awarded to CDEs whose primary financing activity is for-sale housing
- Application question requesting that at least 20% of for-sale housing be allocated to affordable housing units

Participation in NMTC

Example of NMTC Non-Leveraged Transaction

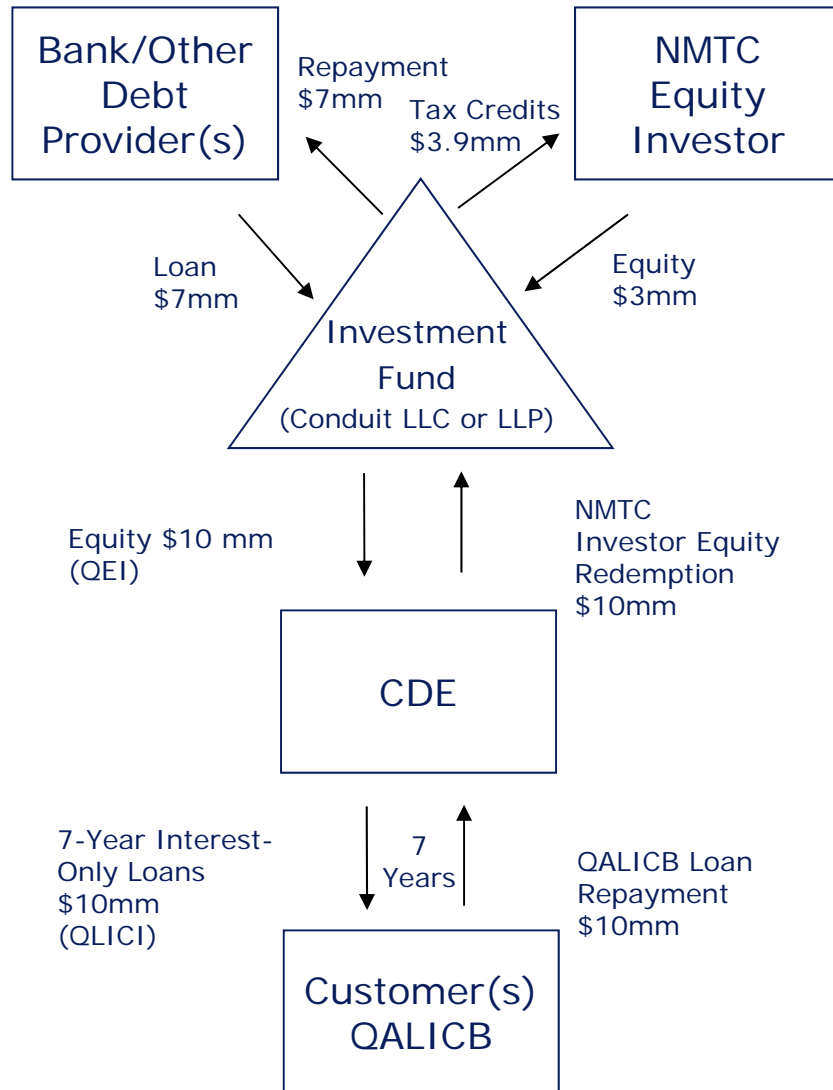


Transaction Summary

- The bank investor(s) provides \$10 million in equity capital to the CDE in Year 1.
- The CDE provides \$10 million in debt financing to the QALICB(s) structured as \$7 million in senior debt and \$3 million in subordinated debt.
- The loans are structured to mature in seven years, consistent with the schedule of tax credits to investors.
- The qualified business borrower makes interest-only payments during the term of the loans. The loans are repaid or refinanced at the end of the seven-year compliance period, at which time the CDE redeems the QEI.

Participation in NMTC

Example of NMTC Leveraged Transaction



Transaction Summary

- The investment fund, the conduit LLC, obtains lender financing of \$7 million and an equity contribution of \$3 million.
- The investment fund, using those combined proceeds, provides a QEI to the CDE totaling \$10 million in Year 1.
- The CDE provides \$10 million in debt financing to the QALICBs, structured as \$7 million in senior debt and \$3 million in deeply subordinated debt.
- The loans are structured to mature in seven years, consistent with the schedule of tax credits available to investors.
- The CDE earns interest on the \$10 million, although the investment fund LLC pays interest only on the \$7 million debt financing portion to the LLC.
- The loans are repaid or refinanced at the end of the seven-year compliance period, at which time the CDE redeems the QEI.

NMTC & CRA Consideration

Banking activities that may receive CRA Consideration

Lending Test

- Making Real estate or business loans to qualifying borrowers
- Purchasing small business loans made by a CDE in its assessment area(s) to expand its commercial loan portfolio.
- Investing in a CDE that will make commercial loans

Investment Test

- Making an equity investment in a CDFI/CDE that will make small business and community development loans to borrowers located in the bank's assessment area(s).
- A consortium of several banks provides an equity infusion to capitalize a CDE that does not directly serve some of the banks' assessment areas, although their assessment areas are located in the CDE's market territory.
- Funding a subsidiary community development corporation (CDC), which is certified as a CDE and receives an NMTC allocation. The CDE will use the investment to finance projects/businesses that provide housing or jobs for low- and moderate-income (LMI) individuals in its assessment area(s).

Services Test

- Bank officers serving on the loan committee of a CDE in the bank's assessment area.
- Providing technical assistance in financial analysis to CDE staff.
- A bank-owned CDE providing financial counseling and business development training to eligible business owners in LMI neighborhoods throughout the bank's assessment area(s).

Deloitte.