

# Truist Community Capital

New Markets Tax Credits  
Introduction

# TCC Products & Services

**Truist Community Capital (TCC) provides debt and equity capital for projects that economically benefit and revitalize communities throughout the Truist footprint.**

## Equity Investments

- Low Income Housing Tax Credits
- New Markets Tax Credits
- Historic Tax Credits
- SBICs
- Community Development Fund

## Debt Financings

- Construction loans
- Permanent financing
- New Markets Tax Credits
- Equity Bridge loans
- Federal Home Loan Bank Community Investment Services
- Community Development Fund

## Tax Credit Syndication

- GA Housing Credits



# New Markets Tax Credit Overview

## What are New Markets Tax Credits?



- First tax credit program to stimulate commercial investment in “low-income communities”
- The program is administered by the US Department of Treasury through a division called the CDFI Fund, in a unique public/private partnership with Community Development Entities (CDEs)
- Program is **very competitive**, as both CDEs and borrowers must be selected to utilize a very limited supply of credits

## Goals of NMTC Investment



- Create additional economic development for the community
- Attract and retain skilled workforce
- Bring new goods or services (such as education or healthcare) to underserved communities
- Drive capital investments to underserved, qualified Low-Income Communities (LIC)

# Project Impact

Through the use of NMTCs, a project can benefit from gap financing covering as much as 15-20% of the total project costs.

- NMTC proceeds typically fund up to 15-20% of a project and are paired (or “leveraged”) with owner equity, borrowed funds, or other grant/public funds, that in total must equal or exceed the amount of NMTC allocated to a deal.
- Borrower benefits include flexible terms, such as:
  - Subordination to other lenders
  - Low interest rate
  - Interest-only terms for 7 years
  - A portion of the NMTC investment may not have to be repaid

# Qualifying Projects

- **What types of projects qualify?**

- Capital projects (construction and equipment costs) that fill a need in a low income community
- Typically >\$5MM (high transaction costs)

- **Quality Job Creation Projects**

- Industrial/Manufacturing facilities (workforce training and living wages)
- Renewable energy production, food processing/production

- **Community Facilities**

- Education - Charter schools, workforce development, financial education, arts/culture education
- Wellness - Hospitals, health clinics, YMCAs, food banks

- **Real Estate Development Projects**

- Grocery-anchored retail (access to healthy foods, critical goods/services)
- Office space affordable to or supportive of entrepreneurs, small businesses, non-profits

# Qualifying Locations

## What is a “Low-Income Community”?

- Based on census tract data - median income and/or poverty rate
- Qualifying vs. “Higher Distress”
  - Poverty >30%, Median Income <60%, Unemployment 1.5 X National rate
  - In addition to high poverty or low median income, other factors include unemployment, non-metro locations, brownfields, medically underserved areas, food deserts, FEMA disaster areas, and more
  - Qualifying census tracts in non-metropolitan areas automatically qualify as “higher distress”
  - Qualifying census tracts can be located using a list or mapping tool located on the CDFI Fund website



This website can be used as a tool to identify a property’s median income and poverty rate information:

[http://www.novoco.com/new\\_markets/resources/maps\\_data.php](http://www.novoco.com/new_markets/resources/maps_data.php)

CDFI Information Mapping System (CIMS) indicates whether a census tract qualifies as an LIC: [www.cdfifund.gov/mapping](http://www.cdfifund.gov/mapping)

Additional information and guidance is also available at <https://www.cdfifund.gov/research-data/Pages/default.aspx> under “Program Eligibility Guidance”




# How Does the Program Work?


Through a competitive process, Community Development Entities (CDEs) are delegated NMTC allocation authority from the CDFI Fund.



CDEs search for qualifying businesses and real estate developments to provide NMTC-subsidized financing, which is also a very competitive process.



CDEs use NMTC allocation authority to attract third party investors (like Truist) and lenders to provide capital to the qualifying project in exchange for the federal tax credits.



The proceeds are used to fund investments in qualifying businesses or commercial real estate developments. Typically these proceeds are structured as low interest rate, convertible loans.

# Community Development Entities (CDEs)

What is a “Community Development Entity”?

- Certificate by CDFI Fund
- CDEs come in a variety of forms:
  - Affiliate of a municipality to promote economic development
  - Affiliate of a bank to help meet community reinvestment goals
  - Non-profit and for-profit entities with a mission to serve low income communities
- CDEs:
  - Have defined geographic areas and are charged with evaluating each potential NMTC transaction for community impact
  - Are responsible for ongoing monitoring and maintenance of Sub-CDE
  - Earn fees from obtaining and deploying allocation, and those CDEs affiliated with banks can earn Community Reinvestment Act (CRA) credit
- CDEs can be found using a search engine on the CDFI Fund website ([www.cdfifund.gov](http://www.cdfifund.gov))



# NMTC Investors

- The tax credit investor, typically a financial institution like Truist, is eligible as limited partner to claim the federal tax credits, ancillary economic benefits, and Community Reinvestment Act (CRA) credit
  - The tax credits are realized by the investor over a seven year compliance period

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	TOTAL BENEFIT
5%	5%	5%	6%	6%	6%	6%	39%

- Investor pricing is influenced by the need, relationships, market, interest rates, appetite, and various tax issues
- Investor may act as leverage lender or lender to the leverage lender
- Investor cannot have any economic interest in QALICB (NMTC borrower)
- Main concern for investors is avoiding credit recapture

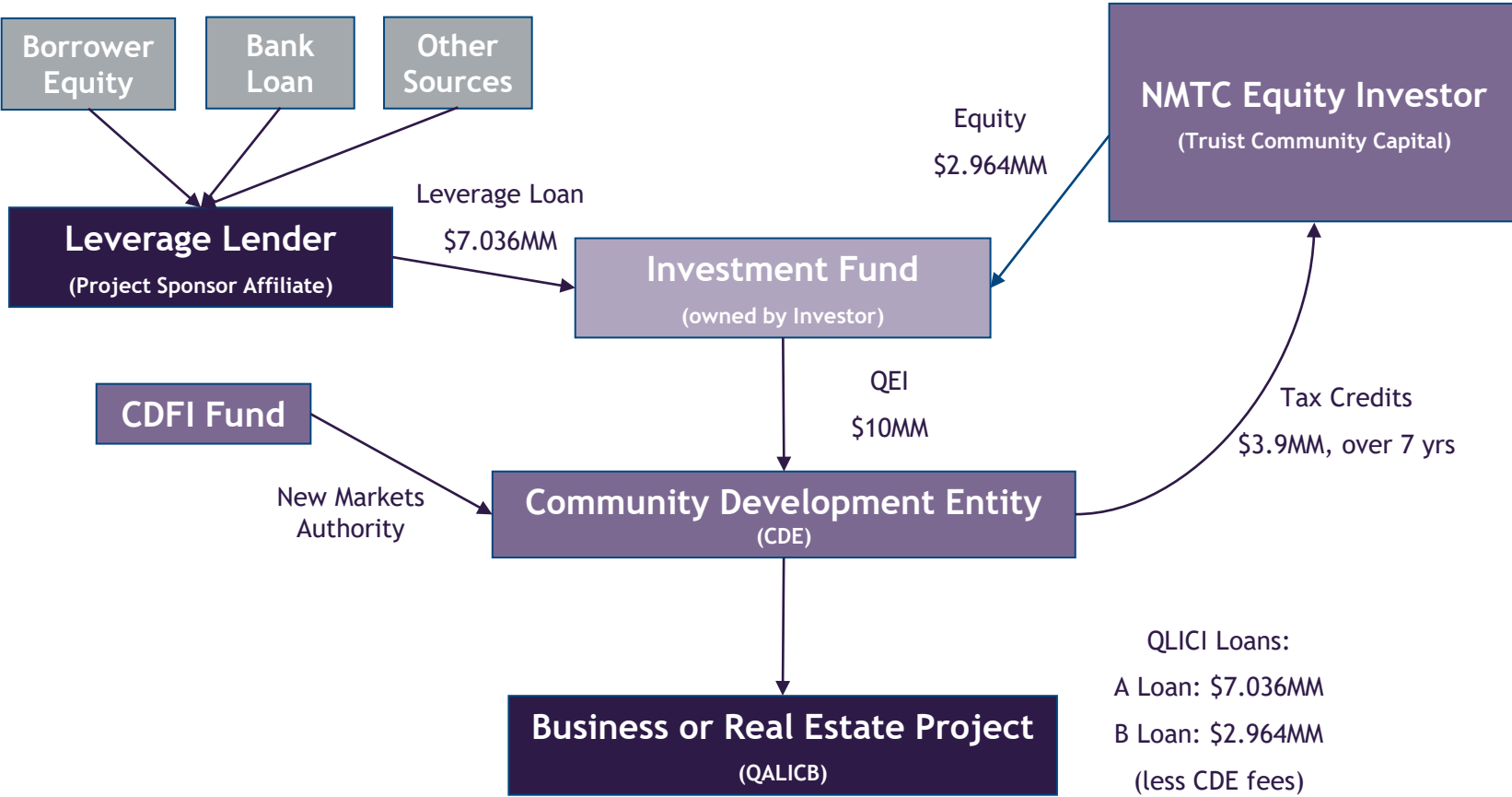
# Critical Distinction

Unlike other tax credit programs, the NMTC does not “belong to” the qualified borrower. It was awarded to the CDE, to be monetized, with the proceeds invested in (or loaned to) a business that qualifies for the subsidy.

It is not an entitlement program.



# Basic New Markets Flow Chart









# The Math

<b>The Math (Estimated)</b>	
NMTC Allocation	\$10,000,000
NMTC Rate	39.0%
Tax Credits	<u>\$3,900,000</u>
Investor Monetization (Estimated \$0.76 per credit example)	\$2,964,000
(Less) Estimated Closing Costs & Fees	(\$1,100,000)
Estimated Net NMTC Cash to the Project	<u>\$1,864,000</u>

# What Makes a Good Project?

Truist qualification and determination of the extent of subsidy based on three criteria:

Demographic Characteristics of Census Tract	Community Impact	But-For
 <p>Must be in a NMTC qualified census tract and in an “area of high distress” (see Appendix) <u>+ TCC priority is CRA areas</u></p>	 <p>Must demonstrate a significant quantifiable community impact (e.g., jobs created, increased wages, increased community services, etc.)</p>	 <p>Must demonstrate a need for subsidized funds to bring community impacts to fruition, i.e. non-bankable gap financing, capital constraints</p>
		



Project needs to be fully sources and ready to go before NMTC funding is committed

- Other sources of funds are committed (e.g. borrower equity, bank debt, etc.)
- Approvals in place

# Assembling the Deal

## NMTC Consultant

- Not Required, but often recommended
- Works with project to get credits and bring participants together

## Accountants

- Required
- Works with all participants to finalize structure and transaction projections

## Legal Counsel

- Required
- Each party to the transaction is represented
- Prepare and review all documents

# TCC NMTC Platform

- Truist invests tax credit equity into 3rd party CDE partners
- Truist helps fund Leverage Loans in 3rd party CDE partners
  - Long-term debt
  - Bridge debt
  - Short-term bridge debt
- Truist CDE has won 11 allocations totaling \$703MM in NMTC allocation authority and closed over \$2.5Bn of NMTC transactions, which is generating thousands of new jobs and countless other services for low-income persons and low-income communities

## CDFI FUND 18<sup>TH</sup> ROUND QUICK STATISTICS\*

199 CDEs applied for allocations (CY 2021), requesting a total of \$14.7Bn in allocations.

For the 2021 round, the CDFI Fund made allocation awards totaling \$5Bn to 107 CDEs (54% of total applicant pool).

APPROXIMATELY  
**\$3.739Bn**  
TO BE INVESTED IN...  
 URBAN AREAS

APPROXIMATELY  
**\$1.164Bn**  
TO BE INVESTED IN...  
 RURAL AREAS

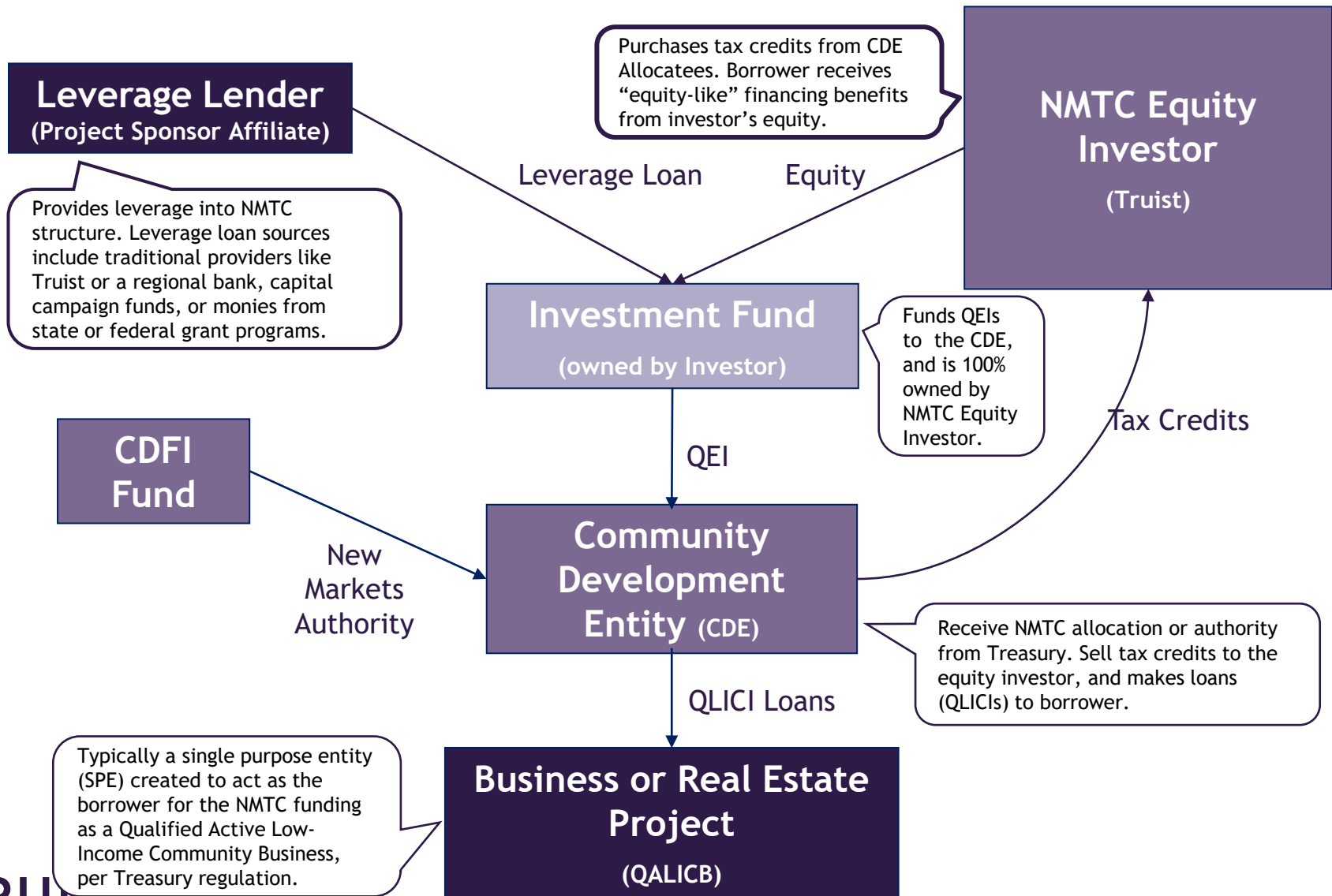
Through 18 Rounds  
**\$71Bn**  
IN TOTAL AWARDS

\*Reported figures from 18<sup>th</sup> Round NMTC Program Award Book CY 2021

## Appendix



# Basic New Markets Flow Chart



# Program Definitions / Acronyms Explained

- Under the Community Development Financial Institutions Fund oversight...
- Community Development Entities must use...
- Substantially All of the proceeds from...
- Qualified Equity Investments to make...
- Qualified Low-Income Community Investments in...
- Qualified Active Low-Income Community Businesses located in...
- Low-Income Communities.
  - CDFI allocates NMTCs to...
  - CDEs to use...
  - Sub All of the proceeds from...
  - QEIs to make...
  - QLICIS in...
  - QALICBs located in...
  - LICs

In short...



# CDE Requirements

CDEs must:

-  Have a primary mission of community development
-  Maintain accountability to residents of low-income communities through a governing board or advisory board
-  Be certified by the CDFI Fund

CDEs cannot invest or finance in businesses including the following:

- residential rental real estate
- commercial golf courses
- country clubs
- massage parlors
- hot tub facilities
- package stores
- suntan facilities
- racetracks or other gambling facilities
- farms



# QALICB Requirements

QALICBs must:



At least 50% of the total gross income is from the active conduct of a qualified business in Low-Income Communities (LICs); and



At least 40% of the use of tangible property of the business is within LICs; and



At least 40% of the services performed by the business' employees are performed in LICs; and



Less than 5% of the average of the aggregate unadjusted basis of the property is attributable to collectibles (e.g. art and antiques), other than those held for sale in the ordinary course of business



Less than 5% of the average of the aggregate unadjusted basis of the property is attributable to non-qualified financial property (e.g. debt instruments with a term in excess of 18 months)

## Examples of QALICBs

- An operating business (e.g. manufacturer, grocery store) located in a Low-Income Community (LIC)
- A business that develops or rehabilitates commercial, industrial, retail, and mixed-use real estate projects in an LIC



# Areas of High Distress

## **One of the following:**

- Areas with poverty rate greater than 30%;
- Areas with median income of less than 60% of the state or metro area median income;
- Areas with unemployment rates at least 1.5 times the national average;
- Non-Metropolitan census tracts;

## **Or, two of the following:**

- Areas with poverty rate greater than 25% or median income of less than 70% or unemployment rates at least 1.25 times the national average;
- SBA designated HUB Zones;
- Brownfield redevelopment areas;
- Areas encompassed by a HOPE VI redevelopment plan;
- Areas designated as distressed by the Appalachian Regional Commission or Delta Regional Authority;
- Colonias areas as designated by the U.S. Department of Housing and Urban Development;
- Federally designated as Indian Reservations, Off-Reservation Trust Lands or Alaskan Native Village Statistical Areas, or Hawaiian Home Lands;
- Federally designated medically underserved areas;
- Federally designated Promise Zones, Impacted Coal Counties, Empowerment Zones, Enterprise Communities or Renewal Communities, base realignment and closure areas, State enterprise zone programs, or other similar state/local programs targeted towards particularly economically distressed communities;
- State or local tax increment financing districts, enterprise zones, or other similar state/locally targeted communities;
- Counties for which FEMA has issued a major disaster declaration since July 15, 2005
- Businesses certified by the Department of Commerce as eligible for assistance under the Trade Adjustment Assistance for Firms (TAA) Program;
- A Food Desert as determined by the USDA; or a census tract that has been identified as having low access to a supermarket or grocery store, to the extent QLICI activities will increase access to healthy food; or
- Areas within a Qualified Opportunity Zone.

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