

2010 OPPORTUNITY FINANCE NETWORK CONFERENCE

# FINANCING SMALL BUSINESS WITH NMTCS

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November 3, 2010



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# New Markets Tax Credit Program Overview

- Legislation Passed in 2000 Encouraging Private Investment in Low-Income Communities (LICs)
  - New Markets Tax Credit (NMTC) program
  - Operated by the Community Development Financial Institution (CDFI) Fund ([www.cdfifund.gov](http://www.cdfifund.gov))
  - Division of the U.S. Department of the Treasury
- First loans closed in late 2003, early 2004



## New Markets Tax Credit Program Overview (cont.)

- Designed to spur investment and promote economic development in rural and urban low-income communities (LICs)
- Provides investors a credit against federal income tax liability for a qualified investment
  - Credit totals 39% over 7 years
  - LICs defined by decennial Census data
  - Census tract with > 20% poverty *OR*
  - < 80% median family income
- Community Development Entities (CDEs) compete for tax credit allocations



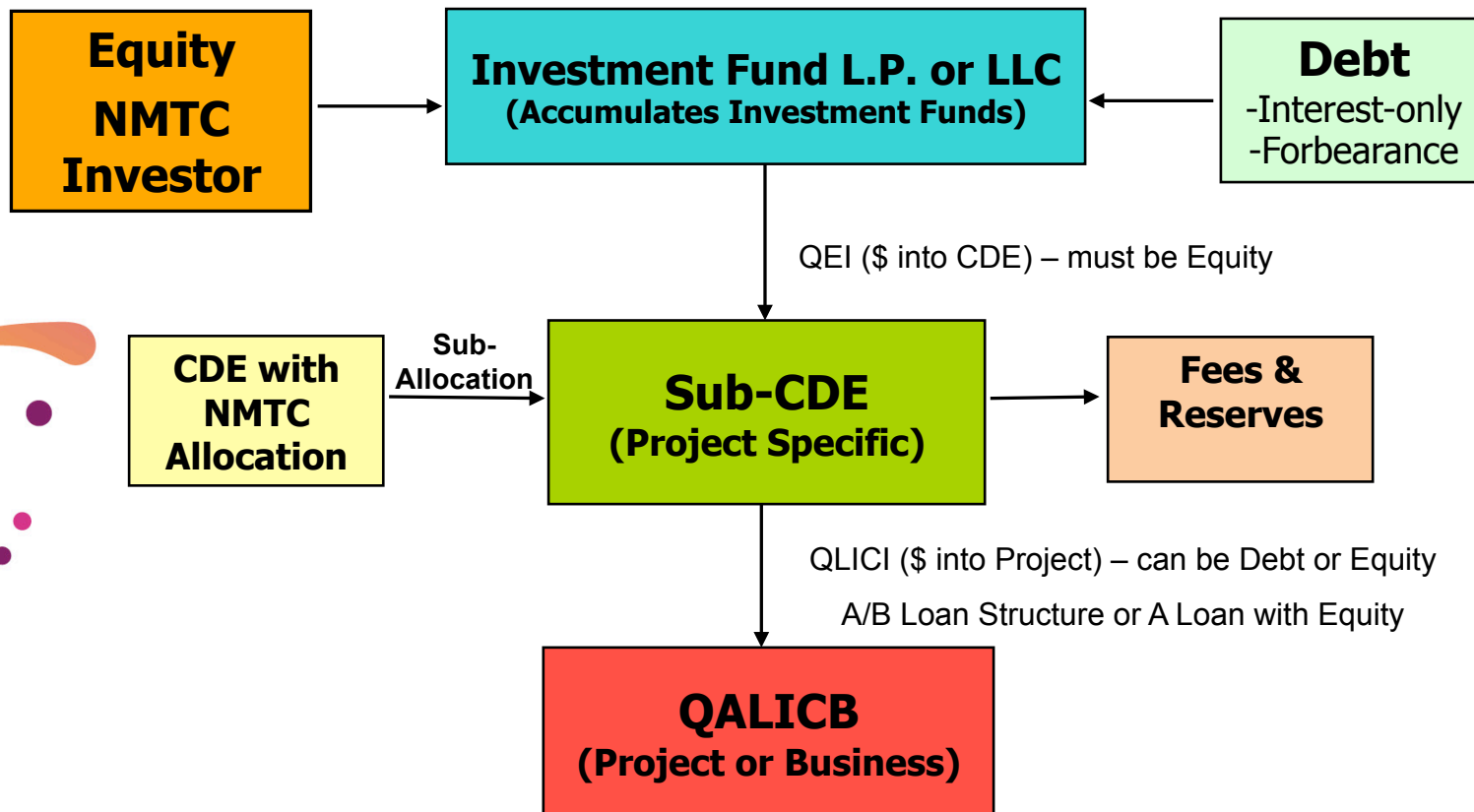
## Lending to Small Business Using NMTC

- Difficulties due to high transaction costs
- Loan Pool as vehicle to spread the costs
- Investor Issues
- CDE Issues
- Borrower Issues



## NMTC Flow of Funds

### Leveraged Equity Model



## Merrill Lynch Community Development Corporation (MLCDC) – GAF Model

- Typical terms End Borrower– MLCDC Allocation
  - QEI - \$5 million
  - Loan Amount - \$190,000 - \$2,000,000, average loan \$800,000
  - SBA guarantee – 75-90%
  - Interest Rate – 2.5% – 3.75%
  - Amortization – 25 years, fully amortizing
  - NMTC supports the guaranteed portion
  - GAF equity supports the unguaranteed portion
  - Deployment risk taken by MLCDC
  - Investor takeout Year 7 – Secondary market or GAF investor partners

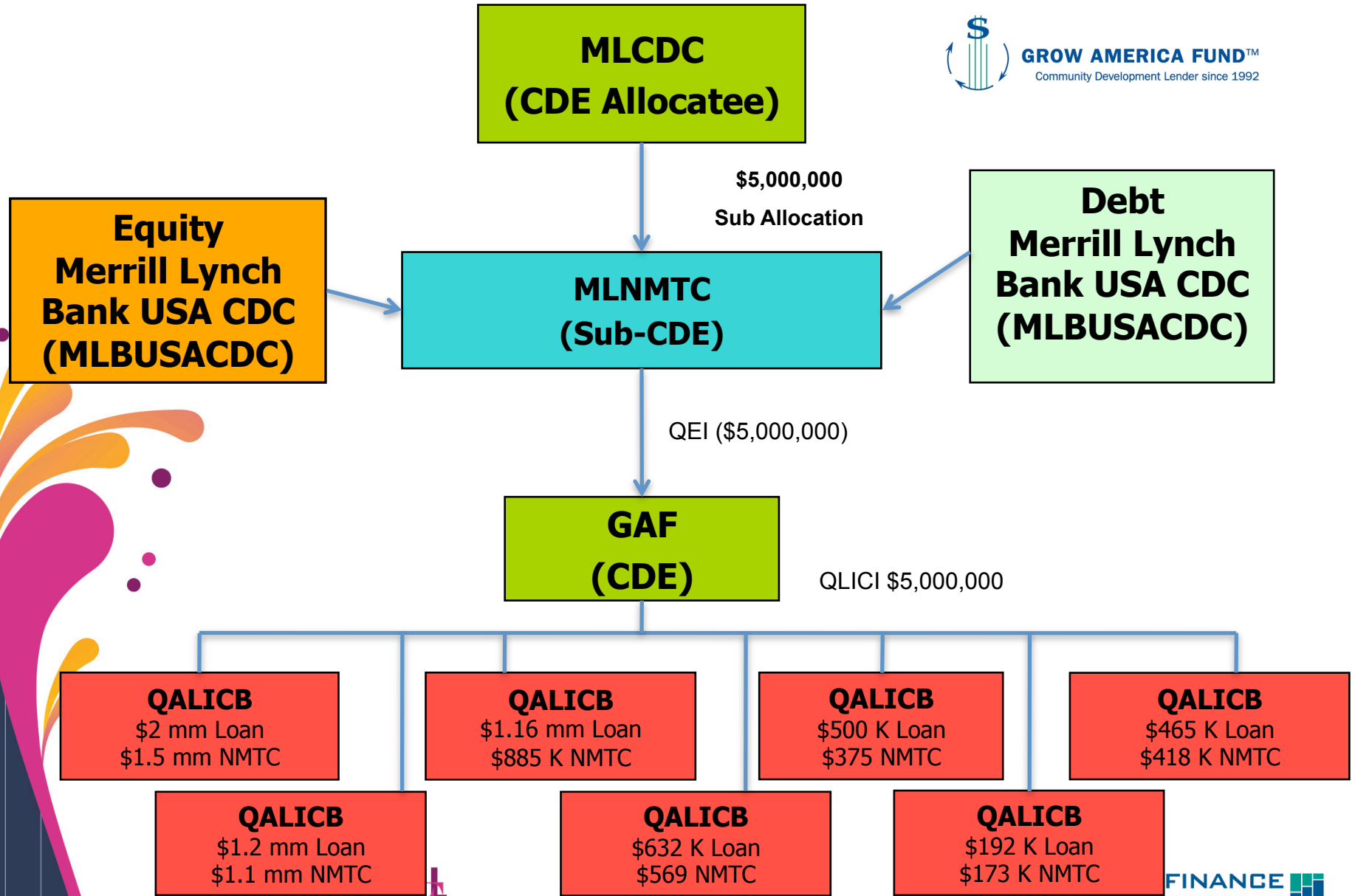


## Players

- CDE Allocatee – Merrill Lynch Community Development Company (MLCDC)
- Sub-CDE – Merrill Lynch NMTC Corp. (MLNMTC)
- Investor – Merrill Lynch Bank USA CDC (MLBUSACDC)
- Lender – Merrill Lynch Bank USA CDC (MLBUSACDC)
- CDE – Grow America Fund
- QALICBs – 7 small businesses



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## Dental Kidz Pediatric Dentistry



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## CCML SME Pilot Pool

- Community Bank and Sub-debt Funders
- Statewide coverage in Maine
- Joint underwriting with Lender and CEI
- \$9,500,000 Pool Created
- Target deals in \$200K to \$2MM range
- Pricing loans at about 1.5% below market
- 25 year amortization / balloon at year 7



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## SME New Markets Loan Fund

Equity  
**Bangor Savings Bank**  
(100% of Investment Fund)

Senior Debt  
**Bangor Savings Bank**

Subordinated Debt  
**CEI plus A-D**

- A**  
\$110K
- B**  
\$500K
- C**  
\$100K
- D**  
\$50K

\$5,812,655 Loan @  
FHLB CDA + 150 bps

\$2,700,000  
Equity  
Investment

NMTCs \$3,704,629

\$1,300,000 Loan @  
FHLB CDA + 50 bps  
Plus 300 bps accrued

**CCML**  
Non-Member  
Manager

**Investment Fund**  
**\$9,812,655 - all tranches**  
CCML Maine Investment Fund II LLC  
(99.99% interest in CDE)

**CCML**  
Member Manager  
(0.01%)

**CDE**  
**\$9,500,000 - all tranches**  
CCM Small Business and Community Facilities LLC

Total NMTCs  
\$3,704,629

\$9,500,000 QEI  
Equity Investment

\$9,292,883 Total QLICI's

**QALICB 1**

**QALICB 2**

**QALICB 3**

**QALICB 4**

**QALICB 5**



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## Baxter Library Renovation



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## CCML SME Pool Current Reality

- One half of pool deployed to date
- Deal size larger than hoped for @ \$2MM+
- Expect to deploy remainder in one year.



## CCML's Likely Next Pool

- Seek standardized replicable deals
  - Distributed energy systems such as anaerobic digesters and roof-top solar
  - Possibly rural health centers or assisted living
- Same documents
- Same structure



# Midwest Minnesota CDC – “Synergy” Loan Funds

- “One Eye Blind” Loan Funds
  - QEI - \$8 - 10 million
  - Target Loan Amount - \$250,000-\$3,000,000
  - Interest Rates Vary by Partner Bank
    - Range from Prime – 1% to Prime + 3/4%
    - Usually with minimum rate, 4%-5.5%
  - Amortization – little or none
    - Mostly interest-only for 7 years
    - Some sinking funds or upper tier participations
  - B&I or SBA guarantee on a few loans
  - Debt forgiveness 15% - 19%
  - Takeout Year 7 – MMCDC, Partner Bank, Parent



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# Perham Veteran's Museum: "In Their Own Words"



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## Midwest Minnesota CDC – Grouping NMTC Loans

- Pairing Projects to Share Transaction Costs
  - QEI - \$4.5 - 7 million
  - Loan Amounts - \$1,400,000-\$3,000,000
  - Interest Rates Vary by Partner Bank
    - Range from Prime – 1% to Prime + 3/4%
    - Usually with minimum rate, 4%-5.5%
  - Amortization – usually none
  - B&I guarantee on one project
    - Two years interest-only, five years amortizing
    - Redeploy to same borrower (equipment)
  - Debt forgiveness 17% - 19% remaining loans
  - Takeout Year 7 – MMCDC, Partner Bank, Parent



# Manufacturing Expansions



- Rural manufacturing
- Combined NMTC allocation \$4.9 million
- Overseas competition, price pressure
- Created 30 jobs at each, maintained several hundred more

## MMCDC Loan Fund Status

- Filling 4<sup>th</sup> “blind” pool
  - Two rural, two urban
  - Using form loan documents
  - Local RE attorney closes and records
- Closing 4<sup>th</sup> project group, all rural
- Loan Sizes vary
  - \$225,000 to \$2.8 million (3 revolved)
  - 32 loans under \$3 million so far (+6 in process)
  - High Demand
- Four leverage lenders (two repeats)



## Native Entrepreneurship Equity Fund (derived from fee income)

Reservation loans that don't meet loan standards:

- Forgivable Loans up to \$10,000
- Requires \$ for \$ Match
- Submit a Business Plan, Local Endorsement
- If all conditions are met, repayment not required

*OR*

- Intensive Entrepreneur Training – Web-based
- Potential Funding throughout Process

*Slow to realize ....*



# Grow America Fund and Carver CDC

- Typical terms End Borrower
  - QEI - \$5 million
  - Loan Amount - \$300,000-\$2,000,000
  - SBA guarantee – 75-90%
  - Interest Rate – prime + 1.5 fixed for 7 years
  - Amortization – 25 years, fully amortizing
  - NMTC supports the guaranteed portion
  - GAF equity supports the unguaranteed portion
  - Takeout Year 7 – Secondary market or GAF investor partners



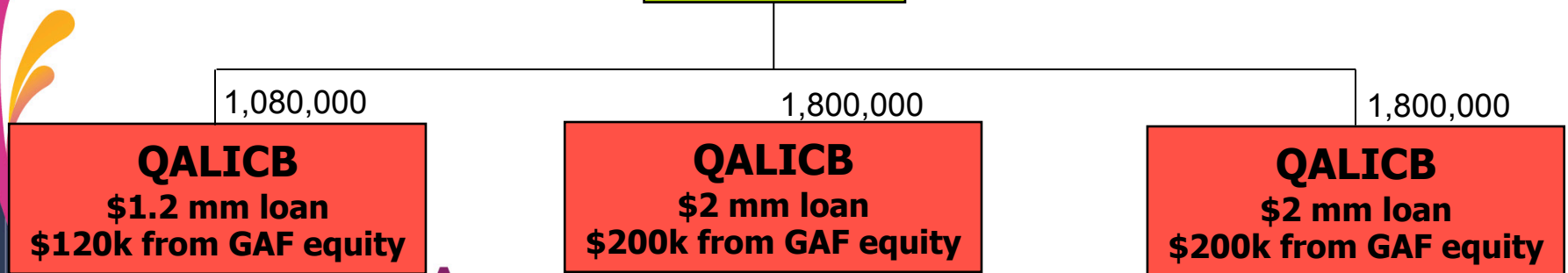
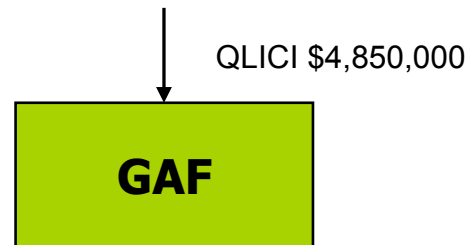
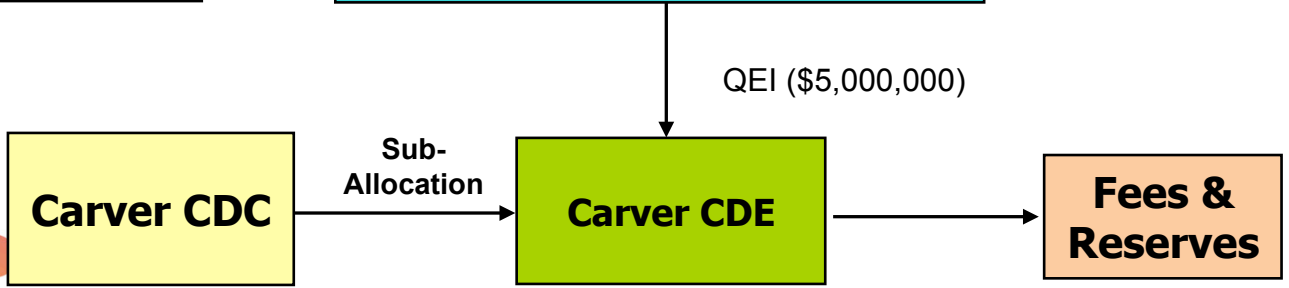
# Players

- CDE – Carver CDC allocation
- Sub-CDE – Grow America Fund, not a separate entity
- Investor – US Bank CDC
- Leveraged Lender – Carver CDC
- Not yet Closed – Attorneys +++



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## Investor Issues

- Slow deployment due to economic conditions has weakened enthusiasm
- Bank investor may require significant risk mitigation
  - with sub-debt and NMTC equity
  - higher indemnity
  - SBA or USDA guarantee
- Higher risk with multiple loans over time (Substantially All)
- Leverage Lender – not a typical loan, lots of education
- Redeployment risk





## CDE Issues

- Compliance and small businesses a challenge
- Non-Qualified Financial Property
- Additional transaction costs: upfront and ongoing
- Less sophisticated borrowers, lots of education
- Amortization of principal
- Recourse/guarantee of credits



## Borrower Issues

- Rate environment
- 7-year refinance
- Balance sheet restructure / creation of SPE
- Simplified process – less flexibility, less complexity
- Forgiveness not guaranteed, lots of education
- Eligibility issues – creation of LLC / Special Purpose Entity

