Growing Diverse Housing Developers

cdfa
Council of Development Finance Agencies

Growing DIVERSE HOUSING
Supported by RDF & WELLS FARGO

THE EVENT WILL BEGIN AT 1PM EASTERN

RDF

Advancing Affordable Housing Finance & Policy

April 8 & 9, 2025
1:00 – 4:30 PM Eastern

Opportunity Zones and Affordable Housing Policy Under the New Administration

Fawn Zimmerman, DFCP
Managing Director, Advisory Services
Council of Development Finance Agencies

CDFA TRAINING INSTITUTE

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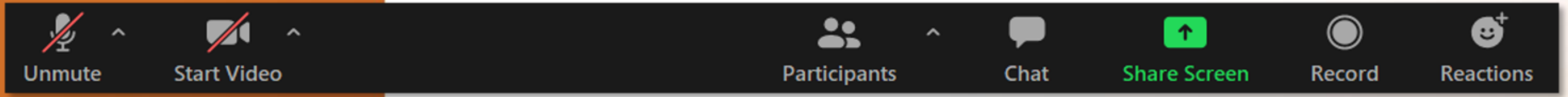
Upcoming: Structuring Financially Sustainable Affordable Housing Projects

Pro Forma Walkthroughs of Complex Affordable Housing Deals
April 9, 2025 @ 1:00 PM – 2:30 PM Eastern

Unlocking NMTC for Affordable Housing: Case Studies & Practical Training
April 9, 2025 @ 3:00 PM – 4:30 PM Eastern



Submit your questions & comments in the chat

Structuring Financially Sustainable Affordable Housing Projects

Lisa Herrera

Sr. Director of Affordable Housing
Raza Development Fund, Inc.

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Structuring Financially Sustainable Affordable Housing Projects

Speakers

Omar Uddin
Founder & Principal
Uddin Development Consulting

Debbie Schwartz
Principal
Ambit Capital Structures LLC

Donna Smith
Executive Vice President
SmithNMTC Associates, LLC

Growing Diverse Housing Developers Fellowship

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April 9, 2025
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Structuring Financially Sustainable Affordable Housing Projects

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Intermediate Affordable Housing Pro Forma Walkthrough

Omar Uddin

Founder & Principal
Uddin Development Consulting

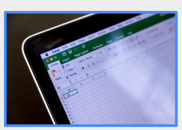
Navigating Development Project Returns & Capital Stacks: A Practical Guide

Omar Uddin

Principal, Uddin Development Consulting

Uddin Development Consulting

Uddin Development Consulting (UDC) is a consulting firm providing a range of services to real estate developers, community development financial institutions (CDFIs)*, and other industry consultants nationwide. UDC's services include ***financial modeling***, ***contract underwriting***, ***development feasibility analyses***, ***subsidy application submissions***, and ***technical instruction***.



UDC is recognized by* ***Opportunity Finance Network* *(OFN) as a* ***'CDFI Industry Consultant'***

Disclaimer

The following information should not be construed as financial advice but as the opinion of Uddin Development Consulting. Please consult with your professional advisors, such as your accountants and attorneys, before undertaking any real estate development projects.

Download Pro Formas

1. Visit this link: https://tinyurl.com/cdfa-gdhd
2. Complete the form.
3. On the confirmation page, there will be two links. Open both links in new tabs to avoid revisiting the form.
4. Download both pro formas.

Objective:

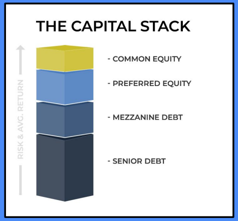
To understand what **structured capital stacks** are, how these stacks are used to ***finance projects***, how these stacks are represented in ***pro formas/financial models***, and how to use ***metrics*** to guide your understanding of capital stack ***feasibility***.

Agenda

1. Introduction
2. Pro forma downloads
3. Objective
4. Introduction to structured capital stacks
5. Debt Return - Metrics
6. Debt Sources: Impact on DSCR
7. Debt Sources: Filling the Gap
8. Equity Sources - Metrics
9. Equity Sources: Filling the Gap
10. Equity Waterfalls
11. Multiple Equity Sources (Partnership Structure): Filling the Gap
12. LIHTC in a Capital Stack
13. Q & A

Structured Capital Stacks

Structured capital stacks are multi-layered financing stacks. These stacks include various types of ***debt***, ***equity***, and ***grants*** in order to fill the financing gaps that exist in a project. These sources are used to create a more feasible development project.



Loan-to-Value (LTV)

Mortgage amount

÷

Appraised property value

FORMULA

UDDIN DEVELOPMENT CONSULTING

Debt Service Coverage Ratio (DSCR)

Annual cash flow available for debt service

÷

Total annual debt service

FORMULA

UDDIN DEVELOPMENT CONSULTING

Debt Metrics and Feasibility

- **Loan-to-value (LTV) constraints create the need for financing sources to fill the financing gap.**
  - **LTV constraints are determined by the lender.**
- **Debt service coverage ratio (DSCR) requirements limit the amount of debt a project can assume.**
  - **In this high interest rate environment, DSCR is usually more restrictive than LTV constraints.**

Debt Sources: Impact on DSCR

In the sample proforma, the following varied debt sources are included:

- Loan A - $3,240,000 - $258,670
- Loan B - $1,000,000 - $79,836
- Loan C - $1,000,000 - $38,597
- Loan D - $350,000 - $20,000 (if cash flow permits)

Total Cash Flow = $76,137

Total Debt Payments (excl. Loan D) = $377,103

DSCR = 1.2

Major "Sources" Categories

- Senior Loan
- Mezzanine/Subordinated Loans
- Low-interest loans/cash flow contingent loans
- Equity (including general/limited partner equity if partnership exists)
- Tax Credit Equity (if tax credits are involved)
- Grants
- Deferred Developer Fee

Debt Sources: Impact on DSCR

In the sample proforma, the following varied debt sources are included:

- Loan A - $3,240,000 loan amount - **Senior Loan**
- Loan B - $1,000,000 loan amount - **Mezzanine Loan**
- Loan C - $1,000,000 loan amount - **Subordinated Low-interest Loan**
- Loan D - $350,000 loan amount - **Cash Flow Contingent Loan**

Total Cash Flow = $76,137

Total Debt Payments (excl. Loan D) = $377,103

DSCR = 1.2

Debt Sources: Filling the Gap

Technical Tip for Determining Debt Amount:

- **Use MS Excel's "Goal Seek" function to determine the total amount of debt a project can assume or to determine the potential debt amounts of subordinated debt sources.**
- **Goal Seek function should use the DSCR requirement as an anchor.**

Major "Sources" Categories

- Senior Loan
- Mezzanine/Subordinated Loans
- Low-interest loans/cash flow contingent loans
- Equity (including general/limited partner equity if partnership exists)
- Tax Credit Equity (if tax credits are involved)
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- Deferred Developer Fee

Equity Sources: Impact on Return Metrics

Use an equity return metric to determine the appropriate equity investment into the project. The intended target for the metric should determine the equity investment amount. The following metrics can be used:

- Cash-on-Cash Return (CoC)
- Return on Investment (ROI)
- Internal Rate of Return (IRR)

Cash-on-Cash Return (CoC)

$$\frac{\text{Annual Cash Flow (after Debt Service)}}{\text{Total Equity Investment}}$$

METRIC

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Return on Investment (ROI)

$$\frac{\text{Total Cash Flow after Debt Service (+ Net Sales Proceeds)}}{\text{Total Equity Investment}}$$

METRIC

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Internal Rate of Return (IRR)

Break-even rate of return…

$$0 = CF_0 + \frac{CF_1}{(1 + IRR)} + \frac{CF_2}{(1 + IRR)^2} + \frac{CF_3}{(1 + IRR)^3} + \ldots + \frac{CF_n}{(1 + IRR)^n}$$

or

$$0 = NPV = \sum_{n=0}^{N} \frac{CF_n}{(1 + IRR)^n}$$

where :

CF_0 = Initial investment/outlay

CF_1 CF_2 CF_3 ... CF_n = Cash Flows

n = Each Period

N = Holding Period

NPV = Net Present Value

IRR = Internal Rate of Return

METRIC

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Internal Rate of Return (IRR)

Break-even rate of return…is difficult to compute.

$$0 = CF_0 + \frac{CF_1}{(1 + IRR)} + \frac{CF_2}{(1 + IRR)^2} + \frac{CF_3}{(1 + IRR)^3} + \ldots + \frac{CF_n}{(1 + IRR)^n}$$

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METRIC

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Internal Rate of Return (IRR)

Excel functions:

=IRR(Initial Cash Flow:Future Cash Flows…)

=XIRR(Initial Cash Flow:Future Cash Flows…, Date of Initial Cash Flow:Dates of Future Cash Flows…)

METRIC

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Equity Sources: Filling the Gap

Technical Tip for Determining Equity Amount:

- **Use MS Excel's "Goal Seek" function to determine the total amount of equity that should be invested into a project.**
- **Goal Seek function should use a return metric as an anchor.**

What is a distribution waterfall?

A financial projection of the **distribution** of the potential cash flow of a real estate development project based on **predefined tiers** of investors.

What is a distribution waterfall?

A financial projection of the **distribution** of the potential cash flow of a real estate development project based on **predefined tiers** of investors.

What is a distribution waterfall?

A tool to show how the money will be divided amongst the various investors.

Utilizing an Equity Distribution Waterfall

- **Preferred Return for Limited Partner**
- **Reach IRR Threshold before advancing to the next hurdle**
- **Each hurdle has a different cash flow % split**

Multiple Equity Sources: Filling the Gap

Technical Tip for Determining Equity Amount:

- **Use MS Excel's "Goal Seek" function to determine the preferred equity amount that should be invested into a project.**
- **Goal Seek function should use a target preferred IRR as an anchor.**

Major “Sources” Categories

- Senior Loan
- Mezzanine/Subordinated Loans
- Low-interest loans/cash flow contingent loans
- Equity (including general/limited partner equity if partnership exists)
- Tax Credit Equity (if tax credits are involved)
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- Deferred Developer Fee

Low-Income Housing Tax Credits - Capital Stack

- **Low-Income Housing Tax Credits (LIHTC) are represented as tax credit equity. These credit allocations are syndicated and are represented as an equity source.**
- **The remaining financing gap can be filled with debt, equity, or grant sources.**

Questions?

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Thank you!

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Case Studies

Issue:
Developer sought to determine **financial feasibility** of **mixed-use development** and to **pitch** project to funders.

Outcome:
UDC created a custom **proforma model** and **pitch deck** for developer to apply for funding.

Issue:
Industry consultant sought to determine if potential **housing developments** were feasible with **LIHTC** funding.

Outcome:
UDC underwrote potential deals with **LIHTC 4%**, **LIHTC 9%**, and **blended LIHTC 4/9** funding.

Issue:
CDFI sought to assist a number of **emerging developers** in the **pre-development** stage.

Outcome:
UDC provided **proforma models** for each developer and offered **1-on-1 technical instruction.**

To set up a consultation, visit uddindc.com/services or scan this QR code

Ownership Statement

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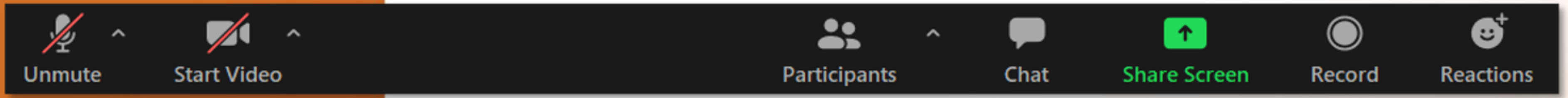

Submit your questions & comments in the chat

Advanced Affordable Housing Pro Forma Walkthrough

Debbie Schwartz

Principal
Ambit Capital Structures

Structuring Financially Sustainable Affordable Housing Projects

Case Study: Twinning Transaction

Ambit Capital Structures LLC
Debbie Schwartz | Principal
Chicago, IL

Ambit Capital Structures

Affordable Housing Consulting

- 25+ years of Affordable Housing Experience

- Financial Consulting
  - Feasibility
  - Structuring and Modeling—LIHTC (4%/9%, HOME, CDBG, NHTF, Illinois TF, PSH, FHLB, TIF, ARO, PHA Capital
  - New Construction, Rehab, Year 15
  - Debt and equity structuring

- Strategy
  - Competitive Application
  - Team Assembly

What is Twinning?

9% Tax Credit

- Covers about 80% of hard cost
- Capped in Illinois

4% Tax Credit

- Covers about 35% of hard cost
- Not capped

4%/9% Twin

- Maximizes equity
    - Maximize 9% Credit
    - Use 4% Credits/TE Bonds for the rest
        - State not Volume Cap constrained
        - Credits non-competitive
- **One project** - two related, simultaneous, independently financed transactions
- Not sequenced/Phased

In the Weeds

Favorite Type?

1. Dandelion
2. Milkweed
3. Thistle
4. Poison Ivy
5. Crabgrass





Ambit Capital Structures

Why Consider Twinning?

- Maximize Equity / Enhance Feasibility
- "Monetize" Surplus Basis
- More Units
- Higher Density
- Reduces Soft Fund Request

Why for this project?

- 98 unit building / Cost of $62.8M
  - Eligible Basis $55M
  - No QCT or DDA

- Ideal Scenario
  - Credits - $4.95M → $42.8M in equity
  - $2.5M debt + $17.5M soft funds/grants/DDF

- *BUT* HFA caps annual LIHTC at $1.5M → $13M in equity
  - $2.5M debt + $17.5M soft funds/grants/DDF + $30M Gap

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How is building split?

- Separate into two distinct projects to avoid taint
  - Tax exempt bond cannot be used for 9% deal or credits become 4% credits
- Per accountant, split using unit SF and not number of units
- Original split for application was 32 units (9%) / 68 units (4%)
  - Floors 1-3 (9%) and Floors 4-8 (4%)
  - Costs split 37.2% / 62.8%
- After award / updated pricing split changed to 28 units (9%) / 70 units (4%)
  - 9% had excess basis
  - Floors 1-2, part of 3 and 4 – 9%; Part of 3 and 4 and 5-8 (4%)
  - Costs split 31% / 69%

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How is building split?

- One building with two condominium units
  - Unit 1 is 28 units--
  - Unit 2 is 70 units
  - Not checkerboarded
  - Common areas not included in Condos
- Per accountant, split using **SF of units** and not number of units
- All units connected horizontally and/or vertically

9% Transaction

4% Transaction

Unshaded = Common Area

Condominium Structure

- Condo rather than vertical subdivision
- Surveyor – initial plat based on plans
- Taxes
- Common Areas, Shared Amenities, Cost Sharing

Famous Splits

Favorite Type?

1. Banana Splits

2. Gymnastic / Ballet

3. Decision

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Construction Sources

Construction Debt - 9%	Amount	Rate	Term	Construction Interest
Construction and Equity Bridge Loan	$11,366,000	7.42%	2.5	902,075
City of Chicago Funds (part bridged)	2,183,000	0	2.5	
IHDA Soft Debt	1,880,000	0	2.5	
FHLB-AHP	700,000	0	2.5	
LIHTC Equity	2,010,600			
GP Equity	100			
Dev Fee/Reserves post-completion	1,015,300			
TOTAL	**$ 19,155,000**			

Construction Debt - 4%	Amount	Rate	Term	Construction Interest
Tax Exempt Bond	$21,750,000	6.92%	2.5	2,573,175
City of Chicago Funds	4,550,000	0	2.5	
City HOME	8,660,000	0	2.5	
IHDA HOME	4,310,000	0	2.5	
LIHTC Equity	1,977,750			
GP Equity	100			
Dev Fee/Reserves post-completion	2,401,150			
TOTAL	**$ 43,649,000**			

Ambit Capital Structures

Permanent Sources

Permanent Sources-9%	Amount	Term	Amort	Rate	Annual Debt Service
First Mortgage	-				
City Multifamily funds	$ 2,425,000	35	0	0%	Cash Flow
IHDA Funds (TF)	1,880,000	35	0	0%	Cash Flow
Sponsor Loan FHLB AHP	700,000	35	0		
Sponsor Loan ComEd	176,000	35	0		
LIHTC Equity	13,404,000				
Deferred Developer Fee*	569,900				
GP Equity	100				
TOTAL	**$ 19,155,000**				

Permanent Sources-4%	Amount	Term	Amort	Rate	Annual Debt Service
First Mortgage (Risk Share)	$ 1,845,000	35	35	6.75%	137,582
City Multifamily funds	13,411,000	35	0	0%	Cash Flow
City HOME Funds	9,623,000	35	0	0%	Cash Flow
IHDA Funds (HOME)	4,310,000	35	0	0%	Cash Flow
ComEd Grant	392,000				
LIHTC Equity	13,185,000				
Deferred Developer Fee*	882,900				
GP Equity	100				
TOTAL	**$ 43,649,000**				

Equity Pay-In – 15% Closing; 65% Completion; 19% Stabilization; 1% 8609

Deferred Developer Fee includes increase in property value from initial purchase to current appraisal – no cash out.

Ambit Capital Structures

Uses

	9% LIHTC	4% LIHTC	TOTAL
Acquisition	976,000	2,174,000	3,150,000
Construction Costs	13,988,000	31,134,000	45,122,000
Contingency	607,000	1,351,000	1,958,000
Soft Costs	1,007,500	2,260,000	3,267,500
Financing Costs	455,000	1,397,500	1,852,500
Interim - Interest, T&I	959,000	2,701,000	3,660,000
Syndication	75,000	75,000	150,000
Reserves	235,000	659,000	894,000
Developer Fee (incl Consulting)	852,500	1,897,500	2,750,000
TOTAL	**$19,155,000**	**$43,649,000**	**$62,804,000**

Unit Mix

9 Percent

	15% AMI	30% AMI	50% AMI	60% AMI	70% AMI	TOTAL
1 BR	1	5	0	0	0	**6**
2 BR	3	3	0	4	0	**10**
3 BR	6	6	0	0	0	**12**
TOTAL	**10**	**14**	**0**	**4**	**0**	**28**

4 Percent (Income Averaging)

	15% AMI	30% AMI	50% AMI	60% AMI	70% AMI	TOTAL
1 BR	0	11	0	17	4	**32**
2 BR	0	0	1	19	4	**24**
3 BR	0	0	0	10	4	**14**
TOTAL	**0**	**11**	**1**	**46**	**12**	**70**

Income

9 Percent

% AMI	Bedrooms	Baths	Units	Unit SF	Monthly Rent	Utility Allowance	Monthly Gross	Monthly Limit	Rent as % of Limit	Annual Income	Subsidy
30%	1	1	4	834	551	47	598	630	95%	26,448	
15%	1	1	1	834	1,059	47	1,106	315	351%	12,708	CLIHTF
30%	1	1	1	834	1,059	47	1,106	630	176%	12,708	CLIHTF
15%	2	1	3	1,097	1,270	58	1,328	378	351%	45,720	CLIHTF
30%	2	1	3	1,097	1,270	58	1,328	756	176%	45,720	CLIHTF
15%	3	2	6	1,421	1,468	68	1,536	437	351%	105,696	CLIHTF
30%	3	2	6	1,421	1,468	68	1,536	874	176%	105,696	CLIHTF
60%	2	1	4	1,097	1,379	58	1,437	1513	95%	66,192	
TOTAL			**28**							**420,888**	

* CLIHTF = Chicago Low Income Housing Trust Fund

4 Percent

% AMI	Bedrooms	Baths	Units	Unit SF	Monthly Rent	Utility Allowance	Monthly Gross	Monthly Limit	Rent as % of Limit	Annual Income	Subsidy
30%	1	1	11	860	551	47	598	630	95%	72,732	HUD 811*
60%	1	1	17	860	1,150	47	1,197	1261	95%	234,600	
60%	2	1	19	1,101	1,379	58	1,437	1513	95%	314,412	
60%	3	2	10	1,397	1,593	68	1,661	1749	95%	191,160	
70%	1	1	4	860	1,276	47	1,323	1471	90%	61,248	
70%	2	1	4	1,101	1,530	58	1,588	1765	90%	73,440	
70%	3	2	4	1,397	1,768	68	1,836	2040	90%	84,864	
50%	2	1	1	1,101	1,139	58	1,197	1261	95%	13,668	
TOTAL			**70**							**1,046,124**	

* Rents are $1,214 but used 30% rents for underwriting.

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Expenses

	9% LIHTC		4% LIHTC	
	Amount	Per Unit	Amount	Per Unit
Management Fee	23,418	836	58,210	832
Payroll	64,904	2,318	162,241	2,318
Administrative*	18,732	669	46,830	669
Operating	23,324	833	58,310	833
Maintenance	49,812	1,779	124,560	1,779
Utilities (all Electric) / Water Sewer	45,108	1,611	112,800	1,611
Tax and Insurance	49,083	1,753	125,562	1,794
Replacement Reserves	9,800	350	24,500	350
TOTAL	**284,181**	**10,149**	**713,013**	**10,186**

* Accounting Costs estimated at $40,000/year across both projects due to twinning.

Cash Flow

9 Percent

		1	2	3	4	5	6	7	8	9	10	11	12	13	14	15	16	17	18	19	20
Cash Flow After Debt Service	[redacted]	106,127	105,444	104,660	103,770	102,768	101,649	100,407	99,038	97,536	95,893	94,105	92,164	90,063	87,796	85,356	82,734	79,923	76,915	73,701	70,272
Cash Flow Per Unit	[redacted]	3,790	3,766	3,738	3,706	3,670	3,630	3,586	3,537	3,483	3,425	3,361	3,292	3,217	3,136	3,048	2,955	2,854	2,747	2,632	2,510

* Cash Flow before soft debt cash flow payments

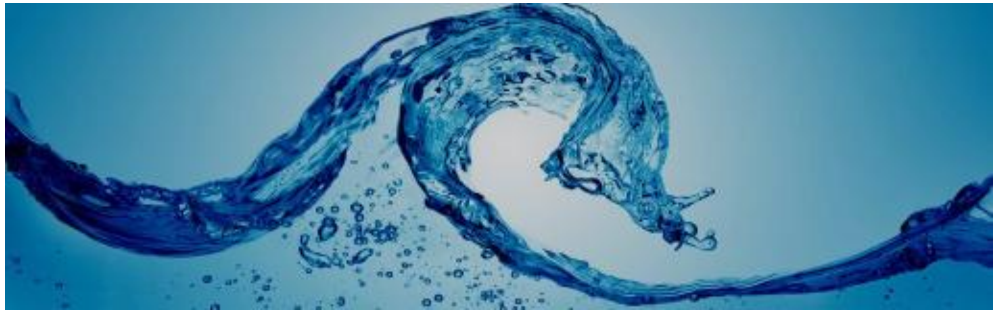
4 Percent

Cash Flow After Debt Service	[redacted]	118,368	116,361	114,087	111,534	108,689	105,537	102,066	98,259	94,103	89,580	84,676	79,372	73,651	67,494	60,883	53,797	46,217	38,120	29,485	20,288
Cash Flow Per Unit	[redacted]	1.691	1.662	1.630	1.593	1.553	1.508	1.458	1.404	1.344	1.280	1.210	1.134	1.052	964	870	769	660	545	421	290
IHDA FFB - Taxable Risk Share	[redacted]	1.87	1.85	1.84	1.82	1.80	1.78	1.75	1.72	1.69	1.66	1.62	1.59	1.54	1.50	1.45	1.40	1.34	1.29	1.22	1.16

* Cash Flow before soft debt cash flow payments
** Underwritten to 1.15 DCR in **Year 20** vs Year 15

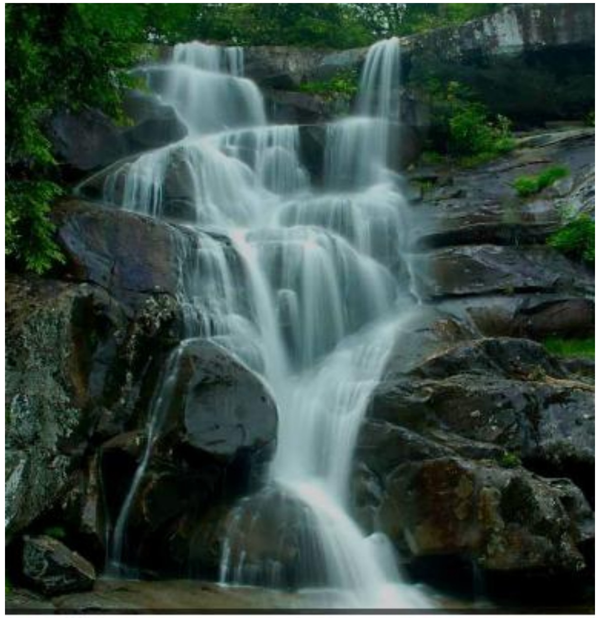
Why water?

1. Cash flow



2. Income Stream

3. Financial Cascade



4. Waterfall

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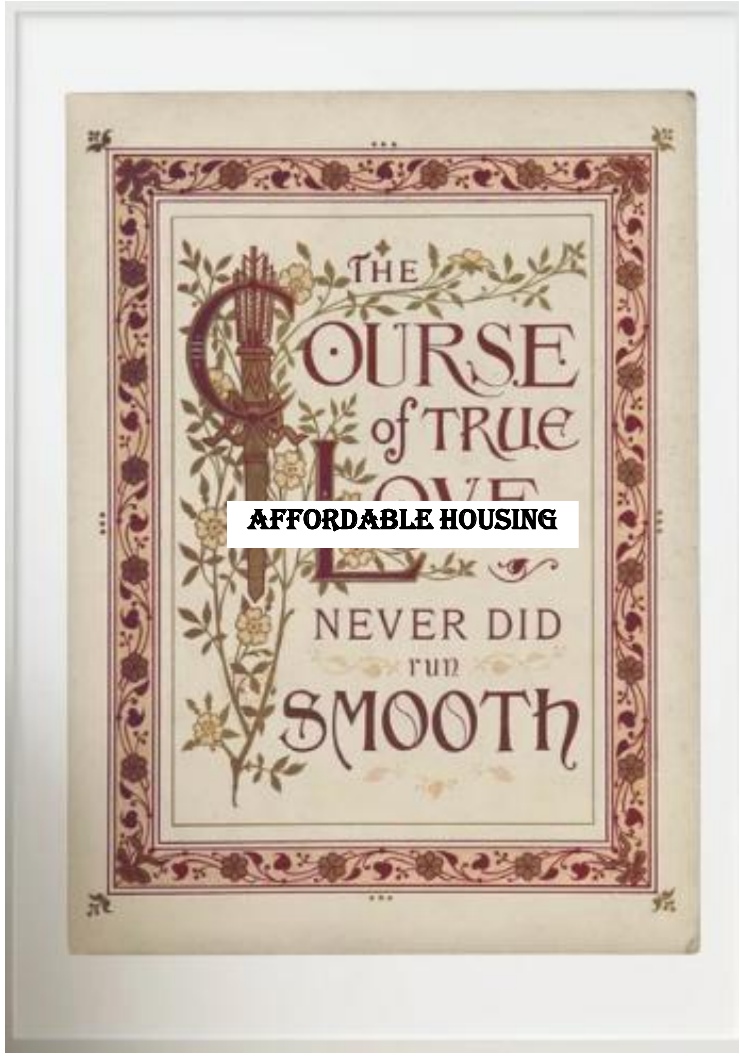
Why water?

5. Trickle or Drip?

Potential Challenges

- TWO Plans of Financing = Two Separate Deals
- The Noah's Ark Deals (twos of everything) – GC Contract, Architects, Accounting, Legal, Property Management Docs (Management Agreement, Tenant Selection Plan, AFHMP)
- Two Owners' Sworn Statements, with some costs split pro rata, others per project; shared invoices
- Two Loans (smaller sizes may impact rates)
- Common Areas – technically not shared between 4% and 9% transaction technically are only supposed to be used by the residents of the transaction they are a part of. (**Not** a QCT/Community Facility)
- 50% Test for a TE Bond test and 10% test – Only 4% may use Bonds



Ambit Capital Structures

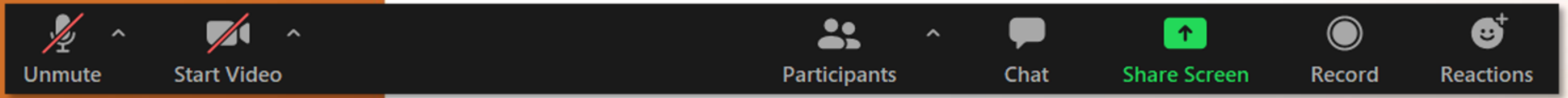
Potential Challenges (Continued)

- No Cross Subsidy
- Costs – no savings on transaction costs
- Strong Partners
  - Contractor—needs excellent accounting / change orders may be more challenging
  - Accountant—involve early and often. Costs by percentage
- Shifting Costs/Units based on costs
  - Potential tariffs
  - Inflation
  - HOME – 2024 Funds and beyond require BABA Compliance
- Operations
  - Tenant recertification if moving between 9% and 4%.
- Placement in Service of 9%
- More in the Weeds
  - "Substantial User" on 4% - Bondholder generally cannot be lender and investor (or proprietary fund) – can be more challenging to find investor

Ambit Capital Structures

Mistake? Or Opportunity?

- Only way to get a project of this size done without a larger allocation.



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Upcoming: Structuring Financially Sustainable Affordable Housing Projects

Unlocking NMTC for Affordable Housing: Case Studies & Practical Training

April 9, 2025 @ 3:00 PM – 4:30 PM Eastern


2025 CDFA
FEDERAL POLICY
CONFERENCE
APRIL 15-16, 2025

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Upcoming: Affordable Housing Initiatives with the New Administration

cdfa Council of Development Finance Agencies

30 Minute Break

See You Back at 3:00 pm EST

Growing Diverse Housing Developers Fellowship

Growing DIVERSE HOUSING
Supported by RDF & WELLS FARGO

THE EVENT WILL BEGIN AT 1PM EASTERN

Advancing Affordable Housing Finance & Policy

April 8 & 9, 2025
1:00 – 4:30 PM Eastern

Opportunity Zones and Affordable Housing Policy Under the New Administration

Fawn Zimmerman, DFCP
Managing Director, Advisory Services
Council of Development Finance Agencies

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Growing Diverse Housing Developers: Advancing Affordable Housing Finance & Policy

Unlocking NMTC for Affordable Housing: Case Studies & Practical Training

April 9, 2025 @ 3:00 PM – 4:30 PM Eastern

Legal Disclaimer

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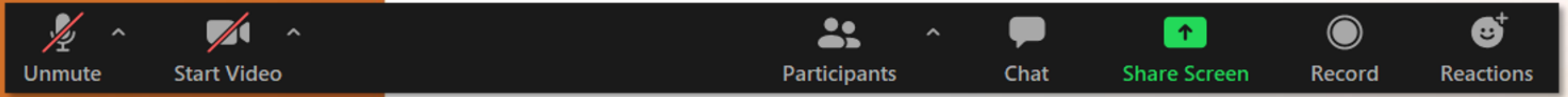

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Structuring Financially Sustainable Affordable Housing Projects

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Growing Diverse Housing Developers Fellowship

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RDF

Unlocking NMTC for Affordable Housing: Case Studies & Practical Training

April 9, 2025

3:00 – 4:30 PM Eastern

Unlocking NMTC for Affordable Housing: Case Studies & Practical Training

Speakers

Donna Smith
Executive Vice President
SmithNMTC Associates, LLC

Jeanette Reynolds
Communications & Applications Director
SmithNMTC Associates, LLC

Jessica Horner
Applications & Compliance Director
SmithNMTC Associates, LLC

Daniel Slavin
Chief Financial Officer
Homewise

SMITHNMTC AssociatesLLC

New Markets Tax Credits (NMTCs) for Affordable Homeownership

What are New Markets Tax Credits?

- Congress authorized the New Markets Tax Credit Program (**NMTC Program**) under the Community Renewal & Tax Relief Act of 2000 to incentivize private investment in economically distressed communities by providing investors with a federal tax credit.

- Since 2003, the **Community Development Financial Institutions Fund** (CDFI Fund) has awarded $81 billion in federal tax credit authority to Community Development Entities (CDEs) through a competitive application process.

- **Private investors** (individual or corporate) **receive New Markets Tax Credits** to use against their federal income tax in exchange for making equity investments in CDEs who make loans that fund nonprofit developer projects in low-income communities.

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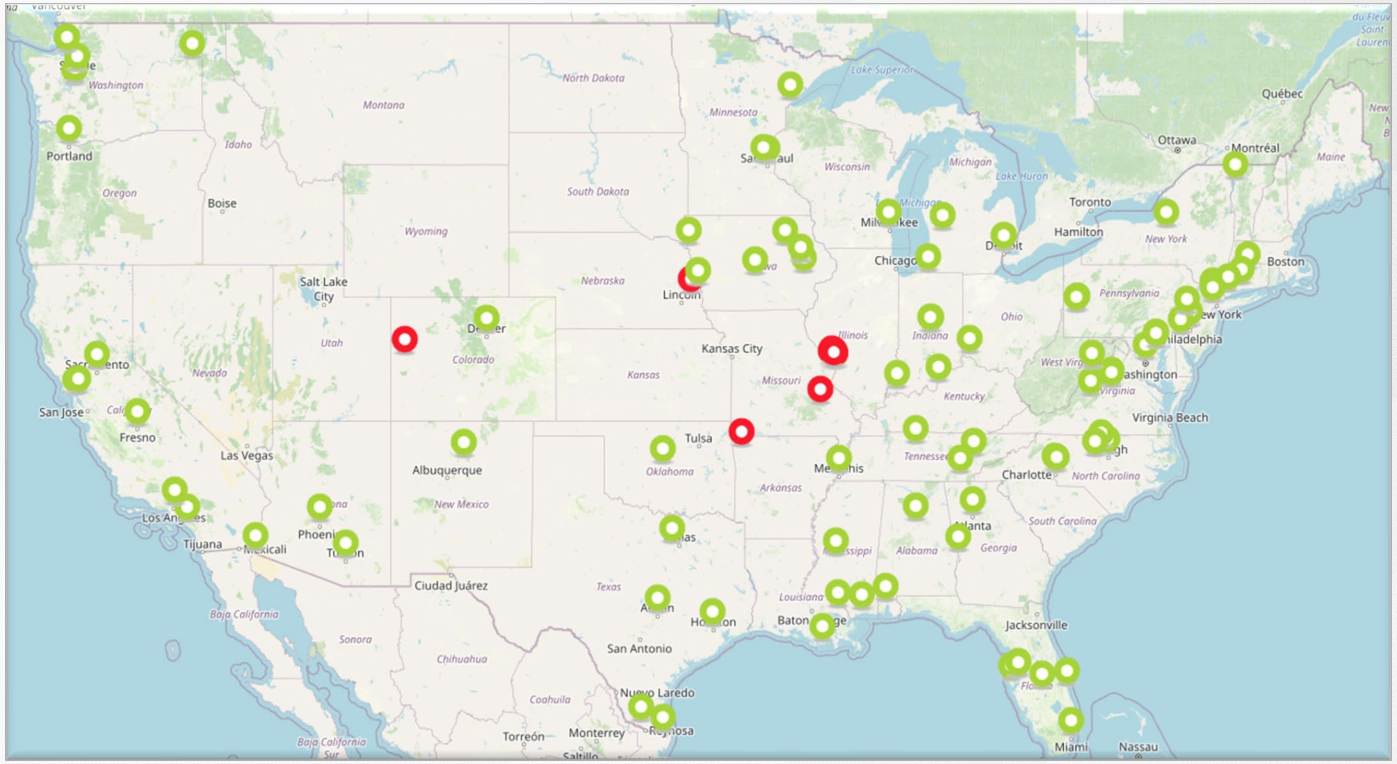
Where have NMTCs been used for homeownership?

Smith NMTC has used its
NMTC Affordable For-Sale Housing Model
since 2008:

$710.5M Homeownership Transactions
153 Affordable For-Sale Projects
5,996 Total Homes
33 States + District of Columbia
23 CDEs



www.smithnmtc.com/our-work/projects-map

Project Types

Can be used with **<u>all types</u> of homeownership projects**, *including:*

- New construction or AC/Rehab
- Single &/or multi-family
- Condos, duplexes, townhomes, co-ops, ADUs
- Mixed-income development
- Land trust/shared equity models
- Rental property conversions to homeownership

For Homewise's El Camino Crossing project, two separate NMTC-funded loans (2017 and 2018) with CDE The Housing Partnership Network, totaling $13M, allowed for the completion of both townhouse phases.

Are NMTCs right for your project?

1. Is the **project located in a Qualified Census Tract** (QCT) or meets Targeted Populations?
2. Can you **spend the NMTC funds in 18 months**?
3. Will **at least 20% of homes built be sold affordably** to buyers earning 80% AMI or below?
4. Are the **total development costs at least $3.5M**?
5. Can you raise the **leverage funding** you need by closing?
6. Can you **build and make best efforts to sell 1 home/year** in a QCT for 7-year compliance period?
7. **No residential rental**.

Project Example

Albuquerque Revitalization Initiative & Palladium Townhomes

CDE: The Housing Partnership Network, Inc.
Closing: 06/22/2021

QEI	$ 7,000,000
QLICI	$ 6,825,000
Total Project Costs	$ 8,909,263
Leverage Equity	
- reimbursed costs	$ 816,994
- cash	$ 4,258,659
Net Benefit	$ 1,300,940

- 6 QCTs/3 neighborhoods in Albuquerque, NM
- 32 total single-family units
- 12 sold to buyers earning ≤ 80% AMI
- 8 (25%) qualified affordable sales, *at least*

Homewise Albuquerque Revitalization Initiative

- scattered site, detached single-family
- 15 acquisition/rehab + 1 new construction

Palladium Townhomes

- single site, new construction
- 3-story townhomes, high-density infill
- 2 bed/2 bath 1,257sf & 2 bed/4 bath 1,410sf units

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Project Example

Homewise Albuquerque Revitalization Initiative

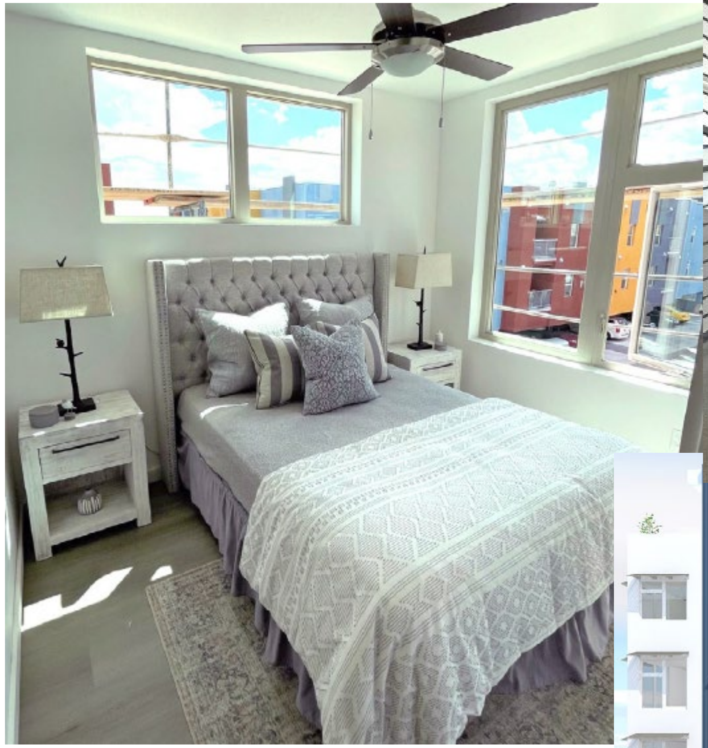
homewise®

- Scattered Site: 5 QCTs
  - POV up to 44.80%
  - AMI as low as 45.59%
  - Unemployment ratio as high as 1.77x national avg

- Avg. cost per unit $240,000
- Sale price $225,000 - $275,000
- Cost to buyer $150,000 - $175,000

Project Example

Palladium Townhomes



homewise®

- Single Site: 1 QCT
  - POV 33.70%
  - AMI 23.32%
  - Unemployment ratio 0.87x

- Avg. cost per unit $200,000
- Sale price $220,000
- Cost to buyer $150,000 - $175,000

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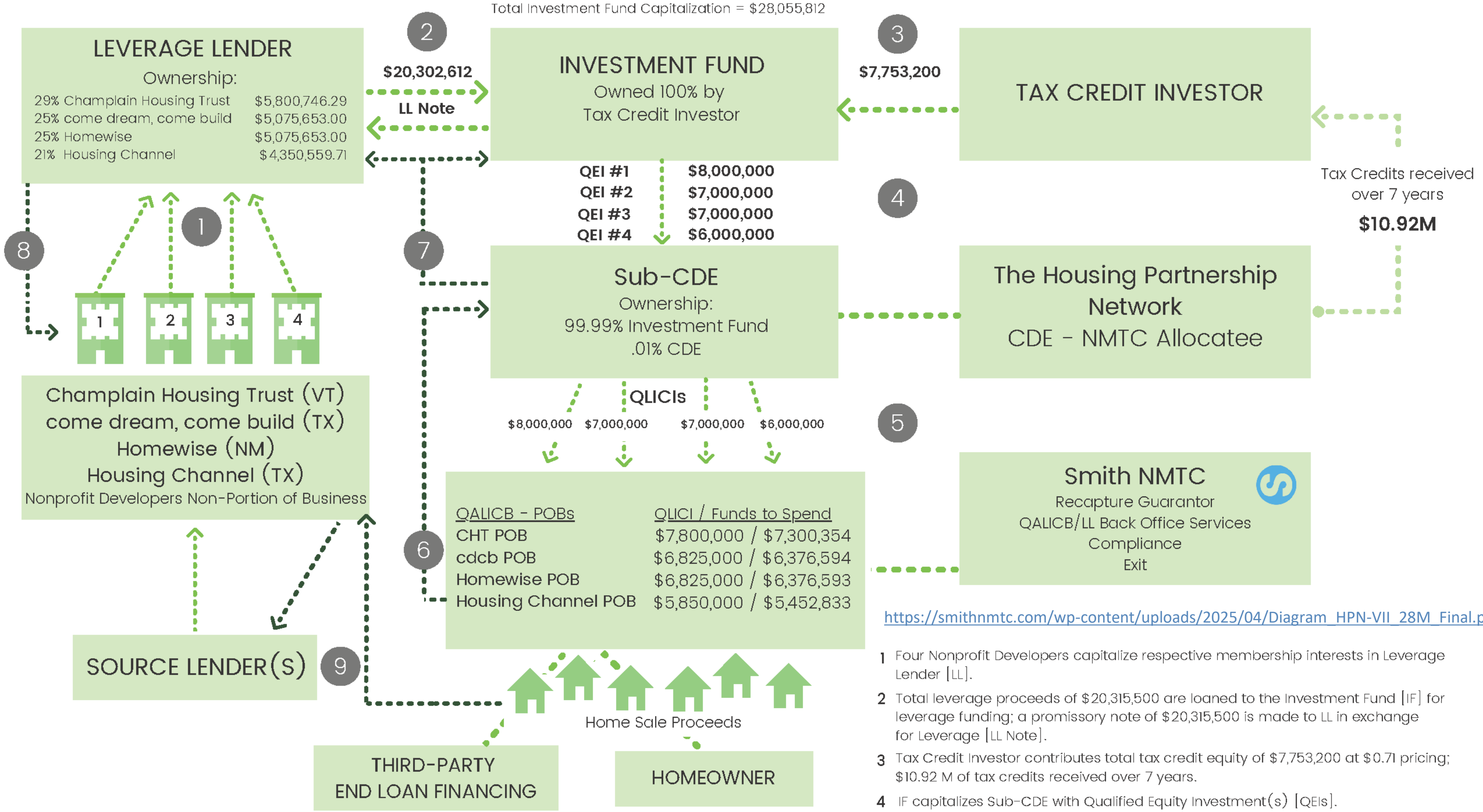
MODEL: NMTC Affordable For-Sale Housing

Multi-QALICB

$28,000,000 NMTC Transaction ($0.71 pricing)



https://smithnmtc.com/wp-content/uploads/2025/04/Diagram_HPN-VII_28M_Final.png

Estimated Net Benefit included in Funds to Spend:		
	Champlain Housing Trust POB	$ 1,504,369
	come dream. come build POB	$ 1,300,317
	Homewise POB	$ 1,299,897
	Housing Channel POB	$ 1,099,178
	Total Net Benefit	$ 5,203,761

1 Four Nonprofit Developers capitalize respective membership interests in Leverage Lender [LL].

2 Total leverage proceeds of $20,315,500 are loaned to the Investment Fund [IF] for leverage funding; a promissory note of $20,315,500 is made to LL in exchange for Leverage [LL Note].

3 Tax Credit Investor contributes total tax credit equity of $7,753,200 at $0.71 pricing; $10.92 M of tax credits received over 7 years.

4 IF capitalizes Sub-CDE with Qualified Equity Investment(s) [QEIs].

5 Portion of the Business (POB) of Nonprofit Developers [QALICBs] each execute QLICI note, funding the transaction.

6 "Interest Only" [IO] payments are upstreamed up to service QLICIs at Sub-CDE level and then LL Note at IF level.

7 Sub-CDE makes distribution to IF to pay the LL Note; IF pays debt service on LL Promissory Note to LL.

8 LL makes distribution of IO to membership interests.

9 Upon sale of homes, revenue is received by POBs which then make a distribution to non-POBs. Non-POBs pay down source loan, if any, outside of structure.

What do you need to contribute?

Leverage Funding

- Nonprofit developer's contribution toward project cost
- About 2/3 of total allocation amount
- Sources:
  - Loan or Line of Credit
  - Grants & Donations
  - Cash on Hand
  - Previously Incurred Costs

Leverage Lender (LL) Entity

- Entity owned by the QALICB(s) in transaction, each of whom contribute their leverage funding/capital to it
- Must be at least a 5% differentiation between the QALICB and Leverage Lender
- Can be a Support Organization

QALICB Compliance & Reporting Requirements

Financial Requirements

- Sell at least 20% to buyers earning 80% AMI or below *(possibly higher per loan documents)*
- Spend QLICI loan proceeds in 18 months
- Portion of the Business (POB): Maintain separate books & records with no employees
  - Monthly first-year spend reporting
  - Reflect loan on books for 7 years
  - Leverage loan ownership on books for 7 years
  - Semi-annual loan servicing

Reporting Requirements

- Compliance reports to CDE, including impact reporting
- Provide audits, financial statements, and tax returns for all entities
- Remain an active business: *i.e. develop 1 home per year for 7 years*

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Tracking Impact

Property Data Points Tracked
examples

- Construction/rehab costs
- Net cost to buyer
- Household size
- Demographic profile

Community Benefits Report
includes

- Construction jobs
- Hiring of low-income persons
- Home sales
- Mortgage lending, DPA, financial counseling
- Sustainable practices
- M/WBE
- Community engagement

Communicating Impact
What stories do you want to tell as a developer?

** link to Homewise 2024 Annual Report*

Net Benefit

What is the Net Benefit to a nonprofit developer (QALICB)?

- The **net benefit** (project subsidy) is the portion of the tax credit equity that you *receive at closing* and *do not have to repay*.
- **NMTC pricing,** *which is determined by market/investor*, affects the Net Benefit amount. **Using the Smith NMTC multi-QALICB model can increase the net benefit because QALICBs share NMTC costs.**
- Estimated range of net benefit is 20%-25% of leverage amount.

Tax Credit Equity − **Costs & Expenses** (transaction, accounting, compliance) = **Net Benefit** to QALICB

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How do NMTCs benefit an affordable homeownership project?

Net Benefit *can be used for:*

- Scaling production
- Addressing market gaps in distressed communities
- Subsidizing affordability gaps for low- to moderate-income buyers
- Hiring MBE or WBE contractors

Read stories about Homewise clients like Maxine:
www.smithnmtc.com/making-homeownership-possible-in-new-mexico-with-homewise

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Smith NMTC Associates, LLC (Smith NMTC) works with mission-driven organizations throughout the country to develop creative financial models and structures for projects that bring affordable homeownership and community facilities and services to low-income communities and their residents.

Smith NMTC has deployed over $865M in New Markets Tax Credits allocation, providing funding for 170+ projects, and manages compliance and provides a recapture guaranty for more than 100 nonprofit developers.

In 2008, Smith NMTC pioneered the first NMTC model to support affordable homeownership and deployed $25 million in NMTC funding to five nonprofit developers in the Gulf Opportunity Zone (GO Zone) after Hurricane Katrina.

Since then, the company has helped deploy $710.5M to 153 homeownership projects, in collaboration with 23 CDEs, resulting in more than 5,900 homes in low-income communities across 33 states and the District of Columbia. In addition to its work to expand affordable homeownership opportunities, Smith NMTC has also worked with 14 nonprofit organizations and 13 CDEs across four states to deploy $154.6M in NMTC allocation to support impactful community service projects like early childhood education centers, youth camps, nonprofit organization headquarters, community facilities, and hunger relief organizations.

What does Smith NMTC do for QALICBs?

- Works with QALICBs to assemble all due diligence required for closing.
- Facilitates entire transaction from pre-closing through closing, including serving as clearinghouse for documents and streamlining closing process to reduce closing costs.
- Guarantees entire QALICB recapture risk to investor.
- Manages QALICB compliance throughout the 7-year compliance period (including assistance with POB books and compliance reports).
- Manages the expense account containing the 7-year compliance expenses; and backstops that account if insufficient funds budgeted through no fault of QALICB.
- Directs loan servicing / interest payments.
- Facilitates the exit of the transaction at the end of the 7-year compliance period.

Key NMTC Terms

CDE - Community Development Entity
Entity with the tax credit allocation

QALICB - Qualified Active Low-Income Community Business
Entity that is the NMTC borrower

POB - Portion of the Business
Separate accounting entity, *not* legal entity

Investment Fund
Entity wholly owned by the tax credit investor

Leverage Lender
Entity that makes a loan to the Investment Fund in a New Market Tax Credit (NMTC) transaction.

QEI - Qualified Equity Investment
Equity investment of Investment Fund in Sub-CDE that is a combination of the leverage and tax credit equity.

QLICI - Qualified Low Income Community Investment:
NMTC funded loan to project

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Key NMTC Concepts

Qualified Affordable Sale
At least 20% of NMTC-funded project homes must be sold affordably to buyers earning ≤ 80% AMI; to be a **qualified affordable sale**, one of the following additional conditions must also be met:

- **Debt-To-Income Ratio** requirement for home loans insured by the Federal Housing Administration (FHA) at the time the units are sold to the homebuyer

- **Purchase Price** does not exceed 95% of the median purchase price for the area as used in the HOME Investment Partnership Program and as determined by HUD and the applicable participating jurisdiction for the year the home is purchased

Targeted Populations Rule
At least 60% of gross income from annual home sales must be from sales to LIP buyers.

- *Please refer to this one-page guide for full details on project qualification and severe distress criteria.*

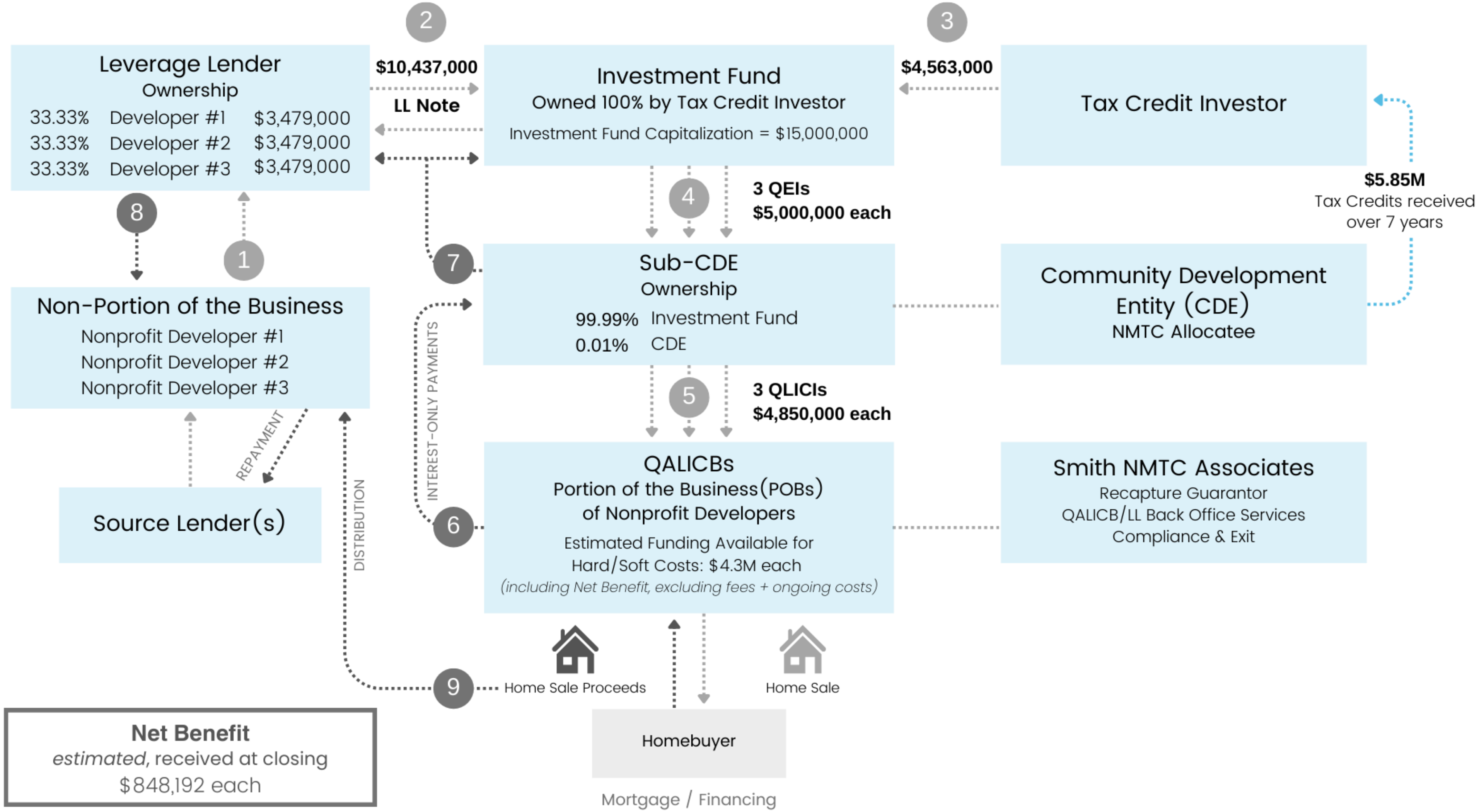
CDFI Fund Mapping Tool:
Click here to confirm your project location's eligibility.

NMTC MODEL: AFFORDABLE HOMEOWNERSHIP

Multi-QALICB Example

$15M NMTC Transaction ($.78 pricing)

www.smithnmtc.com/resources/smith-nmtc-models



1. Three Nonprofit Developers capitalize membership interests in Leverage Lender (LL).
2. Leverage Lender loans $10,437,000 to the Investment Fund (IF), receiving a promissory note for the loan (LL Note).
3. Tax Credit Investor contributes $4,563,000 ($15M x 39% x .78/$1 per credit) in tax credit equity, and receives credits totaling $5,850,000 ($15M x 39%) over 7 years.
4. IF capitalizes Sub-CDE with Qualified Equity Investments (QEIs) totaling tax credit equity plus leverage provided.
5. Portion of the Business (POB) of Nonprofit Developers (QALICBs) each receive loan of $5M less the CDE fee, execute QLICI note.
6. Semi-annually, the QALICBs make "interest-only" payments to sub-CDE.
7. Sub-CDE then makes distribution to IF to pay interest on the LL Note.
8. Leverage Lender makes distribution of Interest to its members, the QALICBs.
9. Upon sale of homes, POB makes a distribution of sale proceeds to non-POB. Non-POB then pays down source loan, if any, outside of structure.

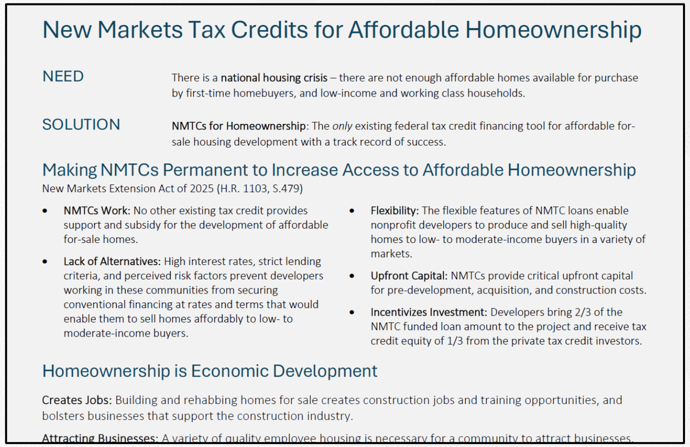
Advocate for NMTC Permanency

The New Markets Tax Credits program expires at the end of 2025. There is current bipartisan legislation that calls for making the program a permanent part of the tax code:
New Markets Extension Act of 2025 (H.R. 1103, S.479)

If you are interested in advocating for this program to your elected representatives and for the passage of this legislation, the following resources are available:

NEW MARKETS TAX CREDIT COALITION

NMTC Coalition Advocacy Toolkit



New Markets Tax Credits for Affordable Homeownership

NEED — There is a **national housing crisis** – there are not enough affordable homes available for purchase by first-time homebuyers, and low-income and working class households.

SOLUTION — **NMTCs for Homeownership**: The *only* existing federal tax credit financing tool for affordable for-sale housing development with a track record of success.

Making NMTCs Permanent to Increase Access to Affordable Homeownership

New Markets Extension Act of 2025 (H.R. 1103, S.479)

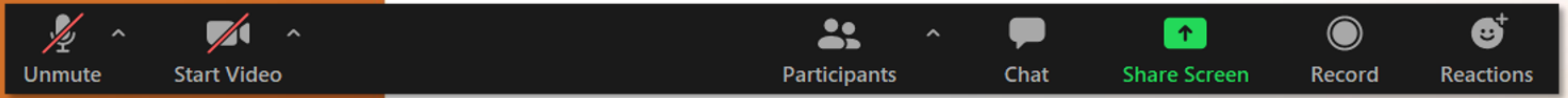
- **NMTCs Work:** No other existing tax credit provides support and subsidy for the development of affordable for-sale homes.
- **Lack of Alternatives:** High interest rates, strict lending criteria, and perceived risk factors prevent developers working in these communities from securing conventional financing at rates and terms that would enable them to sell homes affordably to low- to moderate-income buyers.
- **Flexibility:** The flexible features of NMTC loans enable nonprofit developers to produce and sell high-quality homes to low- to moderate-income buyers in a variety of markets.
- **Upfront Capital:** NMTCs provide critical upfront capital for pre-development, acquisition, and construction costs.
- **Incentivizes Investment:** Developers bring 2/3 of the NMTC funded loan amount to the project and receive tax credit equity of 1/3 from the private tax credit investors.

Homeownership is Economic Development

Creates Jobs: Building and rehabbing homes for sale creates construction jobs and training opportunities, and bolsters businesses that support the construction industry.

Attracting Businesses: A variety of quality employee housing is necessary for a community to attract businesses.

One-Pager on the Value & Impact of NMTCs for Homeownership



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Upcoming Events:

CDFA // BNY Development Finance Webcast Series: Tax-Exempt Bonds in Affordable Housing Development
April 22, 2025 @ 2:00-3:00 PM Eastern

Intro Housing Finance Course
June 25 - 26, 2025 @ 12:00 PM – 5:00 PM Eastern (Daily)

CDFA-Bricker Graydon Webinar Series: Using TIF to Build Housing Solutions
July 22, 2025 @ 2:00 PM – 3:30 PM Eastern

CDFA Summer Institute
August 4 - 8, 2025 @ 11:00 AM – 5:00 PM Eastern (Daily)

Contact Us

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