



National Women's Shelter Network, LLC

## How to Make Your Dream Facilities Come True

### *Using New Markets Tax Credit (NMTC) Financing*

#### **Roundtable Discussion Topic:**

#### **Learn More About New Market Tax Credit Financing to Build Your Dream Facilities from Experts**

**TABLE QUESTION: What more would you like to know about NMTC, its benefits and how to use it?**

**Lead Organizers: Debbie Kleban**, Partner & President – Applegate & Thorne-Thomsen; Tony Smith, Partner & EVP – SB Friedman Development Advisors, LLC; Jennifer Westerbeck, VP – US Bancorp Community Development Corporation

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#### *What is NMTC Financing?*

It is a federal tax credit incentive that attracts investor cash to a project. In exchange for the cash investment, the investor receives federal tax credits over a 7-year period of time. Some States also have State NMTC programs that provide a similar tax credit to offset an investor's State income tax liability.

#### *What types of projects are built using NMTC?*

Legally, almost anything in a low-income census tract other than residential rental housing (that can be built using the Low-Income Housing Tax Credit) and a few businesses that the IRS does not want to include (e.g. gambling facilities, suntan facilities, race tracks, golf courses, etc.).

The NMTC is not the right tax credit to construct a building that is primarily for permanent supportive housing. That type of building would be better served using LIHTC. The NMTC can build a facility that includes some housing provided that there are enough non-housing components to the building, such as offices for social services and administration, daycare and early childhood education, health services, employment services, etc.

From a practical perspective, your project will need to provide community benefits and impacts that are attractive to an investor and a CDE (the community based lender who has received a federal allocation of NMTC to use in communities where it wants to invest and create impact).

#### *What types of NMTC projects excite investors and CDEs? How about homeless shelters?*

Many investors love shelters and rehab facilities focused on women and children, especially if they incorporate other services like school programs, day care, healthcare, career training, etc.

#### *What is the typical size and dollar range of an NMTC transaction?*

Generally, the project should be a minimum of \$5 million in size, which would result in about a \$1.5 million investment or larger. There are economies of scale associated with the cost of NMTC transactions, so projects in the \$8-12 million range typically result in a higher percentage

of net benefit to the project than a \$5 million. A \$5 million project, however, is typically still worth the cost of using NMTC for the financing.

*And how do NMTC financing terms compare with a regular commercial loan?*

NMTC is intended to provide financing where commercial banks cannot or will not. NMTC helps bring the financial industry into projects that otherwise wouldn't get done. The loan portion that is tied to the NMTC investor equity is a grant-like loan. NMTC loans have flexible terms, the interest rate is typically 1% or lower, does not amortize for 7-years, and it will likely be forgiven at the end of the 7 years of compliance.

*What advice would you offer to those of us in the room that may be interested in expanding, redeveloping and/or building their dream facilities for women and children?*

If you feel like you can fundraise or borrow 85% of the cost of your Dream Facility, then you should consider NMTC financing. Because the NMTCs are in high demand, we generally recommend the organizations hire a NMTC consultant, like the panel presenter Tony Smith, and qualified NMTC counsel, like the panel presenter Debbie Kleban. While NMTC investors, such as panel presenter Jennifer Westerbeck and her team at USBancorp, are available to help, investors see hundreds of projects a year. Having NMTC experts engaged to work closely with you and your project development team saves money by recommending the best way to structure the flow of funds to the project upfront and leading an efficient closing process.

**Helpful NMTC Resources:**

<https://www.cdfifund.gov/programs-training/programs/new-markets-tax-credit>

[https://sbfriedman.com/sites/default/files/download/NMTC%20Guide%202018\\_1.pdf](https://sbfriedman.com/sites/default/files/download/NMTC%20Guide%202018_1.pdf)

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