

The logo features a stylized blue and white geometric shape on the left, resembling a folded piece of paper or a book cover. To its right, the company name is written in a bold, black, sans-serif font.

**Virchow Krause
& company**

Case Study in Using NMTC

NMTC Summit
Kansas City, MO
January 21, 2009

www.virchowkrause.com



certified public accountants & consultants

Virchow Krause

Case Study

Syndicate Building, St. Louis, MO



www.virchowkrause.com



Syndicate Building, Saint Louis, MO

- The property has many of the same elements and characteristics as potential projects in KC
 - This particular project was a historic property with planned
 - For-Sale Condominiums
 - Market Rate Rental Units
 - Retail and Commercial Office Space
 - Affordable Rental Units



Syndicate Building

- Financing sources included:
 - TIF proceeds
 - Brownfield credits
 - Federal and State Historic Credits
 - NMTC proceeds
 - Developer equity
 - Conventional debt
 - LIHTC funding



Before the project was brought to the CDEs...

- Real Estate issues
 - Site control obtained from the City (seller) by the developer
 - Environmental issues fully evaluated
 - Necessary approvals obtained or scheduled to be obtained in a reasonable period
 - Development plan fully vetted including costs, construction schedule, etc.



Additional steps developer undertook before CDEs were involved

- Review financial feasibility
- Identify sources of financing, traditional sources (bank financing) and other
- Identify gap (NMTCs are not an entitlement like historic tax credits) for “but for” test
- Obtain equity and debt commitments or timeline for them



Determine the Financing Gap

- Run a proforma to show the gap to be filled
- Look to other resources first-NMTCs are not the first resource to consider:
 - Limited availability
 - Complex to structure
 - Timeline long to be sure that NMTC are available



Identify CDEs

- Timing is crucial
 - CDE motivated to fund projects as quickly as possible which can work for or against a project
- Footprint of CDEs
 - National
 - Regional
 - Local
- Mission of CDE important to consider



certified public accountants & consultants

Virchow Krause

Syndicate Project Players

CDEs: Central Bank of KC, Valued Advisor Fund, LLC and Capmark

Investor: USB CDC

Lender: An affiliate of borrower and USB NA

Borrower: An affiliate of Sherman

Attorneys: Too many



Making the Funding Decision- from a CDE perspective

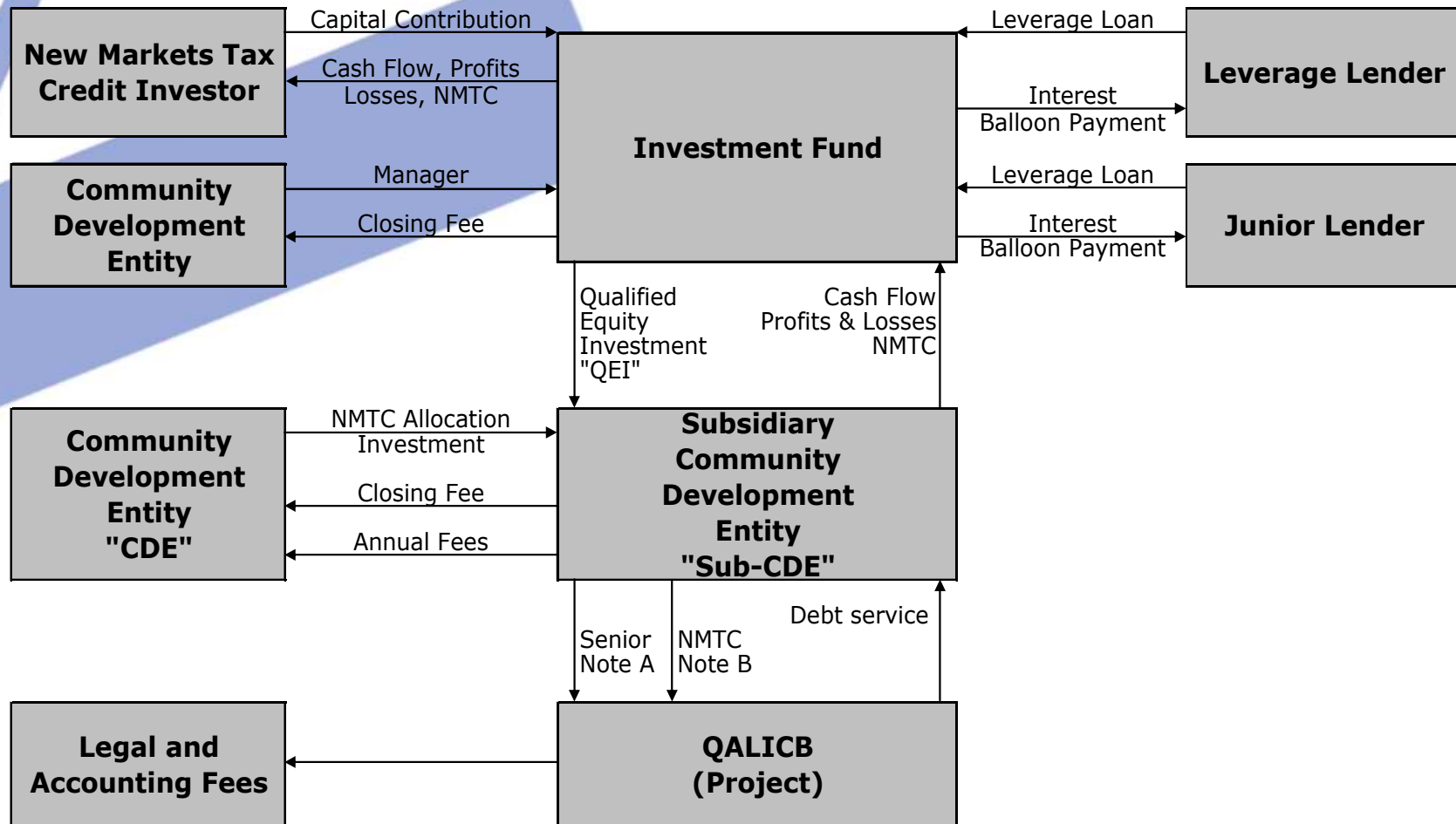
- Stage One
 - Compliance with NMTC location requirements
 - Additional elements of distress
- Community Impact
 - Estimated level of community impact
 - Based on community involvement
 - Number of units developed/ affordability
 - Number of jobs (construction and permanent)
 - Additional impact



Making the Funding Decision

- **Basic Feasibility and Compliance**
 - Initial compliance with NMTC program
 - But-for test
 - Basic Financial Viability
 - Readiness to Proceed
 - Affordability requirement for the housing component

Typical NMTC Deal Structure





Mixed-Use Properties

- Risks should be considered and mitigated in the funding process
 - Recapture elements related to the percentage of residential rental income
 - Revolving principal requirements on for-sale components
 - Issues related to certain types of subsidies that may be used in financing the development as a whole
 - Timing related to drawing the proceeds down



Board Approvals

- CDE and Investors have various levels of approval or phases they go through
 - Initial vetting
 - Underwriting
 - Investment committee or equivalent approval
 - Advisory Board approvals
 - Governing Board



Typical Challenges/Barriers

- By law, NMTC is not a grant
- NMTC either structured as debt or equity
- When structured as debt, a true debt analysis has to be passed
- When structured as equity, the CDEs cannot own more than 50% of the capital



Investors

- Investors main concern is recapture of tax credits
 - Underwrite CDE
 - Look to developer to guaranty compliance
- When historic tax credits are involved additional underwriting is required because they have additional risks if a project fails economically



certified public accountants & consultants
Virchow Krause

Syndicate Building



www.virchowkrause.com



Post-Closure Elements

- CDE involved with development for 7 yrs.
- Substantially all testing
 - Draw down of principal on a timely basis
- Commercial rental income testing
- Placement of for-sale principal
- Actual community impact analysis
- Regular reporting to CDFI and investor



certified public accountants & consultants

Virchow Krause

Contact Information

If you have any questions please feel free to contact us at:

Terri Preston-Koenig

312 307 9550

tpreston@valuedadvisorfund.com

Michael Ross

312 206 9513

mross@virchowkrause.com

www.virchowkrause.com