



SMITHNMTC
Associates, LLC

NMTC Program Requirements – Affordable For Sale Housing

Funding from the NMTC Program is not available for all uses. Credits may be used for the development of 100 percent affordable for sale housing developments but not for 100% residential rental housing developments. However, they can be used to develop mixed-use projects that include rental or for sale housing. Smith NMTC Associates, LLC, NMTC consultant, created an affordable for sale housing model that has been used since 2008 deploying over \$340M in NMTC funding to over 95 nonprofit affordable for sale housing developers in 30 states, resulting in more than 3,550 homes for low income families and residents of low income communities.

New Market Tax Credit Thresholds

Typically, projects awarded credits have eligible costs between \$5 million and \$25 million. The transaction costs associated with NMTCs render their use impractical for smaller projects. However, Smith has also used its multi-QALICB model to combine borrowers in one transaction in order to enable them to share the closing costs and most of the ongoing costs, thus enabling smaller projects to take advantage of NMTCs and also ensuring that the maximum amount of the net benefit is pushed down to the project level.

New Market Tax Credit Financing

For affordable for sale housing projects, we have currently seen pricing in the range of .80 to .85 cents on the dollar. Since the credit is a 39% credit, to determine the amount of equity the tax credit investor brings to the transaction and the amount of leverage that the developer must bring to the table, the formula is allocation amount x .39 x credit price. For example, with a \$10,000,000 allocation, the tax credit investor would pay $10,000,000 \times .39 \times .82$ (average price) = \$3,198,000, and the developer would need to bring \$6,802,000 in leverage. In the Smith housing model, typically, the developer aggregates its sources of funding for the leverage, and it capitalizes the leverage lender. The source for those funds can be any combination of cash on hand, loans, line of credit funding, donations, grants, reimbursable costs incurred in the project over the last 24 months prior to the NMTC closing.

Developers can use local, state, and federal funds in addition to NMTCs, except that LIHTC funds cannot be twinned with NMTCs. Some interviewees recommended that the developer should retain a NMTC expert to help them secure the funding. In fact, some CDEs prefer applicants to have a NMTC consultant on board. In addition to coordinating several funding sources, it is particularly important

How to Apply for New Market Tax Credits

In terms of actually obtaining NMTCs, those who wish to use NMTCs to develop QALICB facilities must first attract a CDE with the potential to award NMTC. CDEs want borrowers whose project/mission aligns with the CDE's mission and business strategy, who project significant community outcomes, who meet the But For test (need for NMTCs) and whose project is shovel ready, including having the leverage funding in place. Being in a CDEs' pipeline for their NMTC Allocation Application is a good way to secure a possible place in line for NMTCs should that CDE be a successful applicant.

More and more CDEs are inquiring regarding affordable homeownership projects so this is a good time to seek allocation for such developments.