



## New Markets Tax Credit Real Estate Finance Program – Terms and Conditions

- Finance Options:**
- (a) 50% Minimum senior portion financed by **Commercial Lender**  
40% Maximum subordinate portion financed by **Direct Capital**  
10% Minimum contribution by borrower
  - Or**
  - (b) 90% or maximum loan size, whichever is the lesser, is financed by **Direct Capital** secured by senior position in Real Estate

**Valuation:** Current appraisal required for financing in excess of \$250,000. Financing commitment can be issued conditional to receipt of appraisal engaged by participating Commercial Lender and/or by **Direct Capital**.

**Use of funds:** Takeout or permanent financing for businesses (including non-profit businesses) seeking to purchase, construct (new or expansion), or rehabilitate buildings occupied by their businesses. Financial restructuring is allowed on a case by case basis.

**Loan size:** Typical Minimum **\$50,000** - Maximum: **\$1,500,000** for **Direct Capital** loan portion of project.

**Loan term:** Fully amortizing 25 years on the **Direct Capital** loan. For **Direct Capital** loans secured in 2nd lien it is preferred that the term of the senior financing match the term of the **Direct Capital** loan.

**Security:** Loan must be secured by either a 1<sup>st</sup> or 2<sup>nd</sup> lien on subject property dependent upon financing option chosen above; (a or b). If **Direct Capital** is in 2<sup>nd</sup> lien the bank loan may not exceed \$3 million nor exceed 3 x the **Direct Capital** loan amount. The senior loan amount cannot exceed 60% loan to value.

**Pricing:** The interest rate on the **Direct Capital** Note shall initially be equal to a rate that is **370 basis points over the seven-year U.S. Treasury obligation**. The rate will be locked on the Tuesday preceding the scheduled closing date using the most current quote on the seven-year U.S. Treasury as published on the Federal Reserves web site: <http://www.federalreserve.gov/releases/h15/update/>. The rate shall be fixed until the seventh anniversary of the Note, when the rate shall reset to equal **535 basis points over the ten-year U.S. Treasury obligation**. This rate shall be in effect until the maturity of the Note.

	<i>Spread Adjustments</i>	<i>Factor</i>
<b>Pricing Adjustments:</b>	1 <sup>st</sup> Lien Position	Less 0.35%
	Direct Capital Loan < 85% CLTV	Less 0.15%
	Direct Capital Loan > \$750K	Add 0.15%
	Hotel 1 <sup>st</sup> Mortgage	Add 1.00%
	Hotel 2 <sup>nd</sup> Mortgage	Add 2.00%

**Loan Fee:** Calculated at 2.0% of the **Direct Capital** loan amount. A non-refundable good faith deposit of 0.5% is collected upon acceptance of our Commitment Letter.

**Prepayment Premium:** No partial prepayment of this note is allowed. Borrower will be assessed a Prepayment Premium upon full payment of this note prior to the seventh anniversary date of the note. The Prepayment Premium is calculated as follows; Principal balance of the note at the time of prepay multiplied by the initial interest rate multiplied by (120 minus the number of months from the note date to the prepayment date divided by 12) multiplied by 0.10.

**Eligibility:** To be eligible the project should not be eligible for SBA 504 assistance and project must meet at least one of the economic development criteria attached and each of the following criteria:

1. Subject property to be financed must be located in a qualified Low-income census tract (contact your DC loan officer with address and we will qualify).
2. 50% of all employees and 50% of all assets of the company must be located in a Low-income census tract area.
3. Company remains in compliance with NMTC for term of loan.

**Funding:** Loans are structured as long term fully amortizing term loans. They are not structured for multiple disbursements and cannot be used to directly finance construction, remodeling or acquisition or installation of machinery and equipment. For construction or multiple-disbursement loans, the participating bank provides interim financing which is taken-out by **Direct Capital** loan.

**General Borrower requirements:**

- **Management Expertise:** Present management history with company of at least three years or industry management of at least five years.
- **Credit Experience:** Good experience with positive credit history.
- **Repayment Ability:** Historical cashflow coverage of at least 1.2 to 1 average for the past three years, with the pro-forma cashflow also showing at least 1.2 to 1 coverage. Demonstrated liquidity and working capital ratios within industry norms.
- **Combined Loan-to-Value Ratio:** 90% or less.
- **Debt-to-Worth Ratios:** within industry norms.
- **Borrower Guarantees:** Personal guarantees required of all owners with more than 20% ownership in a closely-held business. This policy can vary, depending on credit strength of the applicant on a case-by case basis, but non-recourse loans are not eligible.
- **Profitability:** Business receiving loan must have demonstrated profitability for past three years.
- **Projection:** Require a one year revenue and expense projection on all loan requests with assumptions if there is a departure from historical trends.

**Documentation requirements:**

- Last three years financial statements and tax returns on business.
- Interim Financial Statement on business current within 90 days.
- Debt Schedule and Aging of A/R and A/P on business current within 90 days.
- A current personal financial statement and 3 years personal tax returns for any owners of 20% or more of the company or the real estate being financed.

**Legal Authority and Funding Sources:** Funding sources for **Direct Capital** (DC) include the Community Reinvestment Fund, Incorporated of Minneapolis, Minnesota. As a result, conditional financing commitments issued by DC typically include a condition that the Community Reinvestment Fund, Incorporated purchase the DC loan at loan closing. DC reserves the right to act as servicing agent for the life of the DC loan.

To speak with a Direct Capital representative call us toll-free at **800.611.5170** and ask to speak to a loan officer serving your area.

**DIRECT CAPITAL**

*A CDC Small Business Finance Company*

## ECONOMIC DEVELOPMENT CRITERIA

### **Job Creation and Retention**

- To qualify under this category, the number of jobs created or maintained should generally meet or exceed the SBA 504 benchmark of one job per \$50,000. However, if it can be demonstrated that the jobs being created are higher wage or salary jobs, a lower ratio of jobs per dollar may be considered.

### **Activities that Revitalize or Stabilize Low-to-Moderate Income Communities**

- To qualify under this category, a high percentage of the proceeds of the loan should be used to facilitate the utilization of vacant or underutilized property, or to result in significant job retention or creation, or for construction or rehabilitation of property. The property should generally be located in a census tract that is eligible for New Markets Tax Credits (See the Direct Capital Loan Officer for details). However, if it can be clearly demonstrated that the immediate community is an economically distressed or declining area, the project may be considered even if it is not located in an NMTC-eligible census tract.

### **Activities involving Projects Located in Targeted Business Development Areas**

- To qualify under this category, the project must be located in an area that faces difficulty in attracting businesses because of its prior use or current conditions. The project should result in economic development being accomplished, such as job retention or creation, or facilitating the use of vacant or underutilized properties. Prominent sub-categories in this category include:
  - Brownfields or environmentally damaged property
  - De-commissioned bases from the federal armed services
  - Business District Revitalization: A project located within a business area of a community with a recognized revitalization or redevelopment plan that encourages business development as a means of enhancing the economic productivity of the area. There should be a recognized local program to assist businesses locating in the area that may include incentives provided by the community.
  - Assisting businesses in Labor Surplus Areas as defined by the Department of Labor.
  - Rural Development: A project located in any political subdivision or unincorporated area in a non-metropolitan county (as defined by the Economic Development Division, Economic Research Service, U.S. Department of Agriculture regulations) or the equivalent thereof.

### **Serving Disadvantaged Populations as Business Owners**

- To qualify under this category, the business to which the loan is being provided must have at least a 51% ownership by individuals in one of the following groups:
  - Minority groups as specified by the SBA policy and/or regulations, including African Americans, Hispanics, Asian-Pacific Islanders, Native Americans
  - Women
  - Physically disabled

### **Serving Not-for-profit Businesses**

- To qualify under this category, the borrower must qualify as a not-for-profit business under the Federal tax code.

### **Other Identified Community Impacts**

To qualify under this category, the loan should address particular criteria that have been identified in local, regional or state initiatives as having an important public impact. Examples of such criteria include: the support of businesses that provide for the recycling of waste materials; the support of projects that conserve water or energy, providing financing to businesses that export a significant portion of their products (e.g. 20% or more), etc.