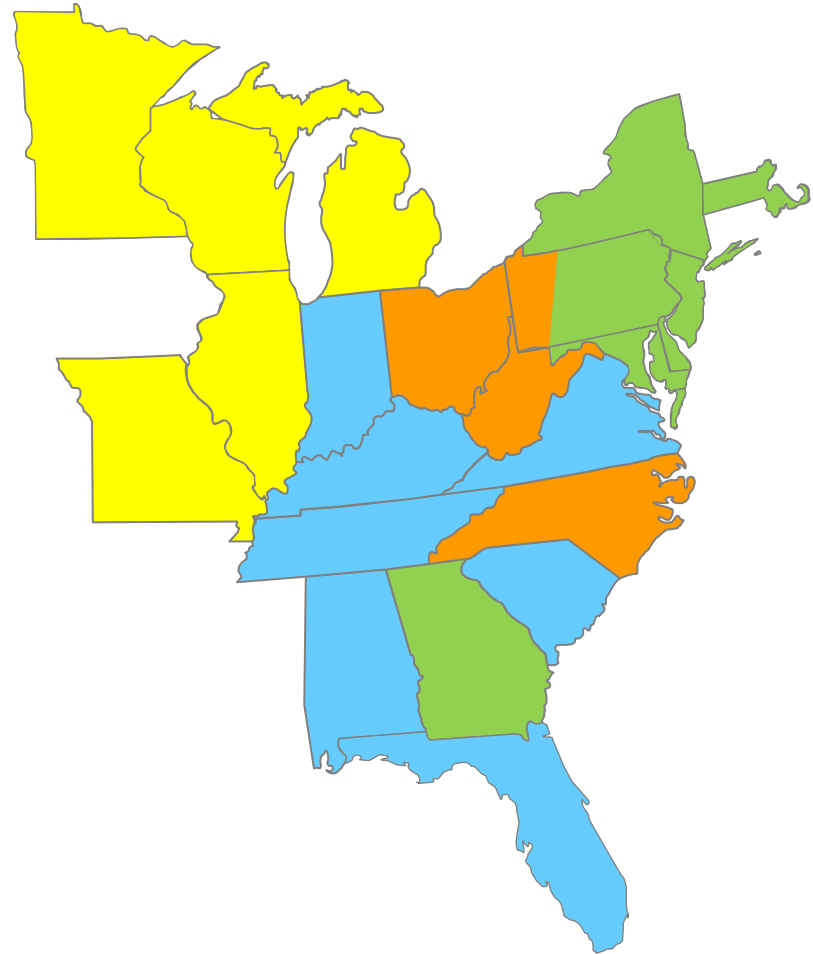


PNC's NMTC Practice

- **National originations business with focus on PNC Bank's retail banking footprint**
- **Investor since 2003 with over \$2.25B in QEIs into over 150 projects**
- **Strong, diverse and expanding network of CDE relationships**
- **Multiple-round NMTC Allocatee**
 - \$553MM in allocation under management
- **Transaction types:**
 - Community facilities (charter schools, community healthcare, community centers)
 - Commercial, retail and mixed use real estate
 - Operating businesses

Primary Origination Territories

Amy Merritt – (412) 644-6020
Ryanne Shuey – (717) 730-2209
Michael Kwiatkowski – (414) 270-7918
Kelly Clements – (513) 651-7533



NMTC Program Overview

- **Community Renewal and Tax Relief Act of 2000**
 - IRS Code Section 45d
 - Administered by Community Development Financial Institution Fund (CDFI Fund), a division of the U.S. Department of the Treasury (www.cdfifund.gov)
 - Designed to spur investment and promote economic development in low-income communities
 - Uses local knowledge and expertise to steer NMTC subsidy to worthy projects
- **The program does not enjoy permanent legislative authorization ... Yet**
 - operates on annual extenders
 - next round not currently authorized
 - extender legislation has been introduced in Congress
 - HB 855 / SB 591

NMTC Program Overview

- **Community Development Entities (CDEs) apply for NMTC Allocations from CDFI Fund**
- **CDE required to use substantially all of its qualifying equity investments to make “QLICs” into “QALICBs”**
- **Provides investors a credit equal to 39% of the amount of the qualified equity investment (QEI) and is claimed over a 7-year period.**
 - **5% years 1-3**
 - **6% years 4-7**
 - **Investors may not redeem their investments prior to the conclusion of the 7 year period.**

Key NMTC Benefits

**Funds approx. 20% of
project capital stack**

**Provide financing with
below market rates**

Subordinated Debt

**NMTC financing can
“convert” to equity
upon exit**

**Compatible with other
sources: conventional
debt, HTC, gov’t grants,
soft debt and EB-5**

**Can be used for a wide
variety of project types:
operating business,
conventional real
estate, community
facilities**

NMTC Program Evolution

- **12 award rounds; \$43.5 billion in tax credit authority**
 - **Finite resource but new \$3.5 billion in allocation as of June 2015**
 - **Velocity of allocation deployment is very high**
- **Early program results**
 - **Investment real estate**
 - **Major urban areas**
- **Current results**
 - **Operating businesses/community facilities**
 - **Real estate related**
 - **Material volumes in rural and minor urban areas**
 - **Importance of locally-based CDEs**
 - **Underserved states**

Community Outcome Policy Objectives

➤ **For Low-Income Persons/Community Residents:**

- **Job creation/retention**
- **High-quality jobs**
- **Access to community goods and services (e.g. education, healthcare, health food access)**
- **Sparking/furthering economic development activities**
- **Finance minority-owned businesses**

➤ **Sustainability outcomes:**

- **Brownfield cleanup**
- **Renewable energy**
- **Green buildings**

“Qualifying” for NMTCs vs. “OBTAINING” NMTCs

GENERAL QUALIFICATION CRITERIA

- **Location in a Low Income Community (LIC)**
 - Median Family Income of 80% or less of Area Median Income; OR
 - Poverty rate of 20%+
- **Business cannot be a “sin business”**
 - Residential rental real estate (mixed use can be OK under certain circumstances)
 - Golf courses/country clubs
 - Massage parlors/hot tub or tanning facilities
 - Gambling facilities/racetracks
 - Liquor stores
 - Farming businesses
 - Raw land development for sale or lease

“Qualifying” for NMTCs vs. “OBTAINING” NMTCs

PROGRAM COMPLIANCE QUALIFICATION CRITERIA

- **Gross Income test (generally 50% generated within LICs)**
- **Tangible Properties test (generally 40% within LICs)**
- **Services Performed test (generally 40% for LICs)**
- **Collectibles Test**
- **Nonqualified Financial Property Test**
- **Active Trade or Business Test**
- **Furthering Tax Exempt Purpose Test**
- **Portion of Business Rule Test**

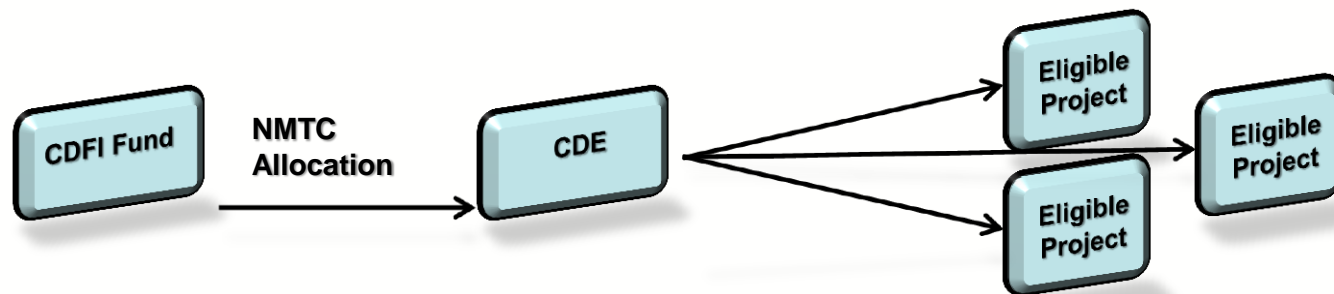
Attracting NMTC Allocation: The CDE

➤ Community Development Entities (CDEs)

- Corporations or partnerships with a Primary Mission of serving low income persons/communities
- Examples of CDEs:
 - PNC Community Partners – National footprint
 - Pittsburgh Urban Initiatives – Local

➤ Certified CDEs apply annually to CDFI Fund for allocations of NMTCs

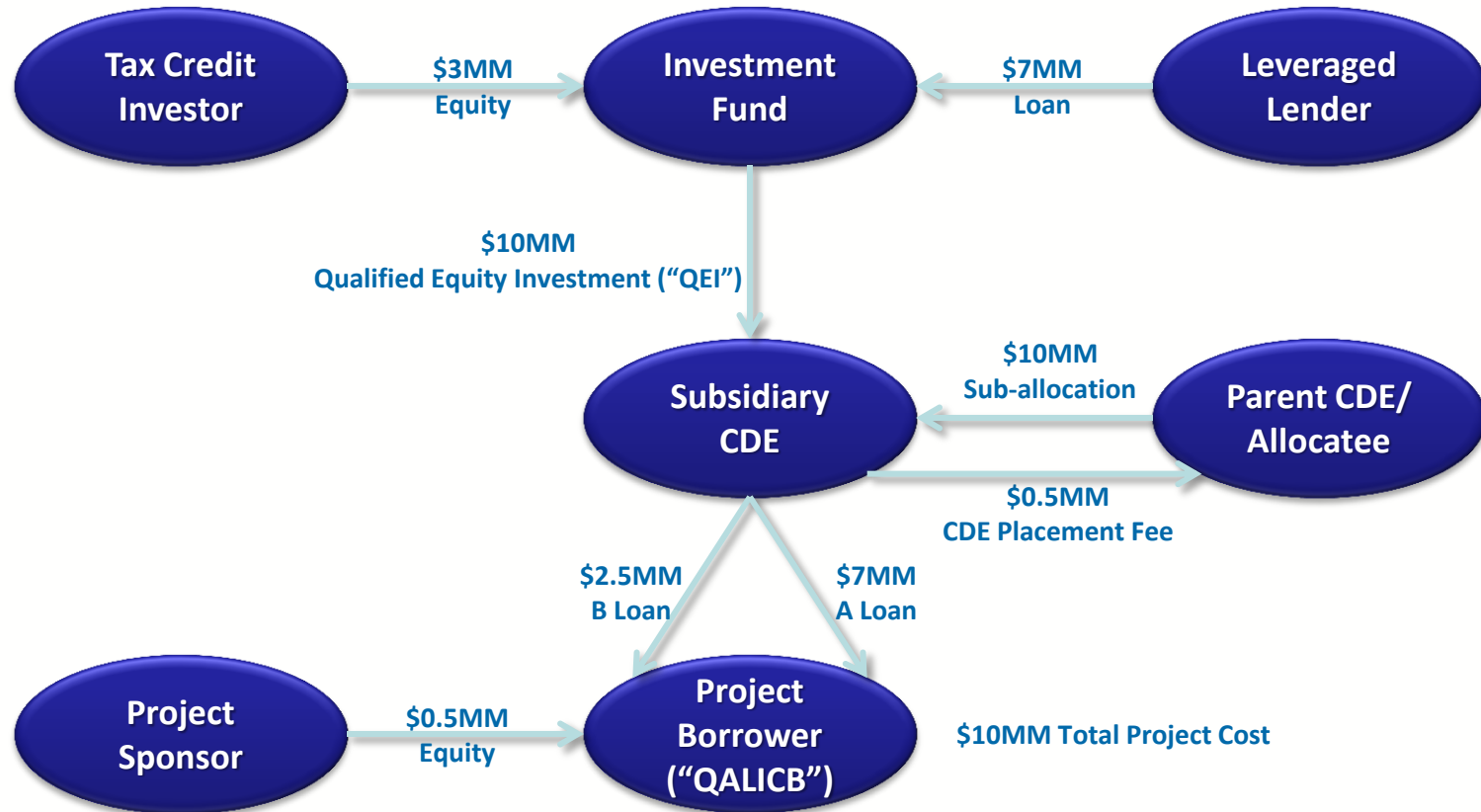
- Ability to receive more allocation dependent on deployment velocity and community outcomes from existing allocations.



Well-Positioned NMTC Projects

- **Typical \$8MM to \$20MM ideal project size**
- **Project should be located in a qualified highly distressed, low-income census tract**
 - **Poverty rate > 30%**
 - **Median Income < 60% AMI**
 - **Unemployment rate >1.5X national average**
 - **Non-Metro tracts**
 - **“Targeted Populations”**
- **Project should provide clear and substantial benefits to low-income populations.**
 - **Construction and permanent jobs and/or provide valuable community services**
- **Projects should meet a “but-for” test**
- **Projects with all non-NMTC financing in place**
 - **Leveraged Loan should sourced from lender(s) who understand NMTC structures**

Typical NMTC Leveraged Structure



- Investment Fund borrows about 70% of total project funding sources from "Leverage Lender" to make the full QEI
- Leverage Loan sources can include bank and/or non-bank debt, philanthropy, sponsor equity, grant funds, and a range of other sources.
- QALICB is typically an SPE of the Project Sponsor created to be borrower for the NMTC loans.

Key Considerations of NMTC Participants

CDE's Considerations

- Community Outcomes alignment with application?
- Can the deal close efficiently

Investor's Considerations

- Recapture risk (redeployment)
- Corporate tax liability
- Lack of liquidity (secondary market)
- Market pricing/yields

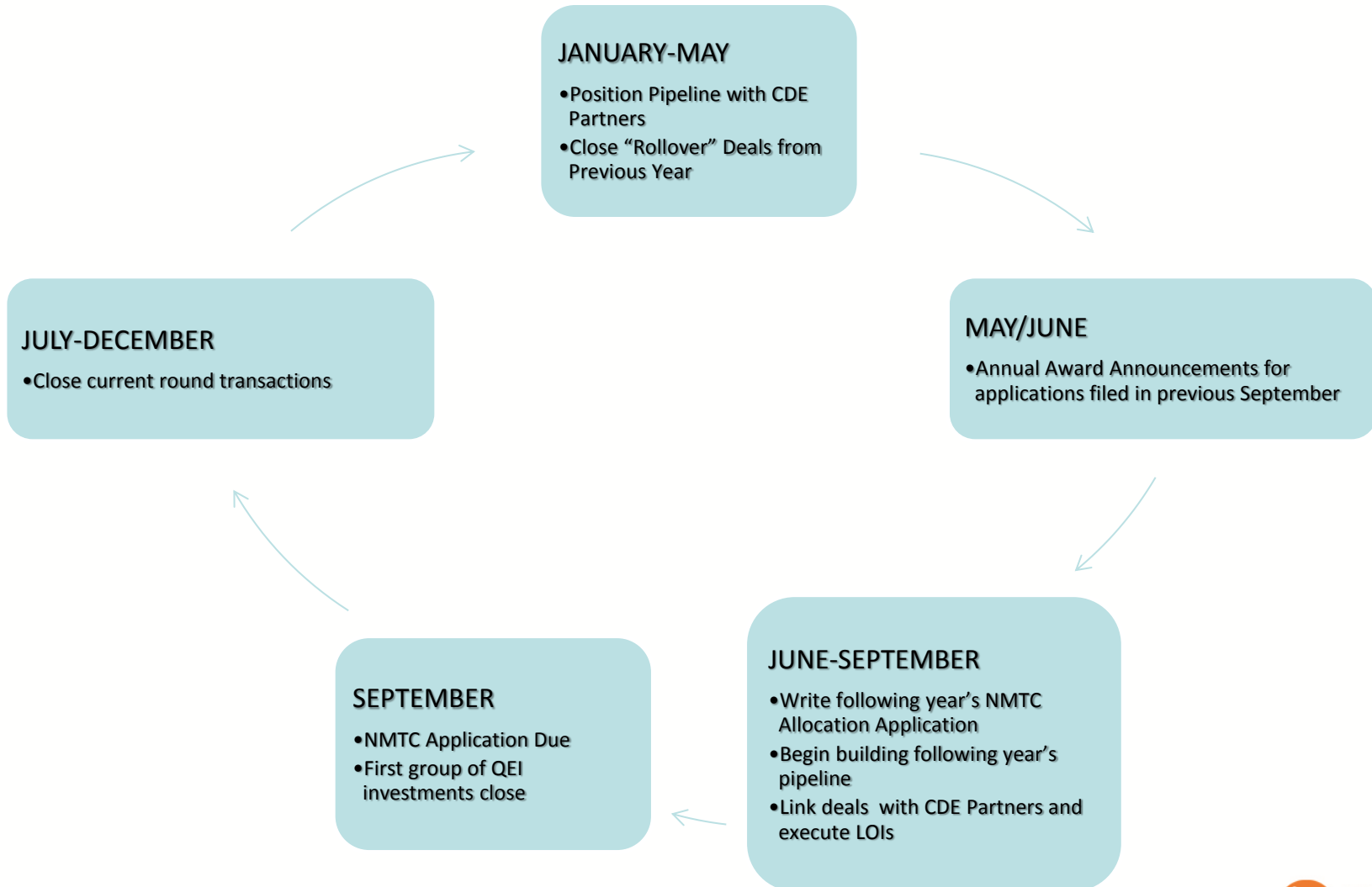
Project Sponsor Considerations

- Transaction costs (actual & opportunity costs)
- Exit strategy/tax consequences
- "Net Benefit" Calculations

Leveraged Lender's Considerations

- Lending relationship is indirect
- Cannot have direct collateral
- Underwriting is challenging to understand
- Interest-only loan payments

The NMTC Cycle



Note: Current year cycle is delayed

Contact Information

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