PNC’s NMTC Practice

- National origins 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

PNC’s NMTC investing footprint is national.
This map represents ONLY our Allocatee Territories

<table>
<thead>
<tr>
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<th>Phone</th>
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</thead>
<tbody>
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</tbody>
</table>
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
Community Development Entities (CDEs) apply for NMTC Allocations from CDFI Fund

CDE required to use substantially all of its qualifying equity investments to make “QLICIs” 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.
<table>
<thead>
<tr>
<th><strong>Key NMTC Benefits</strong></th>
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<tbody>
<tr>
<td>Funds approx. 20% of project capital stack</td>
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<tr>
<td>Provide financing with below market rates</td>
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<tr>
<td>Subordinated Debt</td>
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- **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
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
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

<table>
<thead>
<tr>
<th>CDE’s Considerations</th>
<th>Investor’s Considerations</th>
<th>Project Sponsor Considerations</th>
<th>Leveraged Lender’s Considerations</th>
</tr>
</thead>
<tbody>
<tr>
<td>• Community Outcomes alignment with application?</td>
<td>• Recapture risk (redemption)</td>
<td>• Transaction costs (actual &amp; opportunity costs)</td>
<td>• Lending relationship is indirect</td>
</tr>
<tr>
<td>• Can the deal close efficiently</td>
<td>• Corporate tax liability</td>
<td>• Exit strategy/tax consequences</td>
<td>• Cannot have direct collateral</td>
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<td></td>
<td>• Lack of liquidity (secondary market)</td>
<td>• “Net Benefit” Calculations</td>
<td>• Underwriting is challenging to understand</td>
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<td></td>
<td>• Market pricing/yields</td>
<td></td>
<td>• Interest-only loan payments</td>
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The NMTC Cycle

JANUARY-MAY
- Position Pipeline with CDE Partners
- Close “Rollover” Deals from Previous Year

MAY/JUNE
- Annual Award Announcements for applications filed in previous September

JUNE-SEPTEMBER
- Write following year’s NMTC Allocation Application
- Begin building following year’s pipeline
- Link deals with CDE Partners and execute LOIs

SEPTEMBER
- NMTC Application Due
- First group of QEi investments close

JULY-DECEMBER
- Close current round transactions

Note: Current year cycle is delayed
David Gibson
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