

New Markets alternatives

Tapping In by Teaming Up: **The CRF model for participating in the New Markets Tax Credit program**

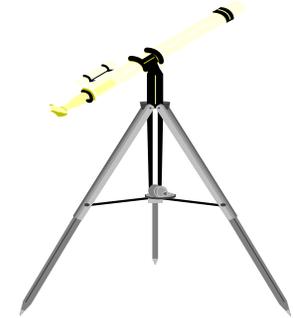
IEDC Annual Conference
Sept. 15, 2003

Presented by
Frank Altman, President/CEO
Community Reinvestment Fund



Presentation to cover

- **Who CRF is**
- **How lenders can team up with others to participate in New Markets**
- **CRF's approach**



What is CRF?

- **A national non-profit financial services organization based in Minnesota**
- **Provides capital to communities by purchasing economic development and affordable housing loans from community development lenders**
- **Helped establish New Markets Tax Credit as member of NMTC Coalition**



CRF Buys Loans for

- **Starting or expanding local businesses**
- **Meeting affordable housing needs**
- **Improving community facilities**



CRF's track record

- **Has purchased more than \$300 million in loans**
- **Loans bought from more than 100 lenders in 23 states and the District of Columbia**
- **Loss ratio is less than 0.5%**



CRF's rationale for NMTC application

- **NMTC best for loans to businesses that are secured by real estate**
- **Many community lenders have NMTC need but not capacity to apply for allocation**
 - **Lack of resources**
 - **Lack of relations with investors**
- **Conclusion: Secondary market approach to NMTC addresses these issues**



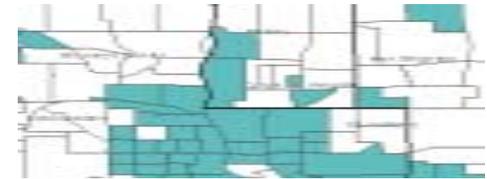
Result: A successful application

- **CRF was largest winner of credits of any national organization -- \$162.5 million**
- **A balanced application**
 - **Strength in all sections of application: Business strategy, management capacity, capital resources, community impact**
- **Combination of CRF's resources and expertise with lending partners' missions and on-the-ground knowledge of community needs**
 - **50 lending partners signed up**
 - **Wide range of projects described**



This year's situation

- **More credits available, but more competition**
- **Those rejected last year likely to reapply, having been told what was missing from previous application**
- **If you haven't prepared already, running out of time**
- **Consider alternative of "teaming up"**



What the benefit is to you as a lender

- **More capital for loans**
 - A pool of money otherwise unavailable
- **Lower cost of funds**
 - Worth at least 150 basis points
 - That is, a loan normally made at 7% could be made at 5.5%
 - Borrowers can benefit from your more favorable cost of funds



Other possible benefits

- **Provide credit reserve for loans with higher risk of default**
- **Use lower interest rate to attract businesses to relocate**
- **Overcome equity limits of borrowers by lending at higher LTV levels**

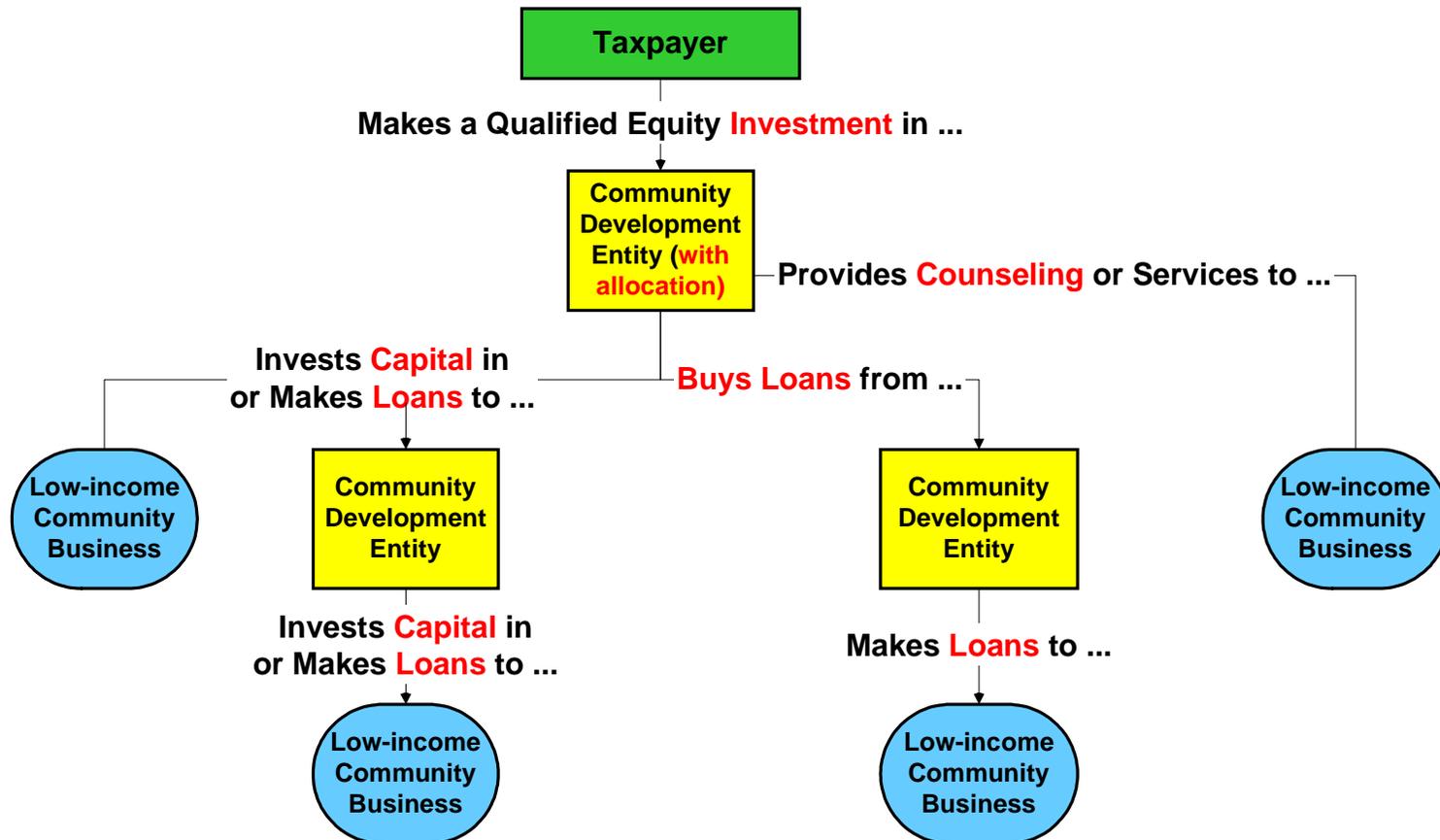


In sum, a flexible program

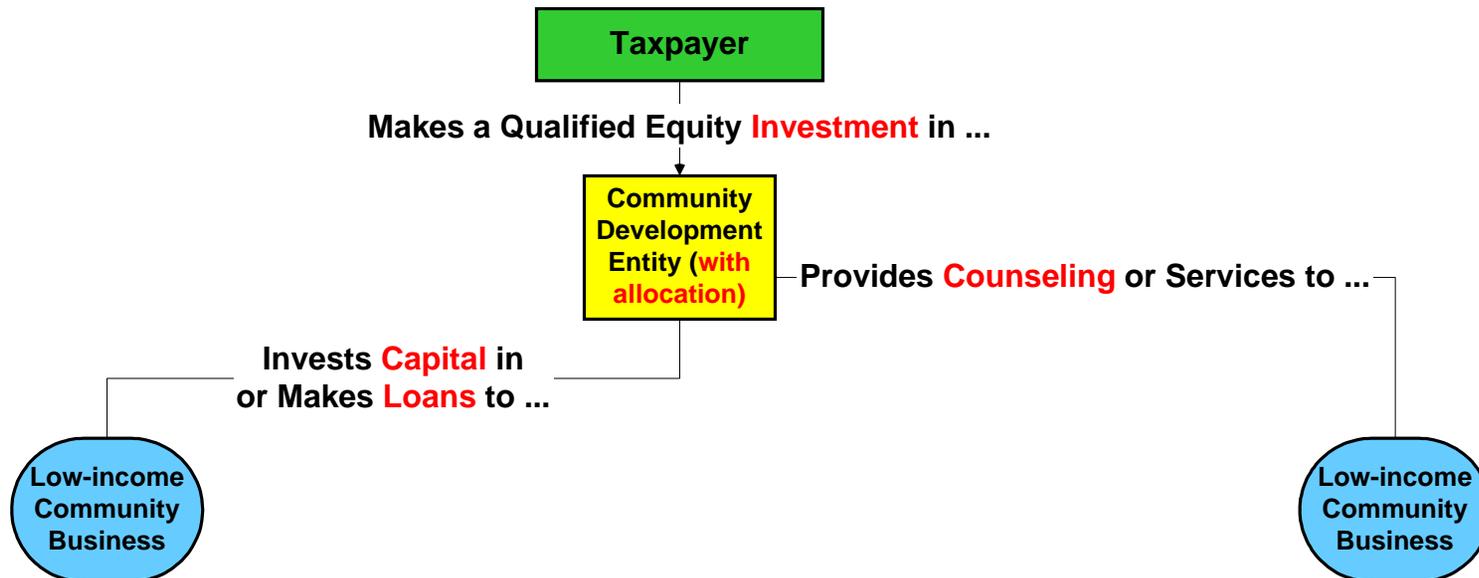
- **Great opportunities for creative use of funds**
- **New link to other resources**
- **Several ways to take advantage of program**



NMTC Investment Options



The “Go It Alone” Approach

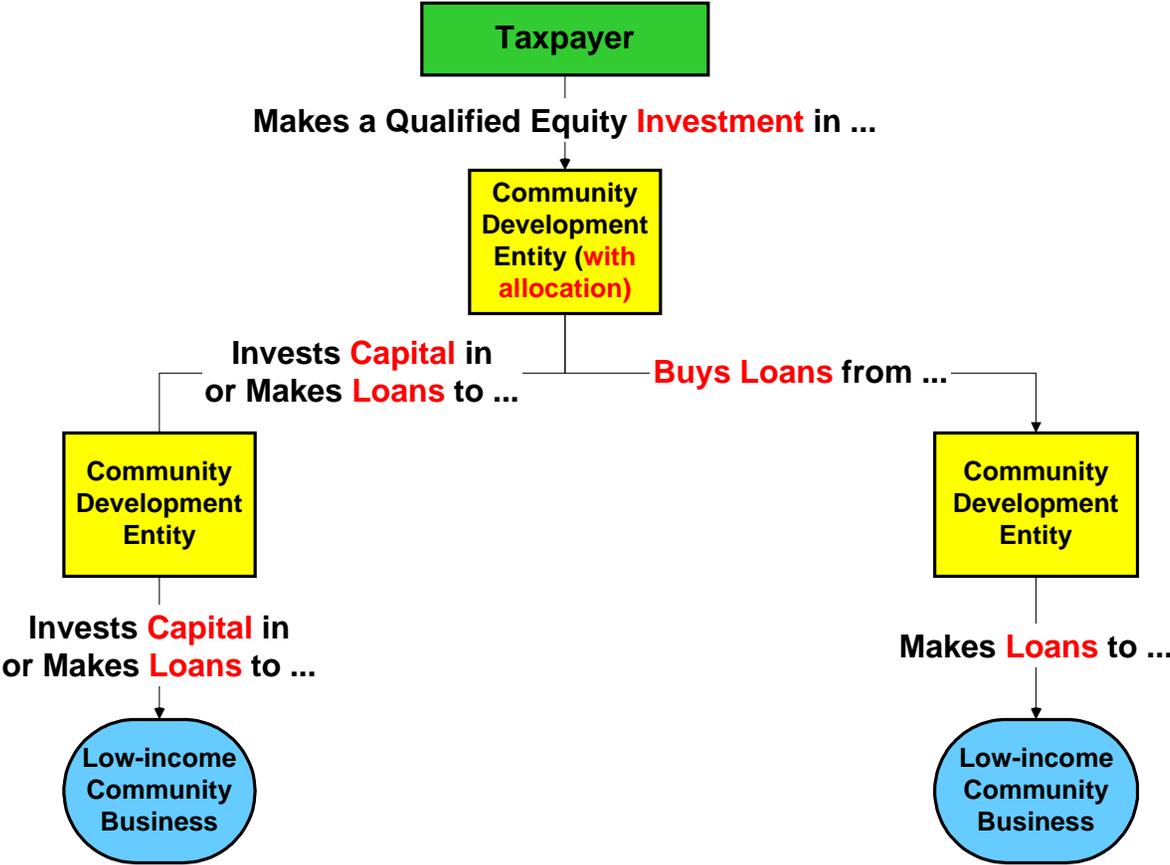


“Go It Alone” Issues

- **Requires lender to form for-profit organization to receive allocation of tax credits from CDFI Fund**
- **Assumes that the lender lines up investors**
- **Requires lender to report use of credits to investors and IRS**
- **You only have 15 more days!**



The “Team Up” Approach

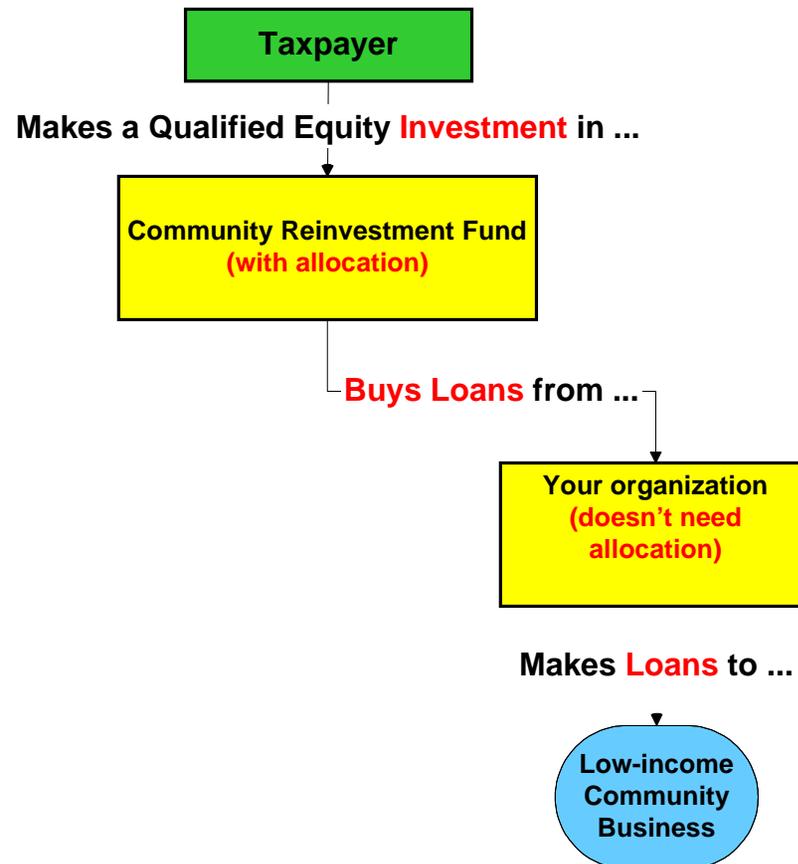


“Team Up” Issues

- **Requires lender to become a CDE only**
- **For-profit not required on part of lender**
- **Investors not required on part of lender**



The Specific CRF “Team Up” Approach



How CRF could work with you

- **Agree in advance about loans to be sold**
 - **Case-by-case or programmatic approaches**
- **Buy existing loans**
 - **Some potential of buying those already on the books**
- **Can retain servicing or hand off to us**



If you want to partner with us ...

- **Take a copy of our application form**
- **Write to marketing@crfusa.com for electronic version**
- **Complete form by Sept. 22**
- **Send or fax it**
- **Please call with questions**

