



The Secrets of New Market Tax Credits in Middle Neighborhoods

Moderator: Marcia Nedland

Organizer, Middle Neighborhoods Community of Practice





Tell us
about you!

- Nonprofit
- Gov't local
- Gov't state
- Gov't federal
- Intermediary
- Consultant
- Realtor
- Financial institution
- Academic institution



Middle Neighborhoods Initiative

A National Initiative focused on mobilizing attention to reverse the disappearance of middle neighborhoods through decline or gentrification. The initiative does this through:

- Community of Practice : practitioners, policy, researchers
- Research: topics relevant to middle neighborhoods
- Policy Analysis and Advocacy : housing, lending, community dev
- Communications strategies: advancing awareness

Coordinated by **National Community Stabilization Trust** and Neighbor Works America and advised by a Steering Committee of 20 prominent researchers, practitioners and policy makers



Characteristics of Middle Neighborhoods

- Mostly single-family homes built for families with children.
- Still well more than 50% owner-occupied, but slowly eroding.
- Housing stock is aging, still in generally acceptable condition, but often lacks features and updates to compete well for today's homebuyers.
- More racially, ethnically and economically diverse.



stabilizationtrust.org





Many Middle Neighborhoods Are Faltering In Their Sustainability

- Ability to *reliably attract replacement owner occupants* and other neighborhood-friendly buyer
- Ability to *generate home values that support quality maintenance*, repairs and updates without appraisal gaps
- Ability to *repel irresponsible investors*
- Ability to *maintain engaged residents taking stewardship* of the neighborhood
- Ability to *deliver home equity to owners and revenue to municipal government*





Some Middle Neighborhoods Are Facing Gentrification and Displacement

- Regions with strong economies and/or housing supply shortages
- Loss of affordable housing
- Risk displacement of lower-income renters, homeowners, and commercial tenants
- A critical opportunity to:
 - ✓ Ensure that existing residents and businesses share in the community's growing prosperity.
 - ✓ Preserve affordable housing before it is lost.





http://middleneighborhoods.reomatch.com/

Click [here](#) to learn more about defining Middle Neighborhoods

Refresh Your Map | Zoom ▾ | Questions or feedback?

Choose a 2014-2018 layer to display

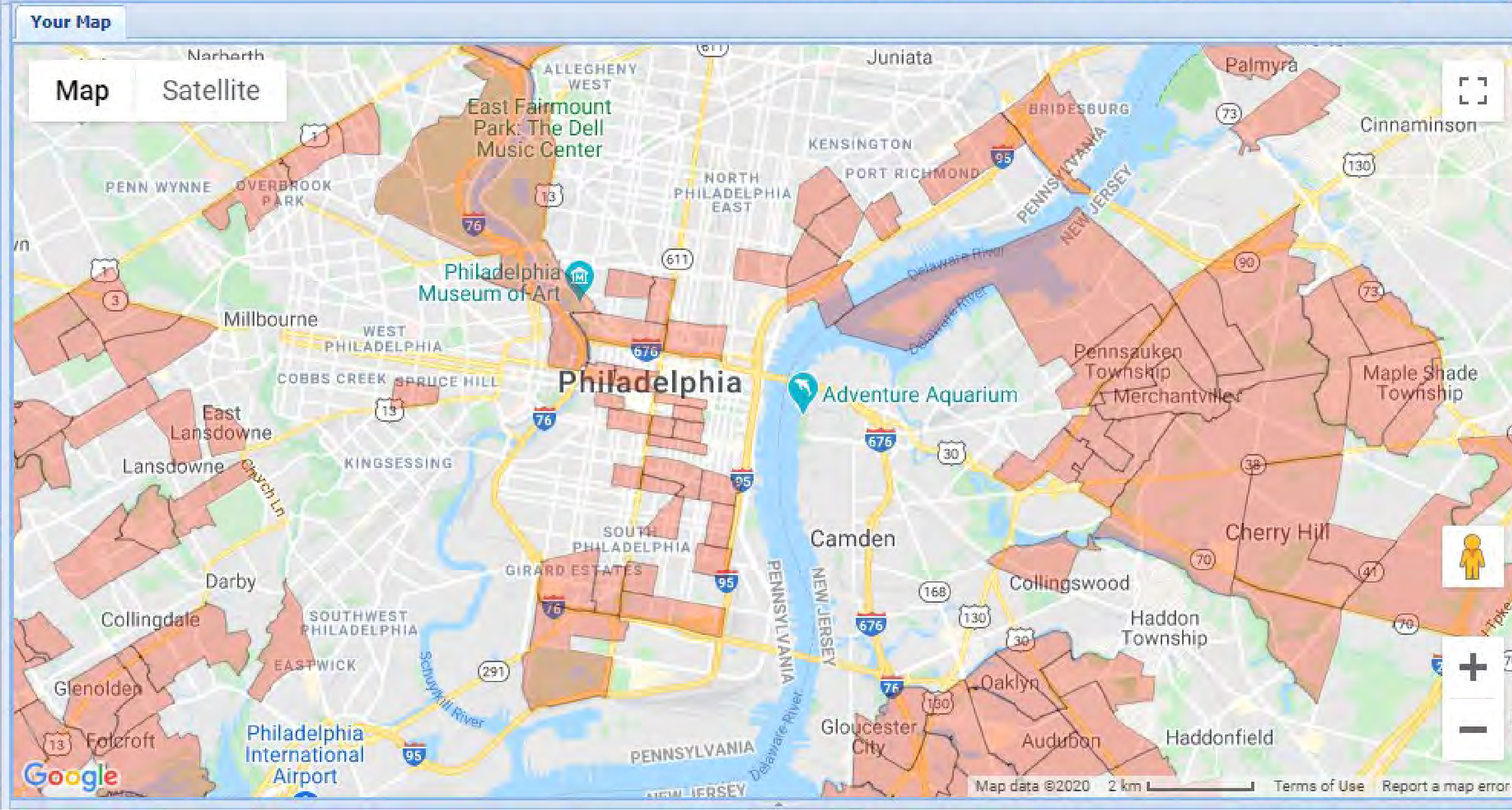
- 2018 City Test 1: 60-100% CMI
- 2018 City Test 2: 80-120% CMI
- 2018 National Test 1: 60-100% NMI
- 2018 National Test 2: 80-120% NMI
- 2018 Regional Test 1: 60-100% AMI
- 2018 Regional Test 2: 80-120% AMI
- 2018 Regional Test 3: 100-160% AMI

Choose a 2006-2010 layer to display

- 2010 City Test 1: 60-100% CMI
- 2010 City Test 2: 80-120% CMI
- 2010 National Test 1: 60-100% NMI
- 2010 National Test 2: 80-120% NMI
- 2010 Regional Test 1: 60-100% AMI
- 2010 Regional Test 2: 80-120% AMI
- 2010 Regional Test 3: 100-160% AMI

MSAs

- Panama City, FL Metro Area
- Parkersburg-Vienna, WV Metro Area
- Pensacola-Ferry Pass-Brent, FL Metro Area
- Peoria, IL Metro Area
- Philadelphia-Camden-Wilmington, PA-NJ-DE-MD Metro Area
- Phoenix-Mesa-Scottsdale, AZ Metro Area
- Pine Bluff, AR Metro Area
- Pittsburgh, PA Metro Area
- Pittsfield, MA Metro Area



Displaying census tracts with median household incomes between 80 and 120 percent of regional/MSA median (\$69,465), or \$55,572 - \$83,358

Our Panelists

Donna Aronoff-Smith

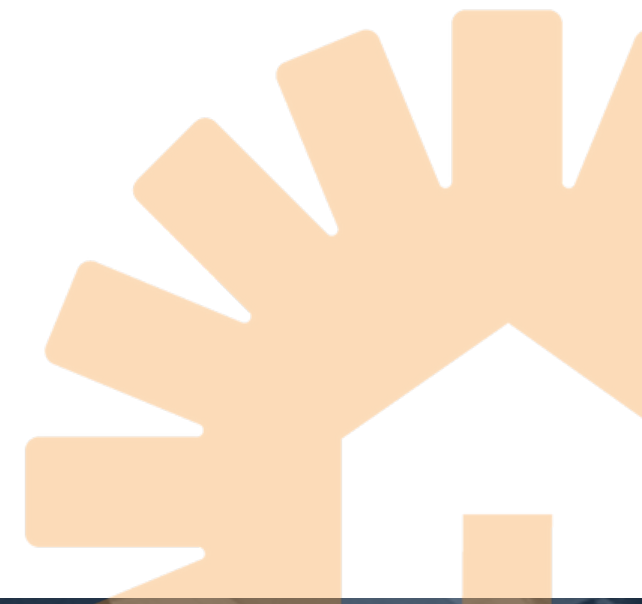
- Executive Vice President, Smith NMTC Associates LLC
- St. Louis, MO

Donna VanNess

- President, Housing Channel
- Fort Worth, TX

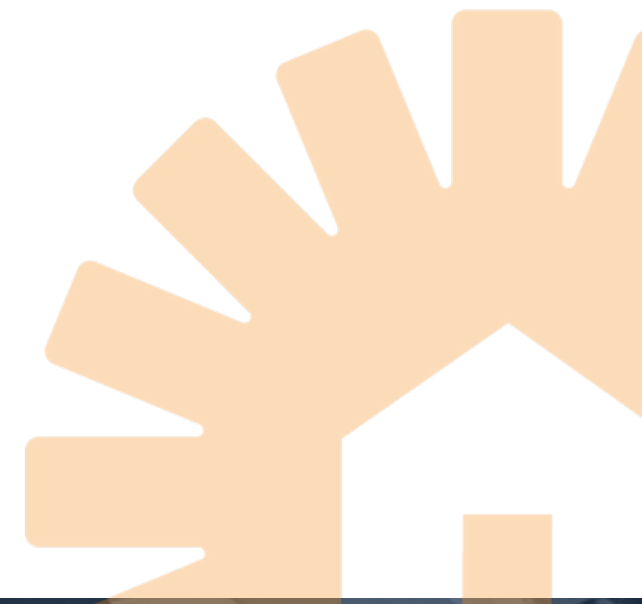
Jeff Hasser

- Project Manager and Strategic Initiatives, INHP
- Indianapolis, IN



Agenda

- Welcome and Introductions
- Panel Presentations
- Q&A



New Markets Tax Credits (NMTCs) for Affordable For-Sale Housing



NMTC Program Overview

- Congress authorized the [New Markets Tax Credit Program](#) (NMTC Program) under the Community Renewal & Tax Relief Act of 2000 to incentivize private investment in economically distressed communities by providing investors with a federal tax credit.
- The NMTC Program is **jointly administered** by the **Community Development Financial Institutions Fund** (CDFI Fund) and the **Internal Revenue Service** (IRS), agencies of the U.S. Department of Treasury.
- Through the NMTC Program, **the CDFI Fund allocates federal tax credits to certified Community Development Entities** (CDEs) like Community Housing Capital and The Housing Partnership Network, through a competitive application process.

NMTC Allocation Application & Award Cycle

Summer 2023	Fall 2024	Early 2024
<ul style="list-style-type: none">• Requests for updates to 2023 application projects• Requests for new projects for 2024 application pipeline	<ul style="list-style-type: none">• Award announcements made by CDFI Fund for the 2023 NMTC allocation round• CDEs select projects to receive NMTC funds from 2023 NMTC allocation award• CDFI Fund releases 2024 NMTC allocation application & announces application deadline	<ul style="list-style-type: none">• Application submitted to CDFI Fund for 2024 NMTC allocation award• First closing on funding for projects receiving 2023 NMTC allocation

Where have NMTCs been used for homeownership?

Smith NMTC has used its
**NMTC Affordable
For-Sale Housing Model**
since 2008:

\$622M Total Transactions
139 Homeownership Projects
Over **5,500** Homes
32 States + District of Columbia
18 CDEs



Are NMTCs right for your project?

1. Is the **project located in a Qualified Census Tract?**
2. Can you **spend the NMTC funds in 18 months?**
3. Will you **sell at least 20% of homes built affordably**, to buyers at 80% AMI or below?
4. Are the **total development costs at least \$3.5M?**
5. Can you raise the **leverage funds** you need by closing?
(About 2/3 of total allocation amount and 3 methods to provide leverage.)
6. Can you **build & make best efforts to sell 1 home/year** in a QCT for 7-year compliance period?
7. **No residential rental.**

Project Types

Can be used with **all types of homeownership projects**, *including:*

- New construction or AC/Rehab
- Single &/or multi-family
- Condos, duplexes, townhomes, co-ops, ADUs
- Mixed-income development
- Land trust/shared equity models

What is the Net Benefit?

- The **net benefit** is the portion of the tax credit equity that you receive at closing and do not have to repay.
- **NMTC pricing**, *which is determined by market/investor*, affects the Net Benefit amount. **Using the Smith NMTC multi-QALICB model can increase the net benefit because QALICBs share NMTC costs.**
- Estimated range of net benefit is 21%-28% of leverage amount.

$$\left(\text{Tax Credit Equity} \right) - \left(\text{Costs \& Expenses (transaction, accounting, compliance)} \right) = \text{Net Benefit to QALICB}$$

Net Benefit & QLICI Proceeds Uses

Net Benefit *can be used for:*

- Scaling production / increasing capacity
- Addressing market gaps in distressed communities
- Subsidizing affordability gaps for low- to moderate-income buyers

QLICI Proceeds *can be used for:*

- Pre-development costs
- Pre-incurred costs
- Acquisition
- Construction hard and soft costs
- Developer fee (up to 10%)

Compliance & Reporting Requirements

QALICB Requirements

- Spend QLICB loan proceeds in 18 months
- Remain an active business – develop 1 home per year
- Sell at least 20% to LIPs (*possibly higher per loan documents*)

POB Financial Requirements

- Monthly first-year spend reporting
- Separate books & records
- No employees
- Reflect loan on books for 7 years
- Leverage loan ownership on books for 7 years
- Semi-annual loan servicing

Reporting Requirements

- Compliance reports to CDE, including impact reporting
- Audits / financial statements / tax returns for all entities

Is your project "ready"?

*Ready for the **Application Process:***

- Own land or purchase plans in place
- If scattered site – area is identified and organization has successful track record
- Sufficient details are available about the project

*Ready for **Allocation Award funding:***

- Own land, under contract, or equivalent (land unencumbered for closing)
- If scattered site – area is identified and acquisition plans are in place
- Leverage funds are raised or a clear plan to raise is in place with lenders identified and known

What are CDEs looking for in a project?

Eligible Project Characteristics

- In NMTC Qualified Census Tract or meets Targeted Populations
- At least 20% homes sold to buyers with incomes below 80% AMI *(and DTI or sale price criteria)*
- Shovel-ready/leverage in place
- No residential rental
- Project size & cost sufficient

Desirable Characteristics

- 85% or more of projects qualify for higher distress criteria *(Meets two or more: poverty, MFI, unemployment; Targeted Populations, other specific criteria.)*
- Number of homes
- Higher % LIPs served
- Strong outcomes
- Underserved states

Other Considerations

- Project timeline: 24-month lookback period for reimbursable expenses
- Strength of organization/track record
- “Story” of the area being developed/project
- Strength of community outreach & alignment with specific community plans
- Proximity to jobs, services, transportation
- BIPOC clients & leadership

Next Steps

Submit a [Project Intake Form](#) for each potential NMTC project.

Smith NMTC will reach out for additional information, if needed.

What does Smith NMTC do for QALICBs?

- Works with QALICBs to assemble all due diligence required for closing.
- Facilitates entire transaction from pre-closing through closing, including serving as clearinghouse for documents and streamlining closing process to reduce closing costs.
- Guarantees entire QALICB recapture risk to investor.
- Manages QALICB compliance throughout the 7-year compliance period (including assistance with POB books and compliance reports).
- Manages the expense account containing the 7-year compliance expenses; and backstops that account if insufficient funds budgeted through no fault of QALICB.
- Directs loan servicing / interest payments.
- Rolls up the transaction at the end of the 7-year compliance period.

QUESTIONS & ANSWERS

Donna Smith

Executive Vice President
Smith NMTC Associates, LLC
dasmith@smithnmtc.com
314.974.7858

Jeanette Reynolds

Communications & Applications Director
Smith NMTC Associates, LLC
jreynolds@smithnmtc.com
314.536.0111



[linkedin.com/company/
smith-nmtc-associates-llc](https://www.linkedin.com/company/smith-nmtc-associates-llc)

*Over \$770 million
NMTC transactions completed
in more than 30 states*



Smith NMTC Associates, LLC created the affordable for-sale housing NMTC model which was first used in 2008 for five Habitat for Humanity affiliates in areas devastated by Hurricane Katrina. Since then, Smith NMTC has used its housing and other models in over \$770M of NMTC transactions working with 22 different CDEs and more than 150 QALICBs.

Through its affordable for-sale housing NMTC model, Smith NMTC has facilitated over \$600M of NMTC funding for affordable for-sale housing projects in 32 states plus the District of Columbia, resulting in over 5,500 homes.

Smith NMTC's over \$150M in non-residential projects has resulted in renovated or expanded and new community centers, nonprofit credit unions, early childhood centers, research parks, and a rural sleepover camp for at-risk youth.

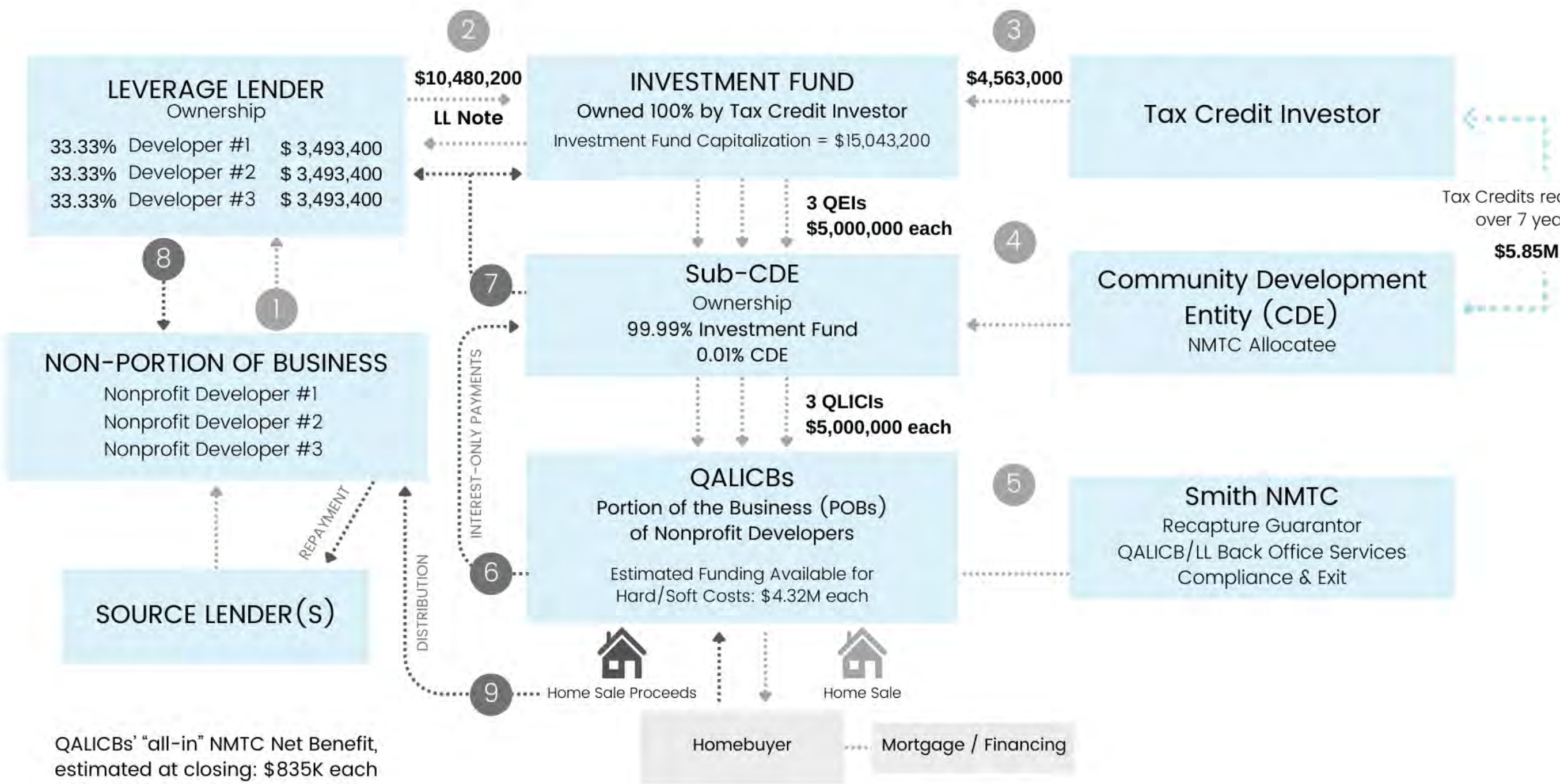
Smith NMTC also applies for and manages the allocation of The Housing Partnership Network, Inc. and Community Housing Capital, Inc.

Learn more about Smith NMTC services at www.smithnmtc.com.

REFERENCE

Glossary of NMTC Terms

- **CDE/Allocatee:** Entity with the tax credit allocation
- **QALICB:** Entity that is the NMTC borrower
(Qualified Active Low-Income Community Business)
- **Sub-CDE:** Entity that is the NMTC lender
- **Investment Fund:** Entity wholly owned by the tax credit investor
- **Leverage Lender:** Entity owned by the QALICBs in transaction, each of whom contribute their leverage capital to it. *Must be at least a 5% differentiation between the QALICB and Leverage Lender. Can be a Supporting Organization.*
- **POB:** Separate accounting entity, *not* legal entity
(Portion of the Business)



QALICBs' "all-in" NMTC Net Benefit, estimated at closing: \$835K each

Housing Channel was founded as Tarrant County Housing Partnership in 1991 to revitalize distressed neighborhoods and to increase the amount of quality, affordable housing available to **low-and-moderate income families** and **individuals with special housing needs**.

Annually certified as **CHDO** – Community Housing Development Organization. HC provides **free programs and services**, including:

- Housing **counseling** and financial **education**
- **Down payment assistance** programs
- Affordable **housing development**
- Property **management** and **realty** services



Bel Air on Abram – Arlington, Texas

47 new townhomes – completed Nov. 2022



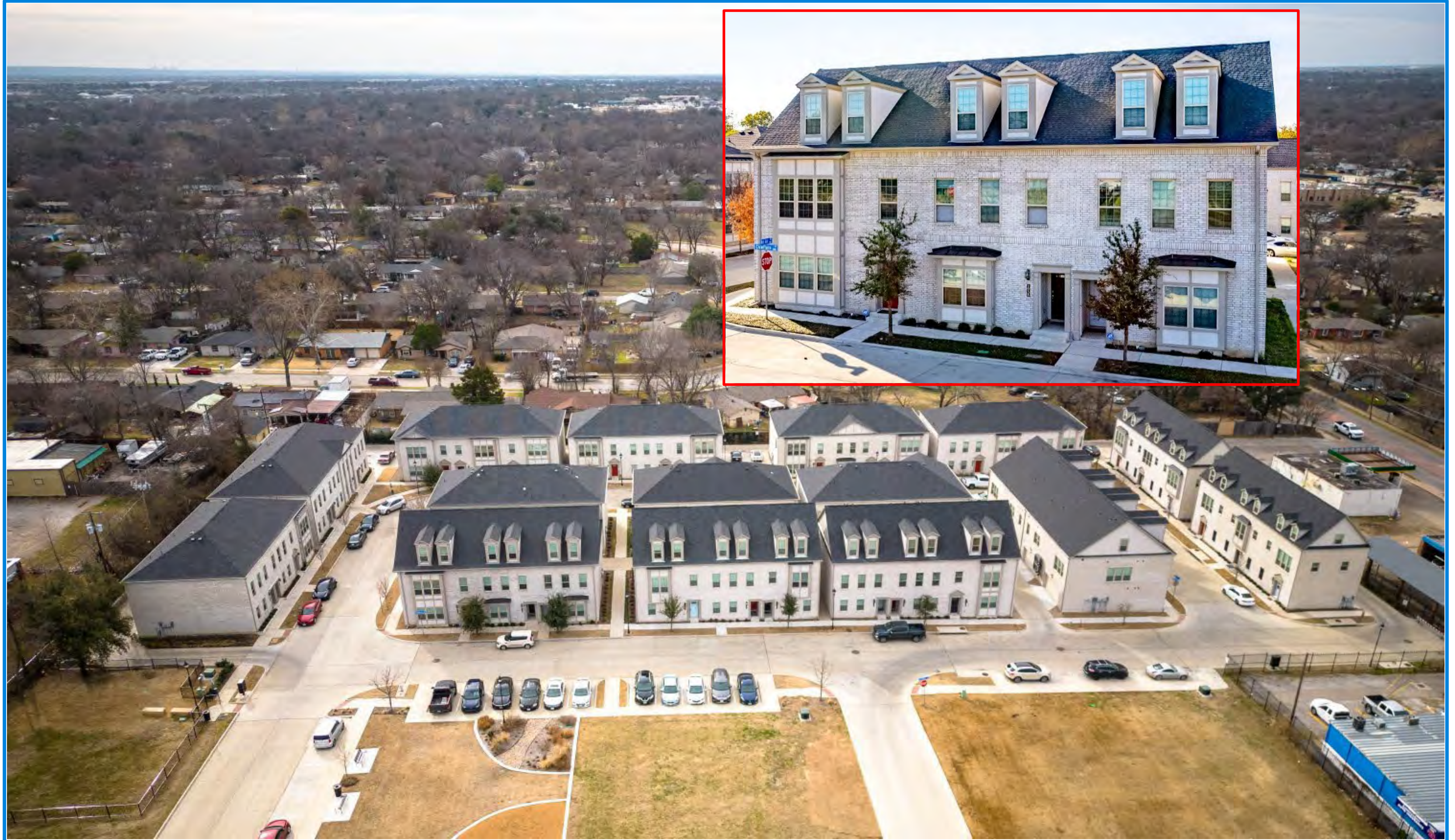
NEW MARKET TAX CREDIT PROGRAM FOR SALE HOUSING

- QCT VS. High Opp Area
- QCT needs higher income for revitalization
- Buyer vs. Rental
- Mixed Income fills gap for Missing Middle
- **QCT = CRA Benefit (Lenders offered DPA to ALL buyers)**
- QCT = NEZ eligible

Mixed-Use, Mixed-Income Development

\$9M Residential Project - \$4M New Markets Tax Credit,
\$5M Private Financing

- 4.4 total acres, 3 commercial sites, 21,000+ sf of green space
- 47 townhomes, 30% at 80% AMI, Priced \$195k - \$360k
- LMI Buyers received \$20k DPA city grant and up to \$25k NMTC subsidy



One mile from Dallas
Cowboys stadium and
the World Champion
Texas Rangers field
One block from General
Motors Assembly Plant



Heritage Crossing – Irving, Texas

12 new townhomes completed 2023



NEW MARKET TAX CREDIT PROGRAM FOR SALE HOUSING

- Previous 4 SF - .79 Acre, 34,800 sf
- Mixed Use – 12 SF attached 3 story townhomes
- 4 Live Work Units
2000 sf, bottom retail
ADA compliant
2nd, 3rd story living
- Mixed Income – Up to 120% AMI;
40% reserved 80% AMI
- Buyers receive \$50k DPA
- Cost \$3.9M of \$6M NMTC
Project Cost with 10 infill single family homes

Mixed Use supports small business entrepreneurship



Homeowner businesses included hairdresser, tax attorney, IT consultant, custom cake supplies.

Affordable Homebuyer Profile:

- Irving townhome \$325,500 construction cost
Sales price to 80% AMI buyer \$259,900
- DPA assistance \$50,000 city, \$15,000 FHLB
- Lender partner 4% interest portfolio loan
- Loan \$199,099
- Household of 4 Income under \$77,900
- Mortgage, taxes, insurance and HOA \$1,978
(32% DTI)





AT HOUSING CHANNEL, OUR GOAL IS TO
HELP PEOPLE **BUILD WEALTH** THROUGH **HOMEOWNERSHIP**.
WE CREATE EDUCATED AND EMPOWERED HOMEOWNERS TO
LIFT NEIGHBORHOODS AND STRENGTHEN COMMUNITIES.

For more information please contact:

Donna VanNess– President

2900 Airport Freeway, Fort Worth, TX 76111

o 817.924.5091 ext.3293

c 817.228.4249

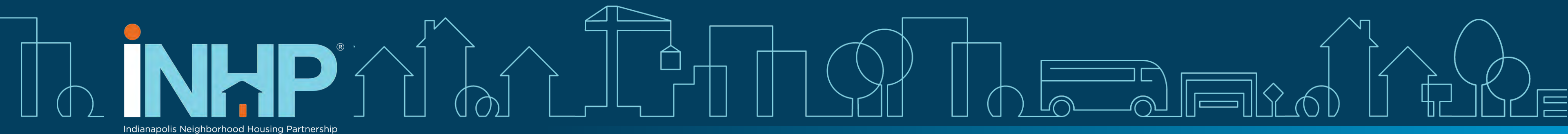
donna@housingchannel.org

www.housingchannel.org



INDIANAPOLIS NEIGHBORHOOD HOUSING PARTNERSHIP

Jeff Hasser, Director of Housing Strategy



HOMEBUYER EDUCATION

& ADVISING

HOME PURCHASE & HOME REPAIR LENDING

SINGLE-FAMILY HOUSING DEVELOPMENT

LAND BANKING

COMMUNITY LENDING

GRANTMAKING



HOUSING PARTNERSHIP NETWORK

- Two Transactions
 - HPN II - 2017
 - HPN VI - 2021
- Development Details
 - Single-family, scattered site, infill
 - 2/3rds were at or below 80% AMI
 - Primarily partnered with local CDCs
 - Tipping point neighborhoods
 - NMTCs were the primary subsidy source



INDY CDE

- City of Indianapolis's CDE
- Single Transaction in 2023
- Development Details
 - Historically majority minority low-income neighborhood
 - Former brownfield
 - Single site for 33 townhomes
 - >51% at or below 80% AMI



AVAILABLE FALL 2024

ARNOLD PLACE

1,300 - 1,500 square foot townhomes | 3 beds, 2.5 baths | 1 - 2 car garages



IAAQLI

INDIANAPOLIS AFRICAN AMERICAN QUALITY OF LIFE INITIATIVE

INHP

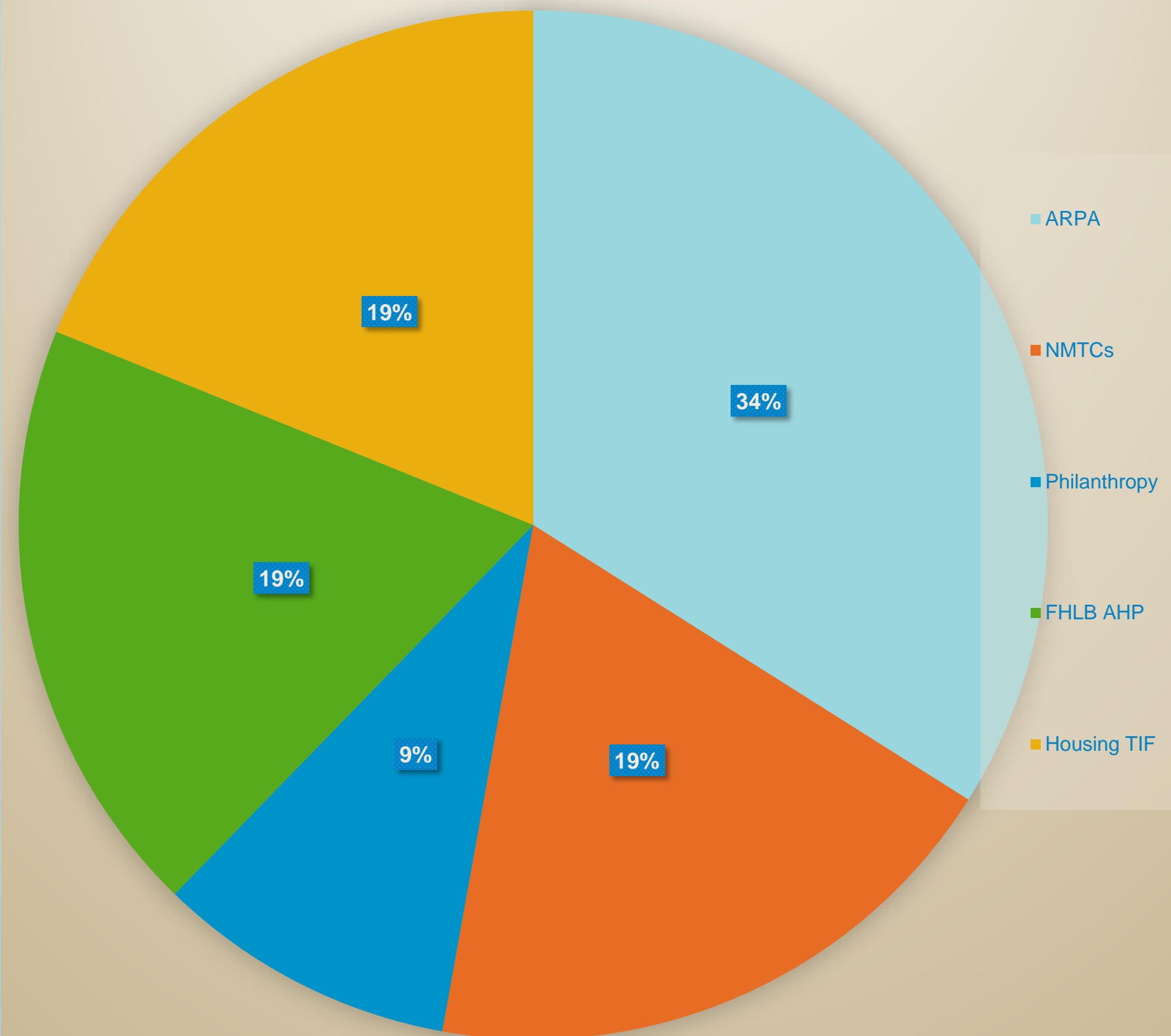
Indianapolis Neighborhood Housing Partnership

ONYX+EAST



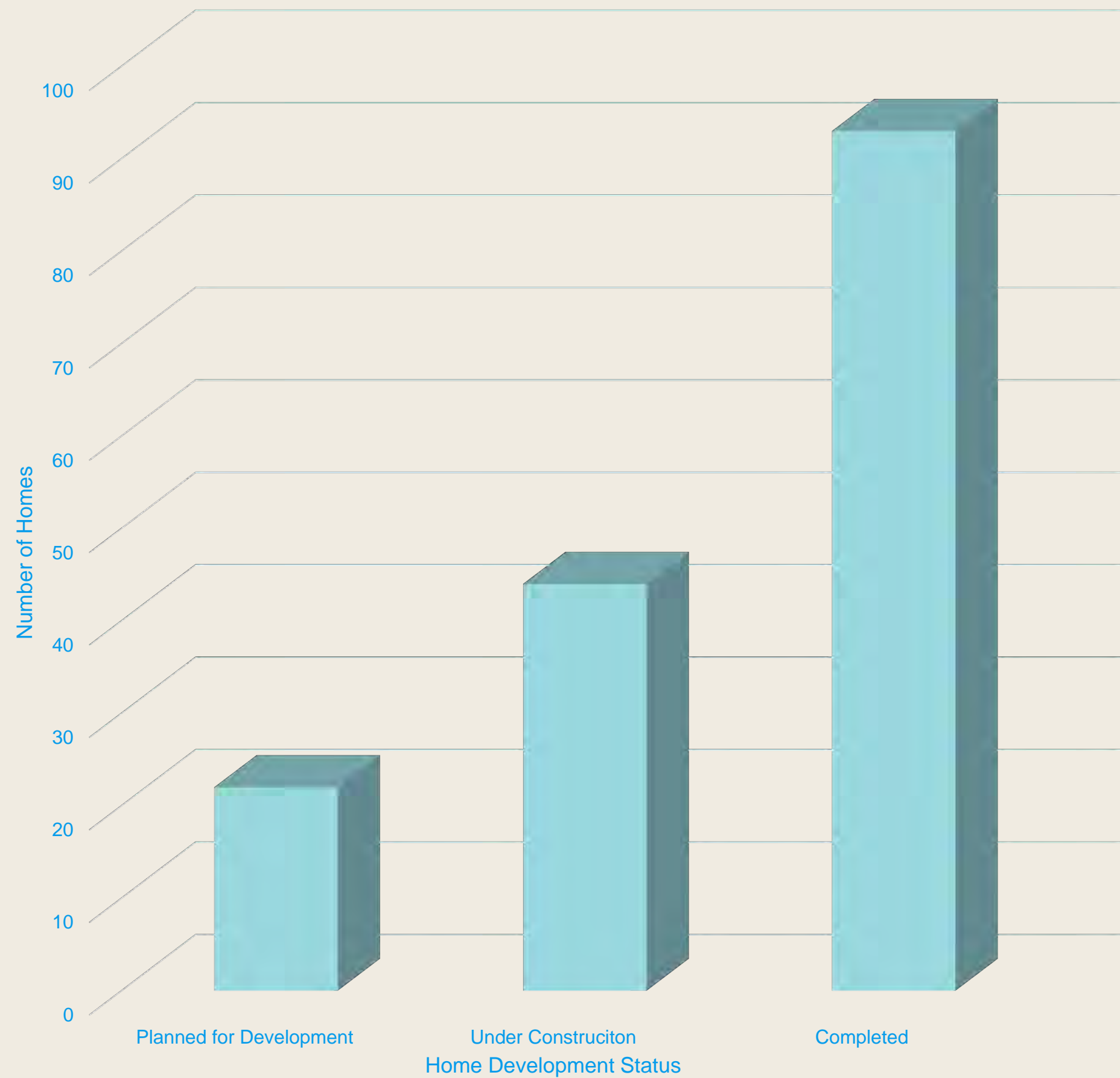
E NATIONAL NK of INDIANAPOLIS

ARNOLD PLACE PLACE SUBSIDY LAYERING



INHP SINGLE-FAMILY DEVELOPMENT

2017-2023



Upcoming Events

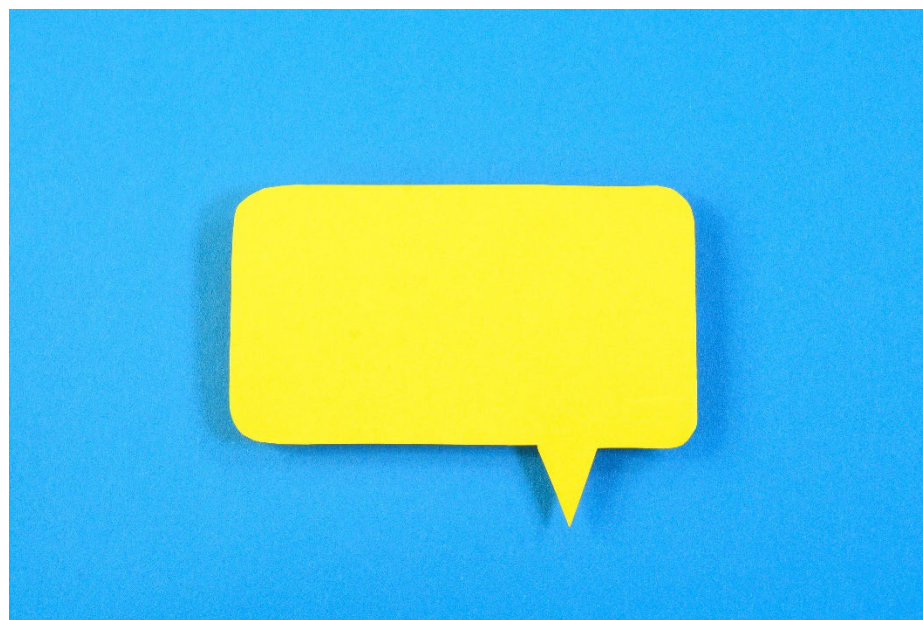
APR 17: Engagement Chat (Noon, ET)

- ❖ Getting Money for Events (AND Volunteer Management Software)

Questions: anndipetta@gmail.com



Thank you for joining us!



- **Please email us** if you have ideas for webinar, case studies, news stories, etc. marcia@middleneighborhoods.org
- Check out the **Cornerstone Webinar Series** : Center for Community Progress
- **Tell us** about your experience today!



JOIN US!
The Middle Neighborhoods
Community of Practice
(CoP)

The Middle Neighborhoods CoP is an informal, facilitated network of practitioners, researchers and policymakers engaged in revitalizing middle neighborhoods. CoP members share learnings through topical webinars, referrals, site visits, phone calls, and occasional larger group events.

Please join us!

<https://ncst.org/middle-neighborhoods/>

