U.S. Bancorp Community Development Corporation

New Markets Tax Credits

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usbank

About us

- U.S. Bancorp Community Development Corporation (USBCDC) was formed in 1988.
- USBCDC is the tax credit and community investment subsidiary of U.S. Bank.
- We invest in **affordable housing**, **economic development**, **historic renovations**, and in **renewable sources of energy**.
- A national leader in community development financing, USBCDC specializes in originating and managing federal and state tax credit equity investments and community development loans
- Headquartered in St. Louis, MO, USBCDC has more than 400 employees located in offices across the country.

Key customer benefits

Backed by the strength and stability of U.S. Bank, our nationally recognized industry experts can help bring the most complex projects to life. Our commitment to building long term relationships means you get reliable execution that goes beyond individual transactions.

- Industry expertise
- Reliable execution
- Social and environmental impact
- U.S. Bank stability and support

Closing the gap between people and possibility

$4 billion
in community loans

$8.2 billion
in syndications

75,300
affordable housing units

3,191
total projects

$32.6 billion
in tax credit equity

324,300
households outfitted with solar panels

$12.05B Low income housing tax credit investments
1,156 projects and funds

$8.7B New markets and historic tax credit investments 1,682 projects

$11.7B Renewable energy tax credit investments
353 projects

As of March 31, 2020

New markets tax credits

Economic development in underserved communities

Stout Street Health Center, Denver, CO

Big Brothers Big Sisters of Miami, Florida

As of March 31,2020

$6.51 billion invested

1,532 projects

232 community development entities

$25 billion leveraged

Ferguson Empowerment Center, Ferguson, MO

New Markets Tax Credits

Overview

- New Markets Tax Credits are federal income tax credits designed to attract private-sector capital investment into the nation's urban and rural low-income areas to help ***finance community development projects***, ***stimulate economic growth*** and ***create jobs***.
  - Created in 2000 as part of the Community Renewal Tax Relief Act
  - Program extended by Congress through 2020
- The project borrower must be in a low-income community (LIC)
  - 50% of its services are provided within a LIC **or**
  - 50% of borrower's gross income **or**
  - At least 40% of tangible assets are in a LIC
- A low-income community* is defined as a census tract with:
  - Poverty rate of at least 30% **or**
  - Unemployment rate at least 150% of the national average **or**
  - Median income less than 60% of the statewide or metropolitan area

**Severely distressed*

New Markets Tax Credits

Financing

- A NMTC Equity Investor invests equity for benefit of tax credits; investment proceeds ultimately flow to Borrower/Project as debt.
- Borrower access to NMTCs results in approximately 20%-25% (net of fees/expenses) of below market financing to a project.
- Other funding sources include sponsor equity, senior bank debt, grants, capital campaign donations, etc.
- The Community Development Entity (CDE) is a third-party market intermediary who commits a NMTC Allocation to a project.

New Markets Tax Credits

CDFI Fund and CDEs

- Credits are allocated by the Community Development Financial Institutions Fund (CDFI Fund), an arm of the U.S. Department of the Treasury.
- The credits are allocated to Community Development Entities (CDEs):
  - The mission is to provide investment capital for low-income communitie.
    - CDEs must be certified by the CDFI Fund.
  - CDEs apply (annually) for a NMTC allocation from the CDFI Fund.
  - CDEs decide where and how much NMTC allocation is committed (projects).
- CDEs do not claim the tax credits; rather, a CDE monetizes the credits by selling equity of the CDE (or a pass-through CDE subsidiary) to a tax credit investor, such as USBCDC.

New Markets Tax Credits

CDEs

- Allocation - Between 75 and 90 CDEs receive credit allocation annually which include:
  - Banks (USBCDE)
  - Non-profit development organizations
  - Government and quasi-government bodies
  - Others
- CDEs are obligated to allocate credits to projects that match the targets outlined in their allocation agreement with the Department of Treasury
- Mission - Some CDEs may only do pre-determined types of projects (i.e., health care facilities, non-profits, operating businesses, real estate developments, etc.)
- Geography - Some CDEs must finance projects in a certain city or state.
  - Some CDEs have a national footprint

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USBCDE, LLC

- Our USBCDE is a **c**ommunity **d**evelopment **e**ntity responsible for applying to the CDFI Fund for a NMTC allocation authority. USBCDE allocates NMTCs utilizing a **committed impact strategy** in partnership with USBCDC, which serves as an investor.

As the racial wealth gap in the United States continues to widen and communities become more segregated, residents of color and those with low incomes often have unequal access to necessary resources. This results in significant disparities in economic, health and education outcomes in these communities. USBCDE leverages our allocation and investor resources to create much-needed community resources, quality and accessible jobs, and opportunities for wealth creation with the end goal of eliminating these disparities.

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Eligible projects

- Soft minimum of $5,000,000 total project costs
- Project Borrower must be in a low-income community (Census and ACS Survey data)
  - Distressed vs. severely distressed
- Produces a community benefit, such as job creation, provision of needed goods/services, catalyze development in community, etc.
- Proceeds used for the new construction of real property, substantial rehabilitation of existing property, equipment and project soft costs.
- Eligible businesses include:
  - Healthcare facilities, manufacturers, non-profit social services, community facilities, real estate developers, service businesses, and retail.
    - Borrower cannot be - or lease to – certain 'sin' businesses such as liquor stores, massage parlors, gambling facilities, race tracks, tanning facilities or golf courses.

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Advantages

- Provides lower cost of capital than other financing options by virtue of the equity, or “B note”, and partial debt forgiveness.
- This junior layer of capital mitigates the underwriting challenge caused by lower-than-cost appraisal values (as seen in many special-use facilities).

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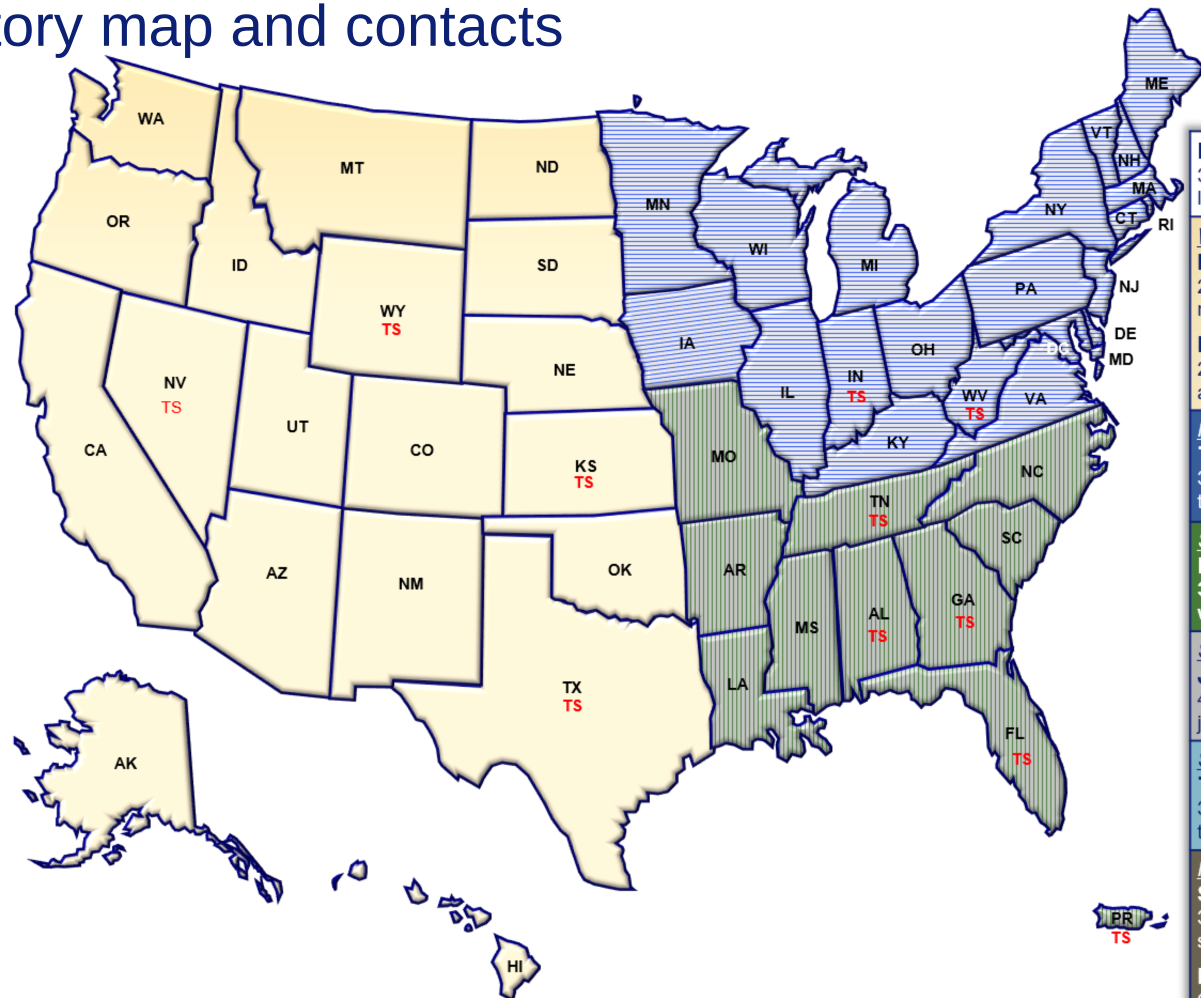
U.S. Bank's role

- Help determine eligibility and feasibility
- U.S. Bank, NA (lender) provides leverage loans through the NMTC structure
- USBCDC (equity investor) monetizes the credits
- USBCDC can help attract credit allocation to a qualified project through our deep network of CDE relationships

New Markets Tax Credits

Territory map and contacts



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