GROWING HOMEOWNERSHIP WITH NEW MARKETS TAX CREDITS

Since 2017, Housing Partnership Network has employed New Market Tax Credits to advance our members' work in the field of single family homeownership. In that time we have:

- Deployed $70MM to 9 HPN Member organizations
- Supported the development of a projected 468 for-sale homes
- Helped create 365/716 permanent/temporary jobs

Using the model created by our consultant, Smith NMTC Associates, HPN is able to use its New Market Tax Credit allocation to provide participating members with capital. The tax credit investor purchases the credits (a 39% tax credit) in exchange for equity. HPN then leverages additional debt to provide flexible, low-cost capital to our members. With increased access to equity at lower rates and greater flexibility, HPN members can build more single family properties, and offer more affordable mortgages, quality housing stock, and homeownership support services to low-income home buyers and residents of low income communities.

Why we use NMTC

NMTC incentivizes economic and community development - this use stabilizes neighborhoods and enables mixed income communities. HPN utilizes this program in markets with appraisal and affordability gaps to provide development subsidy to its members building and rehabbing sing family, for-sale homes in areas of economic distress.

How it works

The "net benefit" is the equity that is contributed by the investor in exchange for the tax credits. This capital, along with the capital invested into the leverage lender comes through the NMTC structure to the single family development business (referred to as the "QALICB", the Qualified Active Low Income Community Business) as a loan. The loan is 7 years, interest-only at less than 1%. At the end of the 7 years the structure rolls up and the loan is forgiven, allowing the HPN member to recognize the net benefit as revenue.

The leverage lender entity is owned and capitalized by the HPN member. It can be capitalized with cash (either from your balance sheet or borrowed outside of the structure) and expenses incurred on the project up to 24 months prior to closing (these are monetized through a one day equity bridge from the tax credit investor). By utilizing the NMTC structure, members are able to receive an additional 20-25% of "net benefit" over the capital they bring as leverage.

HPN and its members are uniquely positioned to use New Markets Tax Credits for this purpose thanks to a track record of producing both social and financial returns with similar affordable housing development projects.

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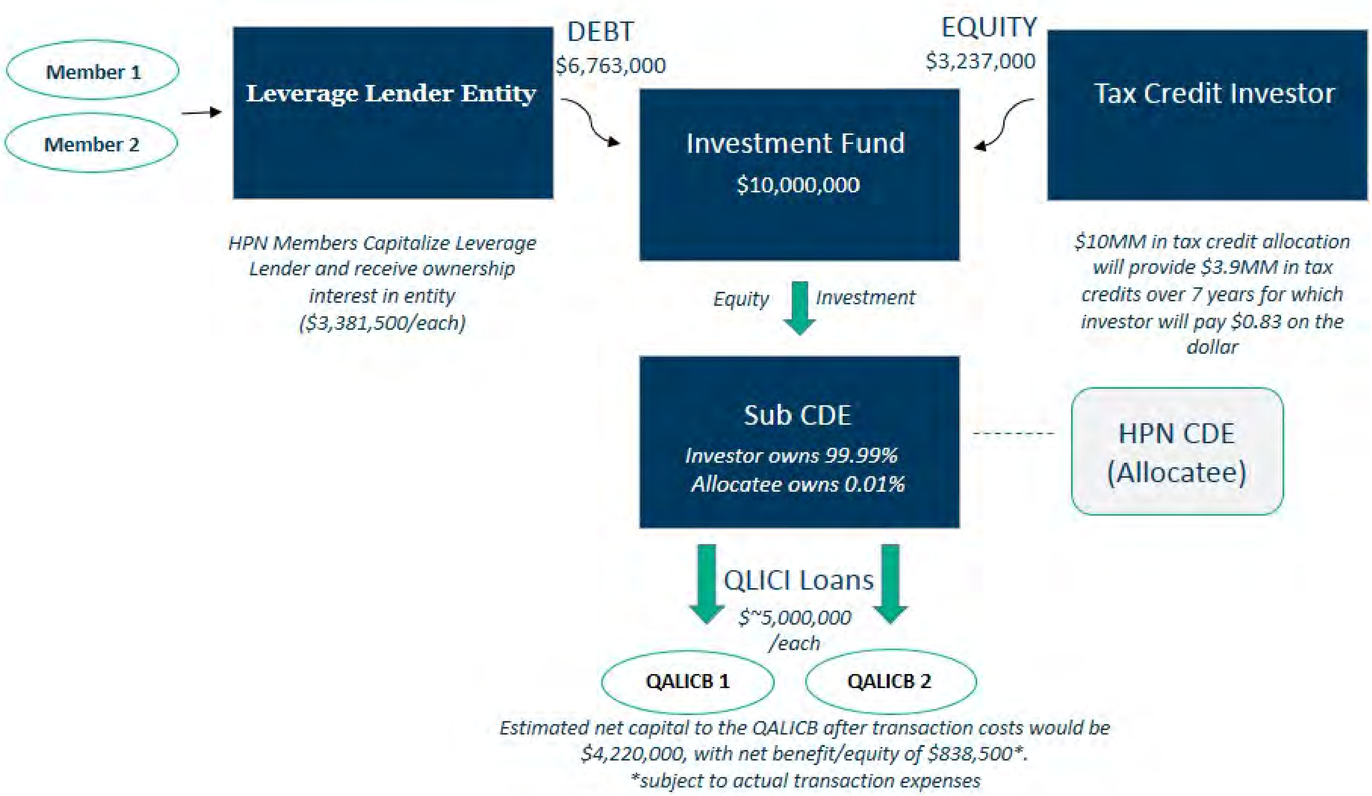
Highlights of the HPN NMTC program

- All funds are advanced at closing and must be spent on the project in 12 months.
- The main qualifier is that homes are built in NMTC qualified census tracts (QCTs) where the tract has either a poverty rate of 20% or greater or median income of 80% or less of that area's median family income.
- We look to use 70% of our allocation in areas that are severely distressed, primarily with either a poverty rate of 30% or greater or median income of 60% or less of that area's median family income.
- The loans will remain on a member's balance sheet as debt, even the portion that represents the net benefit, for 7 years. HPN works with members and their auditors on an audit note for that purpose. The "net benefit" is not recognized as revenue until unwind when the loan is forgiven at the end of year 7.

EXAMPLE OF A $10MM ALLOCATION WITH TWO HPN MEMBERS



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