NH&RA NMTC Symposium

February 23 - 26, 2011

“Unwinding NMTC Transactions”

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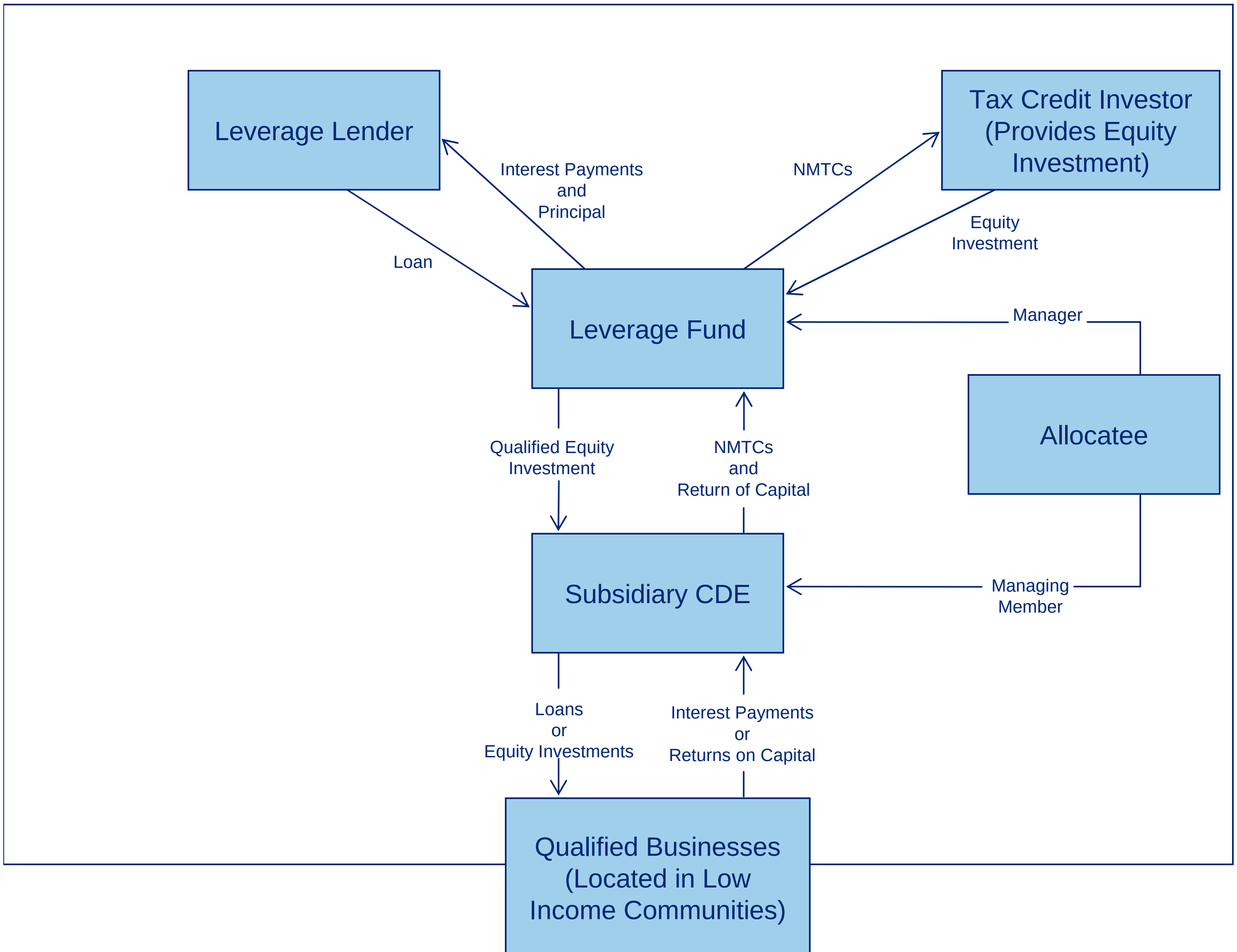
Basic Leverage Fund Model



Overview

In a basic "leveraged" transaction, a leverage fund is owned 100% by a tax credit investor and is managed by either the tax credit investor, an affiliate of the lender, or an affiliate of the CDE.

The leverage lender agrees to advance a loan to the leverage fund. This loan is secured by a pledge of the leverage fund's sole asset – its interest in the CDE. According to IRS guidance, the leverage lender is specifically prohibited from having any security at the property level.

The funds received from the leverage lender are pooled with the tax credit investor's equity to make the QEI into the CDE. The CDE in this case would be owned 99.99% by the leverage fund and .01% by the Allocatee. The CDE uses the QEI proceeds to make a loan to, or equity investment in, the QALICB.

The leverage lender typically agrees to a seven year forbearance from the exercise of any lien enforcement rights under the leverage loan documents that could result in the loss of credits.

There is typically a put-call agreement between investor and an affiliate of QALICB exercisable after the 7 year compliance period. Other exit strategies may be used.

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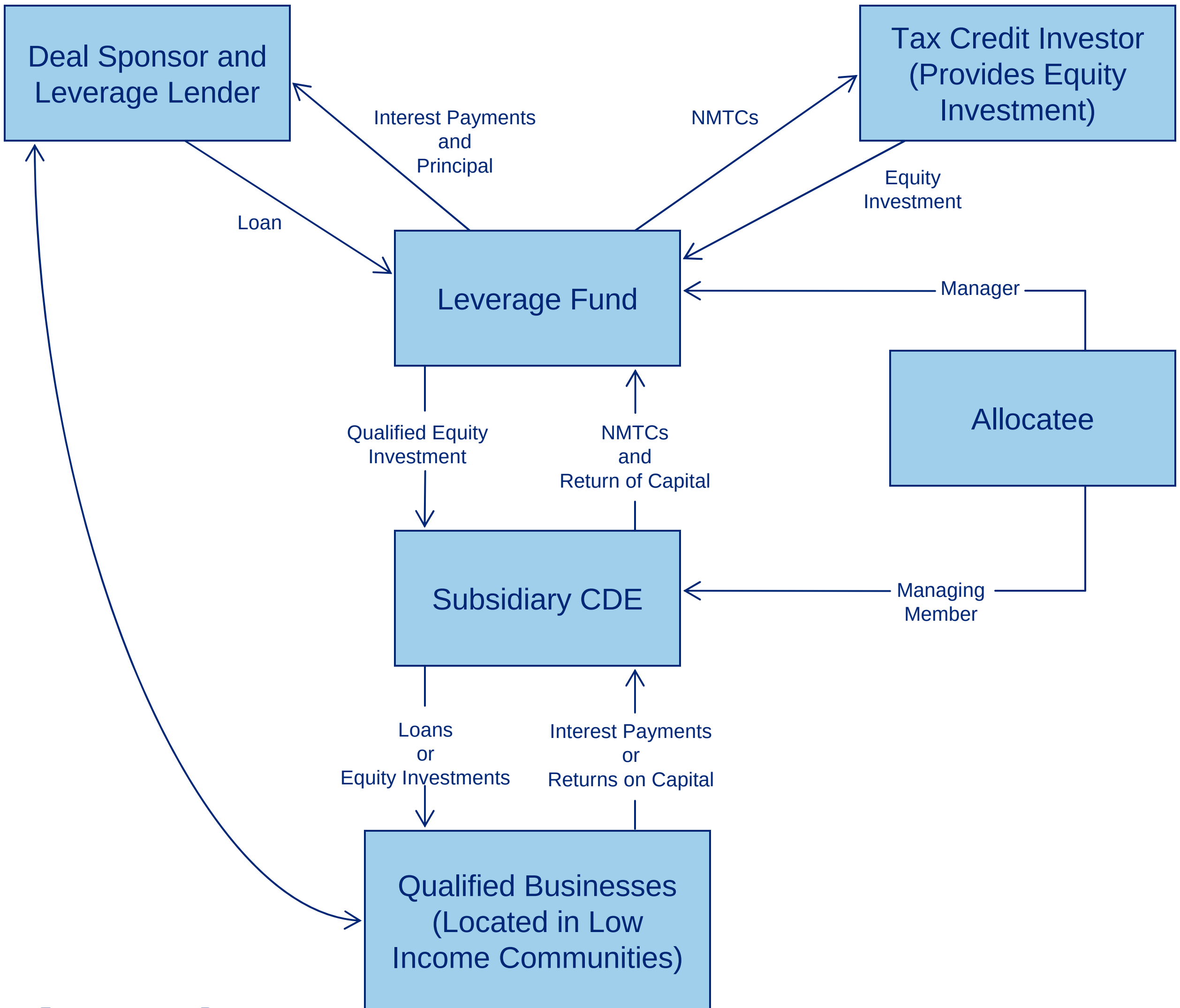
Sponsor Leverage Fund Model



<u>Overview</u>

In this structure, an entity (the "Sponsor") has some sources to complete the transaction, but has a gap. By acting as the leverage lender, the Sponsor can generate NMTC equity for the deal. The Sponsor forms a separate SPE to own the real estate and act as the QALICB.

This structure is currently very common because there is no need for a 3rd party leverage lender.

However, many deals are done with both a Sponsor leverage loan and a 3rd party leverage loan where the Sponsor leverage loan is subordinate to the 3rd party leverage loan.

There is typically a put-call agreement between investor and Sponsor exercisable after the 7 year compliance period. Other exit strategies, including accrual of interest on the leverage loan may be used.

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