

The Mercantile Block

The Bridge Lender and Tax Credit Investor's
Perspective

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Bank of America 
Merrill Lynch

GLOBAL COMMERCIAL BANKING

The Mercantile Block

Rehabilitation of a nearly vacant commercial building in downtown Providence into ground-floor retail, 2nd floor office and work studio space, and 22 apartments for local artists on the 3rd and 4th floors.



Investment Summary

- **A construction and tax credit equity bridge loan of \$1.69 MM directly to the Project to bridge the 2nd NTCIF III equity installment. Collateral is the property.**
 - LTV (underwritten real estate value): 86%**
 - LTV (credits + real estate value): 41%**

- **A SHTC bridge loan to AS220 of \$1.995 MM, the proceeds of which will be loaned to the leverage fund by AS220 and NMTC-enhanced as part of the subordinated leverage loan. Collateral is the assignment of the SHTCs (guarantor is the property owner).**
 - LTV (underwritten real estate value only): 102%**
 - LTV (credits + real estate value): 42%**
 - Combined LTV (underwritten real estate value only): 188%**
 - Combined LTV (credits + real estate value): 53%**

- **Twinned FHTC/NMTC investment by Bank of America of up to \$3.65 million; a leverage NMTC investment by US Bancorp CDC of approximately \$2.2 million.**

General Concerns for BAML as the Bridge Lender/HTC-NMTC Equity Investor

SHTC equity investor risk

- Signed a P&S agreement with Blue Cross Blue Shield (BCBS) to buy the SHTC certificates for \$0.85/credit. Per rating agency, BCBS had a financial strength rating of B+ and an issuer credit rating of BBB-.
- Underwrote the company to assess the risk of BCBS withdrawing from the deal.
- Evaluated marketability of credits (certificated credits discounted at 20% would still repay the bank's loan).

Real estate collateral risk

- Priority lien on the real estate that will secure the FHTC bridge loan Mercantile Block, LLC.
- In order for the SHTC loan to AS220 to have access to the value of the property, Mercantile Block, LLC will be the guarantor of the bridge loan to AS220.
- The PRF bridge loan, which is bridging 20% of the SHTC equity, is subordinate to the bank's loan (but will have a lien to another AS220-owned asset).

General Concerns for BAML as the Bridge Lender/HTC-NMTC Equity Investor

Construction completion risk

- GC with over 20 years of experience including a successful past project where the bank was a bridge lender (William Woods).
- GC signed a GMP contract and provided a Payment and Performance bond for the contract.
- Pay-in structure and timing (70% at construction completion; 10% at closing); 50% leasing requirement for commercial space at closing.

Guarantor/sponsor risk

- Project “mission” considerations.
- Development team with extensive HTC/NMTC project experience.
- Successful past project with sponsor where bank was the bridge lender (Dreyfus Hotel); bank had no existing exposure with sponsor at the time.
- Exit strategy (secondary source of repayment) includes sale of HTC and real estate.

Concerns for BAML as the NMTC-HTC Investor

Project complexity risk

- Two-CDE increases administration of the transaction during the compliance period; however, the division between the two investors makes the deal easier to approach from a bridge lender's perspective.
- Installing AS220 as the SHTC member of the Lessor allows the SHTC proceeds, the grants and soft funds, and a portion of the developer fee to be NMTC-enhanced to be combined into a single subordinated leverage loan.

Related party issue

- For-profit QALICB owned by non-profit sponsor
- CDEs are restricted in investing in related QALICB but still needed to place equity in the QALICB
- Necessitated the focus on the QALICB's capital account so that the QALICB capital account remained high through compliance period
- Valuations included the real estate (through appraisal) and the tax credits to "book up" QALICB capital account

Credit utilization risk

- Forecast bank's tax liability and ensure that the bank can carry the credits.
- Cognizant of current IRS regulations (e.g. HTC is AMT exempt; both HTC and NMTC credits can carry forward).