

TROUBLE in Paradise

Working out troubled QALICBs
and NMTC transactions



Credit Recapture

Investor Safeguards

Yield Maintenance



Credit Recapture

Investor Safeguards

Yield Maintenance



Credit Recapture



Investor



QALICB

Year 1	5%
Year 2	5%
Year 3	5%
Year 4	6%
Year 5	6%
Year 6	6%
Year 7	6%
Total	39%

Recapture can happen if...

1. CDE ceases to be a qualified CDE
2. Failed "Sub All" test
3. Equity investment redeemed or cashed out by CDE

Credit Recapture



Investor

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Year 3	5%
Year 4	6%
Year 5	6%
Year 6	6%
Year 7	6%
Total	39%



QALICB



Would this trigger credit recapture?

No.

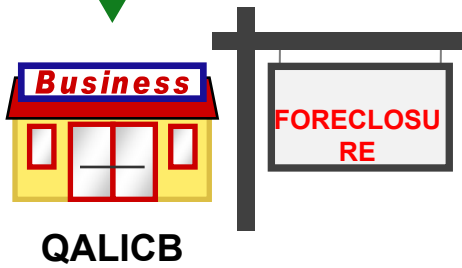
Bankruptcy

Credit Recapture



Investor

Year 1	5%
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Year 4	6%
Year 5	6%
Year 6	6%
Year 7	6%
Total	39%



How about the *foreclosure* of the mortgage on a commercial rental real estate QALICB?

Nope.

Credit Recapture



Investor



QALICB

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Credit Recapture



Investor

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RECAPTURE

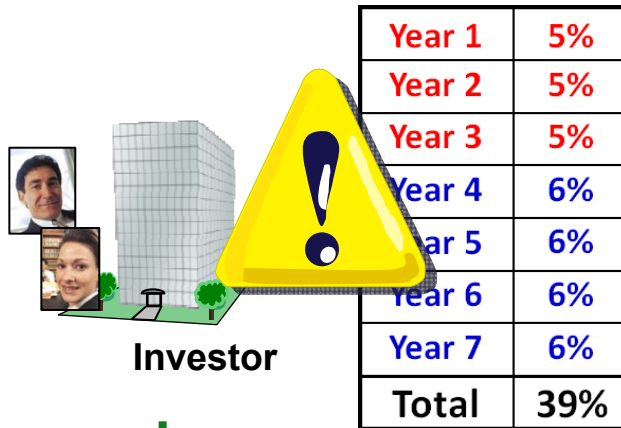


QALICB

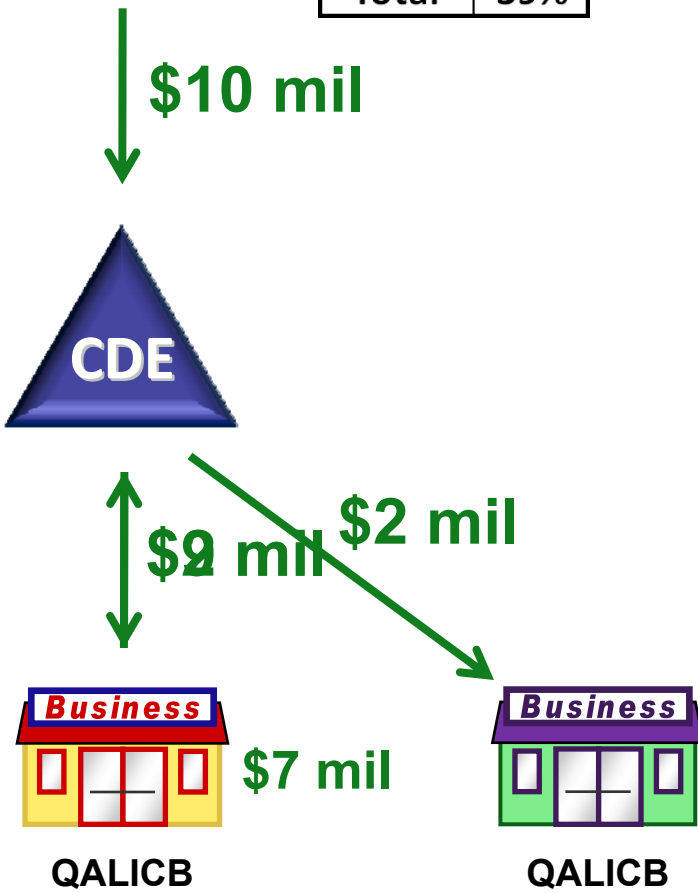
<85%

~~≥85%~~ of QEI = Sub All

Credit Recapture



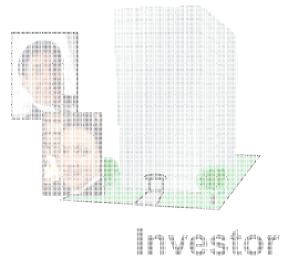
QLICI Reinvestment



Credit Recapture

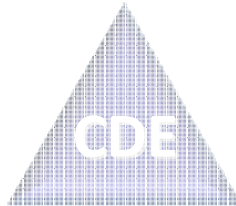
Year 1	5%
Year 2	5%
Year 3	5%
Year 4	6%
Year 5	6%
Year 6	6%
Year 7	6%
Total	39%

Loan Loss Reserves



Investor

\$10 mil



CDE

\$1.5 mil Fees

\$500k Loan Loss Reserve

\$8 mil

85% of QEI

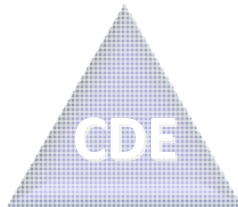


QALICB

Credit Recapture



Investor



CDE



QALICB

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Recapture can happen if...

1. CDE ceases to be a qualified CDE
2. Failed "Sub All" test
3. **Equity investment redeemed or cashed out by CDE**

Credit Recapture



Investor

Year 1	5%
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RECAPTURE

↕
\$250k
↕



\$250k Operating Income

↓
QLICI



QALICB

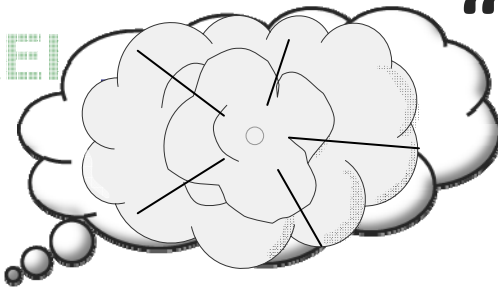
Recapture event?

Y N

Credit Recapture



Year 1	5%
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Total	39%



“Control” and “Reasonable Expectation”

“Control”

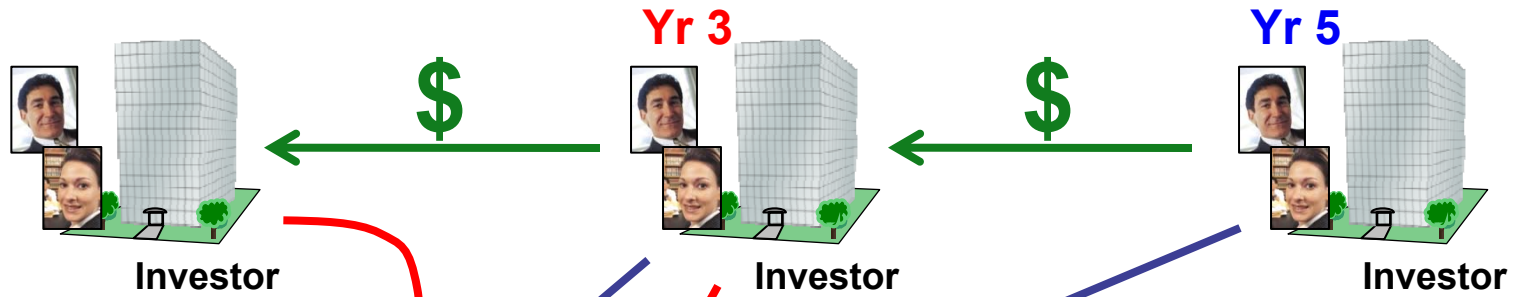
≥ 50% interest in business



QALICB

MUST

Credit Recapture



Source of investor interest

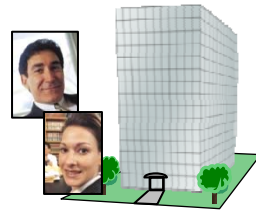
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RECAPTURE

RECAPTURE

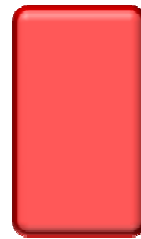
RECAPTURE

Credit Recapture



Investor

NMTC Recapture Amount



Reduction of tax liability



Carryback



Carryforward



Credit Recapture

Investor Safeguards

Yield Maintenance

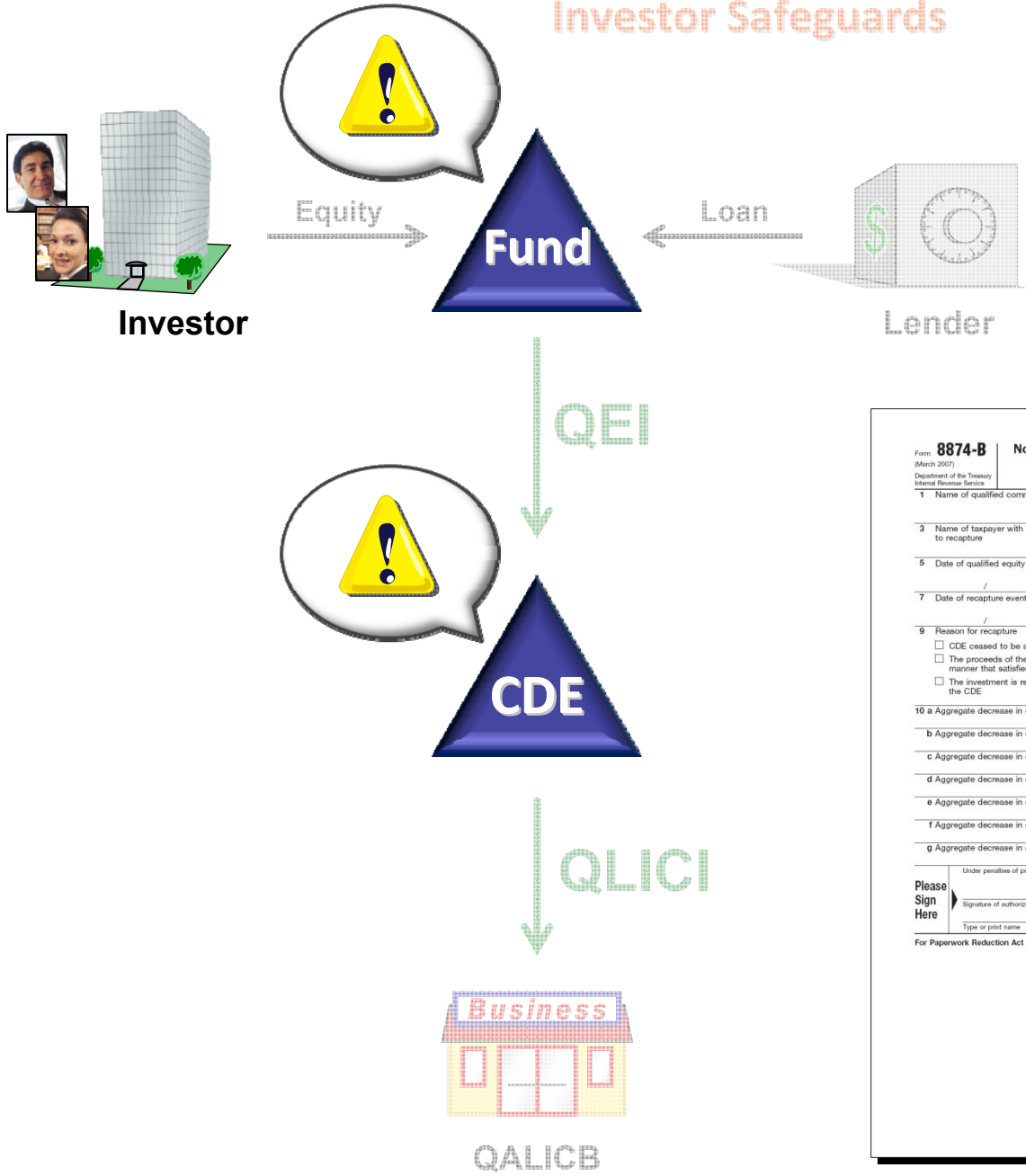


Investor Safeguards

Notification of delinquencies and defaults



Investor Safeguards



Form 8874-B | Notice of Recapture Event for New Markets Credit | OMB No. 1545-2066

Form 8874-B (March 2007)
Department of the Treasury
Internal Revenue Service

1 Name of qualified community development entity (CDE)	2 EIN of qualified CDE
3 Name of taxpayer with qualified equity investment subject to recapture	4 TIN of taxpayer with qualified equity investment subject to recapture
5 Date of qualified equity investment (mm/dd/yyyy)	6 Amount of qualified equity investment
7 Date of recapture event (mm/dd/yyyy)	8 Amount of New Markets Credit recaptured
9 Reason for recapture <input type="checkbox"/> CDE ceased to be a CDE <input type="checkbox"/> The proceeds of the investment ceased to be used in a manner that satisfies the substantially-all requirement <input type="checkbox"/> The investment is redeemed or otherwise cashed out by the CDE	
10 a Aggregate decrease in credit: Year 1	
b Aggregate decrease in credit: Year 2	
c Aggregate decrease in credit: Year 3	
d Aggregate decrease in credit: Year 4	
e Aggregate decrease in credit: Year 5	
f Aggregate decrease in credit: Year 6	
g Aggregate decrease in credit: Year 7	

Under penalties of perjury, I declare that the recapture event identified above occurred on the date identified above.

Please Sign Here
 Signature of authorized official of CDE _____ Date _____
 Type or print name _____

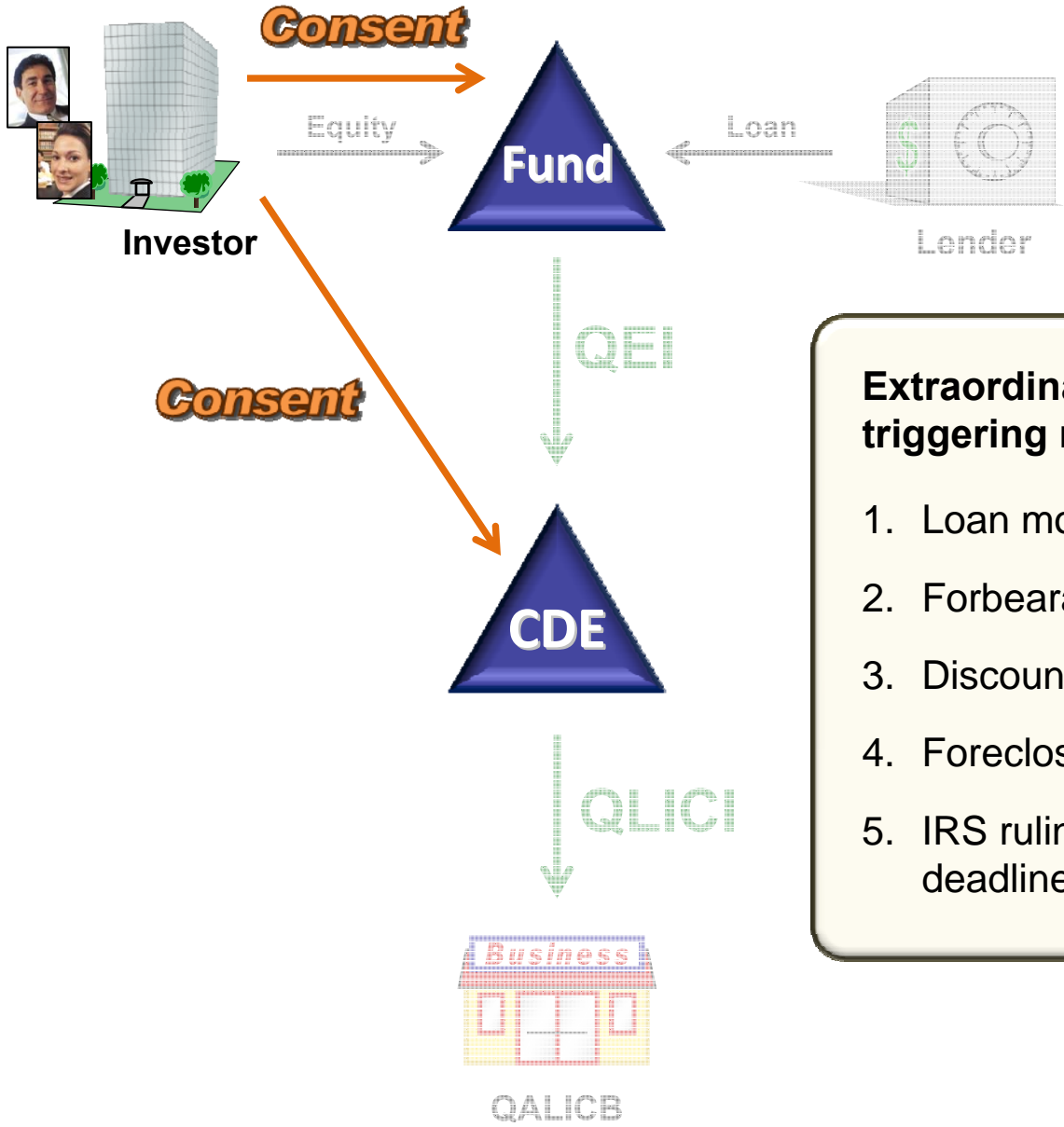
For Paperwork Reduction Act Notice, see instructions. Cat. No. 43212R Form 8874-B (3-2007)

Investor Safeguards

Investor consent rights



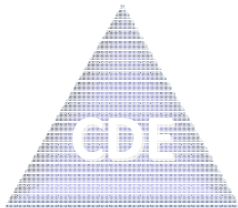
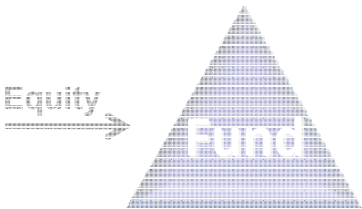
Investor Safeguards



Extraordinary actions potentially triggering recapture, etc.:

- 1. Loan modifications
- 2. Forbearance
- 3. Discounted sale of a loan
- 4. Foreclosure
- 5. IRS ruling request for extension of deadlines or waiver of requirements

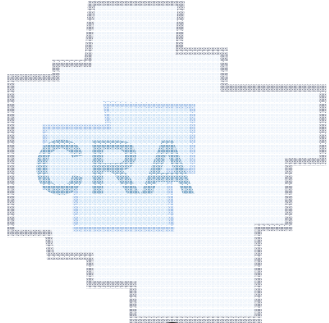
Investor Safeguards



QALICB



QALICB



Reinvestment of returned QLICs



Compliance:

- Eligible activities
- Areas of higher distress
- Investments in unrelated entities
- Investment %
- Flexible and non-traditional terms

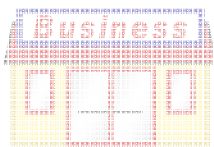
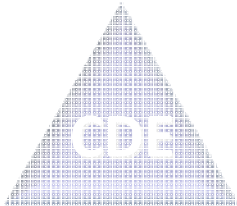
Investor Safeguards

**Cure period for failing the
substantially-all test**





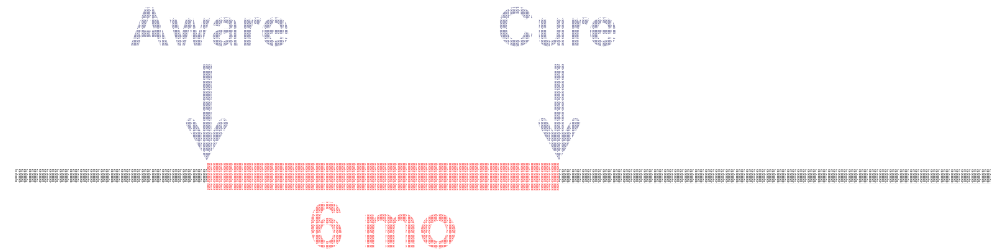
Investor



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Investor Safeguards



Cure period for failing the substantially-all test

Cure period begins...

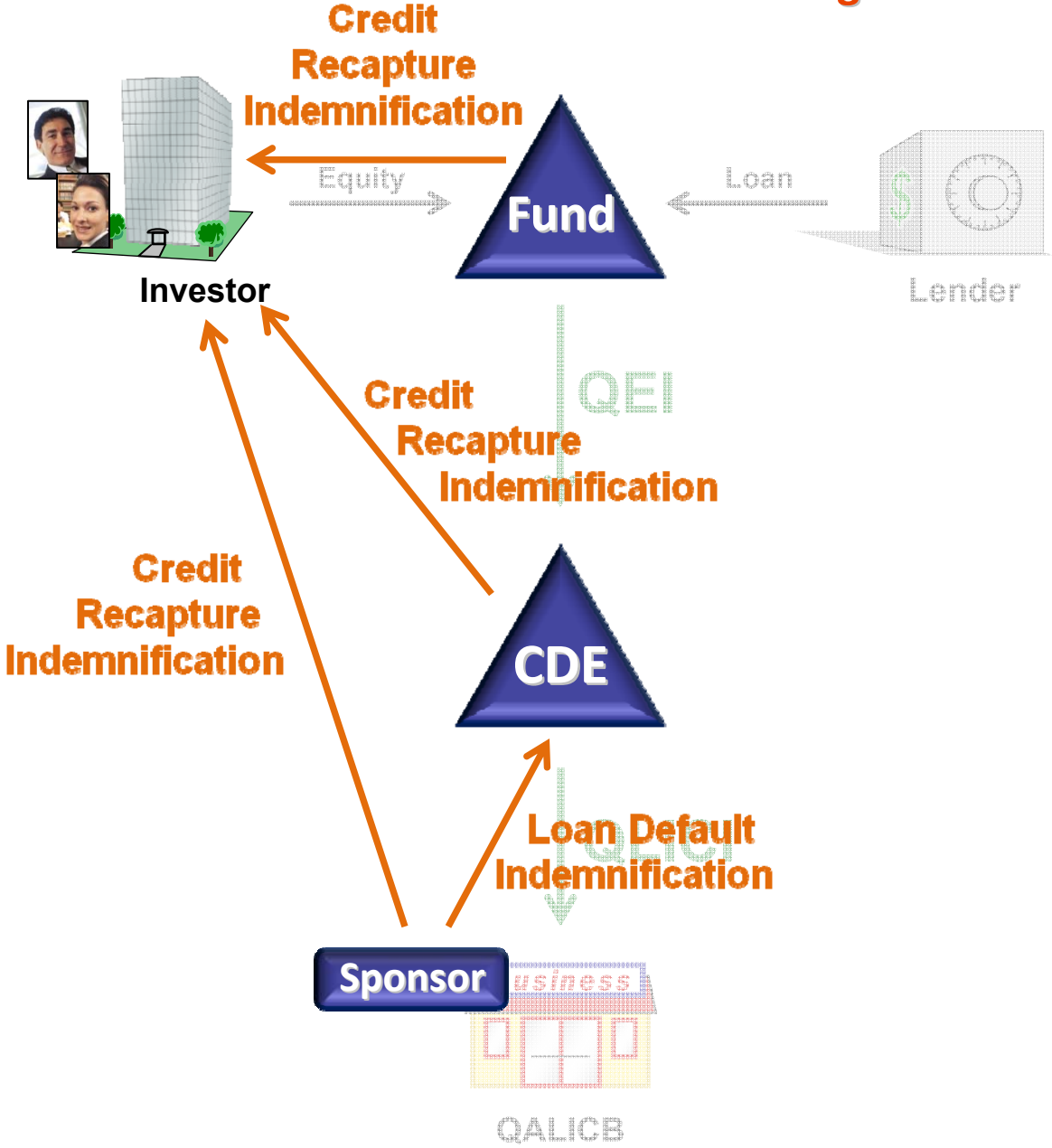
- after end of permitted 12-month reinvestment period?
- on any 6-month testing date for the sub-all test?
- or...on any significant date?

Investor Safeguards

Guarantees



Investor Safeguards



Credit Recapture

Investor Safeguards

Yield Maintenance



Yield Maintenance



Investor



QALICB

Yield considerations beyond tax credits:

- Interest income
- Principal repayment
- Put purchase price



Please send additional questions to:
dan.smith@novoco.com