NMTC Workouts

A Work in Progress

Three QLICIs Gone Bad

- A bankrupt company
- A land loan
- A mixed-use project in trouble

Bankruptcy – An NMTC Investor's Best Friend

- QLICI funded a start-up company with great job creation prospects
- R&D funds run dry before jobs promise can be realized
- Chapter 11 – We're not dead yet
  - Declare the loan uncollectible or ride out bankruptcy?

Consequences

- Chapter 7 – The loan is worthless and the company is dissolved
- Consequences – No further compliance risks
  - No tax returns
  - No audits
  - No CDFI reporting other than “no activity”

Swamp Land

- $4MM acquisition and predevelopment QLICIs on land appraised at $4.5MM in 2007
  - $2.75MM “A” loan at 65% LTV
  - $1.25MM “B” loan from NMTC equity
- 2008 - Subprime bomb goes off
- QLICI comes due at 24 months; land appraises at $2.75MM

- **Leverage Lender not happy >> demands repayment – two scenarios: LL is in for 7 years or in for 2 years**
  - If 7 years and usual forbearance agreement, LL is stuck with a bad loan on the books
  - If 2 years, LL may have rights to take over CDE
  - Either way, CDE may be forced to foreclose
  - Leaves CDE with loan repayment (hopefully) and no equity with which to redeploy the debt
  - Investor may force redeployment to projects selected by it

Mixed Use – Upside Down

- First mortgage debt underwritten at 1.20 DCS
- Lease-up slow; rents cut by 25%; CDCS 1:0 - 1:1
- Technical default, but debt service flowing
- LL not happy; bad loan on the books; but prudence indicates no foreclosure; likelihood that project will recover
- Call on guarantor to fund reserves to enhance collateral

What’s Next?

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