

How One CDC is Changing Neighborhoods with NMTC

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New Markets Tax Credits have been a major boost to Bethel New Life's community development efforts. Bethel, a 26 year-old faith based community development corporation on the West Side of Chicago, was awarded \$4 million in tax credits in the first round of allocations. Bethel has used them to significantly expand our housing development program (utilizing a revolving construction loan pool) and to leverage investment in Bethel's commercial projects, thus expanding Bethel's development efforts and enhancing the financial sustainability of its real estate development activities.

Bethel's successful experience with the earlier CDC Jobs Tax Credits (\$2 million) helped in planning for the New Markets application, and Bethel's planned and existing development efforts set the stage for a successful application. Once the allocation agreement was finalized at last, Bethel was ready to firm up the preliminary commitments of five regional and local banks.

The challenge of a new investment vehicle with still emerging definitions and procedures slowed the initial start, but New Markets enabled Bethel to involve new financial partners in working together to bring new investment dollars into our low-income, primarily African American community. Three of the initial five banks ultimately invested in the program. It was remarkable that these banks were willing to accept the tax credits as the only return on their investment (making us unique among the allocatees). Two of the investor banks are new relationships for Bethel, and widen the scope and future development opportunities in the community.

Bethel used 57 percent of the allocation to establish a revolving construction loan fund for the development of for-sale affordable housing, thus enabling Bethel to expand from 14 to 50 single family homes annually. This provides greater community impact and allows more affordability with lower interest rates and flexible terms.

Bethel used 28 percent of the allocation as a construction take out, interest only loan on a recent commercial development. The 23,000 square-foot development incorporates green building designs. It is located next to a transit stop, replacing a rundown, neglected corner with a new commercial anchor that houses six commercial storefronts. The tenants include Bethel's employment center and a child day care center for over 100 children. Several financial institutions turned us down for financing because of the facility's location and the uncertainty of annual funding for day care and employment programs (activities which take up 65 percent of the building's space). The tax credits enabled Bethel to get construction financing and to structure a more flexible seven-year interest-only balloon loan at a lower interest rate, thus lowering the costs of operating day care and employment programs during critical start up years.

Bethel's small \$4 million New Markets Tax Credit allocation has had a major impact on both Bethel and the community. It enables Bethel to sustain a greater volume of real estate development on a continuing basis, and allows for more flexibility in structuring terms and conditions of the financing. It also has leveraged (on a 4:1 basis) significant new dollars into the west side Chicago community from financial institutions not formerly active in the area.

Bethel is actively working with the New Markets Tax Credit Coalition to seek the expansion and extension of the program, building on the success of these early efforts and the growing familiarity of the investment community with this vehicle. We also are working with others on the modification of the alternative minimum tax and seeking to extend the time when a project can be brought back into compliance (the "cure period"). In light of the ever-diminishing federal dollars and programs to stimulate development and improvements in our very low-income community, it is important to expand, enhance and sustain this important vehicle.

Mary Nelson is the former president of Bethel New Life, a west side Chicago faith-based CDC. She is also a former board chair of the National Congress for Community Economic Development.