Introduction to the New Markets Tax Credit Program

PREPARED:
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The CDFI Fund is an equal opportunity provider.

Presentation Roadmap

- Overview of CDFI Fund Programs
- NMTC Program History and Overview
- CDE Certification
- How can NMTCs work for your organization?
- Information on Prior *NMTC Allocations*

CDFI Fund Overview

- Created in 1994 by the Riegle Community Development and Regulatory Improvement Act.
- **Mission:** To expand economic opportunity for underserved people and communities by supporting the growth and capacity of a national network of community development lenders, investors, and financial service providers.
- **Vision:** An America in which all people and communities have access to the investment capital and financial services they need to prosper.

CDFI Fund Overview

- The CDFI Fund achieves its mission by directly investing in and supporting *Community Development Financial Institutions* (*CDFIs*), *Community Development Entities* (*CDEs*), and other financial institutions through the following programs and initiatives:
  - Bank Enterprise Award (BEA) Program
  - CDFI Bond Guarantee Program
  - Capital Magnet Fund (CMF)
  - CDFI Program (FA & TA)
  - Native Initiatives (NACA)
  - New Markets Tax Credit (NMTC) Program
  - Small Dollar Loan (SDL) Program

NMTC Program Objectives

- The NMTC Program helps economically distressed communities attract private capital by providing investors with a federal tax credit.
- Investments made through the NMTC Program are used to finance businesses and real estate which breathe new life into neglected and underserved low-income communities.
- The program is jointly administered by the CDFI Fund and the Internal Revenue Service (IRS).
- Investments made through the NMTC Program must comply with regulations outlined in Section 45D of the Internal Revenue Code.

NMTC Program History

- The NMTC Program was authorized under the Community Renewal and Tax Relief Act of 2000 and has been subject to reauthorization since 2006.
- Most recently, the One Big Beautiful Bill of 2025 (P.L. 119-21) provided permanent authorization for the NMTC Program, with $5 billion in NMTC Allocation authorized for Calendar Year 2026.
- In the 21 application rounds to date, the CDFI Fund has made 1,809 allocation awards totaling $91 billion in tax credit authority.
  - Includes $3 billion in Recovery Act awards and $1 billion for recovery and redevelopment from Hurricane Katrina.

NMTC Program Key Terms

- *Low-Income Community (LIC)*
- *Community Development Entity (CDE)*
- *Qualified Equity Investment (QEI)*
- *Qualified Low-Income Community Investment (QLICI)*
- *Qualified Active Low-Income Community Business (QALICB)*
- *Financial Counseling and Other Services (FCOS)*

Refer to the most recent NMTC Application Glossary for definitions of these terms.

NMTC Program Investments

- NMTCs provide a credit against Federal income taxes for investors that make *Qualified Equity Investments (QEIs)* in certified financial intermediaries called *“Community Development Entities (CDEs)*.”
  - **NMTCs are awarded to CDEs, not to individuals or businesses.**
- *CDEs*, in turn, use the proceeds of these *QEIs* to make *Qualified Low-Income Community Investments (QLICIs)*, such as business loans, in *Low-Income Communities*.

Tax Credit Amount

- The New Markets Tax Credit is taken over a 7-year period.
- The credit rate is:
  - 5% of the original investment amount in each of the first three years; and
  - 6% of the original investment amount in each of the final four years.
- Total credit equals 39% of the original amount invested in the *CDE*.

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

Tax Credit Amount - Example

- The CDFI Fund awards a tax credit allocation of $1 million to a *CDE*.
- The *CDE* sells the tax credit to a single investor in exchange for a $1 million equity investment.
  - Generates a $50,000 credit annually for the first three years;
  - Generates a $60,000 credit annually for the final four years.
- Total credit value over 7 years is $390,000.

Year 1	Year 2	Year 3	Year 4	Year 5	Year 6	Year 7	TOTAL
$50,000	$50,000	$50,000	$60,000	$60,000	$60,000	$60,000	$390,000

Tax Credit Recapture

- NMTCs may be recaptured from investors during the 7-year credit period under certain circumstances.
- Events triggering recapture include:
  - The *QEI* fails the "substantially-all" requirement.
    - Failure to invest 85% of original *QEI*; or
    - Failure to meet "*Qualified Active Low-Income Business*" (*QALICB*) requirements; or
    - Failure to meet one-year investment/ reinvestment requirement
  - The *CDE* redeems the investment.
  - The *CDE* ceases to qualify as a *CDE*.

**It is not an event of recapture if a CDE files for bankruptcy. An investor may continue to claim NMTCs.*

Qualified Equity Investment (QEI)

- To claim the NMTCs, an investor must make an equity investment into a *CDE* – provide cash for either stock in a corporation or a capital interest in a partnership – in exchange for the credits.
- The equity investment must be acquired by the investor at its original issue, solely in exchange for cash.
- The equity investment must be designated by the *CDE* as a *Qualified Equity Investment (QEI).*
- The *QEI* must remain invested in the *CDE* during the 7-year tax credit period from the date the investment was initially made.

Use of QEI Proceeds

- **“Substantially all”** of *QEI* proceeds must be invested in *Qualified Low-Income Community Investments (QLICIs)* within 12 months:
  - <u>Years 1 – 6:</u> Substantially All = 85% of amount paid by investor at original issue. Generally, returns of equity, capital or principal must be reinvested within 12 months.
  - <u>Year 7:</u> Substantially All = 75%. Reinvestment is not required in the final year of the 7-year credit period.

Qualified Low-Income Community Investments (QLICIs)

QLICIs include:

- Any capital or equity investment in, or loan to, a "*Qualified Active Low-Income Community Business*" (*QALICB*).
- Purchase of a loan from another *CDE* if the loan is a *QLICI*.
- Any equity investment in, or loan to, a *CDE*.
- "*Financial Counseling and Other Services*" (*FCOS*) to businesses located in, or residents of, *Low-Income Communities* (*LICs*).

Qualified Active Low-Income Community Business (QALICB)

- A *QALICB* must meet these requirements:
  - At least 50% of the total **gross income** is from the active conduct of a qualified business in *Low-Income Communities* (*LICs*); and
  - At least 40% of the **use of tangible property** of the business is within *LICs*; and
  - At least 40% of the **services preformed** by the business' employees are performed in *LICs*; and
  - Less than 5% of the average of the aggregate unadjusted basis of the property is attributable to **collectibles** (e.g., art and antiques), other than those held for sale in the ordinary course of business; and
  - Less than 5% of the average of the aggregate unadjusted basis of the property is attributable to **non-qualified financial property** (e.g. debt instruments with a term in excess of 18 months).

Examples of QALICBs

- An operating business (e.g., manufacturer, grocery store) located in a *Low-Income Community* (*LIC*).
- A business that develops or rehabilitates commercial, industrial, retail, and mixed-use real estate projects in an *LIC*.
- A business that develops or rehabilitates community facilities, such as charter schools or health care centers, in an *LIC*.
- A business that develops or rehabilitates Homeownership units located in *LICs*.

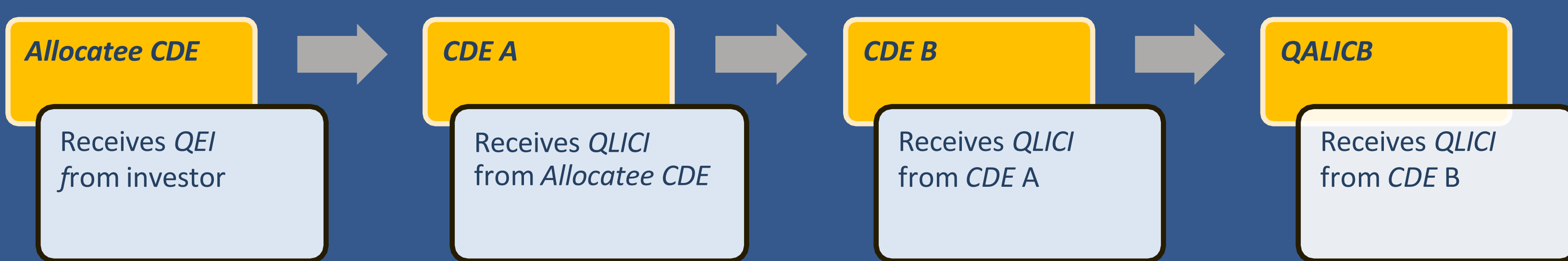
Purchasing Loans from Other CDEs

CDEs may purchase loans, but **not** investments, from other *CDEs* if:

- The purchased loans were originated by an entity that was a *CDE* at the time the loan was sold; and
- The loans qualified as QLICIs at either the time the loan was:
  - Originated; or
  - Purchased by the Allocatee *CDE*.

Investing in Other CDEs

- Investment may be made through multiple layers of *CDEs* (e.g., up to 4 *CDEs*).
- The last *CDE* recipient needs to demonstrate that it used those dollars to:
  - Make loans to, or investments in *QALICBs*; and/or
  - Provide *FCOS* to businesses or residents of *LICs*.
- All time limits must be met as if the *CDE* with the allocations directly made the *QLICI*.



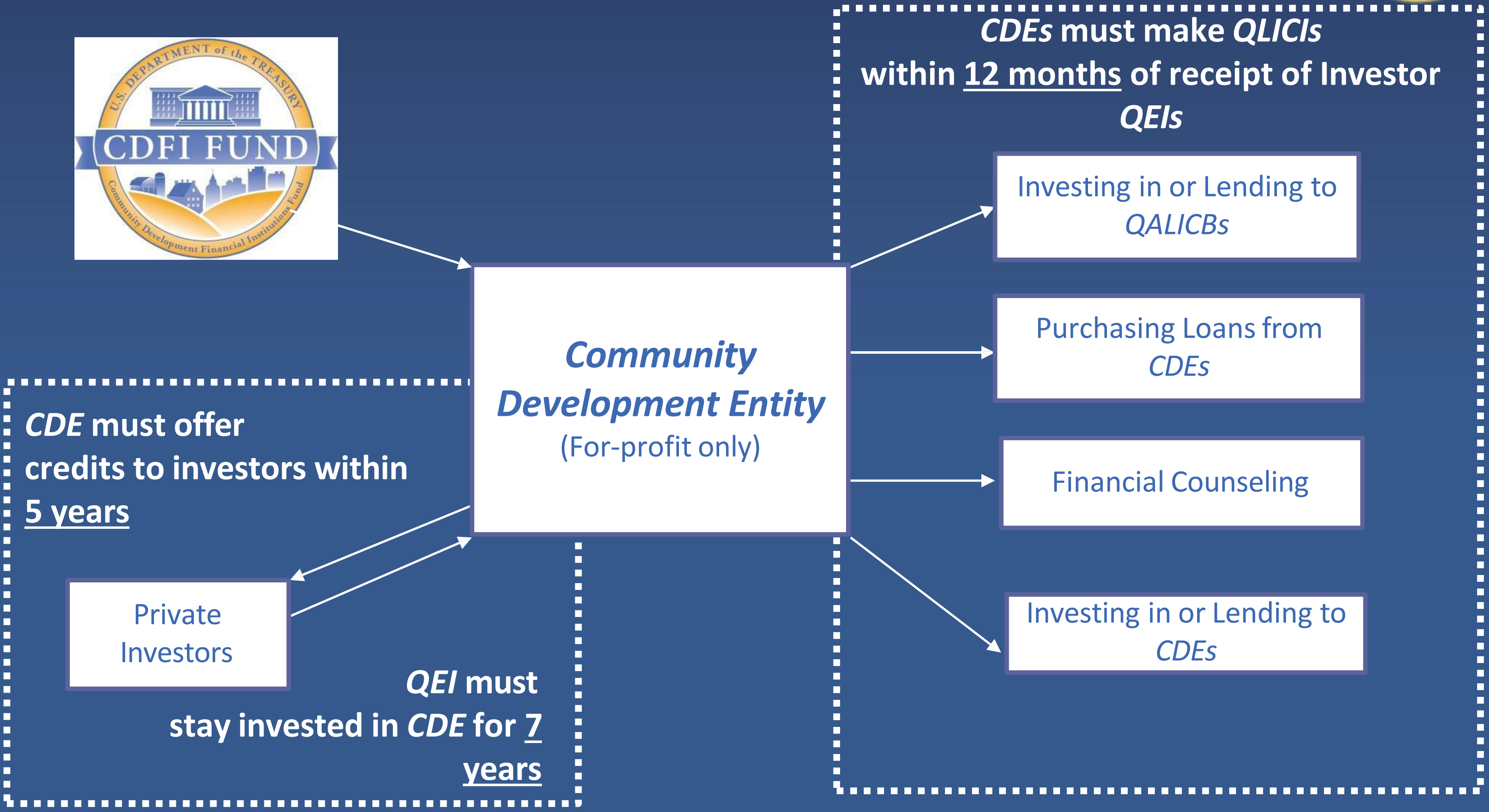
Financial Counseling and Other Services (FCOS)

- *FCOS* is "advice provided by the *CDE* relating to the organization or operation of a trade or business."
- Possible *FCOS* activities include:
  - Business plan development
  - Assistance with business financials
  - Operating assistance to non-profit organizations

Activities Ineligible for NMTC Investment

- Residential rental property
  - Buildings or structures that derive 80% or more of their gross rental income from renting dwelling units.
- Certain types of businesses:
  - Golf courses
  - Racetracks
  - Gambling facilities
  - Certain farming businesses
  - Country clubs
  - Massage Parlors
  - Hot tub facilities
  - Suntan facilities
  - Stores where the principal business is the sale of alcoholic beverages for consumption off premises
- Refer to IRS regulations for additional details.

NMTC Transaction - Summary Graphic



What is a Low-Income Community?

- The NMTC Program provides an incentive for investment in "*Low-Income Communities*" (*LICs*). *LICs* are census tracts:
  - Where the poverty rate is at least 20%; **or**
  - Where the median family income does not exceed 80% of the area median family income; **or**
  - Where the median family income does not exceed 85% of the area median family income provided the census tract is located in a *High Migration Rural County*; **or**
  - Where the census tract has a population of less than 2,000 and is contained within a Federally designated Empowerment Zone and is contiguous to at least one other *LIC*.

Low-Income Communities – Targeted Populations

- Businesses not located in *LICs* but that otherwise serve Targeted Populations may also qualify for NMTC-enhanced loans/investment.
- Targeted Populations include:
  - *Low-Income Persons* (e.g., family income no greater than 80% of the applicable area median family income), to the extent the project is located in a census tract with a median family income at or below 120% of the median family income.
- Refer to IRS and CDFI Fund guidance for additional details.

Finding a Low-Income Community

- The CDFI Fund offers tools and guidance on determining whether a business is in an LIC.
  - CDFI Information Mapping System (CIMS5) indicates whether a census tract qualifies as an LIC – www.cdfifund.gov/mapping.
  - Additional information and guidance is also available at https://www.cdfifund.gov/research-data/Pages/default.aspx under “Program Eligibility Guidance”.

Non-Metropolitan Counties

- The CDFI Fund awards a proportional amount of tax credits for investing in *Non-Metropolitan Counties*.
  - The number of *Rural CDEs* in the Awardee pool is proportional to the number of *Rural CDEs* that meet minimum scoring thresholds.
  - A goal to invest 20% of *QLICIs* made using *QEI* proceeds into *Non-Metropolitan Counties*.
- To be a *Rural CDE*, an organization must:
  - Have a track record of at least 3 years of direct financing experience;
  - Have dedicated at least 50% of its direct financing activities in the last 5 years to *Non-Metropolitan Counties*; and
  - Commit that at least 50% of *QLICIs* will be directed to *Non-Metropolitan Counties*.

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- How can NMTCs work for your organization?
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What is a CDE?

- A *Community Development Entity (CDE)* is a domestic corporation or partnership that is an intermediary vehicle for the provision of loans, investments, or financial counseling in *Low-Income Communities*.
- To qualify as a *CDE*, a domestic corporation or partnership must apply for and receive certification from the CDFI Fund.

Only CDEs Can Apply for an NMTC Allocation

- *CDEs* or organizations with a pending *CDE* certification Application are eligible to apply for an *NMTC allocation*.
- To be awarded an allocation of *NMTCs*, *CDEs* must apply through a competitive application process administered by the CDFI Fund.
- Only a certified *CDE* that has been awarded an allocation of NMTCs can offer NMTCs for sale to investors.
- If awarded an *NMTC allocation*, *CDEs* must issue *QEIs* within **5 years** of receiving an allocation.

CDE Certification

- To receive *CDE* certification, a domestic corporation or partnership must:
  - Demonstrate a primary mission of serving or providing investment capital for low-income communities or people; **and**
  - Maintain accountability to Low-Income Communities through representation on the organization's Governing Board or Advisory Board.
- Organizations certified as a CDFI by the CDFI Fund or designated as a *Specialized Small Business Investment Company* (*SSBIC*) by the Small Business Administration automatically qualify as *CDEs*.

CDE Certification

- Generally, *CDE* certification applications are accepted on a rolling basis.
- However, there are strictly enforced deadlines for an organization to apply for *CDE* certification if it would like to apply concurrently for an *NMTC allocation*.
- Refer to the applicable *Notice of Allocation Availability* for more information on these deadlines.
- More information on *CDE* certification can be found on the CDFI Fund's website (www.cdfifund.gov/cde).

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How can NMTCs work for your organization?

- **If you are a financing entity** (e.g., loan fund, bank), you may want to consider applying for *CDE* certification.
  - For more information, visit www.cdfifund.gov/cde.
- **If you are a certified *CDE***, you can:
  - Apply for an allocation of NMTCs;
  - Receive a loan or investment from another *CDE* with *NMTC allocation* authority;
  - Sell loan(s) to another *CDE* with *NMTC allocation* authority if those loan(s) are QLICI(s).
  - For more information, visit www.cdfifund.gov/nmtc

How can NMTCs work for your organization?

- **If you are an organization** looking for financing, you can contact a *CDE* directly to inquire about NMTC enhanced financing.
  - For more information on CDEs that received allocation, visit the "Searchable Awards Database" at https://www.cdfifund.gov/awards/state-awards
  - For more information on CDEs that have not finalized all their allocation authority, review the latest QEI Issuance Report at https://www.cdfifund.gov/programs-training/Programs/new-markets-tax-credit/Pages/default.aspx

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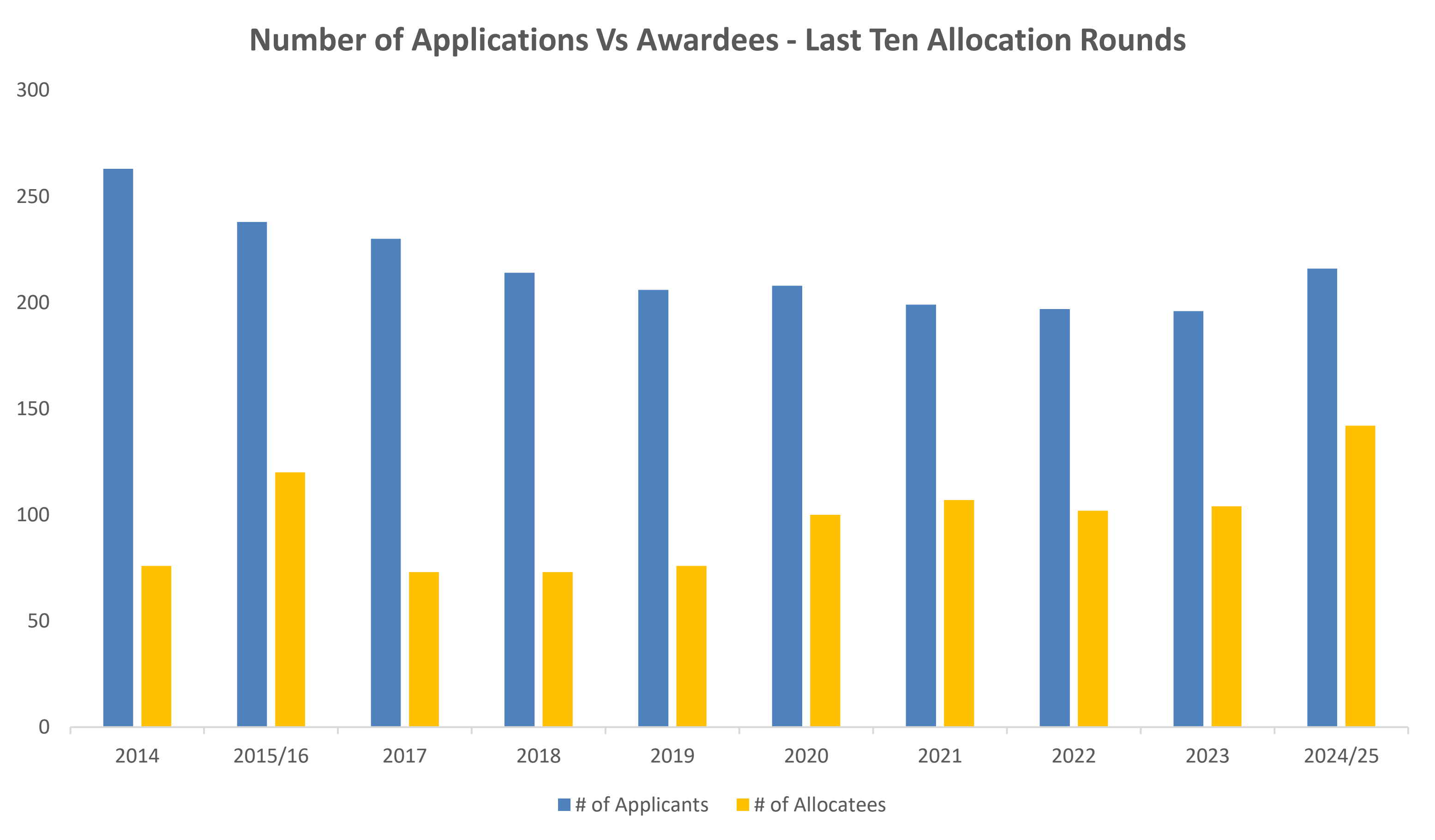
Information on Prior NMTC Allocations

- Results from past rounds illustrate that the NMTC Program is highly competitive. Demand for NMTCs far outpaces supply.
- Successful NMTC *Applicants* have a track record of providing financing to *Low-Income Communities* and have committed to providing non-traditional and flexible financing products to businesses that result in substantial benefits to *Low-Income Communities*.

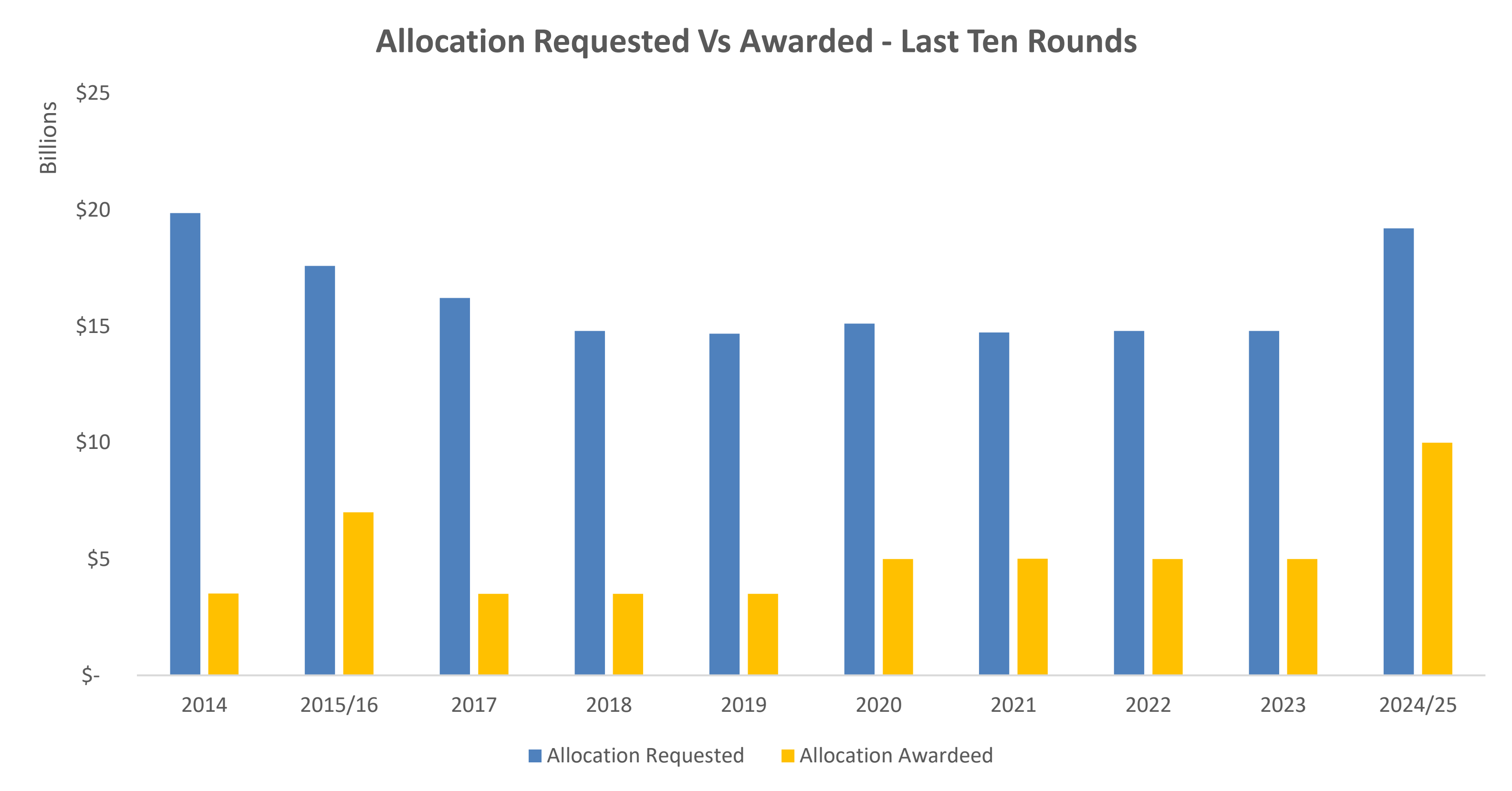
Information on Prior NMTC Allocations: Awards to Date

- To date, the CDFI Fund has received 5,147 NMTC *Allocation Applications*.
- *Applicants* have collectively requested $423.7 billion in allocation authority.
- During this span, the CDFI Fund has made a total of 1,809 allocation awards totaling $91 billion in allocation authority. This means that 35% of applications have been awarded since the program's inception.

Number of Applicants vs Awardees



Allocation Amount Requested vs. Awarded



Information on Prior NMTC Allocations: Awards to Date

- As of September 1, 2026, *Allocatees* reported raising *QEIs* totaling nearly $83 billion.
- QLICIs from these investments have financed:

  - Small and large businesses
  - Mixed-use real estate
  - Retail
  - Manufacturing
  - Community facilities
  - Affordable Housing

CY 2024-2025 Round Highlights

- $10 billion awarded to 142 *Allocatees* located in 41 states, Puerto Rico, and the District of Columbia.
- All 142 of the *Allocatees* committed to offering favorable rates and terms.
- All 142 of the *Allocatees* indicated that they would deploy at least 95% of their investment dollars in form of equity or equity-equivalent.
- All 142 of the *Allocatees* committed at least 95% of their investment dollars to be characterized by at least five concessionary features.
- All 142 of the *Allocatees* committed to providing at least 85% of their investments in areas characterized by more severe economic distress.
- 68 allocatees project to deploy $2.4 billion in Non-Metropolitan Counties; $1.9 billion, or 20% of the QLICIs, is required to be deployed by these allocatees.

Contact Information

If you have additional questions on the New Markets Tax Credit Program, you can reach the CDFI Fund via one of the following methods:

Contact	Contact Method
CDFI Fund's New Market Tax Credit Website	www.cdfifund.gov/nmtc
NMTC Program Help Desk Phone	(202) 653-0421 *Option 3
NMTC Program Email Inbox	nmtc@cdfi.treas.gov
CDE Certification Help Desk Email	ccme@cdfi.treas.gov
CDFI Fund's Help Desk Email	cdfihelp@cdfi.treas.gov
AMIS Service Request	Log-In to your AMIS Profile, see the "Service Request Tab"
IRS Contact (James Rider & Dillon Taylor)	Tel:(202) 317-4137 Fax: (855) 591-7867