NMTC COUNCIL PANEL

New Markets Tax Credits

How the credit works, who sits at the table, and what makes a project financeable

32nd Annual NASLEF Conference

September 2, 2026 | 3:30 to 4:45 p.m.

Hotel Indigo, Los Angeles, California

Leave-behind handout. September 2026.

Three Seats at the Table

A New Markets deal closes when the allocatee, the investor and the sponsor's advisor agree the project can carry the structure. Each seat brings a different question to it.

ALLOCATEE (CDE)

Naomi Baruch

Senior Investment Officer, New Markets Tax Credits

Massachusetts Housing Investment Corporation

- Competes for allocation from the CDFI Fund and decides which projects receive it.
- Underwrites the borrower, the project and the community outcomes.
- Carries seven years of compliance and asset management after closing.

TAX CREDIT INVESTOR

Olivia Pipitone

Executive Director, Community Development Banking

JPMorganChase

- Buys the credits and funds the equity that becomes the subsidy.
- Sets pricing and prices the risk of recapture over the credit period.
- Brings Community Reinvestment Act objectives to the table alongside yield.

ADVISOR AND CONSULTANT

James Simmons

Senior Vice President

SB Friedman Development Advisors

- Positions the project for allocation and builds the capital stack around the gap.
- Runs the process between sponsor, allocatees, investor and counsel.
- Tests whether the deal is ready before it goes out to the market.

What the Credit Does

The New Markets Tax Credit brings private capital into low-income communities by giving an investor a federal tax credit for putting money into a certified Community Development Entity. The CDE lends that money to a business or a facility in a qualifying census tract on terms conventional lenders leave open.

1. **It fills the gap in a capital budget**
   The credit is a but-for tool. It closes the piece of a budget that remains after conventional debt, sponsor cash and grants.

2. **It leaves subsidy behind**
   The residual equity generally stays with the borrower when the structure unwinds at the end of the credit period.

3. **It is patient money**
   Below-market rate, interest only through the compliance period, with principal deferred for seven years.

12% to 18%

of the qualified equity investment a project raises, kept by the borrower as net benefit

39%

of the qualified equity investment, claimed over seven years

7 years

compliance period before the structure unwinds

Net benefit is figured on the allocation a project attracts. On a $100 million project that raises $20 million of QEI, the benefit runs 12% to 18% of the $20 million.

Where the Program Stands in 2026

Permanent

The One Big Beautiful Bill Act, signed July 4, 2025, made the credit an indefinite part of the tax code after 25 years of short-term extensions.

$5 billion

Annual allocation authority going forward. The statute holds the amount flat against inflation and reserves the credit for regular tax liability.

$10 billion

Awarded in the combined 2024 and 2025 round to 142 allocatees, chosen from 216 applicants requesting $19.2 billion. Awards ran from $20 million to $95 million.

2026 round

Expected to open at $5 billion. Certification deadlines for entities intending to apply run ahead of the notice of allocation availability.

WHAT PERMANENCE CHANGES

- Sponsors can plan multi-year capital campaigns against a credit that will still be there when the project is ready.
- Allocatees can build pipeline past a single round rather than racing an expiration date.
- Unused credits now carry forward five years, which eases the pressure that shaped investor pricing under the old cliff.
- The trade is that the amount is fixed. Demand in the last round ran near two dollars of request for every dollar awarded.

Two Eligibility Tests

Every deal clears both tests, the place and the business.

THE PLACE: LOW-INCOME COMMUNITY

The project sits in a census tract meeting either test:

- Poverty rate of at least 20%
- Median family income at or below 80% of the area median

Tracts at 30% poverty, or at 60% of area median family income, qualify as severely distressed. Allocatees compete on the depth of distress they reach, so most awards are committed well past the minimum.

THE BUSINESS: QALICB

A corporation or partnership, nonprofit included, meeting all five:

- At least 50% of gross income from the active conduct of business in the tract
- At least 40% of tangible property used in the tract
- At least 40% of employee services performed in the tract
- Under 5% of property in collectibles
- Under 5% of property in nonqualified financial property

BUSINESSES THE STATUTE RULES OUT

Residential rental property, and buildings deriving 80% or more of gross rental income from dwelling units. Most investors hold that figure at 70%. Also excluded: golf courses, racetracks, gambling facilities, certain farming operations, liquor stores selling for off-premises consumption, the development or holding of intangibles for sale or license, and property where substantial improvement is absent.

The Arithmetic on a $10 Million Allocation

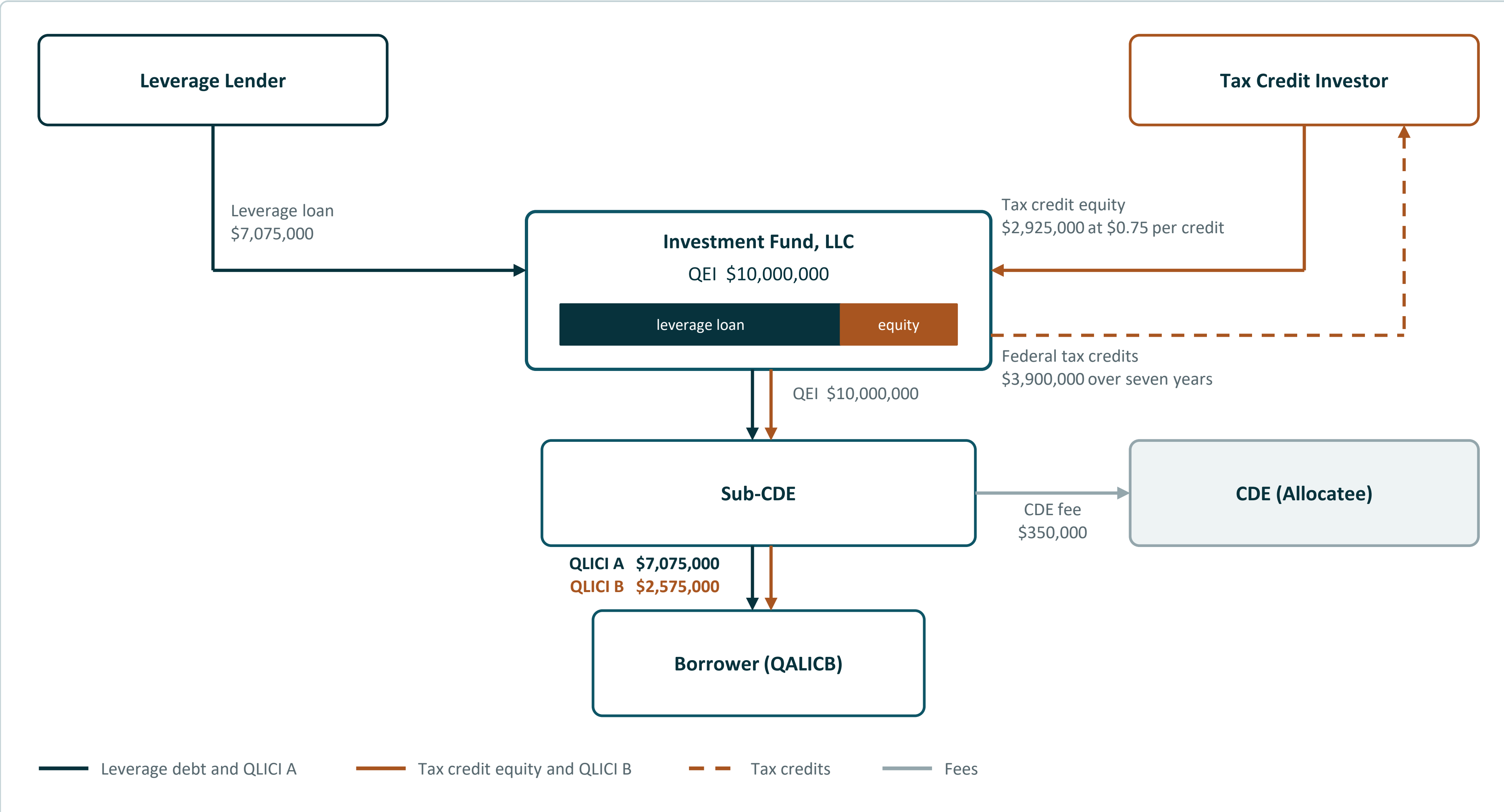
1	Qualified Equity Investment	**$10,000,000**	The amount the investment fund puts into the sub-CDE. Allocation and QEI are the same number.
2	Federal tax credit	**$3,900,000**	39% of the QEI, claimed over seven years. 5% in each of the first three years, 6% in each of the last four.
3	Investor equity	**$2,925,000**	The credit multiplied by the price the investor pays per credit dollar, $0.75 in this example.
4	Leverage loan	**$7,075,000**	The balance of the QEI, which comes in as true debt: a bank, sponsor cash or a bridge.

WHERE THE SUBSIDY ACTUALLY LANDS

The sub-CDE lends the full QEI to the borrower less its fee, split into an A note that mirrors the leverage loan and a B note carrying the equity. Both are interest only through the compliance period. At the end of year seven the investor exits through a put or call, the fund and the sub-CDE collapse, and the B note is generally forgiven. That forgiven balance, net of fees and reserves, is the benefit the borrower keeps.

Investor equity of $2,925,000 plus a leverage loan of $7,075,000 equals the $10,000,000 qualified equity investment.

The Structure at Closing



Investment fund

Holds the leverage loan and the investor equity as a single pool, then makes the QEI.

Sub-CDE

A single-purpose entity of the allocatee. It receives the QEI and makes the loans.

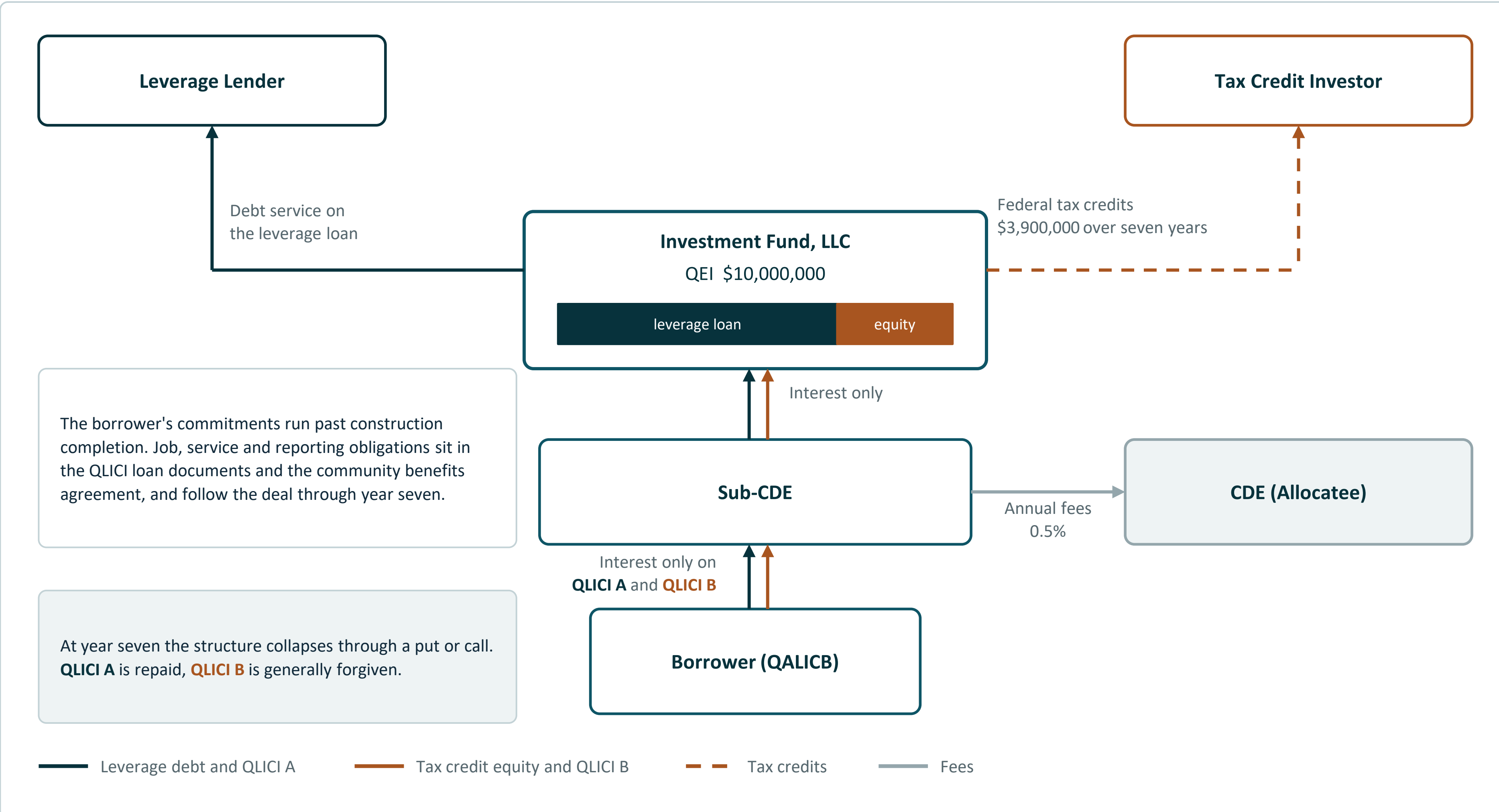
CDE fee

Taken at closing out of QEI proceeds, with annual servicing fees through the period.

QLICI A and B

The two loans down to the borrower. A carries the leverage debt, B carries the equity net of fee.

The Compliance Period and the Exit



Substantially all

At least 85% of the QEI stays invested in qualified low-income community investments for the full period.

No redemption

The investment stays in place. Early repayment of principal puts the credits at risk.

Recapture

A failure recaptures credits already claimed, with interest, which is why asset management runs all seven years.

Unwind

The structure collapses through a put or call negotiated at closing.

Who Does What

CDFI Fund

Certifies community development entities and awards allocation through a competitive round. Monitors compliance for the life of the allocation agreement.

Allocatee (CDE)

Wins the allocation, sets deal selection criteria, underwrites the project and commits the community outcomes it will be measured on.

Sub-CDE

The single-purpose subsidiary of the allocatee that receives the qualified equity investment and holds the loans to the borrower.

Tax credit investor

Funds the equity, claims the credits, and holds the recapture risk. Usually a bank with Community Reinvestment Act objectives in the market.

Leverage lender

Provides the debt portion of the qualified equity investment. Often a bank, sometimes the sponsor itself, sometimes a bridge against a capital campaign.

QALICB

The borrower. Owns or operates the project, signs the community benefits commitments, and carries the reporting through year seven.

The allocatee and the CDE are the same entity. The sub-CDE is its single-purpose subsidiary, formed for one transaction. Counsel sits behind each seat, with separate counsel for the allocatee, the investor, the leverage lender and the borrower.

What an Allocatee Looks For

READINESS

- Site control, permits in hand or clearly scheduled, and a final budget
- A construction contract with a general contractor priced against that budget
- Every other source available in cash at the closing table
- Term sheets for senior debt and executed grant or award documents
- Secured bridge debt where a capital campaign is carrying part of the leverage
- A closing timeline the sponsor can commit to

COMMUNITY OUTCOMES

- Depth of distress in the tract, measured and documented
- Jobs created and retained, with wage and benefit detail behind the count
- Access to goods and services the community currently travels for
- Outcomes the sponsor can count and report each year
- Municipal support and evidence that residents want the project
- Whether the project moves without the credit, which is the but-for question

FROM FIRST CONVERSATION TO CLOSING

Six to nine months is a realistic run for a project that is ready when it arrives.

Intake and tract check → Allocatee screening → Term sheet and reservation → Approval by committee → Diligence and documents → Closing

Terms

The program runs on acronyms. These are the ones that come up in any conversation about a deal.

Allocation
The investment authority a CDE wins from the CDFI Fund. The allocation committed to a project and the QEI made into the sub-CDE are the same number.

CDE, or allocatee
Community Development Entity. Certified by the CDFI Fund, awarded allocation, and responsible for selecting projects and reporting on them. The two words name the same party.

Sub-CDE
A single-purpose subsidiary the CDE forms for one transaction. It receives the QEI and makes the loans to the borrower.

QEI
Qualified Equity Investment. The money the investment fund puts into the sub-CDE, and the base the 39% credit is calculated on.

QALICB
Qualified Active Low-Income Community Business. The borrower, and the entity that has to satisfy the five business tests.

QLICI
Qualified Low-Income Community Investment. The loans from the sub-CDE down to the borrower, usually an A note and a B note.

Investment fund
The entity that pools the leverage loan and the investor equity and makes the QEI. It collapses at the end of the compliance period.

Leverage lender
The source of the debt portion of the QEI. A bank, the sponsor, or a bridge against a capital campaign.

Net benefit
What the borrower keeps once the B note is forgiven and fees and reserves come out. Figured as a share of the allocation a project raises.

Compliance period
The seven years the investment stays in place and the credits are claimed.

Recapture
Loss of credits already claimed, with interest, if a requirement fails during the compliance period.

Put or call
The mechanism agreed at closing for unwinding the structure at the end of year seven.

Contacts

Keep this page. Any of us is glad to look at a project and tell you plainly whether it fits.

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FOR MORE

CDFI Fund, New Markets Tax Credit Program: cdfifund.gov/nmtc
New Markets Tax Credit Coalition: nmtccoalition.org
Census tract eligibility, CDFI Fund mapping tool: cdfifund.gov/cims