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Which Community Development Entities Receive NMTC Funding?

Evaluating the New Markets Tax Credit Program

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The New Markets Tax Credit (NMTC) program is a large, federal, place-based subsidy delivered through the tax system to low-income or high-poverty census tracts to support community economic development objectives. Community Development Entities (CDEs) are intermediaries that receive NMTC allocation authority from the Community Development Financial Institutions (CDFI) Fund, located in the US Department of the Treasury. CDEs use this authority to make loans or investments into businesses and nonprofits in "low-income communities." Although CDEs are not the end beneficiaries of the NMTC program, they are key decisionmakers in its implementation. In this brief, we explore the different types of CDEs, show how the distribution of CDE types has changed over time, and discuss the relationship between CDE types and NMTC project types.

This brief is the fourth in a six-part series about the NMTC program. For a full description of how the program works see Abravanel et al. (2013), but in short, it seeks to attract private investment capital to low-income communities by providing taxpayers with credits against their federal income taxes for making investments (qualified equity investments) into organizations (CDEs). These organizations must first be certified by the CDFI Fund and then competitively win access to provide the tax credits. Taxpayers accessing the credits ("investors") can reduce their federal income taxes by up to 39 percent of the amount of the qualified equity investment. After CDEs sell the credits to investors, they use the capital they receive to make investments (qualified low-income community investments, or QLICIs) in businesses and real-estate projects located in low-income communities. These projects are then carried out by nonprofits or businesses (qualified active low-income community businesses).

BOX 1

The New Markets Tax Credit Evaluation

With funding from Arnold Ventures, the Urban Institute is conducting an impact evaluation of the NMTC program nearly two decades after its original implementation. The evaluation has produced six briefs that focus on different aspects of the program. This brief describes types of community development entities funded through the program. The briefs are as follows:

1. How Has the NMTC Program Been Funded over Time?
2. Which Types of Projects Receive NMTC Funding?
3. Where Do NMTC Projects Go?
4. Which Community Development Entities Receive NMTC Funding?
5. What Are the NMTC Program's Impacts on Local Economic Conditions?
6. How Does the NMTC Program Affect Local Housing Markets?

How Do CDEs Work?

To receive NMTC allocations, aspiring CDEs apply to the CDFI Fund for certification. Large corporations, banks, real-estate developers, governmental entities, mission lenders, and nonprofits can all become CDEs. To be approved, a potential CDE must demonstrate that serving low-income communities is one of its primary missions, that it will remain accountable to residents of the low-income communities that it serves, and that it is a legal entity. CDFIs are automatically qualified as CDEs. Once certified, CDEs apply to receive NMTC allocation authority.

If a CDE wins allocation authority, it can sell the right to claim tax credits to investors. The CDE then uses the funds received from investors to make debt or equity investments in entities located in qualified low-income communities.

NMTC Allocations to CDEs

The NMTC program does not have permanent approval like the Low-Income Housing Tax Credit. Congress has, however, regularly extended the program from its enactment in 2000 through 2025.

Starting in 2001, during each of these years, anywhere from 41 to 120 CDEs received allocations, and a total of 1,254 allocations have been distributed over the course of the program (table 1).

TABLE 1

NMTC Allocations by Year of Government Approval, 2001 to 2019

Year	Number of CDE NMTC applicants	Number of CDEs receiving allocations	Number of first-time CDEs receiving allocations	Average dollar amount of allocations per CDE
2001–02	346	66	66	$47,689,119
2003–04	271	63	53	$77,799,928
2005	208	41	27	$61,304,451
2006	254	63	27	$78,547,529
2007	258	61	26	$73,698,228
2008	239	102	25	$56,752,334
2009	249	99	25	$58,500,184
2010	250	99	28	$41,580,236
2011	314	70	6	$56,519,625
2012	282	85	13	$48,274,363
2013	310	87	6	$46,110,217
2014	263	76	9	$49,056,320
2015–16	238	120	12	$59,518,460
2017	230	73	3	$51,149,396
2018	214	73	4	$48,604,868
2019	206	76	7	$46,690,587
Total	4,132	1,254	337	$55,403,087

Source: CDFI Fund.

Note: CDE = community-development entity; NMTC = New Markets Tax Credit. Dollars adjusted to inflation for 2019. Calendar year of government approval does not always align with the year the credits were awarded or funds invested into projects.

CDE Types

To understand the various types of entities that become CDEs, each of which is responsible for the distribution of NMTC funds to qualified active low-income community businesses, we separate CDEs into five mutually exclusive types, ranked by total award volume under the program (with the CDE's controlling entity named if it differs from the name of the CDE):

1. **CDFIs and other mission lenders**, like Affirmative Investments (Boston, MA), Florida Community Loan Fund (Orlando, FL), and IFF (Chicago, IL). We further separate this group to distinguish CDFIs from all other mission lenders.

2. **For-profit financial institutions**, like Bank of America (Charlotte, NC), Morgan Stanley (New York, NY), and Wells Fargo (San Francisco, CA).

3. **Governmental and quasigovernmental entities**, like the City of Chicago, Wayne County (MI), and Las Vegas (NV).

4. **For-profit nonfinancial institutions**, like McCormack Baron Salazar (St. Louis, MO), Kroger (Cincinnati, OH), and Boscov's Department Store (Reading, PA). We further separate this group to distinguish real-estate developers from all other for-profit nonfinancial institutions

5. **Nonprofit nonfinancial institutions**, like Bethel New Life (Chicago, IL), Habitat for Humanity (Atlanta, GA), and a joint venture of Jubilee Housing and Manna Inc. (Washington, DC).

NMTC Allocations by CDE Type

From 2001 to 2019, 58 percent of NMTC allocations have gone to CDFIs and mission lenders; this is the largest share out of any of the five types (table 2). CDFIs and non-CDFI mission lenders each received 29 percent of all NMTC allocations. The next largest categories are for-profit financial firms (17 percent) followed by governmental and quasigovernmental (12 percent) entities, for-profit nonfinancial institutions (8 percent), and nonprofit nonfinancial institutions (6 percent). The share of allocation amounts for each category largely reflects the share of the number of allocations.

TABLE 2

NMTC Allocations by CDE Type, 2001 to 2019

CDE type	CDEs receiving an allocation	Number of allocations	Share of allocations	Total allocation dollar amt.	Share of allocation dollar amt.	Average dollar amt. per award
CDFI and mission	**169**	**724**	**58%**	**39,793,174,336**	**57%**	**$54,962,948**
CDFI	*77*	*359*	*29%*	*19,801,089,344*	*29%*	*$55,156,238*
Other mission	*92*	*365*	*29%*	*19,992,084,992*	*29%*	*$54,772,836*
For-profit financial	**71**	**217**	**17%**	**14,891,529,280**	**21%**	**$68,624,559**
Governmental and quasigovernmental	**46**	**149**	**12%**	**6,920,428,047**	**10%**	**$46,445,826**
For-profit nonfinancial	**31**	**95**	**8%**	**4,731,313,390**	**7%**	**$49,803,299**
Real estate	*24*	*81*	*6%*	*4,292,221,299*	*6%*	*$52,990,386*
Non–real estate	*7*	*14*	*1%*	*439,092,091*	*1%*	*$31,363,721*
Nonprofit nonfinancial	**20**	**69**	**6%**	**3,139,026,180**	**5%**	**$45,493,133**
Total	337	1,254	100%	$69,475,471,233	100%	$55,403,087

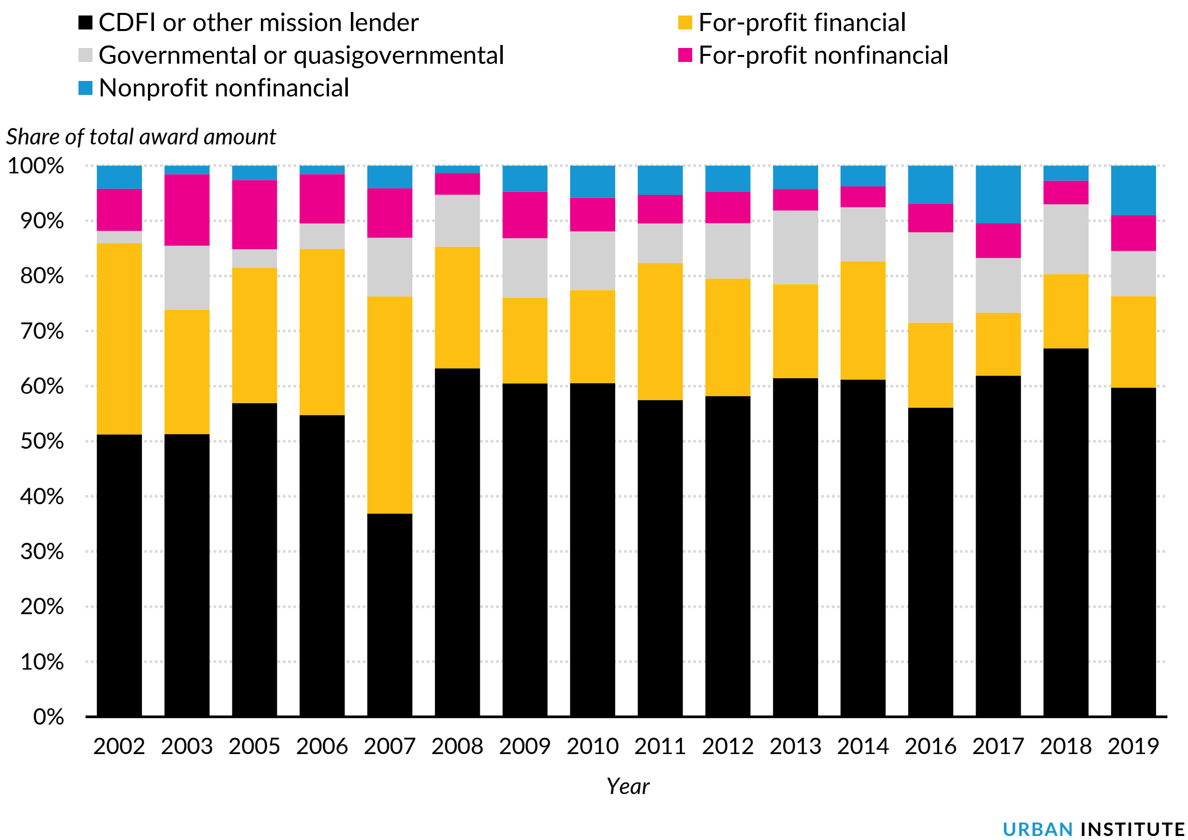
Source: CDFI Fund.

Note: Amt. = amount; CDE = community-development entity; CDFI = Community Development Financial Institution. Dollars adjusted for inflation to 2019.

The share of CDEs in each category, both in terms of number and dollar amount of allocations, has fluctuated over time. Although specific measures vary by year, since the first years of the program, CDFIs and other mission lenders have grown their share of NMTC allocation awards while awards to for-profit financial firms have decreased (figure 1). Governmental and quasigovernmental organizations have maintained or grown their share of NMTC allocations. For-profit nonfinancial firms appear to have gotten somewhat smaller volumes of awards after 2007, while nonprofit nonfinancial organizations (including nonprofit developers) received their largest volume in 2017 and 2019. Appendix table A.1 shows the share of award amounts by volume; table A.2 shows the share of awards by number.

FIGURE 1

NMTC Allocation Dollar Amounts by CDE Type Over Time, 2002 to 2019



Source: CDFI Fund.
Note: Dollars adjusted for inflation to 2019. Years are when funds were approved for tax expenditure; calendar year of government approval does not always align with the year the credits were awarded or funds invested into projects.

CDE Types and Project Size

We are also interested in the relationship between CDE types and the sizes of projects they fund. Are certain CDEs more or less likely to fund larger or smaller projects? Indeed, we find variations in QLICI amounts and total project cost by CDE type. (For more on QLICI amounts and total project cost, see brief 1 of this series.)

For-profit real-estate developer CDEs tend to fund the largest projects, at $36 million on average (table 3). The next highest single-CDE projects are half that. Other mission lender CDEs fund projects that average $18 million and governmental and quasigovernmental CDEs fund projects that average $17 million. Non–real estate (for-profit nonfinancial) CDEs as well as nonprofit nonfinancial CDEs fund projects averaging $16 million. The smallest projects are funded by for-profit financial CDEs ($10 million on average) and CDFI CDEs ($11 million on average).

CDEs win awards individually, but multiple CDEs can combine investments in a project, so we show a multi-CDE category in the project-level data below. These multi-CDE projects are much larger on average, with a total average project cost of $36 million. As shown in table A.3, CDEs have been increasingly coming together to fund projects; the majority of projects are now funded by multiple CDEs.

The spread of average project QLICI amounts by CDE type largely mirrors the total project cost trends. Nonprofit nonfinancial CDEs have somewhat smaller QLICIs as a share of total project costs, and CDFI CDEs have somewhat larger QLICIs as a share of total project costs (table 3).

TABLE 3

Qualified Low-Income Community Investment Amount and Project Cost by CDE Type, 2001 to 2017

CDE type	Average QLICI amount	Average total project cost
CDFI and mission	$7,046,870	$14,556,916
CDFI	$6,415,587	$11,046,706
Other mission	$7,673,450	$18,040,974
For-profit financial	$4,878,570	$10,063,459
Government and quasigovernmental	$9,302,168	$17,835,304
For-profit nonfinancial	$13,651,148	$32,383,444
Real estate	$15,098,932	$36,074,448
Non–real estate	$7,338,811	$16,290,668
Nonprofit nonfinancial	$5,616,669	$16,349,329
Multiple CDEs	$20,400,342	$35,964,736

Source: CDFI Fund.

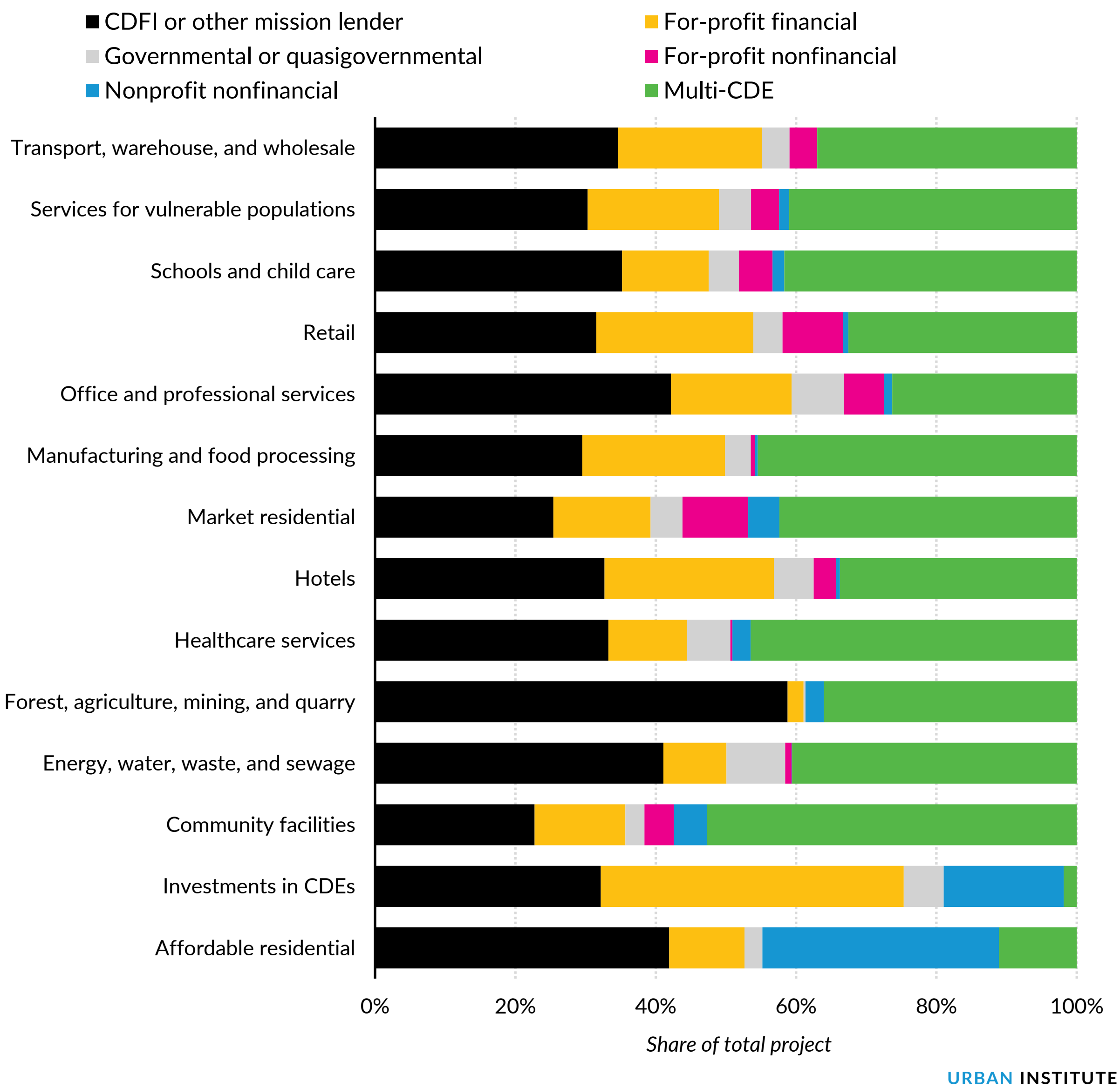
Note: CDE = community-development entity; CDFI = Community Development Financial Institution. These data are at the project-level not award-level like the previous tables. Project-level data are only available through 2017. Dollars adjusted for inflation to 2019.

CDE Types and Project Types

The types of projects funded also vary by CDE type. CDFIs and mission lenders are big funders of forest, agriculture, mining, and quarry; retail; energy, water, waste, and sewage; health care services; schools and child care; community facilities; and services for vulnerable populations. For-profit nonfinancial CDEs are most likely to fund market-rate residential housing and community facilities. Multi-CDEs are the most common for community facilities, schools and child care, and healthcare services. Nonprofit nonfinancial firms are by far most represented in affordable residential projects. Government and quasigovernmental CDEs are most represented in office and professional services; energy, water, waste, and sewage; manufacturing and food processing; health care services; and hotels. Investments in other CDEs were most common among for-profit financial CDEs.

FIGURE 2

NMTC Project Type by CDE Type, 2001 to 2016



Source: CDFI Fund.

Note: These data are at the project level, not the award level like the previous tables. Dollars adjusted for inflation to 2019.

Conclusion

CDEs are pivotal actors in implementing the NMTC program: they apply for allocation authority, sell credits to investors, and deploy the proceeds in qualified businesses and nonprofits. In this brief, we classify CDEs into five categories: CDFIs and other mission lenders, for-profit financial institutions (such as banks), governmental and quasigovernmental entities, for-profit nonfinancial institutions (such as real real-estate developers), and nonprofit nonfinancial institutions (like community development

corporations). CDFIs and mission-driven lenders constitute the majority of NMTC awardees and have received the largest volume of award funds throughout the program's history.

CDE type appears to matter in terms of project investment sizes. For example, for-profit real-estate developer CDEs have the largest total project costs issued by a single CDE. The relevance of multi-CDE projects appears to be growing considerably as a share of program activity. These multi-CDE efforts also fund projects much larger than average. Conversely, for-profit financial CDEs and CDFIs appear the most willing or able to use NMTCs to finance smaller projects. For-profit financial CDEs have the smallest. CDE type also associates with project types, with important correlations among CDE types and certain types of projects.

Appendix: Supplemental Tables

TABLE A.1

Share of Allocation Dollar Amounts by CDE Type over Time, 2002 to 2019

CDE type	2002	2003	2005	2006	2007	2008	2009	2010
CDFI and mission	51%	51%	57%	55%	37%	63%	60%	61%
CDFI	26%	18%	34%	27%	20%	31%	31%	25%
Other mission lender	25%	33%	23%	28%	17%	32%	30%	35%
Governmental and quasigovernmental	2%	12%	3%	5%	11%	9%	11%	11%
For-profit financial	35%	23%	25%	30%	39%	22%	16%	17%
For-profit non-financial	8%	13%	13%	9%	9%	4%	8%	6%
Real-estate developer	7%	11%	12%	8%	7%	4%	8%	6%
Other	1%	2%	1%	1%	2%	0%	1%	0%
Nonprofit nonfinancial	4%	2%	3%	2%	4%	1%	5%	6%

CDE type	2011	2012	2013	2014	2016	2017	2018	2019
CDFI and mission	57%	58%	61%	61%	56%	62%	67%	60%
CDFI	25%	31%	29%	25%	32%	36%	37%	31%
Other mission lender	32%	28%	32%	36%	24%	26%	30%	28%
Government and quasigovernmental	7%	10%	13%	10%	16%	10%	13%	8%
For-profit financial	25%	21%	17%	21%	15%	11%	13%	17%
For-profit nonfinancial	5%	6%	4%	4%	5%	6%	4%	6%
Real-estate developer	5%	5%	4%	3%	5%	6%	4%	6%
Other	0%	1%	0%	0%	0%	0%	0%	0%
Nonprofit nonfinancial	5%	5%	4%	4%	7%	10%	3%	9%

Source: CDFI Fund.

Note: Dollar amount adjusted to inflation for 2019. Years are when funds were approved for tax expenditure; calendar year of government approval does not always align with the year the credits were awarded or funds invested into projects.

TABLE A.2

Share of Number of Allocations by CDE Type over time, 2002 to 2019

CDE type	2002	2003	2005	2006	2007	2008	2009	2010
CDFI and mission	58%	52%	38%	61%	60%	59%	58%	52%
CDFI	32%	21%	18%	29%	30%	25%	32%	21%
Other mission lender	26%	32%	20%	31%	29%	33%	26%	32%
Government and quasigovernmental	3%	14%	11%	14%	12%	14%	3%	14%
For-profit financial	23%	22%	33%	19%	12%	13%	23%	22%
For-profit nonfinancial	9%	10%	11%	5%	11%	8%	9%	10%
Real-estate developer	8%	8%	7%	4%	9%	8%	8%	8%
Other	2%	2%	5%	1%	2%	0%	2%	2%
Nonprofit nonfinancial	8%	2%	7%	2%	5%	6%	8%	2%

CDE type	2011	2012	2013	2014	2016	2017	2018	2019
CDFI and mission	57%	56%	60%	61%	55%	60%	67%	59%
CDFI	24%	29%	29%	25%	31%	33%	38%	30%
Other mission lender	33%	27%	31%	36%	24%	27%	29%	29%
Governmental and quasigovernmental	9%	13%	17%	12%	17%	11%	14%	9%
For-profit financial	21%	19%	14%	17%	14%	10%	12%	14%
For-profit nonfinancial	6%	7%	5%	5%	7%	8%	4%	8%
Real-estate developer	6%	5%	5%	4%	6%	8%	4%	8%
Other	0%	2%	0%	1%	1%	0%	0%	0%
Nonprofit nonfinancial	7%	5%	5%	5%	8%	11%	3%	9%

Source: CDFI Fund.

Note: Dollar amount adjusted to inflation for 2019. Years are when funds were approved for tax expenditure; calendar year of government approval does not always align with the year the credits were awarded or funds invested into projects.

TABLE A.3

Share of Project Financing by CDE Type over time, 2003 to 2017

CDE type	2003	2005	2006	2007	2008	2009	2010
CDFI and mission	28%	38%	44%	44%	38%	31%	36%
CDFI	28%	16%	22%	17%	18%	16%	18%
Other mission lender	0%	22%	22%	27%	21%	15%	18%
Governmental and quasigovernmental	0%	0%	4%	5%	4%	3%	4%
For-profit financial	54%	32%	23%	18%	24%	22%	20%
For-profit nonfinancial	0%	7%	5%	10%	5%	3%	6%
Real estate developer	0%	5%	4%	9%	5%	3%	6%
Other	0%	1%	1%	1%	1%	0%	1%
Nonprofit nonfinancial	18%	3%	1%	2%	0%	1%	1%
Multiple CDEs	0%	20%	24%	22%	27%	39%	33%

CDE type	2011	2012	2013	2014	2015	2016	2017
CDFI and mission	28%	28%	24%	27%	25%	25%	23%
CDFI	13%	11%	12%	13%	12%	10%	13%
Other mission lender	16%	18%	12%	14%	13%	15%	10%
Governmental and quasigovernmental	6%	7%	3%	7%	7%	9%	3%
For-profit financial	8%	10%	15%	9%	10%	9%	7%
For-profit nonfinancial	2%	2%	3%	2%	1%	1%	1%
Real estate developer	2%	2%	2%	1%	1%	1%	1%
Other	0%	0%	0%	0%	1%	0%	0%
Nonprofit nonfinancial	2%	1%	2%	1%	2%	2%	3%
Multiple CDEs	53%	53%	53%	54%	56%	54%	63%

Source: CDFI Fund.

Note: These data are at the project-level not award-level like the previous tables. Dollars adjusted for inflation to 2019. Projects in 2001 and 2002 not visualized due to small numbers of projects in those years.

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About the Authors

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