



New Markets Tax Credits Policy Options memo

The New Markets Tax Credits (NMTC) program attracts capital investment to distressed neighborhoods by giving investors in businesses in these neighborhoods credits on their federal taxes equal to 39% of their investment over seven years. The investments may be structured as loans or equity investments in qualified businesses.

NMTC credits are awarded through a competitive process. According to the CDFI Fund which administers the program, every \$1 in federal investment generates \$8 in private investment. Since 2003, NMTC has created or retained nearly 750,000 jobs, 84.6 million square feet of manufacturing space, 62.7 square feet of office space, and 42.7 million square feet of retail space.

An innovative use of the power of NMTCs is to finance affordable homeownership in distressed communities. Using NMTCs to finance real estate construction companies in qualified census tracts allows the nonprofit real estate developer to use the flexible financing provided by NMTCs to make homeownership affordable for families currently shut out of the housing market.

With an allocation of NMTCs, nonprofits build new homes or acquire and rehabilitate homes to sell to low income families and residents of distressed neighborhoods. The NMTC financing can be used to fill homeownership affordability gaps when the homes cost more to produce than the families can afford, or valuation gaps that occur when the market value of the home is less than the project cost. Nonprofit developers are also able to use the NMTC funding to pay for pre- and post- purchase financial counseling for families and to retain loan servicing to ensure that families succeed as homeowners.

To date, NMTCs have been used to build nearly 4000 affordable homes developed by nonprofits including Habitat for Humanity, Atlanta Neighborhood Development Partnership, Homewise, and others. This use of NMTC for homeownership has a quadruple bottom line: it improves neighborhoods by adding to the stock of move-in ready, high quality homes; it helps families build assets through the equity created by sustainable homeownership; it creates construction jobs in disinvested neighborhoods; and ultimately all of these impacts build community and create livable neighborhoods.

The Homeownership Alliance applauds recent legislation extending this critical resource for low-income communities through 2025, but also supports bills making NMTCs a permanent part of the tax code. We also support the following regulatory changes:

Recommended changes to the current NMTC program to make it easier to use to create affordable homeownership:

1. The NMTC application provides more opportunities to discuss job creation and other impacts than it does to discuss the outcomes and impacts resulting from bringing opportunities for homeownership to low- and moderate-income buyers, and especially Black and Latinx families. As noted above, homeownership projects financed with NMTC has wealth building benefits for the families who purchase the houses and stabilizing impacts on neighborhoods. The application materials need to allow for documentation of a broader range of impacts. The allocation process for NMTCs is very competitive and a narrow focus on job creation in the CDFI Fund's application materials for the program has led the industry to believe that job creation is the most important impact to the CDFI Fund and critical to receiving an NMTC allocation.
2. The CDFI Fund has improved the definition of "affordable" for home sales financed with NMTCs by aligning it with FHA standards rather than including an arbitrary 38% DTI ratio as had been included in earlier FAQs. As the overall policy debate about Qualified Mortgages evolves and the Consumer Financial Protection Bureau and perhaps FHA move away from including a hard and fast DTI standard for homebuyers, the Fund should make sure that the NMTC guidance evolves. It would be unfortunate if some low and moderate income homebuyers who should qualify and could, with the right supports, own a home were excluded because of arbitrary limits like this.
3. There is another arbitrary limit that applies if the Qualified Active Low Income Community Business (QALICB) does not know or have control over the homebuyer's debt to income ratio. In that case, the sales price of the home must be 95% of less of the HUD area median sale price. This is similar to a limit in HUD's HOME program. This is also too stringent and not based on any statutory requirements. Given that NMTCs can only be used in Census tracts that meet indicators of economic distress, it seems unnecessary to also put limits on the prices of the homes that can be built. In addition, the limits on how much subsidy that goes into any individual home prevents the funds from being used for luxury housing.
4. The NMTC compliance reporting system is not created to handle homeownership development. For example, users report on the projected number of homes developed, and number of homes sold to low income people – but there is no place or mechanism for providing a final corrected number. For developers who do scattered site development, they won't know the exact number until the project is completed. It is appropriate for the CDFI Fund to collect the number of homes built, but the data system should be flexible enough to accommodate user concerns.
5. Finally, in the NMTC reporting system, after someone enters addresses, if the project developer needs to delete an address, it can't be done without doing a service request to the CDFI Fund. Again, this makes it difficult to use NMTCs for scattered site homeownership development when the homes in the pipeline to be renovated can change.

