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Tax-Exempt Market Bulletin

by Government Capital Corporation

your 501(c)(3) conduit financing partner

Eyes on the Fed, Feet on the Ground

As we close out the second quarter of 2025, qualified 501(c)(3) entities including private and parochial schools and other tax-exempt borrowers continue to weigh cautious optimism against persistent uncertainty. While inflation has cooled slightly and the Federal Reserve has held rates steady so far this year, clarity around the timing of any rate cuts remains elusive. Tax-exempt market participants have responded with tentative stability, but volatility still looms beneath the surface.

Market Recap – Q2 2025

Fed Holds Firm Amid Mixed Signals – The Fed held rates steady throughout Q2 as inflation showed signs of cooling but has not yet committed to any interest rate cuts. Job growth has slowed, but resilient consumer spending continues to keep the Fed cautious. This means that tax-exempt borrowers must continue to navigate a relatively high-rate environment. While the pressure to raise rates has eased, there's no clear sign of relief on the horizon.

Tax-Exempt Yields Drift Lower After Q1 Spike – After a sharp rise in Q1, tax-exempt yields eased slightly in Q2, offering some breathing room for borrowers. This softening was driven by stabilizing inflation data and increased investor demand for tax-exempt debt, especially in the 5–10-year range. While rates are still elevated by historical standards, the recent pullback has improved borrowing conditions, particularly for well-structured essential-use projects.

Investor Appetite Remains Stable but Selective – Tax-exempt investors remained active in the market this quarter, but they are picking their spots carefully. Lenders are still showing strong interest in tax-exempt debt, but they are placing more emphasis on credit quality and term length. Borrowers with well-prepared credit packages and positive growth trends are getting traction as investors' interest in tax-exempt lending grows due to the expectation that the newly established voucher system could greatly enhance structuring options available to 501(c)(3) organizations.

What This Means for Tax-Exempt Issuers

Ask About Early Payoff Flexibility - Many borrowers have been asking for shorter early redemption periods, which is the amount of time you're locked into the loan before you're allowed to refinance or pay it off early. If your organization is planning a capital campaign, or you believe interest rates might drop in the coming years, shorter redemption options give you valuable flexibility. They allow you to pay down early or restructure the loan on better terms should the opportunity arise. It never hurts to ask, and this small change can lead to big savings down the road.

Bundle Projects to Streamline Financing - If your organization has several capital projects on the horizon, consider combining them into a single financing. This approach can simplify the process and help reduce legal and administrative costs. It may also allow you to present a more cohesive and compelling case to your lender, which can lead to quicker approvals and more favorable terms. Bundling projects makes it easier to coordinate timelines and manage your budget across departments or programs. Planning and consolidating your needs now helps you avoid the hassle of going back through the financing process six or twelve months down the road.

The Bottom Line? The second half of 2025 could bring meaningful opportunities for cost savings, especially for tax-exempt entities who have done their homework. While the macro picture remains mixed, the worst of the rate pain may be behind us. If your school has capital projects in the pipeline, it's wise to plan around current rates rather than holding out for cheaper money that may not come anytime soon. As always, the key is to remain proactive, flexible, and informed.

Article by Jared Noblitt, Senior Placement Agent

GOVERNMENT CAPITAL CORPORATION

Recent Fundings

Preston Hollow Presbyterian School partnered with Government Capital to finance the acquisition and renovation of a new facility utilizing the tax-exempt conduit financing structure.

First Baptist Christian Academy utilized Government Capital's tax-exempt conduit financing method to finance the first phase of their campus expansion project which centered on construction of a new gym.

New Braunfels Christian Academy financed their second project with Government Capital utilizing the tax-exempt conduit financing method. This funding provided for Phase Two of the school's Campus Expansion Project covering construction of a secondary school building.

Lake Country Christian School partnered with Government Capital, utilizing their tax-exempt conduit financing structure, to purchase the campus they had been renting from their partner church as well as additional land for a future baseball field.

Government Capital Corporation (GCC) is a leading public finance firm providing professional financial services to all local government and 501(c)(3) entities. The GCC team and their affiliates have created multiple conduit issuers specifically designed to provide qualified 501(c)(3) organizations access to tax-exempt financial markets. Since its founding in 1992, GCC and its affiliates have successfully completed thousands of tax-exempt financings exceeding $6.8 billion in Texas and across the country.

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