



**From Policy to Practice:
Implementing the 25% Test and Energizing Investor Engagement**

NH&RA 2025 Fall Developers Forum, Boston

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Background on the 25% Bond Financing Threshold

In July, Congress approved a permanent change to the tax-exempt bond financing threshold to qualify for 4 percent Housing Credits.

This legislation reduces the threshold from 50 percent to 25 percent for properties placed in service after December 31, 2025.

Properties must have at least 5 percent of aggregate costs covered by bond financing from multifamily bonds issued in 2026 or later.

State Housing Credit agencies are adopting policies to implement the new threshold now.

Policy Considerations for Implementation of the 25% Threshold

Will the agency re-underwrite developments that were issued bonds prior to enactment of the 25% test to retrieve 2025 bond cap so they can finance more developments?

Will the agency increase limits on credits per unit or keep policies the same and fund additional developments?

How much of the “freed” bond cap will go to multifamily vs. other activities, including single family MRBs?

What amount of bond financing will the agency provide to developments?

Policy Considerations for Implementation of the 25% Threshold (continued)

Will all developments get the same percentage, or will the agency provide more bond cap if a project can support it?

To what extent will the agency assist developers with financing gaps?

Will the agency establish a bond recycling program?

Will the new bond test and the availability of gap filler cause the agency to reconsider the balance between new construction and preservation in allocation plans?

HFA Policies Implementing the 25% Threshold

As of today, 14 agencies have published final guidance implementing the 25% bond financing threshold and providing new limits on aggregate basis:

- Connecticut: 28% of aggregate eligible basis and land or permanent supportable debt;
- Florida: 27.5-30% of aggregate basis (but can increase to 50% for new construction projects if permanent debt supports it);
- Indiana: 25-30% of aggregate basis;
- Oklahoma: 25% of aggregate basis;

HFA Policies Implementing the 25% Threshold (continued)

- California: 30% of aggregate basis;
- Georgia: 30% of aggregate basis or maximum permanent supportable debt;
- Illinois: 30% of aggregate eligible basis and land or maximum permanent supportable debt;
- Kentucky: 30% of eligible aggregate basis or maximum permanent supportable debt;
- Oregon: 30% of aggregate basis or maximum permanent supportable debt;
- Utah: 30% of aggregate basis;
- Virginia: 30% of aggregate basis, permanent supportable debt not to exceed 40%;
- Washington: 30% of aggregate basis plus land (can increase to 40% if permanent debt supports it);

- Iowa: 35% of aggregate basis or \$25 million per project; and
- Wisconsin: 35% of aggregate basis or permanent supportable debt plus 5% (not to exceed 60%).

HFA Policies Implementing the 25% Threshold (continued)

Seventeen states expect to publish guidance implementing the 25% test in the coming months:

4th quarter 2025 (12): Arizona, Colorado, Michigan, Minnesota, Nevada, New Hampshire, New Mexico, North Carolina, Ohio, Pennsylvania, Tennessee, and Vermont.

Early 2026 (5): Alaska, Hawaii, New Jersey, North Dakota, and Wyoming.

Bond Recycling

Volume cap initially utilized to issue tax-exempt multifamily housing bonds may be recycled and used to finance additional multifamily housing production when an owner refinances a property and repays the mortgage initially financed with multifamily bonds.

The proceeds from that repayment can then be used to fund additional multifamily bond issuances for new properties within six months of the bond's repayment.

Multifamily bond authority may only be recycled once, and while recycled bonds do not generate 4 percent Housing Credits, they can be a valuable source of gap financing for Housing Credit developments that can support additional debt.

Current law does not permit recycled multifamily bonds to be used to finance single family MRB mortgages or recycled MRB mortgages to finance multifamily lending.

Bond Recycling (continued)

Eight agencies currently have bond recycling programs: California, Colorado, Connecticut, Illinois, Massachusetts, New York, Washington, and District of Columbia.

Six agencies are considering creating bond recycling programs: Arizona, Hawaii, Kentucky, Maryland, Nevada, and Wisconsin.

Legislative Proposals

Affordable Housing Credit Improvement Act: as currently drafted, the bill would:

- 1) expand bond recycling to allow volume cap previously used for multifamily housing to be recycled and used for MRB issuance; and
- 2) extend the period between repayment and reallocation of recycled bond authority from six months to 12 months.

AHCIA reintroduction next Congress, potentially with further enhanced bond recycling provisions.

Other legislative proposals: provide bond authority outside of volume cap for preservation transactions or for developments that elect affordability periods longer than 30 years.