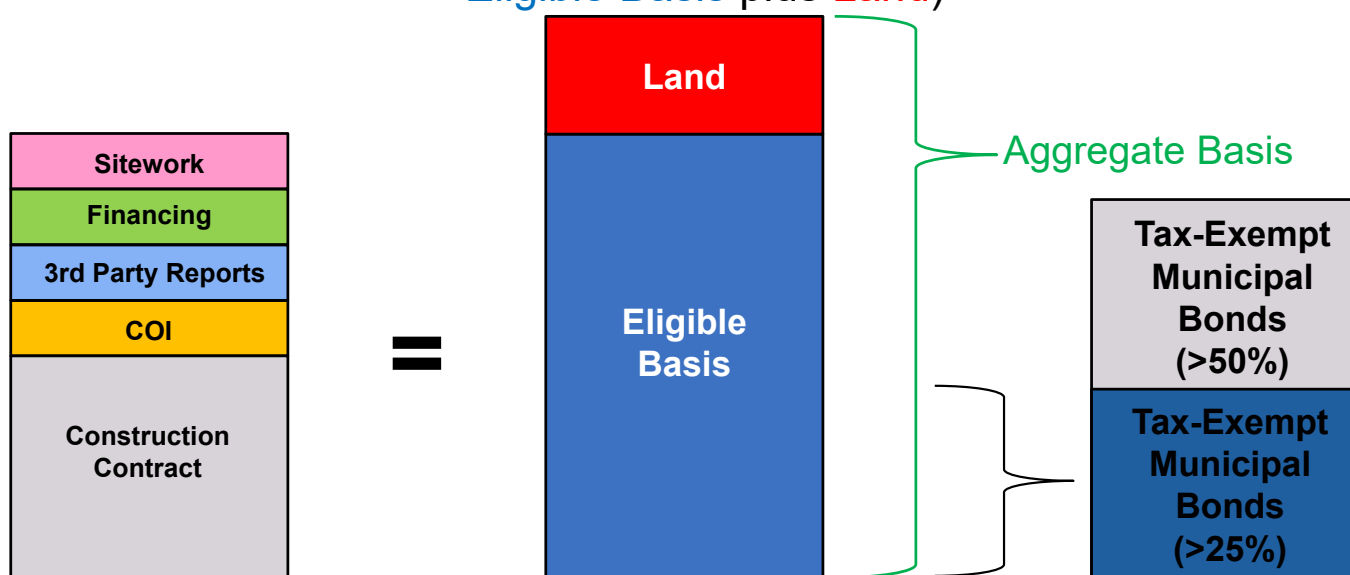


25% / 50% Test

To qualify for 4% tax credits, the project must utilize Private Activity Bonds greater than **25%** (if the deal is closing on or after January 1, 2026) or **50%** (if the deal is closing prior to January 1, 2026) of **Aggregate Basis** (which equals **Eligible Basis plus Land**)



Ex: If a project has \$20mm in **Aggregate Basis**, the borrower should request greater than \$5mm in tax-exempt municipal bonds if closing on or after January 1, 2026, or \$10mm if closing prior to January 1, 2026

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Reduction of the 50% Test

SEC. 70422. PERMANENT ENHANCEMENT OF LOW-INCOME 2 HOUSING TAX CREDIT.

(b) TAX-EXEMPT BOND FINANCING REQUIREMENT.—

(1) IN GENERAL.—Section 42(h)(4) is amended by striking subparagraph (B) and inserting the following:

“(B) SPECIAL RULE WHERE MINIMUM PERCENT OF BUILDINGS IS FINANCED WITH TAX-EXEMPT BONDS SUBJECT TO VOLUME CAP.—For purposes of subparagraph (A), paragraph (1) shall not apply to any portion of the credit allowable under subsection (a) with respect to a building if— “(i) 50 percent or more of the aggregate basis of such building and the land on which the building is located is financed by 1 or more obligations described in subparagraph (A), or “(ii)(I) 25 percent or more of the aggregate basis of such building and the land on which the building is located is financed by 1 or more obligations described in subparagraph (A), and “(II) 1 or more of such obligations— “(aa) are part of an issue the issue date of which is after December 31, 2025, and “(bb) provide the financing for not less than 5 percent of the aggregate basis of such building and the land on which the building is located.”.

(2) EFFECTIVE DATE.—

(A) IN GENERAL.—The amendment made by this subsection shall apply to buildings placed in service in taxable years beginning after December 31, 2025.

(B) REHABILITATION EXPENDITURES TREATED AS SEPARATE NEW BUILDING.—In the case of any building with respect to which any expenditures are treated as a separate new building under section 42(e) of the Internal Revenue Code of 1986, for purposes of subparagraph (A), both the existing building and the separate new building shall be treated as having been placed in service on the date such expenditures are treated as placed in service under section 42(e)(4) of such Code.

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25% Test

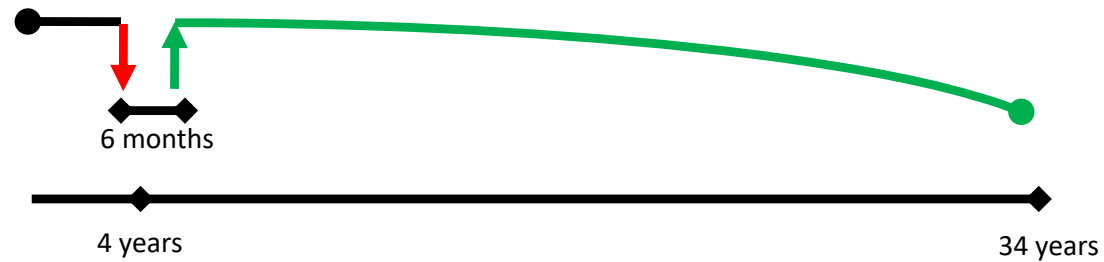
- Applicable for any transaction closing on or after January 1, 2026
- Transactions closing prior to January 1, 2026, can take advantage of the 25% test if additional bonds are issued on or after such date. Additional bond issuance would be sized to the lesser of (i) the amount needed to meet the 50% test, or (ii) 5% of aggregate basis.
- By allowing deals to obtain the greater of (a) 30% of aggregate basis and (b) perm supportable debt, issuers would ensure that the project meets the 25% test and is able to utilize fully tax-exempt senior permanent debt
- Recycled bonds (if available) can be used to cover any excess supportable debt above 30% of aggregate basis

Implications of 25% test

- Supplemental issuances for deals closed before 2026 but not placed in service until after 2025.
- Need to fill additional supportable debt (see prior slide for recycled bonds). Taxable issuance with flexibility to convert to tax-exempt should be structured as such at closing.
- Ability to more easily acquire deals and assume the debt with new 4% bonds (i.e. FHA 241(a) transactions).
- Equity implications?
- Production / admin logistics:
 - 3rd-party reports
 - Issuer approvals
 - Other timing issues
 - Fee implications?

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Basic Rules for Recycled Bonds

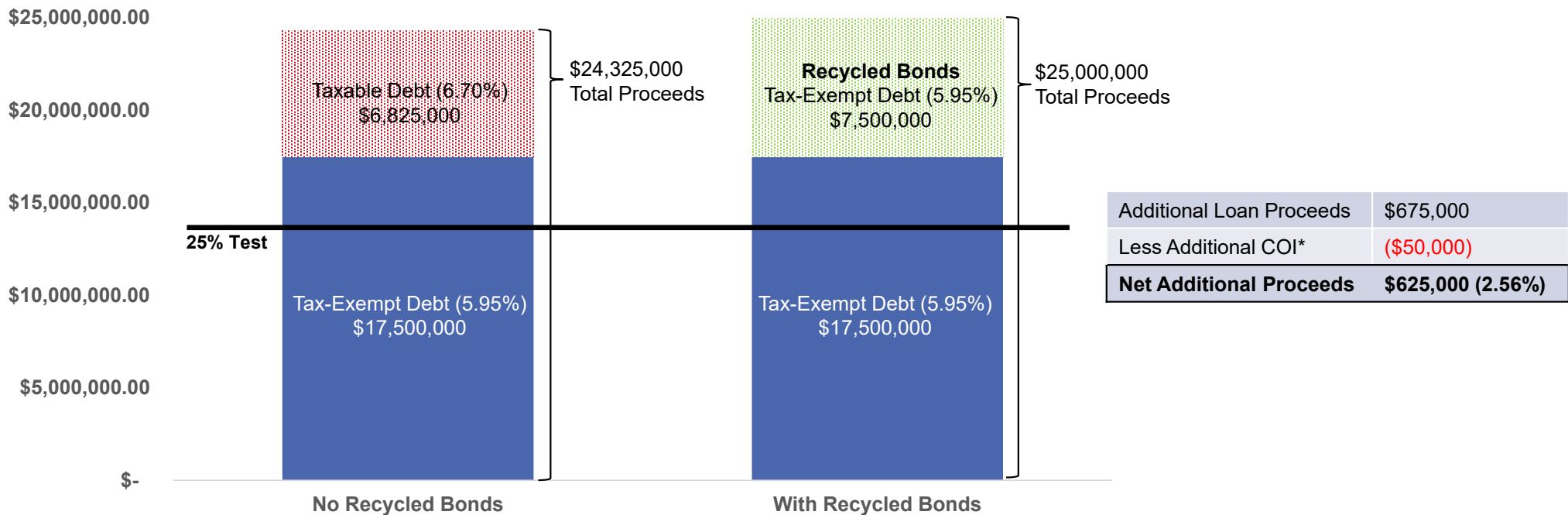


- Bond refunding must occur within 4 years of the initial issuance for an eligible rental housing project originally financed with private activity bonds.
- Requires new loan to an eligible project within 6 months of effective date of the prepayment.
- Maturity date of recycled bonds may not be later than 34 years from date of initial bond issuance.
- New project is subject to public notice requirements (TEFRA) prior to issuance of refunding bonds.
- **Recycled bonds are not taken into account for 50% test purposes and do not generate LIHTC, but can be used for non-LIHTC deals and in LIHTC transactions that can support additional permanent debt.**

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Benefits of Recycled Bonds

- Generates additional permanent debt for transactions with supportable debt in excess of the 25% Test.



* Additional Upfront and Ongoing Issuer fees applicable, but vary based on specific issuer. Assumes Underwriter Fee is 0.50% of additional Tax-Exempt Debt.

Cash-Backed Forward Structure

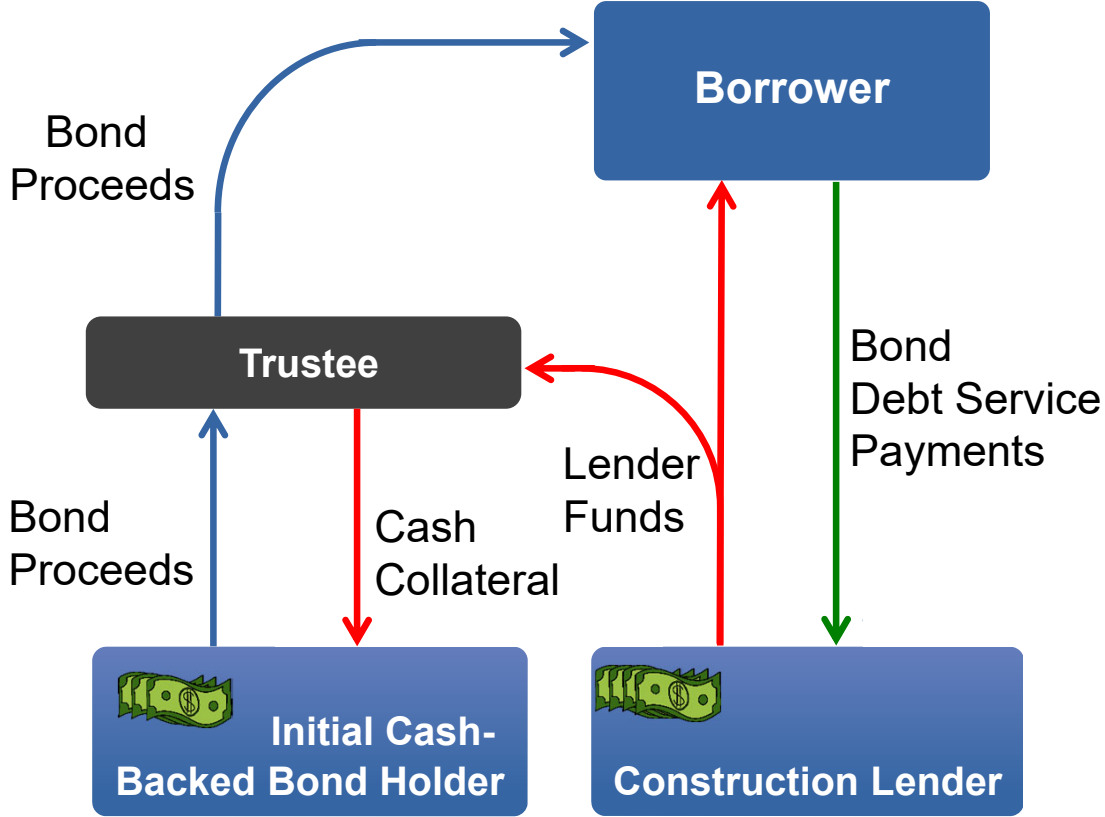
Cash-Backed Forward Structure

- Works with any tax-exempt financing that involves a forward commitment from a permanent lender to purchase the debt at conversion
- Takes advantage of inverted yield curve and provides other significant benefits
- Provides positive earnings during cash-backed mode, as well as additional equity to the project*
- Allows equity investor to also serve as construction lender without certain tax implications
- In Texas, significantly reduces interest costs on construction loan due to draw down structure

* *Subject to approval from bond counsel and developer's accounting firm*

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CASH BACKED FORWARD



Cash-Backed Forward Yield Blending

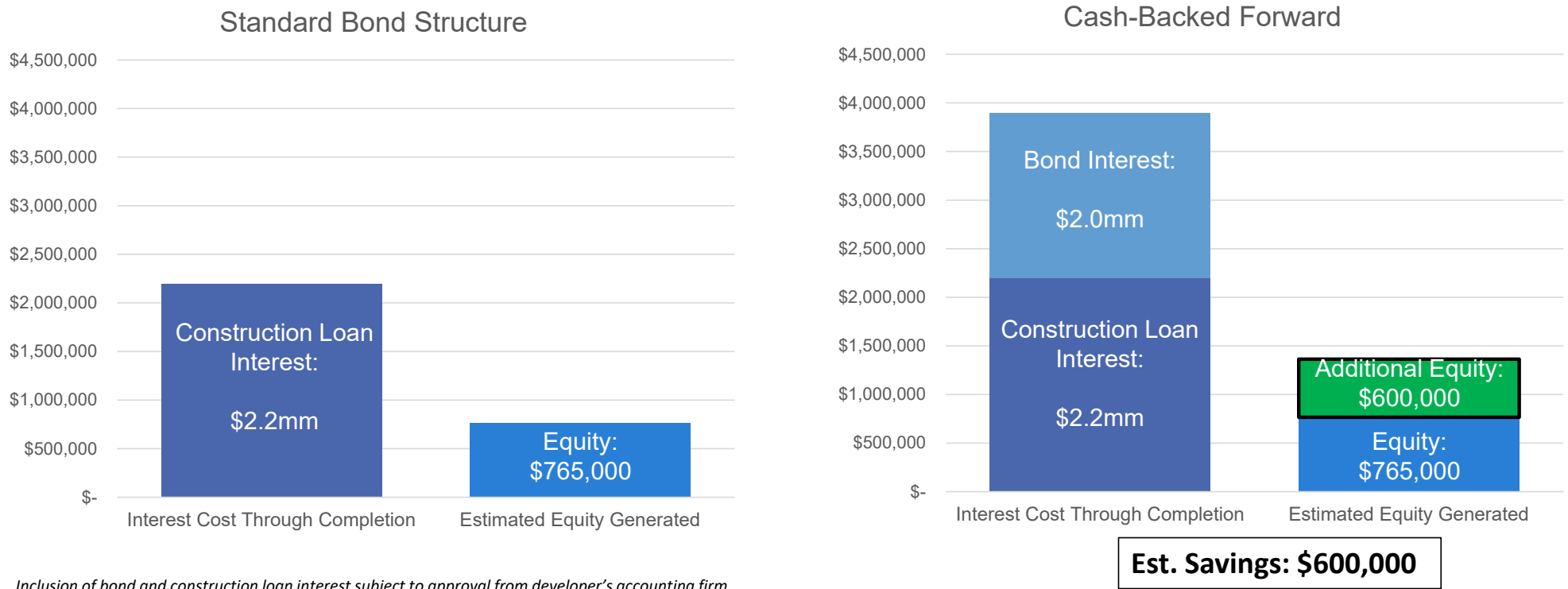
1. Positive earnings during cash-backed mode (subject to bond counsel approval to blend yields)

“**Yield Blending**” refers to the ability to blend the short-term bond yield with the long-term bond/note yield over the first 5 years for arbitrage rebate purposes.

The resulting blended bond yield often results in the ability to retain certain earnings at or below such rate (subject to bond counsel approval).

Cash-Backed Forward Benefits

2. Additional equity generated when counting bond interest through completion in eligible basis*



* Inclusion of bond and construction loan interest subject to approval from developer's accounting firm.
 ** Assumes \$30mm par amount and 3-year initial term to conversion, 24-month construction period, with level draw schedule.
 *** Equity generated assumed to be 35% of interest cost through completion. Confirm impact of investment income with equity investor
 **** Additional equity generated from taxable construction loan interest in situations where equity investor and construction lender are not related parties

Possible Added Costs Of Cash-Backed Forward*

1. Additional costs of issuance for publicly offered bonds

Expense	Est. Cost
Underwriter's Fee	\$180,000
Underwriter's Counsel	\$60,000
Rating Agency	\$5,500
Verification Agent	\$2,500
Other Costs	\$2,000

Additional Equity Generated from COI	
Total Estimated COI	\$250,000
Est. Additional Basis**	\$166,666
Est. Additional Equity***	\$60,000

Est. Net Expense: \$190,000

* Possible added cost from taxable construction loan interest in situations where equity investor and construction lender are not related parties

** A portion of costs of issuance allocable to the cash-collateralized bond issue can count towards eligible basis, pro rated for the portion of the initial term prior to construction completion

*** Additional equity is assumed to be 35% of additional basis

Cash-Backed Forward Comparison

Summary of Overall Structure			
	Standard Draw-Down Bond Structure	Cash-Backed Forward	Savings*
Est. Positive Earnings	\$0	\$630,000	\$630,000
Est. Additional Equity	\$765,000	\$1,365,000	\$600,000
Est. Additional Costs of Issuance	\$0	(\$190,000)	(\$190,000)

Est. Savings: \$1,040,000
3.46% of Bond Amount**

* Lower savings in situations where equity investor and construction lender are not related parties

** Assumes \$30mm bond amount

Cash-Backed Forward Other Benefits

1. Earnings on bond proceeds count towards 50% Test

Standard Bond Structure:

$$\frac{\text{Tax-Exempt Bonds}}{\text{Aggregate Basis}} = \frac{\$30,000,000}{\$56,600,000} = 53.0\%$$

Cash-Backed Structure:

$$\frac{\text{Tax-Exempt Bonds} + \text{Earnings on Bond Proceeds}}{\text{Aggregate Basis} + \text{Bond Interest Through Completion}} = \frac{\$30,000,000 + \$1,000,000}{\$56,600,000 + \$1,700,000} = 53.2\%$$

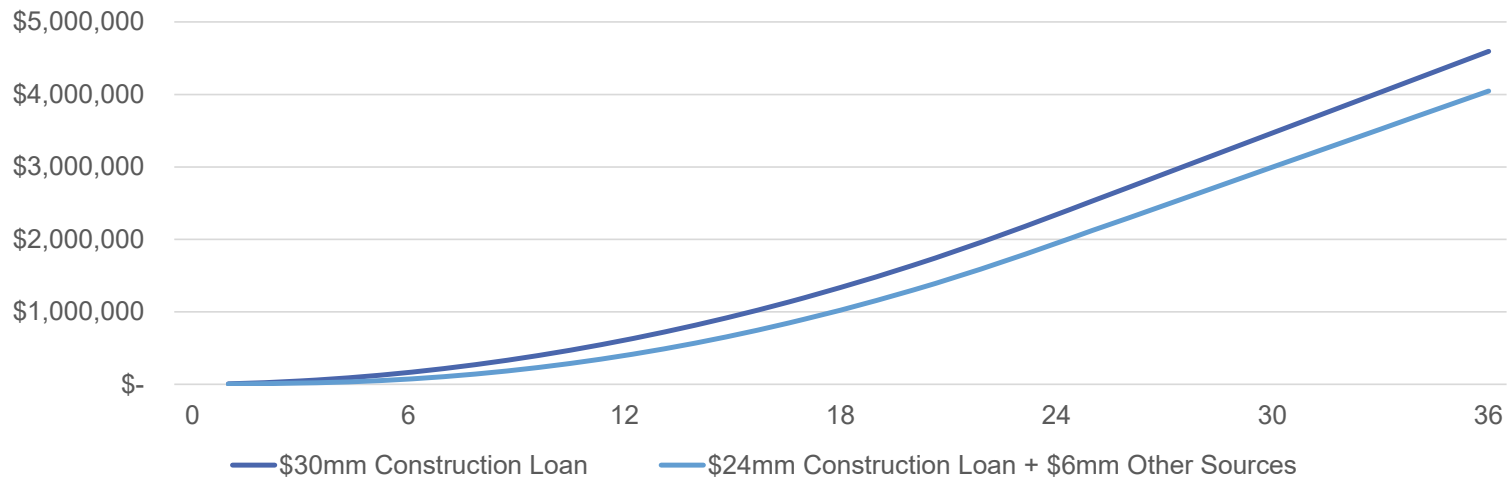
Without Bond Interest in Basis:

$$\frac{\text{Tax-Exempt Bonds} + \text{Earnings on Bond Proceeds}}{\text{Aggregate Basis}} = \frac{\$30,000,000 + \$1,000,000}{\$56,600,000} = 54.7\%$$

Cash-Backed Forward Other Benefits

- 2. If bond amount > perm loan, allows other funds to be used as collateral (reduced construction loan)

If instead of a \$30mm construction loan collateralizing the bonds, \$6mm of collateral came in the form of a cheaper source of funds, then the net interest cost could reduce by roughly \$500k.

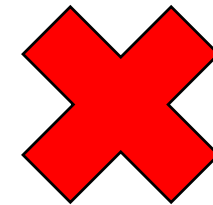


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Cash-Backed Forward Other Benefits

- 3. Allows equity investor to also serve as construction lender without triggering program investment test*, which is triggered when total issuer fees exceed 12.5 bps annually.

Standard Bond Structure	
Bondholder:	Equity Investor:
Construction Lender	Construction Lender



Cash-Backed Forward	
Bondholder:	Equity Investor:
Public Investors	Construction Lender



* Program Investment Test limits yield on loan (reflected in the issuer fee) to 0.125% in excess of yield on bonds on an annual basis for the full term of the bonds.

Interested in more information?

Follow the QR code below to request a copy of these slides and various other informational materials from Tiber Hudson, or to schedule a free bond training session with our team.



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