

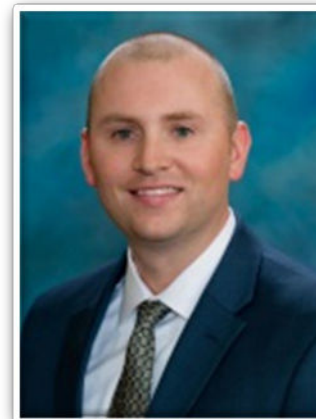
A Quick Guesstimate on the Proceeds Impact of the 50% Test → 25% and Six Proceeds Enhancers in a 25% World

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Guesstimating THE ADVERSE Impacts of 50% → 25%

- As we all know, the One Big Beautiful Bill Act (the “OBBBA”) **incorporates** several major affordable housing industry goals. These include a **12% permanent increase** in the allocation of **9% LIHTC** beginning in 2026 and a **reduction in the 50% test to 25%** under Section 42 for using volume-limited private activity bonds issued in 2026 and thereafter under Section 142(d) of the Code to prime 4% LIHTC.
- **More taxable versus tax-exempt debt** and a **higher volume of tax credits in the market may adversely affect proceeds** in a given financing.
- Let’s make some assumptions and come up with some **very general guesstimates**.

Possible Adverse Impact on Debt-Side Proceeds

- **Pre-Conversion Phase.** Assume the first deed of trust loan amount is 65% of the capital stack (*i.e.*, of total development cost (“TDC”) through Conversion) then dropping to 35%.
 - Assume 25% of the capital stack is tax-exempt variable rate; 40% of the capital stack is **taxable** variable rate, 100 basis points higher.
 - Assume 36 months to Conversion – an additional 100 basis points of interest expense on 45% of the capital stack = additional interest = 1.35% of TDC.
 - Assume project is placed in service at month 24: 2/3 of this additional interest will be includable in the tax credit basis; thus, the **borrower will get back about 40% of this 2/3** of the additional interest in the form of additional 40% LIHTC syndication proceeds.
 - **Net result: negative hit to debt side** proceeds during **Pre-Conversion** phase of **about 1% of TDC**.

- **Post-Conversion Phase.** Assume: debt = about 40% of our capital stack. Assume: underwriting on the permanent debt uses a 40-year amortization (generally to a 17- or 18-year balloon).
 - Assume: amount of our perm **debt equal to 15% of TDC is now taxable** (25% is tax exempt), at an assumed rate **100 basis points higher**.
 - At current interest rates, if each 8 basis points increase in the rate on a debt service constrained loan shrinks proceeds by about one point = shrinkage of about 12.5% on the taxable portion of our permanent debt.
 - Aggregate result – **Post-Conversion:** $12.5\% \times 15\% \text{ of TDC} = \mathbf{1.90\% \text{ of TDC; lost debt side proceeds.}}$
- Together, **lost proceeds – Debt Side, Both Phases – equal about 3% of TDC.**

Possible Adverse Impact on LIHTC Proceeds

- Assessing the adverse impact of the substantial increase in the supply of low-income housing tax credits without a comparable increase in demand is much more difficult.
- Assume that the 4% LIHTC (40% of TDC) and state tax credit proceeds (now in 31 states) (10% of TDC) before the OBBBA would have syndicated for about 50% of TDC.
- If we have lost 5% (5 cents) in pricing on LIHTC proceeds which account for 50% of our capital stack = a **loss of another 2.5% of TDC.**

Summary of Possible Adverse Impacts

- **Total loss of proceeds** on a particular financing in a post-OBBBA world might be **about 5-6% of TDC**.
- Assume **taxable interest rates only 50 basis points higher** than tax-exempt and **hit to LIHTC pricing only 2 or 3 cents**, then **aggregate proceeds hit perhaps only 2.5-3.0% of TDC**.
- And the **adverse impact would be lower** to the extent volume allocators **do not drop the 50% Test all the way down to 25% or 30%**, or only do so over time.
- It seems likely that these adverse impacts on proceeds will only partially offset the substantial major positive aspects of the OBBBA provisions in volume constrained states, but the **emergence of this additional funding gap** on a typical project **will need to be taken into account** and planned for by borrowers in advance.

Six Possible Proceeds Enhancers in a 25% Test World

1. Amortize “Taxable Tail” Debt Component before Tax-Exempt Debt.

- Most bond counsel will allow amortization of taxable debt on the front end before tax-exempt.
- Shortens taxable tail maturity, makes taxable debt more marketable and lowers overall interest rate on the borrowing.

2. When available, substitute Tax-Exempt Recycled Bond Proceeds for a part or all of a Taxable Tail.

- May lower interest rates on that component of the debt by 50-100 basis points.

3. Adding Short Term Tax-exempt Cash Backed Bonds to Front End Tax-Exempt Perm Loan Private Placements – This Still Works!

- Works especially well for projects in QCT or DDA with longer construction/rehab periods.
- Additional Net Cash to cover project costs where Bond Counsel allows a “blended yield” approach to arbitrage compliance as most now do and increased 4% LIHTC basis and proceeds. **The additional Net Cash may fall from over 2.5% of total development cost (“TDC”) for some recent financings to 1.0 – 1.5%, of TDC, but can still be a significant gap filler!**

4. On Fannie Mae or Freddie Mac Credit Enhanced Public Offerings, Ask Bond Counsel to Treat the Publicly Offered Long-Term Credit Enhanced Bonds with any Short-Term Cash Backed “Side-Car” Bonds to meet 25% to 50% Test, as applicable, as a Single Bond Issue under Section 148 of the Code.

- Allows the Borrower to use what has been up to 60-70% basis points of Positive Arbitrage on Short-Term Tax-Exempt Cash Backed Bonds to offset some or all of up to 100 basis points of Negative Arbitrage on the Long-Term Bonds, Fannie Mae or Freddie Mac Backed Bonds.
- **Saved \$350,000 on a recent \$22 million financing (1.5% of Bond Amount).**

5. On an Acq/Rehab Project with a Large Assumable Low Rate Loan or Loans, there are multiple steps, which can effectively allow treatment of a portion of the assumed debt as a use of tax-exempt bond proceeds to satisfy the 25% to 50% Test.

- Possible small hit to LIHTC syndication proceeds, but the **aggregate interest rate savings on one very low rate assumed loan in a recent financing was 15% of the capital stack!**
- Involves a complex funding sequence and very careful advance planning, but is **now accepted by some leading bond counsel and tax credit counsel firms.**

6. Other Steps Under Development:

- As the markets for publicly offered investment grade rated muni bonds continue to improve, **we have other structures under development** which may soon emerge and provide even further improvement in tax-exempt affordable multifamily rental housing bond executions.
- Remember: **We love Zoom calls** and are **always glad to chat** (without turning a meter on)!

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