

Impact of Recent Legislation on Bond Financed Projects

- Opportunity created by H.R. 1
 - Reduction in “finance-by” test from 50% to 25%
 - Effective as of 1/1/26
 - Same amount of PABs can finance more projects
- Challenges include
 - By reducing PABs, interest cost increases, especially for the permanent loan financing
- Solution is Recycled Bonds



What are Recycled Multifamily Bonds

- Recycled bonds are previously issued PABs which are repaid from a loan repayment.
- Recycled bonds do not count toward the 25% “financed by” test for Housing Tax Credits
- Recycled bonds provide an additional source of tax-exempt debt that is not new money



Volume Cap Recycling Rules

Section 146(i)(6) of the Tax Code

Key Timing Rules:

- 6-month period for recycling
 - New loan must be made within six months of the date of repayment of the prior loan
- 4-year Issue Date Rule
 - New bonds cannot be issued later than four years from original issue date
- 34-year Maturity Rule
 - New bonds cannot mature later than 34 years from original issue date

“Irrespective of Obligor”/Issuer



Volume Cap Recycling Limitations

New Loan only for qualified residential rental projects (142(D))

Timing: Need notice!

- Issuer must draw on the line of credit prior to the loan repayment

One and Done

- Can only Recycle Once (only one refunding of the refunded bonds)
- Impact of Reissuances/Refundings

Public Approvals

- New bond issue must have TEFRA Approval in accordance with Section 147(f)

LIHTC: Recycled Bonds do **not** satisfy the 25% Test (42(h)(B)(ii))

Recycled Bonds Must Be Drawn in One Lump Sum at Closing

- Potentially creates additional project interest costs



Impact of Taxable Tail on Permanent Loan Sizing

Sample Deal Illustration

Assumptions

NOI	\$2,306,811	Closing Issuer Fee TE Only	0.20%
DSCR	1.15	Annual Issuer Fee TE Only	0.10%
Amort	40	Recycling Fee	0.50%
TE Bond Rate	6.00%		
Taxable Rate	6.60%		

Elim. Taxable w/ Recycled TE Bonds

<u>Taxable Tail %</u>	<u>Perm Rate</u>	<u>Rate Increase</u>	<u>Loan Sizing</u>	<u>Loan Reduction</u>	<u>Taxable Tail Amt</u>	<u>Cost of Recycling</u>	<u>Net Benefit of Recycling</u>
0%	6.100%		\$30,000,012				
10%	6.150%	0.050%	\$29,812,466	(\$187,545)	\$2,981,246.64	\$20,868.73	\$166,676.53
20%	6.200%	0.100%	\$29,626,842	(\$373,169)	\$5,925,368.49	\$41,477.58	\$331,691.65
30%	6.250%	0.150%	\$29,443,115	(\$556,896)	\$8,832,934.60	\$61,830.54	\$495,065.82
40%	6.300%	0.200%	\$29,261,261	(\$738,751)	\$11,704,504.38	\$81,931.53	\$656,819.23

* Note blended perm rate is assumed to be weighted average of TE and taxable rates

* Note: does not consider construction period savings, or cost during construction period of full funding at closing requirement for recycled bonds



COLORADO - CHFA Recycled Bond Initiative Goals

- Create more affordable rental housing in Colorado with our limited PAB resources
- Reduce the borrowing costs for developers of multifamily affordable rental housing
- Encourage maximum industry participation
- **Window of opportunity is limited to the next three or four years**



CHFA Bond Recycling Strategy and YTD Results

Strategic Goals for Recycled Bond Usage

- Pipeline projects, utilize recycled PAB to supplant “new” PAB
- Reduce financing gaps by lowering interest costs and/or increasing debt capacity
- Finance other affordable housing projects

YTD Results

- \$59.1MM Bonds Preserved (30 day pipeline is another \$44.6MM) = Tot. \$103.7MM
- \$42.6MM Bond Recycled (45 day pipeline is another \$34.6MM) = Tot. \$77.2MM
- \$42.6MM **PABs Saved** (45 day pipeline is another \$30.9MM) = Tot. \$73.5MM



FAQ – Recycled Bonds

Can recycled bonds be issued as drawdown bonds?

- No. Recycled bonds must be fully funded on the issuance date.

Can bonds preserved from one issuer be recycled into a project with a different issuer?

- Yes, so long as the issuers are within the same state.

Can recycled bonds be used for both new construction and acq/rehab projects?

- Yes

Do recycled bonds count toward the 25% test (formerly, 50% test)

- No, only new money PABs count toward the 25% test.



FAQ – Recycled Bonds

Can bonds be preserved after a loan repayment is made?

- No. A draw on Line of Credit by recycling issuer must be made prior to the loan repayment in order to preserve bonds in connection with a loan repayment.
- This is why lead time and notice is critical.

Can bonds preserved from a project be recycled into more than one new transaction?

- Yes, preserved bonds are not limited in the number of projects they can be recycled into.
Similarly, a new project may recycle bonds which were preserved from multiple projects.

