

Date: March 19, 2026

Subject: Revised Bond Test Policy

INTRODUCTION

The fiscal year 2025 reconciliation bill (H.R. 1) was signed into law on July 4, 2025. The bill describes several housing provisions including a provision that lowered the private activity bond financing threshold from 50% to 25% of aggregate basis for buildings placed in service after December 31, 2025, as long as at least 25% of the aggregate land and building costs are financed with private activity bonds issued after December 31, 2025.

PENNSYLVANIAN CONTEXT

State housing allocation agencies across the country are creating policies describing how they will administer the tax-exempt volume-cap program considering the new 25% Bond Test requirement. In the Commonwealth of Pennsylvania, PHFA looked at the total expected multifamily volume cap demand in the Commonwealth over the next few years and the capital stacks for recently completed bond developments and/or applications currently at the Agency. Due to the increased demand in the multifamily volume cap program, lowering the bond test threshold will help spread the limited resource of tax-exempt volume cap to more developments across the Commonwealth of Pennsylvania and hence create and/or preserve more affordable units. Additionally, more developments will be able to qualify for 4% credits using fewer tax-exempt bonds.

REVISED 25% TEST POLICY

As a result of the provision to lower the private activity bond financing threshold, the Agency will require that all 4% Tax Exempt Volume cap applications follow the revised policy as shown below:

- Tax-Exempt Volume cap should not exceed the greater of 25% - 35% of the project's aggregate eligible basis or the amount of maximum permanent supportable debt
- For those deals where the maximum permanent supportable debt exceeds 35%, the developer must work with the Agency to determine if Agency tax-exempt and taxable products can help reduce the amount of volume cap needed and/or if there is another mechanism to reduce the amount of volume cap needed
- To qualify for volume cap, preservation, rehabilitation or conversion projects must have construction costs of at least 30% of replacement value; projects with construction costs of 40% or less of replacement value will only be permitted to finance 30% of the aggregate eligible basis of the project with tax-exempt volume cap.

TIMELINE

Therefore, retroactive to January 1, 2026, all applicants submitting an Intent to the Submit for the Tax-Exempt Bond / 4% LIHTC program to PHFA must structure the development project's ("Project") capital stack in a manner that meets the above policy. Qualified Projects (subject to compliance with program guidelines, underwriting requirements, availability of volume cap, and successful cost certification) will receive 4% LIHTCs in conjunction with the tax-exempt bond program.

Unclosed projects that had Board approval at or above the 50% bond test prior to December 31, 2025 and/or projects where the full application was submitted to the Agency prior to December 31, 2025 must close by July 31, 2026 in order to have a bond test that exceeds 50%.