As you prepare for upcoming 4% LIHTC transactions, we want to share IHDA's approach to implementing the new **"25% Test" effective January 1, 2026.**

Background

Federal legislation enacted in 2025 lowered the minimum Private Activity Bond (PAB) financing requirement from 50% of the sum of the aggregate eligible basis and land to 25%. This change reduces the amount of tax-exempt bonds required for 4% LIHTC eligibility, with significant implications for transaction structuring. Formal volume cap guidance will be incorporated into IHDA's Underwriting Standards Guide within the next month. This bulletin is intended to provide advance notice to help sponsors prepare.

IHDA Policy (Effective for Closings on or after January 1, 2026)
IHDA will allocate multifamily Private Equity Bonds to 4% LIHTC transactions in an amount equal to the ***greater of***:

- 30% of the sum of the aggregate eligible basis and land, or
- Supportable permanent debt.

This framework balances two objectives:

- Ensuring projects can close efficiently without relying on higher-cost taxable debt.
- Conserving volume cap resources while adapting to the new 25% federal threshold.

Key Takeaway for Developers: For all new 4% LIHTC applications, sponsors should anticipate bond allocations consistent with the policy above.

We encourage development teams to factor this framework into their forward planning. IHDA will continue to monitor market conditions and provide further guidance as implementation approaches.

Please direct any questions to MultifamilyFin@ihda.org.

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