

THE HFA INSTITUTE 2025

Maximizing the Impact of Tax-Exempt Bond Financing



National Council of
State Housing Agencies



**MRBs and
Other Federal
Homeownership
Programs**
JANUARY 15 – 17



Housing Credit
JANUARY 14 – 16



**Section 8 and
Other Federally
Assisted
Multifamily
Housing**
JANUARY 15 – 17



**HOME and
Housing Trust
Fund**
JANUARY 12 – 14



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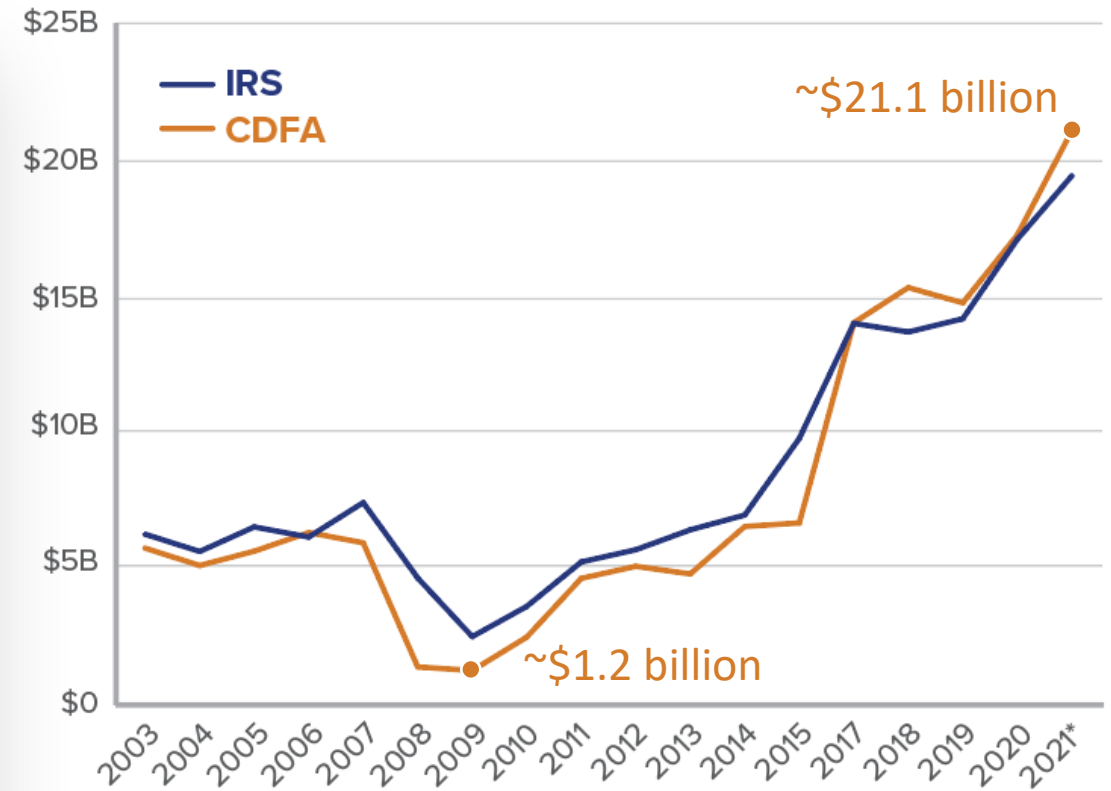
**HOME and
Housing Trust
Fund**
JANUARY 12 – 14



www.novoco.com/notes-from-novogradac



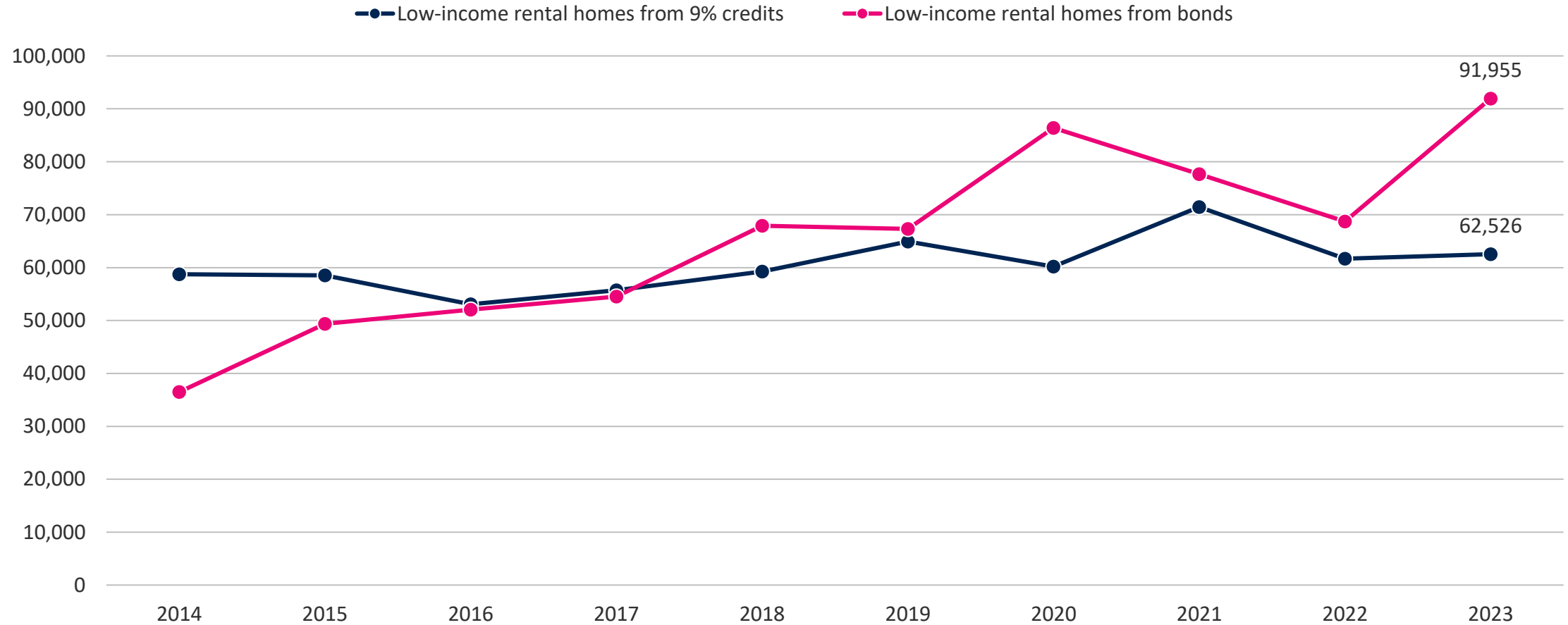
IRS Compared to CDFA Multifamily PAB Issuance



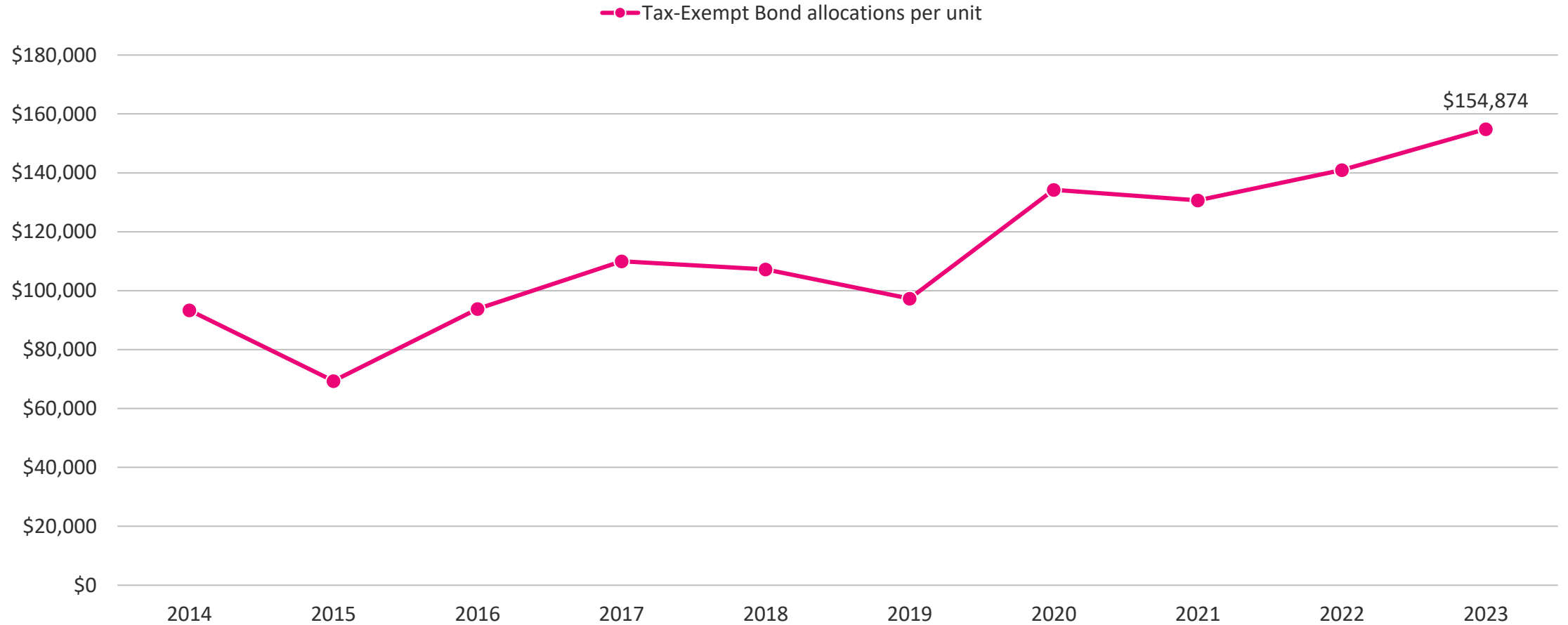
*2021 CDFA datapoint is an estimate

Source: CDFA; IRS; Novogradac

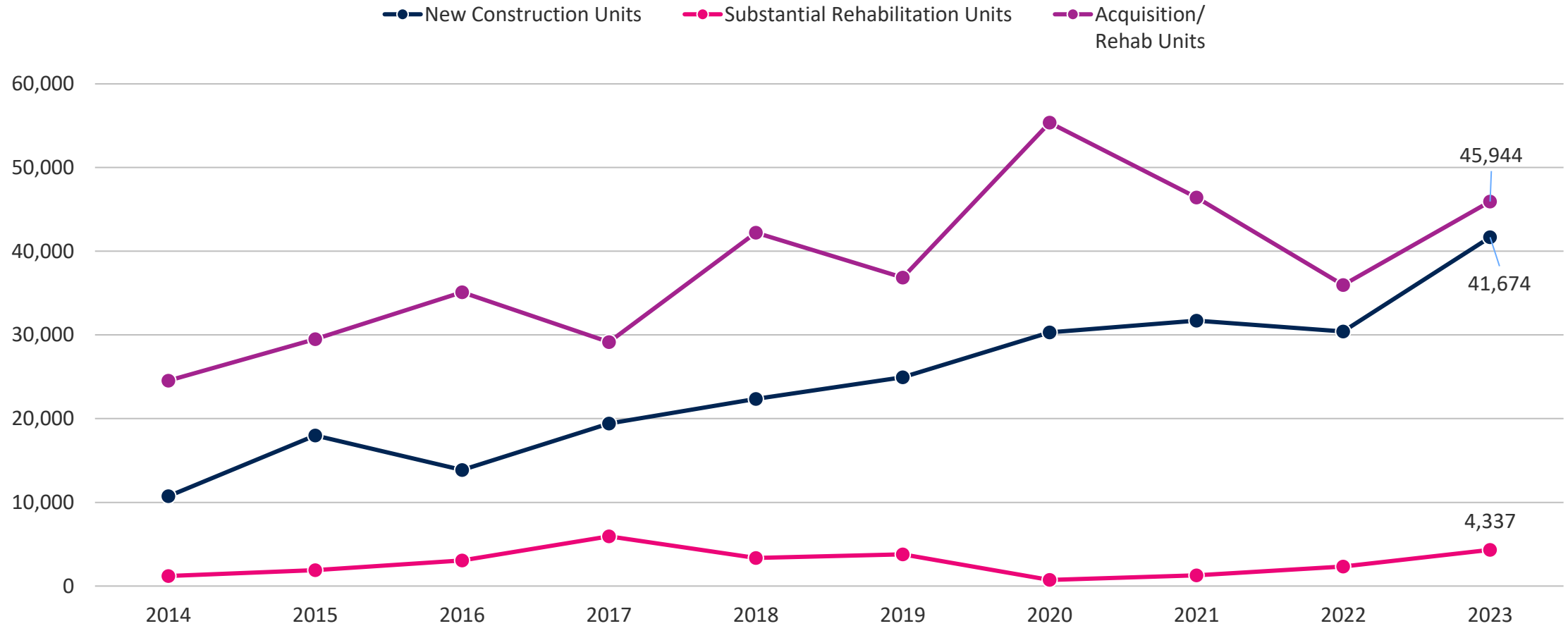
Low-Income Rental Homes from 9% Credits and Bonds



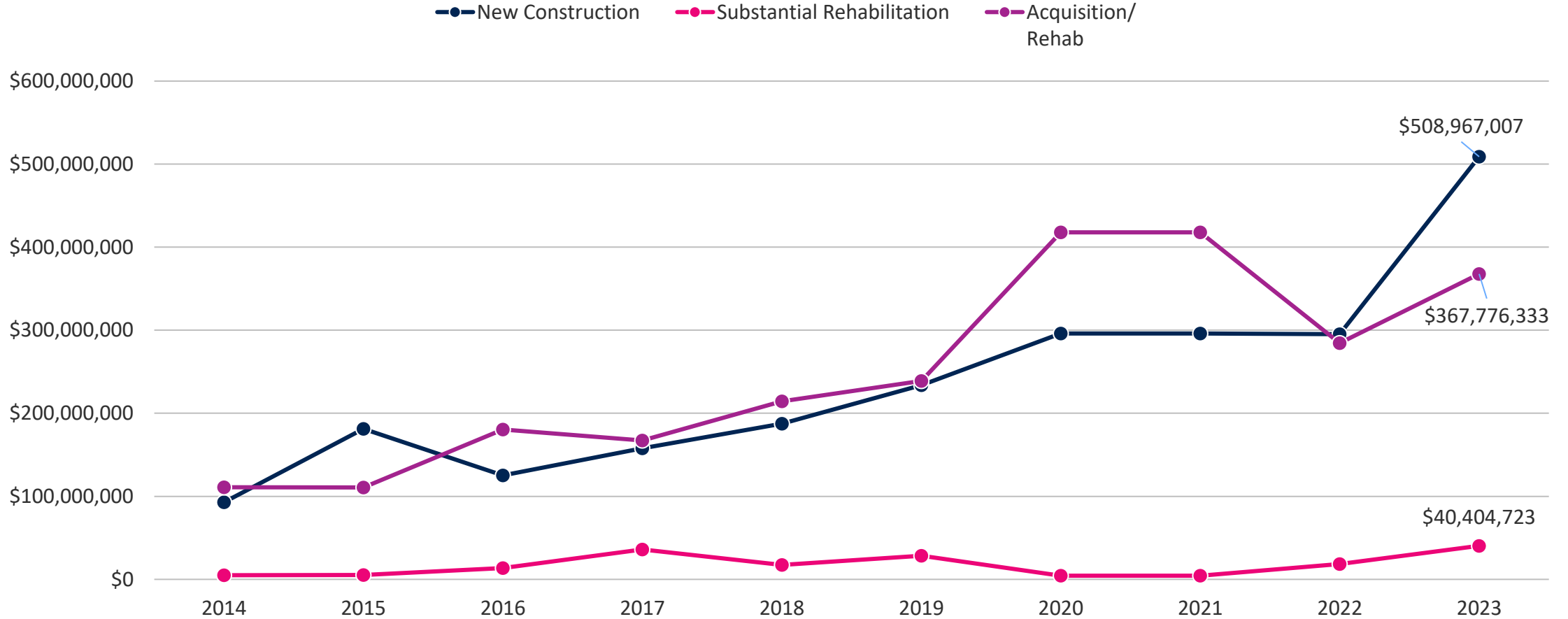
Bond Allocations per Unit Over Time



Bond Units by New Construction, Substantial Rehab and Acq/Rehab



Bond Allocations by New Construction, Substantial Rehab and Acq/Rehab



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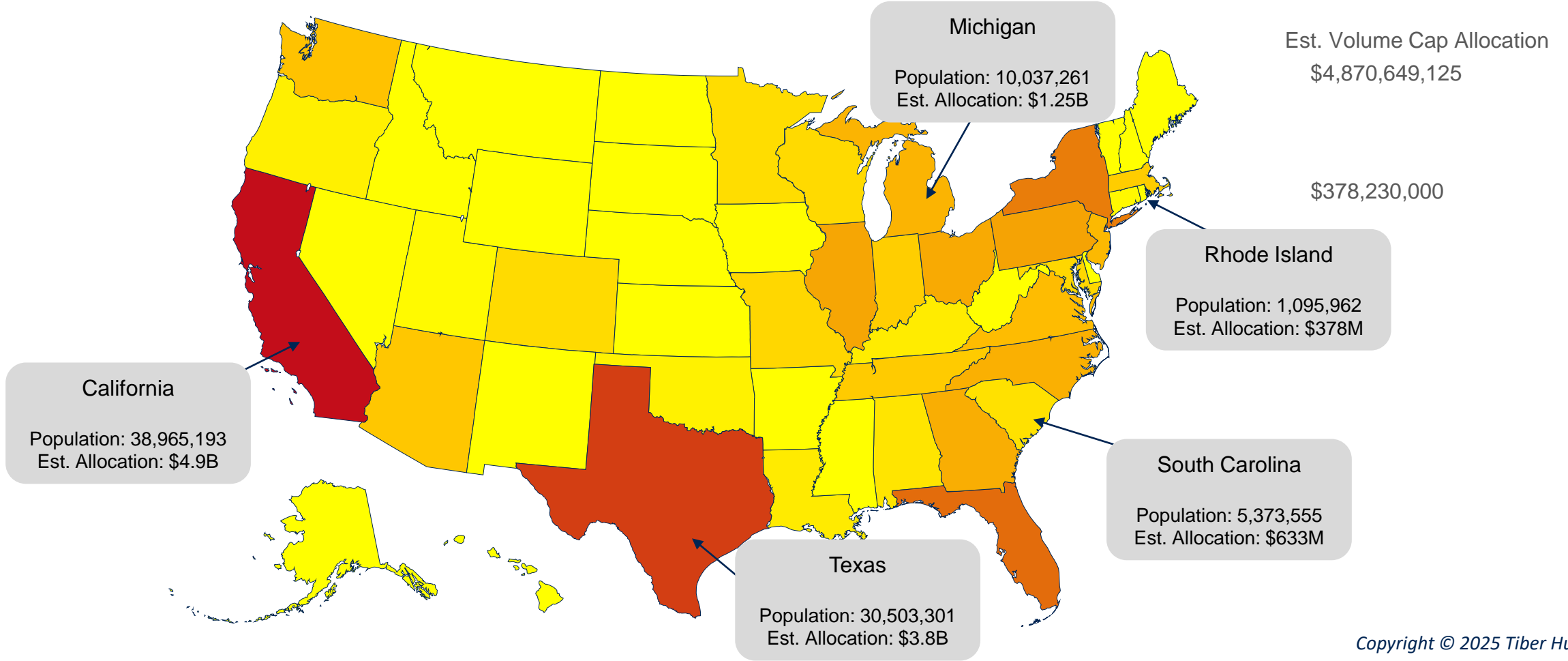


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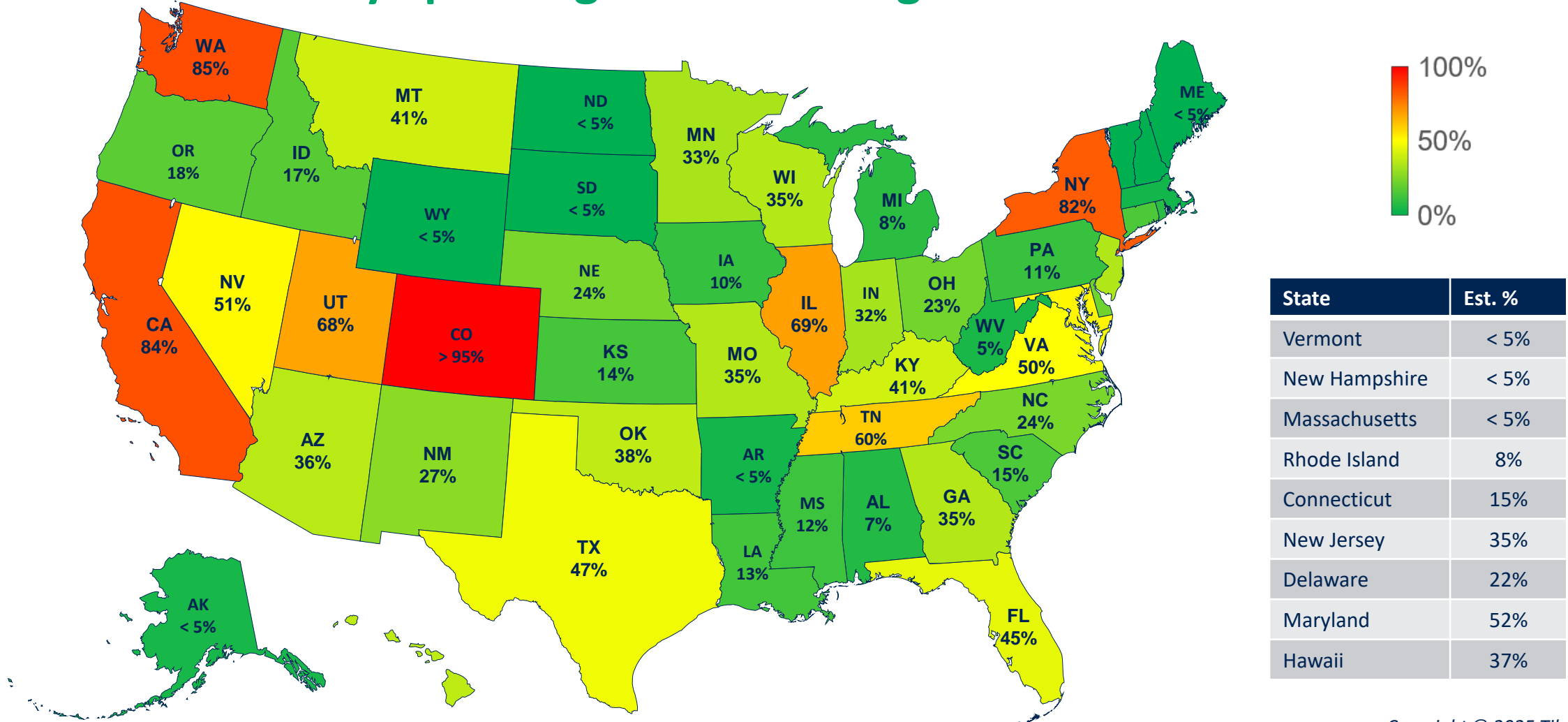


Private Activity Volume Cap Allocation By State

2024 Volume Cap: \$125 per capita or \$378,230,000 minimum for small states.

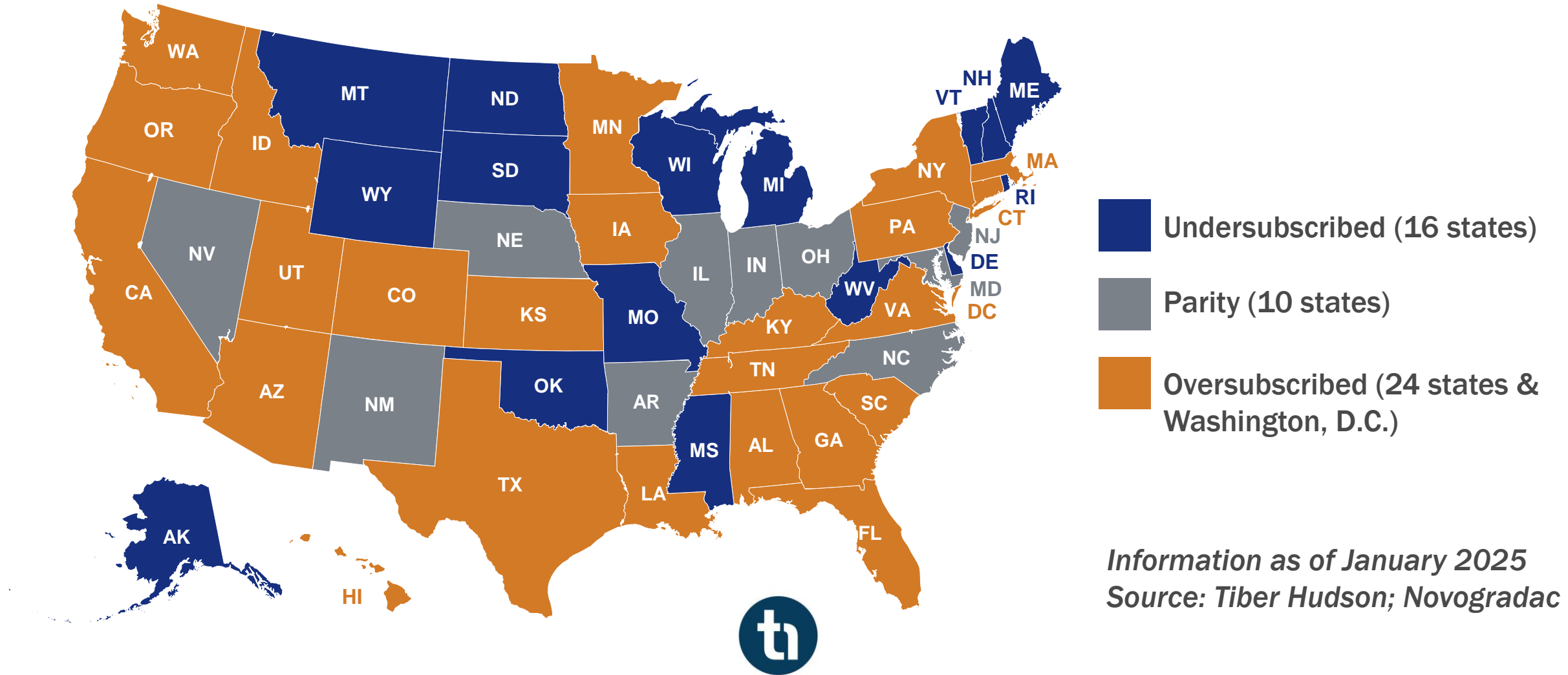


Est. Multifamily Spending as a Percentage of Total PAB Allocation



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Multifamily Volume Cap Scarcity



Information as of January 2025
Source: Tiber Hudson; Novogradac



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Preserving Volume Cap

- Limit volume cap to 55-60% of aggregate basis
- Bifurcate transactions that are less than 100% affordable
- Obtain forward or multi-year volume cap allocation
- Twinning 4% and 9% deals
- Use recycled bonds for additional supportable debt above amount needed for 50% test

Recycled Bonds

- Enables issuers to (i) reuse tax-exempt debt without tapping into scarce private activity bond volume cap and (ii) continue receiving applicable issuer fee revenue
- Provides for tax-exempt financing for non-LIHTC deals, and additional tax-exempt financing when bond volume cap is limited for LIHTC deals
- Enables developers to access lower cost of funding compared to taxable alternatives
- Despite some complexities in administration of the program, creative solutions have been developed by Tiber Hudson to minimize costs and use of issuer resources
- Can be issued in conjunction with variety of bond structures, including M-TEMS / M-TEBS and Cash-Backed Forward (further details herein)

Non-LIHTC Debt Options

A variety of debt options are available in the current marketplace for the financing of affordable housing in the absence of low-income housing tax credits (“LIHTC”). These can be structured in a variety of ways, including:

1. Shorter term lengths than tax-exempt debt in LIHTC transactions because not governed by LIHTC rules
2. As Fannie Mae M-TEMS / M-TEBS (as hereinafter discussed)

Bond Type:	501(c)3	Essential Function	Recycled	Current Refunding	Taxable
Volume Cap Required:	No	No	No	No	No
Eligible For LIHTC:	No	No	No	No	No
Ownership Type:	501(c)(3) Entity <i>(100% ownership required)</i>	Governmental Entity	Any	Any	Any
TEFRA Required:	Yes	No	Yes	No*	No

* If certain requirements are met

LIHTC Accounting Considerations

- Bond issuance and related financing costs incurred in connection with development of a LIHTC project are includible in eligible basis*
 - Includible as indirect costs required to be capitalized in adjusted basis under IRC Section 263A
 - Applicable regardless of whether bonds are taxable or tax-exempt
- Earnings on bond proceeds count towards 50% test**
- 266 election can allow bond interest through completion to be included in eligible basis

* 23rd *Chelsea Associates LLC v. Commissioner of Internal Revenue*, 162 T.C. No. 3 (2024)

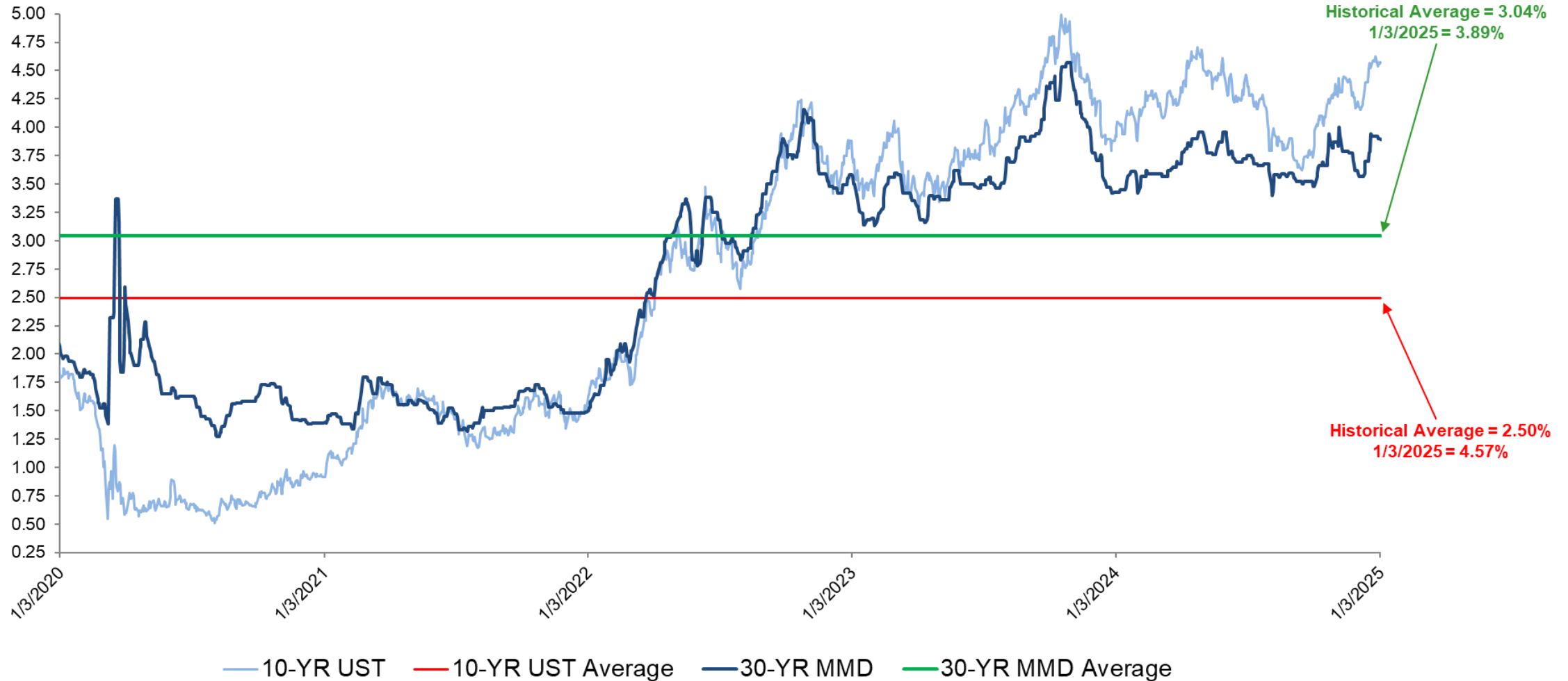
** *Rev. Rul. 2002-21*

How are 4% deals getting done?

- +/- 3 Years ago
 - QCT/DDA
 - Tax exemptions
- Today
 - Soft funding (ARPA, HOME, SHTF, NHTF, etc.)
 - Larger deferred developer fees
 - QAP increased developer fees (increases to eligible basis)
 - Cash-backed forwards
 - Construction interest rate caps/collars/swaps
 - Construction value-engineering/standardization
 - Maximizing solar (tax credits and OPEX savings)
 - Underwriting future rents

Important Market Indicators

Long-Term Rates – Past 5 Years 10 YR UST vs 30 YR MMD

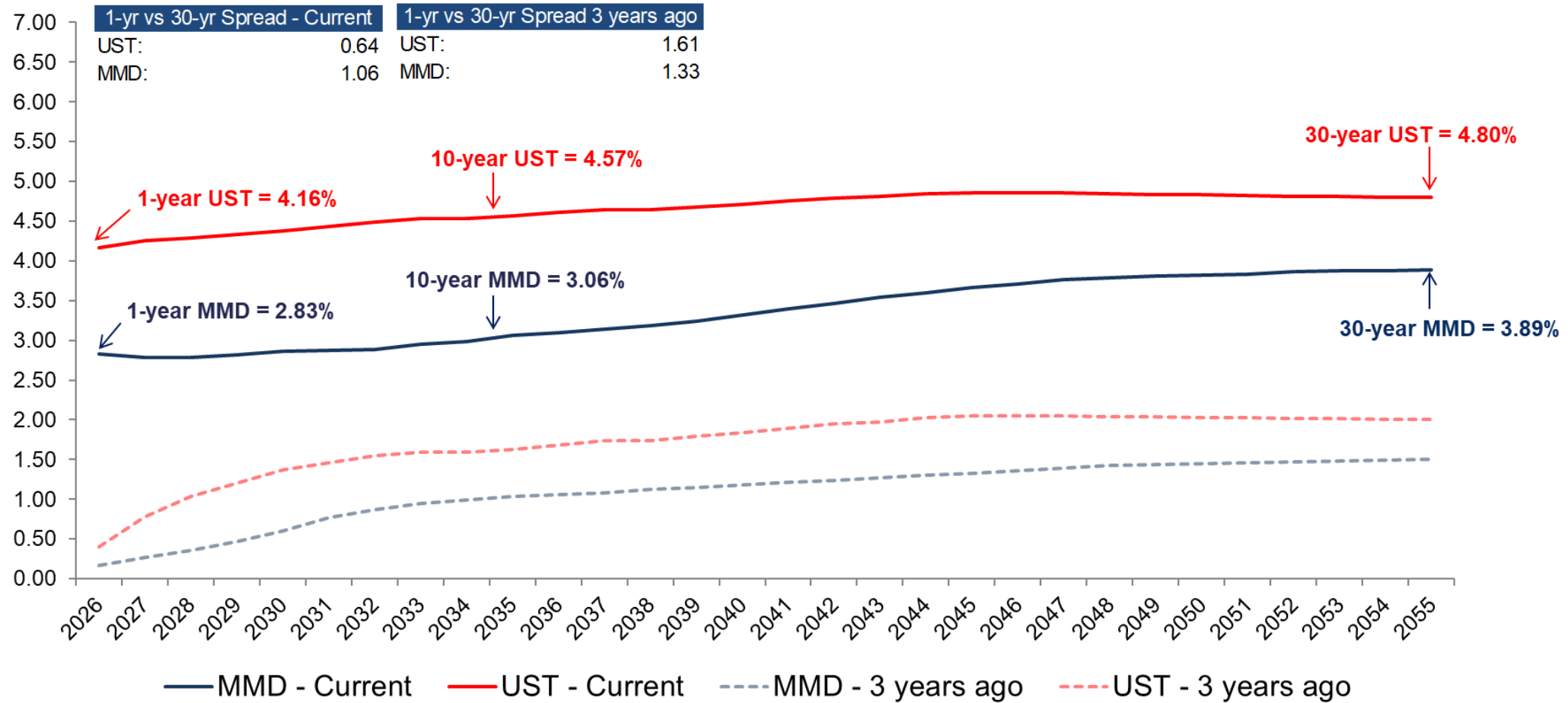


Source: Bloomberg, Thomson Reuters

Reflects market conditions as of January 3, 2025

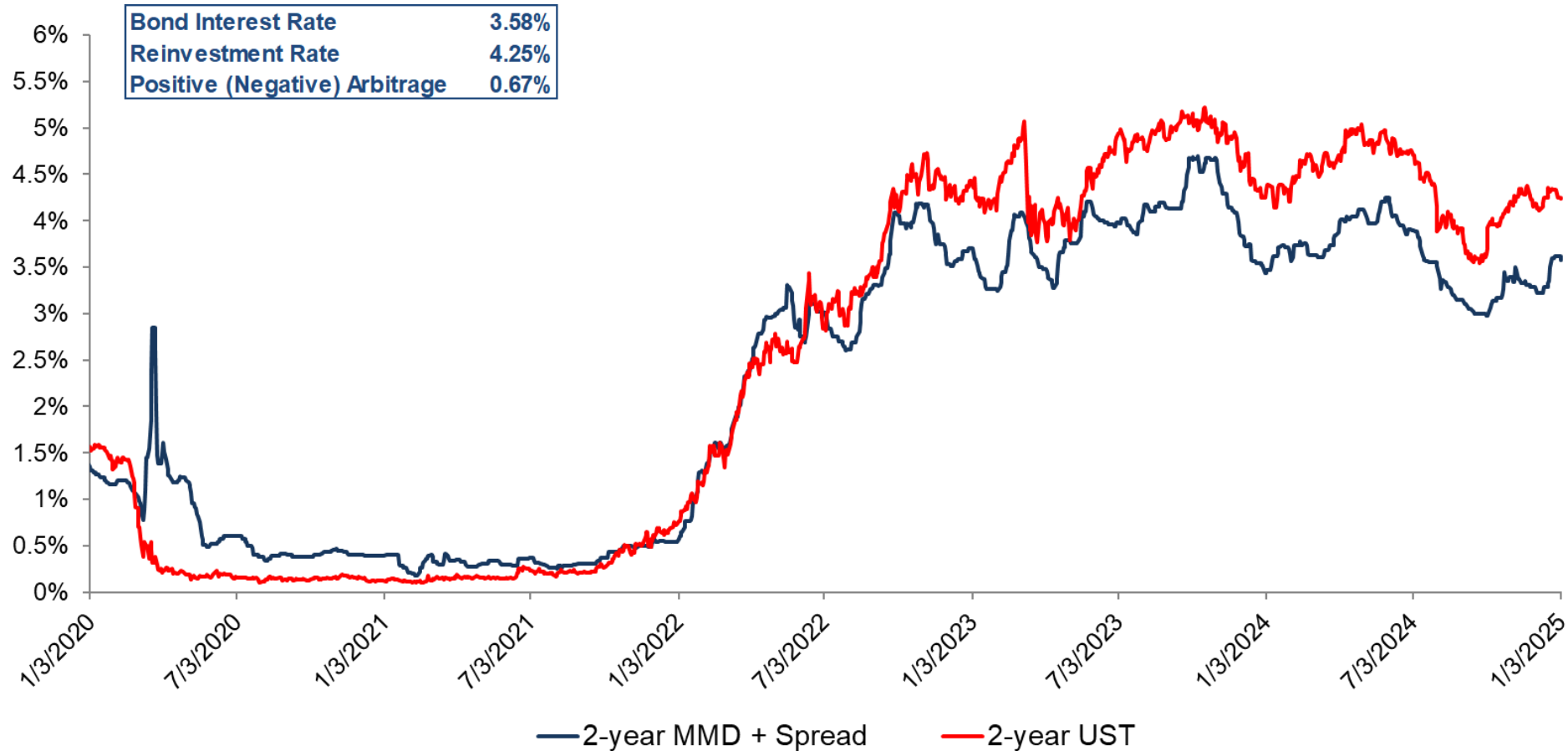
Thomson Reuters Municipal Market Data (MMD) AAA curve is a proprietary yield curve that provides the offer-side of AAA rated state general obligation bonds

Yield Curve: Taxable UST vs. Tax-Exempt MMD (as of 1/3/2025)



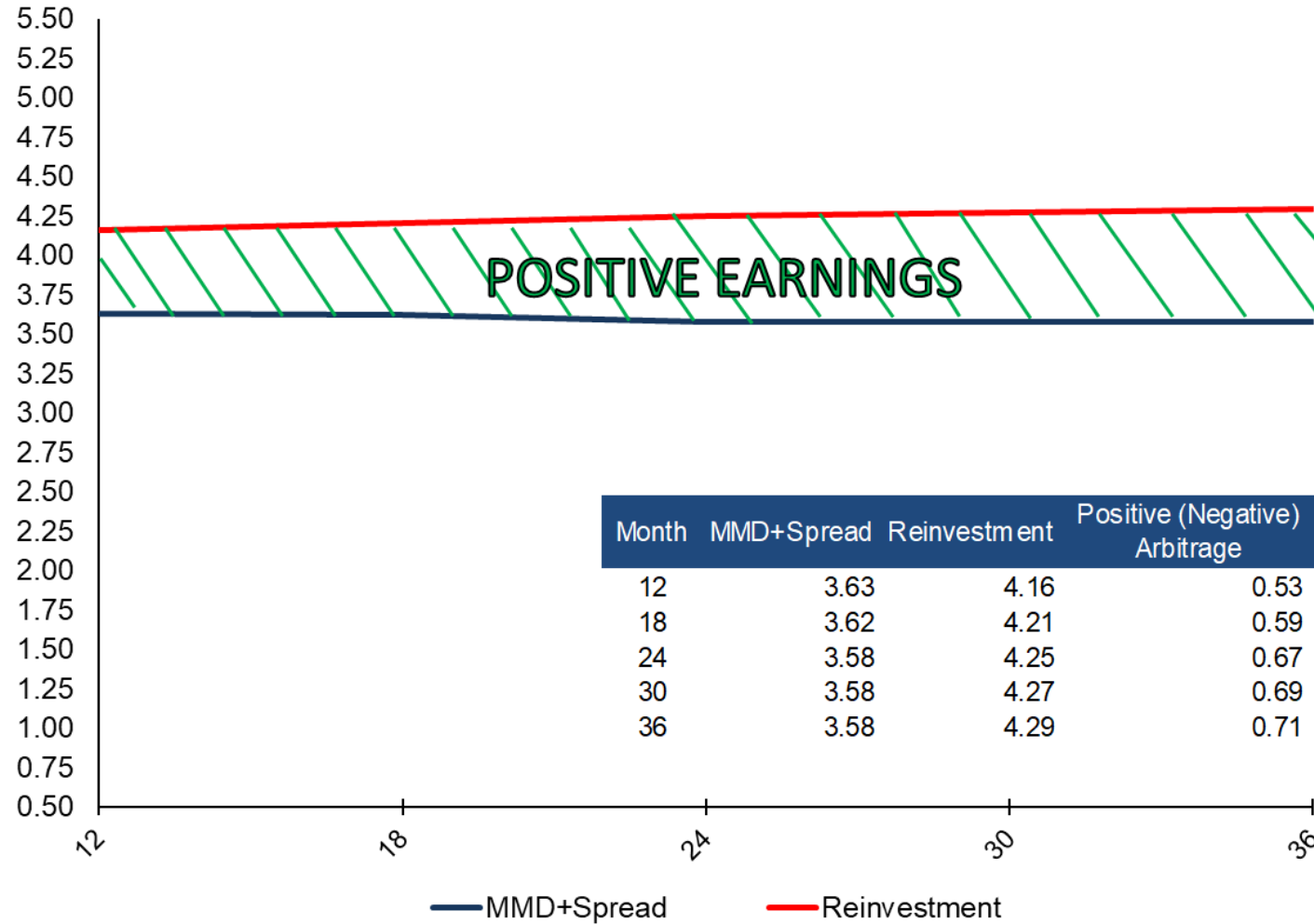
Source: Bloomberg. Thomson Reuters
 Reflects market conditions as of January 3, 2025
 Thomson Reuters Municipal Market Data (MMD) AAA curve is a proprietary yield curve that provides the offer-side of AAA rated state general obligation bonds

2-Year Short-Term Yield Curves - Past 5 Years



Source: Bloomberg, Thomson Reuters
 Reflects market conditions as of January 3, 2025
 Thomson Reuters Municipal Market Data (MMD) AAA curve is a proprietary yield curve that provides the offer-side of AAA rated state general obligation bonds

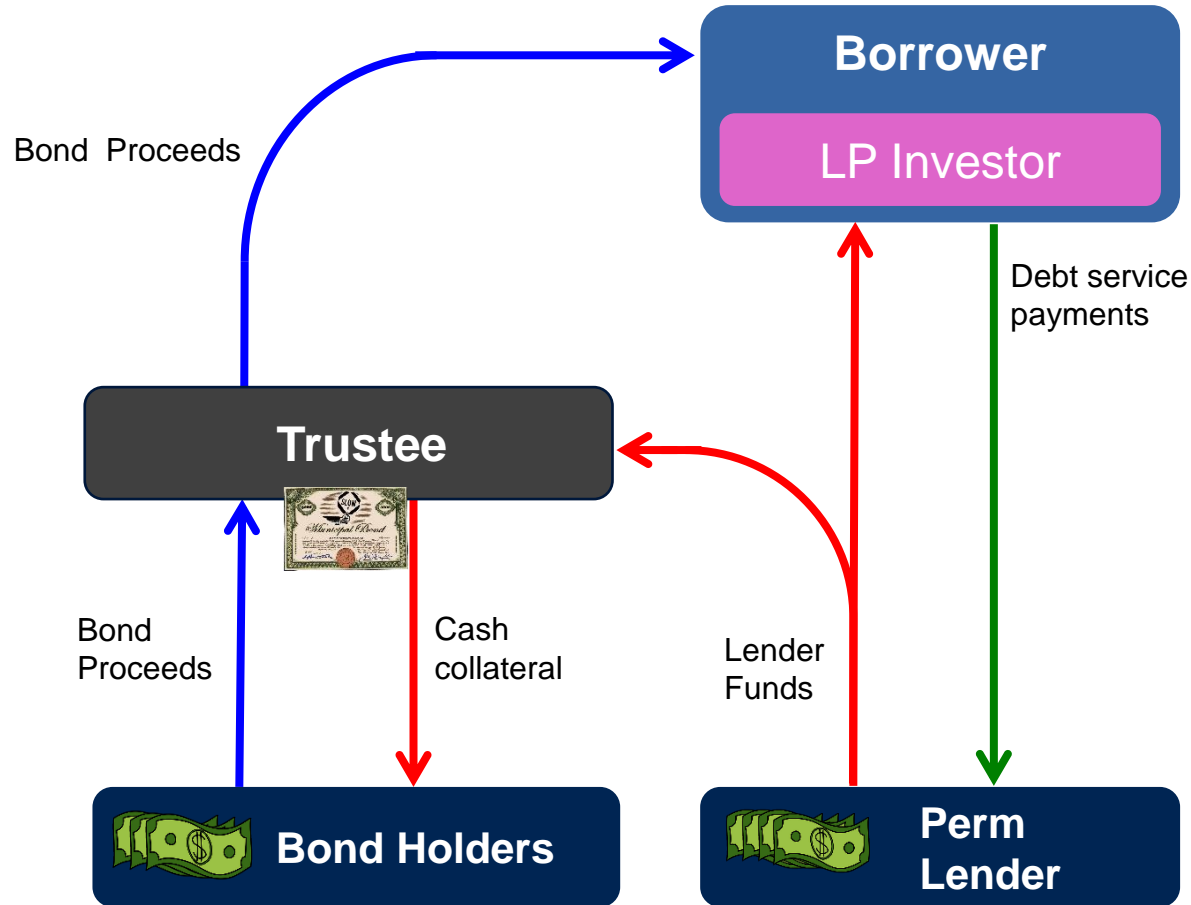
Short-Term Rates vs. Reinvestment Rates – 12 to 36 Months



Source: Bloomberg, Thomson Reuters
 Reflects market conditions as of January 3, 2025
 Thomson Reuters Municipal Market Data (MMD) AAA curve is a proprietary yield curve that provides the offer-side of AAA rated state general obligation bonds

Short Term Cash-Backed Structure

Short Term Cash-Backed Bonds



Short Term Cash-Backed Bonds

- **Bond Amount to meet 50% test < Taxable Loan Amount**
- No additional collateral needed!

- **Bond Amount to meet 50% test > Taxable Loan Amount**
- Need other collateral sources of funds including:
 - Subordinate Loan Proceeds
 - Seller Note
 - Tax Credit Equity Bridge

Cost Saving Features/Options

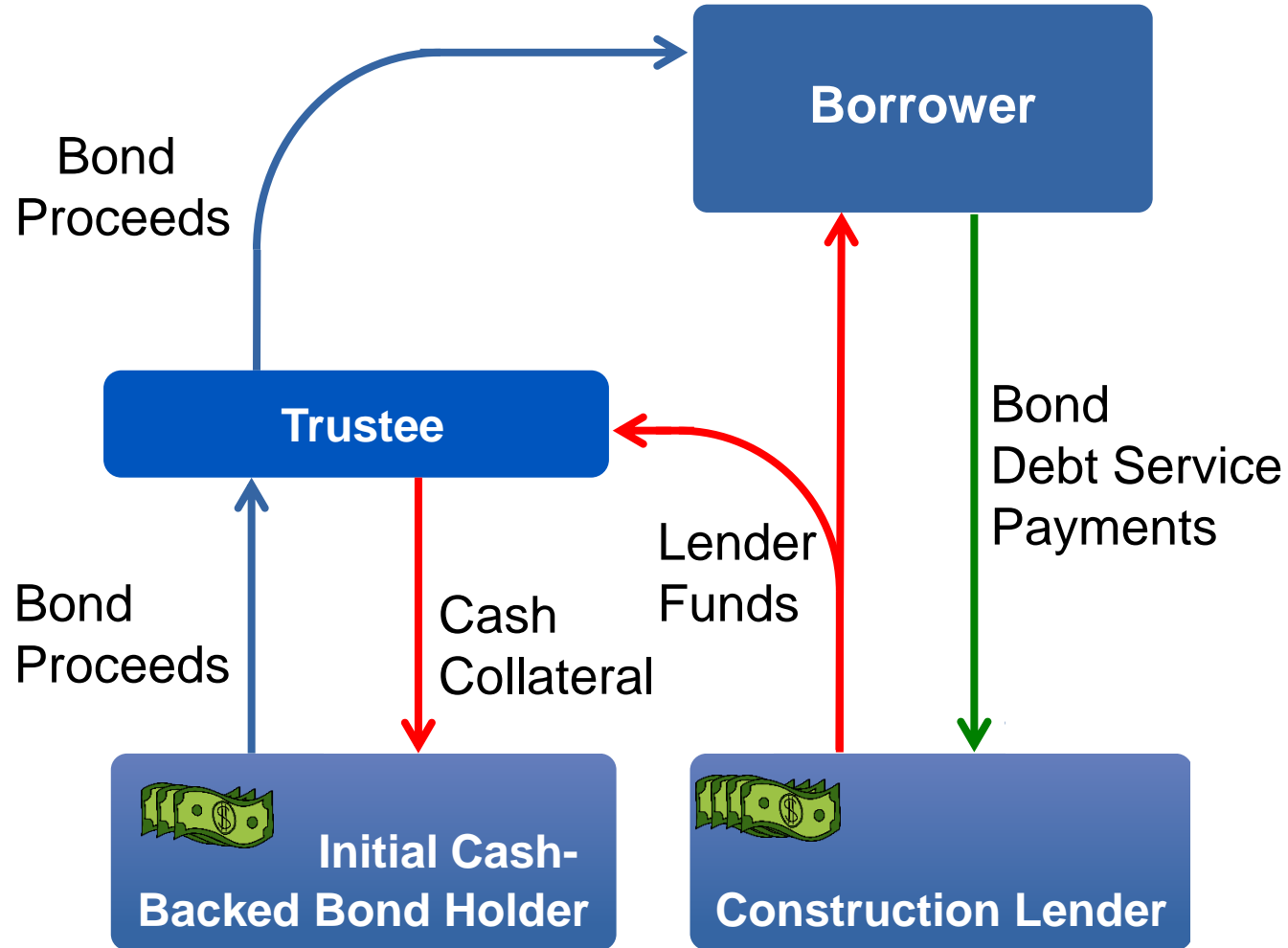
Methods to reduce transaction costs and generate more proceeds:

- Pooled financings – multiple projects with one aggregate bond issuance
- No long-term bond-related fees
- Several investment strategies by Tiber Hudson have helped to mitigate negative arbitrage
- 266 Election can generate additional tax credit equity by including bond and construction loan interest through construction completion in eligible basis*:

Est. Bond Par Amount:	\$25,000,000
Est. Bond Interest Rate:	3.60%
Est. Term to Completion	24 months
Est. Bond Interest Through Completion:	\$1,800,000
Est. Additional Equity (35%):	\$630,000

Cash-Backed Forward Structure

Cash Backed Forward



Cash-Backed Forward Benefits

1. Yield blending (subject to bond counsel approval) often results in ability to retain all or a portion of excess earnings on the cash-collateralized bonds
2. Additional equity generated when counting bond interest through completion in eligible basis*
3. Earnings on bond proceeds count towards 50% test
4. If bond amount > perm loan, allows other funds to be used as collateral (reduced construction loan)
5. Allows equity investor to also serve as construction lender without triggering program investment test

* Inclusion of bond and construction loan interest subject to approval from Developer's accounting firm.

Cash-Backed Forward Comparison

Summary of Overall Structure			
	Standard Draw-Down Bond Structure	Cash-Backed Forward	Savings*
Est. Positive Earnings	\$0	\$625,000	\$625,000
Est. Additional Equity	\$775,000	\$1,525,000	\$750,000
Est. Additional Costs of Issuance	\$0	(\$250,000)	(\$250,000)

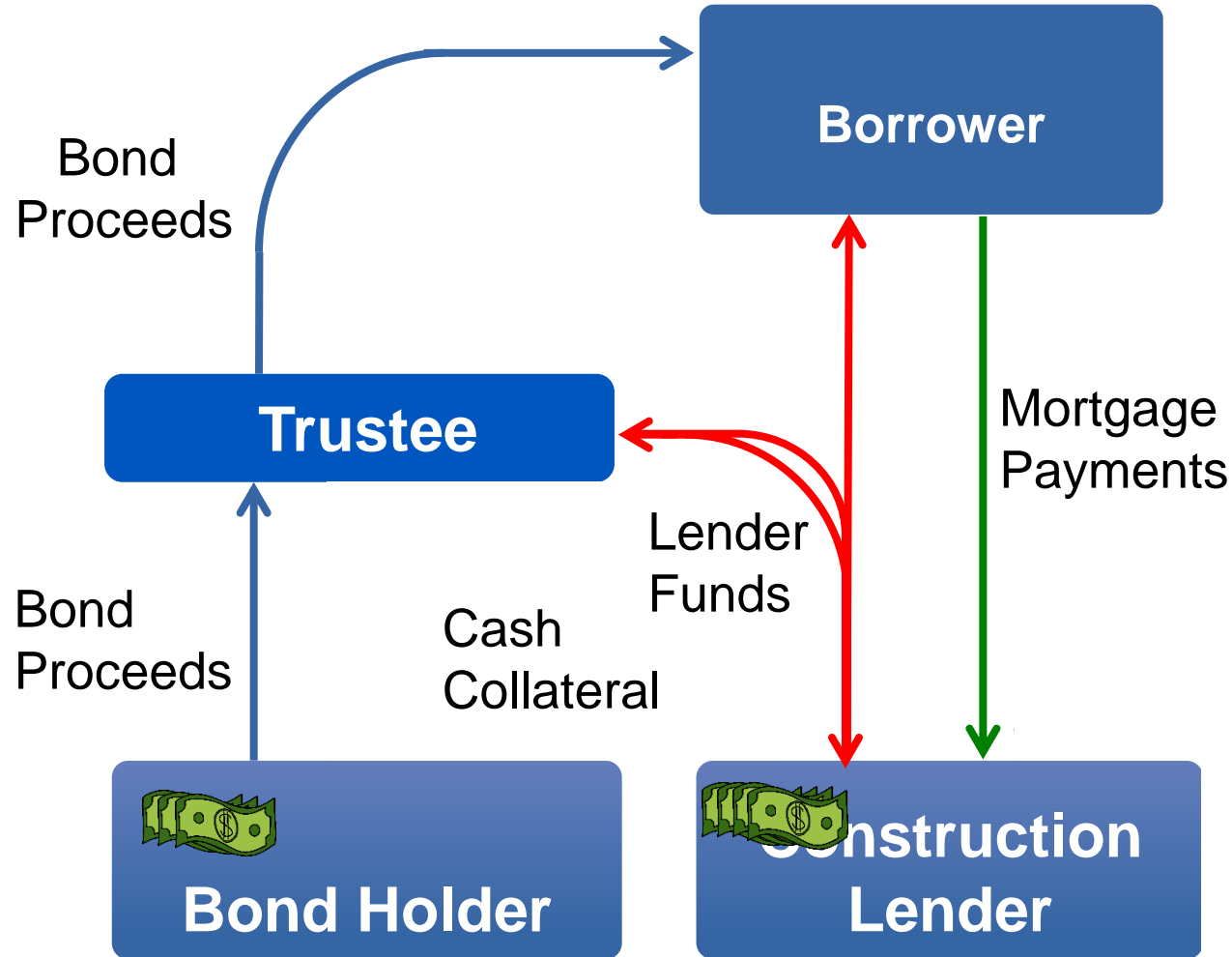
Est. Savings: \$1,125,000
*3.75% of Bond Amount***

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

** Assumes \$30mm bond amount

Fannie Mae Structures

Fannie Mae Forward MTEB



Additional Fannie Mae Products



GREEN
REWARDS



HEALTHY HOUSING
REWARDS



WORKFORCE
HOUSING



COST OF ISSUANCE
REIMBURSEMENT



PREMIUM BONDS

Fannie Mae M-TEB/M-TEM Overview

- Flexible interest-only period; 35-year amortization (40 years for some deals)
- Taxable supplemental or tax-exempt earn-out available
- Fully integrated bond and underwriting documents developed by Tiber Hudson can be utilized
- Current indicative rates:
 - Forward: nationwide - 4.75% bond rate, 5.65% mortgage; in California – 4.55% bond rate, 5.45% mortgage
 - Immediate: nationwide – 4.50% bond rate, 5.40% mortgage; in California – 4.30% bond rate, 5.20% mortgage

Current Market Estimates*	
Bond Rate:	4.75%
Investment Rate:	4.25%
Est. Negative Arbitrage	\$450,000

Market Estimates as of 1/1/22* (3 years ago)	
Bond Rate:	2.50%
Investment Rate:	1.25%
Est. Negative Arbitrage	\$1,125,000

* Assumes Forward M-TEB with 3-year initial term, \$30mm bond amount

Case Study: Residences at Government Center

Case Study: Residences at Gov. Center 2



Case Study: Residences at Gov. Center 2

- Fairfax County, Virginia
- 279 long-term affordable rental units
- Daycare & service facility— 15,000 SF
- Underground parking – 332 spaces
- Earthcraft Gold certified
- Rooftop solar array
- Community and resident amenities



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- Public-private partnership with Fairfax County
- Transforming under-utilized parking lot
- Front yard of Government Center
- 99-Year ground lease with FCRHA



Quadruplets – 9/4 – 9/4

- North Residences (NE9 & NW4)
 - 144 units
 - 9% carryforward award – June 2023
- South Residences (SE9 & SW4)
 - 135 units
 - 9% carryforward award – June 2024
- Closed all four phases – November 7, 2024
- Condominium structure
- Optimized Point Scoring for 9% deals based on Virginia QAP
- Allowed for flexibility of construction



Deal Name	Northeast 9%	Northwest 4%	Southeast 9%	Southwest 4%
Total Units	70	74	66	69
Sources				
LIHTC Equity	\$21,926,847	\$12,143,447	\$18,669,002	\$9,480,540
Perm Mortgage	11,006,000	12,734,000	10,498,000	11,000,000
Soft Debt (Fairfax Co.)	6,000,000	8,000,000	4,500,000	6,500,000
Short-Term Proceeds		2,403,270		1,800,180
Deferred Dev. Fee	2,232,397	2,440,320	2,354,810	1,280,949
Total Sources	\$41,165,245	\$37,721,037	\$36,021,902	\$30,061,669
Uses				
Hard Costs	\$31,188,204	\$24,966,454	\$26,872,949	\$19,392,319
Soft Costs	1,706,198	1,533,453	1,758,992	1,199,968
Financing Costs & Reserves	4,970,843	8,051,130	4,389,961	6,967,382
Developer Fee	3,300,000	3,170,000	3,000,000	2,502,000
Total Uses	\$41,165,245	\$37,721,037	\$36,021,902	\$30,061,669

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Deal Name	Totals
Total Units	279
Sources	
LIHTC Equity	\$62,219,926
Perm Mortgage	45,238,000
Soft Debt (Fairfax Co.)	25,000,000
Short-Term Proceeds	4,203,450
Deferred Dev. Fee	8,308,477
Total Sources	\$144,969,853
Uses	
Hard Costs	\$102,419,926
Soft Costs	6,198,611
Financing Costs & Reserves	24,379,316
Developer Fee	11,972,000
Total Uses	\$144,969,853



Financing the 4's (NW4 and SW4)

- Construction lender: Capital One Bank
- Permanent lender: Capital One Bank
- Bond credit enhancement: Freddie Mac
- Issuer: Fairfax County RHA
- Tax-exempt allocation:
 - \$19,350,000 – NW4
 - \$14,500,000 – SW4
- Cash-collateralized bonds
 - Generated \$1.1 million in additional LIHTC equity
- Rate-lock on construction loans
 - Generated LIHTC equity on 4% deals
 - Hedged rising construction period interest



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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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Legislative Initiatives



National Council of State Housing Agencies



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JANUARY 15 – 17



Housing Credit
JANUARY 14 – 16



Section 8 and Other Federally Assisted Multifamily Housing
JANUARY 15 – 17



HOME and Housing Trust Fund
JANUARY 12 – 14



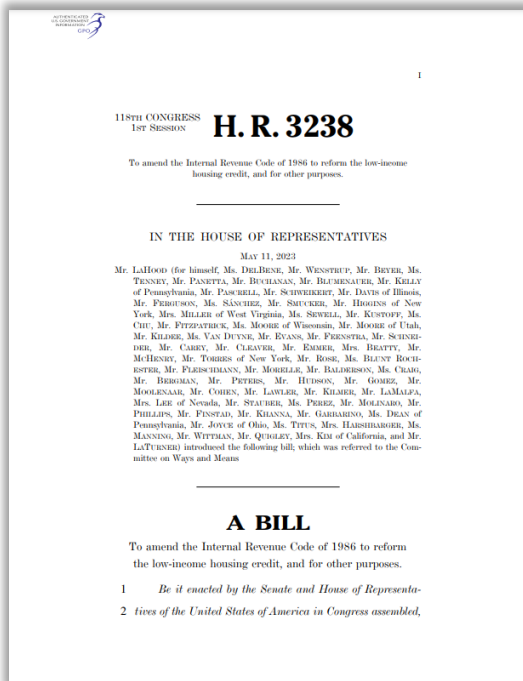
Affordable Housing Credit Improvement Act

117th Cosponsors : H.R. 2573: 71R 137D

118th Cosponsors : H.R. 3238: 121R 152D

117th Cosponsors : S. 1136: 11R 33D

118th Cosponsors : S. 1557: 17R 16D 1I
 23 Ds and 1 I were in the queue to cosponsor, so 59 Senators (17R, 40D, 2I) had registered their support for the bill



LAHOOD
R-IL



WENSTRUP
R-OH



TENNEY
R-NY



DELBENE
D-WA

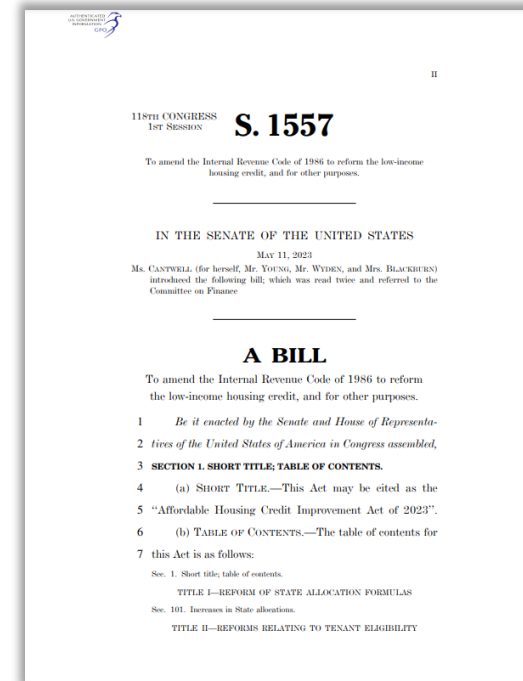


BEYER
D-VA



PANETTA
D-CA

Retired at end of
2024



CANTWELL
D-WA



WYDEN
D-OR



BENNETT
D-CO



YOUNG
R-IN



BLACKBURN
R-TN



TILLIS
R-NC

Primary LIHTC and PAB Production Provisions

Lowering the 50% Test down to 25% (*Section 313*)

- Lowering the “financed by” threshold from 50% to 25% for PAB financed housing starting in 2024

Increasing 9% allocations (*Section 101*)

- Restoring and making permanent the 12.5% allocation increase that expired in 2021, increasing 9% LIHTC authority by 25% in 2023 and in 2024 plus an inflation adjustment in 2024

Implementing three 30% basis boost provisions

- Primarily affecting the 4% LIHTC credit (all of which were included in the 2021 AHCIA), starting in 2023, unless otherwise noted:
 - an extension of the discretionary 30% basis boost for 9% LIHTC to PAB-financed properties (*Section 308*), starting in 2024,
 - a 30% basis boost for properties in Native American areas (*Section 402*),
 - a 30% basis boost for properties in rural areas (*Section 501*)

Implementing 50% ELI basis boost (*Section 307*)

- Giving states discretion to provide a 50% basis boost for apartments reserved for ELI renters, as long as at least 20% of the apartments are reserved for ELI households, making more deeply income targeted developments more financially feasible

Note: Effective dates of the AHCIA provisions will be updated when the bill is reintroduced sometime early this year.

Primary LIHTC and PAB Production Provisions

Lowering the 50% Test down to 25% (Section 313)

- Lowering the “financed by” threshold from 50% to 25% for PAB financing, starting in 2024

1.1Mil
HOMES

Increasing 9% allocations (Section 101)

- Restoring and making permanent the 12.5% allocation that expires in 2024, increasing 9% LIHTC to 25% in 2024 plus an inflation adjustment in 2024

232k
HOMES

Implementing three 30% basis boost provisions

- Primarily affecting the 4% LIHTC credit (all of which were in effect in 2021 AHCIA/2023, unless otherwise noted):
 - an election for a 30% basis boost for 9% LIHTC to PAB-financed properties (Section 308), starting in 2024
 - a 30% basis boost for properties in Native American areas (Section 402),
 - a 30% basis boost for properties in rural areas (Section 501)

210k
HOMES

Implementing 50% ELI basis boost (Section 307)

- Giving states discretion to provide a 50% basis boost for apartments reserved for ELI rental at least 10% of units are reserved for households earning more deeply income targeted developments more financially feasible

110k
HOMES

Novogradac estimates of additional affordable rental homes over 10 years

AS OF JANUARY 2024



Oversubscribed
(24 states & Washington, D.C.)



Parity
(10 states)

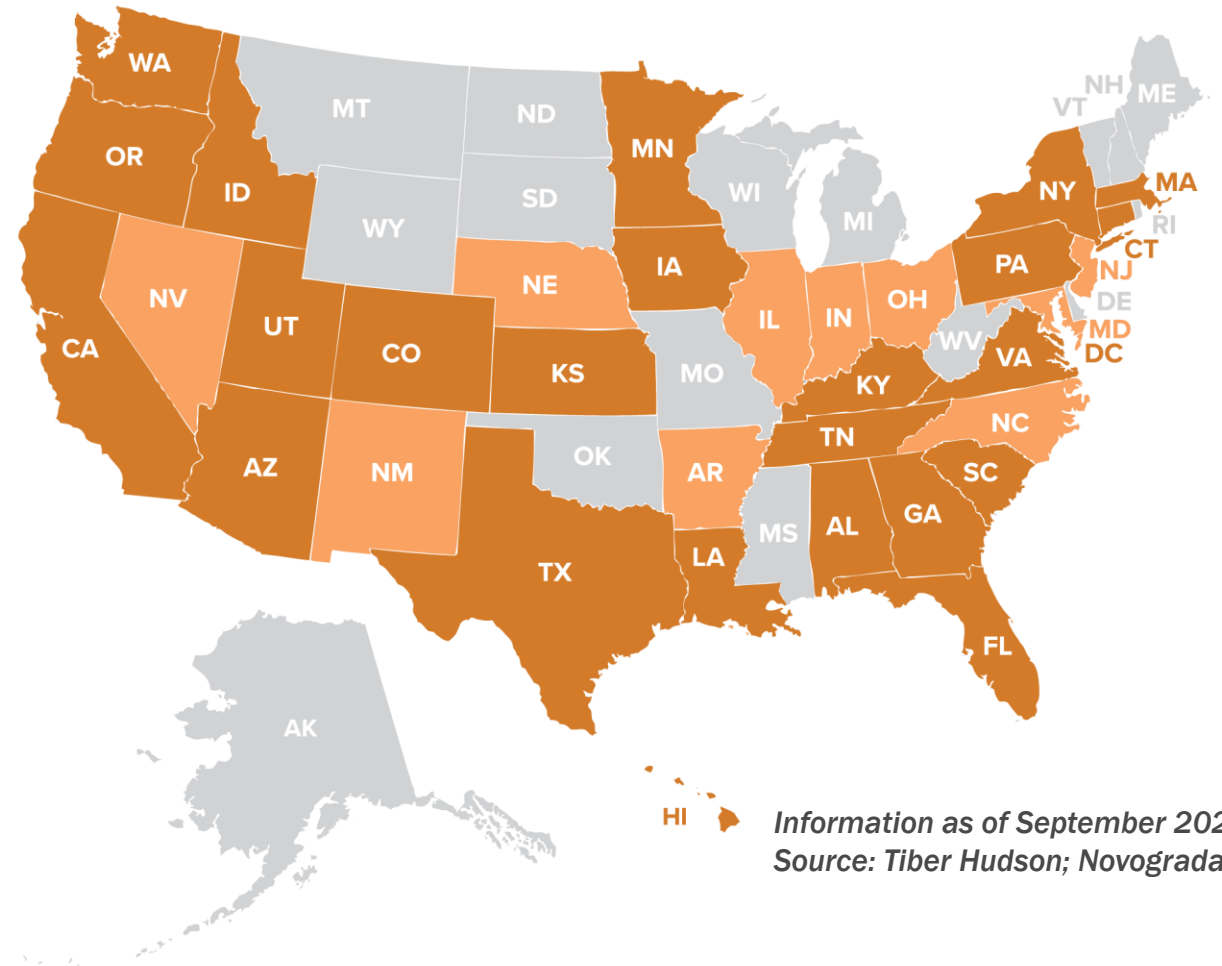
Undersubscribed
(16 states)

EFFECT OF PRIMARY PROVISIONS

Lowering the 50% Test to 30%

186,310 units over two years
(estimate as of Jan. 2024)

850,670 units 2024-2033
(estimate as of Jan. 2024)



Information as of September 2024
Source: Tiber Hudson; Novogradac

EFFECT OF PRIMARY PROVISIONS

Increase in 9% allocations

Restoring the 12.5% increase in 9% allocations over two years:

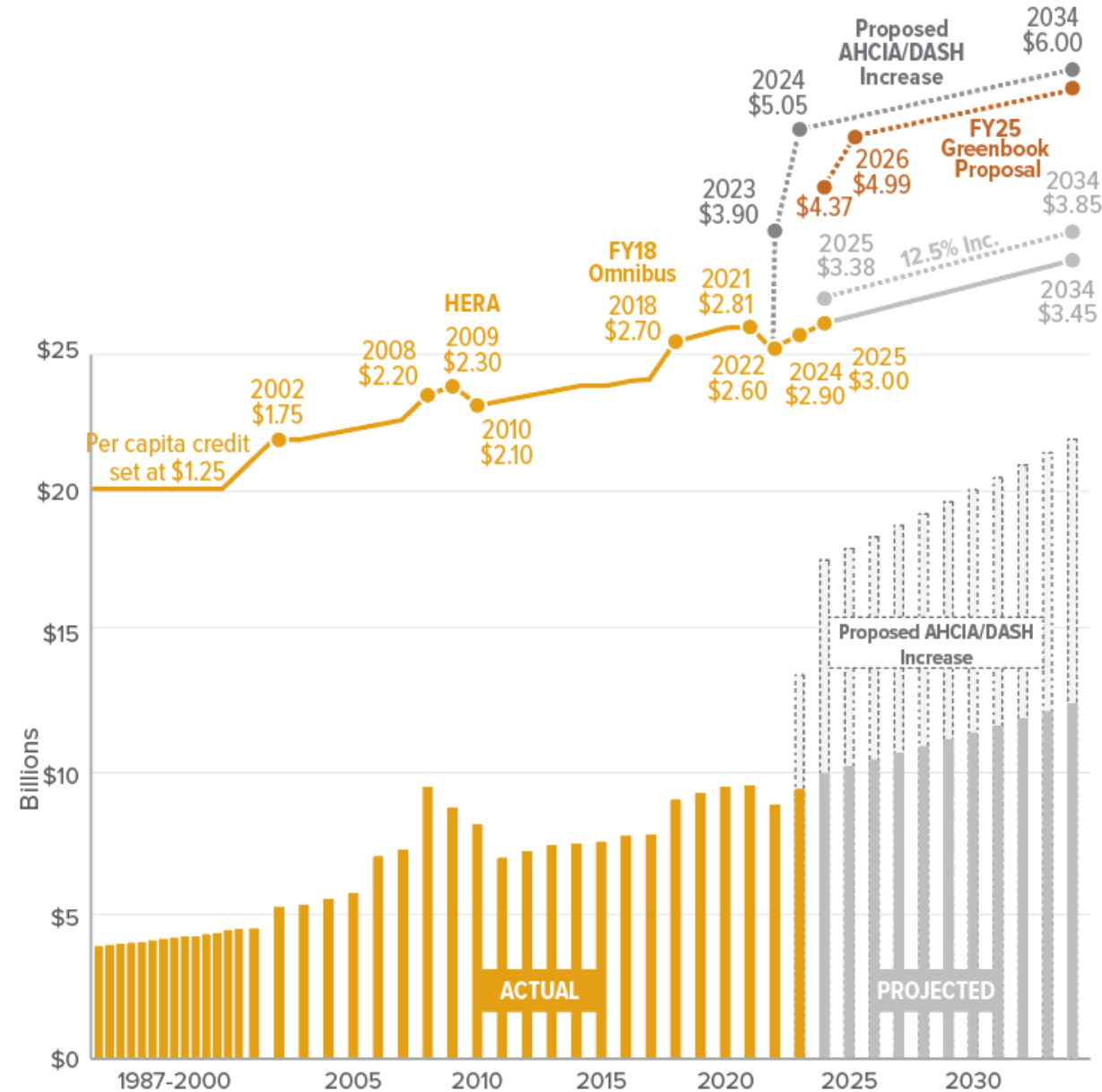
16,263 units

Restoring the 12.5% increase in 9% allocations for 2024-2033:

61,940 units

(estimates as of Jan. 2024)

9% LIHTC Allocations





Other tools to consider

Opportunity Zones



January 3, 2025

Deputy Secretary Nominee Michael Faulkender
Trump Administration Transition Team

Submitted via email

Re: Legislative and Regulatory Proposals to Enhance and Strengthen the OZ Incentive

Dear Mr. Faulkender:

The Novogradac Opportunity Zones Working Group congratulates you on your selection by President-elect Donald Trump to be Deputy Secretary of the Treasury. We look forward to working with you and others in the incoming Trump administration and Congress to extend, renew, and modernize the opportunity zones (OZ) incentive. For your and the rest of the incoming Trump administration's consideration, attached is a summary of consensus legislative and regulatory proposals developed by the Opportunity Zones Working Group that would enhance and strengthen the OZ incentive.

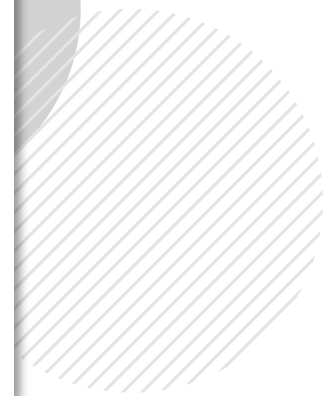
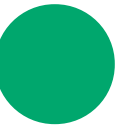
The OZ Working Group has been working with the OZ incentive since well before its enactment, going as far back as working with then Representative Pat Tiberi on its original introduction in the House. Membership of the OZ Working Group includes investors, syndicators, lenders, qualified opportunity funds (QOFs), community development entities (CDEs), community development financial institutions (CDFIs), for-profit and nonprofit developers, consultants, accountants, attorneys and other community development stakeholders who work together to suggest consensus solutions to technical OZ incentive issues and provide recommendations to make the OZ incentive more efficient in delivering benefits to low-income communities.

Since its enactment in 2017 as part of the Tax Cuts and Jobs Act (TCJA), the OZ incentive has been a driving force behind a substantial influx of private capital into low-income communities throughout the United States. According to the Joint Committee on Taxation, the OZ incentive has generated nearly \$85 billion in QOF investments through 2022. We believe that the reach, diversity, and economic impacts of OZ investment will only continue to increase in the coming years as the administration works to extend, renew and further refine the incentive. We also suggest that great care be taken to ensure that any regulatory or statutory modifications do not suppress this momentum and thus the flow of capital that is desperately needed in these disadvantaged communities.

The OZ incentive has proven, well documented, positive economic and social impacts in low-income communities across America. The OZ incentive has earned the right to be extended and



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