HFA Name: New York City Housing Development Corporation
Entry Title: Turning Policy Reform into Housing Production – Early Deployment of the 25% Test
Category: Encouraging New Construction and Promoting Preservation

Background: The Evolution from the 50% Test to the 25% Test

The shift to the 25% Test represents a major milestone for New York City's affordable housing finance system—**turning landmark federal legislation into real housing production and shovels in the ground**.

For decades, the Private Activity Bond (PAB) program has been a cornerstone of affordable housing finance in the United States. Prior to the tax bill enacted by Congress in 2025, developments financed with tax-exempt private activity bonds could qualify for the 4% Low-Income Housing Tax Credit (LIHTC) if at least 50% of a project's aggregate basis, including land and building costs, was financed with PABs.

Over time, however, **the 50% Test created significant inefficiencies**. HFAs frequently had to allocate more PAB volume cap than projects could actually support with debt simply to meet the threshold. As demand for affordable housing increased and construction costs rose, many states consistently exhausted their annual PAB allocations. To sustain housing production under these constraints, HFAs—including the New York City Housing Development Corporation ("HDC" or the "Corporation")—developed innovative workarounds such as recycled bond programs and bifurcated financing structures to stretch scarce PAB resources. While these tools helped maintain development pipelines, they underscored the need for structural reform that would allow HFAs to allocate their volume cap more efficiently and to address the nation's growing housing affordability crisis.

Following years of industry-wide advocacy, that reform arrived on July 4, 2025, when Congress enacted the **One Big Beautiful Bill Act**. Among its housing provisions, the legislation **reduced the bond financing threshold from 50% to 25%**, effectively halving the amount of new PAB volume cap required for developments to qualify for 4% LIHTC (the "25% Test").

Under the new law:

- Developments must finance **at least 25% of aggregate land and building costs with PABs**.
- **At least 5% of total costs must be financed with bonds issued after December 31, 2025** ("Transition Language").
- The new rules apply to **properties placed in service after December 31, 2025**.

This reform effectively doubles the number of projects that can be supported by a fixed amount of bond volume cap, dramatically expanding the capacity of the tax-exempt bond and 4% LIHTC programs, and increasing the potential pipeline of affordable housing nationwide.

Innovation: Early Implementation to Leverage the 25% Test for Projects Closed in 2025

Following Congressional enactment of the new 25% test, HDC moved quickly to translate this policy reform into real housing production. **Through its Multifamily Revenue Bonds 2026 Series A, issued under its Open Resolution, HDC became one of the first HFAs in the nation to operationalize the 25% Test.**

HDC evaluated several potential approaches to implementing the new rule. One option involved issuing partial PABs at project closing in December 2025, using 2025 bond cap to finance approximately 20% of project costs, followed by a supplemental bond issuance in 2026 to satisfy the 5% Transition Language requirement using 2026 bond cap. However, this approach would have exposed HDC to the interest rate risk on the supplemental issuance, since HDC typically locks the interest rate on the full loan amount at the time of project closing.

Instead, HDC developed a more efficient solution. The Corporation **utilized a delayed bond delivery structure paired with a carryforward allocation of 2025 bond cap**, allowing the full tax-exempt bond amount needed to satisfy the 25% Test to be priced in December 2025 in a single transaction, while delaying delivery of the tax-exempt bonds until January 2026. **This structure eliminated interest rate exposure** (the full amount of tax-exempt bonds was priced together with taxable bonds, as further described below, in connection with the project closing in December 2025), **while enabling these December 2025 projects to qualify under the new 25% threshold** (the delayed delivery allowed the 2026 Series A Bonds to be treated the 2026 issuance, consistent with the Transition Language requirements).

Transitioning to the 25% Test also introduced additional challenges. Because the new rule significantly reduces the amount of PAB financing in project capital stacks, it creates potential gaps in project underwriting that previously would have been filled with tax-exempt bond proceeds. To address this challenge, **HDC implemented new gap-financing solutions** utilizing an optimized mix of:

- HDC's **recycled bond program**
- An **innovative and cost-effective financing program with the Federal Home Loan Bank of New York (FHLB-NY)** for the financing of permanent debt (FHLB Bonds)
- **Taxable bridge financing** via publicly offered short-term fixed-rate taxable bonds

The transition to the 25% Test further created uncertainty about whether FHAs would continue to generate meaningful recycled bond capacity, given the expectation of reduced issuance of traditional tax-credit bonds. HDC addressed this challenge through **a bridging strategy that pairs long-term recycled bonds and FHLB Bonds while preserving short-term tax-credit bond issuance, allowing future recycling capacity to remain intact while also providing lower-cost bridging financing for future projects**.

Exhibit A illustrates HDC's innovation in implementing the 25% Test through the 2026 Series A issuance, demonstrating how these financing components work together. Key elements of the implementation included:

- Implementation of **innovative gap-financing solutions**, optimizing funding costs and effectively bridging the project to the delivery of LIHTC equity
- **Integration with bond recycling mechanisms**, maximizing the productivity of previously issued tax-exempt bond capacity while sustaining recycled bond program for future pipelines
- **Alignment with HDC's Open Resolution structure**, allowing projects to access permanent bond financing while maintaining programmatic flexibility.

These early deployments allowed HDC and its partners to:

- **Test transaction structures under the new threshold** ahead of the broader national adoption
- **Establish market precedents** for replication by other HFAs
- **Immediately leverage federal policy reform** to increase housing production

Responsiveness and Results: Turning Policy Reform into Housing Production

In a city facing acute housing shortages and affordability challenges, the 25% Test translates directly into more homes for low- and moderate-income New Yorkers. **By incorporating the new bond threshold into its first 2026 bond issuance, HDC converted federal policy reform into immediate housing production capacity.** For New York City, the impact functions as a "25% Test multiplier." The same amount of tax-exempt bond capacity can now support substantially more–nearly double– the number of developments, effectively expanding the city's affordable housing pipeline without requiring additional bond allocation.

Key benefits of HDC's early and innovative implementation include:

- **Supporting more developments within existing bond cap**
    - More developments can access 4% LIHTC equity, one of the largest sources of affordable housing capital.
        - Under the prior 50% Test regime, the same amount of $436,600,000 in PAB allocated to the 2026 Series A issuance would have supported only approximately 1,300 units of new production
        - Through early deployment of the 25% Test, that same PAB allocation now supports 2,621 units, representing more than 1.300additional homes or nearly double the housing production
    - Projects become financially viable sooner, accelerating development timelines
    - Housing production expands across multiple affordability levels
- **Strengthening development and financing partnerships**
    - Expanded pipeline opportunities for nonprofit and private developers
    - Increased investment opportunities in high-quality affordable housing developments, forging stronger collaboration across public and private housing finance partners
- **Maintaining financial discipline while scaling impact**
    - Continued use of HDC's Open Resolution preserves the strong credit framework trusted by investors
    - Increased issuance activity enhances liquidity and participation in both tax-exempt and taxable housing bond markets.

By maintaining bond program stability while expanding production capacity, the initiative reinforces investor confidence in the affordable housing finance system, bringing the needed housing production acceleration to address NYC's acute housing shortages.

Replication and Benefits: A Model for Other States

The transition from the 50% Test to the 25% Test represents one of the most significant structural changes in affordable housing finance in decades. **HDC's early adoption provides a practical roadmap for housing finance agencies nationwide.**

The model demonstrates how HFAs can:

- Integrate the new threshold into existing bond resolutions
- Maintain investor confidence during major policy transitions
- Use bond recycling and efficient structuring to maximize program impact
- Rapidly deploy new federal tools to expand affordable housing supply

By demonstrating one of the first practical implementations of the 25% Test through its **2026 Series A bond issuance**, HDC has helped **establish a national precedent— transforming a major legislative reform into real housing production and measurable impact**.

Exhibit A: Early Implementation of the 25% Test – HDC 2026 Series A Case Study

This Exhibit demonstrates how New York City Housing Development Corporation (HDC) translated the federal policy change enacted under the One Big Beautiful Bill Act into immediate housing production through its Multifamily Revenue Bonds 2026 Series A issuance.

The tables below highlight three key elements of HDC's early implementation: **execution, innovation, and impact**.

1. First 25% Test Implementation – Turning Legislative Change into Housing Production

The table below summarizes the projects financed through HDC's Open Resolution 2026 Series A issuance—one of the earliest large-scale implementations of the 25% Test.

HDC December 2025 Open Resolution Bond Sale

							LT Funding Sources				ST Funding Sources	
							2026 A-1		2025 H-2		2026 A-2	2025 H-1
Proj	Total Units	Qualified Basis	Total Bonds / Loans	Total New VC	New VC % of Basis	Total LT	TE Bonds (New VC)	Recycled Bonds	FHLB Index Bonds	Total ST	TE Bonds (New VC)	ST TX Bonds
1	265	191,253,169	113,770,000	51,640,000	27.0%	32,490,000	6,320,000	12,640,000	13,530,000	81,280,000	45,320,000	35,960,000
2	266	168,870,646	78,935,000	45,600,000	27.0%	30,895,000	6,010,000	12,020,000	12,865,000	48,040,000	39,590,000	8,450,000
3	213	140,735,969	60,035,000	38,000,000	27.0%	20,695,000	4,025,000	8,050,000	8,620,000	39,340,000	33,975,000	5,365,000
4	400	212,419,384	137,805,000	57,355,000	27.0%	44,745,000	8,705,000	17,405,000	18,635,000	93,060,000	48,650,000	44,410,000
5	230	120,698,979	71,905,000	32,590,000	27.0%	25,790,000	5,015,000	10,030,000	10,745,000	46,115,000	27,575,000	18,540,000
6	327	201,296,296	103,755,000	54,350,000	27.0%	26,935,000	5,240,000	10,475,000	11,220,000	76,820,000	49,110,000	27,710,000
7	328	201,146,764	91,375,000	54,305,000	27.0%	25,720,000	5,000,000	10,005,000	10,715,000	65,655,000	49,305,000	16,350,000
8	341	210,538,715	97,680,000	56,850,000	27.0%	29,835,000	5,805,000	11,605,000	12,425,000	67,845,000	51,045,000	16,800,000
9	251	170,035,334	89,020,000	45,910,000	27.0%	19,970,000	3,880,000	7,770,000	8,320,000	69,050,000	42,030,000	27,020,000
Total	**2,621**	**1,616,995,257**	**844,280,000**	**436,600,000**	**27.0%**	**257,075,000**	**50,000,000**	**100,000,000**	**107,075,000**	**587,205,000**	**386,600,000**	**200,605,000**

VC = Volume Cap
ST = Short-Term

TE = Tax-Exempt
LT = Long-Term

TX = Taxable

HDC's December 2025 Open Resolution bond sale consisted of nine projects totaling 2,621 units and $844.28 million of bonds, including $436.6million in tax-exempt new volume cap bonds.

HDC utilized a delayed bond delivery structure, allowing the full tax-exempt bond amount (2026 Series A-1 and A-2) to be priced at project closing in December 2025 while deferring delivery to January 2026, thereby eliminating interest rate risk while meeting the Transition Language requirement to leverage the 25% test.

Taxable bonds, including the FHLB index-rate bonds (2025 Series H-1) and short-term taxable bridge bonds (2025 Series H-2), were priced and delivered in December 2025 in connection with the closing of the nine underlying projects to meet funding needs.

This approach demonstrates how the 25% Test can be seamlessly integrated into existing Open Resolution bond program, establishing an early market precedent for HFAs and their partners, including developers and investors.

2. Gap Financing Strategy – Efficient Today, Sustainable for the Future

The table below highlights HDC's gap financing strategy under the 25% Test using a simplified $100 million issuance for a hypothetical $200 million project.

Under the 50% Test (***Scenario 1***), a $200 million project would need to carry $100 million in tax-exempt bonds to meet the threshold required to unlock low-income housing tax credits (LIHTCs), even if it could support only approximately $33 million in permanent debt. This mismatch is typical in high-cost cities like New York City, where development and operating costs are significantly higher. As a result, roughly $67 million in tax-exempt bonds would need to be paid down at loan conversion—generally using tax credit equity—to reach a sustainable leverage level.

Under the 25% Test (***Scenario 2-1*** and ***Scenario 2-2***), the same project requires only $50 million in tax-exempt bonds to unlock the LIHTCs. However, the remaining $50 million—previously funded with tax-exempt bond proceeds—must now be filled with alternative gap financing sources.

Illustrative Funding Strategy Comparison
25% Test vs. 50% Test

300-Unit Project; $200M Project Cost

Funding Scenarios		Total Project Cost	Total VC Bond to Unlock LIHTC	Total LT	LT Funding Sources: TE Bonds (New VC)	LT Funding Sources: Recycled Bonds	LT Funding Sources: FHLB Index Bonds	Total ST	ST Funding Sources: TE Bonds (New VC)	ST Funding Sources: ST TX Bonds	Future Recycling Capacity*
Scenario 1	50% Test	200,000,000	100,000,000	33,000,000	33,000,000	-	-	67,000,000	67,000,000	-	67%
Scenario 2-1	25% Test - Baseline Funding Strategy	200,000,000	50,000,000	33,000,000	33,000,000	-	-	67,000,000	17,000,000	50,000,000	34%
Scenario 2-2	25% Test - HDC Funding Strategy	200,000,000	50,000,000	33,000,000	8,000,000	15,000,000	10,000,000	67,000,000	42,000,000	25,000,000	84%

*Future Recycling Capacity = Short-Term Volume Cap Tax-Exempt Bonds / Total Volume Cap Tax-Exempt Bonds

VC = Volume Cap *TE = Tax-Exempt* *TX = Taxable*

ST = Short-Term *LT = Long-Term*

Issuing taxable bonds for gap financing would be the conventional approach (***Scenario 2-1***), but their higher cost would further widen the funding gap. Instead, HDC implemented a three-part gap financing strategy using an optimized mix of the following resources:

- ✓ HDC's recycled bond program (Recycled Bonds)
- ✓ A cost-effective financing structure with the Federal Home Loan Bank of New York (FHLB-NY) for permanent debt (FHLB Index Bonds)
- ✓ Short-term, publicly offered fixed-rate taxable bridge bonds (Short-Term Taxable Bonds)

As illustrated in ***Scenario 2-2***, the Recycled Bonds and FHLB Index Bonds provide cost-effective perm capital, while Short-Term Taxable Bonds bridge construction financing needs. By using Recycled Bonds and FHLB Index bonds for permanent financing, HDC shifted more volume cap tax-exempt bonds to construction financing, thereby increasing future recycling capacity.

3. The “25% Multiplier” – Expanding Housing Production

Following the illustrative example above to highlight HDC’s gap funding strategy, we further summarize the key transaction features of HDC’s first bond transaction implementing the 25% Test.

The table below illustrates the transformational impact of the 25% Test, comparing actual results from the December 2025 Open Resolution (middle column) with a modeled scenario under the prior 50% Test (left column), using the same bond cap and project costs. The scaling impact is shown in the right column.

Bond Sale Example : Open Resolution December 2025

	50% Test (Hypothetical)	25% Test (Actual)	Scaling Impact
Bond Cap Used	$437mm	$437mm	Same bond cap
Projects / Units	**5 projects / ~1,300 units**	**9 projects / 2,621 units**	**2x production**
Tax Credit Bonds (4yr Put)	$295mm	$387mm	+$92mm Tax Credit Bonds
LT Tax-Exempt Bonds (Serial/Term)	$142mm	$150mm	+8mm LT Tax-Exempt Bonds
New VC Bonds	*$142mm*	*$50mm*	*-$92mm LT New VC Bonds*
Recycled Bonds	–	*$100mm*	*+$100mm Recycled Bonds*
Total Tax-Exempt Bonds	**$437mm**	**$536mm**	**+100mm TE Bonds (via Recycled Bonds)**
TX Bonds (L/T FHLB Bonds)*	--	$107mm	+$107mm FHLB TX Bonds
TX Bonds (ST Bridging)	--	$200mm	+$200mm Taxable Bridging
Total Gap Financing	--	**$307mm**	**+$307mm Gap Financing**
Grand-Total Bonds Issued	**$437mm**	**$844mm**	**+$416mm total bond volume**
Future Recycling Capacity	**$295mm**	**$387mm**	**+92mm increase in recycling capacity**
% of Total Bond Cap	68%	89%	~30% increase in recycling capacity

* *Taxable SOFR-Indexed Long-Term Bonds sold to FHLB-NY*

Under the prior 50% Test, each project required a substantial bond allocation to qualify for 4% LIHTC, limiting the number of developments that could be supported with available bond cap.

With the 25% Test, the same bond cap can support significantly more projects, creating a powerful "multiplier effect." **Using the same bond cap of $437 million, HDC was able to nearly double housing production, adding approximately 1,300 more units.**

Additionally, by utilizing recycled bonds and FHLB index bonds for permanent financing, HDC increased future recycling capacity by approximately 30%. **This innovative gap financing strategy not only addresses current funding needs but also strengthens long-term program capacity.**

4. Conclusion

Through its Open Resolution 2026 Series A issuance, HDC demonstrates how a major federal policy reform can be rapidly implemented, financially optimized, and scaled for impact.

By combining innovative execution, strategic capital structuring, and a focus on long-term program sustainability, HDC has transformed the 25% Test into a practical, replicable model—nearly doubling the affordable housing production with the same amount of bond cap allocation.