

Rental Housing Development



September 19, 2025

Update Regarding 25% Test Guidance for Virginia Housing Rental Lending

The final version of the fiscal year 2025 reconciliation bill (H.R. 1) was signed into law on July 4, 2025. The bill includes a provision that lowers the private activity bond financing threshold from 50% to 25% of aggregate basis for buildings placed in service after Dec. 31, 2025, as long as at least 5% of the aggregate land and building costs are financed with private activity bonds issued after Dec. 31, 2025.

Lowering the threshold for 4% LIHTC projects to qualify for tax credits will further leverage the federal resource by enabling more projects to qualify for 4% credits using fewer tax-exempt bonds, ultimately increasing the number of affordable housing developments that can be financed throughout Virginia.

Since July, Virginia Housing has collaborated with DHCD and solicited stakeholder feedback to inform the development of transition and long-term plans. Below outlines a phased transition plan that is intended to balance the challenges posed by the timing of this announcement with the obligation to maximize the potential created by recent change in law:

Application Deadline: Oct. 2, 2025

Virginia Housing will finance up to 30% of aggregate basis using tax-exempt bond proceeds to comply with the new 25% test. Subject to underwriting, permanent debt in excess of the tax-exempt amount will be made available at the same tax-exempt rate utilizing subsidy, recycled bond authority or other means available above the tax-exempt portion up to **50%** of aggregate basis. Any additional supportable debt will be from a taxable source at the requisite taxable interest rate.

For deals seeking short-term GAP loans at or below the 30% tax-exempt threshold:

- At least 30% of the short-term loan must be secured by a letter of credit, with a non-refundable 2% fee on the remaining balance.
- Loans will be made using tax-exempt bond proceeds to meet the 25% test and tax-exempt pricing will apply.

For deals seeking short-term GAP loans above the 30% tax-exempt threshold not to exceed 50% of aggregate basis across all VH financing:

- At least 30% of the short-term loan must be secured by a letter of credit, with a non-refundable 2% fee on the remaining balance.
- Loans will be funded from taxable sources and taxable pricing will apply.

Application Deadline: Jan. 15, 2026

Virginia Housing will finance up to 30% of aggregate basis using tax-exempt funds to comply with the new 25% test. Subject to underwriting, permanent debt in excess of the tax-exempt amount will be made available at the same tax-exempt rate utilizing subsidy, recycled bonds, or other means available above the base level up to **40%** of aggregate basis. Any additional supportable debt will be from a taxable source at the requisite taxable interest rate.

For deals seeking short-term GAP loans at or below the 30% tax-exempt threshold:

- At least 30% of the short-term loan must be secured by a letter of credit, with a non-refundable 2% fee on the remaining balance.
- Loans will be made using tax-exempt bond proceeds to meet the 25% test and tax-exempt pricing will apply.

For deals seeking short-term GAP loans above the 30% tax-exempt threshold not to exceed 40% of aggregate basis across all VH financing:

- At least 50% of the short-term loan must be secured by a letter of credit, with a non-refundable 2% fee on the remaining balance.
- Loans will be funded from taxable sources and taxable pricing will apply.

Application Deadlines: May 1, 2026, July 1, 2026 and Beyond

Virginia Housing will finance up to 30% of aggregate basis using tax-exempt funds to comply with the new 25% test. Subject to underwriting, permanent debt in excess of the tax-exempt amount will be made available from a taxable sources at the requisite taxable interest rate. Short-term GAP loans will only be made available to meet the 25% test and must be secured by a letter of credit of at least 30% of the entire amount of the short-term loan, with a non-refundable 2% fee on the remaining balance.

Taxable Permanent Loans for Local Issuances

At this time, Virginia Housing will not be taking applications for taxable permanent financing to take-out construction loans funded through local issuances of bonds allocated by DHCD.

If you have questions or suggestions, please contact David Glassman (David.Glassman@VirginiaHousing.com) or Willie Fobbs (Willie.Fobbs@VirginiaHousing.com).

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