

APPENDIX M

Transitioning from 50% Test to 25% Test for Private Activity Bond Financing

In July 2025, Congress passed the reconciliation bill, H.R. 1, which included a provision lowering the private activity bond financing threshold from 50 percent to 25 percent of the aggregate basis (land and building costs) for buildings placed in service after December 31, 2025.

This change presents a significant opportunity to optimize the use of bond resources and expand the development of affordable housing across North Carolina. In response, the North Carolina Housing Finance Agency (NCHFA) is adjusting its approach to ensure the most effective use of limited bond resources.

Policy Overview

This policy applies to private activity bond awards that will place in service after December 31, 2025.

New Threshold for Bond Cap Allocation

NCHFA will allow Applicants to request Private Activity Bond Volume Cap (PAB VC) to meet the 25 percent threshold based on the greater of:

- 30% of aggregate basis, or
- Maximum permanent supportable debt

Allowable Exceptions to the New Threshold

Projects requesting bond cap in excess of the above threshold must demonstrate that the additional amount is necessary for financial feasibility.

The following projects are eligible for an Exception:

- Full applications currently being reviewed by NCHFA
- Final accepted applications awaiting approval at the first meeting of the North Carolina Federal Tax Reform Allocation Committee in 2026
- Projects awarded PAB VC in 2025 and not expected to close by December 31, 2025

To justify a bond cap amount above the new threshold, the following information documents must be submitted by December 31, 2025:

- Current sources and uses
- Equity Investor Letter, if applicable
- Current permanent Lender Commitment
- Written confirmation demonstrating why additional the additional amount is necessary for financial feasibility