

To: Developers

From: Deb Flannery, Managing Director of Community Development

RE: VHFA defines policy for implementation of new federal 25% test

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Requirement eased for rental home development with tax-exempt Private Activity Bonds and 4% Low-Income Housing Tax Credits

Background and Purpose

For many years, developing apartments with the most widely available low-income housing tax credits was limited by what was known as “the 50% test.” This test required that at least 50% of specified development costs with uncapped (or “4%”) federal housing tax credits be financed with tax-exempt private activity bonds (PAB).

In 2025, the federal One Big, Beautiful Bill Act (P.L. 119-21) reduced the private activity bond financing threshold from 50% to 25% for buildings placed in service after 12/31/2025. Since each state receives a limited amount of private activity bonding authority (volume cap) from the U.S. Treasury Department annually, this lower threshold increases production potential for states where the demand for private activity bond financing exceeds their bond volume cap. Vermont does not currently use all its bond volume cap so this change does not have the same effect in Vermont as in “cap constrained” states. However, by lowering the required amount of bond financing projects are required to use, this change also creates increased flexibility for projects to use more of the subsidies needed to serve lower income households and provide deeper affordability.

The purpose of this guidance is to define Vermont Housing Finance Agency’s policy for implementing the new federal 25% test.

Bond Allocation Requirements

Projects must demonstrate that at least 25% of the aggregate basis is financed by tax-exempt bonds. The private activity bond volume cap allocation by VHFA to the project must be the greater of 30% of the project’s aggregate basis used to calculate the 25% Test, or the amount required for maximum permanent supportable debt on the project, subject to underwriting. VHFA has established a minimum standard of 30% of aggregate basis to strike a balance between increased flexibility for projects and providing a compliance buffer to reduce risks for investors and lenders which can adversely affect pricing and avoid the need for costly last-minute supplemental bond issuances.

VHFA is allowing the maximum request to exceed 30% because Vermont is not currently bond volume cap constrained with regard to 4% PABs. However, if PABs become constrained in Vermont in the future, VHFA may adjust this requirement.

Future Applications

Applicants should follow the [application process](#) posted on VHFA’s website, as well as the VHFA [Qualified Allocation Plan](#) and [Underwriting Standards](#).

Questions

If you have any questions, please contact Megan Roush (mroush@vhfa.org) or the VHFA Development Department (developmentdept@vhfa.org).