

# Housing New Mexico | MFA

4% Tax Credits Changes on  
the Horizon

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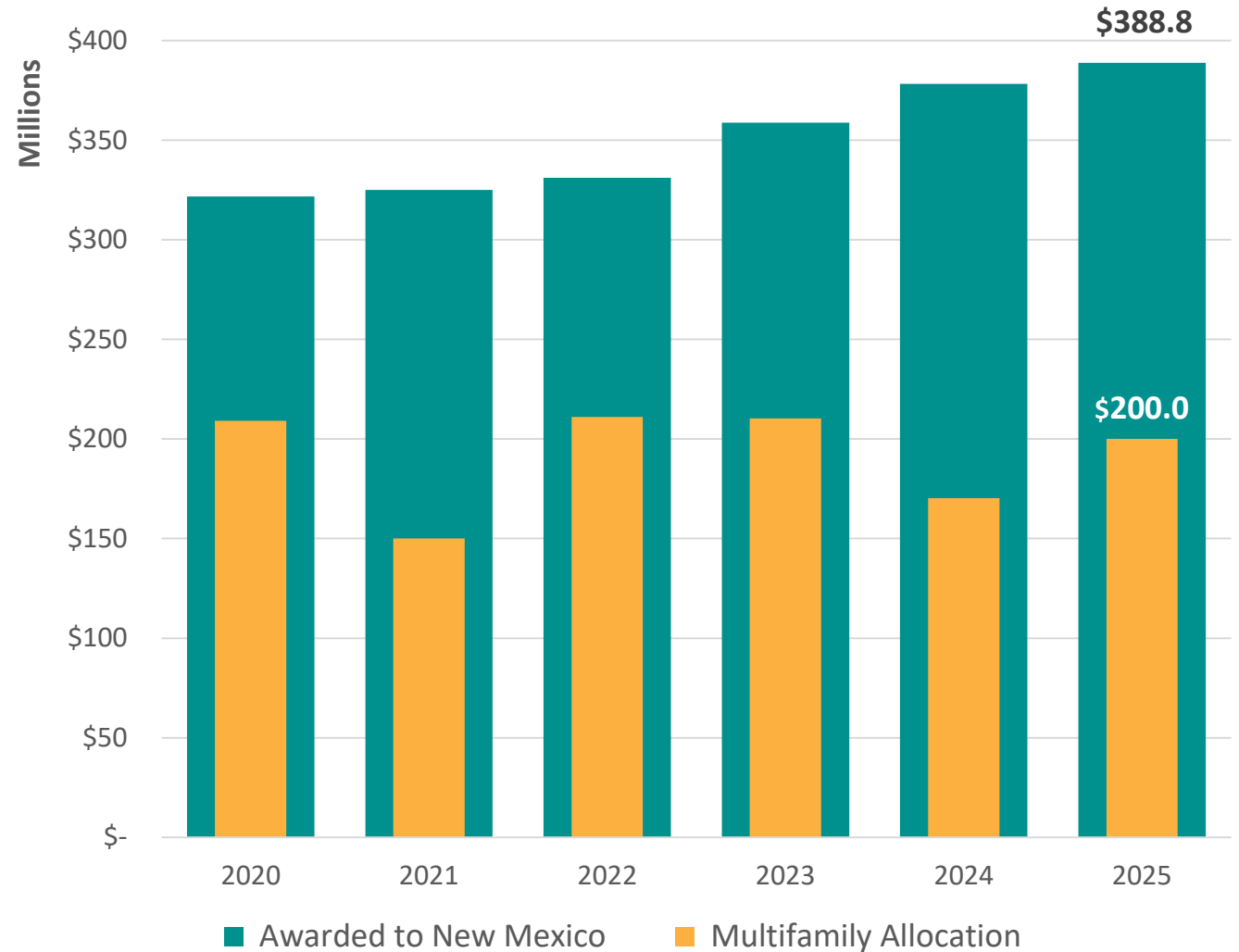
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# Private Activity Bonds (PAB) in New Mexico

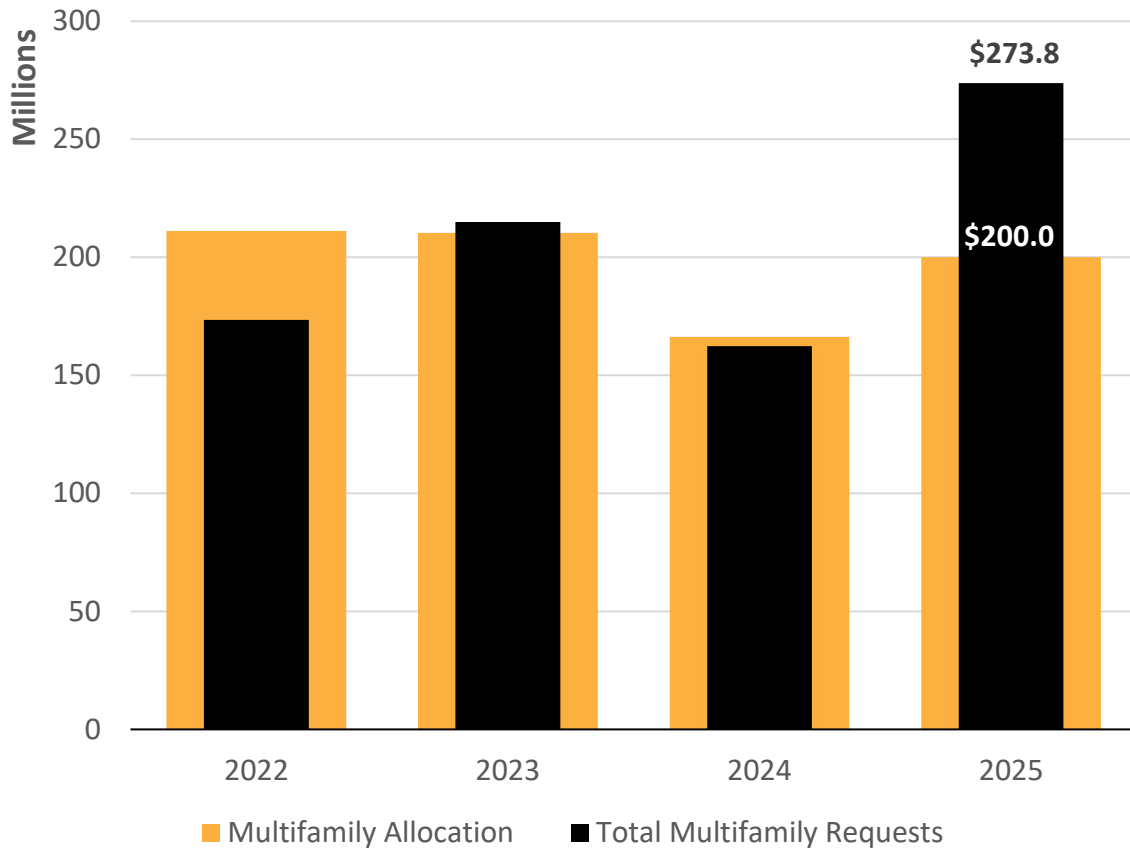
- Each year, the federal government assigns volume cap to every state.
  - Some states receive allocations on a per capita basis; New Mexico receives a mandated floor of cap, exceeding the per capita amount.
- The federal government identifies certain certified uses which PAB volume cap can be applied.
  - New Mexico determines its priorities from among these certified uses.
  - Certified uses include education, infrastructure, and of course housing.
  - A new certified use was added with the passage of the OBBB: space infrastructure.
- Despite concerns about cuts to PAB volume cap, bipartisan support has signaled that continued funding is likely.



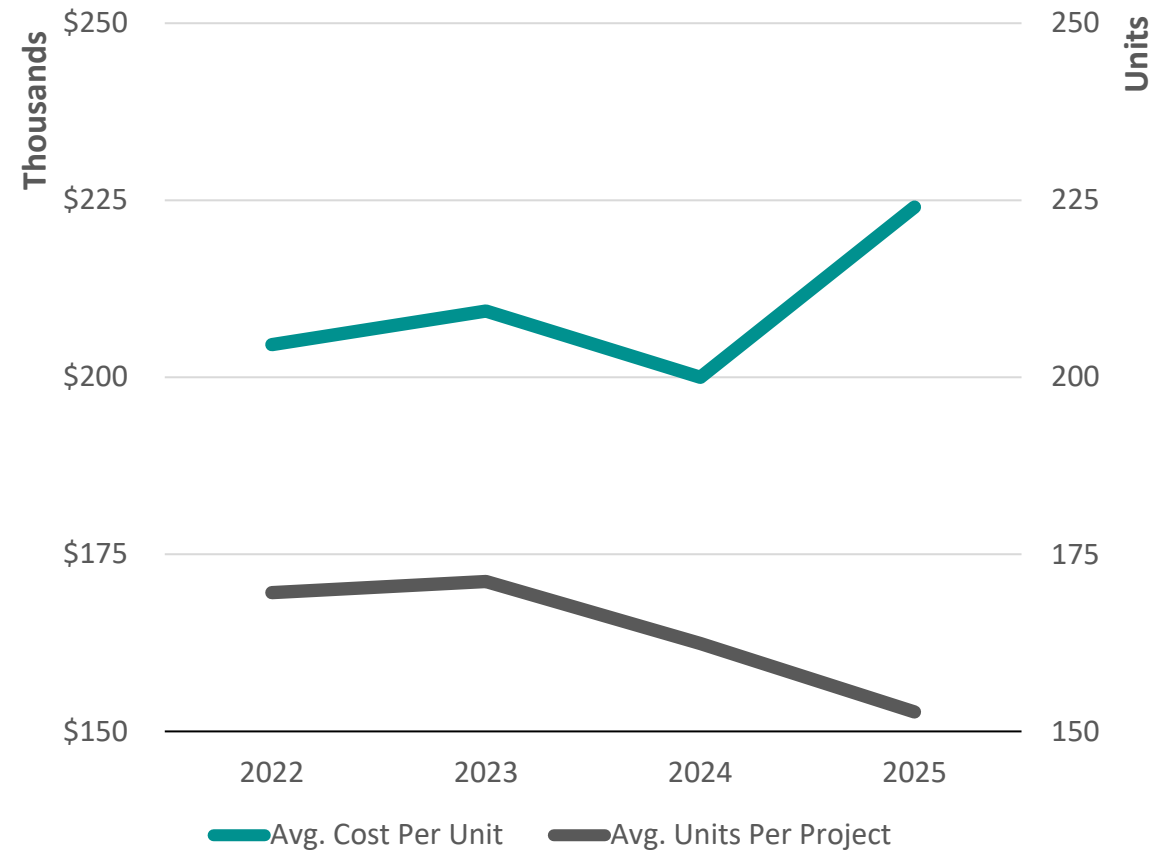
# Historical Volume Cap Usage & Projected Outlook

Demonstrating demand has been difficult in the past...

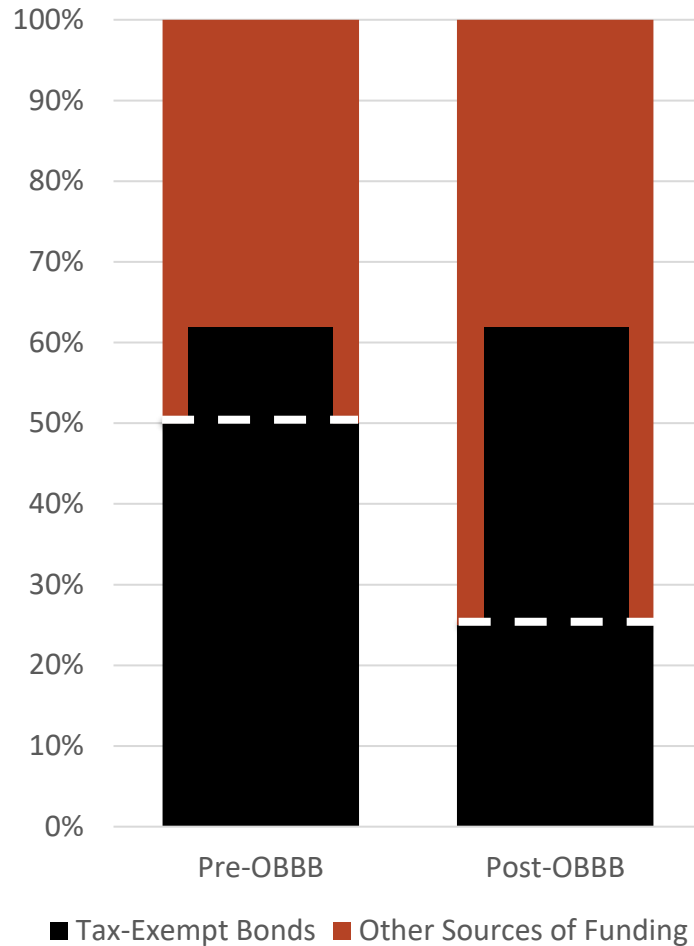
BUT it now outpaces the supply of available cap.



Meanwhile, construction costs have increased despite producing fewer units per project.



# Lowering the Floor: Bonds in the Time of OBBB



## The One Big Beautiful Bill Act

*passed July 4, 2025*

- Lowered the floor of tax-exempt Bonds from 50%, to 25%, of aggregate basis
  - Housing New Mexico currently imposes a ceiling of 62%\*
  - Sources other than bonds make up the remainder
- Reform comes at a time when increasing costs have led to substantially fewer, funded projects
- Based on the last year's demand, New Mexico should be able to accommodate all projects requesting tax credits, bond cap

*\*spoiler alert; stay tuned...*

# Background & Policy Context

- 4% LIHTC is linked to Private Activity Bonds (PABs)
- 2025 PAB Cap: \$200M reserved for housing
- Demand exceeded supply by over \$113M (as of July 2025)
- New Federal Law: 'One Big Beautiful Bill' passed July 4, 2025
  - 50% Test reduced to 25% permanently starting Jan 1, 2026

# Stakeholder Engagement (Apr–Jun 2025)

- Separate sessions with developers, consultants, issuers, SBOF staff
- Developers favored readiness review over competition
- Concerns about integrating with issuer processes

# Major QAP Changes (2026)

- Structural Separation of 4% and 9% QAPs
- Rolling Application with Readiness Focus
- Pipeline Volume Caps by Developer
- 42(m) Letter Timing Constraints
- Underwriting & Design Revisions

## Why readiness-based review?

- More efficient PAB allocation due to 25% test change
  - New Federal Law: 'One Big Beautiful Bill' passed July 4, 2025
    - 50% Test reduced to 25% permanently starting Jan 1, 2026
- Faster housing production, reduced speculation
- Timeline: Public comment → Finalization → 2026 Rollout



# Structural Separation

- 4% and 9% QAPs are now separate documents
- Separate Post Award Handbooks for each program
- Shared documents: Universal Underwriting Supplement & Design Standards

# The New Readiness Standard – Why Now?

- The 2025 bond cap was oversubscribed by \$113M as of July.
- Passage of the One Big Beautiful Bill (July 4, 2025) reduces the PAB threshold from 50% to 25%, dramatically increasing potential deal volume.
- Housing New Mexico faced mounting pressure to prioritize viable, shovel-ready projects.
- Readiness replaces a competitive round structure for 4% LIHTC.
- Ensures effective use of limited state resources and supports efficient pipeline management.

# What Does “Ready” Mean in 2026?

## To qualify for submission to Housing New Mexico:

- Bond Issuer Approval: Developer must have bond issuer inducement resolution and be ready to start construction within 9 months:
  - Present to the State Board of Finance (SBOF) within 3 months of application to Housing New Mexico, and
  - Close on financing and begin construction within 6 months or less from bond allocation
- Site Control: Must hold valid and documented control of development site.
- Zoning: Zoning must be confirmed for intended use.
- Environmental Review: Phase I ESA and necessary National Environmental Policy Act (NEPA) reviews must be complete.
- Financing: Evidence of soft funding commitment(s), and letter of interest from permanent lender.
- Design Development: 100% design drawings not required, but conceptual plans must align with Housing New Mexico’s 2026 Mandatory Design Standards.

# Readiness Review Process

- Initial Screening: Applications reviewed by Housing New Mexico staff for completeness and readiness
- Quarterly Pipeline Review: Housing New Mexico staff and bond issuer assess ongoing readiness and closing milestones
- Post-Award Monitoring: Readiness factors (like ability to begin construction) documented in Post Award Handbook; draft 42(m) letter expires in 3 months
- Transparency: Public-facing status updates and notification if readiness status changes or is revoked

# Rolling Application & Readiness

- The private activity bond volume cap allocation by the State Board of Finance must not exceed the greater of:
  - 30% of the Project's aggregate basis used to calculate the 25% test, or
  - The amount of the Project's permanent mortgage loan in first lien position.
- Projects that fail to close within 6 months of allocation:
  - Will be subject to a \$1,000/week late fee
  - Withdrawal of final 42(m) letter.
  - Final letter valid as long as bond allocation is valid
- Limits on Developer Pipeline: (January – August)
  - Max 1 project in application phase
  - Max 2 projects in construction phase
- Complete Application

# Underwriting & Design Standards

- Acquisition Cost Limits –
  - Acquisition cost will be determined as the lesser of:
    - The appraised value (Applicant's appraisal)
    - The purchase price
    - The construction lender's appraisal
  - If acquisition is bridged before selling to the Project Owner:
    - The purchase price used is the amount paid at time of bridge financing
- Electric Vehicle parking requirements removed
- Hybrid (when 9% and 4% components are in same building) -
  - 9% credit reservation is contingent upon:
    - Allocation of PAB volume cap from the State Board of Finance
  - If no bond allocation by December 2026:
    - Binding 9% LIHTC commitment will shift to a future year, contingent upon PAB allocation

# Housing New Mexico's Role as Conduit Issuer

## The Impact of GASB 91

Housing New Mexico no longer carries conduit debt obligations on its accounting books.

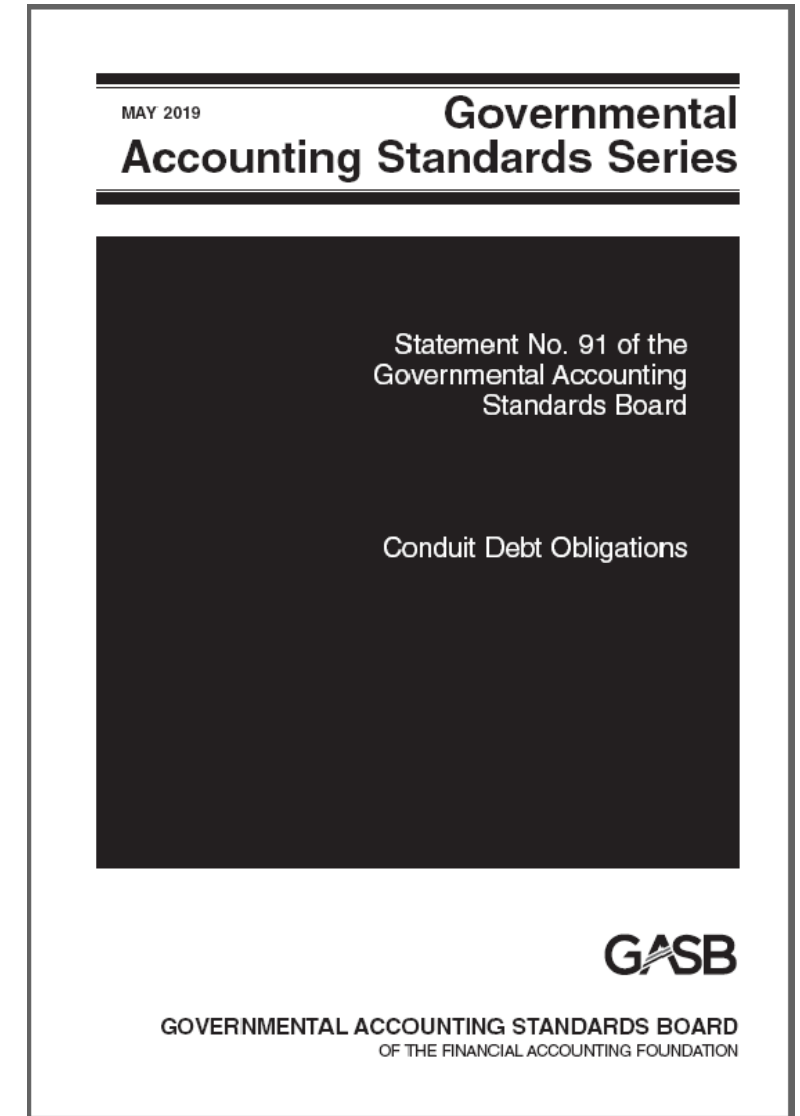
## What this Means

Housing New Mexico's role of oversight post-2022 is reduced.

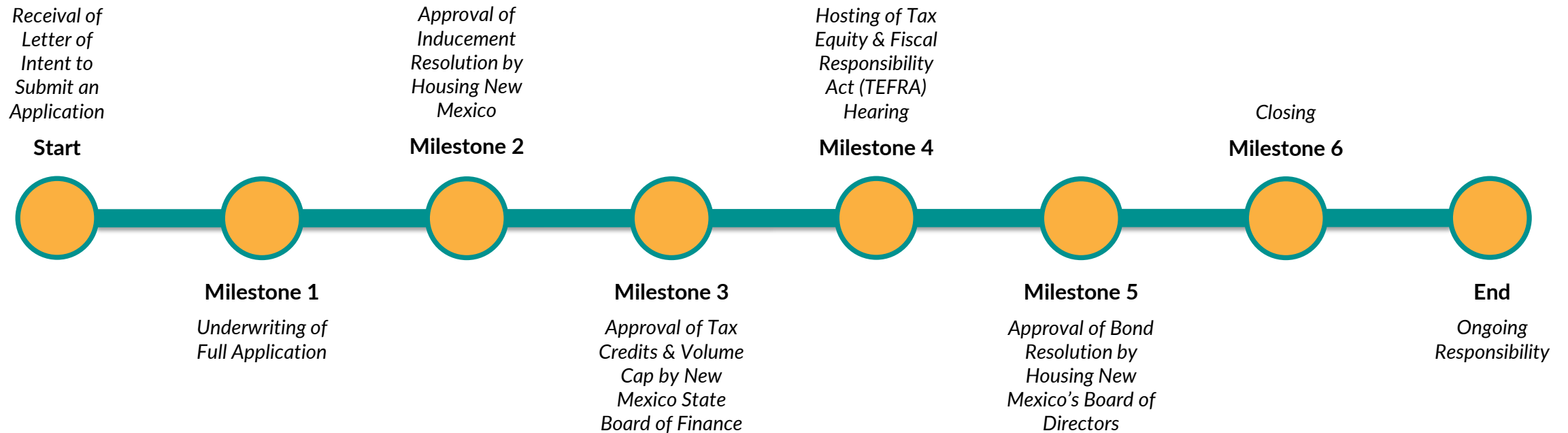
## How It Affects Developers

There is no direct impact. Housing New Mexico continues to offer resources to streamline bond issuance.

- Dedicating staff to coordinate a successful issuance, including:
  - Tax and legal approvals
  - Loan, LIHTC, and other docs
- Recommending a vetted, qualified Financial Advisor to structure and facilitate complex transactions.
- Recommending a vetted, qualified Trustee/Paying Agent to manage bond debt service in compliance with the indenture(s).



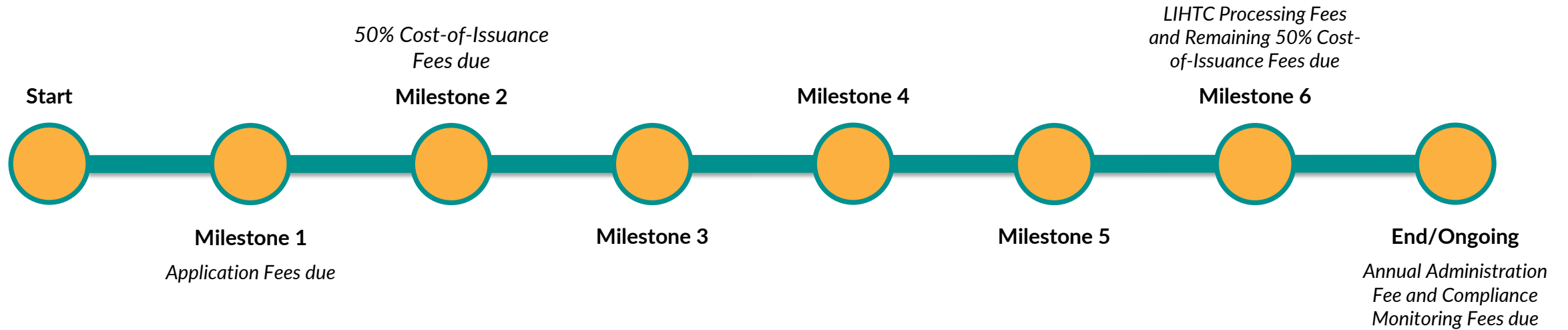
# Tax-Exempt Bond Process: No Changes



Estimated Time from Start to End: 6 - 9 Months



# Fee Schedule During Bond Issuance



Resource: <https://housingnm.org/developers/rental/bond-financing>

# Questions?

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*We Are Housing New Mexico*