Housing Bonds

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Administering Agency: U.S. Department of the Treasury

Year Started: 1954

Number of Households Served: In 2016, 31,157 households utilized Mortgage Revenue Bonds (MRBs), 20,056 utilized Mortgage Credit Certificates (MCCs), and 34,637 utilized multifamily bonds.

Population Targeted: Low- and moderate-income homebuyers and renters

See Also: For related information, refer to the *Low-Income Housing Tax Credits* and *HOME Investment Partnerships Program sections* of this guide.

Housing bonds are used to finance low-interest mortgages for low and moderate-income homebuyers, as well as for the acquisition, construction, and rehabilitation of multifamily housing for low-income renters. Investors purchase housing bonds at low interest rates because the income from them is tax free. The interest savings made possible by the tax exemption is passed on to homebuyers and renters in reduced housing costs.

Thanks in part to advocacy by state housing finance agencies (HFAs) and their partners, Congress preserved the exemption for housing bonds in tax reform (through the "Tax Cuts and Jobs Act," H.R. 1). The National Council of State Housing Agencies and others are now working with lawmakers to continue to protect housing bonds and strengthen them.

HISTORY

Private activity bonds (PABs) were established under the Tax Code of 1954. These bonds were known as Industrial Development Bonds until the "Tax Reform Act of 1986" and other legislation changed their name.

PROGRAM SUMMARY

PABs, a category that includes housing bonds, are distinct from other tax-exempt bonds because they are issued for activities that involve private entities, as opposed to governmental bonds, for wholly governmental activities. The private activities must fulfill public purposes, and each private activity bond issuer must hold public hearings to demonstrate such public purposes. In addition to housing, PABs are issued for other public purposes that include student loans, infrastructure, and redevelopment activities.

State and local HFAs have authority under the Internal Revenue Code to issue housing bonds to support affordable housing activities in their states. Issuing bonds is a way for HFAs to access private capital markets to help support affordable housing activities. HFAs sell the tax-exempt bonds to individual and corporate investors who are willing to purchase bonds paying lower than market interest rates because of the bonds' tax-exempt status. This interest savings is passed on through private lenders to support housing purchase and development.

There are two main types of housing bonds: Mortgage Revenue Bonds (MRBs), which finance single-family home purchases for qualified low-income homebuyers, and multifamily housing bonds, which finance the acquisition, construction, and rehabilitation of multifamily developments for low-income renters.

Mortgage Revenue Bonds

Proceeds from MRBs finance below-market rate mortgages to support the purchase of single-family homes. By lowering mortgage interest rates, MRBs make homeownership affordable for families who would not be able to qualify for market rate loans. HFAs often combine MRBs with down payment assistance that allows home purchases by families and individuals who would not otherwise be able to buy homes.

Congress limits MRB mortgages to first-time homebuyers who earn no more than the greater of area or statewide median income in most areas and up to 140% of the applicable median income in targeted areas. Families of three or more in non-targeted areas can earn up to 115% of the greater of area or statewide median income. Congress also limits the price of homes purchased with MRB mortgages to 90% of the average area purchase price in most areas and up to 110% of the average area purchase price in targeted areas.

HFAs also use their MRB authority to issue Mortgage Credit Certificates (MCCs), which provide a non-refundable federal income tax credit of up to $2,000 for part of the mortgage interest qualified homebuyers pay each year. The MCC program is a flexible subsidy source that can be adjusted depending on the incomes of different homebuyers. It provides a relatively constant level of benefit to first-time homebuyers regardless of the difference between market and MRB rates.

Interested borrowers should contact their state or local HFA for information on obtaining an MRB loan or an MCC.

Multifamily Bonds

Multifamily bonds provide funding for affordable rental housing development that reaches income groups that the market might not otherwise serve. Multifamily housing bonds finance the acquisition, construction, or rehabilitation of affordable rental housing. Multifamily housing developments with bond financing must set aside at least 40% of their apartments for families with income of 60% of area median income (AMI) or less, or 20% for families with income of 50% of AMI or less. The income-restricted apartments financed by those bonds must remain affordable for at least 15 years.

States increasingly combine multifamily bonds with other resources—including Low-Income Housing Tax Credits (LIHTC) and HOME Investment Partnerships (HOME) program funds—to serve even lower-income families for longer periods of time than the law requires. Rental developments that use tax-exempt bond financing to pay more than 50% of their total development costs are eligible to receive 4% housing credits from outside the state-allocated housing credit cap. In addition, many multifamily bonds finance special needs housing, such as housing for formerly homeless people, veterans housing, transitional housing, senior housing, assisted living housing, housing for persons with disabilities, workforce housing, housing for persons with AIDS, migrant worker housing, and rural housing.

ISSUE SUMMARY

In 2016, the most recent year for which data are available, state HFAs issued nearly $6 billion in MRBs and supported the purchase of 31,157 homes nationwide. Some bond issuance was used to raise proceeds that were saved for use in future years and to refund prior-year bonds. HFAs also issued 20,056 MCCs in 2016, a four-fold increase since 2012. States issued just over $4.1 billion in multifamily bonds in 2016 to finance more than 34,637 affordable rental homes, which was a significant increase from prior years, indicating a trend that is likely to continue.

Housing bonds have been an unqualified success in providing lower-income Americans an opportunity they might not otherwise have to own a decent and affordable home and to access quality rental opportunities. Using MRBs, HFAs have made homeownership possible for more than 3.1 million low- and moderate-income families. They help another approximately 100,000 families buy their first homes with MRB mortgages in a typical year. In 2015, 81% of MRB borrowers earned less than AMI. The median MRB borrower income was $48,571, 86% of the national median income.

HFAs have also provided over 275,000 lower- and moderate-income homeowners critical tax relief through the MCC program. Ninety-four percent of all MCC borrowers in 2015 earned less than AMI.

Multifamily bonds also boost the productivity of the LIHTC program. Affordable rental housing sponsors may obtain 4% housing credits from outside the state credit authority cap if 50% or more of the development is financed using housing bonds. HFAs have financed an additional 1 million affordable rental apartments with multifamily bonds. Over 50% of all annual LIHTC rental home production includes housing bond financing. HFAs have used the LIHTC to produce almost 3 million rental homes for families earning 60% of AMI or less. They add another 100,000 LIHTC apartments every year.

FUNDING

By law, the annual state issuance of PABs, including MRBs and multifamily bonds, is capped by each state's population and indexed to inflation. The 2018 state cap is $105 per capita, with a per-state minimum of $311,375,000.

FORECAST FOR 2019

Despite their success, housing bonds were in danger of being eliminated via tax reform. The U.S. House of Representatives eliminated the exemption for housing bonds and other PABs issued after 2017 in its original tax reform legislation, which passed in November. The House-passed legislation also rescinded the MCC program.

Fortunately, thanks to the advocacy of state HFAs, their partners, and other PAB issuers, both the tax reform legislation initially passed by the Senate and the final tax reform bill maintained the exemption for PABs and continued MCCs, preserving HFAs' ability to support affordable housing opportunities.

Now that Congress is done with comprehensive tax reform for the foreseeable future, there is an opportunity to advance a number of critical reforms that will strengthen housing bonds. These small but significant changes will make housing bonds more efficient and effective at minimal cost to taxpayers.

At the same time, the fact that the House's original tax reform bill repealed PABs and MCCs underscores the need for advocates to remain vigilant in our efforts to protect housing bonds. Congress is likely to consider legislation to promote infrastructure in 2019. Advocates must help legislators understand that housing is a key component of our nation's infrastructure and housing bonds should be preserved and strengthened in infrastructure legislation.

WHAT TO SAY TO LEGISLATORS

Advocates should continue to educate legislators about the importance of housing bonds and ask them to preserve the tax exemption for private activity housing bonds and other municipal bonds. Advocates should ask legislators to express their support for the tax exemption for all municipal and PABs, including housing bonds, directly to the leaders of the Senate Finance Committee or House Ways and Means Committee. Remind legislators that housing bonds and other PABs are necessary to promote necessary infrastructure improvements and address unmet housing needs.

Advocates should also ask legislators to strengthen the housing bond program with targeted improvements. These enhancements include:

- Repealing the housing bonds purchase price limit,
- Allowing housing bonds to be used to support loan refinancing,
- Increasing the MRB home improvement loan limit to reflect the increased costs of construction since the limit was first established in 1980, and
- Strengthening the MCC program.

FOR MORE INFORMATION

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