Housing Bonds

By the National Council of State Housing Agencies

Administering Agency: U.S. Department of the Treasury

Year Started: 1954

Number of Households Served: In 2022, state HFAs financed 56,802 mortgages for low- and moderate-income borrowers through Mortgage Revenue Bonds (MRBs), provided tax relief to 10,836 homebuyers through Mortgage Credit Certificates (MCCs), and built or rehabilitated 59,465 affordable rental units through multifamily bonds.

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

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

Housing bonds are used to finance lower 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 are willing to purchase tax-exempt housing bonds and receive a lower interest rate than they would for other investments because the income from these bonds is tax free. The interest savings made possible by the tax exemption is passed on to homebuyers and renters in reduced housing costs.

In June 2023 Senators Catherine Cortez Masto (D-NV) and Bill Cassidy (R-LA) introduced the "Affordable Housing Bond Enhancement Act" (S.1805). The bill would implement several simple but impactful changes that will increase Housing Bond resources, expand the supply of affordable homes, and improve access to homeownership for low and moderate-income home buyers. NCSHA intends to work next year to increase congressional support for this legislation and to identify potential paths for its passage.

HISTORY

Congress initially defined Private Activity Bonds (PABs) in the "Revenue and Expenditure Control Act of 1968." While the list of qualified private activities has expanded over the years, both Exempt Facilities Bonds—a category that includes multifamily housing bonds—and single-family MRBs were original qualified private activities under the 1968 act.

Though issuance of some PABs is unlimited, both multifamily housing bonds and MRBs are limited by the PAB volume cap, which was first instituted under the "Deficit Reduction Act of 1984" and modified in 1986 (along with the list of qualified activities) with the "Tax Reform Act of 1986."

PROGRAM SUMMARY

PABs are distinct from other tax-exempt bonds because they are issued for activities that involve private entities, as opposed to governmental bonds, which support wholly governmental activities. The private activities financed with PABs must fulfill public purposes, and each PAB issuer must hold public hearings to solicit feedback from public stakeholders in the proposed uses of PAB authority. In addition to housing, PABs are issued for 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 affordable housing purchase and rental development.

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

In recent years, due to the critical need for more affordable housing options for working families, Housing Bonds have comprised a substantially large share of PAB issuance each year. According to a report from the Council for Development Finance Agencies (CDFA), housing bonds accounted for 84% of total PAB issuance in 2019 and 88% of total issuance in 2020. Housing Bonds have made up at least 80% of all PABs issued for seven consecutive years.

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 mortgage loans. HFAs often combine MRBs with down payment assistance that allows home purchases by families and individuals for whom a down payment would otherwise be a barrier to homeownership. In 2022, 86% of homebuyers who purchased a home financed by a state HFA-issued MRB received down payment assistance.

Congress limits MRB mortgage loans 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-financed mortgage loans 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 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 mortgage loan or an MCC.

MULTIFAMILY BONDS

Multifamily housing bonds provide financing for the acquisition, construction, or rehabilitation of rental housing that is affordable to low-income households by providing developers with low-cost capital as an alternative to higher interest market-rate loans. Multifamily housing developments with bond financing must set aside at least 40% of their apartments for families with incomes of 60% of area median income (AMI) or less, or 20% for families with incomes of 50% of AMI or less. The income-restricted apartments financed by those bonds must remain affordable for at least 15 years.

Rental developments that use tax-exempt bond financing to pay more than 50% of their total development costs are eligible to receive 4% Low-Income Housing Tax Credit (LIHTC) equity from outside the state-allocated LIHTC cap. In 2020, Congress set a 4% minimum rate for properties financed with multifamily housing bonds, whereas previously the credit rate floated based on federal borrowing rates. The minimum 4% rate will allow the production of approximately 130,000 more affordable rental homes over the next decade.

In addition, many multifamily bonds finance special needs housing, such as housing for people formerly experiencing homelessness, 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 2023, the most recent year for which data is available, state HFAs issued almost $13.5 billion in MRBs and supported the purchase of nearly 57,000 homes nationwide. Some bond issuance was used to raise proceeds that were saved for use in future years and to refund prior-year bonds. States issued just over $13.3 billion in multifamily housing bonds in 2022 to finance more than 59,000 affordable rental homes. Local HFAs also issued bonds to finance affordable mortgage loans and the construction or rehabilitation of multifamily rental housing, which helped even more lower income homeowners and renters.

Housing bonds have been an unqualified success in providing lower-income Americans an opportunity they might not otherwise have to own a decent, affordable home and to access quality rental opportunities. Using MRBs, HFAs have made homeownership possible for more than 3.4 million low- and moderate-income families. In 2022, 75% of MRB borrowers earned less than AMI. In that year, the median MRB borrower income was $59,465; 80% of the national median income.

HFAs have also provided more than 397,000 lower- and moderate-income homeowners critical tax relief through the MCC program. Seventy-one percent of all MCC borrowers in 2022 earned less than AMI.

MRBs and MCCs are especially critical in today's mortgage market. With higher mortgage rates, a lack of affordable for-sale homes, and increasing home prices making homeownership prohibitively expensive for many working families, the lower interest rates offered through MRB mortgages and the tax savings from MCCs are more important than ever.

An additional key point is that over 50% of all annual LIHTC rental home production utilizes housing bond financing. HFAs have used the LIHTC to produce nearly 3.5 million rental homes generally for families earning 60% of AMI or less. They added more than 127,000 LIHTC apartments in 2022.

FUNDING

By law, the annual state issuance of PABs, including MRBs and multifamily housing bonds, is capped by each state's population and indexed to inflation. The 2023 state cap is $120 per capita with a per-state minimum of $358,845,000.

FORECAST FOR 2024

On June 22, 2022, Senators Catherine Cortez Masto (D-NV) and Bill Cassidy (R-LA) introduced the "Affordable Housing Bond Enhancement Act." The bill would implement several simple but impactful changes to MRBs and MCCs that will expand the supply of affordable homes and improve access to homeownership for low and moderate-income home buyers.

Some of the changes in the bill include:

- Increasing the MRB home improvement loan limit;
- Allowing MRBs to be used for refinancing loans;
- Providing HFAs additional flexibility in how they utilize housing bond authority;
- Simplifying how a borrower's MCC benefit is calculated;
- Reducing the time period for the MRB and MCC recapture tax from nine years to five;
- Extending the amount of time HFAs can use converted MCC authority from two years to four; and
- Allowing HFAs to reconvert MCC authority back into MRBs two years after the conversion, rather than one.

NCSHA intends to work with Cortez Masto and Cassidy to attract more cosponsors and seek out opportunities to advance this legislation. We are also working to have the legislation introduced in the U.S. House of Representatives.

WHAT TO SAY TO LEGISLATORS

Advocates should ask Senators, particularly those on the Finance Committee, to cosponsor the "Affordable Housing Bond Enhancement Act." If talking with Republican members of the House Ways and Means Committee, ask them to consider introducing the bill.

More generally, 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 tax-exempt bonds 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 much needed infrastructure improvements and address unmet housing needs.

FOR MORE INFORMATION

National Council of State Housing Agencies, 202-624-7710, www.ncsha.org.