Housing Bonds

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Administering Agency: U.S. Department of the Treasury; Housing Finance Agencies (HFAs) at the state level

Year Started: 1954

Number of Households Served: In 2023, state HFAs financed 78,431 mortgages for low- and moderate-income borrowers through Mortgage Revenue Bonds (MRBs), provided tax relief to 6,346 homebuyers through Mortgage Credit Certificates (MCCs), and financed the construction or rehabilitation of 62,425 affordable rental units through Multifamily Housing 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 type of tax-exempt Private Activity Bond (PAB) used to finance the acquisition, construction, and rehabilitation of multifamily housing for low-income renters, and finance lower interest mortgages for low- and moderate-income first-time homebuyers. Investors are willing to purchase tax-exempt housing bonds and receive a lower interest rate than they would for other investments because the interest income from these bonds is not subject to federal income taxes.

Housing Bonds are typically either:

- Multifamily Housing Bonds, which finance the acquisition, construction, and rehabilitation of multifamily developments for low-income renters.
- Mortgage Revenue Bonds (MRBs), which finance single-family home purchases for qualified low- and moderate-income homebuyers.

Multifamily properties constructed or rehabilitated with Multifamily Housing Bonds must meet certain affordability requirements: at least 40% of the apartments must be affordable for families with incomes of 60% of area median income (AMI) or less, or 20% affordable for families with incomes of 50% AMI or less. These affordability requirements are similar to those of the Low-Income Housing Tax Credit (LIHTC) program, as these two tools are frequently combined to finance a property. The income-restricted apartments financed by those bonds must remain affordable for at least 15 years; however, they are often paired with LIHTC, which requires a longer affordability period.

For homebuyers to be eligible for a mortgage financed with Mortgage Revenue Bonds, they must be first-time homebuyers and meet income eligibility requirements. These mortgages are often paired with downpayment assistance to further help first-time homebuyers purchase a home.

History

Congress initially defined PABs in the "Revenue and Expenditure Control Act of 1968," which established what activities can be financed using PABs. 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."

In recent years, Housing Bonds have comprised a substantially large share of PAB issuance as the critical need for more affordable housing options worsens. 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.

Looking at just Multifamily Housing Bonds, in 2000, 19.8% of PAB issuance went to multifamily housing; by 2015, the figure had increased to 47.7%, and in 2020, the share was 62.5%. Usage varies significantly by state, with fifteen states accounting for over 83% of multifamily PAB issuance between 2016 and 2020.

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.

Multifamily Housing Bonds

Multifamily Housing Bonds provide financing for the acquisition, construction, or rehabilitation of rental housing that is affordable to 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% AMI or less, or 20% for families with incomes of 50% AMI or less. The income-restricted apartments financed by those bonds must remain affordable for at least 15 years. 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 housing for specific populations, including seniors and people with disabilities.

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 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 mortgage loan or an MCC.

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 2024 state cap was $125 per capita with a per-state minimum of $378,230,000.

In 2023, the most recent year for which data is available, state HFAs issued $18.5 billion in MRBs and supported the purchase of over 78,000 homes nationwide. Some bond issuance was used to raise proceeds that were saved for use in future years and to refund prior-year bonds.

In 2023, States issued just over $13.8 billion in Multifamily Housing Bonds to finance more than 64,000 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.

FORECAST FOR 2025

Ongoing efforts to expand and reform LIHTC also include provisions related to Multifamily Housing Bonds, since the two financing tools are often used together. Currently, for a multifamily Housing Bond development to receive the full eligible amount of 4% LIHTC, at least 50% of the development cost must be financed with tax-exempt Multifamily Housing Bonds. This is known as the "50 percent test." The "Affordable Housing Credit Improvement Act" (AHCIA), which NLIHC endorsed, includes a provision that would lower this threshold from 50% to 25%. Lowering the bond threshold may result in more construction and rehabilitation, because state allocating agencies could spread out their bonds to more developments. However, developers would still need to secure other sources of gap financing.

The AHCIA includes several additional provisions that would impact bond financing, including:

- Allowing states to use their discretionary basis boost for PAB and 4% LITHC properties; and
- Exempting PABs used to recapitalize LIHTC properties from the annual cap.

In 2025, Congress will be taking up tax reform, which may include these reforms from the AHCIA as a starting point for any expansion or reforms to LIHTC and Housing Bonds.

Any expansion of LIHTC, including by increasing access to bond financing, must be paired with key reforms to ensure that LIHTC better serves extremely low-income households, including those experiencing or at risk of homelessness. NLIHC supports reforms to LIHTC that help renters with the greatest needs, including households with extremely low incomes, and those living in rural and tribal communities, where financing multifamily development is uniquely challenging.

Another bill in the 118th Congress that also included lowering the bond threshold (50 percent test), is the "Visitable Inclusive Tax Credits for Accessible Living ("VITAL") Act" (H.R. 3963), which increases requirements for accessibility and visitability in LIHTC properties. This bill may be reintroduced in the 119th Congress. NLIHC endorsed this bill.

What To Say to Legislators

As Congress considers ways to reform LIHTC and Housing Bonds, they must include reforms that help renters with the greatest needs, such as the ELI basis boost and reforms to better serve rural and tribal communities. These changes to LIHTC would better serve renters with extremely low incomes living in homes financed by LIHTC and Multifamily Housing Bonds.

Advocates should continue to educate legislators about the importance of Housing Bonds as an affordable source of financing for multifamily housing and assistance to first-time homebuyers.

For More Information

NLIHC, 202-662-1530, www.nlihc.org.

Congressional Research Service Report: Private Activity Bonds: An Introduction: https://crsreports.congress.gov/product/pdf/RL/RL31457/25.

National Council of State Housing Agencies: Tax-Exempt Housing Bonds 2024 FAQs: https://www.ncsha.org/wp-content/uploads/Housing-Bonds-FAQs-2024.pdf.