

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 2024, state HFAs financed 94,744 mortgages for low- and moderate-income borrowers through Mortgage Revenue Bonds (MRBs), provided tax relief to 3,006 homebuyers through Mortgage Credit Certificates (MCCs), and financed the construction or rehabilitation of 76,161 affordable rental units through Multifamily Housing Bonds.

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

Funding: The cost of bond programs is calculated as foregone tax revenues, or “tax expenditures.” The Joint Committee on Taxation (JCT) estimates forgone taxes from the exclusion of interest on state and local government qualified private activity bonds for rental housing to be \$1.6 billion for 2026. For the period 2024 through 2028, the total foregone tax revenue is estimated to be \$8 billion.

Recent legislative changes enacted in the “One Big Beautiful Bill Act” (H.R. 1) will expand the use of tax-exempt bond financing, as well as expand the state allocation of 9% Low-Income Housing Tax Credits (LIHTC). JCT does not have an estimate that separates the cost of the 9% LIHTC expansion and the change to tax-exempt bond financing, and states are still developing their policies; however, this change will lead to additional foregone tax revenue.

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. HFAs may use their MRB authority to issue Mortgage Credit Certificates (MCCs), which provide a nonrefundable federal income tax credit for part of the mortgage interest that qualified homebuyers pay each year.

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 25% of their eligible basis (a subset of total development cost) are eligible to receive 4% Low-Income Housing Tax Credit (LIHTC) equity from outside the state-allocated LIHTC cap (prior to the passage of the “One Big Beautiful Bill Act” (H.R.1), developments were required to use bond financing for 50% of eligible basis. State housing finance agencies are working to set policies on how to implement the new 25% threshold. The National Council of State Housing Agencies (NCSHA) is monitoring [states’ policies \(https://www.ncsha.org/resource/state-policies-on-new-25-bond-financing-threshold/\)](https://www.ncsha.org/resource/state-policies-on-new-25-bond-financing-threshold/) as they are announced. 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 2025 state cap was \$130 per capita with a per-state minimum of \$388,780,000. The national cap for 2025 was \$48,325,141,280 (this can be used for various activities, including housing).

In 2024, the most recent year for which data is available, state HFAs issued \$23.6 billion in MRBs and supported the purchase of over 94,000 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 \$15.2 billion in Multifamily Housing Bonds to finance more than 76,000 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.

Changes to Multifamily Housing Bonds in 2025

In 2025, Congress passed a large tax reform package, H.R. 1, also known as the "One Big Beautiful Bill Act," using the budget reconciliation process, a special legislative process through which Congress can pass certain legislation with a simple majority—51 votes—in the Senate, instead of the two-thirds majority usually required. Under reconciliation, when one party controls the House, Senate, and White House, a bill can pass without any bipartisan support. H.R. 1 cuts over \$1 trillion in federal spending on safety net programs that provide people with low incomes the assistance they need to help make ends meet, including Medicaid and the Supplemental Nutrition Assistance Program (SNAP). The Congressional Budget Office (CBO) estimates that the 10% of households with the lowest incomes will lose an average of \$1,200 per year because of cuts to assistance programs. For households with low incomes already struggling to make ends meet, the additional strain these cuts will place on their budgets will have a devastating impact on their ability to put food on the table, afford medical care, and keep a roof over their heads.

Among the tax provisions, the 9% LIHTC was permanently expanded by 12%, and the tax-exempt bond financing threshold test for LIHTC developments financed with bonds and 4% LITHC was lowered from 50% to 25% (this is sometimes referred to as the "50% test," which could now become a "25% test"). Both

provisions were pulled from the “Affordable Housing Credit Improvement Act.” Novogradac estimates that these are estimated to result in the construction of an additional 1.22 million affordable homes over the next decade. However, the additional financial strain put on low-income households because of the other provisions of this bill will continue to keep housing out of reach for those with the most urgent affordable housing needs.

Forecast for 2026

Ongoing efforts to expand and reform LIHTC also include provisions related to Multifamily Housing Bonds, since the two financing tools are often used together. One of the main bond-related provisions from the AHCA (lowering the 50% bond financing threshold to 25%) was passed with H.R. 1, however the AHCA includes additional provisions that would impact bond financing, including:

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

Any expansion of LIHTC, including through 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.

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 2025 FAQs: <https://www.ncsha.org/wp-content/uploads/Housing-Bonds-FAQs.pdf>