Tax-Exempt Private Activity Housing Bonds

An Essential Affordable Housing Resource

Tax-exempt private activity Housing Bonds—including multifamily housing bonds used to finance rental housing production and the Mortgage Revenue Bond (MRB) program, which makes homeownership possible for first-time lower income home buyers—are essential to our efforts to help low- and moderate-income working families find affordable housing. Housing Bonds fall under state private activity bond authority, which is a flexible tool that allows states to decide how to address various infrastructure needs, including the provision of affordable housing, water and sewer facilities, certain transportation systems, and more.

Not only do Housing Bonds help individual households attain affordable housing, but bonds also provide other important indirect benefits by helping the sale of homes under foreclosure; revitalizing distressed neighborhoods; bringing mortgage funds into capital-deprived areas; funding the repair and purchase of homes in older, urban communities; and helping low-income renters move out of public and assisted housing into homes of their own.

- **Mortgage Revenue Bonds are essential to the first-time home buyer market.** While the homeownership market continues to recover, many creditworthy working families are still struggling to find the affordable loan terms they need to purchase their first homes. According to the most recent data from the National Association of REALTORS® (NAR), first-time home buyers accounted for only 34 percent of all home buyers in 2017, compared to 40 percent historically.[1] The existence of fewer entry-level home buyers holds back the housing market's still-fragile recovery by making it difficult for "trade-up" buyers to sell their homes.

- **Multifamily Bonds are a vital tool for addressing the rental housing crisis.** The number of cost-burdened renter households soared to 21.3 million, the highest level on record, in 2017 with nearly half of all renter households facing this burden.[2] If current rent and income trends continue, the number of severely cost-burdened renter households will increase by more than 25 percent by 2025. Multifamily bonds are essential to the production and preservation of affordable rental housing. They provide critical financing to roughly 50 percent of Low Income Housing Tax Credit rental homes annually.[3]

- **Housing Bonds have been an unqualified success.** In today's overly tight credit market, MRBs represent a lifeline for creditworthy families with modest incomes and limited capacity to amass the necessary down payments to access homeownership. Using MRBs, state HFAs have helped over 3 million responsible low- and moderate-income borrowers become homeowners. They help another

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[1] National Association of Realtors, *Profile of Home Buyers and Sellers* 2017.
[2] Harvard Joint Center for Housing Studies, *The State of the Nation's Housing* 2017.
[3] National Council of State Housing Agencies *State HFA Factbook: NCSHA Annual Survey Results* 2016.

approximately 75,000 families buy their first homes with MRB mortgages on average each year. HFAs have helped over 250,000 additional homeowners by converting some of their bond authority to Mortgage Credit Certificates (MCCs), which provide home buyers with a federal tax credit for interest paid on their mortgages.[4]

State HFAs have financed nearly 12,500 properties across the country using multifamily bonds to provide affordable rental housing to over 1 million families. State HFA multifamily bonds help finance approximately 30,000 rental apartments annually, many of which house people with special needs, such as the elderly, those in assisted living, persons with disabilities, the rural poor, and individuals and families experiencing homelessness.[5]

- **Many of these investments would not happen without Housing Bonds.** Eliminating or curbing the tax exemption would not reduce the need for affordable housing but would lead investors to demand higher interest rates, thus directly and negatively impacting the availability of lower cost financing for low-income working families.

- **Housing Bonds create jobs and promote economic growth.** According to models formulated by the National Association of Home Builders (NAHB) and the National Association of REALTORS®, in the ten-year period between 2007 and 2016, state HFA MRB homeownership programs generated almost 48,000 jobs annually on average. Multifamily bonds also generate important economic growth. Over the same period of time, construction and rehabilitation of rental homes financed with HFA multifamily bonds generated approximately 27,000 jobs and added over $2 billion to GDP annually on average.[6]

- **Congress has the opportunity to build a simpler, more effective Housing Bond program.** Congress could further strengthen Housing Bonds by making low or no-cost changes to eliminate outdated rules and give states more flexibility to respond to their unique needs and circumstances. For example, within the MRB program, the purchase price limit is no longer needed, as the income limits Congress later imposed effectively control the price of homes MRB borrowers can purchase. The considerable resources HUD and Treasury expend coming up with the purchase price limits annually could be deployed elsewhere. In addition, the MRB home improvement loan program—especially important now given the repair needs of foreclosed properties and the home maintenance families were forced to defer during the recession—would be much more useful if Congress increased its loan limit of $15,000 by an amount at least adequate to reflect the rise in construction costs since it was last adjusted more than 35 years ago.

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[4] National Council of State Housing Agencies *State HFA Factbook: NCSHA Annual Survey Results* 2016.
[5] National Council of State Housing Agencies *State HFA Factbook: NCSHA Annual Survey Results* 2016.
[6] National Association of Relators*, Profile of Home Buyers and Sellers* 2017.