The Affordable Housing Bond Enhancement Act

The Affordable Housing Bond Enhancement Act (S. 1805) is bipartisan legislation introduced by Senators Catherine Cortez Masto (D-NV) and Bill Cassidy (R-LA) that would expand the supply of affordable homes and improve access to homeownership for low- and moderate-income home buyers through simple and impactful improvements to the Mortgage Revenue Bond (MRB) and Mortgage Credit Certificate (MCC) programs. At a time when rising interest rates and lack of affordable ownership homes has put the dream of homeownership out of reach for many creditworthy families, these programs are more important than ever.

MRBs and MCCs Overview

- MRBs are a type of municipal bond used by state housing finance agencies (HFAs) to finance low-interest mortgages for low- and moderate-income home buyers.
- Investors are willing to accept a lower rate of return for Housing Bonds than they would earn on other investments because the interest on the bonds is exempt from federal income tax. The lower rate is then passed on to lower the interest rate paid by lower-income home buyers. Most HFAs currently are able to use MRBs to fund mortgages with an interest rate 1 to 1.5 percent below the market.
- In a typical year, as many as 60,000 families buy their first homes with MRB mortgages. In total, MRBs have helped nearly 3.5 million working households become home buyers.
- The median income of MRB loan borrowers in 2022 was 80 percent of the national median income. Eighty-three percent of MRB borrowers earned at or below area median income.
- In addition, HFAs can also use their MRB authority to issue Mortgage Credit Certificates (MCCs), which provide a nonrefundable federal income tax credit for part of the mortgage interest qualified home buyers pay each year.
- The MCC program is a flexible subsidy source, which can be adjusted depending on the incomes of different home buyers and provides a relatively constant level of benefit to first-time home buyers regardless of the spread between market and MRB rates.
- State HFAs have used MCCs to provide critical tax relief to more than 397,000 families.

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- Permits qualified borrowers to use MRBs to refinance home loans, which will enable states to help some homeowners struggling with loss of income due to unexpected circumstances avoid selling their homes or risking foreclosure.
- Increases the MRB home improvement loan limit from $15,000 to $50,000, which will enable working families to make critical repairs to their homes.
- Reduces the time frame from nine years to five when a recapture tax is charged to MCC or MRB borrowers who sell their homes. The recapture tax penalty, which is above and

beyond the capital gains rate, is often at a higher rate than the actual advantage the owner gained by receiving an MRB loan or an MCC.

- Changes the MCC benefit calculation to a simple percentage of the original loan balance. The current complicated formula hinders participation in the program by lenders and may require a homeowner to pay for tax advice to receive the credit.
- Provides HFAs flexibility to address changes in project plans due to market changes or other delays by permitting states to re-designate any carryforward authority and use it for either single-family or multifamily housing during the carryforward period.
- Extends the MCC expiration period from two years to four and the MCC revocation period from one year to two to address changing economic factors so that the credit authority is not lost due to delays such as construction shortages or supply chain disruptions.
- Requires the Internal Revenue Service to annually report on how states used their bond authority to the Senate and House tax and banking committees. The report must include state-by-state usage of private activity bond authority and the extent to which any bond cap expires after the carryforward period.
- Shortens the 90-day public notice requirement to 30 days. Currently, before issuing MCCs, issuers must provide 90 days' public notice of their intention to do so. MCC issuers typically receive little, if any, public comment on these notices. This long notice period hinders MCC issuers' efforts to convert unused bond authority to MCCs before it expires.
- Eliminates the lender reporting requirement. When a mortgage borrower receives an MCC, the lender of the underlying mortgage must report annually to the IRS certain information about the loan. Lenders find this reporting requirement burdensome, and it reduces their interest in participating in MCC programs.