Tax-Exempt Housing Bonds
2024 FAQs

What are Housing Bonds?

The Mortgage Revenue Bond (MRB) and tax-exempt multifamily Housing Bond programs (collectively, Housing Bonds) are financing tools used by state housing finance agencies (HFAs) to finance low-interest mortgages for low- and moderate-income home buyers and to acquire, construct, and rehabilitate multifamily housing for low-income renters. HFAs, as well as other state and local governmental entities, sell to investors tax-exempt bonds for housing and other activities with private ownership that serve a public purpose (called Private Activity Bonds, or PABs). Investors are willing to accept a lower rate of return for Housing Bonds than they would get 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 in the case of MRBs and developers of affordable rental housing in the case of multifamily bonds.

Are Housing Bonds one of the original uses of PAB authority?

Yes. Housing Bonds are one of the original categories of tax-exempt PABs, dating back to 1968 when Congress first defined PABs and set forth which types of PABs would be qualified as tax-exempt.

How do HFAs use Housing Bonds?

Because interest payments made on Housing Bonds are tax-exempt, HFAs can pass on the interest savings to home buyers and renters in reduced housing costs. In a typical year, as many as 60,000 families buy their first homes with MRB mortgages. Each year, state HFAs use multifamily tax-exempt Housing Bonds to finance between 40,000 and 70,000 additional apartments, including many also financed with the Low-Income Housing Tax Credit. State HFA-issued Housing Bonds have helped more than 3.4 million low- and moderate-income families purchase affordable homes and have financed nearly 1.4 million rental homes for lower-income families.[1]

HFAs 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 almost 400,000 families.[2]

[1] National Council of State Housing Agencies, *State HFA Factbook: NCSHA Annual Survey Results 2022*, October 2023.
[2] National Council of State Housing Agencies, *State HFA Factbook: NCSHA Annual Survey Results 2022*, October 2023.

How much bond authority do states have?

Each state's annual issuance of Housing Bonds and other Private Activity Bonds, including industrial development, redevelopment, student loan, water, sewage, transit, and other exempt facility bonds, is capped. Since 2000, the PAB volume cap has been indexed to inflation. The 2024 cap is $125 per capita, with a minimum state allowance of $378,230,000.[3] Volume cap figures are published by the Internal Revenue Service on an annual basis.

What restrictions exist on the use of Housing Bonds?

Congress restricts mortgages financed by MRBs to first-time home buyers who earn no more than 115 percent of the area median income (AMI), and homes purchased with MRB mortgages must cost no more than 90 percent of the average area purchase price. The median income of an MRB borrower in 2022 was $59,465,[4] 80 percent of the national median.[5]

For multifamily housing, developments financed by Housing Bonds must set aside at least 40 percent of their apartments for families with incomes of 60 percent of AMI or less, or 20 percent for families with incomes of 50 percent of AMI or less.

Why should Congress protect Housing Bonds?

Housing Bonds have been an unqualified success in providing lower-income Americans a unique and otherwise unavailable opportunity to own a decent and affordable home. The economic impacts of Covid-19 have left millions of households in deeper financial distress, thus exacerbating the need for both affordable rental and homeownership opportunities. According to the Joint Center for Housing Studies at Harvard University, in 2021, 16 percent of all households, including more than a quarter of all renter households, spent more than 50 percent of their income on housing.[6]

Eliminating or curbing the tax exemption for Private Activity Housing Bonds 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 and populations with special needs. The outcome would be higher borrowing costs for state and local governments, less investment in affordable housing, and fewer jobs. This would come at exactly the wrong time, as state and local government finances remain under pressure and are unable to meet the growing need for affordable housing, while rising inflation and supply constraints continue to increase housing development costs.

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[3] United States Department of Treasury, Internal Revenue Service, Revenue Procedure 2023-34.

[4] National Council of State Housing Agencies, *State HFA Factbook: NCSHA Annual Survey Results 2022*, October 2023.

[5] United States Census Bureau, "Income in the United States: 2022."

[6] Joint Center for Housing Studies at Harvard University, "The State of the Nation's Housing 2023."

What does this program cost?

According to the Joint Committee on Taxation (JCT), for the five-year period between 2020 and 2024, the total cost of the MRB and MCC programs is expected to be $4.1 billion, and the total cost of the multifamily bond program is expected to be $5.9 billion. JCT estimates the 2024 cost of the MRB and MCC programs at $800 million and the cost of the multifamily bond program at $1.1 billion. Housing Bonds as a whole represent less than one percent of all affordable and non-affordable housing-related federal tax expenditures.[7]

How could Congress maximize the efficacy of Housing Bonds to build more rental housing?

To receive the full amount of 4 percent Housing Credits a multifamily Housing Bond-financed development is eligible to receive, at least 50 percent of development costs must be initially financed with tax-exempt multifamily bond authority from the state's PAB volume cap. The 50 percent requirement is an arbitrary threshold. In practice, most Housing Credit properties do not need that level of debt financing and indeed are not able to support so much debt over the long term given the lower rents paid by low-income residents. Further, the 50 percent requirement creates complications and inefficiencies in the financing process, forcing states to waste a significant amount of bond cap that could otherwise be available to finance more needed affordable rental homes.

Congress instead should allow states to produce and preserve more rental housing with their existing PAB resources by lowering the threshold from 50 to 25 percent. This modification would allow states to use their bond authority more efficiently. According to a 2022 estimate, lowering the bond financing threshold to 25 percent would lead to the production or preservation of as many as 1.48 million additional affordable rental homes over 2023 – 2032.[8]

In January, the House of Representatives passed a tax package (The Tax Relief for American Families and Workers Act; H.R. 7024) that includes a provision lowering the bond financing threshold to 25 percent for 2024 and 2025. The bill has been referred to the Senate, which may take it up soon. It is critical the Senate pass this bill to allow HFAs to maximize the use of their bond resources and fund more affordable homes. Congress also should pass the Affordable Housing Credit Enhancement Act (S. 1557/H.R. 3238) to permanently lower the bond financing threshold.

There is precedent for modifying the bond financing threshold. When the Housing Credit was first established in 1986, the threshold for triggering the full amount of 4 percent Credits was 70

[7] Joint Committee on Taxation, "Estimates of Federal Tax Expenditures for Fiscal Years 2023– 2027."

[8] Notes from Novogradac Blog Post, "Novogradac Estimates 1.93 Million Additional Affordable Rental Homes Could Be Financed If LIHTC Proposals Are Included in Year-End Tax Legislation," December 16, 2022.

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percent. When Congress overhauled the Housing Credit program in 1990, it lowered the threshold to 50 percent.

What reforms can be made to MRBs to allow HFAs to assist more home buyers?

On June 6, 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 to MRBs and MCCs that would expand the supply of affordable homes and improve access to homeownership for low- and moderate-income home buyers. These 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 is currently working to add cosponsors for S. 1805 and to identify a Republican member of the Ways and Means Committee to introduce the bill in the House of Representatives, having already lined up a Democratic lead. The legislation is endorsed by the National Association of REALTORS, National Association of Home Builders, Mortgage Bankers Association, and LISC.