

Tax-Exempt Housing Bonds Frequently Asked Questions

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 78,000 additional apartments, including many also financed with the Low-Income Housing Tax Credit. State HFA-issued Housing Bonds have helped more than 3.6 million low- and moderate-income families purchase affordable homes and have financed more than 1.5 million rental homes for lower-income families.¹

What are Mortgage Credit Certificates?

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 more than 406,000 families.²

¹ National Council of State Housing Agencies, *State HFA Factbook: NCSHA Annual Survey Results 2024*, October 2025.

² National Council of State Housing Agencies, *State HFA Factbook: NCSHA Annual Survey Results 2024*, October 2025.

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 2026 cap is \$135 per capita, with a minimum state allowance of \$397,625,000.³ 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. In 2024, 71 percent of MRB mortgages went to households earning at or below AMI, including nearly half that went to borrowers earning at or below 80 percent of AMI.

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 the tax exemption for 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 recent increase in interest rates and other borrowing costs have made it even more difficult for working families to purchase a home and for builders to obtain the capital they need to build affordable homes. According to the Joint Center for Housing Studies at Harvard University, in 2023, 20.3 million households, including more than a quarter of all renter households, spent more than 50 percent of their income on housing.⁴

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.

³ United States Department of Treasury, Internal Revenue Service, Revenue Procedure 2025-324.

⁴ Joint Center for Housing Studies at Harvard University, "The State of the Nation's Housing 2025," June 2025.

Could other tax incentives replace the need for Housing Bonds?

While there are other tax incentives that can and have been used to support financing for affordable housing, such as the New Markets Tax Credit, Opportunity Zones, and public-private partnerships, none of these initiatives have come close to replicating the amount of financing provided directly through Housing Bonds. Such tools can be useful but only as a supplement to Housing Bonds, not as a replacement.

What does this program cost?

According to the Joint Committee on Taxation (JCT), for the five-year period between 2025 and 2029, the total cost of the MRB and MCC programs is expected to be \$5.5 billion and the total cost of the multifamily bond program is expected to be \$9 billion. JCT estimates the 2026 cost of the MRB and MCC programs at \$1.1 billion and the cost of the multifamily bond program at \$1.7 billion. Housing Bonds as a whole represent less than one percent of all affordable and non-affordable housing-related federal tax expenditures.⁵

How has Congress expanded rental housing production with multifamily Housing Bonds?

Congress recently made an essential change to the way multifamily housing bonds facilitate housing production when used with the Low-Income Housing Tax Credit. Prior to the passage of the One Big Beautiful Bill Act of 2025 (OB3), only developments financed with at least 50 percent multifamily bond proceeds from a state's PAB volume cap were eligible to receive the full amount of 4 percent Housing Credits. This forced developers often to take on more debt — albeit at tax-exempt rates — than they needed for financial feasibility and created complications and inefficiencies in the financing process that forced states to waste a significant amount of bond cap that otherwise could be available to finance more needed affordable rental homes. With the passage of OB3, Congress lowered the bond financing test to 25 percent. This technical change is estimated to expand production by more than 1.1 million units over 10 years.⁶

How could Congress expand the reach of Mortgage Revenue Bonds?

1. Remove the cap on MRBs on a temporary basis. The PAB volume cap sets up a zero-sum game in which MRBs and multifamily housing bonds must compete against each other and against all other uses of PAB authority covered by the PAB volume cap for what is an insufficient amount of bond authority in many states.

Given the gravity of the housing crisis and the need to make up ground lost due to decades of inadequate investment, we recommend Congress remove Mortgage Revenue Bonds from the PAB volume cap for at least the next five years to extend the American dream of

⁵ Joint Committee on Taxation, "Estimates of Federal Tax Expenditures for Fiscal Years 2025 – 2029."

⁶ Novogradac, Notes from Novogradac blog post, "Senate Finance Committee Releases FY 2025 Budget Reconciliation Bill that Includes Permanent LIHTC Expansion, Novogradac Estimates 1.22 Million Additional Affordable Rental Homes over 2026 – 2035," June 26, 2025.

homeownership to many more qualified first-time home buyers who currently are stuck in the rental market because of prohibitive mortgage interest rates. This also will boost the production of affordable multifamily housing by freeing up more PAB authority under the volume cap for multifamily housing bonds.

While MRBs fall under the PAB volume cap, Congress has long provided unlimited bond authority for other types of private activities. For example, bonds used to finance airports, docks and wharves, and nonprofit entities such as hospitals are not subject to the volume cap. We urge Congress to similarly prioritize affordable homeownership for at least a five-year period. Such a reprieve from the cap would allow states and local governments to take considerable action to meet the demand for affordable housing and increase affordability for those who need help.

2. Modernize the MRB and MCC programs by passing the Affordable Housing Bond Enhancement Act. Congress has the opportunity to further strengthen the MRB and MCC programs through several simple but impactful changes that would improve access to homeownership for low- and moderate-income home buyers. The Affordable Housing Bond Enhancement Act (S. 1515/H.R. 7414), introduced by Senators Catherine Cortez Masto (D-NV) and Bill Cassidy (R-LA) and Representatives Rudy Yakym (R-IN) and Gwen Moore (D-WI), would adopt many of these changes. 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 currently is working to educate Congress about the important impact these bills would have and garner more cosponsors for the Affordable Housing Bond Enhancement Act, with particular emphasis on members of the Senate Finance and House Ways and Means committees. In addition to NCSHA, the legislation is endorsed by the National Association of REALTORS®, National Association of Home Builders, Mortgage Bankers Association, Prosperity NOW, and Local Initiatives Support Corporation.