Tax-Exempt Housing Bonds FAQ

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 tax-exempt bonds for housing and other activities with private ownership but that serve a public purpose (called "Private Activity Bonds") to investors. 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 75,000 families buy their first homes with MRB mortgages. Each year, state HFAs use multifamily tax-exempt housing bonds to finance an additional 30,000 apartments, including many also financed with the Low Income Housing Tax Credit. State HFA-issued Housing Bonds have provided over 3 million lower-income Americans with affordable homeownership and another 1 million with rental housing opportunities.[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 over 250,000 families.[2]

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[1] National Council of State Housing Agencies *State HFA Factbook: NCSHA Annual Survey Results* 2016.
[2] National Council of State Housing Agencies *State HFA Factbook: NCSHA Annual Survey Results* 2016.

How much bond authority do states have?

Each state's annual issuance of Housing Bonds and other Private Activity Bonds (PAB), 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 2018 cap is $105 per capita, with a minimum state allowance of $311,375,000. Volume cap figures are published by the IRS on an annual basis.[3]

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 be no more than 90 percent of the average area purchase price. The median income of an MRB borrower in 2016 was approximately $50,950, approximately 13 percent less than the national median.[4]

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. There is a growing need for both affordable rental and homeownership opportunities. According to the Joint Center for Housing Studies at Harvard University, 39.8 million U.S households—more than one in four homeowners and nearly half of all renter households—pay an excessive share of their income for housing.[5]

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 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.

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[3] United States Department of Treasury, Internal Revenue Service, *Revenue Procedure 2017-58.*
[4] United States Census Bureau, *Household Income:* 2016.
[5] Harvard Joint Center for Housing Studies, *The State of the Nation's Housing* 2017.

What is the economic impact of Housing Bonds?

According to models formulated by the National Association of Home Builders (NAHB) and the National Association of REALTORS®, in the 10-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, state construction and rehabilitation of apartments financed with HFA multifamily bonds generated over 43,500 jobs.[6]

Would other tools for financing affordable housing be more efficient?

Proponents of eliminating tax-exempt bonds have proposed that there are other, ostensibly more efficient, tax tools that Congress should consider in lieu of tax exemption. While there may be other effective tax tools to create affordable housing opportunities, we should not eliminate or impair a proven and effective tool with a 30-year track record and replace it with an unproven new program.

What does this program cost?

According to the Joint Committee on Taxation (JCT), for the five-year period between 2016 and 2020, the total cost of the MRB and MCC programs is expected to be $7.1 billion and the total cost of the multifamily bond program is expected to be $5.6 billion. JCT estimates the 2018 cost of the MRB and MCC programs at $1.4 billion and the cost of the multifamily bond program at $1.1 billion. The Housing Bond program as a whole represents 1 percent of all affordable and non-affordable, housing-related federal tax expenditures.[7]

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[6] National Association of Home Builders, The Local Impact of Home Building 2015.
[7] Joint Committee on Taxation, *Estimates of Federal Tax Expenditures for Fiscal Years 2016-2020.*