Multifamily Housing Bonds: An integral part of the Housing Credit delivery system

Housing Bonds are vital for addressing our nation’s severe shortage of affordable rental housing by creating new apartments and maintaining the existing stock.

- Multifamily Housing Bonds (Housing Bonds) are tax-exempt private activity bonds — bonds with private ownership that serve a public purpose — used by Housing Finance Agencies (HFAs) to acquire, construct, and rehabilitate affordable rental homes for low-income renters.
- Housing Bonds reduce borrowing costs for developers, which drives investment in affordable housing and in turn creates jobs. State HFAs have used Housing Bonds to provide affordable rental housing to over 1 million families, including low-income families, seniors, people with special needs, veterans, and other vulnerable populations.
- However, nearly 11 million renter households — roughly one in four renters — spend over half their income on rent,¹ and this number is expected to rise past 13 million by 2025.²
- Housing Bonds, together with the 4 percent Credit, are one of the primary tools for preserving our nation’s existing affordable housing stock. While Housing Bonds and the 4 percent Credit can be used for either new construction or rehabilitation, they are commonly used for rehabilitation because it is often more cost effective to preserve existing affordable housing with this tool.

Housing Bondstrigger the “4 percent” Housing Credit, without which thousands of affordable homes would not be built or preserved.

- Housing Bonds provide financing to roughly half of all developments financed each year with the Low-Income Housing Tax Credit (Housing Credit), our nation’s primary tool for building and preserving affordable housing. In 2016, Housing Bonds in combination with the Housing Credit helped finance affordable homes for over 52,000 Americans.³
- There are two components of the Housing Credit program — the “9 percent Credit” and the “4 percent Credit.”
  - The 9 percent Credit yields an approximate subsidy of 70 percent of the eligible depreciable costs for new construction and substantial rehabilitation. It is limited by the state’s Housing Credit volume cap.
  - The 4 percent Credit is available to developments that finance at least 50 percent of a project with Housing Bonds and yields an approximate subsidy of 30 percent of the eligible depreciable costs for new construction or substantial rehabilitation, in conjunction with those bonds. It is effectively limited by the state’s private activity bond volume cap.
- Without Housing Bonds, the 4 percent Credit would not finance tens of thousands of affordable rental homes each year. Setting a minimum 4 percent rate would allow even more affordable rental housing to be built with the 4 percent Credit.

Housing Bonds work by incentivizing private investment in projects with public benefits.

- State HFAs and governmental entities issue tax-exempt Housing Bonds, and investors accept a lower interest rate than they would on other investments because the interest on the bonds is exempt from federal income tax. The tax exemption allows developers to borrow money at a lower interest rate than would be available with conventional financing, ultimately allowing them to provide rents that are affordable to low-income households.
- To receive the tax-exemption benefit, developments must make at least 40% of their apartments affordable for families with incomes at or below 60% area median income (AMI), or 20% of their apartments affordable for families with incomes at or below 50% AMI.
- The tax exemption on Housing Bonds provides an important but modest subsidy that, in addition to the 4 percent Credit, is vital to sustaining affordable housing production.

³ National Council of State Housing Agencies. “State HFA Factbook 2016.”