

# 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.

- Multifamily Housing Bonds (Housing Bonds) are tax-exempt private activity bonds (PABs) – 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 creates jobs. State HFAs have used Housing Bonds to fund affordable rental homes for over one million households, including low-income families, seniors, people with special needs, veterans, and more.
- However, nearly 11 million renter households – roughly one in four– spend over half their income on rent,<sup>1</sup> and this number is expected to rise past 13 million by 2025.<sup>2</sup>
- Housing Bonds, together with 4 percent Housing Credits, are the primary tools for preserving affordable housing. Together they can be used for either new construction or rehabilitation, financing tens of thousands of units per year.

## Housing Bonds trigger “4 percent” Housing Credits, making affordable housing production possible.

- 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 2018, Housing Bonds in combination with the Housing Credit helped finance affordable homes for over 67,926 households.<sup>3</sup>
- There are two components of the Housing Credit program – “9 percent” and “4 percent” Housing Credits.
  - The 9 percent Housing Credit yields approximately 70 percent of eligible depreciable costs for new construction and substantial rehabilitation over 10 years. It is limited by the state's Housing Credit volume cap.
  - The 4 percent Housing Credit is maximized when developments finance at least 50 percent of a project with Housing Bonds, thus meeting the “50 Percent Test” threshold. The 4 percent Housing Credit yields approximately 30 percent of eligible depreciable costs for new construction or substantial rehabilitation over 10 years. It is effectively limited by the state's PAB volume cap.
- Setting a minimum 4 percent rate would allow nearly 126,000 affordable rental housing to be built over 2020-29 with the 4 percent Housing Credit, according to Novogradac.

## 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.
- Households are eligible to move into Housing Bond-financed housing, so long as at least 40 percent of the units are rented to households whose incomes are no more than 60 percent of the area median income.
- The tax exemption on Housing Bonds provides an important but modest subsidy that, in addition to the 4 percent Housing Credit, is vital to sustaining affordable housing production.

## Housing Bond developments in the pipeline face special challenges due to COVID-19.

- To maximize 4 percent Housing Credit equity, developers must cover at least 50 percent of total project costs with bond financing. However, delays and shortages due to COVID-19 are impacting project cost. If costs go up, some properties may not be able to achieve this “50 Percent Test” threshold, jeopardizing the entire development. When this happens, projects are often forced to seek additional bond financing, an increasingly lengthy and expensive process due to delays and market instability that is sometimes not possible, as many states regularly exhaust their bond authority. Deadlines associated with the 4 percent Housing Credit make it even more difficult to get a supplemental bond allocation, even if the state has bond cap available.
- Lowering the 50 Percent Test would reduce the amount of limited PAB financing required to access the maximum amount of 4 percent Housing Credits. For states that are nearing or have reached their PAB cap, lowering the test would also increase affordable housing production and preservation at a time when the need for affordable housing is greater than ever. According to a report from Novogradac and the National Council of State Housing Agencies, lowering the 50 Percent Test to 25 percent could provide as many as 1.4 million additional affordable homes over the next decade.<sup>4</sup>

<sup>1</sup> Joint Center for Housing Studies of Harvard University. “America's Rental Housing 2020.” [https://www.jchs.harvard.edu/sites/default/files/Harvard\\_JCHS\\_Americas\\_Rental\\_Housing\\_2020.pdf](https://www.jchs.harvard.edu/sites/default/files/Harvard_JCHS_Americas_Rental_Housing_2020.pdf)

<sup>2</sup> Enterprise Community Partners. “Projecting Trends in Severely Cost-Burdened Renters: 2015-2025.” <https://www.enterprisecommunity.org/download?fid=3244&nid=4360>

<sup>3</sup> National Council of State Housing Agencies. “State HFA Factbook 2018.”

<sup>4</sup> Novogradac & Co. and the National Council of State Housing Agencies. “Analyzing the Impact of Lowering the 50% Test for 4% Tax-Exempt Bond Financed Properties.” [https://www.ncsha.org/wp-content/uploads/Analyzing\\_the\\_Impact\\_of\\_Lowering\\_the\\_50\\_Test\\_Report.pdf](https://www.ncsha.org/wp-content/uploads/Analyzing_the_Impact_of_Lowering_the_50_Test_Report.pdf)