Affordable Housing Bond Enhancement Act,
Sponsored by Senators Cortez Masto and Cassidy

Supported by the National Council of State Housing Agencies, LISC, National Association of REALTORS, National Association of Homebuilders, BPC Action, Mortgage Bankers Association and Prosperity Now.

The **Affordable Housing Bond Enhancement Act** will expand and preserve the supply of affordable homes by making it easier for future and current homebuyers to access loans with discounted interest rates and annual tax credits to buy a home, improve their home or refinance a mortgage. These improvements to the Mortgage Revenue Bonds (MRB) and Mortgage Credit Certificates (MCC) enable state Housing Finance Agencies to provide more flexible options in a more timely and efficient way.

Congress provides each state an amount of private activity bonds (PABs) that can be issued by issuers within that state. This amount could include MRBs and MCCs issued by Housing Finance Agencies (HFAs) to support homeownership for families earning 115% or less of area median income.

More than 4 million households have benefited from MRBs and MCCs. In total, MRBs have helped more than 3.5 million households become home buyers. State HFAs have used MCCs to provide tax relief to nearly 404,000 families to support sustainable homeownership.

MRBs are tax-exempt bonds which help fund below-market interest rate mortgages for qualifying homebuyers. MRBs historically have been HFAs' primary tool for financing low-interest mortgages for low- and moderate-income home buyers. 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.

HFAs can use their MRB authority to issue MCCs which provide a nonrefundable federal income tax credit for part of the mortgage interest qualified home buyers pay each year. MCCs are issued directly to qualifying homebuyers who are then entitled to take a nonrefundable federal tax credit equal to a specified percentage of the interest paid on their mortgage loan each year. The MCC helps homebuyers qualify for a mortgage and lowers annual costs for low-income homeowners which can make sustainable homeownership possible.

The bill

- increases the MRB home improvement loan limit from $15,000 to $75,000. These below market-rate loans can help qualifying homeowners finance resilient construction such as fortified roofs and windows to mitigate damage from extreme weather. Homeowners could finance accessible bathrooms and ramps to allow an elderly person age in place or enable a person with a disability to remain in the home. Energy efficiency upgrades such as HVAC systems and new windows could also help homeowners and preserve the home for future homebuyers. The $15,000 limit was set in the 1980s and not adjusted for inflation.

- permits MRBs to be used to refinance home loans for qualified borrowers. Refinancing to lower-interest loans can reduce monthly payments which will enable some homeowners struggling with loss of income, a death, or a divorce to avoid selling their home or risking foreclosure.

- reduces the time frame from nine years to five years when a recapture tax charged to MCC or MRB borrowers who sell their home. This tax, which is above and beyond capital gains tax, applies to lower-income MRB borrowers or MCC recipients whose income has increased since becoming a homeowner if the owner has a capital gain from their home sale. The recapture tax penalty is often at a higher rate than the actual advantage the owner gained by receiving the MRB loan or the MCC.

- simplifies the MCC benefit calculation to a simple percentage of the original loan balance. Housing Finance Agencies could set the percentage between 1-5% of the loan balance. This change would also allow HFAs to adjust the rate of credit a homeowner receives from their MCC each year, allowing homeowners to claim a larger credit during the first years of the mortgage, when interest payments are highest and lower it in later years. Currently, a borrower's MCC benefit for each year is determined by calculating their interest expenses for the year and then applying that amount to the rate of their credit which is difficult to calculate without additional assistance from an accountant.

- provides housing finance agencies with flexibility to address changes in project plans due to delays by permitting issuing authorities to re-designate any carryforward authority and use it for either single-family or multifamily housing during the carryforward period.

- extends the MCC expiration period from two years to four and the MCC revocation period from one year to two years to address changing economic factors so that the credit authority is not lost due to delays such as construction shortages or supply chain disruptions.

- requires the Internal Revenue Service (IRS) to annually report on how issuing authorities within the states used their bond authority to the tax and banking committees of the Senate and the House of Representatives. The report must include state-by-state usage of private activity bond authority and the extent to which any bond volume cap expires after the carryforward period.

- shortens the 90-day public notice requirement to 30 days. Currently, before issuing MCCs, issuers have to provide 90 days' public notice of their intention to do so. MCC issuers typically receive little, if any, public comment on these notices. This long notice period hinders MCC issuers' efforts to convert unused bond authority to MCCs before the authority expires.

- eliminates the lender reporting requirement. When a mortgage borrower receives an MCC, the lender of the underlying mortgage must report annually to the IRS certain information about the loan. Lenders find this reporting requirement burdensome, and it reduces their interest in participating in MCC programs. Issuers are required to provide MCC recipient data to the IRS so this is a redundant reporting provision.