General obligation bonds for affordable housing overview

General obligation bonds are government-issued bonds that are repaid from state or local general funds or a dedicated tax. The issuing entity (e.g., the city) places its full faith and credit in paying back the purchasers of the bond.

The proceeds can be used by cities, counties or states to provide subsidies for affordable housing projects or fund other affordable housing programs. General obligation bonds stand in contrast to multifamily affordable housing bonds (and other similar private activity bonds), in which the bond’s revenue is used to issue loans for one or more housing project(s) and the bond holders look for repayment from the projects/developers that made use of the bond proceeds.

Securing general obligation bonds can be challenging, as many jurisdictions require a special election to authorize a bond issue. Once issued, however, the proceeds from general obligation bonds for housing can be used flexibly—to fill financing gaps, fund state and local affordable housing programs, or achieve other goals. Because the interest on the bonds is exempt from federal and sometimes state income tax, and sale of the bonds is subject to a competitive bidding process, the funds can be raised at relatively low interest rates.

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General obligation bonds can be used to generate funding for affordable housing trust funds. Click here to learn more about housing trust funds.