Increased use of multifamily private activity bonds to draw down 4 percent Low Income Housing Tax Credits overview

Every year, the federal government authorizes each state to issue a specified volume of tax-exempt private activity bonds.

These bonds are used to fund private activities that have a public benefit, such as upgrades to airports, hospitals, and water treatment facilities, multifamily affordable rental developments, and home mortgages for first-time homebuyers. The bond is repaid with income generated from the activities financed.

Under certain market conditions, private-activity bonds may provide an advantage in the form of interest rates that are slightly lower than those available through conventional financing. When states allocate a portion of their bond cap to finance qualifying affordable rental housing, however, the bond cap becomes even more valuable, as the developments also automatically receive federal 4 percent Low Income Housing Tax Credits (LIHTCs, or tax credits). This combination of lower-cost financing (through the private activity bond) and equity (through the 4 percent LIHTC) can be a powerful way to expand the resources available for dedicated affordable rental housing. It also makes private activity bonds for affordable housing preservation or development more valuable than bonds used for other potential activities.

Four percent LIHTCs are worth only about half as much as the competitive 9 percent LIHTC, but the 4 percent tax credits are available as-of-right when the bond cap is used for affordable multifamily rental properties. The lower level of credits are most often used for projects with relatively low development costs – such as preservation projects requiring only light rehabilitation – or when there is a significant additional subsidy available from government or market-rate units in mixed income developments.

Four percent LIHTCs are one component of the Low-Income Housing Tax Credit program, which also includes 9 percent tax credits. Click here to learn more about the Low-Income Housing Tax Credit program.