THE BOND BUYER

PAB Limits Fall Short in Addressing Affordable Housing Shortage

By

Kelley R. Taylor

Published

November 30, 2021, 9:20 a.m. EST

The 2022 private activity bond caps have increased from 2021, though industry advocates say that Congress needs to enact historic investments in housing credits via the Democrats' Build Back Better legislation to affect meaningful change.

In Revenue Procedure 2021-45, issued Nov. 8, the Internal Revenue Service provided the per capita and state minimum levels for Housing Credit and Private Activity Bond (PAB) volume caps for 2022.

The state PAB volume cap will be the greater of $110 per capita, or $335.115 million. This is an increase over 2021 when the PAB volume cap was the greater of $110 per capita, or $324.995 million. For housing credit authority, states will receive the greater of $2.60 per capita or $2.975 million in 2022.

“While the annual increases to the PAB caps are important, they are not nearly sufficient to address our nation’s affordable housing shortage,” said Emily Cadik, executive director of the Affordable Housing Tax Credit Coalition.

That insufficiency is part of the reason why Cadik believes that the affordable housing proposals in the Democrats' $1.7 trillion reconciliation bill are needed.

“While the annual increases to the PAB caps are important, they are not nearly sufficient to address our nation’s affordable housing shortage,” said Emily Cadik, executive director of the Affordable Housing Tax Credit Coalition.

On Nov. 19, the House of Representatives passed its version of the Build Back Better Act, which contains provisions that would lower the 50% bond financing threshold for the Low Income Housing Tax Credit (LIHTC).

Cadik cited estimates from professional services organization Novogradac and Co., that enacting that provision, i.e., lowering the threshold to 25%, “would free up enough bond cap to finance an additional 712,000 affordable homes over the next decade.”

“For the growing number of states that are bond cap-constrained, this provision alone would essentially double their 4% Housing Credit production capability while removing an arbitrary barrier to affordable housing financing,” Cadik said.

Jennifer Schwartz, director of tax and housing advocacy for the National Council of State Housing Agencies agreed that Congress needs to pass the Build Back Better Act to help address bond-cap constraints.

“States are devoting the vast majority of their bond resources to affordable housing because of the extreme need for more affordable homes, which has only gotten worse during the pandemic,” Schwartz said.

Additionally, like Cadik, Schwartz notes that “more and more states... have more demand for affordable housing than they are able to build under the current [PAB] cap.”

Consequently, Schwartz said that enacting the Build Back Better Act would “allow states to make far more efficient use of their existing bond cap when financing rental housing with bonds and the [LIHTC].”

Both Cadik and Schwartz agree that the multifamily bond threshold is key.

“Currently, multifamily bonds must be used to finance 50% of the total development costs of a property in order to trigger the maximum amount of Housing Credit authority for which the property is eligible,” Schwartz explained, adding that the lower threshold in The Build Back Better Act would be for bonds issued from 2022 through 2026.

The House-passed version of the bill would also increase the annual Housing Credit allocation, which the Affordable Housing Tax Credit Coalition reports would “provide an investment of $2.1 billion” and finance nearly 44,000 additional affordable homes from 2022 to 2031.

Other housing-related provisions would provide boosts in basis and a set-aside for buildings that serve extremely low income households and properties located in so-called “Indian areas.”

As of now, the future of the Build Back Better Act lies with Senate Democrats. They returned from Thanksgiving recess Monday and are expected to begin making changes to the bill over the coming weeks.

Kelley R. Taylor

Reporter, The Bond Buyer