

Resolution No. 2

Date: January 10, 2006

City: Orlando, Florida

NAHB Resolution

Title: Mortgage Revenue Bond Reform
Original Sponsor: Housing Finance Agency Directors Working Group of the
Housing Finance Committee

WHEREAS, funds received by state Housing Finance Agencies (HFAs) from the sale of tax-exempt bonds are a key source of funding for affordable mortgage loans for first-time home buyers and veterans of military service, many of whom would otherwise be denied the opportunity to achieve homeownership;

WHEREAS, the Internal Revenue Code (Code) establishes the requirements and restrictions that these bonds must meet to be considered “qualified mortgage bonds” or “qualified veterans bonds,” along with the requirements to which HFAs must conform when issuing bonds, the interest on which is tax-free to investors;

WHEREAS, qualified mortgage bonds and qualified veterans bonds are commonly known as Mortgage Revenue Bonds (MRBs);

WHEREAS, HFAs are constrained in their ability to fulfill their important mission by the requirements of the Code regarding repayment provisions for MRBs; restrictions on the difference between the interest rate charged for loans and the interest rate paid to investors on the bonds used to fund the loans; and conditions under which HFAs can provide loans to veterans;

WHEREAS, by law, the “Ten-Year Rule” requires that prepayment and repayment of loan principals that are received from borrowers after a MRB has been outstanding for 10 years to be used to retire the underlying bonds;

WHEREAS, without the Ten-Year Rule, the monies received from loan prepayment could be used to fund new loans;

WHEREAS, restrictions on the difference between the interest rate an HFA may charge a borrower and the interest rate on the underlying MRB (the interest rate spread) is limited by law to no more than 1.125 percent even if a borrower might have the ability to pay a higher interest rate;

WHEREAS, the allowable interest rate spread has varied between 1.0 and 1.5 percent from time to time since 1969;

WHEREAS, HFAs could fund other worthwhile housing-related programs if the allowable interest rate spread were increased;

WHEREAS, Congress created qualified veterans bonds in the era following the Vietnam conflict to help former military service members obtain loans to purchase homes;

WHEREAS, under current law, only service members who were discharged before Jan. 1, 1977 are eligible to receive a mortgage loan funded by a qualified veterans bond;

WHEREAS, HFAs may only sell qualified veterans bonds if they had done so before June 22, 1984 and MRB loans may only be provided to households that meet income, purchase-price and first-time home buyer status under the program;

WHEREAS, the Code contains many other restrictions regarding qualified veterans bonds and their issuance and restricts the use of MRB proceeds to support homeownership by veterans unless they meet all of the MRB program criteria; and

WHEREAS, service members who are being honorably discharged from military service deserve an opportunity to use loans funded by qualified veterans bonds or by the MRB program,

NOW, THEREFORE, BE IT RESOLVED that the National Association of Home Builders urge Congress to repeal the Ten-Year Rule,

BE IT FURTHER RESOLVED that NAHB urge Congress to increase the allowable difference between the interest rate charged to a borrower and the interest rate of the underlying mortgage revenue bond to approximately 2%, and

BE IT FURTHER RESOLVED that NAHB urge Congress to enact a program that would enable state Housing Finance Agencies to issue qualified veterans bonds to fund loan programs or, in the alternative, to expand the use of their MRB programs by providing exceptions to the first-time home buyer purchase, price and income requirements of the MRB program to serve all past, present and future military veterans.

Board of Directors Action:	Approved
Executive Board Action:	Recommends Approval
Resolutions Committee Action:	Recommends Approval
Federal Government Affairs Committee Action:	Recommends Approval
Taxation Subcommittee of the Federal Government Affairs Committee Action:	Recommends Approval
Housing Finance Committee Action:	Recommends Approval
Single Family Finance Subcommittee of the Housing Finance Committee Action:	Recommends Approval
Housing Finance Agency Directors Working Group of the Housing Finance Committee Action:	Recommends Approval