United States of America

Congressional Record

PROCEEDINGS AND DEBATES OF THE 97th CONGRESS, SECOND SESSION

Vol. 128 WASHINGTON, WEDNESDAY, APRIL 14, 1982 No. 40

Senate

MORTGAGE REVENUE BOND LEGISLATION

Mr. ROTH. Mr. President, in the very near future I plan to introduce legislation to facilitate the ability of State and local governments to issue mortgage revenue bonds. As my colleagues are aware, mortgage revenue bonds became a popular vehicle for financing homes for low- and moderate-income homebuyers in the late seventies. Forty-nine States issued bonds to create capital for single-family home mortgages at below market rates.

In 1979, Congressman Ullman introduced legislation, H.R. 5741, which, in effect put a halt to all mortgage bond activity by retroactively removing the tax-exempt feature of the bonds. The provisions of H.R. 5741 were added to the Omnibus Reconciliation Bill of 1980, and, as a result, restrictions were placed on bond issues. At that time, however, those of us who fought to preserve the mortgage revenue bond program were assured that a workable mortgage revenue bond program would still be possible. This has not been the case. For a number of reasons only $45 million in bonds were issued up until October 1981 and then according to a recent working paper issued by the Congressional Budget Office, 31 issues totaling $1.68 billion were issued in November and December, nearly all of which required cash contributions from the issuer. Issuers who are unable to make cash contributions are now effectively excluded from operating a program. For those who are able to make some cash contribution, it may be preferable to provide enough latitude in the program to allow a buy down of mortgage interest rates, especially in tight bond markets.

At a time when housing starts are at the lowest point since World War II and when few can afford to purchase a home with an average 17.5 percent conventional mortgage rate, it makes no sense to bar a program which affords home ownership possibilities and in which virtually every State has experience to activate immediately. Furthermore, the Joint Tax Committee has indicated that legislation to facilitate mortgage revenue bonds would have no budgetary impact. It is for these reasons that I will introduce my legislation.

Two bills dealing with mortgage revenue bonds were introduced in the Senate earlier this session, S. 1348, introduced by Senator SASSER, and S. 1656, introduced by Senator DURENBERGER, of which I am a cosponsor. In addition, a bill has been introduced in the House by Congressman DOWNEY, H.R. 5944. My bill incorporates some of the features of all of these measures. Hearings were held in the Finance Committee on October 16, 1981 on S. 1348 and S. 1656. Subsequently, an amendment to H.R. 4717 was offered and passed by the Senate in December. This amendment made slight modifications in the arbitrage limitations, provided that reserves need not be sold at a loss when no longer needed to secure mortgage amounts, and made some modifications for multifamily rental projects. This bill is currently in conference. Enactment of these provisions is uncertain at this time and I, therefore, will include them in my bill, though I plan to raise the arbitrage limitation.

The legislation I will introduce has the following components: First, it raises the current arbitrage limitation from 1 percent to 1¼ percent. The technical nuances of arbitrage are numerous and complex. In essence, arbitrage is the margin of profit over the bond yield which enables State and local bodies to cover their costs and risks related to the issuance on the bonds. This area has been the subject of considerable debate due to the fact that variations in cost assumptions and data bases will indicate wide discrepancies in what would allow for a viable program. However, there is now a general consensus that the 1 percent limit is too low to allow for operation of a self-sufficient program. Overly restrictive limitations on arbitrage make it likely that an issuer will have to contribute initially to do a bond issue, at a time when most State and local bodies have no surplus cash, or make up any negative cash flow over the 30-

year life of a typical bond issue. These uncertainties heighten the risks to investors, forcing bond yields upwards and resulting in higher interest rates which negates the effect of serving low- and middle-income homebuyers. Second, the current legislation limits mortgages from bond proceeds to first time homebuyers. My bill will change this to allow existing homeowners to participate in up to 20 percent of the bond proceeds. Third, my bill raises the purchase price limitation contained in current law from 90 percent of the average area purchase price to 110 percent of the average area purchase price on nontargeted areas. These provisions allow issuers more latitude in conducting a bond program. Fourth, my bill will remove the registration requirement presently in effect for these bonds. Currently, no other tax exempt bonds are required to be registered; therefore, it would be more appropriate to enact this type of restriction at one time for all types of bonds. Fifth, current law provides that the dollar amount of reserves held by an issuer must be reduced as mortgages are paid off since higher reserves no longer are needed to secure these mortgage amounts. As with the amendment adopted by the Senate in December, my bill will provide that this rule will not apply to the extent it requires the disposition of any asset at a loss in excess of the amount of undistributed arbitrage profits on nonmortgage investments. Sixth, my bill includes a technical clarification of residency and income requirements for multifamily housing and duration of the targeting requirement as passed by the Senate in December. With respect to multifamily projects financed through tax exempt bonds where current law requires that 20 percent of any such project be targeted for low- and moderate-income persons, this amendment defines such persons as those individuals with 80 percent or less of area median income. This targeting requirement will remain in effect in my legislation for a minimum of 10 years or half of the life of the bond issue. Finally, my bill will change the Sunset provision of the current legislation from December 31, 1983 to December 31, 1985. When the restrictions on bond issues were first enacted they were given a 3 year life. As so few bonds have been issued under the current statute, my bill would merely extend this 3 year period.

Today the homebuilding industry continues to be extremely depressed due to high interest rates which make it virtually impossible for anyone to purchase their own home and this occurs at a time when more homebuyers, as a result of maturation of the baby-boom generation, will be entering the marketplace than ever before. What alternatives are in place for relief? There are virtually no alternatives. The realization of a truly workable mortgage revenue bond program could provide an alternative. The use of these bonds would enable thousands of people to purchase their own homes, create jobs in the construction industry, and expand the local economy. Additionally, mortgage revenue bonds have the advantage of accomplishing these objectives with a minimum of Government interference and can be more responsive to local needs and demands. They are also less costly to the Federal Government than any other similar type of direct housing relief. I hope my colleagues will join me in this effort to revitalize a program which virtually every State can utilize immediately to bring some much needed relief for housing.