FHA-HFA Multifamily Loan Risk-Sharing FAQ

What is the FHA-HFA Risk-Sharing program?

Congress established the Federal Housing Agency (FHA) - Housing Finance Agency (HFA) Multifamily Risk-Sharing program in 1992 to increase and speed up FHA's multifamily mortgage production. The FHA-HFA Risk-Sharing program allows state HFAs that meet rigorous financial standards to underwrite FHA multifamily loans in return for sharing the risk of losses on those loans.

FHA provides full insurance on the loans and HFAs agree to accept up to 50 percent of the risk of losses on them. The more risk HFAs assume, the more underwriting flexibility FHA permits them. In the event of a default, FHA and the HFA apportion the loss according to the risk-sharing agreement they have made.

The Risk-Sharing Program provides credit enhancement to HFA bond and debt issuances through FHA mortgage insurance resulting in lower borrowing costs. HFAs are then able to pass these savings on to borrowers and tenants. HUD also benefits because, compared to traditional FHA, the Risk-Sharing program has reduced risk at the transaction level, increases affordable housing production, and significantly reduces HUD staff resources.

What Has the Program Accomplished?

The FHA-HFA Risk-Sharing program has been very successful, with 38 HFAs financing over 1,462 loans, totaling nearly $9.4 billion in principal and supporting more than 163,000 affordable rental homes. In Fiscal Year (FY) 2017, FHA issued firm commitments to HFAs to finance 115 loans, with a total principal balance of $1.56 billion, supporting 14,988 rental homes.

FHA-HFA Risk-Sharing commitment volume is now 9.5 percent of total FHA commitment volume. These loans also represent 30 percent of all Low Income Housing Credit (Housing Credit) units financed under all FHA insurance programs.

The Risk-Sharing program outperforms HUD's traditional FHA multifamily mortgage insurance programs. Program loan default rates have been very low and premium revenue has exceeded total claims, generating net revenue for the federal government. Since 2010, the average FHA-HFA Risk-Sharing program claim rate has been .05 percent, while the average claim rate for multifamily loans with full FHA insurance has been .62 percent.

What is the FFB Initiative?

Despite its success, the FHA- HFA Risk-Sharing program is at a disadvantage because, unlike other FHA multifamily loans and without any clear programmatic reason, current statute prohibits Ginnie Mae from securitizing Risk-Sharing loans. While seeking a congressional remedy to this, HUD in 2014 announced an initiative with the Federal Financing Bank (FFB) to provide "Ginnie-like" long term, competitively priced financing to Risk-Sharing deals. FFB financing has played an important role in the Risk-Sharing program, reducing the cost of financing affordable rental developments by approximately one-half of a percent, which generates substantial savings, improves affordability, and makes possible deals that would not be able to go forward without FFB financing.

In February 2018, HUD announced that it planned to end the FFB financing initiative on September 30 of this year. In a significant victory for rural communities and other areas lacking or trying to preserve affordable housing, HUD announced an extension of the FFB Risk-Sharing Program for HFAs through December 31, 2018. Months of advocacy by HFA executive directors and staff led to this result. FHA is expected to review FFB loan performance and market conditions to determine if the program should be extended beyond 2018. Until Congress permits Ginnie Mae securitization, HUD should continue to provide access to FFB financing for Risk-Sharing loans.

Why does the law currently prohibit Ginnie Mae from securitizing Risk-Sharing loans?

Congress created the FHA-HFA Risk-Sharing program, in recognition that states could help finance and preserve affordable housing in a way that private lenders had failed to do. Congress designed the Risk-Sharing program to avoid the mistakes of an earlier HUD program called the Multifamily Coinsurance Program, which provided insurance for rental housing loans made by private lenders who agreed to share in potential financial losses. Under the program, private lenders assumed approximately 20 percent, and HUD 80 percent, of the responsibility for potential losses incurred through defaulted coinsurance mortgages.

The coinsurance program allowed private lenders to pool coinsured mortgages into securities guaranteed by Ginnie Mae. When individual coinsured loans defaulted, HUD paid the lender approximately 80 percent of the losses on the mortgage. If a lender who had pooled coinsured loans into Ginnie Mae securities defaulted, however, the Ginnie Mae guarantee rendered HUD responsible for the lender's entire portfolio and 100 percent of the losses.

Flaws in the coinsurance program and inadequate HUD enforcement of program requirements led to significant defaults and losses to HUD. HUD terminated the program in 1990.

Why should Congress allow Ginnie Mae to securitize FHA-HFA Risk-Sharing loans?

The FHA-HFA Risk-Sharing program is a significant departure from the coinsurance program because state HFAs are responsible for underwriting and up to 50 percent of the risk. As public agencies, state HFAs are permanent, creditworthy entities that meet their obligations under the program. In addition, HUD reviews all participating HFAs' annual financial statements and revises underwriting guidelines as needed.

The FHA-HFA Risk-Sharing program has been very successful since its inception and now has a multidecade long track record. The portfolio has very low loan default rates. Given the strong success of the Risk-Sharing program, lifting the prohibition on Ginnie Mae securitization is a prudent decision, which would benefit the federal government without imposing any additional risk or cost.

Permitting Ginnie Mae to securitize FHA-HFA Risk-Sharing loans would allow HFAs to make more of these loans at lower interest rates. This would reduce the cost of financing rental housing developments, making it possible to achieve lower rents, reach even lower income tenants, and increase production.

If Ginnie Mae were to securitize FHA-HFA Risk-Sharing loans, HFAs predict the interest rate on the underlying mortgages could be reduced by as much as 200 basis points or 2 percent. This rate reduction would lower rents and potentially reduce the need for and cost of other federal housing subsidies.

Does Ginnie Mae securitize other multifamily loans?

Yes. In fact, most FHA-insured multifamily loans are packaged into Ginnie Mae securities issued by lenders. Ginnie Mae guarantees the timely payment of interest and principal, increasing investor interest and driving down the interest rates on the securities and the underlying loans.

Ginnie Mae securitization of FHA-HFA Risk-Sharing loans would increase liquidity, making more loans possible for the development and preservation of affordable rental housing. This housing activity would in turn stimulate local economies by creating jobs, increasing tax revenue, and expanding investment.

Will allowing Ginnie Mae to securitize FHA-HFA Risk-Sharing loans increase federal government spending?

No. The Congressional Budget Office (CBO) estimates that allowing Ginnie Mae to securitize FHA-HFA Risk-Sharing loans would result in $20 million in mandatory savings over 10 years ($2 million annually). HUD's FY 2019 Budget documents also showed that the Risk-Sharing program is a money-maker for the federal government.

What is the history of proposals to allow Ginnie Mae to securitize FHA-HFA Risk-Sharing loans?

Ginnie Mae, FHA, and HUD have all in recent years supported allowing Ginnie Mae to securitize FHA-HFA Risk-Sharing loans, as do many members of Congress. In fact, the President's Budget proposals from FY 2012 to 2016 all included this proposal. In 2014, the Senate Banking Committee approved an amendment to the Johnson-Crapo housing finance reform bill that would have allowed Ginnie Mae to securitize FHA-HFA Risk-Sharing loans. The House Financial Services Committee included a similar proposal in the Housing Preservation and Tenant Protection Act, H.R. 4868, which it reported in 2010.

Would Ginnie Mae securitization of FHA-HFA Risk-Sharing loans expand Ginnie Mae's authority and involvement in affordable housing or increase risk to the federal government?

Eliminating the prohibition on Ginnie Mae Securitization of Risk-Sharing loans would not expand significantly Ginnie Mae's role in affordable housing. Ginnie Mae already securitizes FHA-insured loans. Total FHA-HFA Risk-Sharing commitment activity was $1.56 billion in FY 2017, 9.5 percent of all FY 2017 FHA multifamily commitments and less than 1 percent of Ginnie Mae commitments.

Allowing Ginnie Mae to securitize FHA-HFA Risk-Sharing loans would in fact reduce the risk and involvement of the federal government in affordable housing by allowing state HFAs, which are best suited to meet the needs of their communities with this innovative tool, to take on a portion of that risk and underwrite the loans. In addition, FHA-HFA Risk-Sharing loans securitized by Ginnie Mae are less likely to be financed with tax-exempt bonds.

Should the Ginnie Mae FHA-HFA Risk-Sharing loan securitization authority be temporary?

No, permanent authorization of Ginnie Mae securitization of FHA-HFA Risk-Sharing loans is needed to ensure that HFAs will be able to use the best execution possible for their multifamily loans into the future. Enacting a permanent provision would provide long-term assurance that HFAs could lower their borrowing costs, offer more competitive products to private sector lenders and developers, and produce more affordable rents to low-income residents without interruption.