Summary/Background

In September 2008, Delaware State Housing Authority (DSHA) and Delaware's potential market of first-time homebuyers faced a serious impediment: Downpayment assistance program funds were being used at a record pace while new sources of funding had become exceedingly scarce. DSHA turned to one of its longtime partners, the Delaware Housing Partnership (DHP), a not for profit 501(c)3, to join forces. Like DSHA, DHP's mission is to provide housing opportunities for low and moderate-income families. In a difficult financial market, both agencies were facing fiscal restraints: DHP faced a lack of contributions to support its mission; DSHA faced scarce funding resources. Rather than both sitting on the sidelines, DHP and DSHA brought their combined resources to the table to generate revenue to serve our mutual missions and communities.

DHP owns a large portfolio of existing mortgage loans valued at nearly $10 million. DSHA holds bond authority with the capacity and resources to use this valuable asset as a tool in the bond market. DSHA and DHP joined forces in establishing the mechanism to leverage DHP's existing mortgage loan portfolio in order to create $20 million in *new* funding.

Leveraging a fraction of this portfolio in a recent bond issue (2008B), DSHA over-collateralized subordinate bonds (150% coverage) in order to sell Capital Appreciation Bonds (CABs) to an investor. The leveraging of $1 million raised more than $2 million in funds to sustain the Second Mortgage Assistance Loan (SMAL) program, meet our mission, and fund the program from a reusable resource.

Innovation: When the Going Gets Tough ….

Facing tight fiscal restraints, with historically reliable resources from general funds or other state appropriations being re-directed to other pressing state needs, DSHA could have taken a 'wait and see' approach, allowing the SMAL Program to rest until the necessary funds became available. From the first-time homebuyer perspective, however, the housing market was improving daily, with a huge inventory of available homes, falling interest rates and reduced home prices. DSHA chose to explore new financing options, resulting in the re-capitalized Second Mortgage Assistance Loan Program.

Replicable

Housing Finance Agencies that have access to closed and seasoned second mortgage portfolios can replicate this funding mechanism. DSHA, working with our underwriting team (Senior Underwriter, George K. Baum & Company), offered the subordinate Capital Appreciation Bonds with an A3 rating, and sold them to an investor. There is no guarantee of outcome, but other HFAs could model this proven structure.

Respond to an Important State Housing Need
DSHA's downpayment and settlement assistance programs provide a competitive advantage for DSHA and a much-needed resource for first-time homebuyers throughout Delaware. Particularly with the introduction of the federal First-Time Homebuyer Tax Credit, it was important for DSHA to make downpayment resources available. Those homebuyers who are taking advantage of the federal tax credit of up to $8,000 (or 10% of the mortgage amount), can use the SMAL loan for their downpayment at the time of settlement. When they receive their federal tax credit refund, they have the option of paying down or paying off the SMAL loan.

Demonstrate Measurable Benefits to HFA Targeted Customers
Since September 9, 2008 (inception) Delaware's appetite for the SMAL program has been insatiable. DSHA was able to monetize the federal tax credit with an already established, investor-approved product. Secondly, downpayment programs (First Front Door, etc.) offered by other local entities are drying up, leaving DSHA to fill the void.

Proven Track Record of Success in the Marketplace
From July 1, 2008 to June 30, 2009, Delaware State Housing Authority closed or committed 298 Second Mortgage Assistance Loans totaling $2.47 million.

Provide Benefits that Outweigh the Costs
The SMAL Program is linked with the first mortgage bond program, in that a SMAL borrower must utilize the SFMRB Program. This is driving production in the SFMRB, which provides revenue benefits to the agency and to Delaware's economy. Minimum underwriting cost: The cost of issuance is limited to just variable expenses.

Demonstrate Effective Use of Resources
The DHP portfolio consists of seasoned loans that are aged as far back as 1992, and have performed well. Leveraging this rather silent resource provided a great benefit by raising investor confidence.

Effectively Employ Partnerships
The Delaware Housing Partnership, a not for profit 501(c)3 organization, assigned mortgage loans to DSHA for this specific use, creating a synergy that provides resources for both agencies to meet their shared mission of providing affordable housing opportunities for low- and moderate-income families.

Achieve Strategic Objectives
Strategic objectives were achieved. Funding of the Second Mortgage Assistance Loan Program for five to six years (estimated) was established, allowing remaining limited resources to be directed toward other housing needs.

Outcome:

· DSHA successfully enlisted a nonprofit organization for the partnership.

· $10 Million of closed, existing loans may be leveraged for $20 Million in Second Mortgage Funding.

· Costs were minimal (bond underwriting cost).

· DSHA established a mechanism to provide Second Mortgage funding assistance for the next five to six years.

· This Leveraging mechanism became a marketing tool to successfully attract First Mortgage users.

· Epitomizes nonprofit/public partnership in which the outcome is greater than the sum of the parts.