MEMORANDUM FOR: All HFA Section 542(c) Multifamily Risk Sharing Lenders

FROM: Benjamin T. Metcalf, Deputy Assistant Secretary for Multifamily Housing Programs, HT

SUBJECT: Federal Financing Bank (FFB) Risk Sharing Initiative Program Opening and Participation Criteria

The Department is pleased to invite qualified entities to participate in an initiative announced on June 26, 2014, between HUD and the Treasury Department/Federal Financing Bank (FFB), under which FFB provides capital for multifamily loans insured under FHA’s Risk Sharing program. This initiative will build on the success of the Risk Sharing program to significantly reduce the interest rate for affordable multifamily apartment buildings compared to the cost of tax-exempt bonds under current market conditions, will increase supply and preservation of affordable housing, and will ensure availability of competitive financing to underserved segments of the market often served by Housing Finance Agencies (HFAs). The execution is structured to provide long term financing at rates benchmarked to a Ginnie Mae execution. Concurrently, the Department is pursuing a legislative change to allow Risk Sharing loans to be securitized by Ginnie Mae to achieve the same outcomes.

The first transaction utilizing the FFB Risk Sharing Initiative closed on October 30, 2014. Arverne View Apartments is a 1,093 unit family community that was damaged by Superstorm Sandy in Far Rockaway, New York. FFB provided the funding for the permanent loan insured through the Risk Sharing Program by New York City Housing Development Corporation (NYCHDC) and HUD. Arverne View also converted assistance under the second component of the Rental Assistance Demonstration (RAD) Program.

The Department is now opening the FFB Risk Sharing Initiative to qualified participants. The Initiative will open through the Section 542(c) Risk Sharing Program framework, largely utilizing the existing regulatory framework and processes, and effectuated through Risk Sharing Agreements. [The first closing with NYCHDC was through Section 542(b) in order to work through some programmatic challenges].

The Department invites letters of interest from qualified HFAs that wish to utilize this financing structure. The FFB initiative is limited to HFAs that:

- Participate in 542(c) Risk Sharing lending at Level I (50/50 Risk Sharing);
- Are in good standing with HUD;
- Have and maintain an independent agency rating of “A” or better; and,
- Agree to assume 50 percent of the risk on all loans originated under the FFB initiative.
Letters of interest must include the following:

- A request to amend the HFA’s Risk Sharing Agreement to participate in the FFB Initiative, including an acknowledgement that the HFA meets program requirements, e.g., in good standing, and is an approved Level I participant with an “A” rating;
- The HFA’s estimate of potential CY 2015 volume of activity under this initiative, and number of financings projected by month;
- A request for the FHA Commissioner to waive 24 CFR Section 266.620(e) Termination of Mortgage Insurance, and amend the Risk Sharing Agreement to substitute the Termination of Mortgage Insurance provision with an indemnification agreement when “the HFA or its successors commit fraud, or make a material misrepresentation to the Commissioner with respect to information culminating in the Contract of Insurance on the mortgage or while the Contract of Insurance is in existence”; this substitution and regulatory waiver are necessary to satisfy the FFB requirement for an irrevocable guarantee of the debt instrument;
- Request for any other program, Risk Sharing Agreement, or regulatory waivers the HFA believes it may need to implement lending under this initiative. For any such requests, include:
  - Reference to the specific language of the program requirements, Risk Sharing Agreement, or regulation to be waived;
  - Rationale for the waiver request, including the public purpose and/or benefits;
  - Explanation of any additional risk introduced by approval of the requested waiver, and mitigants to that risk; and,
  - List of potential projects and projected dollar volume that would be subject to the waiver.

Letters of interest will be accepted beginning November 21, 2014, at:

US Department of Housing and Urban Development
Attn: Diana Talios, Multifamily Production, Risk Sharing
451 7th St, SW, Room 6148
Washington, DC 20410-0001

Letters of interest received, and approved in November, 2014 may result in loan closings as early as January or February, 2015.

Thank you for your continued interest and support of the FHA Risk Sharing Program. If you have any questions, please contact Diana Talios at (202) 402-7125 or Diana.J.Talios@hud.gov.

Cc: Gary Grippo, US Department of Treasury