NCSHA 2016 Annual Awards Entry Form

(Complete one form for each entry)

Deadline: Wednesday, June 15, 2016

Visit ncsha.org/awards to view the Annual Awards Call for Entries.

Instructions: Type entry information into the form and save it as a PDF. Do not write on or scan the form. If you have any questions contact awards@ncsha.org or 202-624-7710.

Fill out the entry name *exactly* as you want it listed in the program.

Entry Name: FFB Risk-Sharing Initiative

HFA: MassHousing

Submission Contact: (Must be HFA Staff Member) Nancy McDonald **Email:** nmcdonald@masshousing.com

Please provide a 15-word (maximum) description of your nomination to appear on the NCSHA website.

MassHousing works to expand the scope of HUD's Risk-Sharing Program with the FBB Risk-Sharing Initiative.

Use this header on the upper right corner of each page:

HFA: ______

Entry Name: ______

Select the appropriate subcategory of your entry and indicate if you are providing visual aids.

Communications	Homeownership	Legislative Advocacy	Management Innovation
○ Annual Report ○ Creative Media ○ Promotional Materials and Newsletters	○ Empowering New Buyers ○ Encouraging New Production ○ Home Improvement and Rehabilitation	○ Federal Advocacy ○ State Advocacy	○ Financial ○ Human Resources ○ Operations ○ Technology
Rental Housing	**Special Needs Housing**	**Special Achievement**	Are you providing visual aids?
○ Encouraging New Production ○ Multifamily Management ◉ Preservation and Rehabilitation	○ Combating Homelessness ○ Housing for Persons with Special Needs	○ Special Achievement	○ Yes ◉ No

MassHousing
Rental Housing Category – Preservation and Rehabilitation
FFB Risk-Sharing Initiative

Introduction – It's been said that "the only thing that never changes is that everything changes." As a national HFA community, this is where we find ourselves today. Simply because a program has been utilized with great success for many years does not guarantee that this will always be so. The market changes and in turn the applicability and utility of that program may also change – and the ability to pivot and make corrections, the ability to be agile – is imperative.

A perfect example of this is the HUD/HFA Risk-Sharing program. This program has been at the core of HFA lending for more than two decades. In terms of production, MassHousing alone has, from the program's inception in 1994 through 2015, originated approximately $2.3 billion in Risk-Sharing insured financings for 248 developments throughout the Commonwealth, providing 30,868 units of housing, of which 91% are affordable. Even better, the delinquency rate for MassHousing's Risk-Sharing portfolio is effectively 0%. However, in the years following the economic turmoil of 2008, the Risk-Sharing program has not been able to provide interest rates low enough to be strongly competitive with MAP, Ginnie Mae and other programs. Until very recently, this rate imbalance has increasingly impacted the ability of MassHousing and other HFAs to continue to produce and preserve housing using this important tool.

Background – The need to preserve existing affordable housing units is a critical priority across the country. Especially in areas where the costs of developing new affordable units are high, preserving the existing affordable housing stock and providing for increased investment in needed capital repairs and affordability whenever possible is imperative. Close to 39% of the mortgage loans in MassHousing's multifamily rental portfolio will mature or be eligible for prepayment during the period from 2016 to 2021. These represent 163 developments and approximately 23,000 affordable units at risk of being lost to the affordable housing stock in Massachusetts. The affordable multifamily housing portfolios of HFAs across the country face a similar risk.

The availability of competitive financing products at the time a project is eligible for refinancing is a crucial factor in maximizing the number of affordable units preserved. As a practical matter, owners seek a financing option that offers the lowest cost of capital possible and, in many cases, will choose the lender who can offer the most competitive financing rate and deal structure, regardless of whether the refinancing preserves the housing as affordable. Even mission-driven owners may conclude that the rate differential between a market option and one that preserves affordability is just too great to ignore. As a result, too many affordable projects are lost from HFA portfolios upon refinancing, with the consequent loss of income-restricted units and HFA oversight of those properties.

Seeking a Solution to the Preservation Challenge – MassHousing and others have worked for many years in support of a legislative fix to allow HFAs to use Ginnie Mae securitization on Risk-Sharing deals; this would allow HFAs to offer significantly lower rates, but it is currently prohibited by the federal statute under which the Risk-Sharing program was established. As part of this effort, MassHousing, along with the Illinois Housing Development Authority and a number of other NCSHA members, have continued to highlight the need for the Risk-Sharing program to be able to offer rates that are competitive with those available in Ginnie Mae and other executions. A turning point came in 2014, when United States Secretary of the Treasury Jack Lew announced a plan to address this imbalance, utilizing the Federal Financing Bank (FFB), an instrumentality of the Treasury that is able to finance loans that are fully insured by federal agencies. Specifically, the plan authorized FFB to purchase participation interests in Risk-Sharing insured loans. Since the fixed interest rate payable to FFB for its participation interest would be based on the rate then being charged on a comparable Ginnie Mae security, the resultant rate HFAs could offer their borrowers would be similarly competitive.

The New York City Housing Development Corporation (NYCHDC) closed the first FFB Risk-Sharing loan at the end of 2014. MassHousing moved forward with its first, and the FFB Risk-Sharing initiative's second, closing a few months later and it quickly became clear that, to paraphrase a famous line from the movie "Jaws", we were going to need a bigger boat – and that we had a unique opportunity to help build one.

In NYCHDC's pilot transaction, the participation sale to FFB occurred after the closing on the borrower financing. In addition, the Risk-Sharing authorization had been structured under §524(b) of the Housing and Community Development Act of 1992, to accommodate specific features of that deal. Going forward, HUD and MassHousing wanted to provide the FFB authorization under the traditional Risk-Sharing framework of §524(c), which could then be replicated in agreements between HUD and HFAs across the country. MassHousing, HUD and FFB also recognized that a coordinated loan and participation closing, where the FFB participation payment would be delivered to the HFA at the same time the HFA's loan to the borrower was being closed and funded, would make the program even more attractive to HFAs. Accordingly, MassHousing built on the strong design of the boat that NYCHDC, HUD and FFB first launched, and developed modifications for a new production line.

Competitive Opportunities Offered by the New HUD/Treasury (FFB) Risk-Sharing Initiative – In this way, MassHousing has played a key role in expanding the traditional HUD/HFA Risk-Sharing program, working in partnership with HUD and the Treasury to prepare standardized program and closing documentation for the new FFB Risk-Sharing initiative, which enables HFAs and other qualifying lenders to offer financing at rates that are very competitive with other products in the market. (HUD's recent reduction of the required Risk-Sharing mortgage insurance premiums is also helping HFAs to deliver a more competitive product.)

Specifically, MassHousing worked with HUD and FFB to establish the logistics for a simultaneous closing on the HFA loan to the borrower and its participation sale to FFB, and drafted standardized program agreements and financing documentation for taxable, permanent loans under the FFB Risk-Sharing initiative. The ability to have a coordinated closing on a borrower loan and the corresponding FFB participation is an important benefit for many HFAs, in particular those without the extensive capital resources that would be necessary to fund borrower loans that close well in advance of FFB's delivery of its purchase payment at the participation closing. MassHousing's first FFB Risk-Sharing loan, which closed in June, 2015, was also the first FFB Risk-Sharing loan with simultaneous closings on the borrower loan and FFB participation.

MassHousing also worked to expand the scope of the program beyond permanent, taxable loans. In reviewing our portfolio for other deals that would be appropriate for an FFB Risk-Sharing financing, MassHousing recognized that a tax-exempt, LIHTC project with a robust rehabilitation scope that did not exceed the applicable substantial rehabilitation threshold could be structured as a permanent loan with a repairs escrow. We continued to work with HUD and FFB to establish terms and documentation for financing tax-exempt loans with LIHTC under the FFB Risk-Sharing initiative, and, in December, 2015, were the first HFA to close a tax-exempt, LIHTC financing under the program.

From the implementation of the FFB Risk-Sharing initiative through May, 2016, five HFAs have closed on approximately $335,000,000 in FFB Risk-Sharing insured loans for 21 developments; those five HFAs and two additional HFAs are currently working to close almost $215,000,000 in FFB Risk-Sharing financing for 17 more developments. In this period, MassHousing has closed approximately $240,000,000 in FFB Risk-Sharing insured financings for 12 developments with a total of 1,908 units, of which 1,547 units are affordable, and we anticipate closing additional loans of approximately $120,000,000 for four more developments, with 761 total and 634 affordable units, through the end of the 2016 calendar year.

Expansion of the FFB Risk-Sharing Initiative – MassHousing has also played an active role in the national implementation of the FFB Risk-Sharing initiative, by participating in a program of teleconference training sessions sponsored by HUD and FFB for other qualifying lenders – which, as of May, 2016, had expanded to 14 qualified HFAs – and in a number of national conferences and local programs.

In addition, MassHousing has continued working with HUD and FFB to discuss how the initiative could provide a forward commitment from FFB for projects that would convert to a Risk-Sharing insured permanent loan after completion of construction. Because of constraints imposed by the statutory and regulatory requirements applicable to FFB and the HUD/HFA Risk-Sharing program, the FFB Risk-Sharing initiative is not currently able to provide construction loans with insured advances for new construction and substantial rehabilitation projects. However, HUD, Treasury, MassHousing and our fellow HFAs are committed to identifying additional opportunities to expand the FFB Risk-Sharing initiative.

Additional Benefits under the New HUD/Treasury (FFB) Risk-Sharing Initiative – This new FFB Risk-Sharing initiative creates a very significant financing resource for HFAs. In addition to providing a financing product with rates comparable to MAP and Ginnie Mae products, the HFA delegation under Risk-Sharing allows the HFAs to control the underwriting and closing process, which allows faster processing of these loans comparable to other HFA programs. HUD also benefits, both from its reduced direct administrative burden and because its risk exposure is significantly less under Risk-Sharing: as an example, HUD has a 99% liability of loss under the MAP 223(f) program; in contrast, under the terms of the FFB Risk-Sharing initiative, HUD's exposure is limited to 50%.

As a further example of our contribution to this effort, MassHousing recently provided HUD with extensive comments on the proposed revisions to the Risk-Sharing regulations, based on our extensive experience with traditional and FFB Risk-Sharing and the issues and goals under discussion in connection with our efforts to continue expansion of the program, including an FFB financing execution for new construction and substantial rehabilitation projects.

Outcome – The FFB Risk-Sharing initiative has filled a long-standing and vital imperative to provide HFAs with the means to offer Risk-Sharing insured loans at rates that are competitive with the rates for loans originated by FHA through Ginnie Mae, MAP and other similar programs. In addition, the execution under this FFB Risk-Sharing initiative significantly reduces HUD's administrative burden and risk exposure compared to other programs.

It has been a privilege for MassHousing to partner with HUD and FFB in establishing and expanding the scope of this important program – and a great asset to have the FFB Risk-Sharing product among the options we are able to offer our borrowers.