2014 Entry Form
(Complete one for each entry.)

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

Entry Name A Public/Private Partnership in the MAP Program

HFA MassHousing

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Qualified Entries must be received by **Tuesday, July 1, 2014**.

For more information about Qualified Entries, click here to access the 2014 Entry Rules.

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

HFA ____________________

Entry Name ________________

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

Rental Housing – Preservation and Rehabilitation
MassHousing – A Public/Private Partnership in the MAP Program

Background

MassHousing faces a "mission-critical" problem over the next decade. It has an aging portfolio of multifamily loans in which well over 50% of its current portfolio is set to mature or prepay – representing approximately 300 developments. These developments cover an array of federal and state programs (project-based Section 8, Section 236, Section 13A and Mixed-Income). Since 2008, MassHousing has experienced this maturity activity most acutely in the project-based Section 8-assisted portfolio. In this portfolio, despite the Agency's best efforts, it has retained less than 40% of these developments. Most troubling is that each development that exits MassHousing's portfolio leaves without the Agency's required statutory affordability restrictions that survive foreclosure.

Fortunately, a majority of these mortgages are contractually locked out from prepayment through maturity. The Agency's frustration then, has been over the lack of a competitive taxable mortgage refinancing product to retain this portfolio effectively and preserve affordability over the long term. MassHousing knew first hand that as a loan moves closer to maturity, it becomes harder and harder to convince borrowers to refinance with the Agency because of the plethora of other financing options which become available to an owner. MassHousing found that in general terms – the Agency was losing these developments over the three R's – rate, restrictions on prepayment and regulatory oversight. Most frustrating was that the vast majority of this preservation book of business was going with private lenders under the MAP (or Multifamily Accelerated Processing) Program with a Ginnie Mae MBS wrap.

What MAP Offers

MAP is a 14-year-old program used to expedite FHA-insured mortgage processing – most importantly for the Section 223f refinance mortgage product – HUD's most popular product and the Agency's chief competition. MAP addresses all three areas of the three R's highlighted above. Section 223f rates have generally been 1.00% to 1.25% lower than MassHousing's taxable Risk Sharing. Currently, 223f rates are in the 3.75% to 4.00% range – while MassHousing's taxable rates are well over 5.00%. Further, MassHousing's enabling statute allows more flexible prepayment lockout provisions for FHA-insured loans vis-à-vis other credit enhancements. Finally, the Ginnie Mae MBS requirements seem to involve much less regulatory oversight than many of MassHousing's other programs.

It is important to note that having a MAP license alone does not provide access to these lower interest rates, only with the additional credit enhancement that Ginnie Mae MBS wrap provides, can a lender realize these low interest rates. As a practical matter, the benefit of a Ginnie deal is that it guarantees the ***timely*** payment of principal and interest with a U.S. Government guarantee. It is this "belt and suspenders" feature that MBS investors covet, allowing them to demand less of a rate premium, less risk, and less return.

The Agency set out to receive all needed approvals to begin lending in this MAP/Ginnie space and did this – first by obtaining the MAP certification in 2011 and most recently with the Ginnie Mae I Seller/Servicer approval in January of 2014. Since MassHousing closed an average of 25 to 30 multifamily loans each year, the Agency realized it needed help to preserve the affordability of the 300+

developments that will be at-risk in the next decade. To deal with this challenge, the Agency turned to the private sector, its very competition, for help.

<u>A Public/Private Joint Venture Partnership</u>

Beginning in August 2013, MassHousing went through a private MAP Lender RFP process that concluded with executed "consultant" contracts between the Agency and two private MAP lenders – Coldwell Banker Richard Ellis (CBRE) and Rockport Mortgage. As transactions are assigned, each MAP Lender Partner would process each MAP loan through HUD commitment and assign it to the Agency at the closing. In this transaction, MassHousing would continue to be the mortgagee-of-record and loan servicer.

In CBRE, MassHousing has a true strategic partner. They are a national, multi-platform, multi-family lender with a strong team that is the not only the largest GSE lender in the country but also one of the largest in FHA lending as well. CBRE is an "open book" and has begun informally training key MassHousing staff on Ginnie Mae rate lock, MBS issuance, closing, investor reporting and servicing. In Rockport Mortgage, MassHousing has access to a premier FHA platform. FHA lending is all Rockport Mortgage does and they are particularly strong in New England, accounting for almost two-thirds of the FHA Production each year in HUD's Boston HUB. In this partnership, MassHousing believes that it will be working with and learning from the best.

The question could be asked, why partner at all? The short answer is that the size of the MassHousing's "at-risk" portfolio warranted it and it will also give the Agency speed and scale as it enters the MBS market. The Agency also intends to process MAP transactions under its own MAP license and will seek to build its MAP capacity as a core competency. Having three MAP lending platforms working toward the same goals of extended affordability and portfolio retention can only enhance MassHousing's strong preservation efforts.

This public/private partnership model established by MassHousing is highly replicable. In fact, the Agency has had a number of inquiries from other HFAs and the Agency has been happy to describe and outline the concept to other state HFAs who have embarked on a similar preservation path that would utilize the products that MAP would afford.

<u>Who Benefits from This New Platform?</u>

First, and most importantly, residents of MassHousing will benefit from this new lending platform. In utilizing this structure for preservation – MassHousing's mission which is reinforced by the Agency's statutory affordability restrictions will continue with each MAP transaction. This would not be possible if each development refinanced out of the Agency's portfolio at maturity. Second, MassHousing should expect to see improved portfolio retention even as the Agency takes less credit risk. And finally, the MassHousing multi-family borrowers will have immediate access to "trapped" equity today at an attractive interest rate, more flexible prepayment terms and less onerous regulatory oversight. In this way – MassHousing's efforts are a "win-win-win".