NCSHA 2015 Annual Awards Entry Form

(Complete one form for each entry)

Deadline: Wednesday, June 10, 2015

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 Matt Cunningham at mcunningham@ncsha.org or 202-624-5424.

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

Entry Name: MassHousing - A Public/Private Partnership in the MAP Program

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 establishes a joint venture with private sector partners for MAP lending.

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

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

Background

MassHousing faces a "mission-critical" problem over the next decade because of an aging portfolio of multifamily loans. In fact, close to 50% of the mortgages in MassHousing's current rental portfolio are set to mature or prepay. These represent approximately 250 developments which cover an array of federal and state programs. There are properties financed through: project-based Section 8, the federal Section 236 program, the state's Section 13A program and other Mixed-Income developments. Since 2008, MassHousing has experienced maturity activity most acutely in the project-based Section 8-assisted portfolio. Until recently, and despite its best efforts, MassHousing had retained less than 40% of these developments through its preservation efforts. 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. But the reality of maturity still looms and the Agency needed a way to preserve these developments over the long term. MassHousing has been frustrated by the lack of a competitive taxable mortgage refinancing product to assist in retaining this portfolio effectively and to preserve affordability over the long term. As most HFAs well know, 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 them. 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.

Facing the Challenge

To address this challenge proactively, MassHousing's Board approved the establishment of a new multifamily joint venture lending initiative – the MAP/Ginnie Mae Joint Venture – in order to help keep the Agency competitive in the refinancing market. This is an important goal because of the affordability benefits that accompany MassHousing's financing. With this new preservation strategy, the Agency can focus on utilizing strategic partnerships in order to maximize the preservation of affordability which is always one of MassHousing's fundamental goals.

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. Historically, Section 223f rates have generally been significantly lower than MassHousing's taxable Risk Sharing (1.00% to 1.25%). The Agency expects the new Risk Sharing/FFB program to significantly improve its taxable rate efficiency as well. Currently, 223f rates are in the 3.25% to 3.50% range. MassHousing's enabling statute also 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.

A Public/Private Joint Venture Partnership

Because MassHousing closes an average of 25 to 30 multifamily loans each year, the Agency realized it needed help to preserve the affordability of the 250 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.

First, the Agency set out to receive all of the necessary approvals to begin lending in this MAP/Ginnie space and did this – first by obtaining the MAP certification in 2011. Then, 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 is 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. Currently, MassHousing's MAP Joint Venture Production Pipeline includes 15 S.223f transactions totaling over $280 million in mortgages. The Agency has also rate-locked three transactions totaling $63 million at an average interest rate less than 3.40%.

Most recently, MassHousing received Ginnie Mae I Seller/Servicer approval in January 2014.

Who Benefits from this New Platform?

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".

This public/private partnership model established by MassHousing is also 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 will utilize the products that MAP would afford.

Preservation is one of the essential challenges facing housing finance agencies all across the country. MassHousing's MAP/Ginnie Mae Joint Venture is one key way to address this challenge.

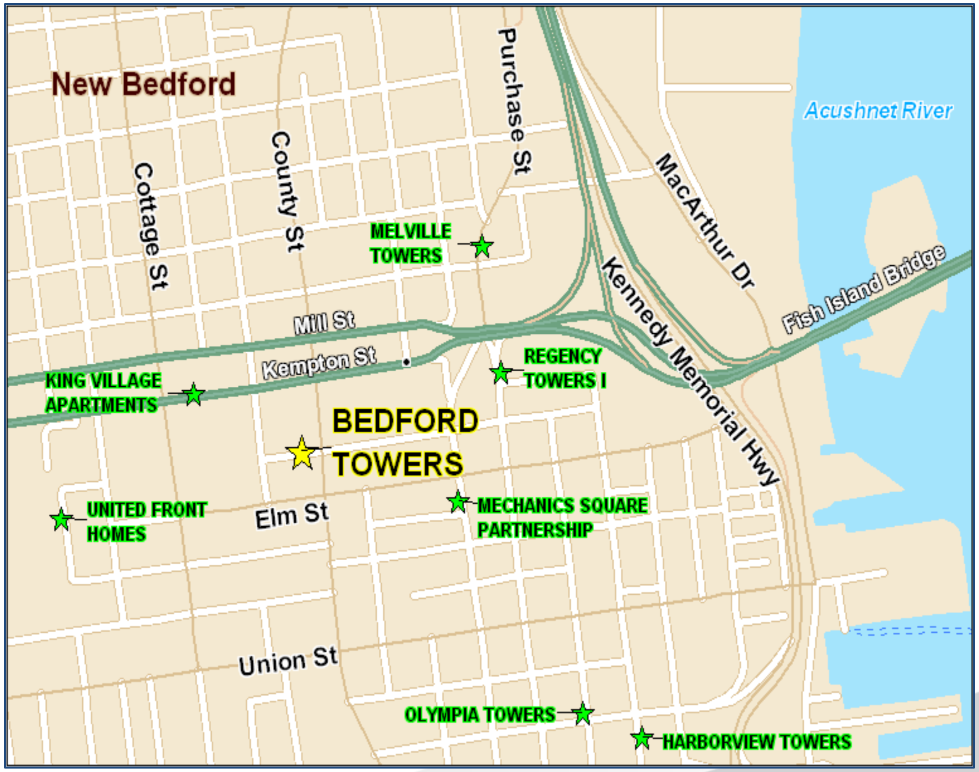
Bedford Towers

MAP/Ginnie Mae Multifamily Joint Venture Lending Initiative Commitment

Bedford Towers

MAP/Ginnie Mae Joint Venture Lending Initiative Commitment

- 157-unit elderly and family Section 8 property in New Bedford
- Original MassHousing mortgage prepayment eligible as of May 2014
- 156 unit HAP Contract expires in May 2033



Transaction Participants

- **MAP Lender Partner** - Rockport Mortgage Corporation
- **Borrower** - Kempton New Bedford LP
- **Principals** - Edward A. Fish Marital B Trust & James Sullivan, III
- **Management Company** - Peabody Properties, Inc.

Proposed Loan Amounts

- **Section 223(f) Loan** - $12,400,000
- **Uninsured Subordinate Loan** - $520,000
  - Annual Debt Service payments from 25% of available Cash Flow

RENTAL OPERATIONS
MAP/GINNIE MAE MULTIFAMILY JOINT VENTURE LENDING INITIATIVE

DEVELOPMENT:	Bedford Towers MassHousing No. 98-006
LOCATION:	New Bedford, Massachusetts
PROPOSAL:	(1) To accept the assignment of a HUD-issued Firm Commitment for FHA-insurance, to make the first mortgage loan described therein (the "New Loan"), and to finance the New Loan through the issuance of a Ginnie Mae MBS. (2) To make an uninsured subordinate mortgage loan (the "Subordinate Loan") to be funded from the MassHousing Working Capital Fund.
PROGRAM:	MAP/Ginnie Mae Multifamily Joint Venture Lending Initiative
PRESENTED BY:	Timothy Sullivan
BOARD REVIEW DATE:	November 12, 2014

Kempton New Bedford Limited Partnership is seeking to refinance with MassHousing under the MAP/Ginnie Mae Multifamily Joint Venture Lending Initiative (the "MAP/Ginnie Mae Program"). Accordingly, Rockport Mortgage Corporation (the "MAP Lender Partner") will work directly with the borrower to underwrite the New Loan and apply to the local HUD office for FHA mortgage insurance under Section 223(f) of the National Housing Act. MassHousing's credit risk exposure for loans insured by FHA under this program will be approximately one percent (1%) of the loan amount. The MAP Lender Partner will ensure that all FHA and MAP requirements have been satisfied, and HUD will determine that the New Loan is an acceptable risk. MassHousing will rely solely on HUD's determination that the New Loan is an acceptable risk, and MassHousing has not and will not conduct any internal assessment to confirm this determination. After Board approval, MassHousing will enter into an agreement with the MAP Lender Partner to accept the assignment of the HUD Firm Commitment at loan closing, and MassHousing will at closing make the New Loan to the Borrower. MassHousing will issue a Ginnie Mae Mortgage Backed Security ("MBS") to fund the New Loan. Kempton New Bedford Limited Partnership is also seeking an additional uninsured Subordinate Loan to be funded from the MassHousing Working Capital Fund.

MAP Lender Partner: Rockport Mortgage Corporation

Borrower:	Kempton New Bedford Limited Partnership (the “Borrower”)
Sponsor:	Kempton New Bedford Corp., a Massachusetts Corporation, whose principals include the Edward A. Fish Marital B Trust and James Sullivan, III.
Borrower/Sponsor’s Status with MassHousing Accounts:	The Borrower and all entities related to the Borrower and the sponsor of the Borrower are current on all obligations to MassHousing.
Management Agent:	Peabody Properties, Inc.

DEVELOPMENT DETAILS:

Bedford Towers is a 157-unit apartment complex comprised of one seven-story building and seven townhouse units constructed in 1977 and rehabilitated in 1998 (the “Development”). The Development has 83 one-bedroom, 52 two-bedroom, and 22 three-bedroom units, of which 14 units are fully accessible. One two-bedroom unit is non-revenue producing.

The development is currently in the MassHousing mortgage portfolio with the following outstanding debt that is outside of the statutory 15-year prepayment provision:

Loan	Maturity Date	Interest Rate	Current Unpaid Balance
98-006-02	6-1-2029	6.84%	$3,038,644

There is also an outstanding seller note with a principal balance of approximately $1,395,000 that will be retired at closing. The development is in overall good condition as evidenced by the current Portfolio Risk Rating of AAA, (Financial, Capital, Managerial). The current Section 8 Housing Assistance Payments (HAP) contract covers 156 units and expires in May 2033.

As described previously to the Board, participation in the MAP/Ginnie Mae Program will result in the preservation of 32 units (20%) of affordable housing for a term of at least 15 years through the recording of a new MassHousing Disposition Agreement ahead of the FHA-insured first mortgage securing the New Loan.

PROPOSAL:

The Borrower is seeking MassHousing’s commitment for the New Loan of approximately $12,400,000, or such other amount as evidenced in the HUD Firm Commitment, in permanent first mortgage financing under the MAP/Ginnie Mae Program; provided, however, that the New Loan shall not be more than $18,600,000 nor less than $6,200,000. The New Loan will be insured by the Federal Housing Administration under the provisions of Section 207, pursuant to Section 223(f) of the National Housing Act, and the Regulations thereunder now in effect, and

MassHousing's credit risk will be approximately 1% of the loan amount as a result. A portion of the proceeds of the New Loan will be used to prepay the Borrower's existing mortgage loan obligations to MassHousing, as authorized under and subject to the conditions set forth in the vote taken by the Board on June 10, 2014 providing prepayment approval for certain maturing Section-8 assisted Developments. The New Loan will also be subject to the General Conditions for the MAP/Ginnie Mae Program approved by the Board on November 12, 2014, and MassHousing and the MAP Lender Partner will at all times comply with the terms of HUD's identity-of-interest guidance provided in HUD's letter to MassHousing dated June 13, 2014.

Additionally, the Borrower is seeking Masshousing's commitment for an uninsured Subordinate Loan of approximately $520,000 to be funded from the MassHousing Working Capital Fund that will be co-terminus with the New Loan and carry an identical interest rate. Proceeds of the Subordinate Loan will fund Borrower equity that could not be provided from the New Loan due to loan-to-value ratio constraints of the MAP/Ginnie Mae Program. Annual debt service payments on the Subordinate Loan will be made from 25% of the available surplus cash (as defined by HUD) generated by the Development. Using the MAP Lender Partner's underwriting and assuming historical rent and expense growth rates continue, full repayment of the Subordinate Loan is expected within ten years, based on a 4% interest rate for both the New Loan and the Subordinate Loan. The terms of the Subordinate Loan must comply with HUD's rules for secondary financing under the MAP program.

Under MassHousing's enabling act, mortgage loans not insured by FHA are to meet a 90% loan-to-value ratio. Given the terms of the Subordinate Note and its position subordinate to the FHA-insured New Loan, staff has determined that it is appropriate to rely on staff's internal assessment that this standard has been met (rather than seeking an independent appraisal). This assessment has been completed, with a resulting approximate loan-to-value ratio of 89.2 % (taking into account both the New Loan and the Subordinate Loan).

ESTIMATED SOURCES & USES:

The Sources and Uses set forth in this memorandum are estimates based on the MAP Lender Partner application to HUD with the proposed MassHousing uninsured Subordinate Loan added as a source of funds. HUD reserves the right to change these amounts prior to issuing its Firm Commitment, and the final Sources and Uses (including the final loan amount) will be determined by HUD and the MAP Lender Partner, subject to the limitation that the final amount of the New Loan shall not be more than $18,600,000 nor less than $6,200,000.

Sources:

New First Mortgage Loan	$12,400,000
Uninsured Subordinate Loan	520,000
Total:	**$12,920,000**

Uses:

Existing Indebtedness Payoff	$4,531,719
Repairs (includes 20% contingency)	658,414
Initial Deposit to Replacement Reserves	1,664,200
Transaction Costs	356,210
MIP	124,000
Owner Equity	5,585,457
Total:	**$12,920,000**

PROPOSAL:

Staff proposes the following vote for approval by the MassHousing Board of Directors.

VOTED: That the Massachusetts Housing Finance Agency ("MassHousing") is authorized (1) to accept the assignment, from Rockport Mortgage Corporation, of a HUD Firm Commitment to provide mortgage insurance through the Federal Housing Administration pursuant to Section 223(f) of the National Housing Act for a first mortgage loan in the approximate amount of $12,400,000, or such other amount as evidenced in the HUD Firm Commitment, subject to the limitation that the final amount of such loan shall not be more than $18,600,000 nor less than $6,200,000 to Kempton New Bedford Limited Partnership for Bedford Towers and (2) to make a first mortgage loan to Kempton New Bedford Limited Partnership for Bedford Towers in the approximate amount of $12,400,000 subject to the limitation that the final amount of such loan shall not be more than $18,600,000 nor less than $6,200,000 on terms acceptable to MassHousing, subject to MassHousing's General Closing Conditions for loans made under MassHousing's MAP/Ginnie Mae Multifamily Joint Venture Lending Initiative approved by the Board on November 12, 2014.

VOTED: That the Massachusetts Housing Finance Agency is authorized to make an uninsured subordinate mortgage loan to Kempton New Bedford Limited Partnership for Bedford Towers in the approximate amount of $520,000, which shall be funded from the working capital fund, subject to the special conditions set forth below.

VOTED: That the Massachusetts Housing Finance Agency, acting through its officers authorized under the Ginnie Mae resolution adopted by the Agency on March 12, 2013, is hereby authorized and directed to do all acts and things, and to execute and deliver any and all documents, certificates, securities and instruments necessary or desirable to effectuate the funding of a first mortgage loan insured by the U.S. Department of Housing and Urban Development, acting through the Federal Housing Commissioner, under Section 223(f) of the National Housing Act, to Kempton New Bedford Limited Partnership for Bedford Towers.

SPECIAL CONDITIONS:

The following special conditions must be met at or before the closing of the Subordinate Loan:

1. The Subordinate Loan must close simultaneously with the New Loan and must be secured by a mortgage in second lien position. The Subordinate Loan must comply with all applicable HUD requirements for secondary financing and shall be evidenced and secured by such documents (and in such forms) as are reasonably required by MassHousing. Unless prohibited by HUD, the note evidencing and securing the Subordinate Loan shall prohibit voluntary prepayment without MassHousing's consent for the first fifteen (15) years of the term of the Subordinate Loan.

2. The Borrower shall provide, at Borrower's expense, mortgage title insurance to MassHousing as the named insured insuring the lien of the mortgage securing the Subordinate Loan, subject only to those exceptions to title as are approved by MassHousing; provided, however, that MassHousing shall not fail to approve any exceptions to title accepted by HUD with respect to the title insurance policy to be issued with respect to the New Loan.

ATTACHMENT A

FINDINGS AND DETERMINATIONS

Statutory Findings:

The Loan will be financed under the provisions of Section 5 of MassHousing's enabling act, Chapter 708 of the Acts of 1966 as amended (the "Act"). Pursuant to Section 5(g) of the Act, staff makes the following findings for the proposed Development:

(1) Provision of Low-income Set-aside Units
32 of the 157 total units (20%) will be affordable to low-income persons and families, as specified in the Act, at the adjusted rentals shown in the rent schedule below.

(2) Shortage of Affordable Housing Units in the Market Area
In-house data for larger market and mixed-income complexes (appx. 770 units) in the area revealed a strong rental market. Current occupancy rates of the comparables reviewed averaged approximately 97.4%, and range between 96% and 100%. The subject property has been operated as a 100% subsidized development since the late 1970's, and based on historic data the development has maintained a similarly high occupancy level. According to the Department of Housing and Community Development's (DHCD) Chapter 40B Subsidized Housing Inventory (4/30/13), the City of New Bedford has 42,816 year round housing units, 5,064 (11.8%) of which are subsidized for low/moderate income households. Further, the New Bedford Housing Authority (NBHA) owns and/or operates approximately 733 State (395 family & 338 elderly/disabled) and 1,750 Federal (1547 family & 203 elderly/disabled) public housing units, and oversees 1,809 vouchers. In 2014 the NBHA indicated they maintain the following wait lists:

Waiting List Status - Public Housing			
Federal Programs – 1,750 units		**State Programs – 733 units**	
Elder/Disabled	273	Elderly/Disabled	273
Family	968	Family	958
Emergency – Family	N/A	Emergency - Family	186
Emergency - Elderly	N/A	Emergency - Elderly	64
Total	**1,241**	**Total**	**2697**
Waiting List Status - Leased Housing (HCVP)			
Federal Programs – 1,809 units			
Total	**1,440**		

U.S. Census data (per the 2010-2012 American Community Survey) indicates that approximately 69.1% of the households in the City of New Bedford earned less than the area median income (AMI), 48.8% earned less than 60% of the AMI, and 40% earned less than 30% of the AMI.

(3) Inability of Private Enterprise Alone to Supply Affordable Housing
Based on information provided by the MAP Lender Partner, MassHousing staff has completed an analysis of the market rate rents, as defined by Agency statute, which absent MassHousing financing, would be required to support the development and operations of the Development. Based on the substantial difference between these market rents (shown below) and the rents for this project, MassHousing staff finds that private enterprise alone cannot supply such housing.

(4) No Undue Concentration of Low-income Households
Twenty percent of the development will continue a 30 plus-year history of serving households earning less than 60 percent of the Area Median Income and therefore qualifying for Section 8 subsidy.

(5) Elimination of Unsafe or Unsanitary Dwelling Units
As evidenced by data cited in Finding No. 2 above, there is an acute shortage of decent, safe, and sanitary housing available to low-income persons and families in the general housing market area of the Development. Although staff is not aware of units within the same market area that require demolition or compulsory repair, by preserving the affordable housing proposed here, those in need of affordable housing will not be forced to accept residence in substandard units. So long as the acute shortage of affordable housing persists, actions of public agencies to increase the supply of affordable housing will reduce the market forces that allow unsafe and unsanitary units to persist. In addition, MassHousing, through its administration of housing programs, and other public agencies (e.g., local enforcement of building codes), continue to require repair of substandard units as such units are identified.

Rental Determinations:

Pursuant to Section 6(a) of the Act, MassHousing makes the following rental determinations based on the underwriting performed by the MAP Lender Partner for units within the proposed Development:

RENT SCHEDULE:

Rent Schedule				
Number of Bedrooms	1	2	2	3
Number of Units	83	34	18	22
Net SF/Unit	576	811	968	1,364
Elev./Non-Elev.	E	E	N	N
Market Rate Rent (10% Rate 20 Yr. Term)	$1,383	$1,545	$1,596	$1,799
MHFA Below Market Rent (Cost-Based Rent)	$1,000	$1,162	$1,213	$1,416
MHFA Adjusted Rent	30% of Income			
MAP Lender Partner Underwriting Rents S8 Units	$986	$1,146	$1,196	$1,396

Based on this information, MassHousing staff finds that a significant need exists for the type of development proposed here, that private enterprise alone cannot supply such housing, and that the construction of the Development will not create or contribute to an undue concentration of low-income persons or adversely impact other housing in the area.