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: Federal Financing Bank ("FFB") – Affordable Finance Program Pilot

HFA: NYC Housing Development Corporation ("HDC")

Submission Contact: (Must be HFA Staff Member) Richard M. Froehlich **Email:** rfroehlich@nychdc.com

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

HDC's utilization of a bifurcated structure in financing mixed-income developments to reduce volume cap need

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

Background

The FFB/HUD program is the latest product of HDC's partnering with the federal government in response to the extraordinary conditions in the capital markets that have prevailed since the 2008 financial crisis. The roots of the program begin in 2009, when HDC played an important role in designing and implementing the Treasury Department's New Issue Bond Program ("NIBP") for multifamily housing. NIBP was an effort to support HFAs and reinvigorate HFA financing opportunities in the wake of the financial crisis. Under the program, the Treasury provided favorable interest rates in financing multifamily housing bonds issued by HFAs. For NIBP, Treasury officials initially sought to finance three categories of mortgage loans—those with supplemental security provided by (1) Fannie Mae or Freddie Mac, (2) Ginnie Mae, or (3) the FHA, including under the FHA Risk-Sharing mortgage insurance program. The Risk-Sharing program, pursuant to Section 542 of the Housing and Community Development Act of 1992, allows HUD to partner with an HFA originating an affordable housing mortgage loan to share the risk of an FHA mortgage insurance claim on the loan. The goal is to expand access to FHA mortgage insurance and streamline approvals for HFAs and manage additional risk taken on by the federal government. For each Risk-Sharing loan, HUD and the HFA split the mortgage insurance premium based on the percentage of risk that each party assumes.

As NIBP developed, HDC succeeded in winning federal approval to finance a fourth category of mortgage loans—the so-called "fourth-rail" mortgage loans—which benefitted from permanent credit enhancement provided by HDC subsidiary REMIC or the State of New York Mortgage Agency. NIBP was a temporary program from the outset, and it ended in 2011. The extraordinary conditions in the capital markets have persisted, however, and HDC has pressed the case for continued federal support for HFA multifamily lending programs.

As a follow-on program, the Obama Administration has proposed permitting taxable Ginnie Mae securitizations of mortgage loans that are insured with Risk-Sharing mortgage insurance. As interest rates on Treasury bonds have reached historic lows, the interest rates on tax-exempt housing bonds issued by many HFAs have exceeded the rates on comparable taxable mortgage-backed securities. This "inversion" in the market has negated the traditional advantage of tax-exempt financing and makes taxable securitizations attractive to HFAs. The obstacle is that Ginnie Mae securitizations of loans with Risk-Sharing mortgage insurance are currently barred by the federal statute authorizing the Risk-Sharing program. Legislation is pending to remove the prohibition, but its fate in Congress is uncertain.

Program Description

The Obama Administration has turned to the FFB to provide an interim solution. The FFB is authorized to use the Treasury's borrowing capacity to finance, among other things, loans that are fully insured by federal agencies. Under the FFB/HUD program, the FFB has agreed to purchase beneficial ownership interests in mortgage loans originated by HFAs and insured with Risk-Sharing mortgage insurance.

Beneficial ownership interests in mortgage loans that HDC sells to the FFB will be evidenced by certificates of participation from HDC. Each certificate will pay a fixed interest rate to the FFB approximating the rate that the market is then providing on a comparable Ginnie Mae security. HDC will remain mortgagee of record and will retain the spread between the interest rate on the mortgage loan and the interest rate on the certificate (minus fees and expenses). The spread that HDC expects to earn will help to provide subsidy for additional projects in support of New York City Mayor Bill De Blasio's housing plan.

HDC anticipates using the FFB/HUD program to obtain low-cost capital for the permanent financing of suitable mortgage loans. Suitable loans will include: (1) projects that are completing a new construction or substantial rehabilitation and converting to permanent financing and (2) refinancings of existing projects with more limited repair work. The FFB and HUD have decided not to finance construction loans at this time, but anticipate expanding the program to do so at a future date. HDC believes that this program as originally constructed will be best utilized for preservation transactions as such projects can be completed quickly and reflect the need to deliver fully completed projects rather than permitting for construction advances.

The Corporation entered into two primary financing agreements in connection with the program: (1) a Master Escrow and Custody Agreement among the Corporation, the FFB and a Custodian and (2) a Master Purchase and Sale Agreement between the Corporation and the FFB.

Structure

HDC worked with HUD and FFB in the pilot to create a replicable program structure. First, there is a Master Escrow and Custody Agreement that resembles a trust indenture or resolution and governs the distribution of revenues related to the FFB-financed mortgage loans. It was essential to structure the program so that FFB was buying an interest in a 100% federally insured loan. The parties enter into a supplement to the master agreement for each financing, akin to the execution of a supplemental indenture or resolution. Below is a summary of key terms:

1. *Certificates of Participation*. A Custodian will deliver a certificate of participation to the FFB for each loan that the FFB finances. Each certificate will evidence the beneficial ownership interest in a single loan and will not be cross-collateralized.

2. *Mortgage Reserves*. The agreement will require a mortgage reserve or other amounts to be funded with respect to each loan to cover an aggregate amount that is not expected to exceed two months of the borrower's scheduled loan payments.

3. *Loan Servicing and Mortgage Loan Defaults*. HDC or another permitted entity will act as the servicer of the loans and will receive monthly payments of principal and interest from each borrower. HDC will retain the traditional role of lender with respect to control of the loan documents and remedies upon default. The Corporation will covenant, in the event of a default under a loan, to timely file a claim for the Risk-Sharing mortgage insurance in order to ensure payment to the FFB.

4. *Distribution of Revenues*. After paying the mortgage insurance premium and servicing fee for a loan, HDC (or alternate servicer) will pass the remaining loan payment through a Custodian, which will pay to the FFB: (1) the principal due under the loan and (2) the interest due under the certificate of participation. After the Custodian replenishes the mortgage reserve with available revenues, if necessary, and pays any other fees and expenses, HDC will receive the remaining spread between the interest paid on the loan and the lower interest amount that is payable to the FFB under the certificate.

The Master Purchase and Sale Agreement will govern the procedure for selling beneficial ownership interests in mortgage loans to the FFB. In connection with each sale of a beneficial ownership interest, a description of the loan to be sold will be attached to the master agreement. The agreement will also provide HDC with the right to repurchase any beneficial ownership interest sold to the FFB at any time after the 10th anniversary of its sale, regardless of whether the borrower has prepaid the loan. The agreement will allow the FFB to transfer its beneficial ownership interests only to other federal agencies.

Indemnification of HUD for Fraud or Misrepresentation. The program requires the participating HFA to indemnify HUD for the total amount of any mortgage insurance claim if the HFA has committed fraud or made a material misrepresentation in obtaining the mortgage insurance for the loan. Under existing Risk-Sharing Agreements, HUD would cancel the FHA insurance in such a case, but it cannot do so for FFB-financed loans because the FFB is only authorized to purchase loans that are fully insured by HUD. Accordingly, instead of cancelling the insurance, HUD will pay the claim for the FFB's benefit, but will then turn to the participating HFA to cover the full amount of the claim.

The Pilot Transaction

The pilot transaction provided permanent financing for Arverne View Apartments (formerly known as Ocean Village), after it completed its rehabilitation phase. Arverne View is an 11-building Mitchell-Lama rental property containing

1,093 residential units, six commercial spaces and surface parking. The complex is located at 57-17 Shore Front Parkway in the Arverne section of the Rockaway Peninsula in Queens. The HDC-financed rehabilitation by L+M Development Partners has given new life to a property that was in severe distress prior to Superstorm Sandy and that suffered extensive damage as a result of the storm. Arverne View is truly a product of coordinated partnerships, both public and private, as well as across agency lines; City, State and Federal. A successful innovative model for preserving affordable housing through the utilization of recycled tax exempt bonds, debt restructuring and private funding coupled with the valuable rental subsidy generated through a 236 Decoupling and the RAD program. The full physical and financial rehabilitation of a 1,093 unit complex in an area devastated in 2012 not only provides stability to the residents, but to the community as a whole. As the successful pilot, Arverne View is the real and replicable model of how FFB can work successfully for other participating HFAs.

Results and Benefits:

First and foremost the pilot transaction provides a model for allowing HFAs to offer FHA/HFA risk sharing projects financing at rates similar to what is available under the Ginnie Mae securitization program. In the pilot transaction, HDC was able to reduce its cost of funds by almost two full points from the original financing plan. This differential in spread will allow HDC to provide additional subsidies to other affordable projects as well as to provide some additional savings to the Arverne View project.

The pilot left open other issues that will need to be addressed by HUD and Treasury. In particular the program does not allow for construction financing, forward purchase commitments or forward interest rate lock opportunities. Also, the pricing approach used by FFB reflects the Ginnie Mae market that has built in up-front spreads for originators and premiums paid that reduce the yield below the coupon. It would be beneficial if the FFB pricing was closer to the actual yield that Ginnie investors get than a rate that mimics the Ginnie coupon. It is expected that some of these issues will be covered as the program evolves and is made available to the broader HFA/FHA risk sharing participants following this extremely successful launch in New York City.