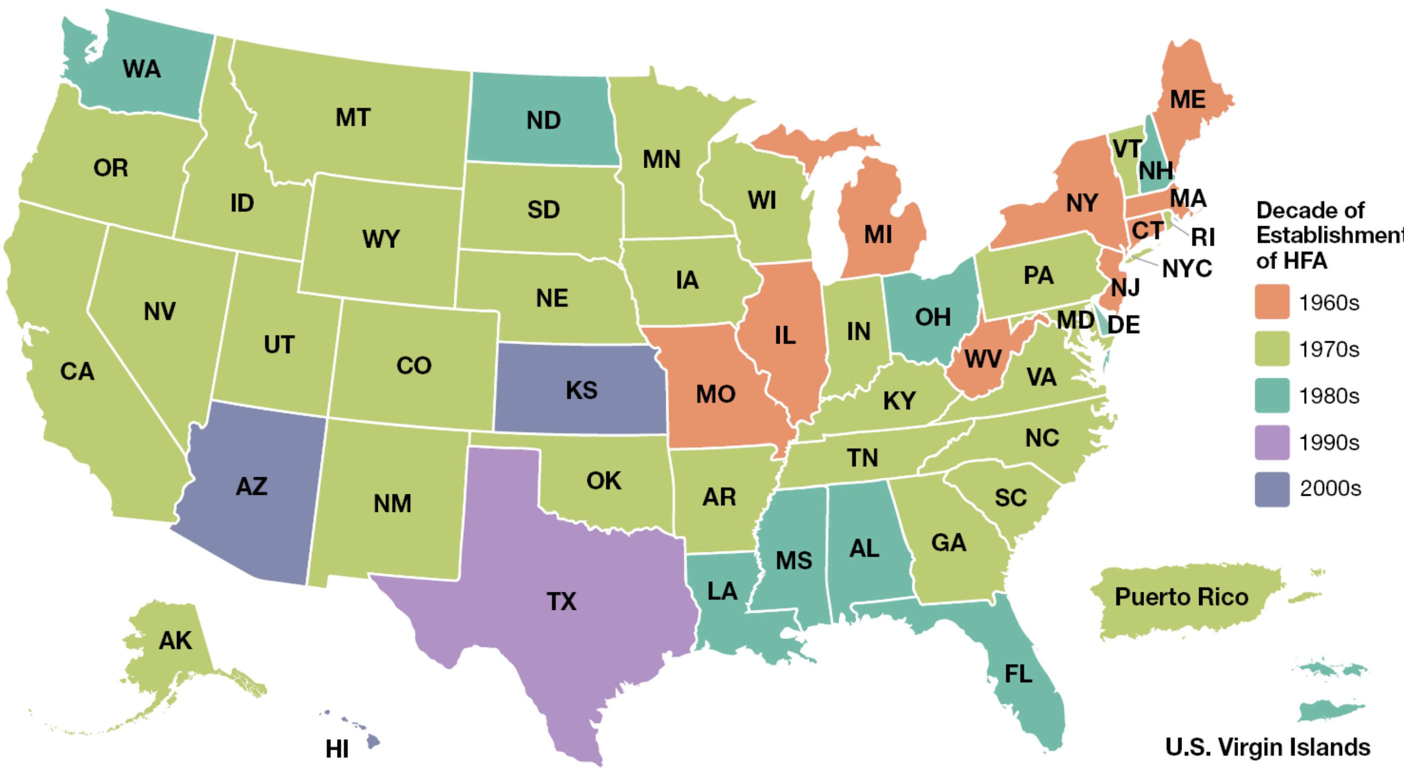
State Housing Finance Agencies: At the Center of the Affordable Housing System

HFA Role and Impact

For more than 50 years, state housing finance agencies (HFAs) have played a central role in the nation's affordable housing system.

- Delivered more than $450 billion in financing
- Made possible the purchase, development, and rehabilitation of more than 7 million affordable homes and rental apartments
- Serve low- and middle-income households

State Housing Finance Agencies



Sources: NCSHA

HFA Creation and Operation

- Created by the states to meet their particular affordable housing needs
- Are independent entities
- Operate under the direction of a board of directors appointed by the state's governor
- Operate in the capital markets without the financial backing of their respective states
- Generate their own resources to fund their activities

A Hybrid Model

State HFAs combine:

- The financial tools and business discipline of a large-scale lending institution
- The planning and policy-making responsibilities of a mission-oriented, public-purpose agency

HFA Value Proposition

State housing finance agencies are:

- Self-supporting, large-scale enterprises
- Reliable sources of capital in the affordable housing system
- Providers of high-quality affordable housing financing
- Administrators of essential federal rental housing resources
- Generators of economic benefits for their states

Self-Supporting Enterprises

HFAs utilize their authority to issue bonds to generate financing to support affordable homeownership opportunity and rental housing development and preservation.

In many cases, these bonds are exempt from federal income taxes, so investors are willing to accept a lower rate of return, which HFAs pass along to their borrowers in the form of lower loan interest rates.

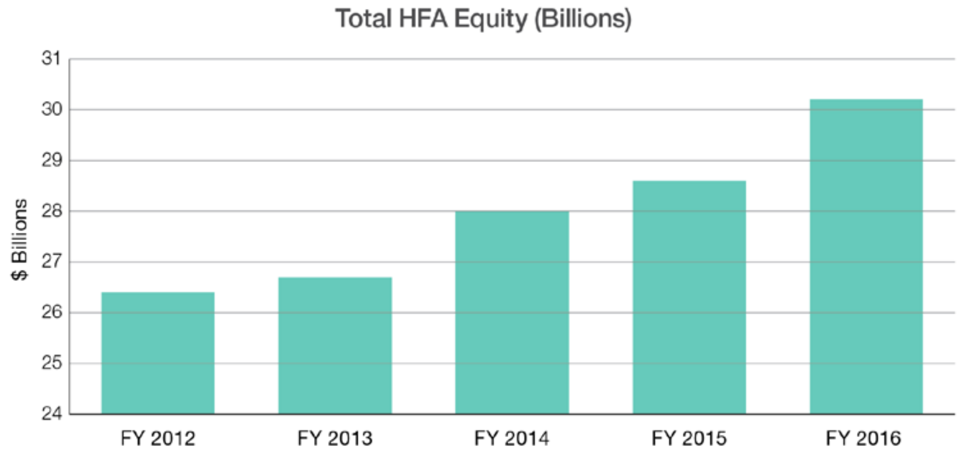
Self-Supporting Enterprises

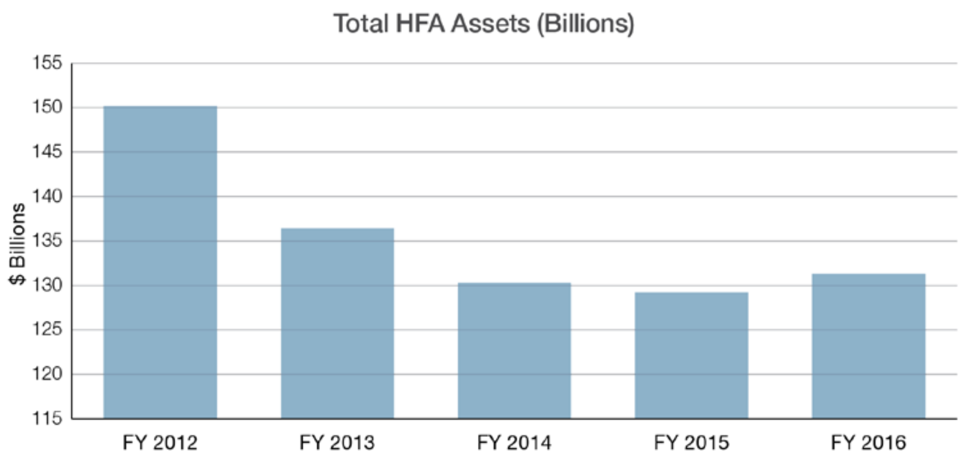
HFA bond programs generate revenue for the agencies, which enable them to be largely self-supporting and to invest additional funding from their earnings in affordable housing for their states.

As of 2016, total state HFA assets were more than $131 billion, having stabilized and begun to improve since the Great Recession, according to Fitch Ratings.

Total state HFA equity as of 2016 was more than $30 billion, up 14 percent since 2012, according to Fitch Ratings.

Self-Supporting Enterprises





Sources: NCSHA; Fitch Ratings

Self-Supporting Enterprises

State HFAs maintain consistently high credit ratings, currently ranging from A to AAA as of the end of 2017, according to S&P Global Ratings.

No state HFA bond issue has ever defaulted in paying bond holders.

Reliable Sources of Capital in the Affordable Housing System

HFAs provide financing for affordable homeownership through several primary means, including:

- tax-exempt mortgage revenue bonds (MRBs)
- alternative financing executions through the secondary mortgage market, such as mortgage-backed securities

The ability to access the capital markets through a variety of strategies enables HFAs to deliver housing financing that is responsive to the housing market needs in their states.

Reliable Sources of Capital in the Affordable Housing System

HFAs are reliable sources of capital in any phase of the economic cycle. In 2016, HFAs:

- issued more than $6 billion in MRBs
- leveraged nearly $16 billion in alternative funding sources
- financed nearly 126,000 home loans

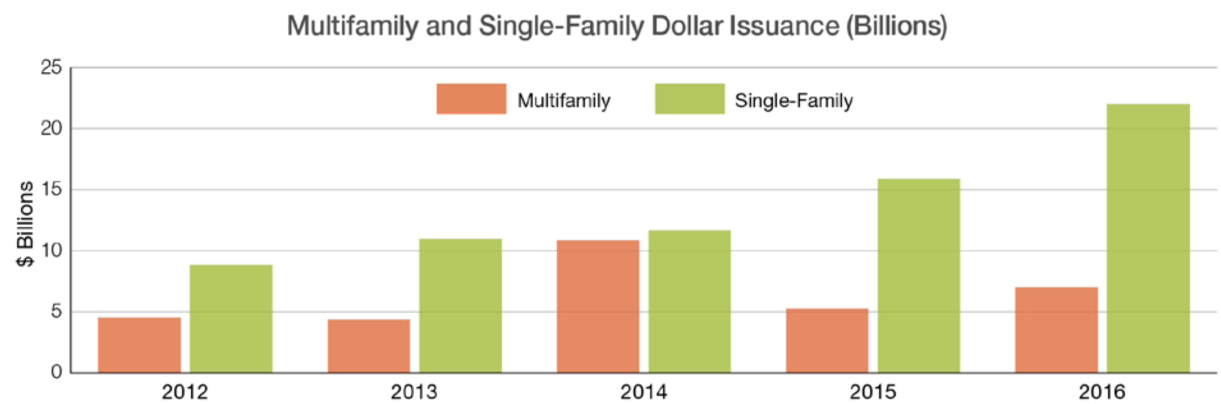
HFAs have financed more than 3.2 million home purchase loans over time.

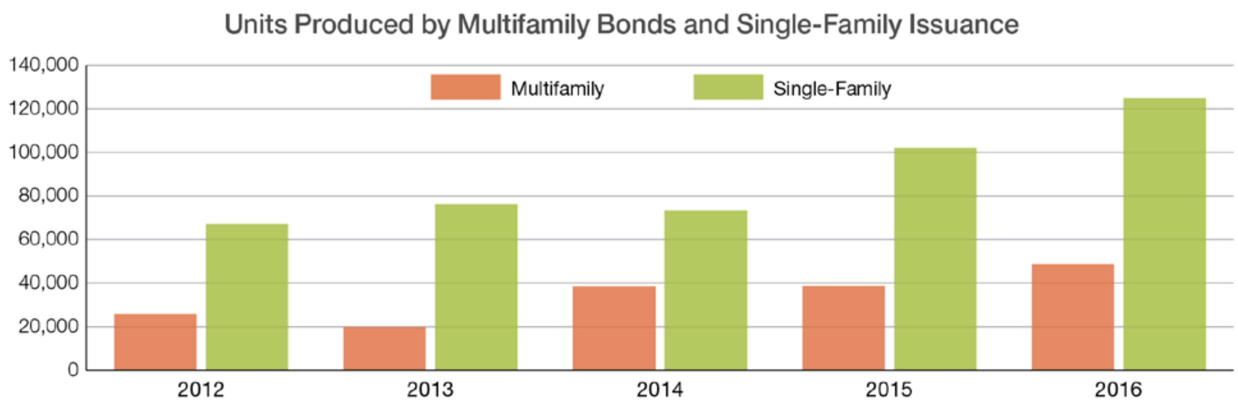
Reliable Sources of Capital in the Affordable Housing System

In 2016, HFAs issued more than $7 billion in multifamily housing bonds to support nearly 49,000 affordable apartments.

HFAs' multifamily portfolios consisted of more than 16,000 properties encompassing more than 1.2 million apartments, as of the end of 2016.

Reliable Sources of Capital in the Affordable Housing System





Source: NCSHA

Reach Underserved Borrowers and Markets

State HFAs provide housing financing to all parts of their states:

- urban areas
- rural communities
- suburban towns
- tribal lands

Reach Underserved Borrowers and Markets

HFA home loans in 2016:

- 72 percent went to borrowers earning the area median income (AMI) or less
- The median borrower income was just under $50,000 — 14 percent lower than the national median family income

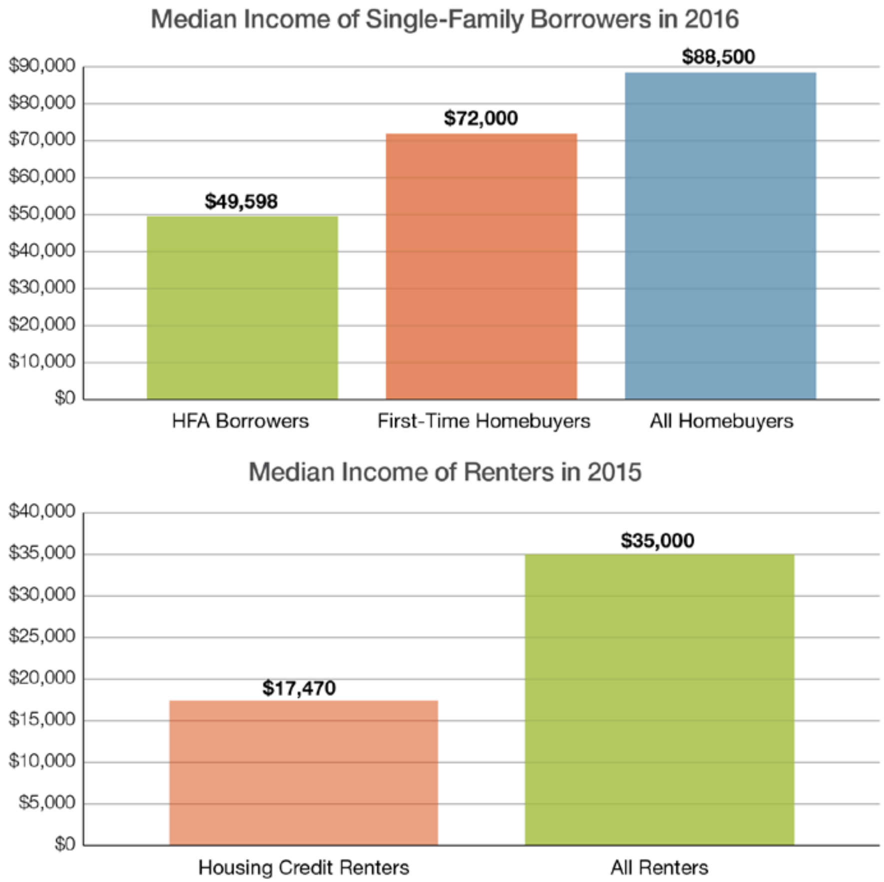
Reach Underserved Borrowers and Markets

On the rental side, state HFAs administer the federal Low Income Housing Tax Credit (Housing Credit) program.

More than 80 percent of all households in Housing Credit apartments earn 50 percent or less of AMI.

- Median income of a Housing Credit apartment resident in 2015: $17,470
- Median income for all renters in 2015: $35,000

Reach Underserved Borrowers and Markets



Source: NCSHA

Reach Underserved Borrowers and Markets

HFA Uses of the Housing Credit in 2016:

- 31 HFAs served people with disabilities
- 28 HFAs targeted rural populations
- 25 HFAs served households experiencing homelessness

Deliver High-Quality Financing for Affordable Housing

HFAs have proven homeownership is not only possible for lower-income families, it is sustainable.

The Federal Housing Finance Agency noted in 2014 that HFAs have:

- "historically provided access to credit and lower down payment lending for lower- and moderate-income families"
- "proven, strong performance records"[1]

1 "The 2014 Strategic Plan for the Conservatorships of Fannie Mae and Freddie Mac," May 13, 2014, FHFA.

Deliver High-Quality Financing for Affordable Housing

A 2018 study of more than one million low- and moderate-income mortgages found that single-family loans originated through state HFA programs perform better than similar non-HFA loans to low- and moderate-income borrowers.

Overall, HFA loans were 20 percent less likely to experience a long-term default and 20 – 30 percent less likely to be foreclosed.

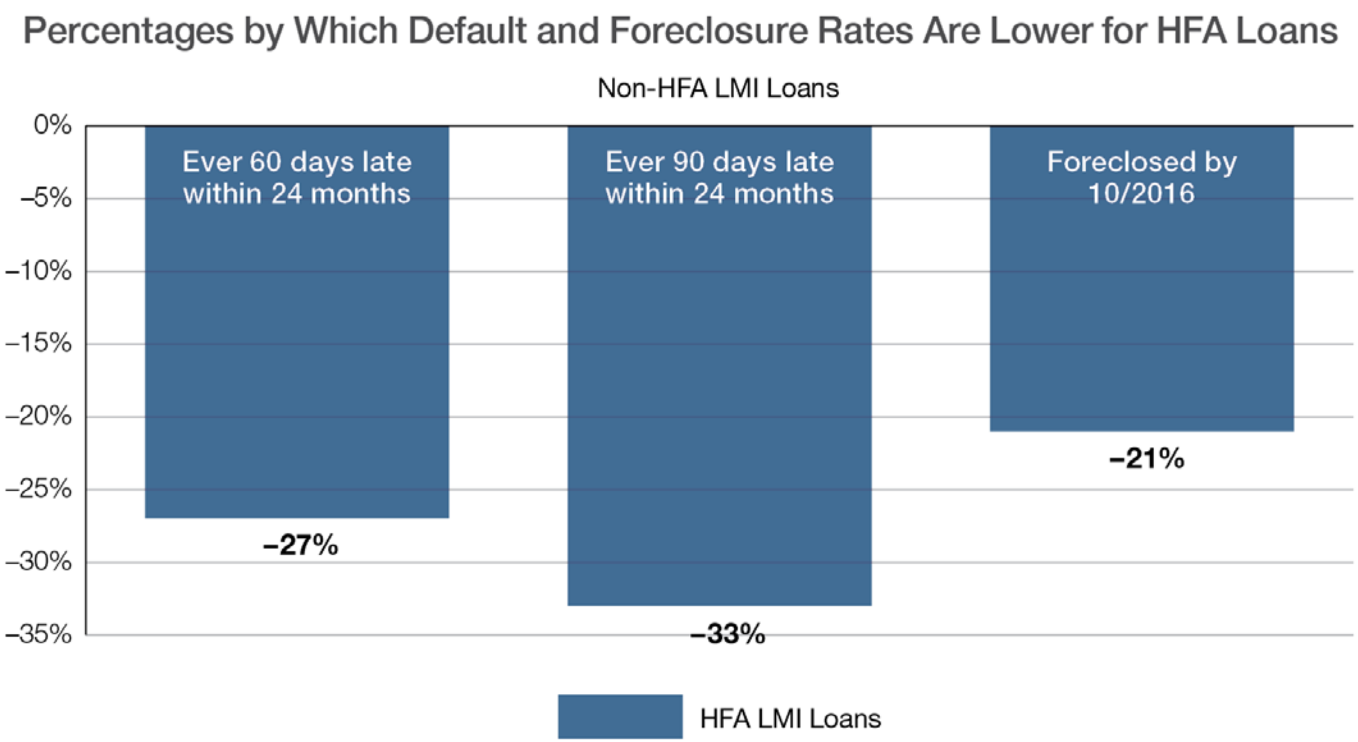
Deliver High-Quality Financing for Affordable Housing

According to the report:

> "Not only are HFAs more likely to require full documentation and careful underwriting, they also serve as a third-party monitor on the partner lenders originating loans through the state program, creating an additional incentive for careful screening by the lender."[1]

[1] "Low Income Homeownership and the Role of State Subsidies: A Comparative Analysis of Mortgage Outcomes," Moulton, Record, and Hembre, 2018, Fannie Mae.

Deliver High-Quality Financing for Affordable Housing



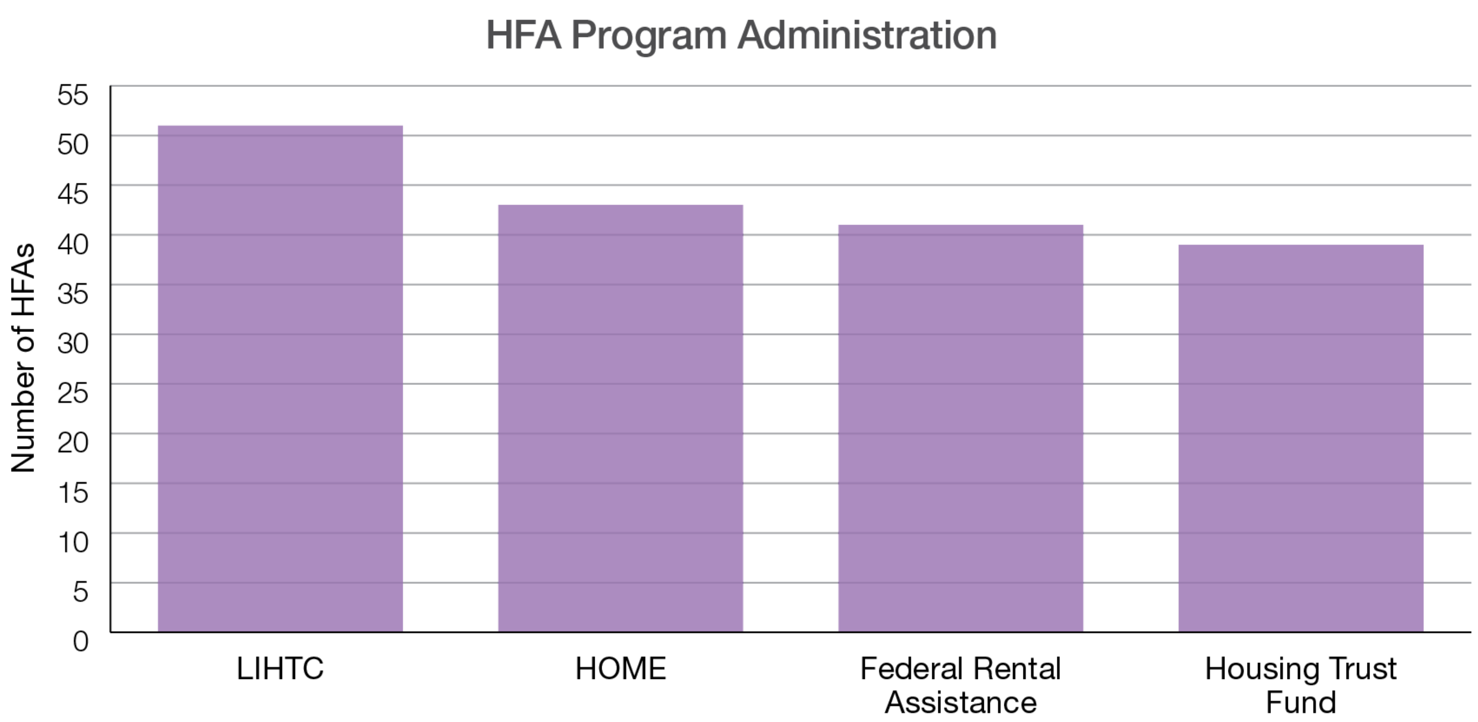
Source: "Low Income Homeownership and the Role of State Subsidies: A Comparative Analysis of Mortgage Outcomes," Moulton, Record, and Hembre, 2018, Fannie Mae.

Administer Essential Federal Resources for Rental Housing

The HFAs' capacity and performance have earned them the primary responsibility for delivering an array of federal housing programs in their respective states.

- 48 state HFAs (plus the Virgin Islands and Puerto Rico) administer the Low Income Housing Tax Credit
- 43 state HFAs run their state's annual allocation of HOME housing block grant funds
- 41 state HFAs administer various forms of rental assistance
- 39 state HFAs administer the Housing Trust Fund

Administer Essential Federal Resources for Rental Housing



Source: NCSHA

Administer Essential Federal Resources for Rental Housing

HFAs have an established track record of administering public programs, which has often generated substantial savings for taxpayers.

Example: HFA administration of project-based rental assistance vouchers

- Cut waste in the HUD Section 8 housing assistance program
- Ensured properties remain in strong physical and financial condition
- Reduced the number and amount of improper subsidy requests
- Promoted increased compliance with HUD policies and procedures

Generate Economic Benefits for States

HFA bond programs attract new capital investment into their states.

They also enable the agencies to use their balance sheets in innovative ways to generate new funding for housing investments that otherwise would not be made.

HFAs often reinvest their earnings in new products and services to meet their states' housing needs.

HFA financing and programs are major drivers of economic activity in their states — generating jobs, wages, and local revenue.

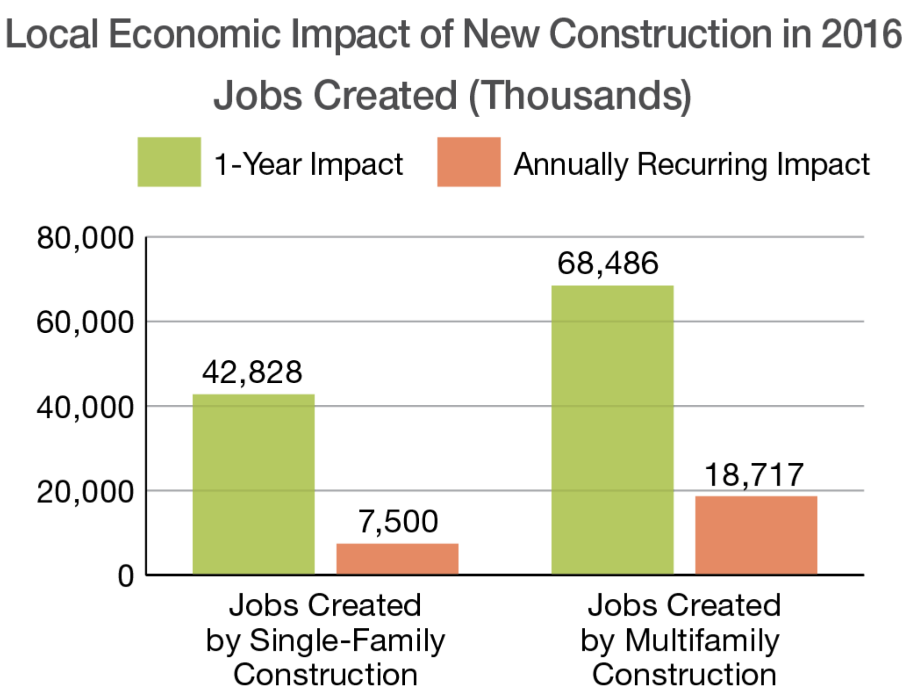
Generate Economic Benefits for States

Example: HFA financing of new construction of affordable homes through their bond programs and development of rental apartments through the Housing Credit

In 2016, these activities generated, on a one-time and annually recurring basis combined:

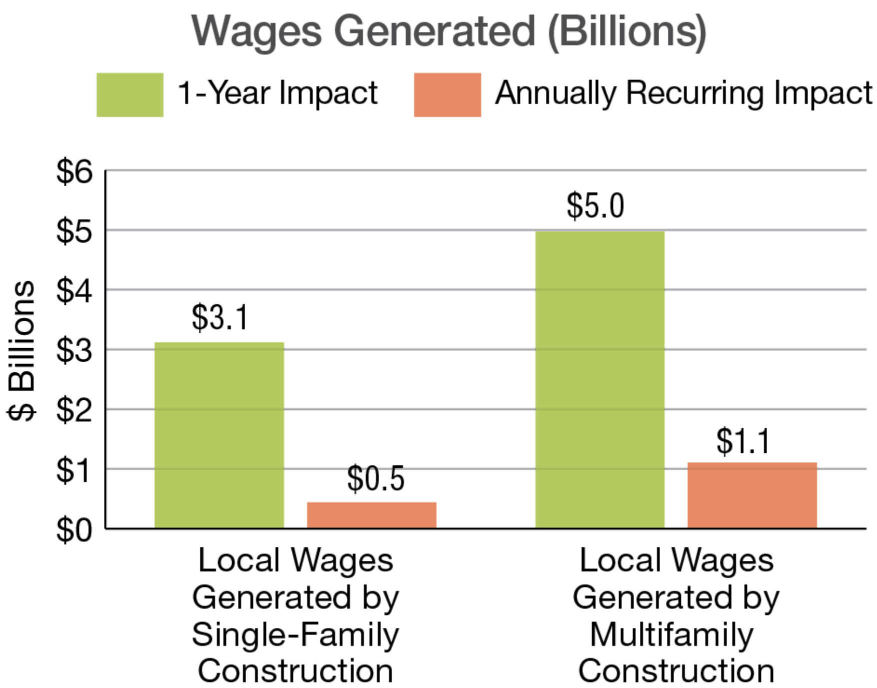
- More than 100,000 jobs
- Nearly $10 billion in wages
- $1.6 billion in local revenues

Generate Economic Benefits for States



Sources: NCSHA, National Association of Home Builders

Generate Economic Benefits for States



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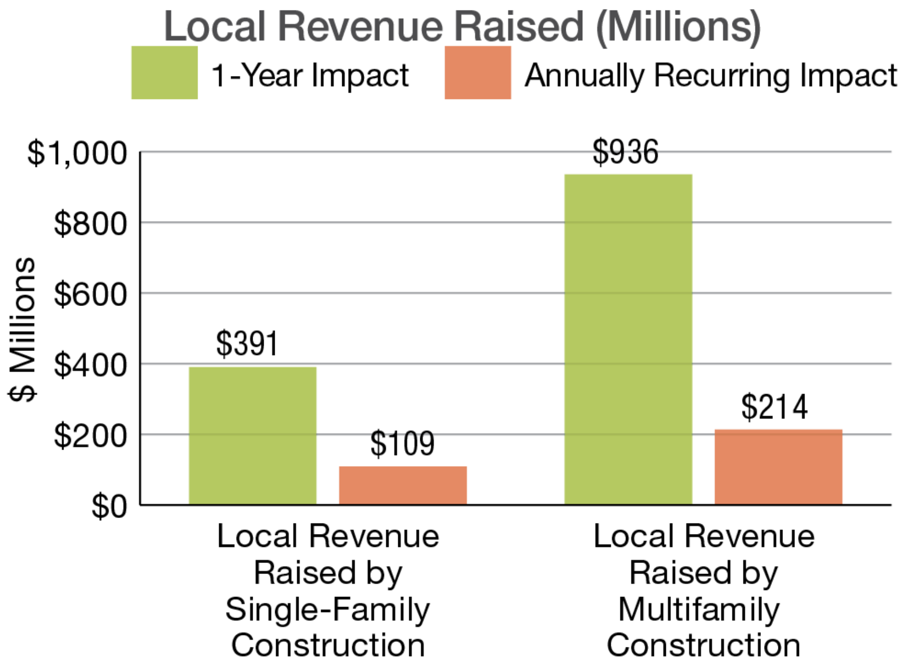
Generate Economic Benefits for States



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Conclusions

1. State HFAs are resilient providers of capital for affordable homeownership and rental housing for their states.

2. State HFAs are reliable partners to the other key players in the American affordable housing system.

3. State HFAs are ready participants in the business discussions, policy-making efforts, and advocacy campaigns that will shape the housing market of the future.

About NCSHA

The National Council of State Housing Agencies is a nonprofit, nonpartisan organization created by the nation's state Housing Finance Agencies (HFAs) more than 40 years ago.

NCSHA advances the agencies' shared policy priorities with Congress and federal agencies; produces and disseminates educational, training, and best practice information for agency staff; and promotes HFA leadership and innovation in meeting their states' housing needs.

NCSHA's vision: An affordably housed nation

Learn more at www.ncsha.org.