

CHFA (CT) Creating an Opportunity Fund
for Multifamily Housing
Connecticut Housing Finance Authority
Management Innovation: Financial

HFA Staff Contact

Amy Tibor

amy.tibor@chfa.org

Creating an Opportunity Fund for Multifamily Housing

Introduction

Sometimes, a dramatic change in thinking is required when introducing innovation in the way an organization is managed. For Connecticut Housing Finance Authority, located in “the land of steady habits,” that was a challenge in itself. Year after year, CHFA had addressed the issue of providing gap financing to affordable housing proposals with two solutions, either tapping its Investment Trust Account (ITA) or finding other funding through the state. That was the extent of CHFA’s consideration of how to provide projects and programs in need of supplemental funding for affordable housing initiatives.

As a 50-year-old organization, CHFA had approached the issue of supportive revenue streams for affordable housing the same way for many years. CHFA had long ago established an Investment Trust Account, funded with excess revenues from bond proceeds and used to provide supplemental funding to proposed developments. The challenge was that this was a limited resource, and there were always many more projects in need of gap financing than could be supported. Other sources of gap financing from the State waxed and waned over the years depending on the leadership in the Executive Branch and the economic conditions at any given time.

Therefore, the challenge for CHFA’s new Executive Director in 2020 was to inspire an organizational look inward, challenging CHFA to do more to create affordable housing opportunities in the state. Were the only options for supplemental funding to be found in CHFA’s ITA Account or state funding? Inspired by the path that other HFAs in Massachusetts, Colorado and Minnesota had taken, CHFA commissioned a Strategic Capital Analysis that examined CHFA’s financial structure and balance sheet and found that, in fact, CHFA could do more to help the residents of Connecticut. The study recommended the creation of an Opportunity Fund that would be an additional revenue stream working in tandem with the ITA to create an additional source of funding for affordable housing.

CHFA’s Executive Director brought the results of the Capital Strategic Analysis Study to the Board of Directors where the case was made, and CHFA’s corporate mindset changed on how we use revenues from excess bond revenues. For the first time in CHFA’s history, a second, internal revenue stream was created, CHFA’s Opportunity Fund, and with it the promise to expand affordable housing opportunities for the residents of Connecticut.

The Development of a New Approach to Supplemental Funding

Connecticut Housing Finance Authority is a AAA-rated state housing finance agency that has operated successfully throughout its 50-year history to provide affordable housing to low and moderate-income residents of the state. Like many other state HFAs, it has faced an ever widening shortage of affordable housing, constantly looking for ways to provide supplemental financing to affordable housing initiatives with its ITA funds when available and or securing state support to supplement efforts to expand housing opportunities. However, levels of state support for affordable housing were not a constant in CHFA’s history, depending on political support and the financial health of the state.

Connecticut Housing Finance Authority
Creating an Opportunity Fund for Multifamily Housing
Management Innovation: Financial, New Program

With CHFA being called upon to do more and more to address the affordable housing crisis in Connecticut, it was time to take a deeper look inward at CHFA's financial capacity and consider whether it could do more to provide financial support. Commissioning a Capital Strategic Analysis, CHFA challenged itself to look at its financial capacity and its strong balance sheet. From that analysis, it became clear that CHFA could tap more of the excess revenues from bond proceeds and use a portion of them to create an Opportunity Fund, an additional revenue stream for developments in need of funding. In the past, these excess revenues were used both to fund the ITA account and to pay down additional bond debt over and above what was required. Now a portion of the monies being used to pay down debt would be freed up to bring the Opportunity Fund to life. This was a dramatic change in approach for CHFA.

Once the study was completed and the recommendation to create a fund was considered, staff brought the concept to the CHFA Board of Directors. Staff made the case that the Opportunity Fund would work in tandem with the existing Investment Trust Account to support traditional types of lending and new opportunities to expand affordable housing production and preservation in Connecticut. The ITA funds would continue be used for financing where CHFA is in the first position, and all loans would be secured by a mortgage. In contrast to the ITA, the Opportunity Fund would generally be used for gap financing, principal loss remediation or interest rate subsidies for developments receiving CHFA financing products or CHFA bond proceeds.

In the wake of presentations made to the Board in the fall of 2020, the Board formally adopted a Board Policy Statement supporting the creation of a separate Opportunity Fund in January 2021.

Impact of Creating a New Mindset

The creation of an Opportunity Fund at CHFA represents a dramatic change in the corporate mindset. For many years, CHFA had taken great pride in its financial health, being only one of a few AAA-rated HFAs in the country, however the organization was not taking an innovative approach to discovering strategies CHFA could implement to serve our mission to increase the availability of affordable housing in our state. In fact, when it came to providing gap financing, we often looked outward toward the state to help us expand opportunities to create affordable housing.

In the last year, CHFA drew on inspiration of other HFAs to bring an innovative approach to providing supplemental funding to affordable housing initiatives. While the capacity to do so may have been already existed for CHFA, the corporate mindset needed to be challenged and changed to make way for a more productive, creative way to respond to the needs of our customers. As we look ahead in 2021, CHFA looks forward to the promise of the new Opportunity Fund and the additional affordable housing efforts that the Fund will assist in bringing to fruition in our state.

POLICY STATEMENT



Policy #:	Title:	Revised as of:
CHFA-2021-1	Investment Trust and Opportunity Fund Accounts	1/28/21

The Connecticut Housing Finance Authority (CHFA) will deploy its available resources in a manner that advances its mission to alleviate the shortage of affordable housing for low and moderate income families and individuals. To this end, it will maximize the prudent use of such resources to the greatest extent possible by creating a new Opportunity Fund that will be used as an additional source of funding for affordable housing. This new fund will serve as a supplemental resource to accompany programs or initiatives receiving CHFA financing or CHFA bond proceeds. In creating this fund, the Authority recognizes that it can maintain financial sustainability while at the same time creating flexibility and additional opportunities for CHFA to expand the preservation and creation of affordable housing in our state.

GUIDELINES

In furtherance of this policy, CHFA will establish an Opportunity Fund Account (OFA) to supplement the Investment Trust Account (ITA). Like the ITA, the OFA will be funded out of the Housing Mortgage Finance Program Bond Resolution on an annual basis in conjunction with CHFA Annual Budget and Plan of Operations. The Accounts will be deployed in accordance with the guidelines below.

Investment Trust Account provides financing for the following:

- 1st mortgage loan or Mortgage Backed Security with CHFA in first lien position
- 2nd mortgage loan, provided that CHFA is in first lien position
- All Loans shall be secured by a mortgage lien

In each instance in which funds from ITA are used, the interest rate shall be commensurate with the risk, term of the loan and market conditions at the time of financing. Financing using ITA funds must comply with CHFA statute, procedures and program guidelines.

The new **Opportunity Fund Account** is generally designed to provide gap financing, principal loss remediation or interest rate subsidies for developments receiving CHFA financing products or CHFA bond proceeds. Financing using OFA funds must comply with CHFA statute, procedures and program guidelines.

POLICY STATEMENT



Policy #:	Title:	Revised as of:
CHFA-2021-1	Investment Trust and Opportunity Fund Accounts	1/28/21

From time to time, the ITA and OFA may be used by CHFA to fund CHFA bond loans or investments temporarily prior to the issuance of bonds. The accounts shall be reimbursed after the issuance of the bonds. In addition, CHFA may utilize funds in both accounts to pay for any obligations and expenses incurred by CHFA. Other transaction structures may be considered to make the transaction financially feasible as determined by CHFA, including combining the ITA and OFA within the same transaction.

BACKGROUND AND STATEMENT OF NEED

With an ever increasing shortage of affordable housing in Connecticut and limited state and federal funds to address the issue, it is incumbent upon CHFA to look for new ways to meet its mission. In 2020, CHFA engaged an outside firm to conduct a capital needs analysis. The purpose of the analysis was to identify resources that would support CHFA's strategic plan, giving a clearer picture of how funds are currently being used and recommending new sources of funding that would assist CHFA in meeting its mission. Out of the study came the recommendation of creating a separate account, using a portion of CHFA's excess revenues from its bond program to support programs and initiatives that are in need of additional financing in order to move forward. The concept of an Opportunity Fund has been tested by a number of state HFAs and has enabled them to preserve or support the creation of additional affordable housing in their respective states.

IMPLEMENTATION & RESPONSIBLE DEPARTMENTS

CHFA will implement this policy under the guidance of the following department and position:

Responsible Department: Finance Department

Responsible Position: Chief Financial Officer

POLICY STATEMENT



Policy #:	Title:	Revised as of:
CHFA-2021-1	Investment Trust and Opportunity Fund Accounts	1/28/21

RELATIONSHIP TO OTHER POLICIES AND GUIDELINES

This policy works in conjunction with CHFA’s Procedures and Program Guidelines. It has been developed to support the policies and priorities of CHFA’s Strategic Plan.

BOARD APPROVAL

Date of Board Approval: January 28, 2021
Effective Date: January 28, 2021
Dates of Board Approved Revisions:
Date of Current Board Approved Revision:

Signed:
Nandini Natarajan
CHFA CEO-Executive Director
Date: January 28, 2021