FHA-HFA Multifamily Loan Risk-Sharing FAQ

What is the FHA-HFA Risk-Sharing program?

Congress established the Federal Housing Agency (FHA) - Housing Finance Agency (HFA) Multifamily Risk-Sharing program in 1992 to increase and speed up FHA's multifamily mortgage production. The FHA-HFA Risk-Sharing program allows state HFAs that meet rigorous financial standards to underwrite FHA multifamily loans in return for sharing the risk of losses on those loans.

FHA provides full insurance on the loans, and HFAs agree to accept up to 50 percent of the risk of losses on them. The more risk HFAs assume, the more underwriting flexibility FHA permits them. In the event of a default, FHA and the HFA apportion the loss according to the risk-sharing agreement they have made.

The Risk-Sharing program provides credit enhancement to HFA bond and debt issuances through FHA mortgage insurance, resulting in lower borrowing costs. HFAs are then able to pass on these savings to borrowers and tenants. HUD also benefits because, compared to traditional FHA loans, the Risk-Sharing program reduces risk at the transaction level, increases affordable housing production, and significantly cuts HUD staffing and processing needs.

Current statute prohibits Ginnie Mae securitization of FHA-HFA Risk-Sharing loans.

What has the program accomplished?

The FHA-HFA Risk-Sharing program has been very successful, with 37 HFAs financing more than 1,546 loans, totaling nearly $10.3 billion in principal and supporting more than 172,300 affordable rental homes. In Fiscal Year (FY) 2018, FHA issued firm commitments to HFAs to finance 102 loans, with a total principal balance of $1.16 billion, supporting 11,947 rental homes.

FHA-HFA Risk-Sharing commitment volume is now 11.5 percent of total FHA commitment volume. These loans also represent 30 percent of all Low Income Housing Tax Credit (Housing Credit) units financed under all FHA insurance programs.

The Risk-Sharing program outperforms HUD's traditional FHA multifamily mortgage insurance programs. Program loan default rates have been very low, and premium revenue has exceeded total claims, generating net revenue for the federal government. Since 2010, the average FHA-HFA Risk-Sharing program claim rate has been .025 percent, while the average claim rate for multifamily loans with full FHA insurance has been .62 percent.

Why should Congress allow Ginnie Mae to securitize FHA-HFA Risk-Sharing loans?

The FHA-HFA Risk-Sharing program has been very successful since its inception and now has a multidecade-long track record. The portfolio has very low loan default rates. Given the strong success of the Risk-Sharing program, lifting the prohibition on Ginnie Mae securitization is a prudent decision, which would benefit the federal government without imposing any additional risk or cost.

Permitting Ginnie Mae to securitize FHA-HFA Risk-Sharing loans would allow HFAs to make more of these loans at lower interest rates. This would reduce the cost of financing rental housing developments, making it possible to achieve lower rents, reach tenants with even lower incomes, and increase production.

If Ginnie Mae were to securitize FHA-HFA Risk-Sharing loans, HFAs predict the interest rate on the underlying mortgages could be reduced by as much as 200 basis points or 2 percent. This rate reduction would lower rents and potentially reduce the need for and cost of other federal housing subsidies.

Does Ginnie Mae securitize other multifamily loans?

Yes. In fact, most FHA-insured multifamily loans are packaged into Ginnie Mae securities issued by lenders. Ginnie Mae guarantees the timely payment of interest and principal, increasing investor interest and driving down the interest rates on the securities and the underlying loans.

Ginnie Mae securitization of FHA-HFA Risk-Sharing loans would increase liquidity, making more loans possible for the development and preservation of affordable rental housing. This housing activity would, in turn, stimulate local economies by creating jobs, increasing tax revenue, and expanding investment.

Will allowing Ginnie Mae to securitize FHA-HFA Risk-Sharing loans increase federal government spending?

No. The Congressional Budget Office has previously estimated that allowing Ginnie Mae to securitize FHA-HFA Risk-Sharing loans would result in $20 million in mandatory savings over 10 years ($2 million annually). HUD's FY 2019 budget documents also showed that the Risk-Sharing program is a money-maker for the federal government.

Why does the law currently prohibit Ginnie Mae from securitizing Risk-Sharing loans?

Congress created the FHA-HFA Risk-Sharing program in recognition that states could help finance and preserve affordable housing in a way that private lenders had failed to do. Congress designed the Risk-Sharing program to avoid the mistakes of an earlier HUD program called the Multifamily Coinsurance Program, which provided insurance for rental housing loans made by private lenders who agreed to share in potential financial losses. Under the program, private lenders assumed approximately 20 percent, and HUD 80 percent, of the responsibility for potential losses incurred through defaulted coinsurance mortgages.

The coinsurance program allowed private lenders to pool coinsured mortgages into securities guaranteed by Ginnie Mae. When individual coinsured loans defaulted, HUD paid the lender approximately 80 percent of the losses on the mortgage. If a lender who had pooled coinsured loans into Ginnie Mae securities defaulted, however, the Ginnie Mae guarantee rendered HUD responsible for the lender's entire portfolio and 100 percent of the losses.

Flaws in the coinsurance program and inadequate HUD enforcement of program requirements led to significant defaults and losses to HUD. HUD terminated the program in 1990.

The FHA-HFA Risk-Sharing program is a significant departure from the coinsurance program, because state HFAs are responsible for underwriting and up to 50 percent of the risk. As public agencies, state HFAs are permanent, creditworthy entities that meet their obligations under the program. In addition, HUD reviews all participating HFAs' annual financial statements and revises underwriting guidelines as needed.

What is the history of proposals to allow Ginnie Mae to securitize FHA-HFA Risk-Sharing loans?

Ginnie Mae, FHA, and HUD have all, in recent years, supported allowing Ginnie Mae to securitize FHA-HFA Risk-Sharing loans, as do many members of Congress. In fact, the President's budget proposals from FY 2012 to 2016 all included this proposal. In 2014, the Senate Banking Committee approved an amendment to the Johnson-Crapo housing finance reform bill that would have allowed Ginnie Mae to securitize FHA-HFA Risk-Sharing loans. The House Financial Services Committee included a similar proposal in the Housing Preservation and Tenant Protection Act, H.R. 4868, which it reported in 2010.

Would Ginnie Mae securitization of FHA-HFA Risk-Sharing loans expand Ginnie Mae's authority and involvement in affordable housing or increase risk to the federal government?

Eliminating the prohibition on Ginnie Mae securitization of Risk-Sharing loans would not expand significantly Ginnie Mae's role in affordable housing. Ginnie Mae already securitizes FHA-insured loans. Total FHA-HFA Risk-Sharing commitment activity was $1.56 billion in FY 2017, 9.5 percent of all FY 2017 FHA multifamily commitments and less than 1 percent of Ginnie Mae commitments.

Allowing Ginnie Mae to securitize FHA-HFA Risk-Sharing loans would, in fact, reduce the risk and involvement of the federal government in affordable housing by allowing state HFAs, which are best suited to meet the needs of their communities with this innovative tool, to take on a portion of that risk and underwrite the loans. In addition, FHA-HFA Risk-Sharing loans securitized by Ginnie Mae are less likely to be financed with tax-exempt bonds.

What steps should Congress take to authorize Ginnie Mae FHA-HFA Risk-Sharing loan securitization?

It is important that Congress act fast to authorize Ginnie Mae securitization to maximize affordable housing production and preservation.

Permanent authorization of Ginnie Mae securitization of FHA-HFA Risk-Sharing loans would ensure that HFAs will be able to use the best execution possible for their multifamily loans into the future. Enacting a permanent provision would provide long-term assurance that HFAs could lower their borrowing costs, offer more competitive products to private-sector lenders and developers, and produce more affordable rents to low-income residents without interruption. As Congress works on permanent authorization, it should provide a stopgap authorization in the FY 2020 appropriations bill if that is enacted first.

What was the Federal Financing Bank initiative?

In 2014, HUD and the Treasury Department collaborated on an initiative to use Treasury's Federal Financing Bank (FFB) to provide "Ginnie-like" long-term, competitively priced financing to Risk-Sharing deals. Through the FFB program, HFAs were able to achieve benefits similar to Ginnie Mae securitization, without the need for congressional action. FFB financing played an important role in the Risk-Sharing program, reducing the cost of financing affordable rental developments substantially, which generated substantial savings, improved affordability, and made possible deals that would not have gone forward without FFB financing.

In February 2018, HUD announced it planned to end the FFB financing initiative at the end of that fiscal year, September 30, 2018. After a temporary extension secured by NCSHA and other champions, HUD ended the initiative on December 31, 2018.

Without the FFB initiative, the FHA-HFA Risk-Sharing program is once again at a disadvantage, putting at risk affordable housing deals across the country. It is critical that Congress act now to allow Ginnie Mae securitization of Risk-Sharing loans.