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 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.

What has the program accomplished?

The FHA-HFA Risk-Sharing program has been very successful, with 37 HFAs financing more than 1,617 loans, totaling nearly $11.2 billion in principal and supporting more than 180,710 affordable rental homes. In Fiscal Year (FY) 2019, FHA issued firm commitments to HFAs to finance 112 loans, with a total principal balance of $1.74 billion, supporting 16,235 rental homes.

FHA-HFA Risk-Sharing commitment volume is now 13 percent of total FHA commitment volume. These loans also represent more than a quarter (26 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.

How can Congress improve the FHA-HFA Risk-Sharing program?

While the FHA-HFA Risk-Sharing program has a multi-decade-long track record of success, the program's full potential has been held back because, without any clear programmatic reason, current statute prohibits Ginnie Mae securitization of these loans.

Ginnie Mae already secures most FHA loans, so eliminating the prohibition on Ginnie Mae securitization of Risk-Sharing loans wouldn't expand significantly Ginnie Mae's role in affordable housing.[1] It would, however, have a major impact on the FHA-HFA Risk-Sharing program. If Ginnie Mae were to securitize FHA-HFA Risk-Sharing loans, HFAs predict the interest rate on the underlying mortgages could be reduced substantially. 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.

When Congress created the Risk-Sharing program, it recognized that states could help finance and preserve affordable housing in a way that private lenders had failed to do, and designed it to avoid the mistakes of an earlier HUD program (the Multifamily Coinsurance Program) that allowed private lenders to pool coinsured mortgages into securities guaranteed by Ginnie Mae. Congress overcorrected though, prohibiting Ginnie Mae securitization in the new program.

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. FFB financing played an important role in the Risk-Sharing program, reducing the cost of financing affordable rental developments, 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 provide additional liquidity for Risk-Sharing loans, either through Ginnie Mae securitization or by reviving the FFB initiative.

Given the strong success of the Risk-Sharing program, providing additional liquidity for these loans is appropriate and necessary. Allowing Ginnie Mae securitization or reviving the FFB initiative would reduce the cost of financing rental housing and benefit the federal government without imposing any additional risk or cost.

[1] Total FHA-HFA Risk-Sharing commitment activity was $1.74 billion in FY 2019, 11 percent of all FY 2019 FHA multifamily commitments and less than 1 percent of Ginnie Mae commitments.

What is the history of proposals to provide additional liquidity for 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.

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 2021 budget documents also show that the Risk-Sharing program is a money-maker for the federal government.

Several members of Congress have expressed support in reviving the FFB initiative. Most recently, House Financial Services Committee member Representative Nydia Velazquez (D-NY) drafted a bill directing HUD to revive the FFB Initiative and is seeking to make it a bipartisan effort and build as much support for it as possible.

What steps should Congress take to provide additional liquidity for Risk-Sharing loans?

Without the FFB initiative or Ginnie Mae securitization, the FHA-HFA Risk-Sharing program is once again at a disadvantage, putting at risk affordable housing deals across the country. Congress should remedy this disadvantage.

House Financial Services Committee members should support the FHA-HFA Risk-Sharing program and Representative Velazquez' draft bill to revive the FFB initiative. Members of Congress should also support legislation to authorize Ginnie Mae securitization of FHA-HFA Risk-Sharing loans.

Enactment of these bills 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.