

# Capital Adequacy Study- Opportunity Fund Initiative

## **MassHousing**

Management Innovation: Financial

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Benjamin Franklin is credited with the phrase, “doing well by doing good” and socially responsible companies often espouse this idea as one of their guiding principles in business. For housing finance agencies, we know first-hand what this idea means.

In order to be able to do our good work, we must also do well financially. As an entirely self-supporting and independent quasi-public Agency, MassHousing must ensure that we are making careful and prudent investments and loans. The future of our Agency depends on our financial success – so that we can weather challenging markets over time. But that also means that there will be times when there are funds available at the Agency to do more – to think bigger – to give back in a way that is not tied so directly to our bottom line.

This was the genesis of MassHousing’s Opportunity Fund. While MassHousing always sought to utilize its capital reserves to further the Agency’s mission, this was not always done in a structured or methodical way. To facilitate more deliberate planning, the Agency commissioned a Capital Adequacy Study in 2013. This effort was also undertaken, in part, in response to the requests for “soft” money from affordable housing stakeholders in Massachusetts – who might perceive MassHousing to be too conservative in its utilization of funds.

The goal of the Capital Adequacy Study was to identify a methodology for determining the “dividend” that MassHousing could set aside in any given fiscal year. Importantly, we wanted to arrive at this number based on a standardized formula that is not only consistent but also transparent. In this way, we worked to create a paradigm that clearly illustrated that if the Agency did well – its business partners would too.

In this way, instead of navigating competing stakeholder conversations, over time MassHousing was creating a system that set a framework for how the Agency would determine what resources were available – outside the Agency’s anticipated debts and obligations. One thing that became clear is that we needed to make this decision on an annual basis. An annual commitment allows us to consider the Agency’s contribution to the fund each year based on the Agency’s fiscal year performance and the particulars of the housing market at any given time.

An important aspect to the success of the Opportunity Fund has been the Agency’s first contribution to the fund which totaled \$160 million in Agency resources and was voted on and approved by MassHousing’s Board in March 2016. This was the seed money for the fund – which candidly was in many ways a “once in a generation” contribution – and it drove the concept for this new endeavor for the Agency.

The formula that the Agency now employs considers the profit in the Agency’s Operating Working Capital Fund (excluding any profit from our Mortgage Insurance Fund). In each fiscal year, the formula is to capture 50% of the excess in the Operating Working Capital Fund after any transfers from the bond program. 50% is maintained in the Operating Working Capital Fund to maintain liquidity and protect against risk. (This careful balance has proven very important in this time of the national pandemic and its related economic volatility – as the Agency still has access to capital if necessary.)

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Another important consideration in any HFA program like the Opportunity Fund is the way it will be viewed by the Bond Rating Agencies. Because of the structure of this program, it has had no negative impact on MassHousing's rating. In conversations that MassHousing has had with the rating agencies, our Chief Financial Officer and his team have explained that the money the Agency transfers to the Opportunity Fund should be viewed as money that is gone and will not be paid back over time in this revolving fund. If there are funds that do result in a return on the Agency's "investment" then this will be an unexpected resource for the Opportunity Fund. The fact that the decisions about transfers to the Opportunity Fund happen on an annual basis is also reassuring to the rating agencies. There is not a specific annual commitment that must be made regardless of the Agency's fiscal health and success in a given year which means that the decisions are made with all of the financial facts for a given year.

The Opportunity Fund has proven to be an enormous success. This Fund leverages the strength of the Agency's balance sheet (rather than using state tax dollars or the proceeds of bond sales) and allows MassHousing to deploy resources strategically to fulfill our mission to confront the housing challenges facing the Commonwealth to improve the lives of its people. Through the Opportunity Fund, MassHousing supports a number of mission-driven initiatives and is better positioned to partner with the state's Department of Housing and Community Development (DHCD) which, in turn, strengthens the Commonwealth's efforts to create and preserve affordable multifamily housing. To date the Opportunity Fund has been utilized in the following ways:

- \$100 million for a loan program to subsidize the creation of new multifamily housing developments that include a middle-income tier for residents with incomes between 61% and 120% of AMI.
- \$50 million dedicated to preserving the affordability of rental housing developments subsidized through a state taxpayer-funded 13A program, which is no longer supported by the Commonwealth. These properties were built 30 years ago and serve some of the lowest income and most vulnerable populations in Massachusetts.
- \$3 million for the "Operation Welcome Home" loan program that subsidizes a zero-interest second mortgage loan of up to 3% of the purchase price to help returning veterans buy a home with no down payment.
- \$1 million for a Construction Contract Financing Program, which assists minority- and women-owned subcontractors in strengthening their capacity and finances so they may work on MassHousing construction projects.
- \$5 million for a Community Scale Housing Initiative, jointly administered and funded by the Massachusetts Department of Housing and Community Development (DHCD), to support developments of 20 units or less in cities and towns outside of Boston.
- \$1 million towards an online searchable tool for affordable rental housing in Massachusetts known as The Housing Navigator. This tool will help renters search for information on properties with affordable units, search for upcoming lotteries for new housing units and identify open waiting lists.

# FY19 Actual Overview (millions)

