Minnesota Housing
Entry Title: Turning a Liquidity Crisis into a Sustainable Future: Minnesota Housing's Agency-Wide Transformation
Category: Management Innovation
Subcategory: Internal Operations

Overview: The Management Challenge

Minnesota Housing, like many other housing finance agencies, is facing the problem of its own success — ever-growing expectations of what the Agency can accomplish threatens what it can do in the future.

In 2024, the impact of dramatically expanding programs on the Agency's limited liquidity came to a head. Growth in year-over-year lending across Agency programs, coupled with historically low loan repayments, was squeezing the Agency's cash resources. Minnesota Housing's general fund had long been seen — by stakeholders, partners, the state, and internally — as more than adequate to invest in many economically attractive and worthwhile housing initiatives. Every effort had been made to continue and grow such programs.

But with internal cash liquidity dropping to historic lows, the Agency faced a looming funding cliff. If not addressed, it would force extreme program cuts. This challenge cut to the heart of the Agency's mission and future.

How could the Agency come up with both immediate actions and a long-term viable plan for rebuilding its cash resources — all while continuing its programs and meeting state needs?

Overview: The Solution

This challenge affected and required input from every part of the Agency. It required new, innovative tools to measure, project and monitor cash trends and a detailed analysis of what was driving the problem.

Indeed, the first, and in some ways, most difficult task was defining the extent and sources of the challenge. Minnesota, like most HFAs, utilizes external outside warehousing and credit lines, making it difficult to distinguish trends in short-term versus long-term cash resources, and the differences in ability to repay them. This made it hard to track or project what the Agency could afford to lend out for its many programs. To see what was happening, the Agency and its financial advisor CSG built a detailed, ongoing model for measuring, monitoring and projecting resources at different levels of program operations and repayments. This showed that in fiscal year 2025 alone, the shortfall between additional general fund cash resources and obligations was $120 million and would cumulatively grow to over $500 million without an entirely new strategy.

Based on this analysis, the Agency undertook a coordinated series of step-by-step actions, including repositioning the general fund and the Agency's indentures, loan sales and other tools; making systematic adjustments to lending programs; and creating a long-term sustainable strategy for the Agency as a whole.

Most important, this effort — linking the Agency's finance team, finance staff and program staff — shared findings with Agency leadership, the board of directors, outside partners, the governor and the Legislature to achieve education, buy-in and collaboration.

The result: a new strategy that dramatically improved the Agency's long-term ability to continue its programs, increased from $20 million to $100+ million the general fund's internal liquidity, and just as important, provided a way for the Agency to continuously and systematically test all major decisions to be sure that they together enhance the future viability of what the Agency can do.

This plan not only resolved the immediate cash crisis but created an ongoing liquidity budget to help assure long-term success — and the sustainability of the Agency's programs — going forward. Current projections show that the Agency can continue all its general fund programs at current levels through fiscal year 2030.

Applicability

While the details and magnitude of its challenge are specific to Minnesota, its drivers are similar to those in many states. The amount of downpayment assistance for its rapidly growing single-family homeownership programs more than doubled, both because the Agency was serving more borrowers and because post-COVID unaffordability led to demand for deeper assistance per borrower. But the natural sources of such assistance dropped. Rising interest rates dramatically reduced repayments of downpayment assistance loans. Worsening TBA economics meant loan sales could not provide the missing cash.

The Agency was urged by partners, stakeholders and the state, and its own deep-seated commitment to affordability, to create and expand many types of innovative programs that could not be funded by indenture bond issues. These ranged from lines of credit for Habitat for Humanity and other nonprofits, to single-family construction lending, to multifamily bridge lending and loan participations — all highly attractive uses of Agency funds.

Without an overall liquidity budget, it was difficult to see the cumulative impact of all these needs on the Agency's future resources and what it could continue to fund. Ready sources of outside liquidity from the Federal Home Loan Bank and major banks and borrowings from indentures helped meet these current needs, while making it difficult to see the underlying structural imbalance. The Agency wasn't running out of cash but rather its ability to continue these levels of lending in the future.

Approach

Solving this problem required both immediate actions and long-term solutions, all of which had to be judged by one fundamental criteria: would it enable the Agency to keep funding its core programs over many years to come. The key was to create a single coherent strategy for the Agency as a whole.

Financially, the Agency structured an innovative $60 million general fund bond issue and sold over $80 million of existing general fund multifamily loans to its multifamily indenture to repay borrowings from all its indentures. It used its single-family indenture to fund not only first mortgages in its bond issues but $45 million per year of downpayment assistance loans including over $25 million of 0% deferred payment loans. To make this feasible, it capped the annual transfers from the single-family indenture to the general fund, creating more discipline for the Agency's operating expenses. In effect, the Agency restructured its finances to provide ongoing capital for the programs the general fund had long funded.

Programmatically, the Agency shifted funding for permanent multifamily loans from its general fund to the Federal Financing Bank and to its indentures. Program staff created new annual lending targets and tested changes in eligibility and loan amounts to achieve those. The aim of these changes was to help ensure program continuity, rather than starting and stopping programs.

In its communications, the Agency made clear it would naturally honor all the commitments it had made to outside parties but needed to impose clear limits on new commitments. This required an extensive effort with partners, the Legislature and the governor's office. What made this possible was a clearly articulated sustainability strategy.

Internally, the Agency built a detailed, systematic model for monthly and quarterly monitoring internal cash liquidity, and for projecting impacts under different scenarios for the next four years. This provides ample time to prepare for liquidity needs and navigate through changing markets.

Achieve Strategic Objectives

As a result of this coordinated effort, the Agency is in a far stronger position than it was two years ago. It can safely continue all its programs and is planning to modify and restore some of the limitations on eligibility and program loan amounts that it had begun a year ago. Instead of a projected cumulative internal liquidity shortfall from fiscal years 2025-2030 of over $500 million, current projections show the Agency can maintain adequate levels of liquidity throughout that period.

Replicability

The liquidity monitoring system and long-term liquidity budget created for the Agency can be used by almost all agencies facing the same kinds of trade-offs and challenges. In fact, it is indeed being applied by the Agency's financial advisor for other states for precisely this purpose.

Appendix

Appendix A: Sustainable Funding presentation

MINNESOTA HOUSING

Sustainable Funding: Key Implications and Next Steps

For Annual Finance Team Meeting

April 8, 2025

CSG | advisors

I. PURPOSE

As outlined at the March 2024 Finance Team meeting:

Challenge of Success

On an Agency-wide basis, Minnesota Housing's Pool 2 and Pool 3 lending programs have been so successful and grown so dramatically, new lending significantly outpaced the Agency's internal resources to fund such lending

This put Minnesota Housing in a new situation, one where its new lending is constrained by its resources, rather than having plentiful money to fund expanded or new programs.

This is because the Agency had fully invested its available cash reserves to meet the increasing demand for Pool 2 & 3 programs.

The funds to cover each year's difference between new lending and loan repayments therefore needs to come from one of 3 sources:

- The Agency borrowing and repaying additional funds,
- State appropriations and/or
- Growth in Agency net annual income

This is a long-term situation going forward. The Agency therefore needed a new strategy to assure that the Agency can use its resources and programs *to help provide affordability for families today in such a way that it continue to help families tomorrow* – a **sustainable funding strategy**.

I. PURPOSE

A New Strategy Towards Sustainable Funding

The Agency at all levels has embraced the need for new approaches to help assure such sustainability, with program and finance staffs and finance team working together to identify ways to achieve this.

The Agency has also been sharing these constraints on its resources with outside stakeholders.

Impact

Since last year’s finance team meeting, Minnesota Housing has made **immediate and major progress** in addressing this challenge.

I. PURPOSE

The purpose of this presentation is therefore to provide:

- An overview of the new strategy and an update on the many steps the Agency has been and is taking,
- The long-term and short-term impacts of these steps, e.g. implications for the future,
- Updated projections of ability to fund Pool 2 & 3 programs, and
- What continuing steps are likely to be needed.

This is not intended as a comprehensive complete plan but rather the actions and findings to date, including potential next steps to continue towards sustainable funding.

II. BIG PICTURE
What New Strategy Needs to Achieve

Criteria for a New Strategy

A long-term strategy needs to do all the following:

- Address both the Agency's short and long-term cash liquidity needs so it can fund its programs.
- Enable the Agency to maintain its long-term core lending programs, including:
  - Homeownership financing
  - Home improvement financing
  - Multi-family financing
- Assure the Agency's ability to:
  - Maintain its issuer credit rating (and, thus, its ability to borrow to meet its needs and maintain reputational strength)
  - Maintain and not reduce the Agency's net worth,
  - Maintain and not reduce the net income needed for operations, and
  - Maintain the ratings on, and ability to use, MHFA's indentures for single and multi-family financing
- Not utilize long-term Pool 2 borrowings from indentures.
- Assure adequate Agency cash to cover fluctuating operating and program needs.
- Avoid a future 'cliff' in which MHFA would have to suddenly and drastically shut down or severely limit its core programs

Significance: These criteria provide a checklist for any new strategy to be workable

II. BIG PICTURE
Implementing The New Strategy

Viewing Pool 2 & 3 Holistically

One-time or limited-use actions to provide cash to Pool 2 & 3:

- General Purpose borrowing
- LMIR loan sales to Rental Housing
- Transfer of indenture funds

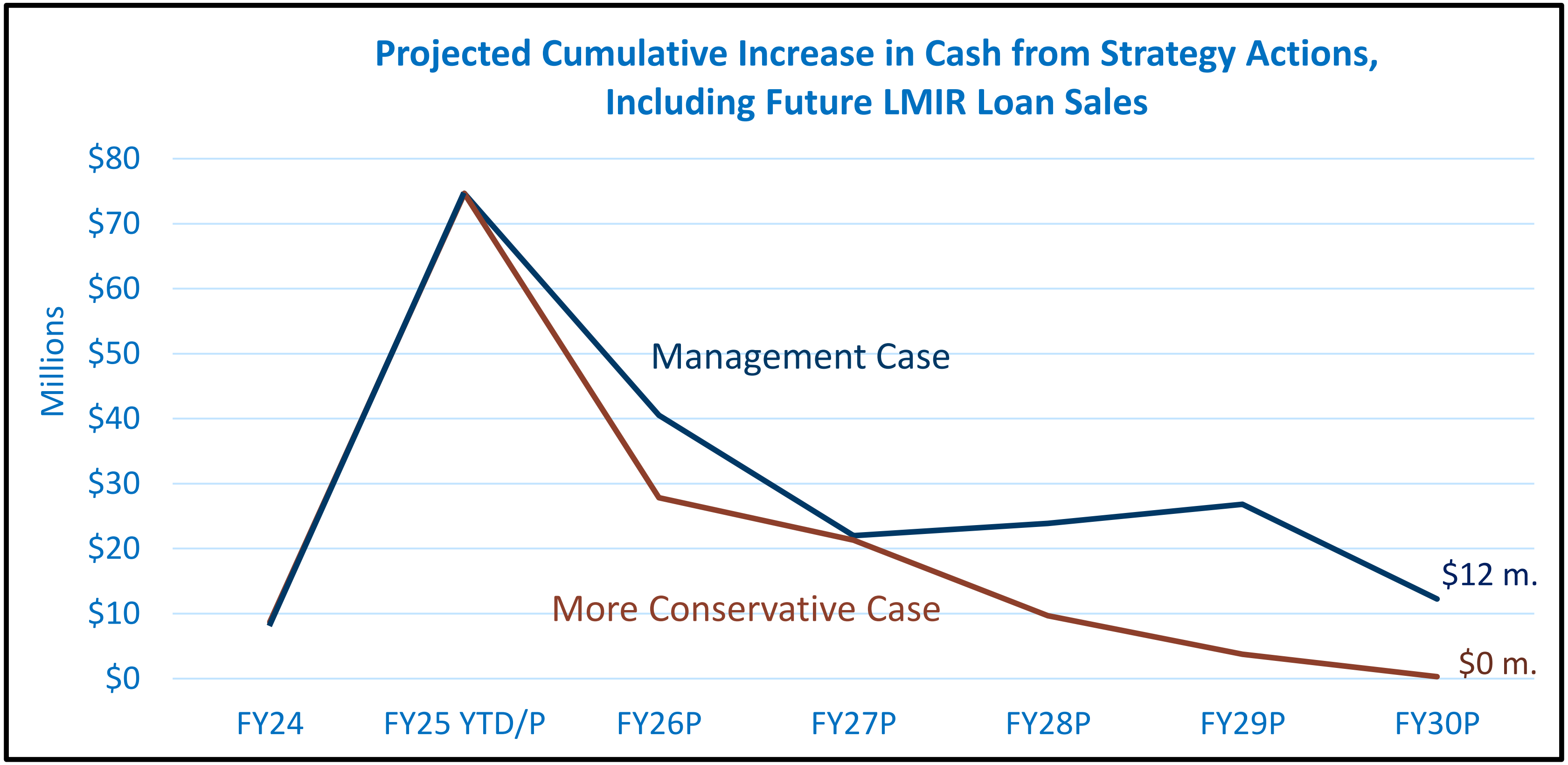
Ongoing actions to reduce Pool 2 & 3 lending needs:

- Funding LMIR through FFB and permanent 4% Rental Housing bonds
- Targeting and reducing programs (DPL, MPL, Home Improvement)
- Using Residential Housing Finance Bond (RHFB) indenture to fund a portion of DPLs and MPLs, on a limited and diminishing basis
- Not renewing or making new Habitat or other external lending commitments, so the Agency can continue using limited resources to fund its own core programs

II. BIG PICTURE
Effects on Pool 2&3 Liquidity

To fund these remaining annual shortfalls, Pool 2 can sell additional loans to Rental Housing.

By effectively implementing new strategy actions and such future loan sales, the Agency can seek to cover shortfalls through FY30, in both a Management Case or More Conservative Case, without outside investment.



II. BIG PICTURE
Key Takeaways

1. Using a wide range of tools, the Agency has been able to **dramatically reduce the scale of projected annual and cumulative shortfalls for funding new lending**.

2. **Maintaining a continued, targeted and disciplined approach to the level of such lending is critical to reducing such shortfalls.**

3. All these ongoing actions **reduce but do not eliminate the annual shortfalls that the Agency will need to fund. This has two consequences, one short-term and one long-term:**

   a. **Short-Term: To fund these remaining projected shortfalls through FY 30,** Rental Housing Bonds can issue bonds to purchase remaining Pool 2 LMIR loans. The first such sale, however, is not projected to be needed until at least FY 27 in the more conservative case or FY 29 in the management case.

   b. **Long-Term: These shortfalls, however, are expected to continue and grow worse.** LMIR loan sales defer but do not solve these remaining annual shortfalls (since they reduce Pool 2 net income). More important, the annual shortfalls not only continue but would worsen by about $20 mill. once RHFB reaches a limit on how much DPLs and MPLs it can fund (currently assumed to be in FY 29). **The magnitude of the Agency's challenge in funding Pool 2&3 programs has been significantly reduced but not eliminated.**

4. **The Agency has thus bought time to address these annual shortfalls – time that will need to be devoted to obtaining non-agency outside funding to continue these lending levels.**

III. OVERVIEW OF IMPORTANT STEPS TO DATE

MHFA has already taken important actions to address program funding needs

Key Steps MHFA has Taken:

1. **Recognized the Magnitude of Pool 2/3 Funding Needs**

- **The key and most important step for MHFA has been:**
  - Identifying and fully recognizing the scale of the lending gap between MHFA's Pool 2 & 3 resources and its ongoing lending programs, and
  - Projecting how that gap will change in the future.
- **Specifically, recognizing that**:
  - Pool 2/3 new lending has grown much faster than repayments on existing loans.
  - The amount MHFA needed each year from sources beyond loan repayments quintupled from $27 million in FY 19 to over $143 million in FY 24
  - This created a cumulative lending gap of $350 million from FY 19 – 24.
  - Without changes in programs or resources:
    - projected an additional cumulative lending gap of $400 million through FY 30,
    - this cumulative gap would likely keep growing thereafter, and
    - such gap would have ever greater consequences on MHFA programs, liquidity and operations.

Significance: This recognition gives MHFA the essential time, basis, and urgency to create and implement an Agency-wide strategy to systematically address these long-term program funding gaps.

III. OVERVIEW OF IMPORTANT STEPS TO DATE

Key Steps MHFA has Taken (cont.)

2. Recognized the Impact of Pool 2/3 Funding Needs on Agency's Sustainability as a Whole

- To fund the growth of Pool 2 & 3 programs from FY 19 to 24, Pool 2 – the Agency's key non-indenture resource and the basis of its issuer credit rating backing all outstanding bonds – had to both (i) draw down its cash by over $100 million, eg by 84%, to a minimum level for Agency operations and (ii) borrow over $70 million from its indentures which had to be repaid to meet rating agency requirements.
- Therefore, MHFA no longer had cash resources to fund program lending gaps.
- At last year's Finance Meeting, the cumulative projected shortfall for FY 25 through FY 30 was over $400 million.
- The shortfall for the same period is now projected to be $120 million, before utilizing limited-use liquidity tools such as projected LMIR loan sales to RHB.
- This is a 70% decrease in projected shortfalls after one year under the new strategy.

Significance: This recognition enabled the Agency to communicate this fundamental new reality as the basis for thinking about all program decisions going forward throughout the organization, to the State, and to outside partners.

III. OVERVIEW OF IMPORTANT STEPS TO DATE

Key Steps MHFA has Taken (cont.)

3. Implemented New Financing Approaches that Minimize Need for Pool 2 & 3 Cash

a) MHFA has begun issuing long-term multi-family bonds to fund permanent take-out loans on 4% tax credit projects, rather than funding with Pool 2 cash.

- 6 projects have been financed through $22.1 mil. in bond issuances since last year's meeting.

b) Using the Federal Financing Bank (FFB) for risk-share first mortgages that can be financed by FFB instead of Pool 2.

- Multiple new loans have been sold to FFB since implementation of this strategy.

c) Systematic funding of MPLs and DPLs through the Residential Housing Finance Bond (RHFB) indenture.

- Enabled MHFA to fund $15 mil. MPLs and DPLs in FY 24 and projected over $50 mil. in FY 25, leveling out to an average of $25-30 mil. annually through FY 30, reducing the burden on Pool 2 & 3 to fund the down payment assistance programs.
- This approach can be strategically used on an ongoing basis, but total cumulative bonds issued for DPA must be closely monitored to avoid creating significant rating agency stress on the indenture.

Significance: These three approaches help reduce the amount of cash needed to fund new Pool 2 & 3 loans.

III. OVERVIEW OF IMPORTANT STEPS TO DATE

Key Steps MHFA has Taken (cont.)

4. Addressed Initial and Upcoming Funding Gaps

- MHFA took essential actions to cover the remaining funding gaps in FY 24 and FY 25 to provide an adequate time window for creating a new strategy for FY 26 and beyond.

  Significance*: This allowed Agency staff to work internally and with outside partners to create an effective, ongoing, disciplined way to address the future Pool 2 & 3 lending gaps.*

  This strategy of evaluating and safeguarding resources is essential because there is no limit to what the Agency will be asked or expected to do.

5. Program staff have creatively identified and begun implementing revisions to multiple programs that reduce funding needs of Pool 2 & 3

6. Finance staff and CSG have created a comprehensive monthly forecast model to identify the Agency's ability to cover each year's funding needs.
   - This model incorporates the various fund flows that affect monthly changes, the use of Pool 2 & 3 net income to help fund lending gaps and gives a holistic, unified view of Pool 2 & 3 liquidity and resources.

III. IMPACTS OF AGENCY ACTIONS

ACTIONS TAKEN in FY 24

Objective: Create Clean Slate Going into FY 25

NEED	ACTION	DIRECT IMPACT	FUTURE IMPLICATIONS
Repay Indentures for Pool 2 borrowings	Rental Housing issued bonds to buy approx. $87 m. of existing Pool 2 loans	Gave Pool 2 the cash to fully repay the indentures	• Selling these loans reduced future Pool 2 net income by about $4 m. per year • This is a limited-use tool. Pool 2 has about $140 mil. of remaining multi-family loans that could be sold to RHB to cover future liquidity needs.
Help fund FY 24 lending	Used $50 m. of one-time State appropriations for DPLs	Covered $50 m. of lending gap	Repayments of these DPLs will help fund future Pool 2 lending
Cover remaining lending shortfall (after using $50 m. of state DPA $)	Issued $60 mill. of General Purpose bonds, to be repaid by Pool 2 over time	Gave Pool 2 the cash to fully fund lending	Debt service on these bonds reduces future Pool 2 net income by about $6 m. per year

IV. IMPACTS OF AGENCY ACTIONS

ACTIONS FOR FY 25

Objective: Provide Time Window to Create Strategy for FY 26 and Beyond

NEED	ACTION	DIRECT IMPACT	FUTURE IMPLICATIONS
Reduce Pool 2 funds for multi-family LMIR	• Issue long-term Rental Housing Bonds (RHB) for permanent take-out loans on 4% tax credit projects • Use FFB for risk-share loans that can be funded by FFB	• RHB: 5 long-term bond issuances for total of $16.6 mil. in FY 25 • FFB: Closed 8 loans for a total of $31.2 mil. in FY 25	• Continue to use Rental Housing Bond permanent loans • Continue to use FFB
Non-Pool 2 funds for DPLs and MPLs	Funded $71.75 m. of DPLs & MPLs from RHFB single-family bond issues in FY24 and FY25	Reduced need for Pool 2 cash to fund down payment assistance programs vital to homeownership.	• Continue RHFB funding at approx. $25 mil. thru FY27, dropping to $20 mil. for FY28 and FY29 and zero in FY30 • Future annual 60 bp withdrawals from RHFB to Pool 1 capped at $20 m. *(this limits growth in future funds paying for operating budget increases).*
Cover remaining FY 25 lending shortfall	• Transfer approx. $50 m. in cash and mortgage-backed securities from Rental Housing and HFB to Pool 2	• Gave Pool 2 the cash to fully fund lending	• One-time transfer of indenture funds maintains rating agency requirements.

IV. IMPACTS OF AGENCY ACTIONS

ACTIONS Starting in FY 26

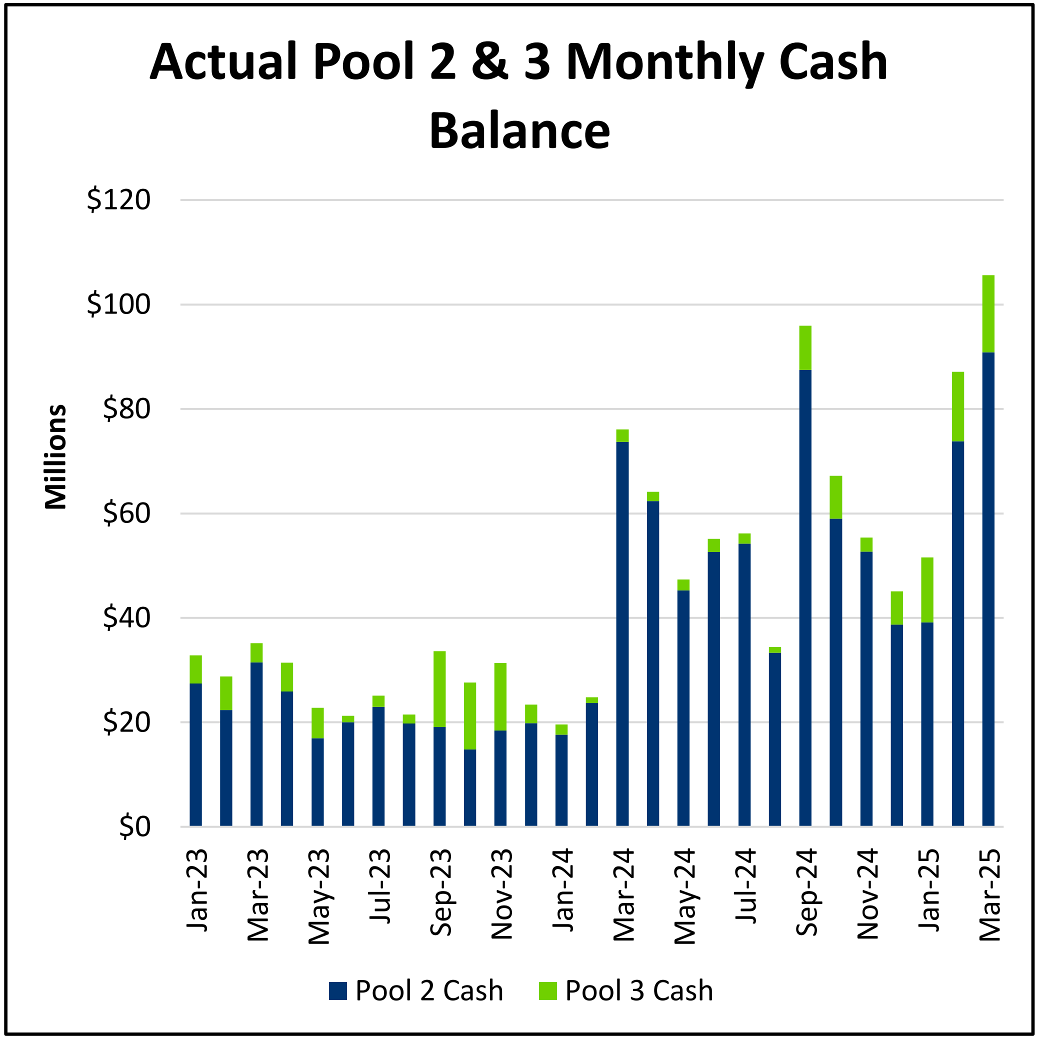
Objective: More Sustainable Lending Strategy for FY 26 and Future Years

NEED	ACTION	DIRECT IMPACT	FUTURE IMPLICATIONS
Align Pool 2/3 lending with funding	Lending program changes: • MPL: Lower income limits, $ amounts • DPL: Lower income limits, $ amounts, etc. • Home Improvement: Lower income limits	Reduces projected annual need for Pool 2 $ funds by about $29 m. per year	• Reduced overall MPL and DPL lending lowers the burden on Pool 2 coupled with supplemental funding from RHFB bond-funded DPA. • Evaluate and monitor the impact on borrowers and mission-programs
Provide funds to cover remaining shortfalls in FY 29 and beyond	Rental Housing would issue up to approx. $25 m. bonds in FY 29 and again in FY 30 to buy additional LMIR loans from Pool 2	Gives Pool 2 cash to cover lending shortfalls	• Reduces future Pool 2 interest income from loans, and therefore net income, by approx. $2.5 m. per year • Spread to RHB may be negative (eg if issued today)
Project monthly availability of Pool 2 & 3 cash	Created monthly forecast model for Pool 2 & 3 combined (state of the art among HFA's)	Models and tracks funding for Pool 2 & 3 lending	Helps assure Agency maintains adequate cash resources and evaluate projections, adjusting as needed throughout the year.
Be able to annually budget and allocate the Agency's liquidity	Create annual sources and uses of liquidity for Pool 2 & 3 lending programs	Can provide a liquidity budget for each year	Monitor and balance allocation of Agency's scarce resources. E.g., if increasing one type of lending above forecast, ask what other lending will need to be reduced.

IV. IMPACTS OF AGENCY ACTIONS
Restored Pool 2 & 3 Cash Balance

Steps taken under the new strategy have had **immediate and material positive effects** on the Agency's cash balances and liquidity position in Pool 2 & 3.

- **Average monthly cash** balance in Pool 2 & 3 was **$27 million** between January 2023 and February 2024.
- In March 2024, actual cash balance **increased to $76.1 million following the $60 million General Purpose borrowing.**
- **Average monthly cash** between March 2024 and March 2025 is **$64.7 mil.**
- Not only has average cash balance increased, but **the lowest monthly cash balance has approx. doubled from $20 m. to $40 m.**
- How can this level of liquidity be **maintained in future years**? Section V. provides projections on what it will take to do so.



V. PROJECTIONS WITH NEW STRATEGY
Basis for Projections

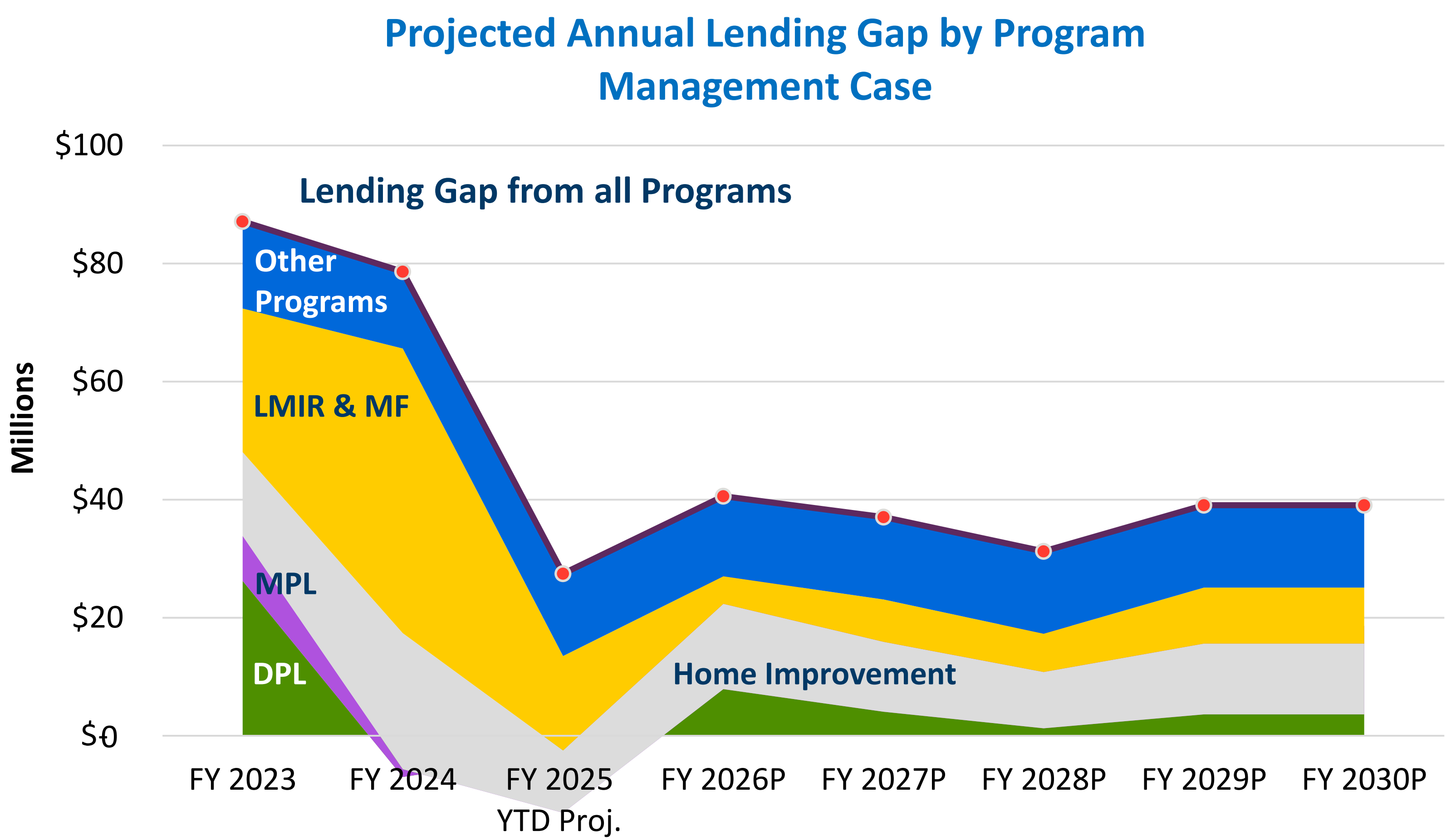
Key Assumptions and Caveats

Input	Assumptions
Loan repayments	Updated analysis, based on outstanding loans plus and future Pool 2/3 loans, at Management Case and More Conservative Case prepayment speeds.
New lending	• Estimates based on program staff and expected volume with program changes. • No expansion of existing programs or commitments to new Pool 2 & 3 programs. • Assumes Pool 3 is only used for DPLs; no Pool 3 $ needed for multi-family gap loans thru FY 30.
RHFB lending for MPLs and DPLs	Assumes $30 m. per year for FY 26 – FY 29, per cash flow projections, none thereafter
Pool 2 and 3 net income	Based on FY 25 annualized/projected, modified by sale(s) of multi-family loans to Rental Housing in FY25, debt service on General Purpose borrowing. Assumes no change in net transfers from Pool 1.
State appropriations	Assumes no appropriations beyond $900,000 annual funding for single-family new construction program
Habitat lines of credit	Assumes worst-case stress of Habitat drawing full $25 mil. in FY 25, not repaying line until expiration in FY 28, and no renewal or future line from MHFA.

Like all HFAs, Minnesota Housing is facing a period of increased uncertainty, that may naturally affect the Agency and these projections. This makes it even more important to emphasize that these projections are intended not as predictions but as a set of scenarios for planning for the future.

V. PROJECTIONS WITH NEW STRATEGY
Lending Gap by Program

This is the amount needed each year after loan repayments and lending funded by RHFB and State Appropriations.



V. PROJECTIONS WITH NEW STRATEGY
Lending Gap by Program

Program Findings:

- **Home Improvement lending** has the **largest stand-alone lending gap** across all Pool 2 & 3 programs, after incorporating RHFB lending and state appropriations for the DPL programs.
- **MPL is the most self-sustaining lending program** with the lowest lending gap, and in many years has a lending surplus.
- **LMIR funding needs** in Pool 2 & 3 through FY 30 are dropping dramatically from past levels due to shift to permanent bond and FFB execution.

VI. KEY FINDINGS

KEY FINDINGS: ABILITY TO FUND LENDING FY 25-30

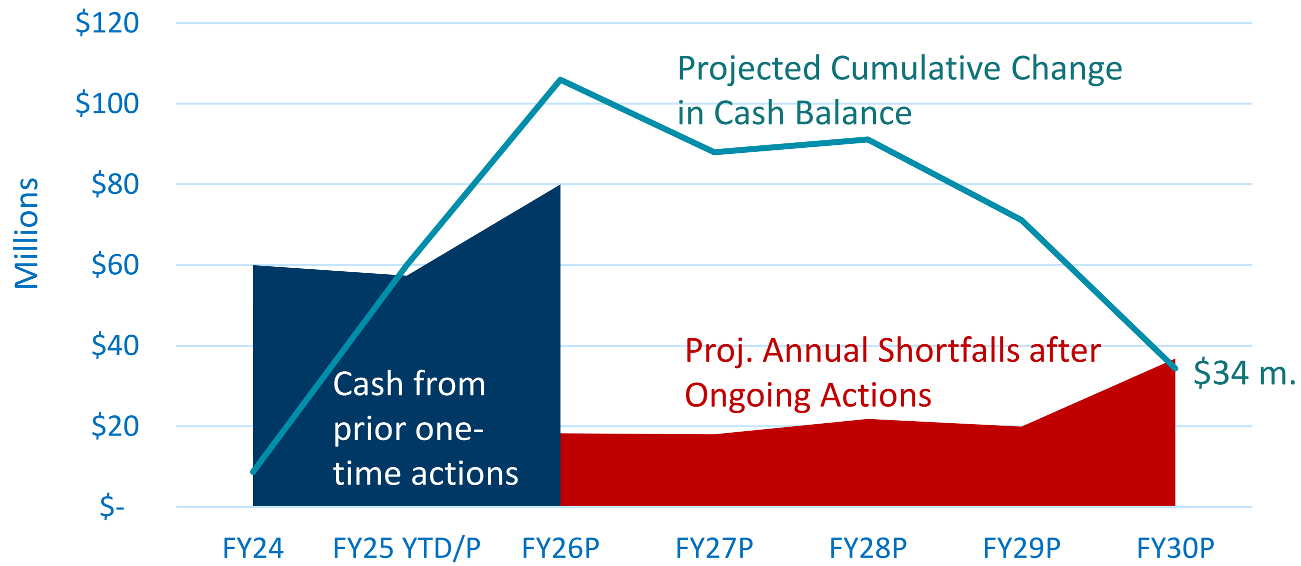
- Programmatic changes and softening in demand have both worked towards **reducing total new lending** by 14.5% in FY 25 from FY 24 and projections for FY 2026 through FY 2030 are **35.8% less than FY 24**.
- Taken together with other tools, such as RHFB funding some MPLs and DPLs, the annual shortfall before limited-use liquidity tools has been dramatically reduced. The net annual shortfall has dropped from $90 m. in FY 23 and $51 m. in FY 24 to an average of $24 m. per year projected through FY 30.
- This greatly **reduces the one-time resources needed to fill the lending gap for Pool 2 & 3 programs over the next 5 years**.

VI. KEY FINDINGS

KEY FINDINGS: FUTURE SHORTFALLS FY 26-30

- How can MHFA cover these remaining annual shortfalls?
- Projections suggest that MHFA may be able to cover these remaining shortfalls and sustain its more targeted Pool 2 & 3 lending programs over the next 5 years, through one or more sales of LMIR loans to the Rental Housing Indenture. Such sales provide cash but reduce subsequent Pool 2&3 net income.
- This updated analysis indicates that Pool 2&3 does not require an early infusion of $80 m. from a LMIR loan sale in FY 26. This appears to be more than **needed to sustain operations and lending programs in the near-term. Sales are needed to avoid the cumulative change in cash balance dropping to $0 and beginning to dipping into Pool 2&3 needed liquidity.**

Impact on Shortfall with Initially Proposed Sale of $80 mil. LMIR Loans to RHB in FY26



VI. KEY FINDINGS

KEY FINDINGS: FUTURE SHORTFALLS FY 26-30 (cont.)

- It therefore makes sense to reserve the limited-use resource of selling LMIR loans to RHB until Pool 2 & 3 liquidity position requires such funds. This also may allow the bonds to be issued a time when Rental Housing can earn positive spread on the loans it purchases
- **When would LMIR loan sales potentially be needed?**
- Under the **Management Case**, such LMIR sales might not be needed until **FY29,** and total $50 m. through FY 30.
- Under the **More Conservative Case**, sales would need to be larger and sooner, starting in FY 27 and then again in FY 29 and 30. The projected total that may be needed, approx. $105 m., may push up against the total amount of LMIR loans that will still be outstanding in Pool 2.

FY	LMIR Loan Sales Management Case	LMIR Loan Sales More Conservative Case
FY 26		
FY 27		$25 m.
FY 28		
FY 29	$ 25 m.	$30 m.
FY 30	$ 25 m.	$50 m.
Total	**$ 50 m.**	**$105 m.**

VI. KEY FINDINGS

KEY FINDINGS: TYPE OF ONE-TIME LIQUIDITY, WHEN NEEDED

- Among one-time funding tools, LMIR loan sales have an important advantage over relying on future General Purpose borrowings.
- General Purpose borrowings, backed by the Agency's issuer credit rating, can play a limited role in shifting an imminent cash shortfall from a given year to future years. This was the purpose of the $60 million in FY 24.

However:

Such borrowings do not reduce the funding gap that Pool 2 faces but shift its timing by creating debt service obligations in future years that will effectively need to be funded by Pool 2.

Because rating agencies do not have clear standards for analyzing the supportability of such borrowings (unlike structured indenture borrowings with standardized cash flows and criteria), rating agencies may, at some point, retroactively react to the amount of General Purpose debt the Agency has taken on and could have negative impacts on MHFA's issuer credit rating.

Rental Housing issues conform to standard rating agency criteria and thus can be used with more confidence as to future rating agency concerns.

KEY FINDINGS: LONG TERM CONTINUING SHORTFALLS

- **This analysis shows how a potential strategy for MHFA may be able to be sustainable from an Agency liquidity perspective over next 5 years.**
- However, the **annual shortfalls continue and would grow, especially without RHFB indenture being able to continue funding DPL and MPL loans from a rating point of view.** Under our current assumptions, the total annual shortfall of about $18 m. per year would increase by an **additional $20 m. per year** in FY 30 and future years.
- This ongoing and future pressure makes it even more important that the Agency **explore other options to help fund its programs**.
- Two options include:
  - **State appropriations** (whether one-time or ongoing) to fund loans that would otherwise be funded by Pool 2 & 3, such as for a portion of DPLs.
  - **Outside investing in Pool 2 loans** (such as by impact capital investors, foundation program-related investment funds or other partners), which may include the Agency absorbing the first loss on such portfolios.

VI. KEY FINDINGS

Value of having an annual liquidity budget for Pool 2&3, just as MHFA has an annual operating budget

Illustrative Annual FY Liquidity Budget

Proposed Liquidity Budget for FY ___	**Budget $**		**Actual $**
Projected Sources of New Lending			
Pool 2 & 3 loan repayments			
RHFB funding of MPLs and DPLs			
State appropr'ns			
Pool 2 & 3 net income			
Total			
Proposed New Lending			
MPLs			
DPLs			
Home Improvement			
MF and LMIR			
Other Programs			
Total			
Surplus/Deficit			
Source of Funds			
Impact on Pool 2 & 3 Liquidity			

VII. NEXT STEPS

Next Steps

Determine Timing and Sizing of Limited-use Liquidity Tools:

- Continue using new monthly forecast model for Pool 2 & 3 liquidity
- Create, use and track an annual liquidity budget for Pools 2&3
- Update projected needs for and sizing of future Pool 2 loan sales to Rental Housing indenture

Evaluate Opportunities for Outside Investing in Pool 2 Programs:

- Identify types of entities to have exploratory discussions
- Create illustrative term sheet(s)
- Consider ways MHFA can reduce the loan risk to attract partners
- Evaluate required returns and how that may affect Pool 2 long-term

Review impacts of Program Changes:

- Begin to evaluate impacts of initial program changes both financially and on borrowers
- Limits on lending to outside agencies will have the least impact on MHFA's own programs

Aim: To use this updated information to update and identify strategic options for FY 27 and beyond