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ENIX

2024

**Multifamily Financing
Innovations**



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HUD Multifamily Update
September 30, 2024

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Agenda

- Introduction to FFB Interest Rate Collar
- Floodplain Elevation Update
- HUD and Transit-oriented Development (TOD)
- HFA Risk Share Handbook Update
- Questions

Introduction to FFB Interest Rate Collar

- To promote investment in new affordable construction, HUD asked the FFB to develop a product that would provide a degree of interest rate certainty for up to 3 years during the construction period of its multi-family projects. Further, HUD suggested that the product should provide some flexibility for the borrower to reset its rate if rates at permanent funding are lower than at the beginning of the construction period.
- The interest rate collar should provide a significant degree of interest rate certainty while affording flexibility to the borrower.
- The Forward Benchmark Rate for a 3-year construction period is the implied forward rate for the basket of Treasury securities that comprise the Benchmark, 3 years from now based on the current Treasury yield curve as of the date of the Rate Collar Commitment.
- The Interest Cap Rate is the Forward Benchmark Rate plus 50 basis points.
- The Interest Floor Rate is determined by pricing the sale of an option having the equivalent (but opposite) economic value as the Interest Cap Rate.
- At the time the permanent loan is priced, if the benchmark Treasury rate is within the collar, the Certificate Rate is set using the then-prevailing benchmark interest rate. If the benchmark rate is above the upper bound of the range (cap), then the Certificate Rate is priced using the cap strike rate. If the benchmark rate is below the lower bound of the range (floor), then the Certificate Rate is priced using the floor strike rate. In this way, the rate cap will provide a maximum for the benchmark Treasury component of the Certificate Rate. The floor will provide an opportunity to float down at the time of funding.
- Additional pricing for optionality and other standard programmatic spreads over Treasuries will be applied at the time of funding.
- The Rate Collar determines the Certificate Rate to the HFA. The mortgage interest rate to the project sponsor is determined by the HFA.
- HUD/FFB expect the product to be available by mid-October.

Comparison to Existing Program

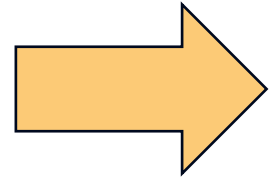
Current Risk Share Program (insurance upon completion)

Pre-construction:

- HFA submits request for FHA Number and Firm Approval Letter (“FAL”) to HUD Field Office.
- HUD Field Office completes Retained Review and issues FAL.

Post-construction:

- HFA submits to HUD HQ the Designation & Pricing Request (DPR), Mortgage Loan Description (MLD), FAL, and Excel Schedule 1-A .
- HUD HQ submits the Executed DPR to FFB
- FFB sends to HFA/HUD HQ Rate Commitment Offer (RCO)
- HFA submits to FFB Accepted/executed RCO
- HFA Closes with its Owner/Borrower
- HFA submits to Field Office executed Note for Insurance Endorsement
- Final Endorsement completed.



FFB Rate Collar (insurance upon completion)

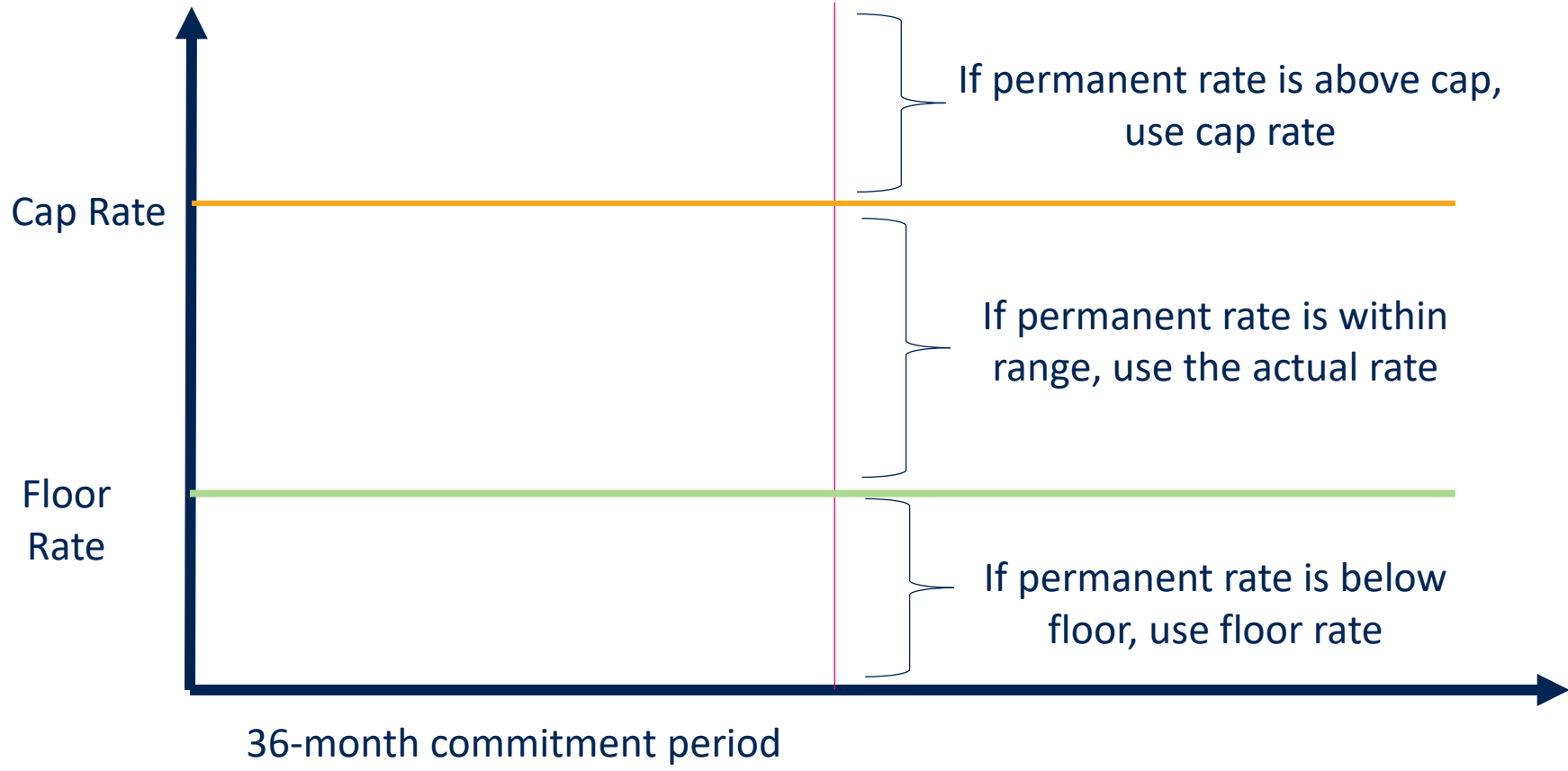
Pre-construction:

- HFA submits request for FHA Number and Firm Approval Letter (“FAL”) to HUD Field Office.
- **HFA submits Forward Rate Collar Request to FFB/HUD.**
- HUD Field Office completes Retained Review and issues FAL.
- **FFB sends Rate Collar Commitment to HFA/HUD.**
- **Fully executed Rate Collar Commitment returned to FFB/HUD.**

Post-construction:

- HFA submits to HUD HQ the Designation & Pricing Request (DPR), Mortgage Loan Description (MLD), FAL, and Excel Schedule 1-A .
- HUD HQ submits the Executed DPR to FFB
- FFB sends to HFA/HUD HQ Rate Commitment Offer (RCO)
- HFA submits to FFB Accepted/executed RCO
- HFA Closes with its Owner/Borrower
- HFA submits to Field Office executed Note for Insurance Endorsement
- Final Endorsement completed.

Sample Scenario



Floodplain Elevation Update

HUD FFRMS Rule

Key Changes:

- **Redefines the floodplain for all project types:**
 - Regulates to an expanded FFRMS Floodplain instead of the 100-year Floodplain to account for increased flood risk over time
 - Will increase the number of HUD actions that require compliance with Part 55 regulations
- **Increases the required elevation to the FFRMS floodplain for new construction and substantially improved structures** (rehab costing 50% of market value)
- **Clarifies/strengthens public notice and flood insurance requirements** to increase awareness of flood risk to renters and homeowners
- **Incorporates flexibilities in allowing HUD assistance** for specific properties in floodways when specific criteria are met

Floodplain Elevation Update

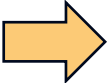
Elevation and Floodproofing Requirements

55.20(e): Minimizing floodplain impacts

- Part 55 now requires elevation (or floodproofing) to the FFRMS elevation for all new construction and substantial improvement.
- Elevation required for residential units
- Floodproofing allowed for:
 - nonresidential buildings
 - nonresidential spaces in non-critical action residential buildings (lobby, ground floor retail)

Extended Compliance Deadline 1/1/2025

Eligible Programs

- Programs subject to chapter 9 of the Federal Housing Administration's (FHA) Multifamily Accelerated Processing (MAP) Guide
 - FHA Multifamily
 - Section 202 and 811 capital advance grants
 - Transfers under 8bb and 209, and Section 8 Renewals with Capital Repairs
 - RAD conversions to PBRA
 - Green and Resilient Retrofit Program
- Other mortgage insurance programs subject to Part 55
 - FHA Healthcare- Residential Care Facilities and Hospitals
 -  ○ FHA Risk Share

Extended Compliance Deadline 1/1/2025

Implementation

- HUD must complete HEROS by 1/1/2025 OR
- HUD must conduct the 8-step with information and analysis provided by applicants:
 - HUD reviews and approves 8-step materials submitted in HEROS
 - Floodplain notices must be written to reflect HUD as the decision-making entity
 - Emphasis on complete, accurate, and compliant 8-step during this critical window
- For SR/NC with 200+ units, Multifamily will conduct early review with OEE field staff to ensure adequate review
- Therefore, Multifamily will need to receive applications in time to consider the 8-step analysis, approve publication of the notices, and include the required public comment periods

FFRMS Resources

- **HUD Guidance**

<https://www.hudexchange.info/programs/environmental-review/floodplain-management/>

- **Federal Flood Standard Support Tool**

<https://floodstandard.climate.gov>

- **FAQs**

https://www.hud.gov/program_offices/comm_planning/environment_energy/ffrms/faqs

HUD and Transit-oriented Development (TOD)

- HUD is exploring structures to complement funding initiatives from the Department of Transportation (DOT).
- DOT's initiatives would fund transit-oriented developments (TOD) and create compact, mixed-use communities near transit where people enjoy easy access to jobs and services.
- There are 2 funding programs that HUD is working on collaborating on:
 1. The Transportation Infrastructure Finance and Innovation Act (TIFIA)
 2. Railroad Rehabilitation & Improvement Financing (RRIF)
- For more information, please visit [TOD Multifamily Credit Underwriting Webinar](#).

HFA Risk Share Handbook Update

- The rewriting the Risk Share Handbook is underway.
- The aim is to update language on written procedures for HUD loan processing and approval.
- Procedures for FFB Collar will also be incorporated into the Handbook.
- Goal is to streamline reporting requirements and to bring the 542(c) requirements more in line with the MAP Guide.
- HUD is also looking at expanding eligibility to participate in 542(b) to CDFIs and FHLBanks.



Questions



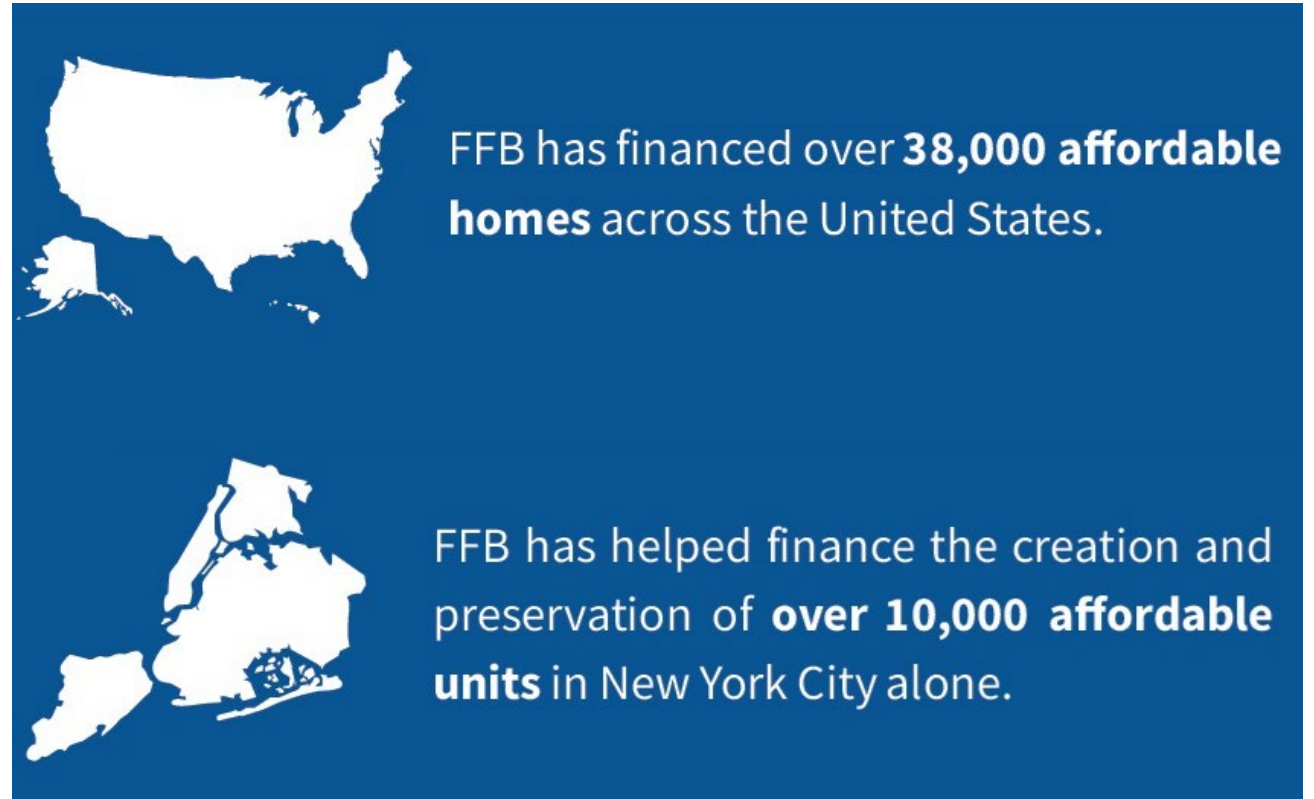
FFB HUD-Risk Sharing: Overview and Use in New York City

NCSHA Annual Conference | Monday, September 30th, 2024

New York City
**Housing Development
Corporation**

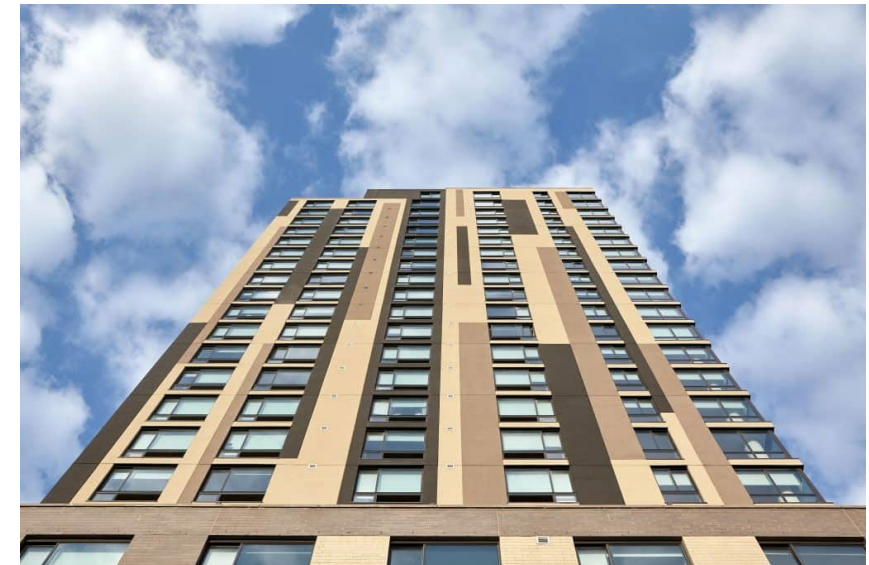
FFB HUD Risk-Sharing: Overview

- **History:**
 - Established in 2015, expired in 2018;
 - Revived in 2021 and indefinitely extended in 2024.
- **HFA Enrollment:**
 - 22 HFAs currently approved for Risk-Sharing, 16 actively utilizing FFB.
- **Program Benefits:**
 - Lowers borrowing costs and expands the number of units that can be financed.
 - Offers flexible financing that can be used on a range of small to large developments to meet local housing needs.



FFB in Action: Alvista Towers (Queens, NY)

- Newly constructed, **380-unit** affordable housing development in Jamaica, Queens.
- First new construction project in the country to participate in the HFA FFB Pilot Program.
- Offers residents with modern amenities including a children's playroom, fitness center,
- Easy access to mass transit options (Transit Oriented Development)



FFB In Action: Baychester Murphy PACT (Bronx, NY)

- NYCHA PACT (RAD) project to substantially rehabilitate **722 homes** across **14 buildings** in Baychester (The Bronx).
- Scope of work included:
 - Upgraded kitchens and bathrooms, with high efficiency appliances;
 - Building-wide improvements, notably window and flooring replacements, along with mechanical/electrical upgrades
 - Rehabilitation and expansion of campus community center.
- Guaranteed permanent affordability for every tenant under PACT.



Opportunities for Improvement and Growth

- Amid an inflationary environment and fluctuating interest rates, FFB grew increasingly challenging to use on new construction deals (especially for smaller HFAs).
- White House Announcement (August 2024): “Providing Interest Rate Predictability to Spur Housing Development”
- Opportunities to boost enrollment and usage among State/Local HFA’s:
 - Peer HFA Consultations
 - HUD Outreach

FFB/Risk-share for new construction, units financed

Number of units financed in new construction or substantial rehabilitation using the FFB/Risk-share program

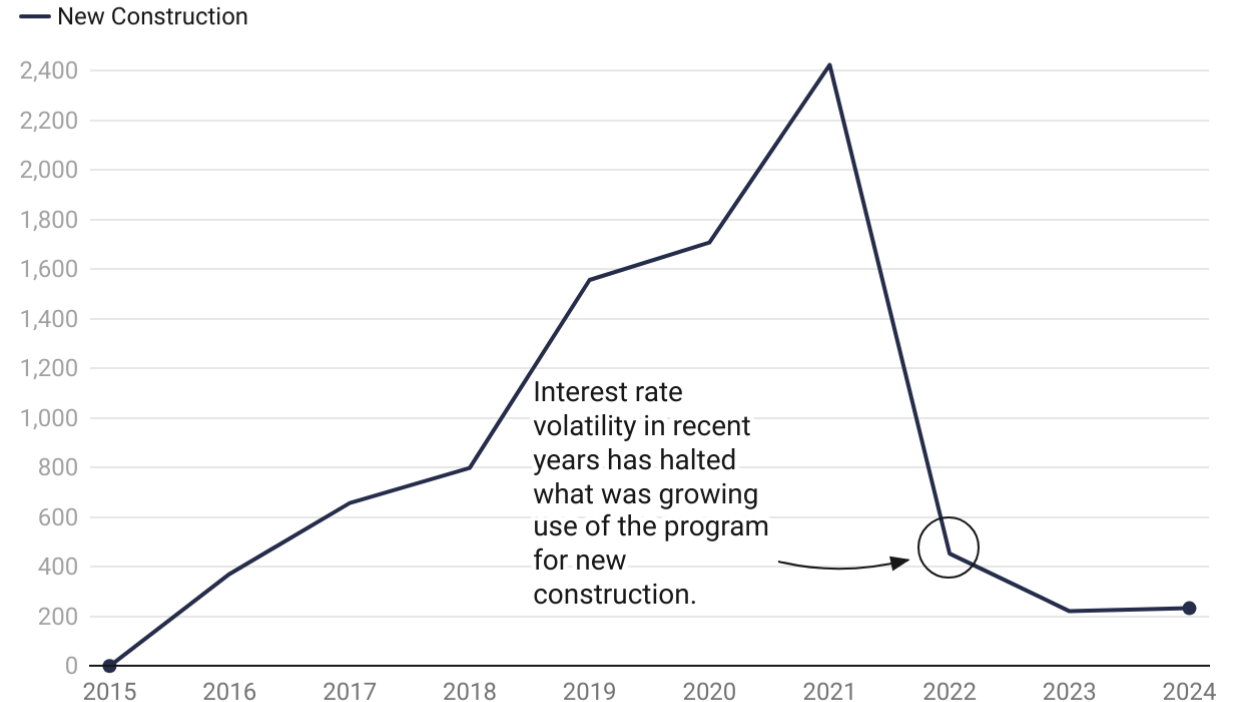


Chart: Center for Public Enterprise • Source: HUD • Created with Datawrapper

Multifamily Financing Innovations

NCSHA Annual Conference

Dan Pulter, CFA, Director-Lead Analyst

September 30, 2024

Mortgage revenue bond multifamily programs: By the numbers

AA+



Median multifamily program rating

128%



Median minimum A/L parity

118%



Median net A/L parity after losses (%)

1.10 (with 1.00 being neutral risk)



Median base credit loss multiplier

17% (at 'AAA' level)



Median insurance recovery rate

9.6%

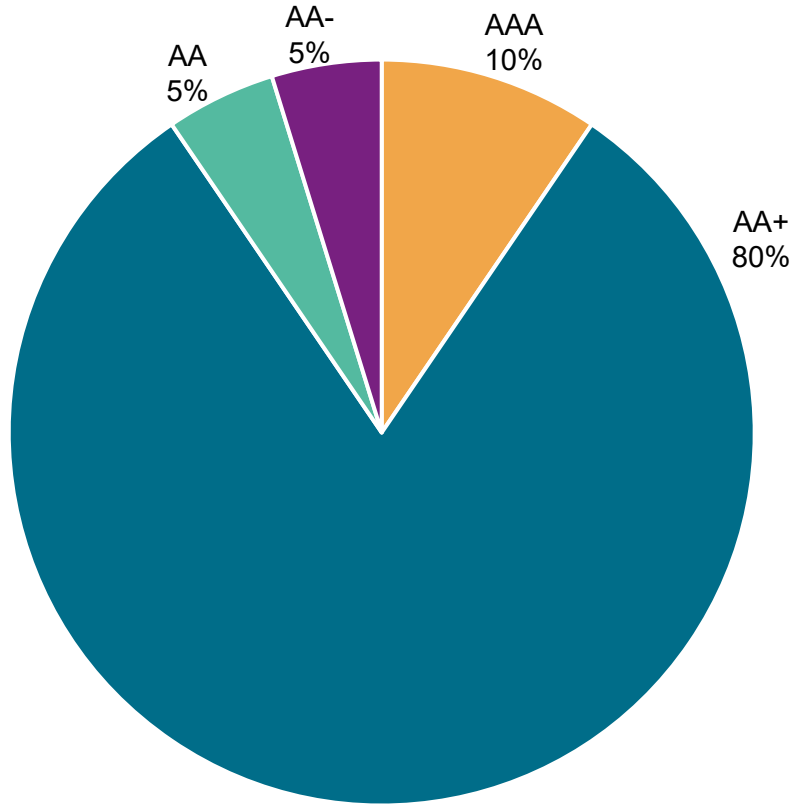


Median credit loss

Data as of Aug. 16, 2024. A/L--Asset-to-liability. Source: S&P Global Ratings.
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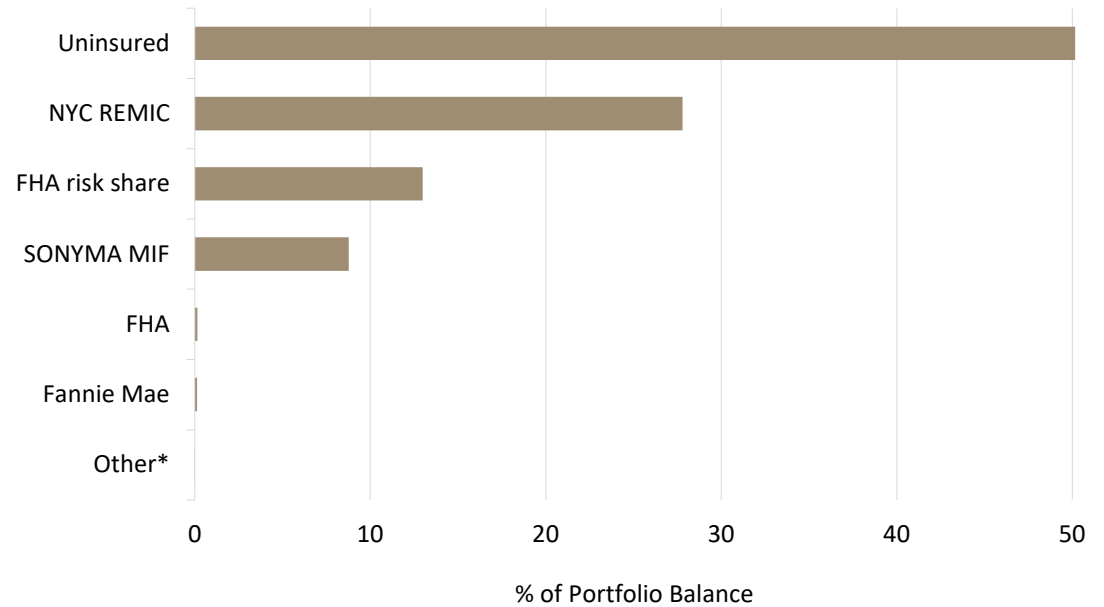
S&P Rated Multifamily Programs Snapshot

HFA Multifamily Program Ratings*



*As of Sept. 19, 2024

HFA Multifamily Loan Insurance



*Includes Freddie Mac, U.S. Department of Agriculture/Rural Development, or Small Business Administration

Possible Credit Rating Implications of Recent Multifamily Innovations

▪ **FFB/Risk Sharing Financings**

Rating agencies wouldn't see these directly, there **could** be credit implications under S&P's methodologies if HFAs materially pivot from MRB financings:

Pros:

- Fewer bond issues → increasing A/L parity ratios over time
- Fewer program construction loans → (generally) stronger loan attributes and lower losses assumed;
- Improved short term HFA profitability;
- Volume cap preservation

Cons:

- Possibility for persisting loan concentration → higher losses;
- Shorter term profitability may come at the expense of growing the equity position over time (similar to TBA)

▪ **Potential New Loan Types in Programs**

Transit Oriented Development financings likely won't involve Parity Resolutions, but...

- Occasional questions regarding novel loan types (mobile homes, office building conversions, etc.)
- S&P can rate resolutions with non-housing loans/"other assets" up to ~10% of the total loan balance, with losses influenced by:
 1. Track record of prudent lending in the relevant asset type
 2. Centrality of asset type to the organization's public mission

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AUDIENCE Q&A

