

# THE HFA INSTITUTE 2019

## Taking Stock During the Shutdown

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**HOME and  
Housing Trust  
Fund**  
JANUARY 13 – 15



**Housing Credit**  
JANUARY 15 – 17



**MRBs and  
Other Federal  
Homeownership  
Programs**  
JANUARY 16 – 18



**Section 8 and  
Other Federally  
Assisted  
Multifamily  
Housing**  
JANUARY 16 – 18



# Outline

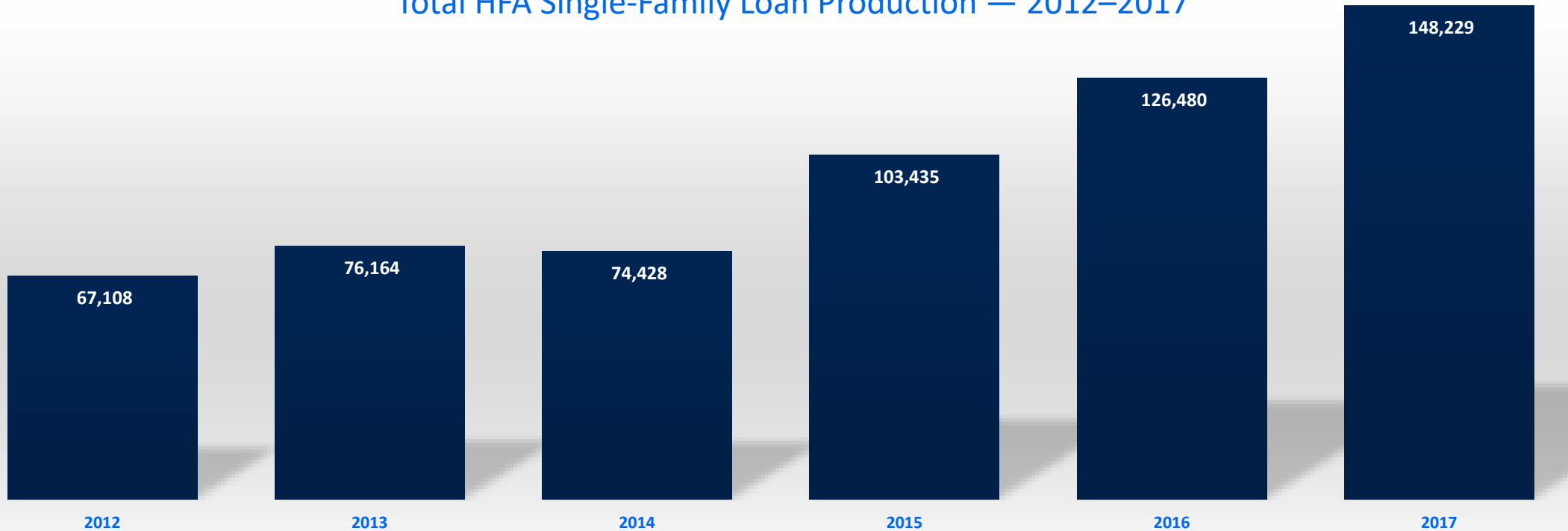
- Current HFA Single-Family Activity
- Results of NCSHA Survey on HFA DPA Programs
- Looking Ahead/Next Steps from NCSHA

## Recent HFA Single-Family Activity

- HFA single-family production growing steadily
- Share of non-MRB production loans increased
- Production possibly shifting back to MRBs?
- DPA remains key competitive advantage for HFAs

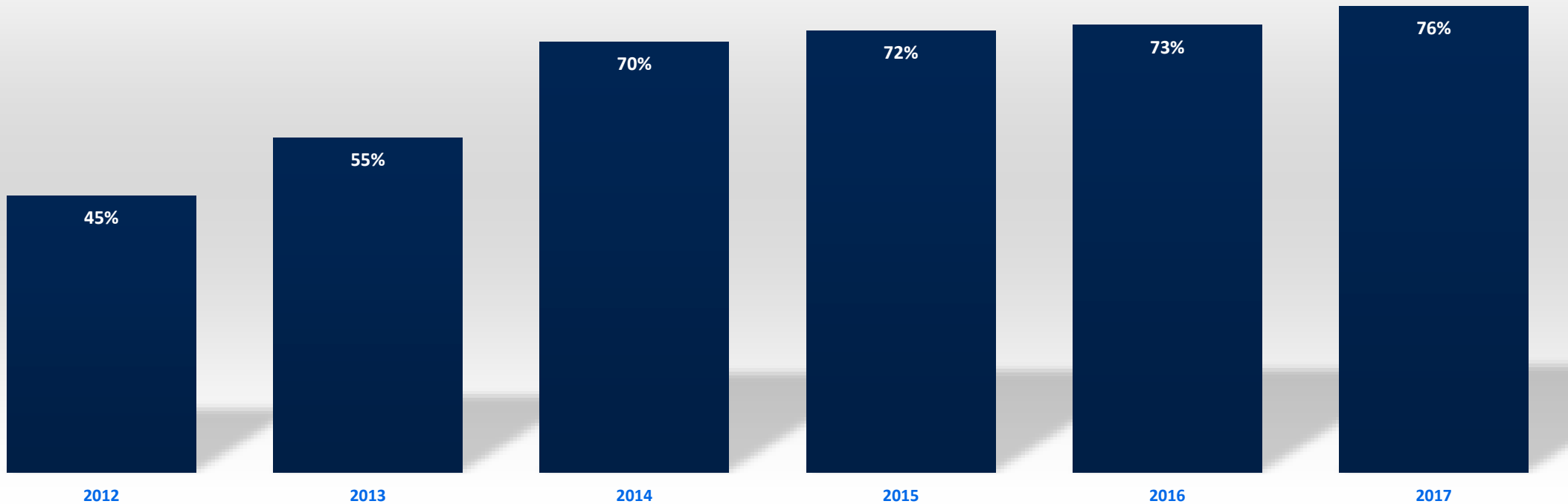
# Strong Growth in HFA Production

Total HFA Single-Family Loan Production — 2012–2017



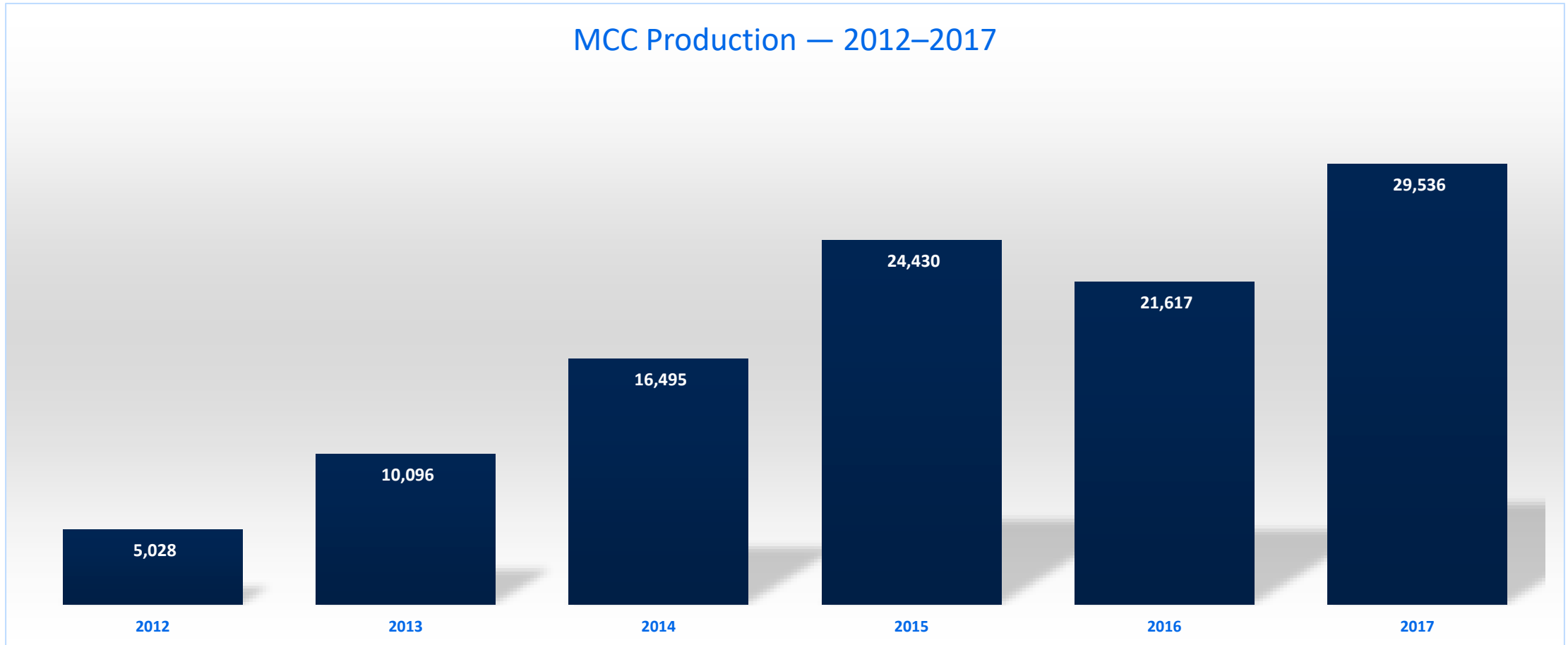
## Non-MRB Loans Account for Increasing Share of Production

Other Single-Family Loan Production as a Percent of Total Loan Production — 2012–2017



# Surge in MCCs Taps Unused Bond Authority

MCC Production — 2012–2017



## OTOH...MRBs Poised for a Comeback?

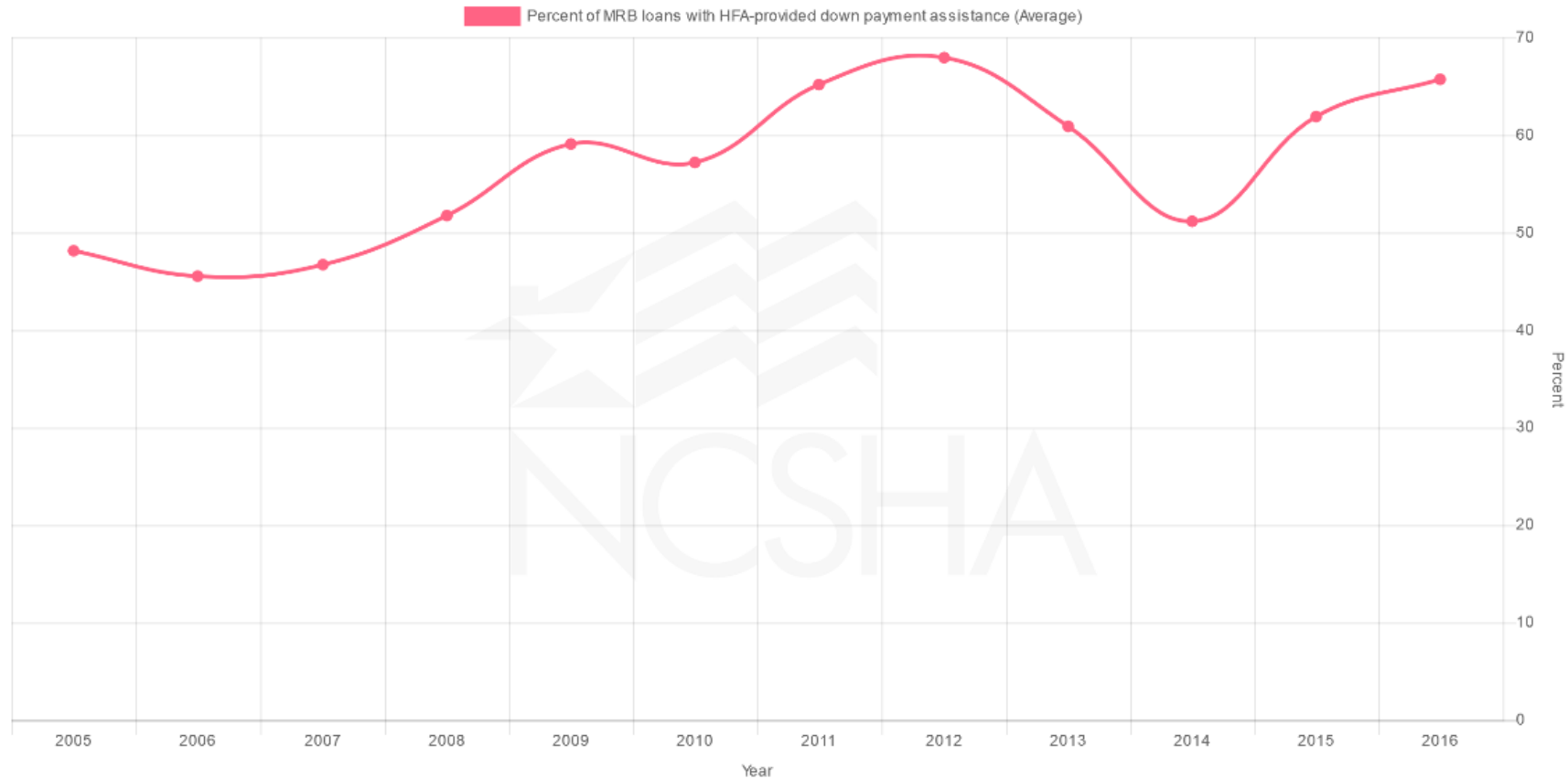
- Increasing mortgage rates restore MRBs' competitive advantage
- HFA MRB issuance up over 40 percent 2015–2017
- MRB loans up 19 percent during same period
- Moody's projects state HFA MRB issuance increased again in 2018
- Moody's: MRB loans to increase 28 percent in 2018 and TBA to drop 3 percent

# HFAs Still Meeting the Needs of Working Families

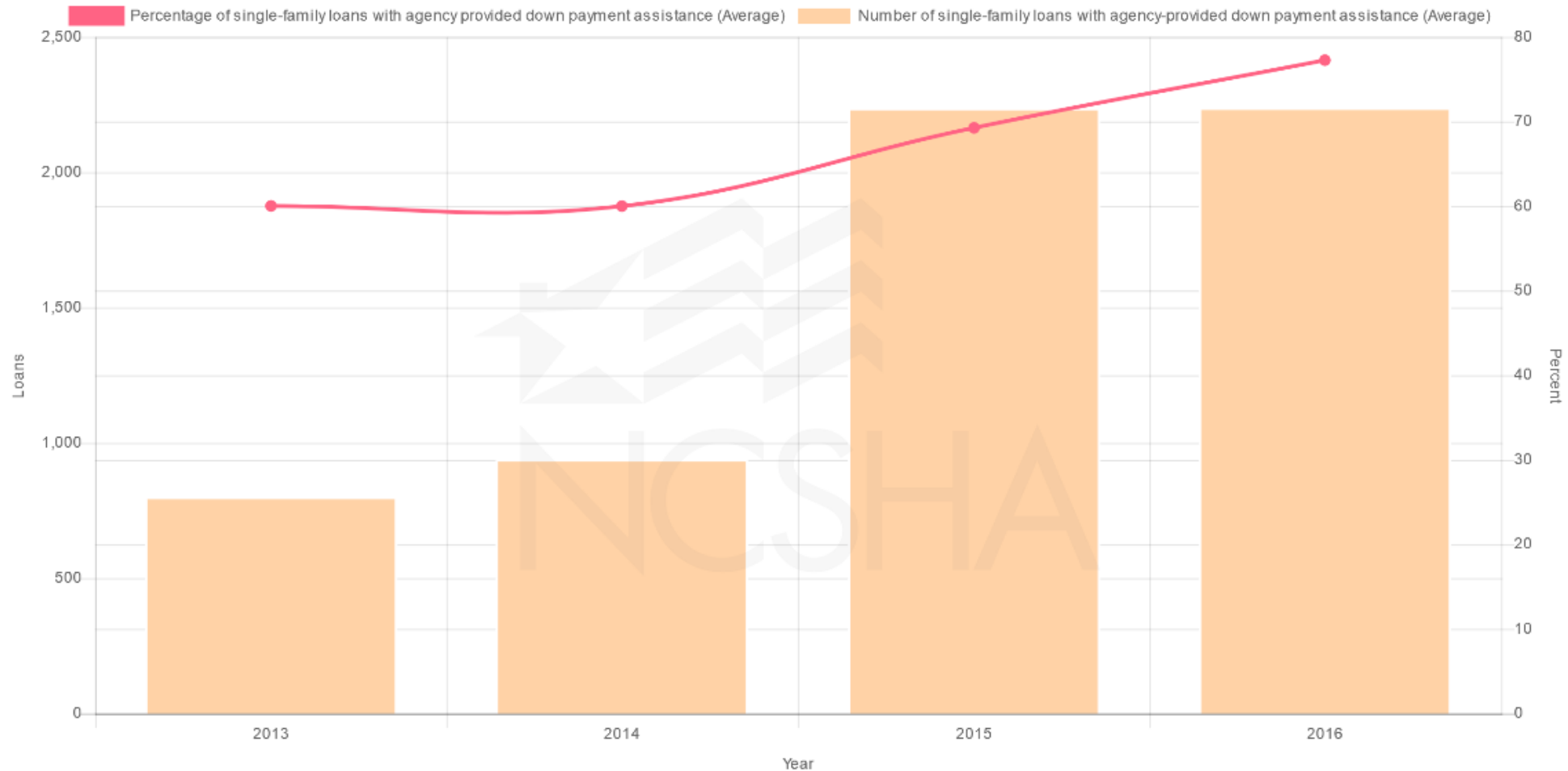
- The average median income for HFA borrowers was 17 percent below the national average.
- Half of all HFA borrowers earned less than 80 percent AMI.
- 25 percent of MRB loans went to minority borrowers; 33 percent to female-headed households.



# Increased Use of Down Payment Assistance



# Increased Use of Down Payment Assistance



## **NCSHA – HFA Down Payment Assistance Program Survey**



## NCSHA DPA Survey

- Initiated at the request of HUD
- Sought information on how HFA DPA programs are structured and underwriting requirements for borrowers
- Strong participation: 46 HFAs
- Results presented to top FHA staff in December
- In general, HFAs varied in their program features, no “magic formula” for sustainable programs, underscoring the need for flexibility
- Next up: Performance data on DPA loans

# Topics Examined

- DPA Funding Structures
- Borrower Interest Rates
- First Mortgage Interest Rates
- Borrower Financial Benefits
- Uses of Loan Revenue
- Minimum Credit Scores
- Minimum Borrower Contribution
- Borrower Education and Counseling

## DPA Funding Structure

- 12 HFAs provide DPA through grants.
- 17 HFAs provide DPA through amortized second mortgages.
- 17 HFAs provide DPA through deferred second loans.
- 18 HFAs provide DPA through forgivable second loans.

Note: Some HFAs have multiple DPA programs that use different structures.

# Borrower Interest Rates

Of the 33 HFAs that indicated they provide DPA in the form of a loan:

- 25 HFAs offer DPA loans with 0 percent interest.
- 8 HFAs offer DPA loans with the same interest rate as the first mortgage loan.
- 11 HFAs offer DPA with a set interest rate (typically, between 1 and 3 percent).

## First Mortgage Interest Rates for DPA Borrowers

- 24 HFAs charge borrowers receiving DPA a higher interest rate on their first mortgage than the borrower would pay if they did not receive DPA.
- Of those 24 HFAs, the average interest rate differential is roughly half a percent. For 8 of those HFAs, the rate differential is below 50 basis points.
- 21 HFAs do not charge borrowers receiving DPA a higher interest rate on their first mortgage.



## Financial Benefit to Borrowers

- HFAs said DPA enables them to help low- and moderate-income borrowers who might not otherwise be able to purchase a home.
- Some HFAs pointed out DPA also allows low- and moderate-income borrowers to keep more savings that can be used for unexpected expenses, such as car or home repairs.
- Some HFAs noted DPA also helps low- and moderate-income borrowers more quickly build up equity in their homes.

## Uses of Loan Revenue

- HFAs use revenue generated from their DPA programs to fund assistance for future homebuyers.
- Some HFAs use the revenues to help fund their other affordable housing activities.

# Minimum Credit Scores

- 18 HFAs require a minimum credit score of 620 for borrowers receiving DPA.
- 14 HFAs require a minimum credit score of 640 for borrowers receiving DPA.
- 4 HFAs require a minimum credit score between 660 and 680 for borrowers receiving DPA.
- Several HFAs vary their credit score requirements depending on various factors, including the type of home purchased, whether the borrower is a first-time homebuyer, and the borrower's total debt-to-income ratio.

# Minimum Borrower Contribution

- 18 HFAs require borrowers receiving DPA to provide a minimum cash contribution toward the transaction
- HFAs that require a minimum cash contribution either require that borrowers provide a small percentage of the loan amount (1-2%) or a lump sum amount (answers varied from \$500 to \$1,500)
- HFAs that require a minimum cash contribution said that they feel it is important for the homebuyer to have a financial stake in the transaction (psychological effect)

# Minimum Borrower Contribution

- 27 HFAs do not require borrowers receiving DPA to provide a minimum cash contribution.
- HFAs that do not require a minimum cash contribution said they wanted to allow low- and moderate-income borrowers the chance to maintain their savings in case of unexpected expenses.
- HFAs also said that, based on their experience, a minimum cash contribution does not impact loan performance.

# Borrower Education and Counseling

- Three-quarters of HFAs (34) require borrowers receiving DPA to take homebuyer education courses and/or counseling.
- HFAs allow borrowers to receive housing education online through approved counseling providers.
- Several HFAs also require borrowers to receive one-on-one counseling.

## What's Next?

- FHA is very concerned about the performance of loans with DPA from government sources.
- Specifically: serious delinquencies and early payment defaults
- FHA data does not differentiate between state HFAs and other government programs.
- NCSHA will be looking to collect performance data from state HFAs to compare.

# Looking Ahead





# The HFA Perspective: Current Advantages and Disadvantages

*Answers from NCSHA's HFA Business Development Survey, 2018*

## **Advantages**

- Strong partner relationships
- Competitive products that meet market needs
- Experienced and skilled staff
- Strong reputations

## **Disadvantages**

- Insufficient staffing levels
- Program funding

# The HFA Perspective: Future Opportunities and Challenges

*Answers from NCSHA's HFA Business Development Survey, 2018*

## **Opportunities**

- New technologies
- New/existing products
- Marketing to new populations

## **Challenges**

- Maintaining competitive edge/value to partners
- Shortage of affordable single-family homes
- Program funding/staffing
- Increased housing costs

# Next Steps from NCSHA

## Increased Business Development

- New NCSHA Business Priority for 2019
- Likely to involve ED working group or task force
- Explore how HFAs can reach more consumers:
  - New lending executions
  - Wider capital options
  - Deeper relationships with partners
- Maintain and expand preferred relationships



# Next Steps from NCSHA

## Housing Finance Reform

- Elevate HFAs' presence in the debate
- Developing concrete proposals for how HFAs can play a central role in new system
- HFAs as possible recipients of “Market Access Fund” or other monies raised
- Soliciting HFA input: What could you do with funding from new system?
- As always, protect the Trust Fund and Capital Magnet Fund!

## Shortage of Affordable Homeownership Homes

- Opportunity to address this critical issue
- Further research on possible policy solutions, including NHIA
- Possible advocacy



# QUESTIONS?



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