

September 13, 2018

Hon. Craig Phillips
Counselor to the Secretary
U.S. Department of the Treasury
1500 Pennsylvania Ave., N.W.
Washington, DC 20220

Dear Counselor Phillips:

The undersigned organizations representing affordable housing developers, owners, and lenders urge Treasury and HUD to continue and expand the successful multifamily risk-sharing partnership between FHA and the Federal Financing Bank (FFB). This partnership has proven to be an excellent source of liquidity for long-term, fixed-rate affordable housing mortgages that is beneficial to practitioners, the federal government, and local communities. We request that the Trump administration reconsider its decision to end the program this year while removing or substantially raising the volume cap on new FHA-FFB commitments to allow it to be utilized by additional states.

We are confident that more state and local housing finance agencies (HFAs) would participate in the program if it is extended, as indicated by the attached letters from Kentucky, Idaho, New Hampshire, and Wisconsin. It is understandable that many HFAs, especially those in smaller and more rural states, have been hesitant initially to commit resources and build a loan pipeline until the program could prove its success and, more recently, while its future has been uncertain.

As you know, long-term, fixed-rate mortgages are important for affordable housing because they provide financial stability, but they are not available in the private market. Short-term and adjustable-rate mortgages create interest-rate risk for affordable housing, which typically does not generate the large cash flow needed to sustain higher mortgage payments when interest rates rise. In addition, longer amortization periods and FHA insurance reduce monthly payments, facilitating more affordable housing and supporting rehabilitation. Long-term fixed-rate mortgages are available through FHA's Multifamily Accelerated Processing (MAP), but it generally involves longer processing times, higher transaction costs, and adherence to 875 pages of MAP guidance – all of which limit its utility, especially for rural and other smaller loans.

We strongly believe that the FHA-FFB partnership should continue and expand because:

- **The FHA-FFB partnership has been successful.** Since 2014, 14 state and local housing finance agencies (HFAs) have closed or committed \$2.4 billion in financing for 24,857 affordable apartments. Risk-sharing loan performance has been exemplary, with almost no losses, including prior to the advent of the FHA-FFB partnership and through the Great Recession. Under the FHA-FFB partnership, lenders must take 50 percent of the credit risk and have the financial capacity to support this commitment – an extraordinary mitigation of federal risk.
- **Risk-sharing improves access to FHA multifamily mortgage insurance and helps rural and other hard-to-serve markets.** In return for sharing risk equally with FHA, HFA lenders may use their own FHA-approved underwriting policies and procedures instead of having to follow the MAP guidance. FHA risk-sharing maintains underwriting rigor while shortening approval and closing times, saving money, increasing flexibility, and improving reliability. The FHA-FFB platform is

also sufficiently streamlined and efficient to accommodate the modest-sized loans that rural and other smaller and more affordable properties need; 35 percent of all FHA-FFB loans closed as of June 30, 2018 had original balances below \$5 million.

- **FFB has proved to be a superior funding source for FHA risk-sharing mortgages and doesn't require new statutory authority.** Prior to the financial crisis, HFAs typically used tax-exempt bonds as their funding source, but FFB rates are about 125 bps lower (as of August 29, 2018), an even wider spread than in 2014 when FFB's participation started. The interest savings is crucial for affordable housing because it accommodates lower rents and means limited federal subsidy sources, such as Low Income Housing Tax Credits (LIHTC) and various HUD funds, can produce and preserve a larger number of affordable apartments. The previous administration proposed to authorize Ginnie Mae to securitize FHA risk-sharing mortgages for several years, but Congress did not act. Moreover, issuing Ginnie Mae securities would be prohibitively expensive for rural and other smaller mortgages.
- For HUD, the FHA-FFB partnership:
 - **Saves significant FHA staff time because the lenders are responsible for underwriting and processing the mortgages and resolving any problems.** Although HUD monitors the lenders for adherence to their underwriting standards and their continuing financial strength, this is much less staff-intensive than FHA's responsibilities for MAP loans.
 - **Reduces taxpayers' and FHA's credit risk exposure by 50 percent.** Moreover, lenders have a strong incentive to act prudently because they likewise assume 50 percent of the credit risk and their financial interests are well aligned with FHA's.
 - **Generates \$144 million in net revenue to HUD for every \$1 billion in mortgage volume, based on a negative credit subsidy rate of 14.4%.** This revenue is an important budget offset to accommodate other HUD spending accounts. A Ginnie Mae execution, if Congress were to authorize it, would not generate this revenue.
 - **Improves HUD's ability to preserve and produce affordable rental housing.** HUD has limited affordable rental housing preservation and production resources and this initiative increases the Department's ability to support affordable rental housing opportunities throughout the country. In fact, risk share loans represent more than one-third of all LIHTC units financed under FHA insurance programs and a significant proportion of FHA multifamily affordable production. HUD's affordable rental housing production will be greatly diminished if the FFB initiative is discontinued.
- HUD should build on the FHA-FFB initiative's success to date by:
 - **Continuing to process new HFA commitments under the FHA-FFB partnership.** Lenders and borrowers must be able to count on the program's availability for long enough to plan and deliver a pipeline of development projects.
 - **Removing or substantially raising the volume cap on new FHA-FFB commitments.** This is essential to allow HFAs and their borrowers to plan activity. Affordable housing is

already complicated enough without additional uncertainty about whether attractive, reliable, and sustainable permanent mortgages will be available. We believe more HFAs will participate in the FHA-FFB partnership – and more affordable housing will be financed – if the initiative’s future is more certain.

- **Offering a forward rate-lock option for up to 36 months to support permanent take-out financing for new construction and substantial rehabilitation.** This feature would address the serious risk of rising interest rates on permanent mortgages while a property is developed and stabilization is achieved. It is our understanding that a forward rate lock feature is legally, operationally, and financially feasible.
- **Open the Section 542(b) risk-sharing program to private lenders that demonstrate a full range of affordable multifamily lending capacities and the financial strength to back up their share of credit risk exposure, including qualified community development financial institutions (CDFIs) certified by the Treasury Department’s CDFI Fund and qualified MAP lenders.** Private lenders could be especially important in providing smaller multifamily mortgages and mortgages on unsubsidized naturally occurring affordable housing.

Thank you for considering our views. Please contact Buzz Roberts at National Association of Affordable Housing Lenders at broberts@naahl.org or 202-293-9853 for additional information.

Sincerely,

Council for Affordable and Rural Housing
 Enterprise Community Partners
 Housing Partnership Network
 Local Initiatives Support Corporation
 Institute of Real Estate Management
 National Affordable Housing Management Association
 National Apartment Association
 National Association of Affordable Housing Lenders
 National Association of Home Builders
 National Association of Housing Cooperatives
 National Association of Realtors
 National Housing Conference
 National Housing Trust
 National Leased Housing Association
 National Multifamily Housing Council
 Opportunity Finance Network
 Stewards of Affordable Housing for the Future

August 23, 2018

The Honorable Brian Montgomery
Assistant Secretary for Housing / Federal Housing Commissioner
U.S. Department of Housing and Urban Development
451 7th Street, SW
Washington, DC 20410

Dear Commissioner Montgomery:

On behalf of the Kentucky Housing Corporation (KHC) I urge you to continue the Federal Housing Administration's (FHA's) Housing Finance Agency Risk-Sharing program's "Federal Financing Bank (FFB) option."

As you know, this program helps agencies like KHC produce and preserve affordable rental housing – while absorbing risk, reducing red tape, and generating revenue for the federal government.

You have heard from a number of other state HFAs who are currently active users of this option. They have reported the substantive benefits to their states: high quality affordable housing built or rehabilitated, often in rural areas, which would not otherwise have been able to access affordable financing.

While KHC has only exercised the FFB option on one "pilot" transaction to date, we would be likely to use it going forward, in light of rising needs in our states and the successful results other agencies have achieved, if we knew that FHA was going to extend the option beyond its currently scheduled termination September 30.

Given the tremendous and growing needs for affordable housing in Kentucky that conventional financing options cannot and will not meet, we need all the tools at our disposal to help more of our state's citizens access an affordable place to call home. The FFB option is such a tool.

Sincerely,



Edwin King
Executive Director/CEO

cc: The Honorable Mitch McConnell, U.S. Senate Majority Leader
Len Wolfson, HUD
Lamar Seats, HUD

August 21, 2018

The Honorable Brian Montgomery
Assistant Secretary for Housing / Federal Housing Commissioner
U.S. Department of Housing and Urban Development
451 7th Street, SW
Washington, DC 20410

Dear Commissioner Montgomery:

On behalf of the Idaho Housing and Finance Association (IHFA) I urge you to continue the Federal Housing Administration's (FHA's) Housing Finance Agency Risk-Sharing program, "Federal Financing Bank (FFB) option."

As you know, this program helps agencies like IHFA produce and preserve affordable rental housing – while absorbing risk, reducing red tape, and generating revenue for the federal government.

You have heard from a number of other state HFAs who are currently active users of this option. They have reported the substantive benefits to their states: high quality affordable housing built or rehabilitated, often in rural areas, which would not otherwise have been able to access affordable financing.

IHFA has executed the FFB Agreement and has had plans to take advantage of this financing tool going forward. Accordingly, we ask that FHA extend the FFB program option beyond its currently scheduled termination date of September 30, 2018.

Given the tremendous and growing needs for affordable housing in Idaho that conventional financing options cannot and will not meet, we need all the tools at our disposal to help more of our state's citizens access an affordable place to call home. The FFB option is such a tool.

Sincerely,



Gerald M. Hunter
President and Executive Director



New Hampshire Housing

Bringing You Home

August 22, 2018

The Honorable Brian Montgomery
Assistant Secretary for Housing/Federal Housing Commissioner
U.S. Department of Housing and Urban Development
451 7th Street, SW
Washington, DC 20410

Dear Commissioner Montgomery:

On behalf of New Hampshire Housing Finance Authority (NHHFA), I urge you to continue the Federal Housing Administration's (FHA's) Housing Finance Agency Risk Sharing program's "Federal Financing Bank (FFB) option".

In our view, the FFB option is one of the most innovative, effective and efficient housing finance initiatives implemented by the Department in decades.

Through this initiative, participating Housing Finance Agencies access capital to produce and preserve quality affordable rental housing while reducing the Department's risk position and generating revenue for the Federal Government.

To date, NHHFA has used the FFB option to generate more than \$60 million in financings in support of more than 1,000 affordable housing units in 17 properties statewide, with another \$30 million of financings in process. We would definitely make greater use of the option going forward if FHA were to extend the option beyond its currently scheduled termination of September 30.

Most of the projects NHHFA has supported through the FFB option are small properties that serve critical housing needs, often in rural areas. These projects would not have been feasible without the FFB option.

Given the tremendous need for affordable housing in New Hampshire that conventional financing options cannot and will not meet, we need continued access to reliable, flexible financing tools such as the FFB option. We urge you to continue making this important program available to your state HFA partners.

Sincerely,


Dean J. Christon
Executive Director

cc: Senator Jeanne Shaheen
Senator Maggie Hassan
Representative Ann McLane Kuster
Representative Carol Shea-Porter

August 20, 2018

The Honorable Brian Montgomery
Assistant Secretary for Housing / Federal Housing Commissioner
U.S. Department of Housing and Urban Development
451 7th Street, SW
Washington, DC 20410

Dear Commissioner Montgomery:

On behalf of the Wisconsin Housing and Economic Development Authority (WHEDA) I urge you to continue the Federal Housing Administration's (FHA's) Housing Finance Agency Risk-Sharing program's "Federal Financing Bank (FFB) option."

As you know, this program helps agencies like WHEDA produce and preserve affordable rental housing – while absorbing risk, reducing red tape, and generating revenue for the federal government.

You have heard from a number of other state HFAs who are currently active users of this option. They have reported the substantive benefits to their states: high quality affordable housing built or rehabilitated, often in rural areas, which would not otherwise have been able to access affordable financing.

WHEDA received approval for the FFB option in June, 2018 and is now working diligently to establish the program and expect to begin submitting applications within the next few weeks. Without FHA extending the option beyond its currently scheduled termination of September 30, WHEDA would not have an opportunity to fully establish the program or achieve the successful results recognized by other agencies.

Given the tremendous and growing needs for affordable housing in Wisconsin that conventional financing options cannot and will not meet, we need all the tools at our disposal to help more of our state's citizens access an affordable place to call home. The FFB option is such a tool.

Sincerely,



Wyman Winston
Executive Director

cc: The Honorable Ron Johnson
The Honorable Tammy Baldwin
The Honorable Sean Duffy
Len Wolfson, HUD
Lamar Seats, HUD



WHEDA