Questions & Answers
About State HFAs and the Administration's Initiative

About State HFAs and NCSHA

What are state HFAs?

State Housing Finance Agencies—commonly referred to as state HFAs—are state-chartered housing agencies that operate in every state. Though they vary widely in their characteristics, including their relationship to state government, HFAs have in common their public purpose mission to provide affordable housing to the people of their states who need it.

What is NCSHA?

The National Council of State Housing Agencies—known as NCSHA—is a national nonprofit, nonpartisan association that represents the interests of state HFAs before the Administration and Congress. In addition to its policy and legislative advocacy work, NCSHA provides HFAs education and training and facilitates best practice exchange among them. NCSHA's members include the HFAs of the 50 states, the District of Columbia, Puerto Rico, and the U.S. Virgin Islands. To learn about particular state HFAs, go to www.ncsha.org and click on *Find Housing Help in Your State*.

What do state HFAs do?

State HFAs are most widely known for their safe and sound first-time homebuyer lending programs, which have provided a reliable source of affordable mortgage money for working families over many decades in strong and weak economies. Through a combination of low-cost financing, prudent underwriting, home buyer counseling, down payment assistance, and proactive servicing, HFAs have established a long record of high homebuyer lending performance, noted for its low delinquency and default rates.

State HFAs also provide low-cost multifamily financing to facilitate the development of affordable rental homes. They engage in a broad range of other affordable housing activities, including rental housing production and preservation, tenant rental assistance, housing for the elderly and persons with special needs, supportive housing, homelessness assistance, and home rehabilitation and weatherization.

What makes state HFAs vital to the affordable housing finance system?

State HFAs are nonprofit housing finance agencies committed to affordable and sustainable housing outcomes. Through their affordable mortgage programs, they make it possible for working families who could not otherwise achieve homeownership to buy their first homes and for others to access affordable rental housing.

HFAs bring statewide perspective and focus to their housing work, along with a deep understanding of the conditions and needs of their local markets. They possess sophisticated finance, underwriting, and asset management capacity.

HFAs combine private sector-like business acumen with mission-oriented public purpose. They have built a multi-decade record of responsibility, effectiveness, transparency, accountability, and success in administering tens of billions of dollars in housing assistance.

How do state HFAs fund their affordable housing activities?

State HFAs effectively leverage public and private resources to support their affordable housing activities. They fund their single-family and multifamily lending programs primarily with the proceeds of tax-exempt private activity Housing Bonds (Housing Bonds) they issue.

HFAs also utilize a wide array of other funding sources. These include taxable Housing Bond proceeds, federal and state housing program funds, dedicated state and local revenue sources, and revenues they generate through their lending programs.

What role do state HFAs play in the administration of federal housing resources?

State HFAs play an indispensable role in the delivery of federal housing resources. They administer most major federal housing programs, including Housing Bonds, the Low Income Housing Tax Credit (the Housing Credit), the HOME Investment Partnerships program, Section 8 project-based contracts, and vouchers.

State HFAs are currently also charged with administering several key federal housing recovery programs, including $11 billion in new Housing Bond authority provided states under the Housing and Economic Recovery Act of 2008 (HERA) and the Tax Credit Assistance Program (TCAP) and the Housing Credit Exchange Program established by the American Recovery and Reinvestment Act of 2009 (ARRA).

About HFA Housing Bond Lending

What is the Housing Bond program and what has it achieved?

Congress established the Housing Bond program several decades ago to support state and local financing of affordable housing. Over the years, the Housing Bond program has earned strong bipartisan support in Congress, with overwhelming majorities in both houses acting to make the program permanent in 1993 and doubling its authority and indexing it for inflation in 2000.

Congress' decision to allocate $11 billion in additional Housing Bond authority to states last year to help stimulate the housing market was another vote of confidence in the program. Its most recent action to allow families purchasing their first home with a Housing Bond-financed mortgage to claim the homebuyer credit was yet another acknowledgement of the Housing Bond program's importance to the housing and economic recovery.

State HFAs issue Housing Bonds to finance affordable first-time homebuyer mortgages and rental homes. Through the issuance of single-family Housing Bonds—or, as they are more commonly known, Mortgage Revenue Bonds or MRBs—state HFAs have made it possible for 2.8 million working families to become homeowners, adding about another 120,000 families to their ranks each year. HFAs have financed 1 million affordable rental homes with multifamily Housing Bonds, adding roughly 50,000 more annually.

How much Housing Bond authority do states receive?

Each state receives an annual allocation of tax-exempt private activity bond authority based on its population. In 2009, states received bond authority equal to the greater of $90 per capita or $273 million. States allocate this authority at their discretion between state and local issuers and among several federally designated eligible uses, including affordable housing, blighted area redevelopment, municipal water and sewer services, small manufacturing facilities, and student loans.

On average nationally, states allot about 40 percent of their annual bond allocation to affordable housing, with roughly two-thirds of this amount devoted to single-family and one-third to multifamily lending. In 2007, state HFAs alone issued $18 billion in MRBs and $5 billion in multifamily Housing Bonds (using 2007 per capita Housing Bond authority, additional authority carried forward from prior years, and refundings of prior-year bonds).

Unlike their annual tax-exempt bond allocation, the additional $11 billion in bond authority states received under HERA is available only to finance single-family and multifamily housing through 2010. States allocated much of this authority to their state HFAs. Some states allocated a portion of it to their local HFAs.

How does the Housing Bond program work?

State HFAs issue Housing Bonds and use the proceeds to finance first-time homebuyer and rental housing mortgages. Investors in Housing Bonds are willing to accept lower interest payments because their interest income is tax-free. HFAs pass much of the interest savings on to homebuyers and renters in the form of lower housing costs. After covering their cost of issuance, HFAs reinvest any profit they may earn in their affordable housing activities.

State HFAs generally operate their single-family mortgage programs through a network of participating lenders they approve. Few HFAs originate loans directly. Participating lenders agree to adhere to loan qualification and underwriting standards set by the HFA. The HFA, in turn, purchases qualified loans from its participating lenders. Many HFAs service their own loans; others use outside servicers that operate under protocols established by the HFA.

Who gets MRB mortgages and what benefit do they receive?

MRB mortgages are available only to families of modest means who purchase moderately priced homes. They are generally limited to first-time homebuyers who earn no more than the greater of their statewide or area median income. The cost of an MRB home generally cannot exceed 90 percent of the average home purchase price in its area. In 2007, the average MRB borrower income was $45,000 and the national average MRB home purchase price was $138,254.

Historically, MRB mortgages have had interest rates ranging anywhere from 50 to 100 basis points below the conventional market rate, generating monthly mortgage cost savings of as much as $90 a month. Often, HFAs couple MRB mortgages with down payment and closing cost assistance. Some HFAs offer additional borrower benefits, such as job loss mortgage payment protection.

Isn’t this the kind of mortgage lending that created the housing crisis?

No. That’s predatory or abusive subprime lending, where borrowers with limited incomes or impaired credit knowingly or unknowingly agree to mortgage interest rates and terms they cannot afford and lenders accept inadequate credit scores and loan documentation. These practices became more prevalent in recent years, contributing significantly to today’s escalating mortgage delinquencies and defaults.

State HFAs have never engaged in any form of subprime lending. They have consistently offered largely fixed-rate 30-year mortgages. HFAs frequently require pre-purchase homebuyer education to ensure that families are ready to take on the responsibility of homeownership. They make certain that their mortgages are carefully underwritten to be sure families can afford the monthly cost not only at the outset but also over the life of the loan.

HFAs often provide down payment and closing cost assistance to ease the front-end cost of homeownership to borrowers. And, they proactively service their mortgages to be sure that any problems families may be experiencing in making their monthly mortgage payments are caught and addressed early, before the loan is seriously delinquent.

By applying these best practices consistently over many decades, HFAs have proven that homeownership is not only achievable for working families, it is sustainable. HFA MRB loan performance historically has always been strong, with delinquency and foreclosure rates well below those in the conventional market. Even in today's seriously challenged economic environment, the percentage of HFA loans 90 days or more delinquent or in foreclosure is only 2.91 percent, about two-thirds of the 4.32 percent national average delinquency and foreclosure rate for all loans and less than one-quarter of the national delinquency and foreclosure rate for all subprime fixed-rate loans, according to Moody's Investors Service.

Who lives in Housing Bond-financed rental housing?

People with a wide range of incomes do. In Housing Bond-financed developments, at least 20 percent of the apartments must be reserved for those earning no more than 50 percent of the area median income or 40 percent must be reserved for those earning no more than 60 percent of the area median income. The remaining apartments are not income-restricted.

Why do we need more rental housing in today's soft housing market?

Even before this recent recession, affordable, quality rental housing was in short supply. With increased unemployment and home foreclosures, the demand for affordable rental homes has increased. At the same time, vacancy rates in Housing Bond and Credit properties in most areas remain low.

Financing affordable rental housing is critically important to meeting the housing needs of families who cannot or choose not to own—especially low-income families. Only 25 percent of eligible low-income renters receive federal housing help. This leaves many renters spending far more than they can reasonably afford on housing costs, with little money left over to pay for other essential needs such as food, transportation, and health care.

According to the National Low Income Housing Coalition, in no community in the nation can a family afford a modest two-bedroom apartment on a minimum wage income. In 2007, more than half of all low-income renters spent more than 50 percent of their income on housing, according to the Joint Center for Housing Studies at Harvard University. The number of units affordable to families earning less than 50 percent of the area median income fell by 7 percent just from 2005 to 2007.

About the Administration's HFA Initiative

Why is the Administration's HFA initiative needed now?

At a time when working families and our economic recovery need them most, state HFAs are virtually sidelined, with little or no affordable housing lending capacity. Much of their Housing Bond authority sits idle, including the additional $11 billion Congress provided states last year specifically to help stimulate the housing market.

With each passing day, HFAs lose the opportunity to provide affordable mortgages to first-time homebuyers prepared to take advantage of lower home prices and the growing foreclosed home inventory and to developers ready to break ground with new affordable rental housing developments. Meanwhile, HFAs report growing demand for their financing, to which they are unable to respond.

The many families in this country in need of affordable homes are not the only ones being hurt. The housing and economic recovery suffers, too, as jobs and tax revenue are foregone and sluggish home buying is denied the jumpstart robust HFA first-time homebuyer lending would provide.

Since last year's crisis in the financial markets, the Housing Bond market has struggled to come back, with traditional investors, such as banks, mutual funds, and insurance companies, holding off or strictly limiting their purchases. As a result, HFAs have been unable to issue long-term fixed-rate Housing Bonds in any significant volume.

Most HFAs have managed to continue lending—but at sharply reduced levels and less than attractive rates—by issuing mostly short-term retail bonds, accessing credit lines, relending loan sale proceeds, and tapping their own already strained resources. Some HFAs have been forced to shut down lending altogether.

The financial and lending capacity of those HFAs that issued Variable Rate Debt (VRD) in recent years to offer lower interest rates to their first-time homebuyer customers is even more stressed. These HFAs are hard-pressed to remarket their VRD, because the financial institutions they have traditionally relied upon to remarket it and serve as buyers of last resort have either withdrawn from this market, been downgraded by credit rating agencies, or are charging excessive fees and imposing unfavorable terms for providing this liquidity.

If HFAs are unable to remarket their VRD, which many need to do as frequently as weekly or monthly, they are forced to convert it to "bank bond" status, requiring them to pay it off under aggressive amortization schedules, undermining their otherwise strong financial positions, potentially weakening their financial ratings, and diverting resources from productive housing activity. A May 2009 NCSHA survey revealed that 37 state HFAs had $23 billion in VRD outstanding, with nine holding a total of more than $2 billion in bank bonds.

Time is also running out on states' ability to put to work the $11 billion in additional Housing Bond authority Congress provided them last year. With that added authority, HFAs were on track to finance 100,000 affordable single-family and multifamily homes in addition to the 170,000 they produce annually with their regular Housing Bond allocation. However, states have been unable to put that authority or their regular bond allocation fully to work, because they cannot find buyers for their bonds. The Administration's initiative would allow HFAs to utilize much of their idle Housing Bond authority to serve up to an additional 115,000 families.

Isn't the Housing Bond market coming back on its own?

Not nearly fast enough for state HFAs to respond to the demand they are experiencing for first-time homebuyer mortgages. At the start of this year, state HFAs estimated they could issue $33 billion in Housing Bonds over the next two years. Yet, so far in 2009, state and local HFAs together have sold only 91 single-family Housing Bond issues totaling $4 billion, compared to 232 issues totaling $10 billion last year and 355 issues totaling $16 billion in 2007.

In recent months, HFAs have brought some Housing Bond issues to market, but they have been relatively small, with large concentrations of short-term retail bonds, making it difficult for HFAs to even approach the lending volume they need to satisfy first-time homebuyer mortgage demand in their states.

By purchasing long-term Housing Bonds and requiring HFAs to combine them with short-term bonds, the Administration's initiative is carefully designed to support the bond market's revival, while penetrating more deeply into the first-time homebuyer market to spur the housing recovery.

Didn't the state HFAs bring their troubles on themselves?

No. State HFAs have consistently engaged in prudent lending practices. Unfortunately, events beyond their control, such as the collapse of the financial markets that led to the Housing Bond market freeze and liquidity crisis, have made it difficult or impossible for them to do what they have done so well over many decades—safe and sound affordable housing lending.

Even those HFAs that issued VRD were not acting irresponsibly. They were simply engaging in a practice that over many years has allowed them to achieve lower mortgage interest rates, so that they could reach their target first-time homebuyer customers, particularly in high-cost housing states.

Isn't this program just another bailout?

No. Treasury is not bailing out state HFAs. It is allowing them to put resources the federal government has entrusted to them to work in support of people and the housing and economic recovery.

Treasury is not giving money to state HFAs. It is investing in highly rated HFA Housing Bonds. HFAs are committed to paying back Treasury's investment in full, with interest. Through a risk-based pricing structure, Treasury is protecting taxpayers against any potential losses, even though losses are unlikely, as no state HFA Housing Bond has ever defaulted.

In providing a liquidity facility for HFA VRD, the Treasury is simply providing a limited, temporary backstop to overcome investors' reluctance to buy HFA VRD and to encourage the market back to more rational pricing and terms, given the HFAs' solid ratings and demonstrated ability to pay. It is highly unlikely that the federal government will ever have to step in and purchase this VRD, since the federal guarantee will make this VRD attractive to investors. Even if it did, HFAs are obligated to repay the federal investment. The initiative's risk-based premium structure would offset any losses, which are unlikely in any case.

Why is the federal government continuing to intervene in the housing market?

The federal government recognizes that the country's economic recovery depends on the revival of its housing market. Though the housing market is showing some faint signs of recovery in some areas of the country, it remains fragile overall.

Key to a strong housing recovery is robust first-time home buying lending, which HFA Housing Bond lending will spur with the help of the Administration's initiative. An active first-time homebuyer market in turn will fuel a more active trade-up market.

Why is the initiative needed with mortgage interest rates at all-time lows?

Many responsible, creditworthy families cannot get mortgage loans today. Responding to the excesses of yesterday, many lenders have overreacted, shutting out ready homebuyers with overly stringent and inflexible down payment, credit, and underwriting standards.

HFAs are one of the few sources of affordable, flexible mortgage money available to many first-time home buyers today. Meanwhile, the opportunity for HFAs to help working families access homeownership is greater now than in some time, with the increased affordability created by today's declining home prices and the expanded low-cost housing stock produced by record home foreclosures.

HFAs report that demand today from first-time home buyers for their mortgages far exceeds the volume available. HFAs' inability to respond to this demand negatively impacts the broader housing market, as homeowners looking to trade up are unable to sell their homes to first-time buyers.

Why is the Administration committing the GSEs to this activity when their future role is still to be determined?

Housing GSEs Fannie Mae and Freddie Mac continue to play an active and essential role in bringing stability and liquidity to today's mortgage market. More than half of all mortgage loans made these days are backed by the GSEs. The Federal Reserve Board is purchasing up to $1.25 trillion worth of Fannie Mae and Freddie Mac mortgage-backed securities to make sure lenders have money to lend and mortgage rates stay low.

The Administration's *Making Home Affordable* plan, announced last February, relies on the GSEs to coordinate and handle most of the loan modifications designed to allow distressed homeowners to avoid foreclosure and stay in their homes. Using the GSEs to help implement this initiative is a logical complement to these activities, as the Administration recognized when it made HFA assistance one of the components of its *Making Home Affordable* plan.