NCSHA
HFA Institute

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Risk Sharing Program Overview

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Risk Sharing Program Overview

Introduction

Provides a new insurance authority independent of the National Housing Act.

The purpose of the program is to support and encourage the production and preservation of affordable Housing.

Authority is the Housing and Community Development Act of 1992.

Risk Sharing Program Overview

Background: Section 542 of the Housing and Community Development Act of 1992 established the two pilot risk sharing programs:

1. 542(b) Qualified Participating Entity (QPE) Risk Sharing Program

2. 542(c) Housing Finance Agency (HFA) Risk Sharing Program

Section 235 of HUD's FY 2001 Appropriations Act, Public Law 106-377, converted the pilot program into a permanent multifamily insurance program.

Risk Sharing Program Overview

Traditional FHA Programs vs. Risk Sharing

The Risk Sharing program differs from FHA's traditional mortgage insurance programs in that in the Risk Sharing programs:

- FHA assumes only a portion of risk, rather than all.
- FHA delegates loan processing, asset management and disposition functions to the risk share partner.
- FHA shares the MIP payment with the risk share partner.
- FHA has more stringent eligibility standards for lender participation and sets larger reserve requirements that reduce counterparty risk.

Risk Sharing Program Overview

Traditional FHA Programs vs. Risk Sharing

- The Risk Sharing Program is entirely affordable production – all projects must be affordable as defined in the LIHTC program.
- Field Office staff “process” applications rather than underwrite.
- Risk Share Commitments are issued for 1 year and may be extended out as far as 3 or 4 years for NC/SR projects.

Risk Sharing Program Overview

542(c) HFA Risk Sharing Program

- Currently 38 HFAs participate in the 542(c) Program.
- Program provides credit enhancement to HFA bond and debt issuances through FHA mortgage insurance.
- HFA benefits: higher bond ratings resulting in lower borrowing costs and savings passed on to borrowers and tenants.
- HUD benefits: reduced risk at the transaction level, increased affordable housing production and significantly reduced staff resources, compared to basic FHA.

Risk Sharing Program Overview

542(c) HFA Risk Sharing Program

- 542(c) is governed by a regulation: 24 CFR Part 266.
- The HFA may take 10% - 90% of the risk.
- Claims are handled in 542(c) via a 100% upfront claim payment and a 5 year debenture agreement. Risk share percentages are settled upon termination of the debenture.

Risk Sharing Program

Federal Financing Bank (FFB) Initiative

Why utilize FFB for 542(c) Risk Share Loans?

- State Housing Finance Agencies (HFAs) historically raised capital through tax exempt bonds; rates are not competitive compared to Ginnie Mae MBS;
- Statutory prohibition on Ginnie Mae securitization of Risk Sharing loans;
- FFB funds are used to provide long term, competitively priced financing to Section 542c HFA Risk Sharing deals for affordable housing;
- FFB provides "Ginnie-like" rates, HFAs can lend affordably.

FHA FY17 Multifamily Firm Commitments by Program

Basic FHA			
223a7 Refi Apts	165	$2,140,128,400	12.84%
223f Refi/Purchase Apts	592	$7,877,370,430	47.26%
241a Impvmts Apts	4	$40,734,200	0.24%
FHA NC/SR Apts	224	$5,022,965,789	30.14%
Basic FHA Total	**985**	**$15,081,198,819**	**90.48%**
Risk Sharing			
HFA Risk Sharing	115	$1,586,651,855	9.52%
Risk Sharing Total	**115**	**$1,586,651,855**	**9.52%**
Grand Total	**1100**	**$16,667,850,674**	**100.00%**