July 24, 2018

Hon. Pamela H. Patenaude
Deputy Secretary
U.S. Department of Housing and Urban Development
451 7th Street, SW
Washington, DC 20410

Dear Deputy Secretary Patenaude:

The undersigned organizations representing affordable housing developers, owners, and lenders urge 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 a promising source of liquidity for long-term, fixed-rate affordable housing mortgages that is beneficial to practitioners, HUD, and local communities.

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.

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

- **The FHA-FFB partnership has been successful**. Since 2015, state and local housing finance agencies (HFAs) have closed $1.5 billion in financing for 117 loans supporting 14,585 affordable apartments in 12 states, with substantial additional activity in process. Risk-sharing loan performance has been exemplary, with almost no losses, including prior to the advent of the FHA-FFB partnership.

- **Risk-sharing improves access to FHA multifamily mortgage insurance and helps hard-to-serve markets**. Because the lenders share risk equally with FHA, they 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 to accommodate the modest-sized loans that smaller, rural, and more affordable properties need; 35 percent of all FHA-FFB loans have 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 still significantly lower. There were previous proposals to authorize Ginnie Mae to securitize FHA risk-sharing mortgages, but the existing FFB partnership already provides a mechanism for lower transaction costs, and fast, easy and reliable delivery under current statutory authorities.

- 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.

    - **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 low-income housing tax credit 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.**

    - **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
Housing Partnership Network
Leading Age
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 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

CC: Brian Montgomery, Assistant Secretary of Housing and FHA Commissioner
C. Lamar Seats, Deputy Assistant Secretary for the Office of Multifamily Housing Programs