

N A A H L

NATIONAL ASSOCIATION OF AFFORDABLE HOUSING LEADERS

FHA 542(b) Risk-Sharing Initiative Summary

HUD has formally proposed expanding to qualifying nonbank affordable housing lenders a Federal Housing Administration (FHA) risk-sharing program to that is currently only available to Fannie Mae, Freddie Mac, and state Housing Finance Agencies (HFAs). Under the proposal, the FHA would underwrite the lender and then share the risk on its loans on small multifamily properties 50/50. The risk-sharing expansion actually raises revenue for FHA by a small amount.

FHA is preparing a pilot program for “qualified” mission-based lenders who finance small properties (5-50 units). The lenders would be like “Mini-DUS”. Such a risk-sharing program would help respond to NAAHL’s advocating for “readily-available, consistently-priced, and long-term financing for affordable rental properties”, especially the small properties that constitute 70-90% of the market.

Risk Share Expansion Highlighted In HUD FY2014 Budget Proposal

HUD's FY2014 budget proposal seeks Congressional authority for Ginnie Mae to guarantee securities containing FHA multifamily risk share loans. HUD also wants to amend Section 542(b) to “allow for more flexibility in how affordability is determined in order to make it a more effective tool to recapitalize existing naturally affordable 5-49 unit rental properties.” NAAHL is working with FHA on the terms of its pilot.

We urge FHA to negotiate flexible risk-sharing agreements with such lenders as soon as possible to help increase the flow of private capital to mortgages on apartments that people are proud to call home. NAAHL also supports statutory changes that would allow these mission-based lenders to apply to issue Ginnie Mae securities. Ginnie Mae’s involvement would provide additional incentives to private investors to finance affordable rental properties.

These initiatives address a critical but long overlooked part of the multifamily market: liquidity for mortgages on small multifamily properties to help meet the growing demand for affordable rental housing. They will help increase capital flows to smaller projects – especially in underserved markets.

As former FHA Commissioner and Hudson Institute Senior Fellow John Weicher has reported, 89% of affordable rental housing is in properties of 1-49 units, yet the typical FHA multifamily property has 120 units. FHA and Ginnie Mae can help fill in the gaps to help expand the role of private capital.

To review HUD’s power point presentation on its proposal, go to <http://www.naahl.org/Portals/11/2013%20DC%20Conference/Small%20Multifamily%20Risk%20Sharing.pdf>



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