White House Announces Steps to Increase Affordable Housing

The HFA risk-sharing program is returning after being suspended.

By Donna Kimura, Affordable Housing Finance, September 2, 2021

The Biden administration announced a series of moves aimed at creating, preserving, or selling 100,000 affordable homes for homeowners and renters in the next three years.

The actions include relaunching the Federal Financing Bank (FFB) and restarting its support of the Federal Housing Administration (FHA) Section 542(c) Housing Finance Agency Risk-Sharing Program, which was suspended in 2019. The program will provide low-cost capital to spur development of rental housing in cooperation with state housing finance agencies (HFAs).

HFAs may submit applications for mortgage insurance through this program through September 2024, and for the FFB to purchase the FHA-insured mortgages through September 2027. Unlike the previous version of the program, there is no dollar cap so FHA can provide firm approval letters to insure all eligible HFA-underwritten mortgages that meet risk-sharing program standards, according to Department of Housing and Urban Development (HUD).

Restarting the program will enable state HFAs to serve smaller developments, rural areas, and other essential projects that conventional financing does not, said the National Council of State Housing Agencies (NCSHA), noting that the risk-sharing partnership financed more than 25,000 affordable apartments that otherwise wouldn't have been built or preserved, while reducing risk and generating revenue for the federal government, over several years before being terminated by the prior administration.

Federal officials also announced that Fannie Mae and Freddie Mac can each increase their annual low-income housing tax credit (LIHTC) investments to $850 million.

"These announcements make clear that the Biden–Harris administration means business when it comes to getting more affordable housing built and recognizes the central role state HFAs play in connecting capital to developers and home builders to make it happen," said NCSHA executive director Stockton Williams.

The return of the risk-sharing program and the increase in the LIHTC investing cap for the government-sponsored enterprises (GSEs) are highlights in a plan that also touches upon diverse housing programs and housing types.

"The package is very encouraging—first, in terms of the substance because they will make a difference, and second, because it also continues to reinforce the Biden administration's commitment to affordable housing," Buzz Roberts, president and CEO of the National Association of Affordable Housing Lenders, told Affordable Housing

Finance. “As we head into an important and uncertain reconciliation process, it’s good to know that White House continues to focus on affordable housing.”

The risk-sharing program is "critically important because affordable housing needs more access to long-term fixed-rate financing,” Roberts said, adding that it’s particularly valuable for smaller deals that can’t sustain the heavy transactional costs involved with going to the capital market for financing.

“From a straight lending perspective, the ability for the HFAs to use their own underwriting policies (instead of having to use the 955 pages of policy guidance under the regular HUD multifamily programs) cuts costs and speeds the process for loan approvals,” he said.

Second is funding. The FFB execution is almost cost free. That’s a dramatic savings and a timesaver compared with an HFA having to issue bonds in the capital market, according to Roberts.

The National Association of Local Housing Finance Agencies also praised the move.

“Since the program was allowed to expire, NALHFA has been working with HUD and Congress to restore this critical program that is estimated to create over 20,000 affordable housing units over the next two years,” said executive director Jonathan Paine.

The administration’s unveiled plan also calls for promoting the sale of distressed HUD properties to nonprofits. The direct sale of defaulted FHA-insured mortgage notes allows HUD to make bulk sales to purchasers with affordable housing and community revitalization goals. An upcoming sale is projected to include mortgage notes for more than 1,700 single-family properties. HUD is exploring offering half of those notes to nonprofit and community organizations.

Other steps include increasing financing for manufactured housing and small properties with two to four units as well as updating the Capital Magnet Fund to encourage affordable housing production.

“What this gets at is there are so many components to a comprehensive housing policy,” Roberts said. “The clear direction is to be cognizant of that and see it as a whole. Having a comprehensive view from the White House and the agencies is encouraging.”

Others also noted the scope of the plan.

“It’s gratifying to see that the administration is focused on the need for more affordable homeownership and rental housing and committed to using the full range of options available to the government to achieve those goals,” said Beth Mullen, partner and affordable housing industry leader at CohnReznick. “In the LIHTC area, additional investment by Fannie Mae and Freddie Mac with the Duty to Serve rural and underserved communities is a valuable component of the overall investment market."

Evan Blau, chair of the agency lending and affordable housing practice at the Cassin & Cassin law firm, added that the announcement "shows a strengthened commitment to affordable housing."

"Fannie Mae and Freddie Mac's further expansion into the LIHTC space solidifies the profound impact that the GSEs can not only have on the lending side of a transaction but equity as well," he said. "This increased tool will further assist the GSEs in their commitments to ensuring our communities provide safe and secure affordable housing nationally."