

The HFA Institute - HFA Strategies for 2017

Optimizing Affordable Housing Finance in Uncertain Times

Richard Godfrey
January 13, 2017



cfX Incorporated – 55 Broadway, Suite 2608, New York, NY 10006
Optimizing Affordable Housing Finance
www.cfx.com
richard.godfrey@cfx.com 212-431-5800

What is the future of:

- Interest Rates
- Housing Affordability
- FHA
- Fannie and Freddie
- HUD
- Tax-exempt Bonds
- Tax Rates
- Banking and mortgage banking regulation
- LIHTC

Interest Rates - Issues:

- More likely up than down.
- What happens if they drop or stay flat?
- Will spread between taxable and tax-exempt rates grow or shrink?
- Small banks may increase return and risk by keeping more loans and selling servicing.

Interest Rates - Strategies

- **Adjust lending rates responsively as markets shift** by constantly evaluating cost of funds, competing lending rates and funding options.
- Analyze taxable (TBA)/ tax-exempt (MRB) tradeoffs and shift when appropriate.
- Quantify risks and rewards.
- Lower cost of funds
 - Issue more bonds earlier.
 - Use variable rate debt - internally and externally hedged.
 - Use accrued excess spread to lower rates.
 - Issue fewer PACS to allow more recycling.
- Increase portfolio earnings
 - Allow cross-calls to reduce rates.
 - Buy own bonds for redemption purposes.

Housing Affordability

- Issues -
 - Responses to higher interest rates.
 - Will home values soften?
 - Will more people buy in anticipation of higher future costs?
 - Home value dynamics differ across the country and within states.
 - Slow builder response to rising demand.
 - Can good jobs grow without good affordable homes?
- Strategies -
 - Incentivize affordable home construction (ADC lending?)
 - Provide more down payment assistance and secondary financing.
 - Identify and prioritize use of agency assets.

- Issues -
 - Will its role be reduced?
 - What will role be in a new housing finance system?
 - Will OIG win DPA fight?
 - Will homebuyers have to have “more skin in the game?”
- Strategies -
 - Use HFA bond and portfolio assets to create special lending programs.
 - Fund DPA with bond proceeds or agency assets.
 - Consider creating a state insurance fund.
 - Partner with private insurers.

Fannie and Freddie

- Issues -
 - Will the GSE role change? If so, how fast?
 - What happens to FHFA affordability goals?
 - Will GSE's again buy HFA bonds?
 - Will Housing Trust Fund survive?
- Strategies -
 - Fight for HFA role in any new housing finance model.
 - Increased need and opportunities for state HFAs.
 - Use high HFA ratings to attract investors.
 - Demonstrate superior performance of state HFA bonds.

- Issues -
 - Funding levels (HOME, HOPWA, Section 8, S-202,S-811)
 - Vouchers v. project based subsidies.
 - Stimulating the private sector.
 - Will there be fewer regulations?
 - Will states have greater flexibility?
 - Could HUD disappear?
- Strategies -
 - Be ready to spend or lend to fill gaps.
 - Emphasize need for multiple housing options (rent or own) and strategies.
 - Craft solutions for seniors and special needs where market forces can't – housing for seniors may be issue for decades.

Tax-Exempt Bonds

- Issues -
 - Will tax-exempt debt go away?
 - Will MRBs go away?
 - Will private activity bonds (PABs) go away? Will PABs be expanded to fund more infrastructure?
 - Will PABs for residential rental housing be traded for more LIHTC?
- Strategies -
 - Reflect on 1986 Tax Reform – bipartisan, revenue neutral, resulted in LIHTC but potential sunset of MRBs.
 - Use HFA rating strength to attract investors.
 - Fight for affordable housing finance tools that use HFA strengths.

Tax Rates

- Issues -
 - Will top individual and corporate tax rates drop?
 - How will this impact tax exempt bonds and LIHTC?
 - Are property tax and mortgage interest deductions at risk?
- Strategies -
 - “*Flexagility*” – HFAs must be flexible and agile.
 - Explore optimal bond structures.
 - Offer alternatives to sustain affordable housing.

Banking and Mortgage Banking Regulations

- Issues -
 - Will regulatory constraints on lending be loosened?
 - Will bankers' ability to offer DPA be broadened?
 - What will happen to CFPB?
- Strategies -
 - Emphasize HFA niche as the safe lending alternative.
 - Lower rates may return as HFA advantage.
 - HFAs can offer non-conventional lending to underserved buyers.

- Issues -
 - Will it be expanded?
 - Is it in jeopardy to fund new priorities?
 - Will 4% link to tax-exempt bonds survive?
 - Who will bear the cost of lower pricing?
 - What will be the impact of other tax code changes?
- Strategies -
 - Develop responses to lower returns – markets have rarely been static.
 - Sustain coalitions such as NCSHA’s “Faces of Home” and “Home means everything.”
 - Emphasize housing links to jobs and community infrastructure.

What combination of above - Issues

- No one knows what 2017 will bring.
- Strategic planning challenged by an uncertain future.
- Need for affordable home solutions, for buyers and renters, likely to grow.
- Who can best address America's housing needs – Washington, States or private sector ?

What combination of above – Strategies?

- Information and analysis is power
- Prepare to win in up, flat or down markets.
- Emphasize your mission.
- Identify and prioritize the use of agency resources.
- Diversify funding platforms.
- Refresh nonprofit, GSE and private sector partnerships.
- Fight to protect the role of HFAs – HFAs are needed more than ever.