Products Offered by State Housing Finance Agencies

OVERVIEW

State Housing Finance Agencies (HFAs) are state-chartered, nonprofit organizations that provide financing and services for affordable housing and related community development activities. Most are quasi-governmental entities that operate as financially independent organizations and are governed by a state-appointed board of directors. HFAs generally have the mission to provide funding to increase and sustain affordable rental options and homeownership opportunities, most often targeted toward low- and moderate-income renters and homebuyers, and/or special populations such as first-time homebuyers, active military and veterans, police and teachers, individuals with disabilities, and homeless individuals. HFAs operate in every state, as well as the District of Columbia, Puerto Rico, and the Virgin Islands.

Homeownership Programs

HFA homeownership programs vary by state, but all are aimed at promoting homeownership and increasing mortgage affordability for first-time homebuyers and low- and moderate-income households. These programs include low interest-rate, low down payment mortgage products, as well as down payment and closing cost assistance (distributed by the HFAs as well as local municipal and nonprofit organizations with whom they work), and mortgage tax credit certificates, which are dollar-for-dollar federal tax credits in connection with home loans.

Other HFA homeownership programs are designed to help sustain homeownership by lowering homeownership costs and increasing the livability of homes for low- and moderate-income homeowners. These include refinance products, home repair and rehabilitation programs, and programs designed to increase the energy efficiency of homes. Some HFAs offer an Individual Development Account (IDA), which is a matched-savings program or other saving programs to prospective borrowers to help them save for down payment and closing costs. Many HFAs also offer homebuyer education and foreclosure prevention counseling either directly, or by providing sponsorship and training opportunities for housing educators and counselors in their states. Some HFAs offer private mortgage insurance options for first-lien mortgage loans.

Other Programs

HFAs also work to increase the supply of affordable rental units in their states by working with developers that build or rehabilitate housing for rent to low- and moderate-income families. Rental programs include below market financing options for developers and/or subsidy funds allocated directly to projects. Housing tax credits allow developers to raise private equity by selling federal tax credits to investors. Some HFAs offer lending and subsidy funding for other community development activities, such as small business lending to underserved businesses in the state. In this Guide, we focus on single-family mortgage-related HFA programs.

Sources of Funds

HFA programs are funded primarily through three funding sources: tax exempt bonds, The U.S. Department of Housing and Urban Development HOME Investment Partnerships Program, and Low-Income Housing Tax Credits. However, decisions about which programs are offered and at what funding amount are made at the state level.

HFA Bonds are generally Private Activity Bonds (PABs), which are bonds used to attract private investment for projects that have some public benefit. Each state's allowance for PABs is capped using a federal formula based on state population. States often designate some portion of their PABs as Housing Bonds. As separate financial entities, HFAs issue the Housing Bonds directly, with no financial liabilities tied to the states. Depending on the purpose for the revenue that is raised, the bonds are known as Mortgage Revenue Bonds (MRBs) or Multifamily Housing Bonds. HFAs use Housing Bonds to fund first-lien mortgage programs and mortgage tax credit certificate programs. In recent years, the low interest rate environment has limited the value of the tax advantage of MRBs to purchasers causing HFAs to seek alternative sources of funding, including an expansion of their secondary market activity.

The second source of funding is the U.S. Department of Housing and Urban Development's Federal HOME Investment Partnerships program, which is a federal block grant designed to meet each state's diverse affordable housing needs from rental assistance to homeownership down payment assistance.

The final source of funding comes through Low-Income Housing Tax Credit (LIHTC) funds, which are used to finance the development and preservation of affordable rental units and are allocated to the state, which then awards the credits to project sponsors/developers for affordable rental housing projects for low-income households.

Guide Coverage

Each HFA creates and offers its own set of homeownership programs uniquely designed to meet the needs of its state. Therefore, not all programs discussed in this Guide are offered by all HFAs. However, HFA programs usually share many of the same requirements and characteristics. For this reason, this publication focuses on providing an understanding of the types of state programs with an overview of the key elements found in many HFA programs. The Guide also provides a quick overview of HFA programs in the State Housing Finance Agency Products matrix, and finally, it provides individual program summaries and contact information by state in Appendix A.

A COMMUNITY BANKER CONVERSATION

Working with a State Housing Finance Agency

A bank representative from the east coast said that her bank looks to its State Housing Finance Agency (HFA) as its first choice to sell loans to low- and moderate-income borrowers into the secondary market. "They have really good pricing. The loan level price adjustments on credit scores are advantageous to our borrowers. And they have good benefits when it comes to mortgage insurance pricing and loans with no mortgage insurance."

A banker from the south central part of the country said that she consistently uses the first mortgage products offered by her HFA. "I have been processing or originating HFA loans for as long as I have been originating loans. It's always been a program that has really helped my state's homebuyers."

The banker said that her bank delivers loans to the HFA as a direct lender so they are able to underwrite and approve loans on behalf of the HFA. The banker said that although an HFA product combined with a FHA loan might carry a slightly higher interest rate than if the loan product originated for another investor, there are other significant advantages. The banker explained that the down payment and closing cost loan that can be combined with the HFA/FHA loan is worth the additional cost in rate because, in most cases, the borrower would otherwise be unable to purchase the home.

Because HFAs are state agencies, each with its own set of products and programs, bank experiences vary. For example, a banker on the west coast suggested that, while she would like to do business with her HFA, the structure of the programs in the state presents some challenges. The representative said that the first mortgage products offered are not competitive with the portfolio product that her bank offers, primarily due to the cost of mortgage insurance (the HFA does not offer a product that does not require mortgage insurance). In addition, many of the affordable units in the area come with deed restrictions that are not approved by Fannie Mae, so they are not acceptable to the HFA.

This Guide covers the following State Housing Finance Agency programs, products, and services:

First-Lien Mortgage Products: HFAs offer first-lien mortgage products for low- and moderate-income borrowers with low down payments, reduced interest rates, and/or down payment and closing cost assistance, which they purchase from participating lenders within their states. Participating lenders are financial institutions that are approved by the HFA to offer these products to borrowers with the assurance that the HFA will purchase the mortgage at a set price. In addition to the HFA products, they may purchase conventional products from the Federal Housing Administration (FHA), the U.S. Department of Veterans Affairs (VA), and the U.S. Department of Agriculture (USDA).[3] HFAs may offer products that serve a variety of purposes including purchase, refinance, and rehabilitation.

Down Payment and Closing Cost Assistance: HFAs offer assistance in the form of a grant or a second mortgage loan, which covers down payment and/or closing costs for low- and moderate-income, first-time homebuyers or other targeted populations. Most HFAs require that the vast majority of HFA down payment assistance programs be used in combination with a first mortgage product offered by the HFA.

Mortgage Tax Credit Certificates (MCC): HFAs manage a tax credit program, which is designed to help first-time homebuyers offset a portion of their mortgage interest on a new mortgage. MCCs reduce the borrower's federal tax liability, dollar for dollar, by a specific percentage of the mortgage interest paid by the borrower. MCCs can be combined with a variety of mortgage loan products including conventional and government low-down payment products.

Homeownership Education/Counseling: HFAs participate in homebuyer education and counseling in their states in a variety of ways, from developing programs and offering the education to sponsoring education classes and providing training to regionally-based housing counselors within their states. Many HFAs also partner with online homebuyer education providers to offer online homebuyer classes. Homeownership classes are required for many HFA programs.

Other Homeownership Programs: Individual Development Accounts (IDAs) are offered by some HFAs to provide matching funds to borrowers saving for a down payment and/or closing costs. Many HFAs also offer foreclosure prevention services and other counseling services and may also offer refinance products. A few HFAs offer mortgage insurance products for use in combination with their own mortgage products or with third party, affordable loans made to low- and moderate-income borrowers.

DOING BUSINESS WITH STATE HOUSING FINANCE AGENCIES

HFAs rely on lender partners to promote and deliver their products and services to customers. Since each state has its own HFA, programs are generally targeted to the specific housing markets and the needs of the low- and moderate-income borrowers in each state. Utilizing these HFA program offerings helps lenders meet their business development and Community Reinvestment Act (CRA) goals for community-oriented and affordable lending.

Many HFAs offer multiple execution options to allow banks to choose a method of delivery that best fits their internal capacity and delivery preference, i.e., deliver as a Third-Party Originator (TPO) where the loans are approved by the HFA, or as a direct lender where the bank approves the loan on the HFA's behalf.

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[3] See *Affordable Mortgage Lending Guide: Part I: Federal Programs and the Government Sponsored Enterprises* (Washington, DC: Federal Deposit Insurance Corporation, 2016), https://fdic.gov/mortgagelending for detailed information about products and services.

Bank Eligibility and Application Process

Bank eligibility requirements and application processes vary by program type and by HFA. Lenders do not join HFAs as members, but rather apply and become approved to utilize specific HFA products. See Appendix A: State Summary of HFA Programs and Resources for more details.

System Requirements and Quality Control

System and quality control requirements vary by program or type of service and by state.

RESOURCES

National Council of State Housing Finance Agencies
https://www.ncsha.org/

See Appendix A: State Summaries of HFA Products and Resources