

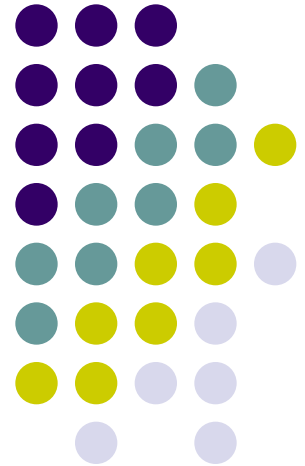


Finance Corporation

we make housing affordable

Florida Housing Finance Corporation and the Affordable Housing Delivery System

January 21, 2011



Housing Needs Over Time



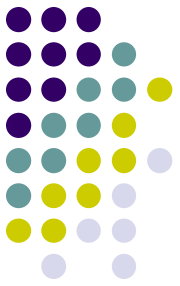
- Through the 1960s
 - Lack of housing & substandard housing
 - Long term mortgages with higher loan-to-value ratios were not always easy to obtain
- From 1970s forward, affordability/access to credit has been the nation's key housing problem
- Florida today
 - Many homeowners are having trouble paying their mortgages – unemployment/underemployment
 - Many more homeowners have mortgages that are greater than the value of their homes
 - For extremely low income residents, affordability is still a concern

Rise of State Involvement

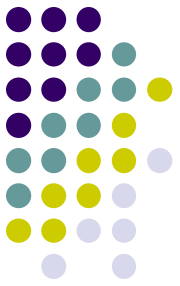


- Federal gov't began addressing housing issues in the 1930's
- 1960 – New York creates first state housing finance agency
- By early 1980's, most states had HFAs
- HFAs became more active in the housing arena with rise in use of tax exempt bond financing
- Today all 50 states + D.C., Puerto Rico & Virgin Islands have HFAs

State Housing Finance Agencies' Missions



- May be in form of a public corporation or state agency; may have a board of directors
- Many initially created to access federal housing funding
- Most HFAs have both homeownership and rental programs, generally working with private for profit and nonprofit developers and private lenders
- HFAs are “intermediaries” – they typically don’t directly work with households in need
- Programs typically meet the housing needs of:
 - First time homebuyers
 - Extremely low to moderate income households
 - Elders, people with disabilities and working families
 - People who are homeless or at risk of homelessness
 - People with special needs



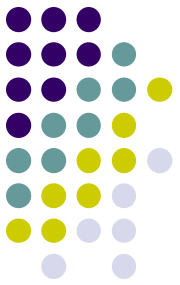
Typical State HFA Programs

Homeownership

- First time homebuyer program (tax-exempt bonds)
- Down payment assistance
- Home modification programs
- Some have state funds

Permanent Financing to Develop Rental Housing

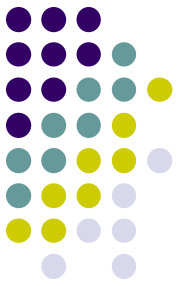
- Low Income Housing Tax Credits
- Tax-exempt bonds
- HOME/CDBG/rental vouchers/other federal programs
- Predevelopment funding
- Some have state funds



The William E. Sadowski Act

- 1992 Legislature enacted Sadowski Act to create a dedicated sources of state revenue for affordable housing programs
- Two housing trust funds funded via the state's documentary stamp tax on real estate transactions
- Legislature must appropriate these funds

Major Uses of Housing Trust Funds



State Housing Trust Fund

- State Apartment Incentive Loan Program (SAIL)
- Homeownership Assistance Program
- Predevelopment Loan Program
- Affordable Housing Guarantee Program
- Catalyst Training/Technical Assistance Program
- Affordable Housing Study Commission

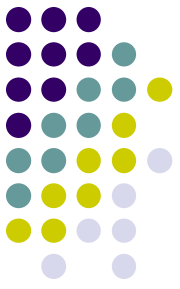
Local Government Housing Trust Fund

- State Housing Initiatives Partnership (SHIP)
- Homeless Housing Assistance Grants

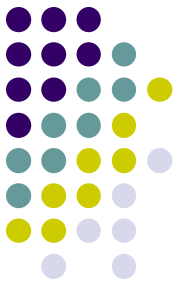
Both trust funds

- Housing Data Clearinghouse

Historical Production and Funding

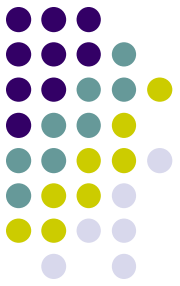


- **First Time Home Buyer Program (bonds)**
 - Total first mortgages since 1982 – ~58,000
 - State down payment assistance with FTHB program – ~11,700 helped w/ \$103 million
- **SHIP**
 - Total allocation to local gov'ts – \$1.95 billion
 - Housing units funded to date – 170,628
- **Multifamily Rental Programs (together)**
 - 181,294 total units currently in the portfolio
 - 59,039 units financed in part w/ \$737+ million in SAIL



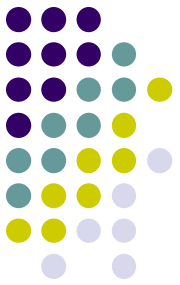
HOME OWNERSHIP

Federal Approaches to Home Ownership



- Tax benefits
- Creation of specialized, regulated housing finance system
- Housing production
- Direct subsidies and support to homebuyers

Federal Gov't Enters Home Ownership Financing

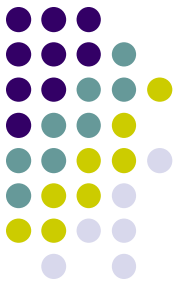


- Mortgages available before Great Depression
- 1930s – Series of Acts adopted to preserve country's financial system
- 1932 – Federal Home Loan Bank system brings thrifts under federal regulation
- 1934 – Creation of FHA insurance for private lender mortgages
- 1938 – Fannie Mae created to build secondary mortgage market

Rise of Mortgage Assistance and Secondary Market



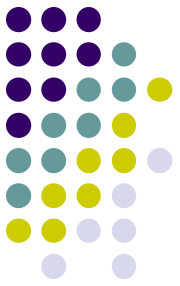
- VA mortgage loan guarantee program created in 1944, and Housing Act of 1949 creates USDA Sec 502 program
- 1968-70: Fannie Mae privatized & authority broadened; Ginnie Mae created & Freddie Mac chartered
- Issuance of private mortgage backed securities authorized in 1980's



Use of Tax Exempt Bonds

- Use of tax exempt bonds for housing takes off at state and local level in 1970s
- State volume cap, demographic and income restrictions imposed in 1980. Some of those requirements now include:
 - First time homebuyer
 - Purchase price restrictions
 - Income not to exceed 140% AMI

FHFC's Traditional Focus on Home Ownership



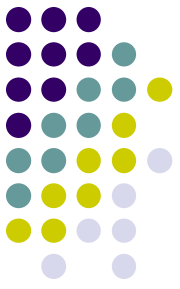
- First Time Homebuyer Program – providing low interest, fixed rate mortgages combined with purchase assistance
- SHIP – ~87% of SHIP funds get used for homeownership
- Some limited direct builder support

Operating Home Ownership Programs in the Bubble



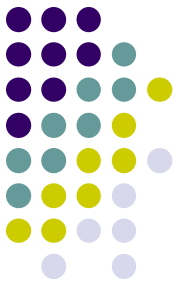
- Housing prices sky rocketed
- Residents leaving to get cheaper housing in other states
- High down payment assistance funding provided in many state/local programs
- FHFC maintained conservative loan terms and required traditional underwriting during this time

Living in the Aftermath of the Housing Bubble



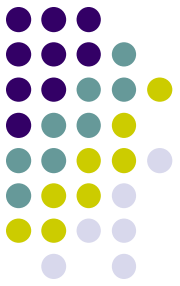
- Lowered home prices – better access to homeownership
- But tightened credit and underwriting – restricted access to homeownership
- Reliance on stimulus in 2010-11; Treasury buying 60% of single family bonds from HFA's
- State budget deficit leading to legislative targeting of state housing trust funds for other purposes

FHFC's Home Ownership Objectives Today

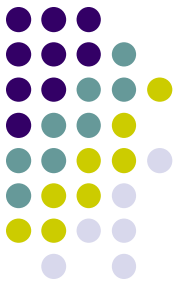


- Lowering the oversupply of existing homes by assisting first time homebuyers
- Assisting troubled homeowners to stay in their homes
- Continuing to provide a high quality mortgage product for low to moderate income homebuyers

Today's Challenges

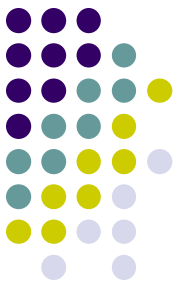


- The ability to access the bond markets at rates that will compete with market mortgage rates and maintain the fiscal soundness of the indentures
- The continued availability of down payment assistance



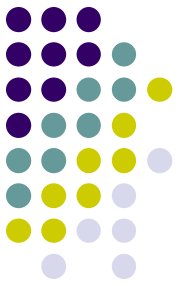
RENTAL HOUSING

Federal Support for Affordable Rental Housing Over Time



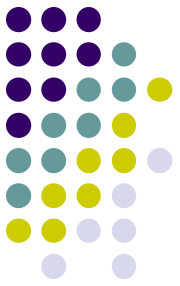
- 1937 – Creation of Public Housing Program
- 1950s and '60s – Rise of private sector involvement obtaining funding directly from U.S. HUD and USDA
- 1974 – Congress enacts Section 8 programs (tenant vouchers and project based assistance)
- Community Development Block Grant Program and later HOME
- Tax Exempt Bond financing and Low Income Housing Tax Credits

Federal Devolution of Housing Programs



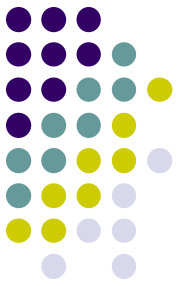
- In the 1980s, federal gov't virtually eliminated deep capital and operating subsidies for federally subsidized rental housing production
- Federal budget cuts to programs mean states have been left to provide resources to serve extremely low income (ELI) residents
- States also developing strategies to provide “supportive housing” for persons with special needs

Florida Housing's Traditional Rental Housing Focus



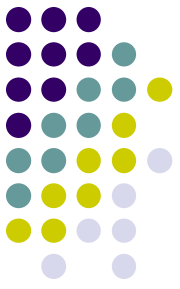
- Financing development and rehab of affordable rental apartment complexes
- For many years, have used one “universal” application and an annual cycle for developers to apply for financing
- Creation and management of the Guarantee Program

Operating FHFC Rental Programs during the Bubble



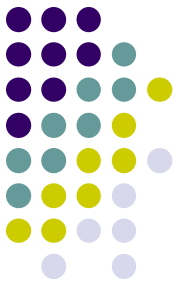
- Low Income Housing Tax Credit pricing at or above \$1
- More subsidy per unit required, so fewer units financed
- Increasing operating costs, but rents slower to increase because incomes stagnant
- Harder to serve lowest income households in the face of federal devolution

Living in the Aftermath of the Housing Bubble

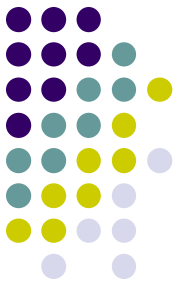


- Shadow market has caused rents to drop throughout the state, creating higher vacancies in FHFC's portfolio
- Guarantee Program portfolio impacted
- Investors are limited; pricing has dropped
- Getting credit and investment markets back in play: stimulus funds have kept some investors interested; moving forward, what will happen w/o stimulus \$\$?
- State budget deficit leading to legislative targeting of state housing trust funds for other purposes

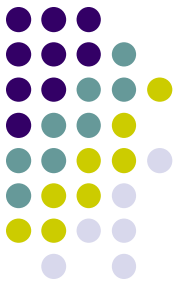
FHFC's Rental Development Objectives Today



- Financing transactions in markets where housing is needed and will be occupied
- Jobs and economic benefit to Florida
- Strong investor interest; strong developer capacity
- Managing the Guarantee Program portfolio through the national macro-economic climate



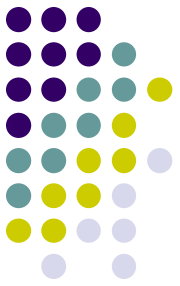
RISK MANAGEMENT



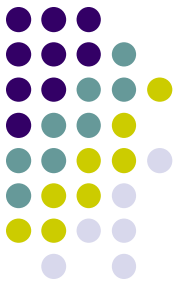
Risk Exposures

- Compliance with Contract Terms - Servicers
- Compliance with Regulatory Requirements
 - Tenants
 - Physical Property Condition
 - Loan/Indenture Criteria
- Financial
 - Loans
 - Viability of Properties in the Portfolio
 - Propriety of Payments to Contractors
 - Stability of Guarantee Program Fund

Risk Management Functions



- **Contracts with outside servicers**
 - Credit underwriting, construction loan servicing, compliance monitoring, loan servicing, reporting past due accounts, etc.
 - Trustees to handle trust indentures for bond transactions
- **Quality Assurance Reviews of Contractors**
 - Example: Servicers scope of services – monitor properties for compliance with state and federal program regulations in the financing structure, loan servicing, etc.
 - Example: Trustees scope of services – operate the bond accounts they handle in accordance with the indenture requirements



Risk Mgt Functions, cont'd

- Asset Management
 - Tenant compliance
 - Physical conditions compliance
 - Guarantee Program
 - Annual financial monitoring
 - Annual physical conditions monitoring
- Internal Control Systems in Finance Unit – e.g., when construction loan draws occur
- Inspector General/Internal Audit

