Treasury, HUD Announce Program to Aid HFAs

By: Jann Swanson | Tue, Oct 20 2009, 9:22 AM

A new initiative to stabilize the housing market was announced on Monday by the Departments of the Treasury and Housing and Urban Development (HUD). The initiative is authorized by the Housing and Economic Recovery Act of 200 (HERA) and will be implemented primarily through state and local Housing Finance Agencies (HFAs) with little cost to the federal government.

Under the HFA Initiative, Treasury, HUD, the Federal Housing Finance Agency (FHFA) along with Fannie Mae and Freddie Mac (the GSEs) will establish a New Issue Bond Program (NIBP) which will provide temporary financing allowing HFAs to issue new mortgage revenue bonds. These bonds will be used to back securities issued by Freddie and Fannie which will, in turn, be purchased by Treasury.

It is anticipated that the funds generated through these bonds will support several hundred thousand new mortgages for first time home purchasers, provide refinancing opportunities for at-risk homeowners who are unable to otherwise qualify for more affordable mortgages, and will support development of tens of thousands of new rental housing units for working families.

The program will temporarily allow the HFAs to issue an amount of bonds equal to what they would ordinarily be able to issue with the allocations provided them by Congress but are generally unable to do because of current market challenges. Participation will generally not exceed what the HFAs should have received from Congress and will allocated in approximately the same ratio among state and local agencies.

HFA's can determine the proportion of their allocation to be directed toward single or multi-family bonds. The latter can be either for a single project or used to finance multiple projects.

To minimize risk to taxpayers the HFAs will be required to pay the GSA's and Treasury a fee to cover both the cost of the financing and the risk posed by the HFA. Interest rates will be set to equal the short-term Treasury rate for the period that the funds are held in reserve before being drawn down to fund mortgages and then, 30 days after drawn-down, will increase to the 10-year rate plus the risk-offset fee.

To further reduce risk the HFAs will be obligated to sell shorter-term bonds to the private market in a ratio equal to 40 percent of the bond proceeds. This will also leverage even more low-rate mortgages.

A second part of the program, the Temporary Credit and Liquidity Program (TCLP) is being created in response to a number of challenges experienced by the HFAs in the current housing downturn. Under this program the GSEs will administer temporary credit and liquidity facilities to help the HFAs sustain existing housing bonds and maintain the viability of the local programs.

Each HFA will be asked to develop a plan outlining its desired level of participation and TCLP will cap these requests to an amount large enough to meet the existing demand. If programs request more than is currently anticipated under the program these amounts may be subject to additional caps.

There will also be a fee to participate in TCLP and this fee will increase over time in order to encourage HFAs to transition out of the program and back to private financing opportunities as quickly as possible.

In a press release announcing the dual programs Treasury Secretary Tim Geithner said "This initiative is critical to helping working families maintain access to affordable rental housing and homeownership in tough economic times. Through this initiative, the Administration aims to help HFAs jumpstart new lending to borrowers who might not otherwise be served and to better support the financing costs of their current programs - key components in stabilizing the housing market overall."

Ted Fellman, Executive Director of the Tennessee Housing Development Agency was among many local executives speaking about the program. He said, "In Tennessee we still have a lot of potential first-time buyers sitting on the fence. If we can get those buyers into the market, and this plan will help us do that, we could jump start our entire housing market. Even with conventional rates as low as they have been, it's still not enough for many working families to achieve sustainable homeownership. This will go a long way towards changing that."

UPDATE_10/23: http://www.treas.gov/press/releases/tg331.htm

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