



Section 542(b) FHA Risk Sharing Programs Small Buildings Risk Sharing Initiative

Opportunity Finance Network
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Risk Sharing Program Overview

Background: Section 542 of the Housing and Community Development Act of 1992 established the two pilot risk sharing programs:

1. 542(b) Qualified Participating Entity (QPE) Risk Sharing Program: current participants are Freddie Mac and Fannie Mae.
2. 542(c) Housing Finance Agency (HFA) Risk Sharing Program: currently 35 HFAs participate.

Section 235 of HUD's FY 2001 Appropriations Act, Public Law 106-377, converted the pilot program into a permanent multifamily insurance program. Unit allocations and reservation of credit subsidy are no longer in effect.



Traditional FHA Programs vs. Risk Sharing

The Risk Sharing program differs from FHA's traditional mortgage insurance programs in that in the Risk Sharing programs:

- FHA assumes only a portion of risk, rather than all;
- FHA delegates loan processing and asset management functions to the lender (HFA or QPE);
- FHA has more stringent eligibility standards for lender participation and sets larger reserve requirements that reduce counterparty risk.



Section 542 Program Requirements

- The Risk Sharing Program is entirely affordable production.
- All projects insured under the Risk Sharing Program must qualify as affordable housing as defined in the LIHTC Program:
 - 20 percent or more of units occupied by families whose income is 50 percent or less of the area median income; or
 - 40 percent (25 percent in New York City) or more of units are occupied by families whose income is 60 percent or less of the area median income.



542(b) Small Buildings Risk Sharing Initiative (SBRS)

OBJECTIVES:

- Increase the supply and preservation of affordable small properties. Small properties face significant obstacles accessing fixed rate, long term financing.
- Attract new lenders to this underserved segment of the market with inclusion of high capacity CDFIs, or non-profit, or public or quasi-public agencies (Mission-Based Lenders).
- Effective January 2016, FHA MAP lenders are eligible to apply.



542(b) Small Buildings Risk Sharing Initiative (SBRS)

OBJECTIVES (continued):

- Support affordable housing while minimizing risk to FHA Insurance Fund (under MAP loans, FHA assumes 100% of claim/insurance risk; under Risk Sharing loans, FHA assumes 50% of the claim/insurance risk).
- Utilize existing Risk Sharing program platform that allows delegated processing, decision making, and closing procedures to enhance the delivery of affordable housing in local markets.



542(b) Small Buildings Risk Sharing Initiative (SBRS) Program Overview

- Lenders share risk 50/50 with HUD.
- Projects must qualify as affordable housing, consistent with Section 42 LIHTC Program: 20% of the units restricted to households at 50% AMI, or 40% of the units restricted to households at 60% AMI.
- Eligible properties are 5 or more rental dwelling units.
- Fixed Rate Loans: up to 40 years fully amortizing; or 15 year balloon amortized over no less than 30 years.
- Loan amounts are limited to \$3 million or, \$5 million in “High Cost Areas” annually designated by HUD.



542(b) Small Buildings Risk Sharing Initiative (SBRS) Program Overview (continued)

- Lender's first year in the program: limited to 20 loans or \$50 million in closed loans.
- SBRS is a preservation initiative: new construction is not permitted. Rehabilitation and refinance only.
- Loans may be 'insured upon completion' or 'insured advances'.
- MIP will be published in the Federal Register. Currently 25bps to HUD
- SBRS lenders may access Federal Financing Bank (FFB) financing as source of capital. Pricing targeted to be like a Ginnie execution. Implementation targeted for summer 2016.



542(b) Small Buildings Risk Sharing Initiative (SBRS) Program Overview (continued):

- Lenders (QPEs) use their own underwriting standards, loan terms and conditions; asset management and servicing policies as disclosed and approved by HUD in its application to the Risk Sharing Program.
- Project applications for firm approval are processed in HUD's Regional/Satellite office in the geographical area where the property is located.



542(b) Small Buildings Risk Sharing Initiative (SBRS) Program Overview (continued):

- Property management and servicing is the responsibility of the lender.
- In the event of a claim, HUD pays 100% of the unpaid principal balance upfront. The lender issues a 5-year debenture to HUD, and has up to 5 years to reach final settlement and share 50/50 in the profit or loss with HUD.
- Compliance with Davis Bacon is not required for 542b.



542(b) Small Buildings Risk Sharing Initiative (SBRS) Application Requirements

Two stage process: Pre-Qualification & Final Application

Pre-Qualification stage: Applicant must meet organizational requirements for:

- “Mission Based Lenders” - Certified as a CDFI by the CDFI Fund, or Non-profit, quasi-public, or public agency; or
- “Private Lenders” – FHA MAP lenders in good standing with HUD

All applicants must have lending experience in affordable multifamily housing: 20 loans in past 2 years, or 20% of all loans (measured in \$);

All applicants will certify compliance with Fair Housing and Civil Rights requirements.



542(b) Small Buildings Risk Sharing Initiative (SBRS) Application Requirements (continued)

Pre-Qualification Stage (continued)

Financial Capacity Standards

- Minimum \$7.5MM net worth and a net asset ratio of 20%; OR Minimum net worth \$7.5MM and a CAMELS composite rating of 1 or 2, or equivalent nationally recognized rating system (i.e., AERIS/CARS)*
- *If the lender cannot meet these requirements, a dedicated reserve must be established with initial amount of \$500,000.
- Positive Net Income from best 3 of past 5 years;
- Minimum loan loss reserve ratio of 30% for loans and leases 90 days or more delinquent;
- Minimum Operating liquidity of 1.0 for most recent 4 quarters, and 1 or both of the 2 preceding years;

Pre-Qualification applications : submit hard copy of “Pre-Qualification Worksheet” and certifications; Pre-Qualification lender applications reviewed in approximately 30 days.



542(b) Small Buildings Risk Sharing Initiative (SBRS) Application Requirements (continued)

Final Application Stage: Must be submitted (hard copy) no later than 90 days after lender is notified of pre-qualification approval.

Applications will include:

- Narrative with organizational history, mission, multifamily affordable lending experience, description of its multifamily lending activities;
- Required exhibits:
 - Manual describes lenders investment, business and financial practices;
 - Certifications
 - Audited financial statements for last 3 fiscal years
 - Sample Debenture form
 - Portfolio List
 - Counsel List
 - Applicant Staff List

Refer to “Application Requirements” for complete details.



542(b) Small Buildings Risk Sharing Initiative (SBRS) Application Requirements (continued)

NOTE: Final Application must include evidence of submission of a complete FHA lender application as a “FHA Non-supervised Mortgagee”. This application is submitted online, and is separate from the SBRS approval process. Details in Handbook 4060.1, Rev-2.

http://portal.hud.gov/hudportal/HUD?src=/program_offices/administration/hudclips. An FHA Lender Approval Application, Form 92001-A, can be downloaded from HUD’s website at: <http://portal.hud.gov/hudportal/documents/huddoc?id=92001-a.pdf>.

Note: Applicants must have been approved as a FHA Non-supervised Mortgagee in order to receive final SBRS approval.



542(b) Small Buildings Risk Sharing Initiative (SBRS)

Links to the SBRS program documents:

http://portal.hud.gov/hudportal/HUD?src=/program_offices/ho_using/mfh/progdesc/progsec542b

- [SBRS Application Requirements](#)
- [SBRS Initiative Pre-Application Worksheet](#)
- [SBRS Program Details](#)
- [FHA Small Building Risk Share Initiative Final Notice](#)
- [SBRS Frequently Asked Questions \(FAQs\)](#)



542(b) Small Buildings Risk Sharing Initiative (SBRS)

Questions?

