

Securitizing HUD Capital Funds

CHFA FAN Pilot Program



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Capital Fund Securitization

- Authorized by Congress in 1998 - Quality Housing and Work Responsibility Act
- Purpose:
 - Enables public housing agencies (PHAs) to accelerate funding of capital projects
 - Allows securitization of capital funds to address the modernization, repair and development of public housing units

What is FAN?

- Subject to HUD's approval for PHAs to pledge Capital Funds, CHFA's Funds Available Now (FAN) Pilot Program enables a PHA to pledge up to 33% of its current and future years' Capital Fund allocations as security for borrowing in a pooled bond financing to be organized by CHFA.
- PHA loan amounts are based on current Capital Fund appropriations by HUD.
- Securitization costs will be shared by participating PHAs based on their proportionate share of bond issuance proceeds.
- Available only for federal housing developments that receive annual HUD Capital Fund grants and for PHAs that are in good standing with HUD.



CHFA's Role

- CHFA will act as an intermediary between participating PHAs and HUD in a pooled bond financing to accelerate the funding of capital projects. CHFA's FAN Pilot Program remains contingent upon satisfaction of all HUD requirements to finance Capital Funds and a sufficient level of PHAs' participation, as determined by CHFA, to realize economies of scale with respect to securitization costs.
- CHFA will issue bonds on behalf of participating PHAs to finance those PHAs' capital projects.



Eligible Uses of Leveraged Funds

- PHAs can use the funds to address:
 - Deferred maintenance
 - Modernization/rehabilitation
 - Renovation and major replacements
 - Health and safety improvements
 - Development of new units

Basic Financing Example

- PHA receives an annual \$300,000 HUD Capital Fund allocation
- PHA pledges 33% (\$99,000) to pay debt service on bonds
- PHA leverages around \$1 million of bond financing to fund capital project costs (subject to bond underwriting and prevailing bond interest rate)
- PHA still receives the balance of annual Capital Fund allocation (\$201,000) for ongoing capital needs



Fundamentals of Financing

- Funds are borrowed via a securitization of future HUD Capital Fund grants, therefore:
 - *No* operating funds are pledged
 - *No* real estate assets are pledged and
 - *No* private or HOPE VI funds are pledged
- PHAs maximize the use of Federal Capital Fund grants
- Each PHA's debt service is structured individually
- Each PHA's obligation to pay debt service on the bonds is proportional
- The PHA will not lose authority to control its own projects
- The PHA's indebtedness will be amortized over 20 years



Advantages of Pooled Securitization and the CHFA FAN Pilot Program

Participating PHAs can:

- Access capital markets
- Benefit from the spreading of securitization costs among multiple participants
- Accelerate planned capital projects
- Address large funding needs all at once (rather than staged over a number of years)
- Benefit from cost efficiencies associated with the pricing and completion of a project at one time

What if my PHA's annual Capital Funding is reduced?

- Because the PHA's annual debt service requirement will not exceed 33% of the current Capital Funds appropriated by HUD, future annual appropriations can be reduced up to 67% without affecting debt service.
- The Bond documents will make payment of scheduled debt service amounts the first priority use of participating PHAs' Capital Funds.
- IF HUD reduces Capital grants, the PHA will have less funds to spend annually. This same outcome could occur if the PHA does not participate in a pooled bond financing. By participating in a pooled bond financing, the PHA mitigates its risk of receiving reduced annual HUD Capital Fund grants in the future, because participating PHAs will leverage their future HUD Capital Fund grants based on current grant amounts.

Eligibility Considerations

- Is your PHA a good candidate?
 - Do your development(s) have deferred maintenance?
 - Do you receive annual HUD Capital Fund allocations that support securitization?
 - Do you have a sound performance history?
 - Do you have a proven capacity to complete projects?
 - Is your PHA in good standing with HUD?

Steps to Move Forward

- Meet with CHFA Asset Manager and Multifamily Underwriter to:
 - Identify eligible uses of leveraged capital funds
 - Discuss the PHA's plan/contemplated use of leveraged capital funds
 - Gain further insight about pooled bond financing involving PHAs' pledging of future capital fund grants
- Obtain information on the HUD application process. A description of HUD guidelines for PHAs to obtain HUD approval for capital funds financing is at:
www.hud.gov/offices/pih/programs/ph/capfund/cffp.cfm
- Submit a written (non-binding) confirmation to CHFA of its intent to participate in the FAN Pilot Program
- Access HUD application forms and HUD application procedures at:
www.hud.gov/offices/pih/programs/ph/capfund/cffpphaapply.cfm