CHAPTER 1. INTRODUCTION

1-1 AUTHORITY.

Section 542 of the Housing and Community Development (HCD) Act of 1992 directs the Secretary of the Department of Housing and Urban Development, acting through the Federal Housing Administration (HUD), to carry out programs that will demonstrate the effectiveness of providing new forms of Federal credit enhancement for multifamily loans. Section 542, entitled, "Multifamily Mortgage Credit Demonstrations," provides new independent insurance authority that is not under the National Housing Act.

Section 542(c) of the HCD Act of 1992 specifically directs the Secretary to carry out a pilot program of risk-sharing with qualified State and local housing finance agencies (HFAs). The extent to which HUD will direct qualified HFAs regarding their underwriting standards and loan terms and conditions is related to the proportion of the risk taken by an HFA.

1-2 PURPOSE.

The primary purpose of this pilot is to test the effectiveness of providing new forms of credit enhancement for multifamily loans, i.e., utilization of full insurance by HUD, pursuant to Risk-Sharing Agreements with qualified HFAs, for the development of affordable housing. The use of Federal credit enhancements should increase access to capital markets and, thereby, increase the supply of affordable multifamily housing. By permitting HFAs to process, underwrite, and service loans and to manage and dispose of properties which fall into default, HUD expects that affordable housing will be made available to eligible families and individuals in a timely manner.

1-3 DEFINITIONS.

Definitions for the terms used in the program and in this handbook can be found in Appendix 1.

1-4 DESIGNATED OFFICES.

The Risk-Sharing program introduces a new term - Designated Offices. Designated Offices are local HUD (State or Area) Offices assigned the responsibility for program monitoring, imposing or recommending sanctions for program violations, and conducting informal hearings. A Designated Office will oversee the overall operations of an HFA (e.g., State HFA) in States with more than one HUD Office jurisdiction where individual projects are processed. Individual projects will continue to be processed in the local HUD Office with jurisdiction for the location of the project. However, the HFA will have to deal with only a single HUD Office for overall program monitoring. For HFAs operating in a single
locality or in States with only one HUD Office, the State or Area Office and Designated Office will be the same. The term "local HUD Office" is used in this Handbook in place of "Field Office" and denotes both State and Area Offices.

1-5 HOW THE PROGRAM WORKS.

Qualified HFAs are authorized to underwrite and process loans. HUD will provide full mortgage insurance on affordable multifamily housing projects processed by such HFAs under this program. By entering into Risk-Sharing Agreements with HUD, HFAs contract to reimburse HUD for a portion of the loss from any defaults that occur while HUD insurance is in force.

The extent to which HUD will direct qualified HFAs regarding their underwriting standards and loan terms and conditions is related to the proportion of the risk taken by the HFA. An HFA that contracts to accept less than 50 percent of the risk on a loan is subject to regulation by HUD as described at Section 266.305. An HFA that accepts 50 percent or more of the risk on a mortgage will be subject to regulation by HUD as described in Section 266.300.

Under this program, qualified HFAs are vested with the maximum amount of processing responsibilities. Program regulations provide for primary decision-making on the part of qualified HFAs in selecting projects to receive financing.

1-6 WAIVERS.

Waivers to a handbook or regulatory provision may be justified in some cases. However, the Commissioner's waiver authority to the Field does not extend to the regulations and handbook instructions for the Risk-Sharing program. As provided in Section 266.35 of the regulations, provisions of law shall not be waived and waivers pertaining to financial requirements or underwriting standards required for Level II participants will not be granted.

Local HUD Offices may consult with the respective Headquarters' Housing Development or Housing Management Offices as specified below relative to particular waivers. Waiver requests with full supporting documentation should be addressed to:

Department of Housing and Urban Development
Director, Office of Insured Multifamily Housing Development
451 7th Street, SW
Washington, DC 20410

Department of Housing and Urban Development
Director, Office of Multifamily Housing Management
451 7th Street, SW
Washington, DC 20410