



ASSISTANT SECRETARY FOR HOUSING-
FEDERAL HOUSING COMMISSIONER

U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT

WASHINGTON, DC 20410-8000

All Regional Directors, Field Office Directors
Multifamily Regional Center
Multifamily Program Center/Satellite Office
Directors, Supervisory Project Managers
All Risk Share Lenders

NOTICE H 2024-08

Issued: August 13, 2024

Expires: This notice remains in effect until
amended, superseded or rescinded.

Cross Reference:

SUBJECT: Establishment of an Interest Rate Collar Program for New Construction/Substantial Rehabilitation under the HUD/FFB Multifamily Risk Sharing Program

Purpose

This Housing Notice (HN) introduces the FFB Interest Rate Collar Program. The FFB Interest Rate Collar Program will implement a new pricing product for new construction/substantial rehabilitation insured-upon-completion financing through the HUD/FFB Multifamily Risk Sharing program. This HN describes the features of the HUD/FFB Program.

I. Background

This HN launches the FFB Interest Rate Collar Program for new construction/substantial rehabilitation under the HUD/FFB Multifamily Risk Sharing Program. The HUD/FFB Multifamily Risk Sharing Program has greatly expanded the Housing Finance Agency (HFA) risk sharing platform. FFB financing continues to offer a lower cost and more efficient execution than long-term tax-exempt bonds. Since the restart in FY2021, HUD has issued over \$2 billion in Firm Commitments for new construction and acquisition/rehabilitation transactions. The program has also added 7 new HFAs for a total of 23.

HFAs, in partnership with HUD and FFB, have sought the creation of a solution to provide greater interest rate certainty for new construction insured-upon-completion financing since 2014. The reasons are as follows.

- Capital providers need interest rate certainty at Initial Endorsement and Lenders need to know the restricted rents will be sufficient to cover debt service and operating expenses;

- Many HFAs are prohibited from entering into interest rate hedge transactions in the private sector by law or policy;
- Provision of a rate collar product by FFB will attract new HFAs into the program and expand program reach by better serving new construction and substantial rehabilitation projects;
- FFB has developed a new pricing product that will provide for a rate ceiling (cap) and a rate floor for the benchmark Treasury rate component of the all in passthrough rate. The advantages of the rate collar are discussed below.

II. Program Description and Projected Outcomes

1. The interest rate collar is designed to give greater interest rate predictability to the HFA and project sponsor.
2. The interest rate collar consists of an interest rate cap on the forward benchmark Treasury rate (“Ceiling Rate”), and an interest rate floor on the forward benchmark Treasury rate (“Floor Rate”). The Ceiling Rate and Floor Rate will pertain only to the benchmark Treasury component of the final rate. FFB will distribute a daily advisory outlining key terms of the rate collar much as it does for the existing FFB Program.
3. The all-in passthrough rate on the participation interest to be issued by the HFA will be determined by FFB at Final Endorsement by the method previously established for the Risk Sharing Program. If the benchmark Treasury rate is at or above the Ceiling Rate, the HFA will receive the Ceiling Rate plus established programmatic spreads. If the benchmark Treasury rate is at or below the Floor Rate, the HFA will be offered the Floor Rate plus established programmatic spreads. If the benchmark Treasury rate is between the Ceiling Rate and the Floor Rate, the HFA will be offered the benchmark Treasury rate plus established programmatic spreads. The mortgage rate to the project sponsor will be determined by the HFA.
4. HFAs receiving an interest rate collar will be required to charge a market-based Commitment Fee to the borrower that will be held in escrow by the Custodian or the HFA. The Commitment Fee is in addition to any fees or upfront deposits required by the HFA. The fee is refundable at Final Endorsement. If the project does not reach Final Endorsement because the borrower chose a non- FFB execution, then a portion of the Commitment Fee will be paid to HUD as a Breakage Fee.
5. There are no other upfront charges associated with the provision of the rate collar at this time. HUD will monitor the program and reserves the right to make changes to the design of the program, including by adjustments to the Ceiling Rate and Floor Rate, adding upfront fees, limiting annual volume, and adjusting the term of the collar, as necessary, to mitigate interest rate risk in the future.

This Housing Notice is effective immediately and remains effective until amended, superseded, or rescinded.

Policy Assessment

HUD will continue to assess whether this change is achieving its policy objectives, the loans insured under the policy change are furthering HUD's core mission, and the overall risk profile of the FHA portfolio is impacted by this change. HUD reserves the right to further modify this policy in response to the findings of this assessment.

For questions about this Housing Notice, contact Willie Fobbs III, Director, Office of Multifamily Production at Willie.Fobbs@hud.gov.

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