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**52<sup>nd</sup> IFHP World Congress**  
**Plenary Session: Social Dimension**

# **Puerto Rico Housing Finance Authority**

## **Affordable Housing and Subsidy Programs**

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San Juan, Puerto Rico  
October 15, 2008

- **Introduction to PRHFA**
- **Existing Housing: Subsidy Programs**
- **New Constructions: Introduction to Mortgage Programs (Act 124)**
- **Affordable Rental Housing**

# PRHFA: Structure

## Government Type Activities

### Subsidy Programs

Primary Market  
(Act 124)

Secondary Market  
(Key to Your Home)

Rent Subsidy  
(Section 8 Voucher & Project Based)

### Direct Investment Programs

Direct construction  
(New Secure Home Program)

Development activities  
(Urban Core Revitalization)

## Business Type Activities

### Lending Programs

Retail Mortgage Lending

Wholesale Construction &  
Permanent Lending

### Insurance Program

Mortgage Insurance Program (Act 87)

### Arbitrage Operations





Act 124 Trusts

# Agenda

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- **Introduction to PRHFA**
- **Existing Housing Subsidy Programs**
- **Introduction to Mortgage Programs for New Constructions (Act 124)**
- **Affordable Rental Housing**

# Existing Housing Market

Program	Description	Economics	Key Statistic
 <p><b>Key to Your Home</b></p>	<ul style="list-style-type: none"> <li>• Down payment : income below \$45K</li> <li>• Existing and new homes</li> <li>• \$15 K to \$40K → Need</li> </ul>	<ul style="list-style-type: none"> <li>• Governmental and other unused funds from Act 124 subsidy escrows</li> <li>• Funds not sourced from business-type activities</li> </ul>	<p><b>\$25 MM</b></p>  <p><b>2,500 subsidies per year</b></p>
 <p><b>Mortgage Insurance Program</b></p>	<ul style="list-style-type: none"> <li>• Low and moderate income borrowers (&lt;\$45K)</li> <li>• Middle class borrowers (&lt;\$130K)</li> <li>• 100% loss coverage</li> <li>• Private lenders must comply with pricing and underwriting guidelines</li> </ul>	<ul style="list-style-type: none"> <li>• Below market premiums</li> <li>• Repo structure</li> <li>• Loans reserved with a 5.5% cash reserve</li> </ul>	<p><b>\$550 MM Insured</b></p>  <p><b>12,000 Loans</b></p>

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# Single-family Mortgage Revenue Bonds Program

## Act 124

- Enacted December 10, 1993: facilitates affordable housing financing to low and moderate income families
- Secretary of Housing authorizes funds to subsidize:
  - monthly interest payments
  - down-payment on qualified mortgage loans
- Home prices are capped:
  - Single-family housing: \$90,000
  - Multi-family housing: \$105,000
  - Urban centers (Centros Urbanos): \$110,000
  - Five municipalities (DDA): \$125,000
- Three-way Partnership: Government ↔ Lender ↔ Developer

## Government

- Steady production of newly-constructed affordable housing units
- Helps to reformulate public policy
- Private developers contribute to cover infrastructure costs
- Lenders participate in affordable housing programs
- Private developers assume construction risks

## Developers

- Steady production of newly-constructed affordable housing units
- Infrastructure credits
- Income tax exemption for the first \$5,000 of profit per unit
- Expedited permits

## Lenders

- Steady production of newly-constructed affordable housing units
- Secondary market is guaranteed for mortgages
- Clients have zero closing costs



# Benefits (cont.)

## Low-income Families (up to \$45K)

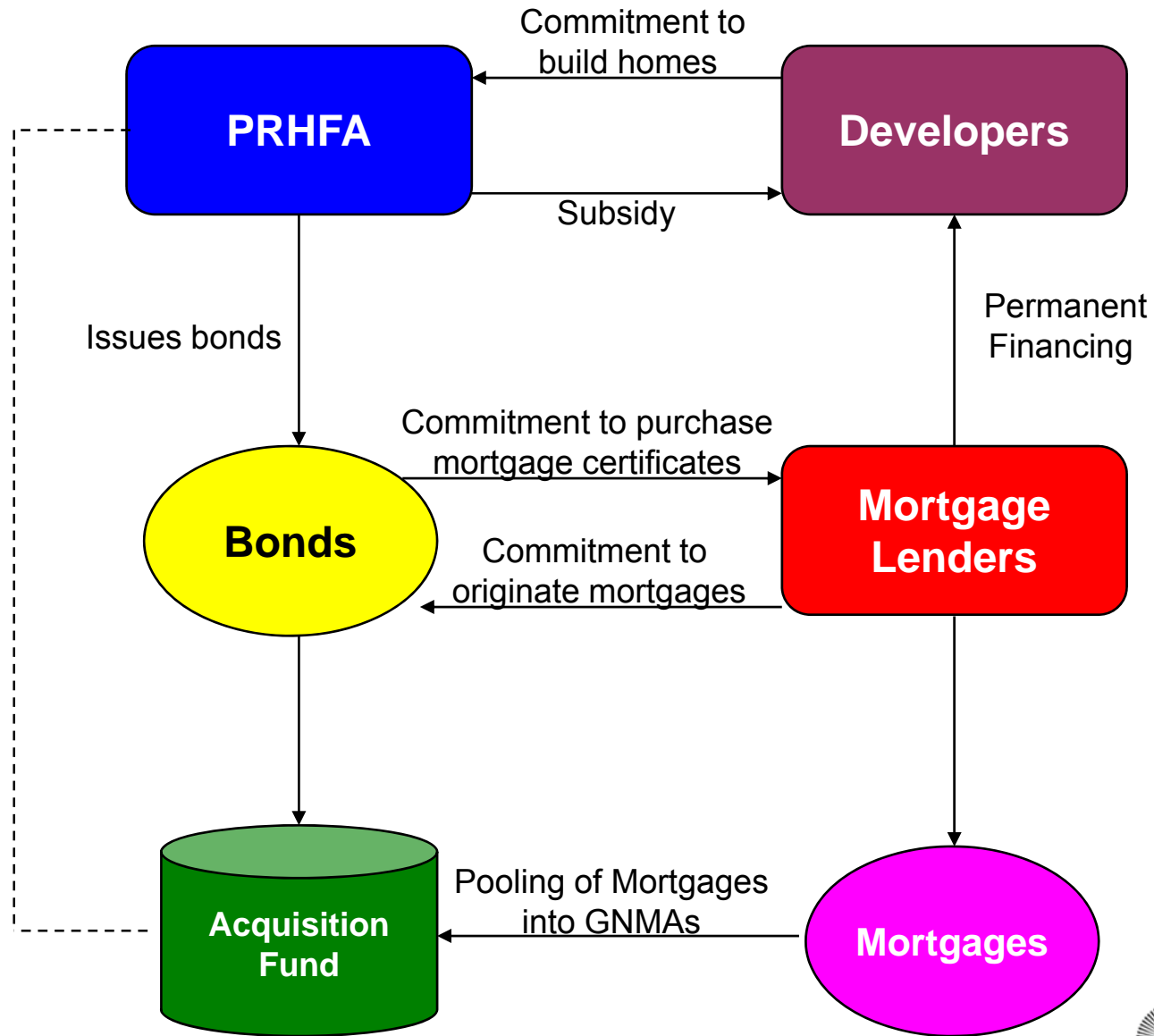
- Down-payment subsidy to cover closing costs
- Rates as low as 3.2% for the first 15 yrs (average mortgage life is 13 yrs)
- Act 124 subsidy can be combined with other government subsidies
- Buying newly-constructed, safe and sanitary dwellings
- Promotes upward mobility with free equity

## Real Subsidy Impact

### Citizen Working as a Police Officer in P.R.

	Sale Price	Prevailing Interest Rate	Tax Credits	Act 124 Down Payment Subsidy	Key for your Home Subsidy	Loan Amount	Loan to Value (LTV)	Monthly Payment
Without Subsidy	90,000	6.50%	-	-	-	88,200	98%	574.97
With Subsidy	90,000	5.20%	(18,000)	(4,500)	(19,717)	47,783	53%	271.86
							Monthly Savings	\$ 303.12

# Financing Structure



# Phase X – Improvements to the Program

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**Phase X: Program overhauled.** Phase XI incorporated Phase X improvements.

- **15 year subsidies vs. 30 year subsidies**
  - Year 15: mortgage payment reverts to underlying mortgage payment (program rate + 30 year amortization)
  
- **5% closing assistance vs. 2% down-payment assistance**
  - 5% to cover up to 1% closing costs, 2% origination expense and discount
  
- **Shorter acquisition/origination period**

# Act 124 Transaction Rankings

The cost of each Phase of the Act 124 Program is a function of the amount contributed by the Authority in relation to the amount of funds available to originate mortgages and the desired subsidy levels

Rank	Phase	Date	Lead Underwriter / Struct. Agent	Program Rate	Acquisition Fund (\$)	C=A/B		
						A Auth. Contribution / Mtge Acq. Fund	B Average Subsidy Rate	Cost Comp. Indicator
1	X-PR T-Exempt Bond Issue	2006	Santander Securities	6.00%	246,000,000	12.82%	1.05%	12.21
2	I - PR T-Exempt Bond Issue	1994	Kidder Peabody	7.06%	125,350,000	25.89%	2.05%	12.63
3	VII - Direct Mtge Lending Prog.	2000	Santander Securities	7.00%	400,000,000	22.97%	1.80%	12.76
4	XI -PR T-Exempt Bond Issue	2008	Santander Securities	6.00%	200,000,000	19.92%	1.55%	12.85
5	II - US T-Exempt Bond Issue	1995	Morgan Stanley	6.75%	75,000,000	18.02%	1.40%	12.87
6	VI - Direct Mtge Lending Prog.	1998	Santander Securities	6.50%	160,000,000	21.27%	1.40%	15.19
7	VIII - Direct Mtge Lending Prog.	2001	Santander Securities	6.50%	400,000,000	20.18%	1.31%	15.40
8	IV - PR T-Exempt Bond Issue	1996	UBS	7.00%	92,000,000	27.17%	1.60%	16.98
9	IX - PR T-Exempt Bond Issue	2002	Santander Securities	5.95%	350,000,000	24.69%	1.40%	17.64
10	V - PR T-Exempt Bond Issue	1997	Prudential Securities	6.50%	140,000,000	21.99%	1.20%	18.33
11	V (Popular) - Commitment	1997	Popular Securities	6.50%	90,000,000	23.14%	1.20%	19.28
12	V (Doral) - Commitment	1997	Popular Securities	6.50%	60,000,000	23.14%	1.20%	19.28
13	III - US Taxable Bond Issue	1995	Morgan Stanley	6.50%	65,726,000	28.44%	1.20%	23.70

# Phase XI Transaction Highlights (2008)

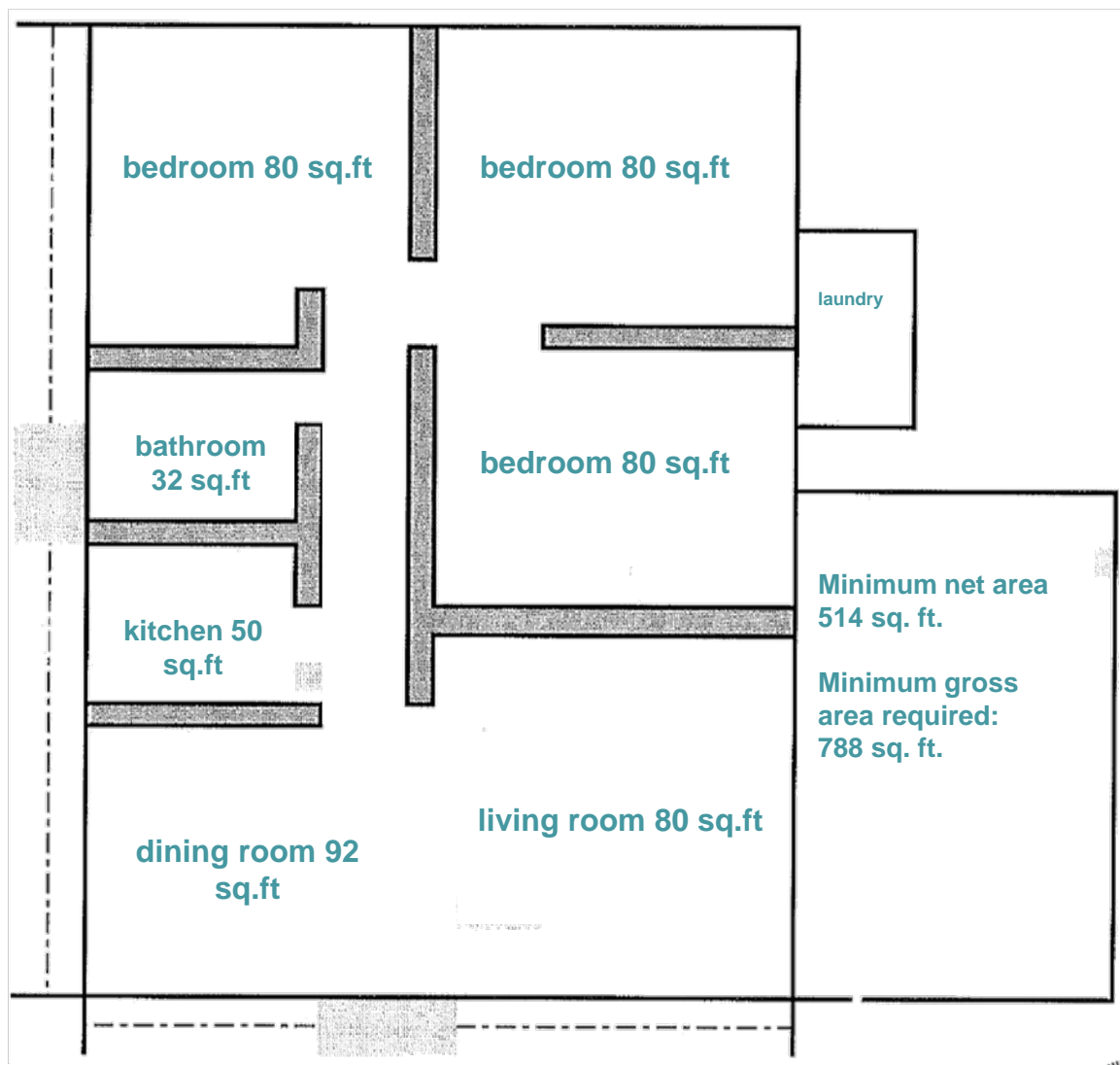
<b>Origination Commitment:</b>	<b>\$200,000,000</b>
<b>Estimate of No. of Housing Units:</b>	<b>2,185</b>
<b>Average Mortgage Size:</b>	<b>\$91,500</b>
<b>Program Rate:</b>	<b>6.00%</b>
<b>Base Case Subsidy Rates:</b>	<b>3.20%, 4.20%, 5.20%, 5.20%<sup>(1)</sup></b>
<b>Origination Period:</b>	<b>1 year</b>
<b>Duration of Monthly Payment Subsidies</b>	<b>15 Years</b>

# Phase XI Transaction Highlights (2008)

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<b>Mortgage Type:</b>	<b>30-yr Fixed Rate</b>
<b>Down Payment Assistance:</b>	<b>5.00%</b>
<b>Agency Contribution<sup>(1)</sup>:</b>	<b>\$39,834,716.25</b>
<b>Agency Contribution as % of mortgages:</b>	<b>19.92%</b>
<b>Rating:</b>	<b>AAA by Fitch</b>
<b>Transaction Team:</b>	<b>Trustee/Legal/Underwriter</b>
<b>Mortgage Acquisition Fund:</b>	<b>\$200,000,000</b>

# Minimum area requirements

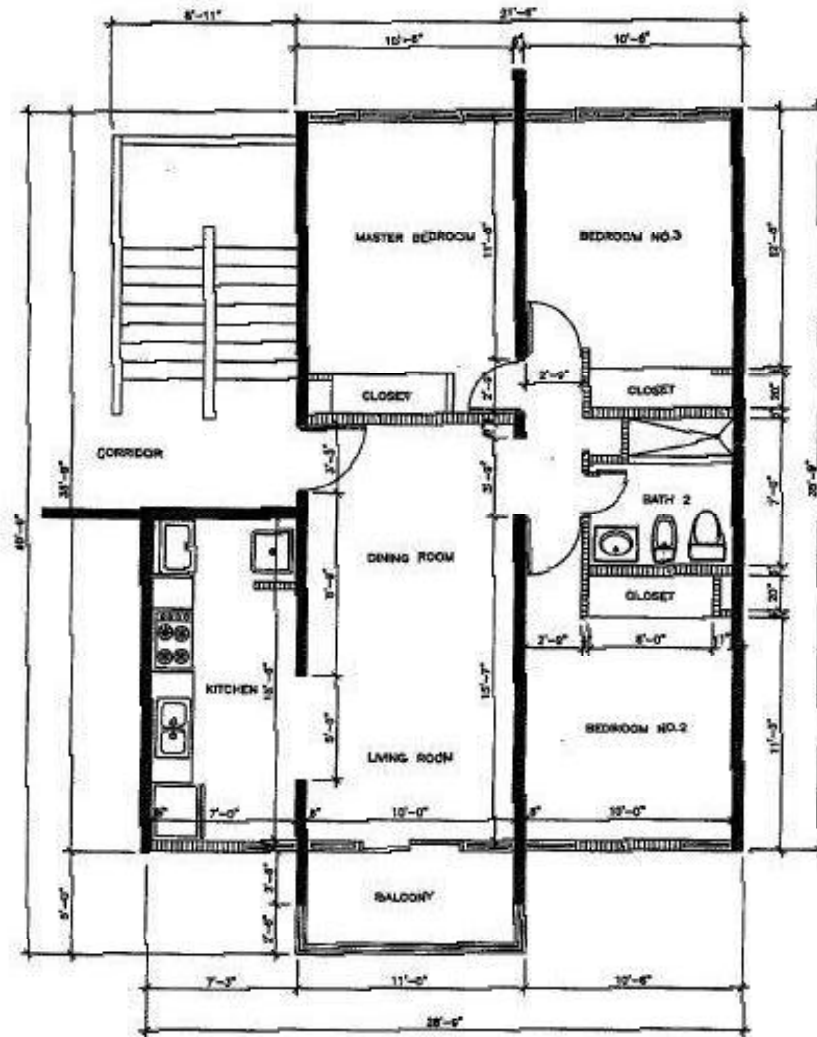


# Single-family unit





# Multi-family unit





## The Act 124 Subsidy Program

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# The Act 124

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# Rental Housing Program

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- Tax credits
  - USA: Section 42 – Internal Revenue Code
  - Puerto Rico: Act 261 (August 2008)
- Operational subsidies
  - Rental assistance (Federal or Local)
- Financing
  - Interim
  - Permanent

# Rental Housing with Tax Credits

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- ✘ Units: 100
- ✘ Cost: \$8,359,517
- ✘ Placed in service: December 2008



# Rental Housing with Tax Credits



- ✘ Units: 60
- ✘ Cost: \$5,846,029
- ✘ Placed in service: December 2008

# Rental Housing with Tax Credits

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- ✘ Units: 82
- ✘ Cost: \$12,837,952
- ✘ Placed in service: November 2005

# Rental Housing with Tax Credits



- ✘ Units: 120
- ✘ Cost: \$10,890,433
- ✘ Place in service: November 2005