Public Lender Model: The New York Housing Development Corporation

Applying Lessons from New York to Achieve Scale and Self-Sustainability

Bay Area Housing Finance Authority (BAHFA) is modeled on the successful New York City Housing Development Corporation (HDC), which was established by the State of New York in 1971. Similar to BAHFA, HDC lends money to build and preserve affordable housing. **HDC is self-funding—meaning it neither requires nor receives any ongoing public financial support—and has grown to become one of the top-ranked financiers of affordable housing in the nation.** HDC's overall assets have dramatically increased over time, rising from $4.7 billion in 2003, to $13 billion in 2014, to $20.6 billion in 2021. HDC has a rental apartment portfolio of approximately 200,000 units.

HDC's scale, financial expertise and active management of its lending income are the fundamental reasons for its profitability. HDC earns revenue from three main sources:

- **"Spread" –** by actively and separately managing its income-earning project loans (assets) and the money it borrows from investors (liabilities), HDC is able to borrow at a lower rate than the interest rate at which it lends; the difference is known as the interest rate "spread" and enables the agency (rather than private banks) to capture the upside of bond financing.
- **Fees –** like other lenders, HDC charges fees for many of its financial products; though fees are modest on a per-project basis, they provide significant income given the volume of loans HDC makes.
- **Interest –** HDC invests its cash income, ensuring that every dollar "works" rather than "sitting" idly.

HDC's growth and profitability have been accelerated by its creative use of housing revenue bonds to raise funds from the private market. In New York, this is structured through the "Multi-Family Housing Revenue Bond Resolution" (also referred to as an "open resolution"). Since 1993, the open resolution permits HDC to raise private capital to fund new loans for housing projects. Each issuance of these project revenue bonds can be structured to handle a large volume of loans, enabling the capture of significant interest rate spread and serving as an engine for ongoing income. Revenue first covers the cost of HDC's operations, then surplus revenue is reinvested into more affordable housing as project subsidies. Since 2003, HDC has reinvested more than $3.4 billion of available revenue (in addition to providing over $27 billion in bond financing and other debt) to build and preserve affordable homes – at no cost to taxpayers.

New York HDC By the Numbers: 2017-2022

- **Bonds Issued:** $1.5 - $2.7 billion annually
- **Revenue Reinvested as Subsidy:** $102 - $325 million annually
- **Units Financed:** 9,600 - 15,000 annually

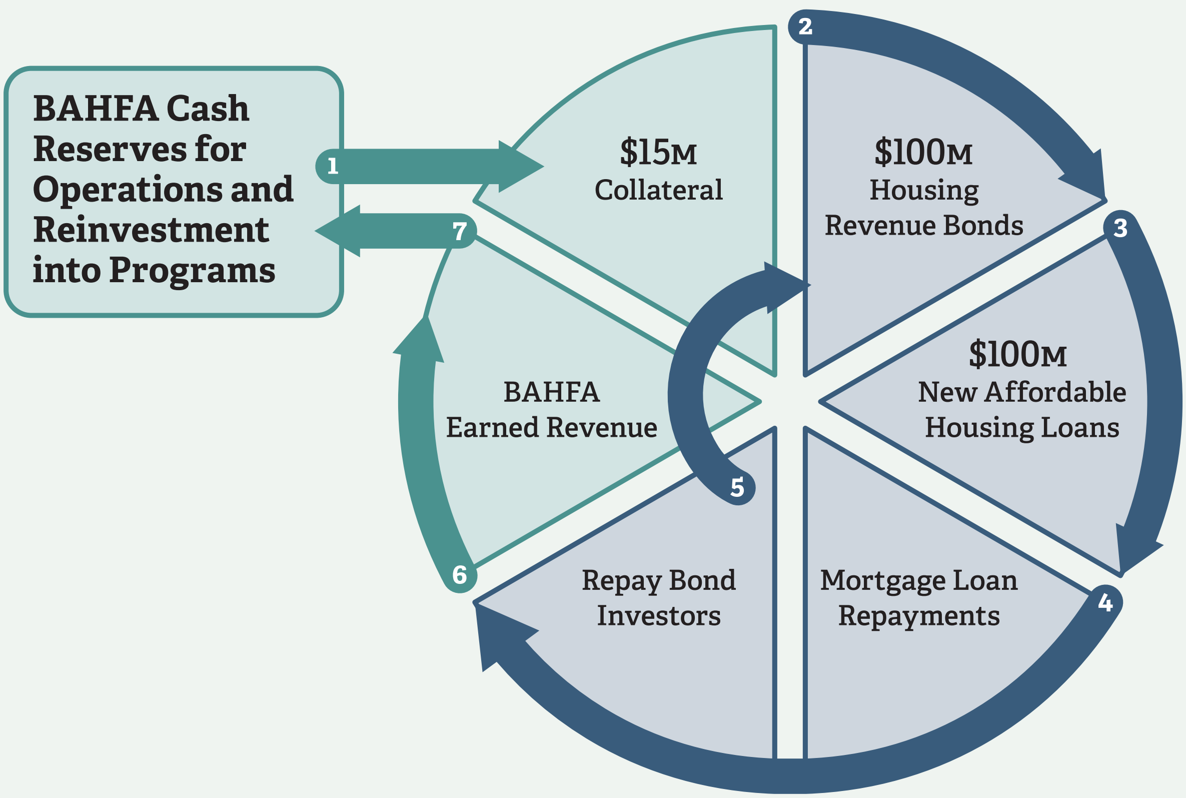
HDC acts as the equivalent of a specialized public mortgage lender, generating enough revenue to support its own operations as well as to provide a new source of housing subsidies. The self-financing capacities of HDC have evolved over decades; it will take time for BAHFA to reach the same level of impact and sophistication. However, BAHFA has a tool that was not available to HDC: the authority to issue general obligation bonds that can jumpstart BAHFA's lending with $2 - $4 billion of initial capital (20% of a $10 - $20 billion bond).

Bay Area Housing Finance Authority

The New York Model in Action:

Sample Future BAHFA Housing Revenue Bond

Over time, BAHFA will generate earnings from its initial loan programs that use funds from the general obligation bond. This will enable BAHFA to create a cash reserve that can serve as collateral for future housing revenue bond issuances. **The diagram shows an example of how BAHFA could leverage $15 million in cash reserves to make $100 million in new affordable housing loans *and* produce an ongoing revenue stream to support the agency's future operations.**



1. BAHFA sets aside $15 million in cash reserves as collateral
2. BAHFA uses collateral to raise $100 million from investors through sale of housing revenue bonds
3. BAHFA makes $100 million in "must pay" loans to affordable housing construction and preservation projects
4. Borrowers make regular loan payments to BAHFA
5. BAHFA uses revenue to repay investors for the bonds
6. BAHFA retains revenue that exceeds the cost of debt servicing, generated from interest rate "spread" and fees
7. Revenue is used to support BAHFA's long-term organizational sustainability and further reinvest into future affordable housing programs.