# DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY ANNUAL REPORT 2010

WE MAKE DC AFFORDABLE!

### Board of Directors

Michael L. Wheet, Chairman

Jacque D. Patterson, Vice Chairman

Leila Batties, Member

Buwa Binitie, Member

Derek Ford, Member

### Dedication

The District of Columbia Housing Finance Agency report for the fiscal year ending September 30, 2010 is respectfully submitted to:

The Honorable Mayor Vincent C. Gray

Mayor, District of Columbia

The Honorable Kwame Brown

Chair, Council of the District of Columbia

The Honorable Michael A. Brown, Councilmember, At-Large

Chair, Committee on Housing and Workforce Development

The Honorable David A. Catania, Councilmember, At-Large

The Honorable Phil Mendelson, Councilmember, At-Large

The Honorable Vincent Orange, Councilmember, At-Large

The Honorable Jim Graham, Councilmember, Ward 1

The Honorable Jack Evans, Councilmember, Ward 2

The Honorable Mary M. Cheh, Councilmember, Ward 3

The Honorable Muriel Bowser, Councilmember, Ward 4

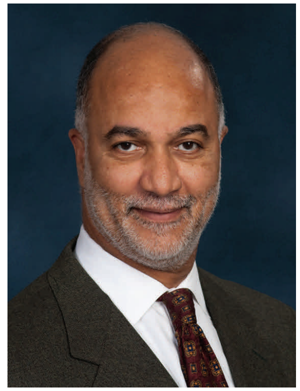
The Honorable Harry Thomas, Jr., Councilmember, Ward 5

The Honorable Tommy Wells, Councilmember, Ward 6

The Honorable Yvette Alexander, Councilmember Ward 7

The Honorable Marion Barry, Councilmember Ward 8

*Photos on Front Cover: The Summit at St. Martins*



## *Letter from the Chairman*

*It is with great pride that I serve as Chairman of the District of Columbia Housing Finance Agency Board of Directors. The Housing Finance Agency is a critical element within the District's affordable housing arena, and every day we strive to advance the Agency's goal to " Make DC Affordable"!*

*The production, preservation, and rehabilitation of affordable housing is paramount to the Agency's mission and its ability to continue to improve the lives of families in the District. Our strength is in our commitment to finance the spectrum of residential development, from 100% affordable housing developments to mixed income developments through the use of taxable and tax-exempt bonds and 4% Low Income Housing Tax Credits.*

*I and my fellow Board members - Vice Chairperson Derek Ford, Jacque D. Patterson, Buwa Binitie and Leila Batties – will continue to provide direction to the Agency's policy development, programs, new initiatives and business planning, while seeking new and creative ways to finance affordable housing in the District .*

*I wish to applaud Harry Sewell, the Executive Director, and the Agency's Staff for their continuous energy, their dedication to affordable housing and our leadership in the national affordable housing marketplace. I am particularly proud that our Agency was one of the first HFAs in the nation to capitalize on President Barack Obama's New Issue Bond Program in both the single family and multifamily arenas.*

*I look forward to continuing the Agency's role in financing quality affordable housing and serving as a valuable partner in the growth and development of the District.*

*Michael L. Wheet, Chairperson*

# *Letter from the Executive Director*

*The New Issue Bond Program helped bring the multifamily market back to life in 2010. The recession slowed our growth trajectory and has caused us to rethink some elements of our five year business plan. Locally, the District government will be constrained by its self imposed debt cap and that will decrease its ability to offer financing instruments i.e. Tax Increment Financing (TIFs) and Payments In Lieu of Taxes (PILOTs). Because of the contraction or outright withdrawal of some firms from the municipal bond market, we are looking to establish partnerships with more local and regional lenders and investors. To that end, we have established a warehouse facility with one of the large regional banks and we are in ongoing discussions with several local banks seeking business relationships in exchange for establishing depository relationships.*

*Overall our focus remains the same: to capitalize on our ability to execute multifamily transactions while seeking to grow our market share of the single family mortgage business in DC. There are several large "transformative" projects either planned or underway in the District and we plan to be one of the funding sources to help implement the residential components of these projects. We are already involved in The Yards, having financed The Foundry Lofts, a 170 unit mixed-income apartment building and the first residential building at this 42 acre site. We are also exploring how we can bring our multifamily financing expertise to the 20-50 unit building types that are prevalent in the District but for whom stand alone bond issues are not efficient.*

*On the single family side, we are actively seeking to partner with developers, employers, realtors and lenders who could use our mortgage product(s). We are also working with the District's Department of Housing and Community Development (DHCD) looking for ways to better couple our mortgage product(s) with the city's down payment assistance program. We have also begun to use the Ginnie Mae window, instead of issuing bonds, for liquidity in our single family program. That, along with warehousing mortgages either using our own funds or the warehouse facility, gives us several different avenues to continue our growth in the single family market.*

*The largest single unknown is the outcome of GSE reform and what role the government will have in the mortgage market either through Fannie Mae and Freddie Mac or some successor entities. We will continue to monitor reform efforts, along with federal budget priorities, to see what impact they will have on our industry and make adjustments to our business plan accordingly.*

*Harry D. Sewell, Executive Director and CEO*

**Executive Leadership Team**

Harry D. Sewell, Executive Director and CEO

Fran D. Makle, Deputy Executive Director

Allison Ladd, Associate Executive Director

Anthony Waddell, Director, Public Finance

Carisa D. Stanley, Director, Single Family Programs

David Jefferson, Director, Compliance & Asset Management

Maria Day-Marshall, General Counsel

Sergei V. Kuzmenchuk, Chief Financial Officer

# New Issue Bond Program in DC

THE DC HOUSING MARKET IS BACK! Over the past two years, the state of the municipal bond market can best be described as on life support. However today, as a result of the Obama Administration's New Issue Bond Program, the District of Columbia Housing Finance Agency (DCHFA) is on track to exceed any of its previous one year totals in mortgage revenue bond issuances. We are finally hearing good news from investors, developers and public officials - *the market is back.*

**The Market Meltdown:** In 2007, the national housing bond market peaked. The upward market trend that had been building for several years reached its apex with a notable 61% increase in market activity between 2005 and 2007. However, increased bond sales activity from $9.4 billion to $16.1 billion between 2005 and 2007, took an even more precipitous drop of 75% when sales fell to $4 billion in 2009. Similarly, the mortgage revenue bond market in the District slowed significantly in calendar year 2009 with the DC Housing Finance Agency issuing a mere $17 million in bonds for only one project.


*Photo: Harry D. Sewell, Executive Director and CEO at the Groundbreaking for Webster Gardens*


*Photo: Groundbreaking for Webster Gardens*

*Photo Above: Pentacle Apartments Grand Opening*
*Photo Below: 3 Tree Flats Topping Off Ceremony*


**The Fix:** In response to a sudden about face in the credit and capital markets, the previous and current administrations proposed two economic stimulus bills to Congress, the Housing and Economic Recovery Act of 2008 (HERA) and the America Recovery and Reinvestment Act of 2009 (ARRA). Taken together, the two pieces of legislation approved over $1 trillion to stimulate the American economy.

**The New Issue Bond Program (NIBP):** On October 19, 2009, the Obama Administration used HERA authority to create a new initiative for state and local housing finance agencies (HFAs) called the New Issue Bond Program (NIBP). The program was implemented through a partnership of the U.S. Department of the Treasury, Fannie Mae and Freddie Mac and was designed as an additional tool to help stabilize the U.S. housing market by providing temporary financing for HFAs to issue new mortgage revenue bonds. As a result, bonds totaling more than $15 billion were issued nationally.

On November 13, 2009, DCHFA was allocated $193 million under NIBP of which it allocated $168 million to its multifamily program and $25 million to single family activities. As a result of HERA legislation's sunset date, all bonds under NIBP had to be issued by December 30, 2009. Board, staff and our partners rallied to meet the deadline which included securing emergency resolutions from the DC City Council just before its year-end recess. The DCHFA team navigated this transaction through unchartered waters as this has not been done before.

Once the bonds were issued, they were securitized by Freddie Mac with proceeds escrowed for drawdown by DCHFA as its development projects close. Additional NIBP requirements include a limit to each HFA of only three opportunities over the course of CY 2010 to break escrow ***and*** the requirement that all projects are closed and funded before December 16, 2010. Undoubtedly, the fundamental goal of the NIBP is simple, albeit, the program's requirements for use are multi-layered and complex.

# ISSUED $132 MILLION IN TAX-EXEMPT BONDS AND RAISED OVER $37 MILLION IN LOW INCOME HOUSING TAX CREDIT EQUITY IN FY2010

| | | |
|---|---|---|
| **$10,960,000 bonds**<br>**$5,100,216 equity**<br>**Village at Chesapeake (118 units)** | **$9,050,000 bonds**<br>**$4,169,452 equity**<br>**Fort View Apartments (62 units)** | **$14,000,000 bonds**<br>**$7,991,000 equity**<br>**Sheridan Station (114 units)** |
| **$6,060,000 bonds**<br>**$1,314,843 equity**<br>**Webster Gardens (52 units)** | **$18,300,000 bonds**<br>**$6,656,947 equity**<br>**SOME Scattered Site Project (245 units)** | |
| **$47,700,000 bonds**<br>**Foundry Lofts/The Yards (170 units)** | **$15,610,000 bonds**<br>**$6,702,772 equity**<br>**King Towers Apartments (129 units)** | **$10,280,000 bonds**<br>**$5,698,529 equity**<br>**Matthews Memorial Terrace (99 units)** |

## We Make DC Affordable!

District of Columbia Housing Finance Agency





# CELEBRATING AFFORDABLE HOUSING!





# Homeownership in DC

President Obama established the Hardest Hit Fund in February 2010 to provide targeted aid to families in states hit hard by the economic and housing market downturn. States were chosen either because they were struggling with unemployment rates at or above the national average or steep home price declines greater than 20 percent since the housing market downturn. Nineteen states received Hardest Hit Funds in three rounds. The District of Columbia was selected in the third round of the program and in September of last year, the Housing Finance Agency was awarded over $20 million for our **HomeSaver Program**.

The HomeSaver Program is a mortgage assistance program for District homeowners that, 1) are currently receiving Unemployment Insurance payments from the District, Maryland or Virginia, 2) have received Unemployment Insurance in the last six months, and 3) are unable to make their mortgage payments. The HomeSaver Program has three components:

1. **Lifeline Assistance** – one time payment of up to six months mortgage delinquency;
2. **Mortgage Assistance** – up to fifteen months of mortgage payment assistance equal to 100% of the principal, interest, taxes and insurance; and
3. **Restore Assistance** – one time payment of up to $32,129 of delinquency to "catch-up" mortgage payments, for those recently employed.

The maximum assistance a homeowner may receive is approximately $32,000 or fifteen months, whichever comes first. The structure of assistance is a non-recourse and non-amortizing junior lien. Loans will be forgiven at a rate of 20% per year and the loan will only be repayable if the homeowner sells or refinances the property prior to the expiration of the lien and there is sufficient equity to repay the loan.

The program exclusions at this time are 1) outstanding mortgage balances greater than $729,750, 2) homeowners not receiving or who have not received unemployment insurance payments in the past six months, 3) homeowners in active bankruptcy, and 4) homeowners in foreclosure. For individuals interested in the HomeSaver Program, apply online by going to www.homesaverdc.org.

HomeSaver

A Hardest Hit Fund Initiative

District of Columbia Housing Finance Agency

# *Independent Auditors Report*

Board of Directors
District of Columbia Housing Finance Agency

We have audited, in accordance with the auditing standards generally accepted in the United States of America, the consolidated balance sheets of the District of Columbia Housing Finance Agency, (the Agency) as of September 30, 2010, and the related consolidated statements of revenues, expenses, and changes in net assets, and cash flows for the year then ended (not presented herein); and in our report dated December 31, 2010, we expressed an unqualified opinion on those consolidated financial statements.

In our opinion, the information set forth in the accompanying condensed consolidated financial statements is fairly stated, in all material respects, in relation to the consolidated financial statements from which it has been derived.

Washington, DC
December 31, 2010

Thompson, Cobb, Bazilio & Associates, P.C.

TCBA

THOMPSON, COBB, BAZILIO & ASSOCIATES, PC

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# DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY
## BALANCE SHEETS
## SEPTEMBER 30, 2010, AND 2009

| ASSETS | 2010 | 2009 |
|---|---|---|
| **CURRENT ASSETS** | | |
| **Unrestricted current assets:** | | |
| Cash and cash equivalents | $ 20,348,115 | $ 25,435,434 |
| Other receivables | 7,756,218 | 6,391,318 |
| **Total unrestricted current assets** | **28,104,333** | **31,826,752** |
| **Restricted current assets:** | | |
| Cash and cash equivalents | 227,777,976 | 62,093,229 |
| Mortgage-backed securities at fair value | 13,866,818 | 24,034,179 |
| Mortgage and construction loans receivable | 21,835,805 | 11,833,005 |
| Accrued interest receivable | 4,828,740 | 5,386,540 |
| Other receivables | 60,954 | - |
| **Total restricted current assets** | **268,370,293** | **103,346,953** |
| **TOTAL CURRENT ASSETS** | **296,474,625** | **135,173,705** |
| **NON-CURRENT ASSETS** | | |
| **Unrestricted non-current assets:** | | |
| Investments | 8,970,801 | 4,843,169 |
| Loans receivable | - | 140,000 |
| Prepaid expenses | 14,686 | 138,926 |
| **Total unrestricted non-current assets** | **8,985,487** | **5,122,095** |
| **Restricted non-current assets:** | | |
| Investments held in trust | 65,685,354 | 94,077,508 |
| Mortgage-backed securities at fair value | 226,407,266 | 270,110,182 |
| Mortgage and construction loans receivable | 520,137,092 | 561,716,984 |
| Loans receivable | 2,276,709 | 2,276,709 |
| McKinney Act loans receivable | 2,907,448 | 2,340,254 |
| Other receivables | 109,509 | 174,951 |
| Bond issue costs, net | 2,069,266 | 2,062,755 |
| **Total restricted non-current assets** | **819,592,643** | **932,759,343** |
| **Capital assets:** | | |
| Land | 573,000 | 573,000 |
| Property and equipment | 3,720,751 | 3,709,208 |
| Leasehold improvements | 1,533,810 | 1,528,294 |
| Less accumulated depreciation and amortization | (3,448,315) | (3,248,299) |
| **Total capital assets, net** | **2,379,246** | **2,562,203** |
| **TOTAL NON-CURRENT ASSETS** | **830,957,376** | **940,443,641** |
| **TOTAL ASSETS** | **$ 1,127,432,001** | **$ 1,075,617,346** |

| LIABILITIES AND NET ASSETS | 2010 | 2009 |
|---|---|---|
| **CURRENT LIABILITIES** | | |
| **Current liabilities payable from unrestricted assets:** | | |
| Accounts payable and accrued liabilities | $ 990,822 | $ 833,111 |
| Accrued salary and vacation payable | 181,501 | 196,849 |
| Deferred revenue | 735,019 | 1,092,997 |
| **Total current liabilities payable from unrestricted assets** | **1,907,342** | **2,122,957** |
| **Current liabilities payable from restricted assets:** | | |
| Accounts payable and accrued liabilities | 1,152,329 | 1,489,735 |
| Tenant subsidy funds | - | 542,927 |
| Escrow deposits | 22,001,896 | 5,862,976 |
| Deferred credits | 24,518,621 | 44,365,572 |
| Deferred revenue | 668,762 | 901,377 |
| Interest payable | 9,243,038 | 10,712,813 |
| Bonds payable | 32,552,938 | 57,295,264 |
| Certificates of participation | 120,000 | 115,000 |
| **Total current liabilities payable from restricted assets** | **90,257,583** | **121,285,664** |
| **TOTAL CURRENT LIABILITIES** | **92,164,926** | **123,408,621** |
| **NON-CURRENT LIABILITIES** | | |
| **Non-current liabilities payable from restricted assets:** | | |
| Loans payable | 454,048 | 457,027 |
| Bonds payable | 922,036,915 | 845,930,393 |
| Certificates of participation | 1,055,000 | 1,175,000 |
| **Total non-current liabilities payable from restricted assets** | **923,545,963** | **847,562,420** |
| **TOTAL LIABILITIES** | **1,015,710,889** | **970,971,041** |
| **NET ASSETS** | | |
| **Invested in capital assets, net of related debt** | **1,204,246** | **1,272,205** |
| **Restricted for:** | | |
| Bond Fund and Risk Share | 64,114,012 | 60,111,331 |
| McKinney Act Fund | 8,714,922 | 8,532,925 |
| **Total restricted net assets** | **72,828,934** | **68,644,256** |
| **Unrestricted net assets** | **37,687,933** | **34,729,844** |
| **TOTAL NET ASSETS** | **111,721,112** | **104,646,305** |
| **TOTAL LIABILITIES AND NET ASSETS** | **$ 1,127,432,001** | **$ 1,075,617,346** |

DISTRICT OF COLUMBIA HOUSING FINANCE AGENCY
STATEMENTS OF REVENUES, EXPENSES AND CHANGES IN NEW ASSETS
SEPTEMBER 30, 2010, AND 2009

| | 2010 | 2009 |
|---|---|---|
| **OPERATING REVENUES** | | |
| Investment interest income | $ 4,092,589 | $ 6,752,586 |
| Mortgage-backed security interest income | 13,753,058 | 15,366,924 |
| Interest on mortgage and construction loans | 28,056,241 | 28,092,842 |
| McKinney Act interest revenue | 51,757 | 182,634 |
| Application and commitment fees | 164,972 | 47,923 |
| HUD Section 8 housing assistance receipts | - | 10,264 |
| Service project receipts | 6,934,081 | 6,828,403 |
| Other | 10,747,036 | 18,584,574 |
| **Total operating revenues** | **63,799,735** | **75,866,150** |
| **OPERATING EXPENSES** | | |
| General and administrative | 3,458,697 | 7,106,049 |
| Personnel and related costs | 3,574,126 | 3,932,732 |
| Interest expense | 41,393,059 | 49,943,907 |
| Depreciation and amortization | 200,016 | 161,597 |
| Service project payments | 6,943,433 | 6,731,294 |
| Bond cost of issuance amortization | 633,289 | 570,241 |
| Trustee fees and other expenses | 1,845,867 | 8,019,926 |
| **Total operating expenses** | **58,048,486** | **76,465,746** |
| **OPERATING INCOME (LOSS)** | **5,751,249** | **(599,596)** |
| **NON-OPERATING REVENUES/EXPENSES** | | |
| Increase in fair value of mortgage-backed securities | 1,323,558 | 14,104,199 |
| **CHANGE IN NET ASSETS** | **7,074,807** | **13,504,603** |
| Net assets, beginning of year | 104,646,305 | 91,141,702 |
| **Net assets, end of year** | **$111,721,112** | **$104,646,305** |

| | 2010 | 2009 |
|---|---|---|
| **Cash Flows From Operating Activities** | | |
| Interest received on loans | $ 28,219,640 | $ 20,497,050 |
| Other cash receipts | 18,396,377 | 24,755,484 |
| Payments to vendors | (3,428,357) | (7,356,741) |
| Payments to employees | (3,589,291) | (3,937,740) |
| Net mortgage and construction loans (disbursements) receipts | 30,858,166 | (47,888,190) |
| Receipts of service project income | 6,934,081 | 6,838,667 |
| Payments of service project expenses | (6,943,433) | (6,732,794) |
| Principal and interest received on mortgage-backed securities | 81,788,313 | 26,652,209 |
| Purchase of mortgage-backed securities | (12,580,647) | (39,648,177) |
| Other cash payments | (7,041,908) | (6,541,596) |
| **Net cash provided by / (used in) operating activities** | 132,612,942 | (33,361,828) |
| | | |
| **Cash Flows from Capital and Related Financing Activities** | | |
| Acquisition of fixed assets | (17,059) | (82,202) |
| Payments of bonds and long-term debt | (115,000) | (110,000) |
| **Net cash used in capital and related financing activities** | (132,059) | (192,202) |
| | | |
| **Cash Flows From Non-Capital Financing Activities** | | |
| Funds disbursed for multi-family projects | (50,661,319) | (59,242,089) |
| Interest paid on bonds | (43,653,944) | (51,211,864) |
| Proceeds from tax credit equity and other sources | 42,876,432 | 48,878,648 |
| Proceeds from bond issuances | 337,765,110 | 79,328,778 |
| Principal payments on issued debt | (285,609,804) | (341,971,756) |
| Bond cost of issuance | (639,800) | - |
| **Net cash provided by / (used in) non-capital financing activities** | 76,675 | (324,218,283) |
| | | |
| **Cash Flows From Investing Activities** | | |
| Interest received on investments | 4,525,133 | 10,143,320 |
| Sale of investments | 64,337,863 | 453,527,071 |
| Purchase of investments | (40,480,337) | (94,479,828) |
| Arbitrage rebate paid | (342,789) | - |
| **Net cash provided by investing activities** | 28,039,870 | 369,190,563 |
| | | |
| NET INCREASE IN CASH AND CASH EQUIVALENTS | 160,597,428 | 11,418,250 |
| Cash and cash equivalents, beginning of year | 87,528,663 | 76,110,413 |
| Cash and cash equivalents, end of year | $ 248,126,091 | $ 87,528,663 |

| | 2010 | 2009 |
|---|---|---|
| **Reconciliation of Operating Income (Loss) to Net Cash Provided by / (Used in) Operating Activities** | | |
| Operating income (loss) | $ 5,751,249 | $ (599,596) |
| Depreciation | 200,016 | 167,137 |
| Amortization | (617,199) | 568,326 |
| Interest on bonds | 43,653,944 | 49,943,907 |
| Amortization of discount on investments | 43,189 | - |
| Provision for uncollectible other revenue | 15,027 | - |
| Provision for uncollectible interest revenue | 275,038 | - |
| Contingent loss expense | 375,391 | - |
| Decrease (increase) in mortgage and construction loans | 31,129,638 | (47,888,190) |
| Decrease in mortgage-backed securities | 67,774,482 | 13,580,440 |
| Purchase of mortgage-backed securities | (12,580,647) | (39,648,177) |
| Arbitrage rebate paid | 342,789 | - |
| Decrease (increase) in fair value of investments | 12,986 | - |
| Interest received on investments | (4,524,910) | (6,752,586) |
| Asset / (liability) adjustment | 316,229 | |
| Decrease (increase) in assets: | | |
| Receivables | 390,510 | (2,321,106) |
| Other current assets | (639,800) | 57,056 |
| Other receivables | (2,136,254) | 10,781 |
| Increase (decrease) in liabilities: | | |
| Accounts payables and accrued liabilities | (219,095) | 1,165,989 |
| Deferred revenue and credits | 487,450 | 2,013,616 |
| Accrued interest payable | (1,469,775) | (2,301,502) |
| Escrow deposits | 4,032,683 | (1,357,923) |
| **Net cash provided by / (used in) operating activities** | **$ 132,612,942** | **$ (33,361,828)** |

# DCHFA Employees

Nicole Aiken*
Olukayode Adetayo*
Valencia Anderson
Sichao Bai
Cedric Brown*
Cher Castillo-Freeman*
Terri J. Copeland*
Maria Day-Marshall
Rohan Gilkes
Seyoum Gizaw, CPA
David Jefferson
Lillian Johnson
Jaymar Joseph*
Tatsiana Kurlovich
Sergei Kuzmenchuk
Allison Ladd
Jackie Langeluttig
Jim Lin
Fran D. Makle
Robin Moore
Denise Nelson
Edward Pauls
Jacqueline Reid
Gloria San-Gil
Harry D. Sewell
Carisa D. Stanley
Abiy Tamrat
Anita Thomas
Marcus Thompson
Anthony Turner*
Anthony Waddell
Tameka Webb
Sandy Whitehorn
Michael Winter
Birol Yilmaz
Connell Young

*Former Employee

# Board of Directors


Michael L. Wheet
Chairperson


Jacque D. Patterson
Vice Chairperson


Leila Batties
Member


Buwa Binitie
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Derek Ford
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Harry D. Sewell
Secretary