Risk-sharing Program - Qualified Participating Entities (QPE): Section 542(b)

Summary:
The Department of Housing and Urban Development (HUD) provides reinsurance on multifamily housing projects whose mortgage loans are originated, underwritten, serviced, and disposed of by Qualified Participating Entities (QPEs) and/or their approved lenders. Section 542(b) encourages the development and preservation of affordable housing. The program was developed as a demonstration program to test innovative mortgage insurance and reinsurance products to provide affordable multifamily housing through a partnership between the QPEs and HUD. HUD’s mortgage credit enhancements are used to support the underwriting and production strengths of Fannie Mae, Freddie Mac, and other qualified Federal, State, and local public financial and housing institutions. Currently Fannie Mae and Freddie Mac are participants in the Section 542(b) Risk-Sharing program.

New Initiatives: On July 16, 2015, HUD published a Housing Final Notice in the Federal Register on the Small Buildings Risk Sharing (SBRS) Initiative. HUD invites applications for this Initiative from Community Development Finance Institutions (CDFIs), other non-profit lenders, and public and quasi-public agencies (collectively referred to as Mission Based Lenders), and private, for-profit lenders approved as FHA Multifamily Accelerated Processing (MAP) lenders (referred to as Private Lenders), to participate in HUD’s Risk-Sharing Program as Qualified Participating Entities (QPEs). Mission-Based Lenders may submit applications at any time. Applications for Private Lenders will be accepted beginning on January 17, 2016. Under the Initiative, QPEs will rely on a 50 percent risk sharing agreement with HUD to underwrite, originate, and service affordable housing loans for properties of 5 or more rental dwelling units. Loan amounts cannot exceed $3,000,000 or $5,000,000 if the property is located in a “High Cost Area” as annually designated by HUD. QPEs participating in the SBRS Initiative will be eligible to access capital from the United States Treasury’s Federal Financing Bank for SBRS loans at prevailing Ginnie Mae rates. The implementation for FFB financing is targeted for mid-year 2016.

- SBRS Program Details
- SBRS Application Requirements
- SBRS Initiative Pre-Application Worksheet
- SBRS Summary of Comments Received to Initial Notice and HUD Responses
- SBRS Frequently Asked Questions (FAQs)
- FHA Small Building Risk Share Initiative Final FR Notice

A related program is the Housing Finance Agency Risk-Sharing Program (Section 542(c)).

Purpose:
The program provides a new insurance authority independent of the National Housing Act. The purpose of the program is to support and encourage the production and preservation of affordable Housing. The program provides insurance and reinsurance for multifamily housing projects whose loans are originated, underwritten, serviced, and disposed of by a QPE and/or its approved lenders.

Type of Assistance:
Guaranteed/Insured Loans. A QPE and/or its approved lenders may originate and underwrite affordable housing loans. If there is a default, the QPE will pay all costs associated with loan disposition and will seek reimbursement from HUD. The HUD risk share will be 50 percent pro rata. The program enables HUD to provide alternative forms of Federal credit enhancement to increase affordable multifamily housing lending.

Eligible Activities:
HUD selectively invites QPEs to participate in a variety of mortgage options to assess the effectiveness of the various credit enhancements. The QPE and HUD enter into Risk-Sharing agreements to implement the
Eligible Borrowers:
Eligible mortgagors include investors, builders, developers, public entities, and private non-profit corporations or associations may apply to a qualified QPE and/or its lender.

Eligible Customers:
Individuals, families, and property owners are eligible.

Application:
To obtain mortgage insurance, a potential lender should consult with a HUD-approved QPE to obtain mortgage insurance. The potential lender then submits an application directly to the QPE. If the QPE refuses the application, the applicant may modify the application and reapply. While QPEs are vested with a large amount of responsibility for projects, HUD has the authority to adjust the mortgage amount and endorse the note.

Technical Guidance:
The program is authorized by the Housing and Community Development Act of 1992, Section 542(b), Public Law 102-550, 12 U.S.C. 1707. There are no program regulations; requirements are set forth in risk-sharing agreements with the QPEs. Section 235 of HUD's FY 2001 Appropriations Act, Public Law 106-377, amended Section 542, which changed the Risk Sharing Pilot Program to a permanent multifamily insurance program. The program is administered by the Office of Multifamily Housing Programs, Office of Production, Program Administration Division.

Program Accomplishments:
In fiscal year 2015, the Department insured mortgages for 3 project with 1294 units, totaling $85 million.