

STATE OF CONNECTICUT



*AUDITORS' REPORT
CONNECTICUT HOUSING FINANCE AUTHORITY
CALENDAR YEARS ENDED DECEMBER 31, 2018 AND 2019*

AUDITORS OF PUBLIC ACCOUNTS
JOHN C. GERAGOSIAN ❖ ROBERT J. KANE

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October 13, 2020

EXECUTIVE SUMMARY

In accordance with the provisions of Sections 1-122 and 2-90 of the Connecticut General Statutes, we have audited certain operations of the Connecticut Housing Finance Authority (CHFA). Our audit did not identify any internal control deficiencies; instances of noncompliance with laws, regulations, and policies; or the need for changes in management practices that warrant the attention of management.

STATE OF CONNECTICUT



AUDITORS OF PUBLIC ACCOUNTS

JOHN C. GERAGOSIAN

State Capitol
210 Capitol Avenue
Hartford, Connecticut 06106-1559

ROBERT J. KANE

October 13, 2020

AUDITORS' REPORT

We have audited certain operations of the Connecticut Housing Finance Authority (CHFA) in fulfillment of our duties under Sections 1-122 and 2-90 of the Connecticut General Statutes. The scope of our audit included, but was not necessarily limited to, the years ended December 31, 2018 and 2019. The objectives of our audit were to:

1. Evaluate the authority's internal controls over significant management and financial functions;
2. Evaluate the authority's compliance with policies and procedures internal to the authority or promulgated by other state agencies, as well as certain legal provisions; and
3. Evaluate the effectiveness, economy, and efficiency of certain management practices and operations, including certain financial transactions.

Our methodology included reviewing written policies and procedures, financial records, minutes of meetings, and other pertinent documents; interviewing various personnel of the authority; and testing selected transactions. Our testing is not designed to project to a population unless specifically stated. We obtained an understanding of internal controls that we deemed significant within the context of the audit objectives and assessed whether such controls have been properly designed and placed in operation. We tested certain of those controls to obtain evidence regarding the effectiveness of their design and operation. We also obtained an understanding of legal provisions that are significant within the context of the audit objectives, and we assessed the risk that illegal acts, including fraud, and violations of contracts, grant agreements, or other legal provisions could occur. Based on that risk assessment, we designed and performed procedures to provide reasonable assurance of detecting instances of noncompliance significant to those provisions.

We conducted this performance audit in accordance with generally accepted government auditing standards. Those standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

The accompanying Résumé of Operations is presented for informational purposes. This information was obtained from various available sources including, but not limited to, the authority's management and the state's information systems, and was not subjected to the procedures applied in our audit of the authority. For the areas audited, we reached the following conclusions:

1. Did not identify deficiencies in internal controls;
2. Did not identify apparent non-compliance with laws, regulations, contracts and grant agreements, policies, and procedures; and
3. Did not identify need for improvements in management practices and procedures that we deemed to be reportable.

COMMENTS

FOREWORD

The Connecticut Housing Finance Authority operates under the provisions of Chapter 134, Sections 8-241 through 8-265xx of the General Statutes. The General Assembly established the authority during its 1972 session as the successor to the Connecticut Mortgage Authority, which it established in 1969. CHFA is a body politic and corporate, constituting a public instrumentality and political subdivision of the state and was created to alleviate the shortage of housing for low-income and moderate-income families, as well as encourage the development of a balanced community of all income levels in the urban areas. In accordance with Section 8-244b of the General Statutes, CHFA established the State Housing Authority, which is a subsidiary of CHFA. The State Housing Authority has been inactive since May 30, 2012.

CHFA primarily obtains funds to finance mortgage loans by issuing bonds, the interest from which has generally been exempt from federal income tax to the bondholder. CHFA secures loans made from the proceeds of bonds by a first mortgage lien. The authority pays its operating expenses using funds derived from the excess of interest income from loans over bond interest expenses.

Board of Directors and Administrative Officials

In accordance with Section 8-244(a) of the General Statutes, the authority is governed by 16 directors. Five directors are ex-officio members, the Governor appoints 7 directors, and the General Assembly appoints 4 directors. As of December 31, 2019, the members of the CHFA board of directors were:

Ex-officio members:

Seila Mosquera-Bruno	Chairperson Commissioner, Department of Housing
David Lehman	Commissioner, Dept. of Economic and Community Development
Shawn T. Wooden	State Treasurer

Jorge L. Perez
Melissa McCaw

Commissioner, Department of Banking
Secretary, Office of Policy and Management

Appointed members:

Heidi DeWyngaert,
Lisa Tepper Bates
Michael Cicchetti
Kiley Gosselin
Timothy Hodges
Franklin Perry II
Jared Schmitt
Carla Weil
Three Vacancies

Vice Chairperson

Benjamin Barnes, Kathleen Dorgan, Nuala E. Droney, Evonne Klein, Denise Nappier, Richard Orr, Catherine Smith, and Alicia Woodsby also served on the board during the audited period. There were three vacancies as of December 31, 2019. The General Assembly has since filled these vacancies by appointing Wendy Clarke, Catherine MacKinnon, and Gregory F. Ugalde to the board.

Karl Kilduff served as the executive director of CHFA through June 21, 2019. Diane L. Smith served as acting executive director until the board appointed Nandini Natarajan as the executive director, effective November 1, 2019.

In accordance with Section 8-244b(a) of the General Statutes, the governing body of the State Housing Authority consists of 3 members appointed by the CHFA board of directors. Members of the SHA board of directors as of December 31, 2019, were:

Seila Mosquera-Bruno
Jared Schmitt
Anne Foley

Chairperson

Significant Legislation

- **Public Act 18-178 (Section 32)** – Effective July 1, 2018, earmarked up to \$12 million authorized for housing development and rehabilitation for state-assisted housing and housing-related financial assistance programs to be used for the Down Payment Assistance Program, including providing financial assistance to those with incomes of up to 120% of the area median income.
- **Public Act 19-74 (Section 4)** – Effective July 1, 2019, expanded eligibility for the mortgage assistance program for certified teachers to include teachers who graduated from an educational reform district (i.e., the 10 lowest performing districts in the state), a historically black college, or university or a historically Hispanic-serving institution. By law, program participants that work in priority or transitional school districts must purchase

the home in the same district. The act does not include a location requirement for teachers newly eligible under the act.

- **Public Act 19-192** – Effective July 8, 2019, required CHFA to administer a collapsing foundation supplemental loan program to guarantee loans made by Connecticut banks and credit unions to owners and occupants of residential buildings with pyrrhotite-damaged concrete foundations. To be eligible, a borrower must have a participation agreement from the Connecticut Foundations Solutions Indemnity Company, Inc. (CFSIC) stating that it will pay a portion of the cost to repair or replace their foundation. Banks and credit unions with a physical location in Connecticut may participate in the program after providing advanced written notice to CHFA and the Department of Banking.

CHFA Programs

Single-Family Homeownership

Since 1969, CHFA has financed mortgages for low and moderate-income first-time homebuyers, or buyers who have not owned a home in the last 3 years. CHFA's mortgages are funded from the proceeds of the sale of federal tax-exempt bonds or private activity bonds issued by CHFA. The proceeds allow CHFA to offer below-market interest rates to borrowers who meet the U.S. Department of Housing income limits and Internal Revenue Service sale price guidelines. CHFA may waive income restrictions for borrowers purchasing homes in areas of the state targeted for revitalization.

CHFA supports first-time borrowers with homebuyer education programs and opportunities for down payment assistance program loans. Helping first-time buyers also boosts the state's economy by creating positive activity in the housing market, allowing others to sell and buy homes.

In addition, CHFA offers several specialized mortgage programs to increase homeownership. CHFA can reduce the interest rate by 0.125% for qualified applicants meeting certain criteria, including teachers, police officers, members of the U.S. Military Services, surviving spouses and veterans, people with disabilities, and residents of public housing.

CHFA does not issue mortgages directly to borrowers, but partners with banks and mortgage companies throughout the state that originate and process loans for eligible homebuyers. CHFA trains all CHFA-approved lenders in the mortgage programs and guidelines before they can originate, process, and close on CHFA home loans.

CHFA administers the Emergency Mortgage Assistance Program (EMAP) on behalf of the state. EMAP provides mortgage delinquency relief to homeowners who have experienced a temporary hardship beyond their control. EMAP mortgage loans provide funds to bring homeowners current on their mortgage and, if needed, monthly mortgage assistance for up to 60 months.

Multi-Family Housing

Multi-family mortgage loans provide construction and permanent financing for the construction of new, rehabilitation of pre-existing, or adaptive reuse of multi-family projects. Increasing the supply and availability of affordable housing for low and moderate-income households is the primary role of CHFA. By offering financing terms not generally available in the commercial market, the authority can help developers complete projects which otherwise would not be possible.

CHFA may designate projects eligible for financing under this program for individuals, families, the elderly, or people with special needs. Generally, projects must contain a minimum of 25 units, while the authority may consider smaller projects for non-profit organizations. Federal tax credits are available to developers under this plan if they meet certain tenant income set-aside requirements.

The Multi-Family Housing Department is responsible for underwriting the multi-family rental housing developments and providing direct construction and/or permanent mortgage loans to private developers and not-for-profit sponsors for construction or rehabilitation of rental housing. The department reviews loan proposals, analyzes sites and financial statements, and performs feasibility analyses to determine a proposal's acceptability. The department ensures that plans and specifications meet authority standards, disburses construction proceeds according to approved plans and timetables, approves budget changes, and monitors the integrity of developments. The department also verifies projected costs, reviews appraisals for accuracy and completeness, and administers both the federal Low Income Housing Tax Credit and the state Housing Tax Credit Contribution programs.

Section 8-251(a) of the General Statutes permits the authority to purchase or make \$2,250,000,000 of mortgage loans for single or multi-family housing programs, which are uninsured or not guaranteed by a federal agency, a federally chartered corporation, a private mortgage insurance company, the state, or the authority. The authority financed or firmly committed to finance approximately \$1,072,708,762, or 48% of the allowable maximum of such mortgage loans as of December 31, 2018. The authority financed or firmly committed to finance approximately \$1,073,995,112, or 48% of the allowable maximum, of such mortgage loans as of December 31, 2019.

RÉSUMÉ OF OPERATIONS

The authority maintains three funds in accordance with the provisions of Section 8-258 of the General Statutes, including the Housing Mortgage Capital Reserve Fund, Housing Mortgage General Fund, and Housing Mortgage Insurance Fund. In addition, the authority established other funds, including Special Needs Housing Funds, Single Family Special Obligation Bond and Other Bond Funds, Multi-family Special Obligation Bond and Other Bond Funds, and Qualified Energy and Conservation Bond Funds. During the audited period, CHFA's assets also consisted of various component units created to hold foreclosed real estate. We did not audit these funds, because an independent public accounting firm already audited them. We relied on the opinion expressed by the independent public accountants. The following information includes general data about CHFA-

associated funds. The authority's annual reports contain detailed financial data concerning these funds.

Housing Mortgage Capital Reserve Fund

In accordance with Section 8-258(a)(1) of the General Statutes, the Housing Mortgage Capital Reserve Fund must maintain an amount of money sufficient to meet the principal and interest payments on outstanding bonds required in the succeeding calendar year. This fund consists of proceeds from the sale of bonds that the bond resolution requires be deposited into this account. The fund also includes other monies available to the authority that it can utilize for this purpose. The authority would only use this fund to pay bond principal and interest if there were insufficient funds within the Housing Mortgage General Fund.

Housing Mortgage General Fund

The Housing Mortgage General Fund was established pursuant to Section 8-258(a)(3) of the General Statutes to account for any monies not required to be deposited into the Housing Mortgage Capital Reserve Fund or allocated to any other fund, including proceeds from the sale of bonds. The authority uses this fund to pay all operating costs, including principal and interest on authority-issued bonds. The General Assembly has not appropriated for the general operations of the authority with the exception of the initial appropriation in the 1969-1970 fiscal year. The state provides payroll and related employee benefit services to CHFA. During the calendar years ended December 31, 2018 and 2019, CHFA paid \$26,225,007 and \$24,936,018 to the Office of the State Treasurer for these costs, respectively.

Housing Mortgage Insurance Fund

In accordance with Section 8-258(a)(4) of the General Statutes, CHFA is authorized to establish a Housing Mortgage Insurance Fund. This fund shall consist of mortgage insurance premium receipts, money or assets received from loan defaults or delinquencies (including sales, lease or rental of real property), monies lent or paid by the state for inclusion in this fund, and any other monies available to the authority that it can include therein. The fund pays for expenses related to the protection of the authority's interest in connection with delinquent or defaulted insured mortgages. Section 8-250 of the General Statutes permits this fund to make loans and advances.

Statement of Net Position

The financial position of CHFA as of December 31, 2017, 2018, and 2019, per the financial statements audited by an independent public accounting firm, is presented below (amounts expressed in thousands):

	As of December 31,		
	2017	2018	2019
Assets			
Restricted Current Assets	\$858,364	\$798,771	\$892,737
Restricted Noncurrent Assets	4,747,028	4,965,850	5,263,391

Total Assets	5,605,392	5,764,621	6,156,128
Deferred Outflows of Resources	116,504	115,475	116,346
Liabilities			
Current Liabilities	300,902	302,439	282,515
Noncurrent Liabilities	4,584,142	4,744,095	5,055,073
Total Liabilities	4,885,044	5,046,534	5,337,588
Deferred Inflows of Resources	22,626	64,823	24,198
Net Position			
Net Investment in Capital Assets	3,465	3,046	2,890
Restricted by Bond Indentures and/or Enabling Legislation	810,761	765,693	907,798
Total Net Position	\$814,226	\$768,739	\$910,688

The increases in assets in 2018 and 2019 was due primarily to continued growth in the home mortgage loan program. In 2018 and 2019, CHFA used bond proceeds to securitize 91% and 95% of new qualified home mortgage loans into mortgage-backed securities, respectively. There was also a \$12 million increase in down payment assistance program funds in 2018, and a \$3 million increase in small multi-family loan program funds in 2019. The increase in liabilities in 2018 and 2019 was primarily the result of \$183.2 million and \$233.3 million increases in bonds payable, respectively.

Statement of Revenues, Expenses, and Changes in Net Position

The revenues, expenses, and changes in net position of CHFA for the calendar years ended December 31, 2017, 2018, and 2019, per the financial statements audited by an independent public accounting firm, are presented below (amounts expressed in thousands):

	As of December 31,		
	2017	2018	2019
Operating Revenues			
Interest on Mortgage Loans	\$151,752	\$142,976	\$140,974
Interest on Investments	47,734	62,375	76,412
Fees and Other Income	14,232	10,604	15,489
Total Operating Revenues	213,718	215,955	232,875
Operating Expenses			
Interest	137,424	147,288	153,414
Bond Issuance Costs	7,497	6,858	6,199
Servicer Fees	11,482	12,115	9,617
Administrative	38,832	37,799	36,309
Provision for Losses	1,595	14,801	(10,590)
Total Operating Expenses	196,830	218,861	194,949

Operating Income (Loss)	16,888	(2,906)	37,926
Non-Operating Revenues (Expenses)			
Actuarial assumption changes for pension and OPEB	(5,938)	(4,879)	(7,824)
Net Decrease in the Fair Value of Investments	6,252	(49,453)	109,127
State and Federal Program Funding	(6,906)	14,129	5,588
State and Federal Program Expenses	-	(2,378)	(2,868)
Net Non-Operating Expenses	<u>(6,592)</u>	<u>(42,581)</u>	<u>104,023</u>
Change in Net Position	10,296	(45,487)	141,949
Net Position – Beginning of Year	803,930	814,226	768,739
Net Position – End of Year	<u><u>\$814,226</u></u>	<u><u>\$768,739</u></u>	<u><u>\$910,688</u></u>

There was an operating loss of \$2.9 million in 2018. This was primarily the result of an increase in operating expenses, which was attributable to a \$9.9 million increase in interest costs and a \$13.2 million increase in the provision for losses over the prior year. CHFA sold the loans related to a distressed multi-family property through a competitive process that resulted in an \$11.3 million charge-off to loss reserves. The remaining \$1.9 million variance was due to routine performance changes in the multi-family portfolio. Non-operating expenses increased in 2018 as the result of a fair value reduction in CHFA's investment portfolio due to an increasing market rate environment.

Operating revenues increased by \$16.8 million in 2019. This was primarily the result of increases in mortgage and investments interest income of \$12 million, driven by a \$396 million net growth in program assets. Operating expenses decreased by \$24 million, which was substantially attributable to decreases of \$2.5 million in servicer fees, \$1.5 million in administrative costs, and \$25.4 million in the provision for loan loss reserves. In 2019, CHFA sold a distressed multi-family property, resulting in the payoff of several delinquent loans that CHFA had previously reserved. Non-operating income increased by \$146.6 million primarily due to a \$109.1 million increase in the fair value of CHFA's investment portfolio.

Bonds Payable

Sections 8-250(12) and 8-252 of the General Statutes authorize the authority to issue bonds, bond anticipation notes, and other obligations as necessary to provide sufficient funds for carrying out the purposes of the authority. The authority may enter into agreements to reduce the rate of borrowing and moderate the effect of bond interest rate fluctuations. The authority's obligations are not debt of the State of Connecticut, and the state is not liable thereon. Bonds payable as of December 31, 2018 and 2019 were as follows (amounts expressed in thousands):

	Outstanding Amount	
	As of December 31,	
	2018	2019
Housing Mortgage Finance Program Bonds	\$4,260,040	\$4,518,208
Special Needs Housing Mortgage Finance Program Special Obligation Bonds	66,053	63,382
Single Family Special Obligation Bonds	212,931	190,936
Multi-family Special Obligation Bonds	24,570	24,090
Housing Mortgage Finance Program Bonds (Single Family) Other Bonds	18,622	19,528
Housing Mortgage Finance Program Bonds (Multi-family) Other Bonds	26,053	25,848
Qualified Energy Conservation Bonds	8,838	8,428
Total Bonds Payable, Net	\$4,617,107	\$4,850,420

Capital Reserve Fund Requirements

The authority is required to maintain the Bond Resolution Capital Reserve Fund and Special Needs Indenture Capital Reserve Fund in an amount at least equal to the amount of principal, sinking fund installments, and interest maturing and becoming due in the next succeeding calendar year on all outstanding bonds of the authority. The authority may not issue additional bonds unless the amount in the Bond Resolution Capital Reserve Fund and Special Needs Indenture Capital Reserve Fund is at least equal to the maximum amount of principal, sinking fund installments, and interest maturing and becoming due in any succeeding calendar year on all outstanding bonds. The capital reserve fund requirements as of December 31, 2018 and 2019 were as follows (amounts expressed in thousands):

	Capital Reserve Funds	
	Bond Resolution	Special Needs Indenture
December 31, 2018		
Minimum Reserve Required	\$309,324	\$5,167
Reserve Required to Issue New Debt	323,388	5,198
Actual Reserves	519,952	5,455
 December 31, 2019		
Minimum Reserve Required	322,558	5,193
Reserve Required to Issue New Debt	336,622	5,198
Actual Reserves	\$437,465	\$5,484

Investments

In accordance with Section 8-258(c) and Section 8-250(18) of the General Statutes, CHFA must invest any funds not needed for immediate use or disbursement, including any funds held in reserve. The nature of such investments is limited to obligations issued or guaranteed by the United

States of America or the State of Connecticut and other obligations that are legal investments for savings banks in this state and time deposits or certificates of deposit or similar type investments as determined by the authority. The authority's investments were valued at \$2,602,396,000 on December 31, 2018 and \$3,163,367,000 on December 31, 2019, including \$524,063,000 and \$441,891,000 in capital reserve funds for the respective audited years. Interest earnings on investments totaled \$62,375,000 and \$76,412,000 for the years ended December 31, 2018 and 2019, respectively.

Staffing Levels

CHFA employed 136 and 133 individuals as of December 31, 2018 and 2019, respectively. Personal services costs, including fringe benefits, increased by 8% in 2018 and decreased by 5% in 2019. Changes in personal services costs were mainly attributable to fluctuations in the number of employees.

Financial Statement Audits

CHFA has been subject to annual audits by independent public accountants covering its financial operations. The independent public accountant's report to CHFA dated April 12, 2019 for the year ended December 31, 2018, expressed an unqualified opinion on CHFA's financial statements and reported no material weaknesses in internal control. The independent public accountant's report to CHFA dated April 2, 2020 for the year ended December 31, 2019, expressed an unqualified opinion on CHFA's financial statements and reported no material weaknesses in internal control.

RECOMMENDATIONS

Status of Prior Audit Recommendations

Our prior audit report on the Connecticut Housing Finance Authority contained no recommendations.

Current Audit Recommendations

The current audit did not result in any recommendations.

ACKNOWLEDGMENTS

The Auditors of Public Accounts wish to express our appreciation for the courtesies and cooperation extended to our representatives by the personnel of the Connecticut Housing Finance Authority during the course of our examination.

The Auditors of Public Accounts also would like to acknowledge the auditors who contributed to this report:

Romina Andrade
Audrey Kelliher



Audrey Kelliher
Associate Auditor

Approved:



John C. Geragosian
State Auditor



Robert J. Kane
State Auditor