2013 Annual Report

2013 Opening *New* Doors

WASHINGTON STATE HOUSING FINANCE COMMISSION

Projects and people who benefited from the Commission's work in 2013.

CLOCKWISE FROM TOP Ernestine Anderson Place in Seattle; Bob and Judy Givens of Duvall Riverside Village; new home-owners Brian and Mei; energy-efficient homes under construction by Green Canopy Homes; Allen Shaepe of Duvall Riverside Village.

COVER Children at Duvall Riverside Village.

It's Been a Year of Opening New Doors.

In many ways, 2013 was the beginning of a new era for the Washington State Housing Finance Commission.

We celebrated our 30th year of service.

We said goodbye to our flagship homeownership program and launched its successor, Home Advantage.

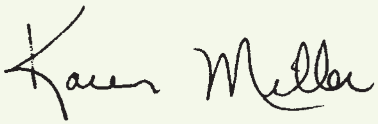
We glimpsed a greener future as our Sustainable Energy Program gained momentum.

And we emphatically shook off the malaise of the Great Recession with the return of multifamily bond financing and strong demand for homeownership loans.

I have chaired the Commission since 1997, and I don't recall a time before this year that was quite so rich in fresh thinking and opportunity. It's fitting that as we mark our first 30 years, we are truly opening new doors for residents and communities statewide.

Though we have changed in response to the conditions around us over the past three decades, our core mission of service to the people of Washington remains the same.

On behalf of my fellow commissioners and the staff of the Washington State Housing Finance Commission, thank you for your partnership and support. We look forward to our work together in 2014 and beyond.



Karen Miller, Chair
Washington State Housing Finance Commission

Owning Their Future

Neighbors Become Co-Owners of Their Community

It's easy to see that Duvall Riverside Village is a close-knit community. On this summer afternoon, residents wander over to chat and hang out in each other's gardens. Kids head down to the river to swim. Everyone knows who's on vacation and when they're coming back.

SAVING THEIR HOMES

Duvall Riverside Village is the fourth manufactured-home park the Commission has helped residents to buy.

4TH

MANUFACTURED HOME PARK
PRESERVED

Sharing More Than a Zip Code

These folks are more than neighbors, though. As of December 2012, they are co-owners of their community.

Thanks to the Commission's help, they no longer have to worry about what might happen if the land is sold out from under their homes—because they own it as a cooperative.

Although many of these homeowners had lived for decades in this community between Duvall's Main Street and the Snoqualmie River, they didn't own the park itself—making them vulnerable to rate increases and even eviction, especially if the land should change hands.

So when the owners of the land put it up for sale, the homeowners were in danger of losing their homes and the investments they had made in them.

Persistence Pays Off

Instead, the community came together as a cooperative. Determined not to be discouraged by two previous attempts at the purchase, the homeowners worked with Northwest Cooperative Development Center and ROC USA, who guided them through the many complex details.

The Commission helped by using $518,000 from our Program Investment Fund to help lower the interest rate from the lender.

Peace of Mind

As a result, the land will belong to the cooperative in perpetuity—while affordable housing has been preserved in a prime location.

When asked what would have happened if the land had been sold to someone else, homeowner Allen Shaepe doesn't hesitate. "This all would be gone," he said, looking at the well-spaced homes. "It would be developed into expensive condos or shops."

The relief, joy and sense of accomplishment among the Duvall homeowners is obvious.

Homeowner Liz Wood puts it simply: "Affordable living takes fear away."

"Affordable living takes fear away."

Stewart and Barbara Davidson in their garden at Duvall Riverside Village.

The Triplets

An Energy Makeover, An Enhanced Neighborhood—and a First-Home Dream Come True

Mei Jones and Brian Nozynski wanted an old house with lots of character.

The house they bought didn't just have character—it had a name. Louise.

Thanks to the Commission's Sustainable Energy Program, Louise and her two sisters on a quiet street in West Seattle were transformed from eyesores into modern, energy-efficient, affordable homes.

And thanks to our Home Advantage loan program, Mei and Brian were able to buy Louise—and become homeowners for the first time.

Mei, a medical researcher, and Brian, an artist and IT tech, moved to Seattle in 2010 from the East Coast. For three years, they lived in an apartment on Queen Anne—but then rental rates increased dramatically. "We agreed this was the right time in our lives to start a family, and with interest rates at a historic low, to buy a home," Mei says.

Rescuing the Triplets

Meanwhile, private developer Green Canopy Homes borrowed from the Commission's revolving energy loan program to purchase and renovate the "Triplets," as they came to be called.

If not for this partnership, the dilapidated Triplets probably would have been torn down and replaced by large, expensive homes that pushed the edges of their lots—and were anything but green.

Instead, the compact houses added about 50% more space, well-designed for modern families, and will use up to half the energy as before. Each one is Built Green-certified.

Named Clara, Zelda and Louise after the 1920s flapper era when the homes were originally built, the Triplets hit the market in June 2013.

House-Hunting

Mei and Brian were disappointed to find how little house they could afford in Seattle. Even the fixer-uppers were out of their range. "We didn't have a traditional downpayment of 20 percent or anything even close, so we needed help to find other options," Mei says.

Fortunately, they were quickly referred to Windermere realtor Leah Pham and Kimberly Terry of Evergreen Home Loans. They found that Mei and Brian qualified for Home Advantage, which benefits low- and moderate-income homebuyers.

Mei and Brian took the Commission's free homebuyer education course—which filled in their knowledge of the homebuying process. "All our friends even considering buying a house; I told them to take the class," says Brian.

Closing the Deal

When Leah took the couple to see Louise, it was love at first sight. The energy-efficient design of the house not only matched their values, but also promised cost savings for the future.

All that was left was closing the deal. "We were informed that this process should have taken 45 days, but because of the fantastic teamwork of Leah and the Evergreen team, our financing package was done within 21 days!" exclaims Mei. "They were our personal heroes. We would not be living in our dream first home if not for their efforts."

Welcome to the Neighborhood

Less than a month after they moved in, Mei and Brian's house shows no sign of moving boxes. Brian's paintings decorate the walls; their pet rabbits hop freely around the house. They can already name their neighbors up and down the street. They can't wait to grow vegetables, raise chickens, build a "little free library," and create an art studio.

"We are so blessed to have such wonderful people to live near and be part of a strong community," says Mei.

"When we first started, I thought this just wouldn't be able to happen," says Brian. "We're glad to be able to put down roots."

"We are so blessed to be part of a strong community."

BILL SIGNING

Karen Miller, Representative Jan Angel, and Governor Inslee at the signing of the Downpayment Assistance bill.

Hello, Home Advantage (Goodbye, House Key)

HOME ADVANTAGE

No more relying on the bond market. No more limits to the number of loans. No more restriction to first-time homebuyers. All that vanished when we replaced our House Key home-loan program with Home Advantage. In 2013, we rolled it out to lenders, real-estate professionals, and homebuyers.

The results? Phenomenal success. In the first full year of Home Advantage, almost 1,900 low- and moderate-income homebuyers purchased a home. That's more than double the home loans we made in 2012. And the numbers will only go up from here.

"Lenders love it," says Dee Taylor, director of Homeownership. "It's easy to use, we can never run out of funds, and there's less paperwork."

Home Advantage loans are available to any Washington resident who qualifies with a lender and meets the simple income restriction and minimum credit score. Plus, every homebuyer is eligible for assistance with the downpayment and closing costs.

To keep up with demand, the Homeownership Division added five full-time staff in 2013. But because Home Advantage costs the Commission less in overhead, resources have been freed for downpayment assistance and outreach.

Protecting Downpayment Assistance

In 2013, a new rule by Housing and Urban Development conflicted with state law and threatened our ability to continue downpayment assistance. Times had changed, but the 30-year-old law hadn't.

We didn't sit by and let this vital resource disappear. Instead, we quickly drafted a bill and attracted Republican and Democratic champions in both houses of the state legislature. We also secured the support of mortgage lenders and Realtors.

On April 17, 2013, Governor Inslee signed the bill into law—protecting downpayment assistance for years to come.

Foreclosure Assistance Grants

The Commission plays a key role in helping Washington's struggling homeowners. In 2013, we won three grants from the Washington State Attorney General's office for:

- **Expanded foreclosure counseling** for hundreds of homeowners statewide;
- A $6 million **Homeowners Stability Fund** (with HomeSight) that offers a second mortgage to bring homeowners current on their loans, so they can refinance and stay in their homes;
- **Home Advantage Rebound**, to aid in the purchase of foreclosed, short-sale, or other troubled property through downpayment assistance.

2013 Homeownership Highlights

HOME LOANS

- $329 million
- 1,898 households served
  (1,563 Home Advantage and 335 House Key loans)
- +126% from 2012

DOWNPAYMENT AND CLOSING-COST LOANS

- $14 million
- 1,835 homebuyers served *(all using our home loans)*
- +135% from 2012

MORTGAGE CREDIT CERTIFICATES

- $206 million
- 1,004 home loans
- +34% from 2012

FREE HOMEBUYER EDUCATION SEMINARS

- 8,110 potential homebuyers attended a seminar *(required for all homebuyers using our loans)*
- 899 seminars held statewide
- 488 instructors trained

Multifamily Housing

Groundbreaking ceremony for the Makah Nation's Sail River development.

Back in Business—Through Innovation

New Bond Financing Keeps Up Production

Our multifamily housing programs opened more than 4,000 doors in 34 projects statewide in 2013.

In order to do so, we adapted to a changing bond market in which the private market's low interest rates were out-competing our bonds. One response was a creative mix of financing centered on short-term bonds, which are then paid off quickly through low-interest Federal Housing Administration (FHA) development loans.

The result is that affordable housing remains attractive to developers—and doors are opened.

The Challenge of Preservation

After about 20 years, a building needs more than a fresh coat of paint to stay in top condition. Thanks in part to our success in creating affordable multifamily housing over the past three decades, a significant number of buildings are at or approaching this milestone.

For the Commission, that means balancing limited resources between creating new affordable housing —which is sorely needed across the state—and maintaining and rehabilitating the existing stock.

In 2013, with this balance in mind, we created new guidelines for our annual tax-credit allocation, a highly competitive process in which projects all over the state seek funding. The new scoring guidelines go into effect in 2014.

2013 Multifamily Highlights

- 34 total projects
- 4,070 units of housing created, including:
  - 1,828 for seniors
  - 361 for disabled households
  - 188 for homeless households
  - 14 for farmworker households
- $200 million issued in bonds
- $398.5 million allocated in housing credits

Details:

COMBINED BONDS + TAX CREDITS

- $200 million in bonds, $206 million in tax credits
- 14 projects statewide
- 2,451 rental housing units created or preserved *(1,355 for seniors)*

HOUSING CREDITS—2013 COMPETITION

- 20 projects in 12 counties statewide successfully competed for funding
- $172 million in tax credits*
- 1,267 units created or preserved *(473 for seniors)*

HOUSING CREDITS ALLOCATED TO NON-COMMISSION BOND PROJECTS

- $20 million, 352 units

A Few of the Projects Funded in 2013:

MAKAH NATION: *Sail River Longhouse*
21 units of supportive housing for the homeless on the Makah Reservation in Neah Bay, part of a 51-acre, mixed-income housing development.

TACOMA LUTHERAN RETIREMENT COMMUNITY
A new 12-unit "memory care" home for seniors living with dementia and Alzheimer's disease.

SEATTLE: *Third and Virginia "Graduation" Housing*
Serves tenants who are ready to move to housing with less staff and fewer services—freeing up units for homeless individuals who need more.

EVERETT: *Pivotal Point*
20 apartment homes for domestic-violence victims moving out of local shelters.

SPOKANE: *The Delaney*
A full renovation for a 100-year-old building originally built as office space, converted in the 1960s for use as the city police department and jail, then redeveloped in 1970 into affordable apartments for seniors.

MILL CREEK: *The District*
A 16-building complex of affordable apartments, including four- and five-bedroom units for large families.

RICHLAND: *Three Rivers Apartments*
40 senior apartments saved from becoming market-rate housing through our Land Acquisition Loan Program, now to be rehabilitated using housing credits.

*Federal housing credits are allocated for 10 years. This figure reflects the 10-year total.

Energy Powers Up

In 2013, the Commission's Sustainable Energy Program roared to life.

Ambitious projects powered up all over the state in 2013, from wind turbines near Ellensburg, to a trio of transformed tear-downs in West Seattle, to energy upgrades for nonprofits.

The program has become a clearinghouse of information and a source of innovative financing models for developers of green homes, energy-efficiency upgrades, and clean-energy sources.

Thanks to partnerships in the public and private sectors, we're fulfilling that mission from the state legislature to encourage energy-smart projects throughout the state.

"We're proud to be supporting business models that are unleashing pent-up demand for clean energy."

—AVI JACOBSON,
WASHINGTON STATE HOUSING FINANCE COMMISSION

Energy Projects in 2013

- $10.5 million financed

EVERETT Energy retrofits to Compass Health's Bailey Building, saving the nonprofit about 30% in operational costs.

ELLENSBURG Three wind turbines on private land generate power for more than 1,000 local homes in Kittitas County.

SEATTLE Construction projects by Green Canopy Homes. Seven affordable homes built or remodeled with an exceptionally high level of energy efficiency.

Widening the Pool

- $46 million in QECB bonds allocated or committed
- 7 projects in 7 counties

We also made it our mission to aggregate $46 million in Qualified Energy Conservation Bond (QECB) authority statewide. This federal authority was allocated directly to cities and counties based on population.

By convincing almost all the state's cities and counties to pool their QECB bond authority, we made it accessible even to private developers and rural areas that had little or no allocation of their own.

We also established Green Community Initiatives with Kitsap and King counties. The counties screen potential energy projects and the Commission helps finance them using tools such as QECBs, nonprofit bonds, and the Sustainable Energy Trust.

Sustainable Energy Trust (SET)

- 10 homes built or remodeled for energy efficiency

Launched in 2013, the Sustainable Energy Trust (SET) is a revolving loan fund to assist developers who are building a renewable-energy project, making energy-efficient upgrades to a building or constructing energy-efficient housing.

In 2013, the SET helped private developer Green Canopy Homes finance 10 affordable and energy-efficient single-family homes. Two of the three loans have already been repaid, replenishing the fund for future uses.

The Village at Angle Lake

Energy Coordinator Honored by White House

Avi Jacobson, the Commission's senior sustainable energy coordinator, was honored as a Champion of Change by the White House in November 2013.

He was recognized as one of 12 veterans who have taken action to promote clean, renewable energy.

A veteran of the U.S. Air Force and Air National Guard, Avi was inspired by his experiences in Iraq to focus his career on renewable energy. He joined the Commission in 2011.

Nonprofit Facilities: Growing Again

The Commission's Nonprofit Facilities program helps nonprofits across Washington state buy, build, renovate, and even refinance their community facilities.

The economic recession froze many nonprofits' capital projects. But in 2013, the long winter began to thaw; seeds previously planted began to grow. In addition to our five 2013 bond issuances that will enhance communities across the state, we have many financings in the works for 2014.

2013 PROJECTS

- $54.2 million financed

SEATAC

Lutheran Community Services Northwest
$3.45 million to refinance and expand the Village at Angle Lake community center.

BOTHELL

Alpha Supported Living Services
$1.3 million to purchase a new administration building.

SEATTLE

Seattle Preparatory School
$10 million to assist in campus revitalization.

YMCA of Greater Seattle
$30 million to refinance eight locations.

Seattle Country Day School
$9.45 million to refinance.

"The use of our wonderful, dynamic building in the community has met, if not exceeded, my original vision."

—ROBERTA NESTAAS
PRESIDENT/CEO, LUTHERAN COMMUNITY SERVICES NORTHWEST

Financial Performance

For the Year Ended June 30, 2013

Rebound and Recovery

During the fiscal year ended June 30, 2013, the Commission's program activity continued to recover slowly from the Great Recession. Economic growth is weak and areas of the state are rebounding at different rates. While tax-exempt interest rates remain low, they remain tightly compressed with taxable rates. This environment has made the tax-exempt bond market an infeasible source of capital for our homeownership programs.

Instead, the Commission developed Home Advantage, which uses the efficient, taxable mortgage capital market. The new program is not limited by bond cap, is simpler for lenders and homebuyers alike, and is available not only to first-time homebuyers but to repeat buyers. Home Advantage has proved quite successful and has generated fee income for the Commission, as well as capital that funds downpayment assistance for participants.

Meanwhile, demand has recovered in our conduit bond programs, which power our multifamily development, sustainable energy, nonprofit facilities and other programs. Our Housing Tax Credit program for affordable multifamily housing remains significantly oversubscribed and highly competitive.

Commission summaries of its financial activities in the General Operating Fund, Program Investment Fund and Bond Fund

GENERAL OPERATING FUND

The General Operating Fund accounts for the fiscal activities related to the administration of the Commission's ongoing program responsibilities. It is the Commission's "checking account," where revenues from fees earned on bond issues, tax-credit allocations and compliance monitoring, as well as interest income, are recorded. The Commission's operating expenses are paid from this fund.

Compared to the prior year, revenue in the year ended June 30, 2013, was up $2.2 million.* This was largely due to the implementation of the Commission's Home Advantage program described above. Expenses for the year were down $179,000,* primarily due to a savings on professional fees and expenses. Net excess operating revenue was allocated to the Program Investment Fund.

PROGRAM INVESTMENT FUND

The Program Investment Fund (PIF), established by the Commission in 1989, is strategically invested in programs to support the financing and production of low-income housing, special needs housing and facilities that provide community services. This fiscal year, PIF funds were designated for program purposes including single-family downpayment assistance, manufactured-housing preservation, small nonprofit loans, energy efficiency, land acquisition, and farmworker housing.

During the year, we loaned and invested $18.1 million from PIF. Principal repayments on previous program activity were $4.8 million, mostly in repaid homeownership downpayment assistance. The fund earned $1.1 million in interest. At the end of the fiscal year, the Commission transferred $8.4 million from the General Operating Fund to PIF so that additional funds are available for programs in the future.

BOND FUND

All activities of Commission-issued bond transactions are established under separate Indentures of Trust and the financial activities of these Indentures are recorded by the Commission in the Bond Fund. Bonds issued during this fiscal year were $508 million while redemptions were $639 million, resulting in a $131 million net decrease in the amount of bonds outstanding. Some of this payoff activity is due to older bond issues obtaining favorable refinancing rates on taxable debt, given the historic low-rate environment. A similar annual reduction in bonds outstanding has been consistent throughout the recession. The bond portfolio outstanding has fallen from $4.0 billion at June 30, 2008, to $3.5 billion at June 30, 2013.

General Operating Fund

Unaudited (in thousands) for the years ending June 30	2013	2012	$ Change	% Change
Statement of Net Assets				
ASSETS				
Cash and cash equivalents	**$ 21,358**	$ 6,897	$ 14,461	209.7%
Investment securities	**8,668**	16,913	(8,245)	(48.7)%
Receivables and prepaids	**5,440**	2,380	3,060	128.6%
Furniture and fixtures (net of depreciation)	**29**	76	(47)	(61.8)%
Total assets	**$ 35,495**	$ 26,266	$ 9,229	35.1%
LIABILITIES				
Accounts payable and other liabilities	**$ 2,406**	$ 1,860	$ 546	29.4%
Unearned fee income	**15,089**	6,406	8,683	135.5%
Total liabilities	**$ 17,495**	$ 8,266	$ 9,229	111.7%
NET ASSETS				
Total net assets	**$ 18,000**	$ 18,000	—	—
Total liabilities and net assets	**$ 35,495**	$ 26,266	$ 9,229	35.1%
Statement of Activities and Change in Net Assets				
REVENUES				
Fee and other income	**$ 17,277**	$ 14,279	$ 2,998	21.0%
Interest and investment income (net)	**24**	842	(818)	(97.2)%
Grants and other pass-through revenue	**4,795**	15,811	(11,016)	(69.7)%
Total revenues	**$ 22,096**	$ 30,932	$ (8,836)	(28.6)%
EXPENSES				
Salaries, wages, and employee benefits	**$ 5,109**	$ 5,149	$ (40)	(0.8)%
Professional fees	**994**	1,247	(253)	(20.3)%
Office and other expense	**1,824**	1,710	114	6.7%
Grants and other pass-through expense	**4,795**	15,811	(11,016)	(69.7)%
Total expenses	**$ 12,722**	$ 23,917	$ (11,195)	(46.8)%
Allocated to Commission fund	**968**	NA	968	
Excess allocated to program investments	**$ 8,406**	$ 7,015	$ 1,391	19.8%

*Both general operating revenue and expenses exclude the effect of large grants and other pass-through items that impact both revenue and expense equally. Except for certain of these pass-through grants and loans, all funds received by the Commission are generated by its activities and are not direct appropriations from the state or other sources.

Note: For a complete set of audited financial statements, please visit our website at wshfc.org or call (206) 464-7139.

Supporting Properties Statewide

The aging of the state's housing stock is a daily reality for the Commission's Asset Management and Compliance Division. This team is dedicated to the long-term success of the housing we finance—maintaining a "relationship" with each building for 10 to 40 years.

Of course, the real relationships are with the property owners and managers who are responsible for maintaining their projects according to tax credit and bond program regulations. We support them through extensive education and training; staff keep in touch with our stakeholders regularly via our website resources and through daily technical assistance.

2013 HIGHLIGHTS

- Monitoring of 71,000 units in 881 properties
- 260 property inspections
- 520 property owners and managers trained in compliance monitoring and reporting
- The Commission launched an initiative to replace our internal database with a new system that will improve internal reporting and data tracking.
- Asset Management's portfolio analysts and managers were trained in Uniform Physical Conditions Standards by a national inspection firm.
- Staff also continued their training in asset-management practices, presented by NeighborWorks.

Commission Recognized by HUD Secretary Donovan

In 2013, HUD Secretary Shaun Donovan recognized the Commission for our partnership in a pilot project to coordinate property inspections among different federal agencies. Melissa Donahue, division manager, and Marji Johnson, senior portfolio analyst, made this project a success in Washington state.

Housing Washington Turns 20

In October 2013, more than 600 people joined us in Spokane to learn, network, and celebrate the 20th year of the *Housing Washington* conference.

Each year, *Housing Washington*, co-sponsored by the Commission, the Washington Low-Income Housing Alliance, and the state Department of Commerce, attracts partners in affordable housing from every part of the state.

2013 marked not only the 20th year of the conference, but of the Commission's annual Friend of Housing awards. These honor individuals or organizations who have made exceptional contributions to creating or supporting affordable housing.

2013 FRIEND OF HOUSING AWARDEES

Commission Chair Karen Miller, Sue Cary, Greg Winter for the Opportunity Council, former Gov. Mike Lowry, Chris Pegg, Helen Stevenson, and Leah Greenwood.

2013 Commissioners

Karen Miller
Commission Chair

James L. McIntire
Washington State Treasurer
Ex Officio

Brian Bonlender
Director, Department of Commerce
Ex Officio

Dan McConnon
Department of Commerce
Commissioner Designee

Ellen Evans
State Treasurer's Office
Commissioner Designee

Beth Baum
Weyerhaeuser Co.
At-Large

Lloyd Weatherford
Residential Carpenters Local 816
Labor Interests Representative

M. A. Leonard
Enterprise Community Partners
At-Large

Steven Moss
Blue Mountain Action Council
Representative of Low-Income Persons

Randy Robinson
KeyBank Community Development Lending
Housing Consumer Interests Representative

Gabe Spencer
Skamania County Assessor
Publicly Elected Official

Pam Tietz
Peninsula Housing Authority
At-Large

Mario Villanueva
USDA Rural Development
At-Large

30 Years of Opening Doors to a *Better Life*

To learn more about the impact of the Housing Finance Commission, read our 30-year story and explore our programs at wshfc.org.

wshfc.org facebook.com/WSHFC @WSHFC

WASHINGTON STATE
HOUSING FINANCE COMMISSION

Opening doors to a better life

The Washington State Housing Finance Commission is a publicly accountable, self-supporting team dedicated to increasing housing access and affordability and to expanding the availability of quality community services for the people of Washington. We work to increase housing people can afford statewide, and we issue below-market-rate, tax-exempt bonds, and federal housing credits to fund housing and nonprofit facilities across Washington. The bonds of the Washington State Housing Finance Commission are not obligations of Washington state and are not repaid with tax dollars. The Commission is financially self-sufficient. All operating expenses are paid from program revenues. No taxpayer dollars were used to produce this document. For more information about the Commission and its work, visit www.wshfc.org or call (206) 464-7139 or 1 (800) 767-HOME (4663) toll-free in Washington state.