

AGENCY OVERVIEW

North Dakota Housing Finance Agency (NDHFA) is dedicated to making housing affordable for all North Dakotans. The agency provides affordable home financing to low- to moderate-income families and helps to ensure the continued availability of suitable rental housing for households of modest means, while focusing on the overall housing needs of our state's growing communities.

NDHFA was created in 1980 by an initiated measure supported by the state's real estate, homebuilding, and banking associations. The agency's advisory board is made up of representatives of the real estate, lending, homebuilding, and manufactured housing industries, and the public. **NDHFA does not receive any general fund dollars for operations.**

NDHFA issues/sells Mortgage Revenue Bonds and Mortgage-Backed Securities to investors and uses the proceeds to purchase from participating private-sector lenders the mortgages of homebuyers. The agency's operating expenses are covered by the spread between what we pay investors and the interest rate on the underlying mortgages. NDHFA also generates revenue by servicing mortgage loans. Over 50,000 homebuyers have utilized NDHFA's homeownership programs since our first bonds were issued in 1982. The agency's current assets exceed \$1.787 billion with \$1.564 billion in liabilities.

NDHFA's multifamily development programs, the federal Low Income Housing Tax Credit, National Housing Trust Fund, HOME Investment Partnerships Program (HOME) and North Dakota's Housing Incentive Fund (HIF), have supported the development of more than 10,000 affordable rental units since 1986. These programs provide low- to very low-income households with affordable rental options along with supportive services, as needed. Expenses are paid through administrative fees earned under the programs. The agency is also a contract administrator for the U.S. Department of Housing and Urban Development (HUD) under their Performance-Based Contract Administration program monitoring 2,900 rent-assisted units.

NDHFA acts as the Collaborative Applicant for the state's Homeless Continuum of Care (CoC). The CoC's geographic area encompasses all 53 of North Dakota's counties, its cities, towns, and unincorporated areas, as well as the 5 federally recognized tribes.

The net revenues NDHFA earns are used to fund single-family rehabilitation and construction programs, housing development loans/guarantees, local housing market studies, and offset CoC operating costs.

Since 1982, NDHFA has been a vital component to maintaining access and continuity across North Dakota's housing markets.

In 2022, in conjunction with the NDSU's Center for Social Research, NDHFA conducted a statewide Housing Needs Assessment. The most significant assessment highlights follow, all of which indicate a growing need for our programs.

- The state has a large population of young people entering the home buying stage of their life over the next decade.
- Population projections show the largest increases by income will be in extremely low-income to moderate-income households.
- The state's aging housing stock will present issues that will impact the quality of our housing inventory in the future.

The results of the Assessment helped NDHFA to focus as we prepared our budget request. Based on these expected trends and looking to the future, we request the following:

- Increased spending authority for agency-funded programs.
- Additional FTEs to meet investor, bond, and regulatory requirements and ensure quality service to citizens.
- Adequate compensation for existing staff and new hires.
- The transfer from Commerce to NDHFA of programs for persons who are homeless – North Dakota Homeless Grant and Emergency Solutions Grant.
- Funding for the Housing Incentive Fund.

The following information is outlined in the order as requested by the House Appropriations Committee.

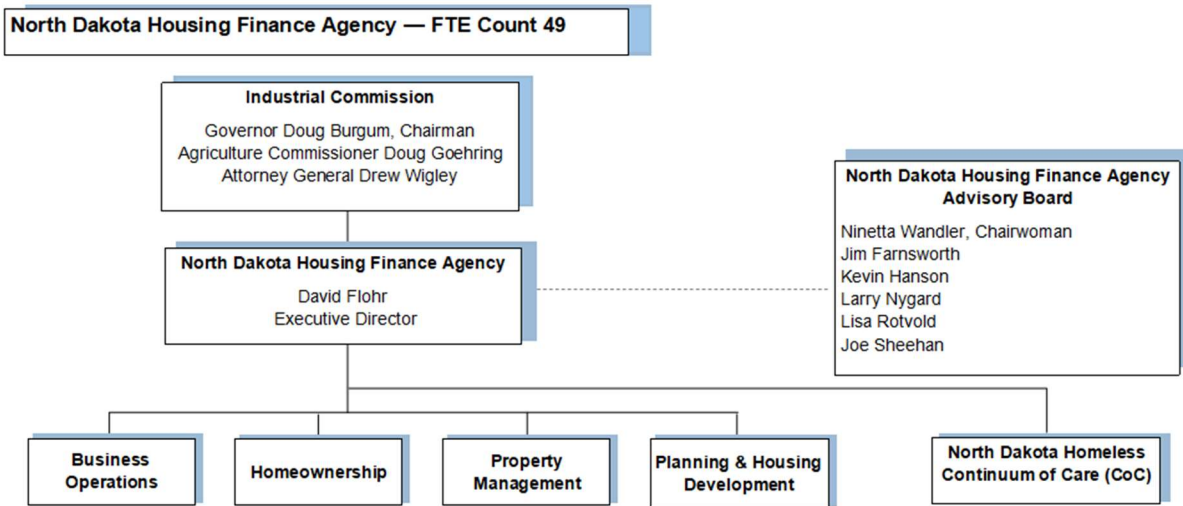
1. NORTH DAKOTA CENTURY CODE CHAPTER(S) ASSOCIATED WITH NDHFA

[N.D.C.C. 54-17-01](#) Industrial Commission to act as a state housing finance agency

[54-17-07.3-13](#) Housing finance programs

[54-17-40](#) Housing Incentive Fund – Continuing Appropriation

2. NDHFA DIVISIONS/PROGRAMS – ORGANIZATIONAL CHART



Homeownership

NDHFA helps North Dakotans achieve successful homeownership with homebuyer education, down payment and closing cost assistance, and affordable mortgage loans. More than 50,000 North Dakota households have achieved their homeownership dreams with the agency's support.

Multifamily Development and Financing

NDHFA is charged with addressing the state's changing housing needs, including addressing a shortage of housing for the workforce and low- to moderate-income households, and providing technical assistance to communities struggling to address their housing needs. The agency's planning and housing development division is committed to providing financing for affordable rental housing development and the preservation of the state's existing housing stock by supporting property improvements and extensions of rental assistance.

Compliance Monitoring

NDHFA provides regulatory oversight of privately-owned properties for thousands of individuals and families designed to offer modestly priced housing opportunities for low-income families, seniors, and individuals with disabilities. Working closely with federal agencies, NDHFA ensures that these rental housing options are safe, clean, and accessible.

ND Homeless Continuum of Care

The North Dakota's Homeless CoC is the unincorporated organization created to fulfill the responsibilities of the Homeless Emergency Assistance and Rapid Transition to Housing (HEARTH) Act. The CoC is comprised of representatives of public and private organizations that come together to plan for and provide a homeless response system that is dedicated to preventing and ending homelessness in the state of North Dakota. The CoC's organizational structure is multi-tiered to ensure the opportunity for broad input throughout the state and across stakeholders, while designating staff and leadership to carry out the specific goals and responsibilities of the CoC. (Adapted from the HUD Continuum of Care 101)

North Dakota has one Continuum of Care with NDHFA acting as its Collaborative Applicant. The CoC's geographic area encompasses all 53 of North Dakota's counties, its cities, towns, and unincorporated areas, as well as the 5 federally recognized tribes.

3. FINANCIAL AUDIT FINDINGS

There were no findings in the agency's audit of financial statements for the years ended June 30, 2021, and 2022.

4. CURRENT BIENNIUM ACCOMPLISHMENTS, CHALLENGES AND NEXT BIENNIUM GOALS AND PLANS

MAJOR ACCOMPLISHMENTS

- Homeownership portfolio continues to grow.
- Multifamily development took over HOME program administration from Commerce, funding rounds oversubscribed.
- ND Homeless CoC awarded a Youth Homeless Demonstration Grant from HUD.
- Multifamily development is administering HOME-American Rescue Plan.
- Housing Needs Assessment completed.
- Homeownership assumed servicing of Bank of North Dakota's residential loan portfolio.
- Homeownership expanded its North Dakota Roots program after the transfer of residential lending authority from Bank of North Dakota. This resulted in a record number of Roots loans in 2022.

NEXT BIENNIUM GOALS AND PLANS

Findings in the 2022 Statewide Housing Needs Assessment indicate:

- The state has a large population of young people entering the home buying stage of their life over the next decade.

- Projections show the largest population increases by income will be in extremely low-income to moderate-income households.
- Aging housing stock and the cost of new construction presents issues with quality housing inventory in the future.

Based on the Housing Needs Assessment's forecast and NDHFA's Strategic Plan our goals and plans follow:

- Homeownership and multifamily development - continuing quality service to North Dakota citizens while working to meet investor, bond/agency rating, and federal regulatory guidelines. Having adequate staff and flexibility to accomplish this is vital.
- FTEs, Compensation, and Succession Planning – properly compensated staff to continue our mission. Continue succession planning to address upcoming retirements of key finance division personnel. Additional FTEs are needed to properly address transition.
- Agency Programs - with an increase in the amount of agency-funded programs by \$380,000 from \$570,000 to \$950,000, NDHFA can enhance its efforts in rehabilitating aging housing stock, providing accessibility improvements, assisting with community planning, and helping individuals to obtain housing. The latter includes supporting North Dakota Health and Human Services (HHS) in meeting the requirements of the Department of Justice settlement. Agency-funded programs also support the work of HHS's Free through Recovery and Community Connect programs and help the Department of Corrections and Rehabilitation reestablish justice-involved individuals.
- New Programs - transferring Commerce's Emergency Solutions Grant and North Dakota Homeless Grant programs to NDHFA improves efficiency of program delivery for homeless service providers.
- Housing Incentive Fund (HIF) – with adequate funding, HIF can be utilized to fill gaps that federal housing programs cannot support, assisting community efforts to provide housing that support workforce recruitment efforts and preserving existing affordable housing particularly in rural communities.
- Put into operation a Loan Guaranty Fund (LGF) would reduce mortgage costs for future homeowners and produce revenue that can further enhance agency-funded programs.

5. COMPARE NDHFA'S REQUEST/RECOMMENDATION TOTALS, INCLUDING FTE POSITIONS FOR THE NEXT BIENNIUM COMPARED TO THE CURRENT BIENNIUM

	21-23 Biennium Budget	Adjustments: One-Time / OMB	23-25 Agency Submitted	23-5 Governor's Recommendation	23-25 Agency Request
Salaries & Wages	9,556,272	75,908	11,869,500	12,263,870	12,853,050
Operating	6,144,060	(35,000)	10,903,883	10,738,241	10,903,883
Capital Assets	150,000		20,000	20,000	20,000
Grants	42,975,200		47,875,322	47,875,322	47,875,322
HFA Contingency	100,000		100,000	100,000	100,000
Total Appropriation	58,925,532	40,908	70,768,705	70,997,433	71,752,255
Federal	44,000,932		47,867,420	48,099,128	48,099,128
Special	14,924,600	40,908	21,331,073	21,328,093	22,082,915
General	-	-	1,570,212	1,570,212	1,570,212
Total Funding Sources	58,925,532	40,908	70,768,705	70,997,433	71,752,255
FTE	49		55	52	55

	21-23 Biennium Budget	Adjustments: One-Time / OMB	23-5 Governor's Recommendation	23-25 Agency Request
Housing Incentive Fund	9,500,000	(9,500,000)	25,000,000	25,000,000
Total Appropriation	9,500,000	(9,500,000)	25,000,000	25,000,000
Legacy Earnings	-	-	25,000,000	25,000,000
General	9,500,000	(9,500,000)	-	-
Total Funding Sources	9,500,000	(9,500,000)	25,000,000	25,000,000

6. FUNDING INCLUDED IN EACH PROGRAM/LINE ITEM

a. Amounts included in the base budget and their purpose and use.

NDHFA's special fund base budget is funded with mortgage program revenues and administrative fees that cover the costs associated with agency operations and the administration of programs. Excess revenues are reinvested into agency-funded programs such as the Rehab Accessibility Program, Helping HAND, local housing market studies, and to cover administration of programs such as the Homeless Continuum of Care.

NDHFA receives federal funding from HUD. The funding received is used for rental assistance payments, multifamily development, and administrative costs incurred by the agency.

b. AMOUNTS INCLUDED IN THE REQUEST/RECOMMENDATION AND JUSTIFICATION FOR THE CHANGE FROM THE BASE BUDGET. DISCUSS CHANGES RELATING TO:

(1) SALARIES AND WAGES

	23-5 Governor's Recommendation	23-25 Agency Request
21-23 Base Level FTE	49	49
Salaries and Wages		
23-25 Base Level Salaries & Benefits	9,556,272	9,556,272
OMB Base payroll changes	75,908	75,908
Add:		
Cost to Continue	878,102	878,102
Emergency Solutions Grant - Transfer from Dept of Commerce	84,538	84,538
Temp Salaries		42,000
Loan Production (4 FTE; Gov Recommendation 2 FTE)	466,592	794,864
Compliance (2 FTE; Gov Recommendation 1 FTE)	218,908	437,816
Governor's 23-25 pay plan increase	983,550	983,550
Total Salary and Benefits	12,263,870	12,853,050
FTE	52	55
Federal	2,314,285	2,903,465
Special	9,949,585	9,949,585
General	-	-
Total Funding Sources	12,263,870	12,853,050

The change related to salary and wages is due to our request for additional FTE, cost to continue, and the Governor's compensation package. Included in the cost to continue is the increase of salaries needed to hire new staff, especially in the fiscal services area, where NDHFA competes with private sector financial institutions. Also included in the cost to continue is the reorganization of our financial accounting department to prepare for succession planning of key financial staff.

NDHFA currently has no open FTE positions and is requesting 6 FTEs compared to the Governor recommended 3 FTEs. Without adequate staffing for our Homeownership programs, NDHFA may need to limit the number of mortgages purchased from our lending partners and will struggle to accomplish the following:

- Meet investor, bond rating, and federal regulatory guidelines.
- Maintain quality service to citizens and our housing partners.
- Manage future housing market growth and address succession planning needs.
- Provide agency-funded programs.

The entire cost of the additional FTEs will be paid exclusively by special funds.

(2) OPERATING EXPENSES

Operating costs increases correlates with the increase in mortgage loan servicing. The homebuyer market remains strong across the state and business has increased in the current biennium. Additional operating costs included in the budget are associated with administration of the Emergency Solutions Grant program, if transferred from Commerce.

The \$165,642 change in Operating Costs (**all paid with special funds**) is due to increases in rent, data processing increases (i.e., contracts, equipment, etc.), and other inflation affected costs added back from the Governor's request.

(3) CAPITAL ASSETS

Decrease due to the one-time purchase of multifamily development software and the cost of replacing copiers.

(4) GRANTS

- Federal grant funding increase includes \$1.9 million for HOME-American Rescue Plan and Performance-Based Contract Administration programs, and an additional \$1.2 million due to a transfer from Commerce of the Emergency Solutions Grant (ESG). The ESG transfer includes \$240,000 from the General Fund needed for program match requirements.
- Special funds base increase of \$380,000 for agency-funded grants
- Transfer of North Dakota Homeless Grant from Commerce includes \$1.3 million from General Fund.

(5) ANY SPECIAL LINE ITEMS

None.

(6) ESTIMATED INCOME – SPECIAL FUNDS

NDHFA generated revenue is derived from mortgage loan production and loan servicing revenue. All revenue streams are allocated to cover operating expenses and fund agency grants.

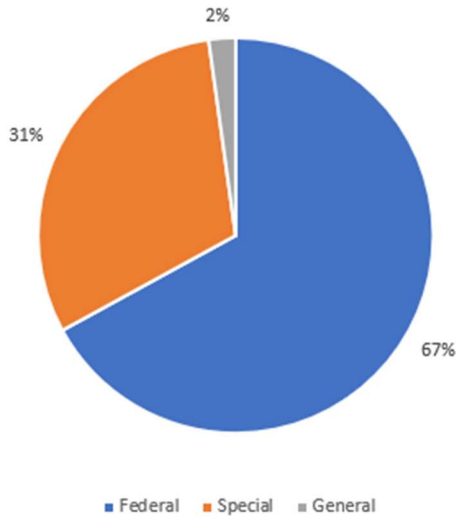
(7) ESTIMATED INCOME – FEDERAL FUNDS

Federal funding increased \$1,147,341 due to the proposed Emergency Solutions Grant program transfer from Commerce and increases in rate and utilization of HUD's Performance-Based Contract Administration program.

(8) GENERAL FUND

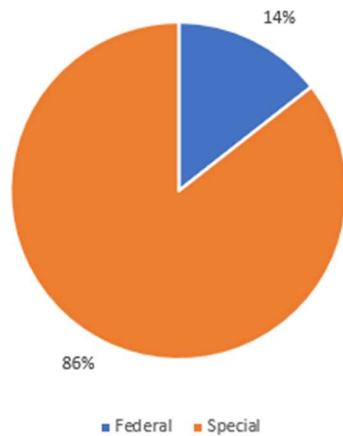
Increase of \$1,570,212 due to the transfer of the North Dakota Homeless Grant program and the matching funds for the Emergency Solutions Grant from Commerce.

2023-25 Agency Request Funding Source



2023-25 Agency Request	
Federal	48,099,128
Special	22,082,915
General	1,570,212
Total Funding Sources	71,752,255

2023-25 Agency Operations Funding Source



2023-25 Agency Request	
Salaries & Wages	12,853,050
Operating	10,903,883
Capital Assets	20,000
HFA Contingency	100,000
Total Agency Operator	23,876,933

Federal	3,444,018
Special	20,432,915
General	-
Total Funding Sources	23,876,933

(9) FTE

The agency requested 6 new FTEs compared to the Governor’s recommendation of 3 FTEs. NDHFA is requesting all 6 FTEs. The additional FTEs will increase the base budget by \$1,232,680 which will be funded exclusively with the agency’s special funds.

Compliance Positions – 2 positions: Reasoning – state and federal regulations, as well as mortgage investment and bond reporting requirements have become more complex.

Compliance officers will conduct internal assessments and compliance testing to provide division and program administration support to ensure an appropriate control environment is implemented and steer the overall technical compliance trajectory of the agency.

The Code of Federal Regulations – National Archives and Records Administration requires the private sector to employ an internal auditor for every \$400 million in average daily assets. NDHFA currently has 1 FTE, allocating part of their time for approximately \$1.8 billion in assets.

If 2 FTEs are added, each position would be responsible for the compliance of \$900 million in average daily assets in addition to overseeing state and federal regulations as well as mortgage investment and bond reporting requirements.

Business Analysts – 2 positions: Reasoning – succession planning. Need to align business and technical processes to meet citizen demand and industry expectations.

Business Analysts help Agency leadership to define technical goals, then oversee development by Information Technology staff. Analyze the flow of data and predict what changes in infrastructure will be necessary as the business grows.

Mortgage Loan Specialists – 2 positions: Reasoning – North Dakota’s low-income population is forecasted to grow 11% by 2025 driving the need for the agency’s below-market mortgage interest rates and down payment and closing cost assistance. As a state with one of the youngest populations, we will have a large segment of our population entering prime homebuying years for the next decade.

Mortgage loan specialists work with the agency’s lending partners to originate loans that are sold to NDHFA when closed. All the loan servicing is done in-house with staff working one-on-one with homeowners who experience financial difficulties to help maintain housing stability and preserve financial well-being. Both loan documentation and customer service are labor intensive due to the federal regulations associated with lending to low-income households and the inexperience of first-time homebuyers.

NDHFA currently has 10 FTEs servicing 11,494 loans; NDHFA employee-to-loan ratio is 1:1,149. The private market standard employee-to-loan servicing ratio is 1:850.

If 2 FTEs are added, the employee-to-loan servicing ratio will change from 1:1,149 to 1:958, which is still higher than private market standards.

7. PURPOSE AND USE OF ANY ONE-TIME FUNDING ITEMS FOR THE CURRENT BIENNIUM

During the 67th North Dakota Legislative Session, \$9.5 million was allocated for HIF. The program provides gap assistance and matching funds to address unmet housing needs in the state. Allowable projects include new construction, rehabilitation, and acquisition of

multifamily housing. Eligible recipients include local, state, and tribal governments and housing authorities, community action agencies, regional planning councils and multifamily housing developers.

For more information about HIF visit: <https://www.ndhfa.org/index.php/ndhif/>.

A one-time funding amount of \$35,000 was used to commission a Statewide Housing Needs Assessment. The assessment identified issues and solutions which can be used to make strategic decisions related to the housing market.

8. IDENTIFY AND JUSTIFY THE NEED FOR ANY ONE-TIME FUNDING BEING REQUESTED/RECOMMENDED

The Governor is recommending \$25 million for the Housing Incentive Fund.

9. AGENCY COLLECTIONS DEPOSITED IN THE GENERAL FUND OR SPECIAL FUND

GENERAL FUND – no funds are deposited into the General Fund.

SPECIAL FUND – NDHFA generates its own special fund revenue through the administration of NDHFA programs.

FEDERAL FUND - NDHFA receives funding from HUD for rental and multifamily development programs and the Homeless Continuum of Care.

10. NEED FOR OTHER SECTIONS INCLUDED IN THE AGENCY APPROPRIATION BILL

NDHFA requests the approval of Section 4. Appropriation.

Section 4. APPROPRIATION. In addition to the amount appropriated to the housing finance agency in subdivision 4 of section 1 of this Act, there is appropriated any additional income or unanticipated income from federal or other funds which may become available to the agency for the biennium beginning July 1, 2023, and ending June 30, 2025.

Continuing this provision during the upcoming biennium will provide the agency with the flexibility to capitalize on new funding opportunities and continue to meet the state's housing challenges.

11. OTHER BILLS BEING CONSIDERED AND POTENTIAL BUDGETARY IMPACT

Anticipated Senator Kreun sponsored bill – provides for \$50 million of Legacy Fund earnings to be allocated to the Housing Incentive Fund on July 1 of each odd-numbered year. The bill also will include making single-family rehabilitation, construction and acquisition as an eligible activity.

Housing Incentive Fund – Governor’s recommendation for \$25 million from Legacy Fund earnings for the 2023-25 biennium.

HB 1062 – Industrial Commission bill that updates language in [N.D.C.C. 54-17-01](#) related to NDHFA with no budgetary impact.

12. ITEMIZED LIST OF CHANGES NHDFA IS REQUESTING TO THE GOVERNOR’S RECOMMENDATION

	2023-25 Governor's Recommendation					23-25 Agency Request
	Loan Production	Compliance	Change in Costs	Temp Employee		
Salaries & Wages	12,263,870	328,272	218,908	42,000	12,853,050	
Operating	10,738,241			165,642	10,903,883	
Capital Assets	20,000				20,000	
Grants	47,875,322				47,875,322	
HFA Contingency	100,000				100,000	
Total Appropriation	70,997,433	328,272	218,908	42,000	71,752,255	
Federal	48,099,128				48,099,128	
Special	21,328,093	328,272	218,908	42,000	22,082,915	
General	1,570,212				1,570,212	
Total Funding Sources	70,997,433	328,272	218,908	42,000	71,752,255	
FTE	52	2	1		55	

13. COMPARISON OF NDHFA’S MAJOR REQUESTS TO THOSE RECOMMENDED IN THE EXECUTIVE BUDGET

- NDHFA asks for 6 FTE compared to Governor’s 3 FTE to ensure meeting the agency’s goals and requirements as outlined previously.
- NDHFA asks that the funding for Temporary Employee request be added back to assist with succession of key personnel.
- Add back Change of Operating Costs (all paid with special funds) that are due to increases in rent, data processing and inflation.

14. PURPOSE AND AMOUNT OF FEDERAL STATE FISCAL RECOVERY FUNDING APPROPRIATED DURING THE 2021 SPECIAL LEGISLATIVE SESSION

No federal funding was received.

15. FEDERAL FUNDING AVAILABLE FOR THE 2023-25 BIENNIUM

NDHFA federal funding request is \$48 million.

16. ADDITIONAL INFORMATION

North Dakota Housing Finance Agency website, <https://www.ndhfa.org/>.

NDHFA Budget website, <http://www.ndhfa.org/index.php/budget/>.

Housing Incentive Fund, <https://www.ndhfa.org/index.php/ndhif/>.

Statewide Housing Needs Assessment

- 2020-2025 Statewide Housing Needs Assessment – [Condensed Version](#)
- [Statewide Housing Needs Assessment Presentation](#) by Dr. Nancy Hodur for the 2022 Statewide Housing Forum
- 2020-2025 Statewide Housing Needs Assessment – [Population and Housing Forecast](#)
- 2020-2025 Statewide Housing Needs Assessment – [Housing Profiles](#)
- 2020-2025 Statewide Housing Needs Assessment – [Detailed Tables](#)
- 2020-2025 Statewide Housing Needs Assessment – [Combined Report \(Forecast, Housing Profiles and Detailed Tables\)](#)

North Dakota Housing Finance Agency 2020-2025 Strategic Plan, <https://www.ndhfa.org/wp-content/uploads/2021/01/StrategicPlan2020-2025.pdf>.

Contact Information about this testimony:

David A. Flohr
Executive Director
dflohr@nd.gov
701.328.8060