



To: Members of the NHF Board of Directors
From: Lisa McCargar, Chief Financial Officer
Milena De Melo, RCRC Controller
Date: November 2, 2021
Re: NHF 2022 Proposed Budget - **ACTION**

The proposed 2022 National Homebuyers Fund, Inc. (NHF) Operating Budget constitutes NHF's continued commitment to the organization's core functions of national affordable housing down payment assistance and other program management services.

2022 Proposed NHF Budget Summary

The proposed 2022 operating budget (Attachment A) includes total revenues of \$20,884,500 and total expenditures of \$20,029,900 and results in net revenue over expenditures of \$854,600. The primary sources of revenue and budgeted expenses are described below.

2022 Proposed Revenue Highlights

Proposed revenues are primarily derived from housing programs and program management services. Second mortgage portfolio interest earnings, interest on investments, and investment gains also contribute to revenues. The proposed 2022 NHF Operating Revenue Budget of \$20,884,500 includes:

- Housing program activity which is projected to generate revenues of \$18,987,500.
- Management services revenue of \$1,540,000.
- NHF second mortgage portfolio interest earnings of \$187,000.
- Interest and dividends on cash and investments held in various investment vehicles of \$150,000.

2022 Proposed Expenditure Highlights

The proposed 2022 NHF Operating Expenditure Budget totaling \$20,029,900 is designed to provide the resources necessary to pursue and implement current and planned housing programs and other services. Primary expenditures include housing program down payment assistance, contract support services payments, and an estimated excess revenue transfer to RCRC.

The key proposed 2022 NHF expenditures include:

- Housing program down payment assistance (DPA) to homebuyers of \$16,000,000 and associated program operations, management, and pipeline services fees of \$40,000.

- Contract support services payments to RCRC in the amount of \$2,608,800.
- In accordance with the NHF Bylaws, the NHF budget includes a proposed transfer of excess revenues of \$750,000 to RCRC in 2022. This item is specifically addressed in a separate report.
- Legal services of \$50,000 for support of programs at the federal level.
- Consultants in the amount of \$205,000 for housing-related matters primarily at the federal level.
- Business development and expansion in the amount of \$100,000.
- Ongoing operating expenses such as audit, insurance, and rent totaling \$139,600.
- Sponsorships of \$60,000 which include possible sponsorships back into communities.
- Budgeted loan losses totaling \$50,000.

Key Differences between 2022 and 2021 Budgets

The proposed 2022 NHF Revenue Budget is \$20,884,500, a decrease of \$17,025,500 million (44.9%). The proposed Expenditure Budget for NHF is \$20,029,900, a \$76,800 (0.4%) decrease from the 2021 approved budget. Following is a summary of the key differences between the proposed 2022 and the 2021 approved budgets:

- **Housing Program Revenue** – A decrease of \$15,662,500 (45.2%) in revenue resulting from reduced expectations for one of NHF’s down payment assistance programs. NHF’s down payment assistance comes in the form of either a Gift or a zero-interest rate Second Mortgage. NHF’s traditional Gift option is expected to remain level, but expectations for the zero-interest option have been reduced.
- **Program Management Fee Revenue** – A decrease of \$720,000(31.9%) in revenue associated with a decrease in a contract entity’s program volume.
- **2nd Mortgage Interest** – A decrease of \$43,000 (18.7%) associated interest earnings on 2nd mortgages declining as balances continue to be paid down.
- **Interest and Dividend Income** – A decrease of \$600,000 (80.0%) associated with earnings on the entity’s investments from CalTRUST. Interest rates have continued to decline on those investments.
- **Housing Program Down Payment Assistance (Expense) to Homebuyers** –This expense represents DPA Grants to homebuyers under a traditional NHF program, and is budgeted to remain level in 2022 consistent with the explanation above in program revenue.

- **Legal Services** – A decrease of \$100,000 (66.7%) due a tentative conclusion with an ongoing lawsuit. There are, however, fees budgeted for potential remaining activity.
- **Contract Support Service Expenses** – An increase of \$550,800 (26.8%) in contract service fees due to an increase in direct and indirect costs in services provided by RCRC.
- **Excess resources to RCRC** – A decrease of \$250,000 (25.0%) to align with the budgeted decline in revenue growth.

Budgeted Net Revenue

The proposed budget for 2022 will result in net revenue over expenditures of \$854,600. The budgeted expenditures include noncash adjustments for loan losses of \$50,000 and unrealized gains of \$20,000. Therefore, the proposed 2022 budget is projected to generate positive cash flow of \$884,600.

Other Related Matters

Due to the volatility and pace of the housing programs and markets, request authority for the President to make necessary business decisions up to \$500,000 per decision outside of the approved operating budget. Also request the President be granted with the authority to proceed with necessary operating decisions due to changes in the market, economy or changing transactional requirements to avoid unnecessary delay and provide the necessary flexibility to effectively and timely implement and modify programs. Such expenditure and operational decisions are to be made in consultation with the NHF Vice President, the NHF Chair and the NHF Vice Chair and are to be reported back to the Board with subsequent ratification as necessary.

Recommendations

It is recommended that the NHF Board of Directors approve the following recommendations:

1. Approve the attached proposed 2022 NHF Operating Budget.
2. Grant the NHF President the authority to make necessary business decisions and utilize up to \$500,000 per decision outside of the approved operating budget when necessary. Such decisions will be made in consultation with the NHF Vice President, the NHF Board Chair and NHF Vice Chair and reported back to the NHF Board at the next available NHF Board meeting.
3. Grant the NHF President the authority to proceed with necessary operating decisions due to changes in opportunities, the market, the economy or changing transactional requirements to provide necessary flexibility to effectively and timely implement programs. Such decisions to be made in consultation with the NHF Vice President, NHF Chair and NHF Vice Chair with subsequent ratification by the Board of Directors as necessary.

4. Approve the 2022 contract service fee to RCRC in the amount of \$2,608,800 and transfer of \$750,000 of excess revenues to RCRC in accordance with the NHF bylaws.

Attachment

- 2022 NHF Operating Budget (Attachment A)