

MARYLAND HOUSING FUND
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2018 AND 2017

**MARYLAND HOUSING FUND
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YEARS ENDED JUNE 30, 2018 AND 2017**

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INDEPENDENT AUDITORS' REPORT

Office of the Secretary
Department of Housing and Community Development
Lanham, Maryland

We have audited the accompanying financial statements of the Maryland Housing Fund (MHF) of the Department of Housing and Community Development of the state of Maryland as of and for the years ended June 30, 2018 and 2017, and the related notes to the financial statements as listed in the table of contents.

Management's Responsibility for the Financial Statements

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

Auditors' Responsibility

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditors' judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

Opinion

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of MHF as of June 30, 2018 and 2017, and the changes in its net position and its cash flows for the years then ended in accordance with accounting principles generally accepted in the United States of America.

Other Matters

Financial Statement Presentation

As discussed in Note 1, the financial statements present only MHF and do not purport to, and do not, present fairly the financial position of the Department of Housing and Community Development of the state of Maryland as of June 30, 2018, and the changes in its net position and its cash flows for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Required Supplementary Information

Management has omitted the Management's Discussion and Analysis that accounting principles generally accepted in the United States of America requires to be presented to supplement the basic financial statements. Such missing information, although not part of the basic financial statements, is required by the Governmental Accounting Standards Board, who considers it to be an essential part of financial reporting for placing the basic financial statements in an appropriate operational, economic, or historical context. Our opinion on the basic financial statements is not affected by this missing information.



CliftonLarsonAllen LLP

Baltimore, Maryland
September 26, 2018

**MARYLAND HOUSING FUND
STATEMENTS OF NET POSITION
JUNE 30, 2018 AND 2017**

ASSETS	<u>2018</u>	<u>2017</u>
CURRENT ASSETS		
Unrestricted Current Assets:		
Deposit with State Treasurer:		
Operating Account	\$ 2,073,321	\$ 1,017,818
Loans and Interest Receivable, Net of Allowance for Loans and Related Losses	-	-
Acquired Property	66,580	66,580
Other	930,535	981,069
Total Unrestricted Current Assets	<u>3,070,436</u>	<u>2,065,467</u>
Restricted Current Assets:		
Deposit with State Treasurer:		
Reserve Accounts	82,626,520	82,030,726
Total Restricted Current Assets	<u>82,626,520</u>	<u>82,030,726</u>
Total Current Assets	<u>85,696,956</u>	<u>84,096,193</u>
NONCURRENT ASSETS		
Investment Held for Borrower	2,152,852	2,173,189
Loans and Interest Receivable, Net of Allowance for Loans and Related Losses and Current Portion	-	-
Total Noncurrent Assets	<u>2,152,852</u>	<u>2,173,189</u>
Total Assets	<u>\$ 87,849,808</u>	<u>\$ 86,269,382</u>

See accompanying Notes to Financial Statements.

MARYLAND HOUSING FUND
STATEMENTS OF NET POSITION (CONTINUED)
JUNE 30, 2018 AND 2017

	2018	2017
LIABILITIES AND NET POSITION		
CURRENT LIABILITIES		
Accounts Payable	\$ 382,126	\$ 250,641
Accrued Compensated Absences	42,004	52,101
Accrued Workers' Compensation	450	300
Investment Held for Borrower	266,333	290,334
Security Deposits Payable	960	2,468
Unearned Premiums	419,932	494,740
Unearned Fees	234,964	207,505
Allowance for Unpaid Insurance Losses	1,095,792	94,768
Total Current Liabilities	2,442,561	1,392,857
NONCURRENT LIABILITIES		
Accrued Compensated Absences, Net of Current Portion	26,395	23,454
Accrued Workers' Compensation, Net of Current Portion	2,550	1,700
Investment Held for Borrower, Net of Current Portion	2,152,852	2,173,189
Allowance for Unpaid Insurance Losses, Net of Current Portion	9,283,279	10,644,928
Total Noncurrent Liabilities	11,465,076	12,843,271
Total Liabilities	13,907,637	14,236,128
NET POSITION		
Restricted Net Position:		
Multi-Family Reserve	44,698,739	44,698,739
Single Family Regular Reserve	14,719,455	15,126,302
Revitalization (Pilot) Reserve	2,185,258	2,185,258
Small Business Reserve	5,000,000	-
General Reserve	8,593,422	10,093,422
Unallocated Reserve	7,429,645	9,651,706
Total Restricted Net Position	82,626,519	81,755,427
Unrestricted Accumulated Deficit	(8,684,348)	(9,722,173)
Total Net Position	73,942,171	72,033,254
Total Liabilities and Net Position	\$ 87,849,808	\$ 86,269,382

See accompanying Notes to Financial Statements.

**MARYLAND HOUSING FUND
STATEMENTS OF REVENUES AND EXPENSES
YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
OPERATING REVENUES		
Net Premiums	\$ 1,095,774	\$ 1,256,095
Interest Income on Reserves	1,277,939	1,151,706
Interest Income on Loans	530,234	527,507
Other Income	384,684	219,605
Total Operating Revenues	3,288,631	3,154,913
OPERATING EXPENSES		
General and Administrative	802,718	906,834
Direct Losses on Claims	516,899	613,276
Provision (Benefit) for Insurance and Loan Losses	60,097	(292,575)
Total Operating Expenses	1,379,714	1,227,535
OPERATING INCOME BEFORE TRANSFERS	1,908,917	1,927,378
TRANSFER OF FUNDS	-	(943,319)
CHANGE IN NET POSITION	1,908,917	984,059
Net Position - Beginning of Year	72,033,254	71,049,195
NET POSITION - END OF YEAR	\$ 73,942,171	\$ 72,033,254

See accompanying Notes to Financial Statements.

**MARYLAND HOUSING FUND
STATEMENTS OF CASH FLOWS
YEARS ENDED JUNE 30, 2018 AND 2017**

	2018	2017
CASH FLOWS FROM OPERATING ACTIVITIES		
Receipts from Premiums, Net	\$ 1,071,500	\$ 1,053,119
Receipts from Loans	470,137	820,082
Receipts from Mortgage Escrows	(44,338)	(106,052)
Payments for Mortgage Escrows	20,337	71,155
Receipts from Security Deposits	(1,508)	2,468
Receipts from Miscellaneous Fees	412,143	362,110
Payments for General and Administrative Expenses	(1,038,014)	(2,008,365)
Payments for Claims	(516,899)	(613,276)
Receipts from Interest Earned on Reserves	1,277,939	1,151,706
Transfer to State Funded Programs	-	(943,319)
Net Cash Provided (Used) by Operating Activities	1,651,297	(210,372)
NET INCREASE (DECREASE) IN CASH	1,651,297	(210,372)
Deposit with State Treasurer, Balance - Beginning of Year	83,048,544	83,258,916
DEPOSIT WITH STATE TREASURER, BALANCE - END OF YEAR	\$ 84,699,841	\$ 83,048,544
RECONCILIATION OF CHANGE IN NET POSITION TO NET CASH PROVIDED (USED) BY OPERATING ACTIVITIES		
Change in Net Position	\$ 1,908,917	\$ 1,927,378
Adjustments to Reconcile Change in Net Position to Net Cash Provided (Used) by Operating Activities:		
Transfer to State Funded Programs	-	(943,319)
Effects of Changes in Operating Assets and Liabilities:		
Loans and Interest Receivable	173,184	344,074
Investments and Other Assets	(24,001)	(99,897)
Due from DHCD	(122,650)	(193,622)
Accounts Payable and Other Accrued Liabilities	125,329	(41,014)
Security Deposits Payable	(1,508)	2,468
Allowance for Unpaid Insurance Losses	(360,625)	(1,060,517)
Unearned Premiums	(74,808)	(353,428)
Unearned Fees	27,459	207,505
Net Cash Provided (Used) by Operating Activities	\$ 1,651,297	\$ (210,372)

See accompanying Notes to Financial Statements.

**MARYLAND HOUSING FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 1 PROGRAM DESCRIPTION

The Maryland Housing Fund (MHF) was established in 1971 by Section 3-201 through 3-208 of the Housing and Community Development Article of the Annotated Code of Maryland, as amended, to encourage the flow of private investment capital into multiple-unit and Single Family housing by insuring qualified lending institutions against losses on mortgage loans. MHF is authorized to insure mortgage loans, including mortgage loans for Multi-Family developments financed by public agencies such as the Community Development Administration (CDA), a governmental unit within the Division of Development Finance of the Department of Housing and Community development (DHCD) and to provide primary insurance for Single Family mortgage loans. Legislation enacted in 2016 expanded MHF's authority to insure business loans originated by qualified lending institutions. MHF insures against certain monetary losses incurred as a result of nonpayment of principal, interest or other sums agreed to be paid and certain other events of default under the terms of any insured mortgage loan, but does not insure against property losses, including without limitation, title risk, risks of defective construction or casualty, or any other reduction in project value due to insurable risk or force majeure, casualty or title loss. Legislation enacted in 1981 enables MHF to originate mortgage loans to assist in the disposal of property acquired through foreclosure or pursuant to any other payment in settlement of a claim or loss. MHF is a governmental unit within DHCD's Division of Credit Assurance.

MHF maintains six restricted insurance reserves, which are separate from MHF's operating funds. Five of the reserves cover specific categories of insurance; the Multi-Family Insurance Reserve, the Single Family Regular Insurance Reserve, the Revitalization Program Reserve (formerly known as the PILOT program insurance reserve), the Small Business Insurance Reserve, and the General Reserve. The investment earnings on each of the five specific reserves are credited to a sixth reserve, the Unallocated Reserve. The Unallocated Reserve may be allocated and transferred by the Secretary into each of the reserves, restricted by the Secretary as a reserve to pay claims on all categories of claims, applied by MHF as payment of a claim, or retained in the Unallocated Reserve pending allocation, transfer or restriction. Investment earnings on each of the six reserves are credited to the Unallocated Reserve. In 2008, legislation was passed pursuant to Senate Bill 983 requiring MHF to transfer from the Unallocated Reserve to DHCD's Homeownership Programs Fund, Rental Housing Programs Fund, and Special Loan Programs Fund all amounts in excess of \$10,000,000 at the end of each fiscal year. These transfers can be found on the Statements of Changes in Net Position as Transfers Out located on page 17 of this document.

The MHF statute provides that any moneys of MHF that DHCD creates as an identifiable insurance reserve may be used only in conformance with the terms and conditions creating that reserve. MHF regulations provide that each reserve is maintained to pay claims arising from its respective category of insurance and may not be subject to claims arising from other categories of insurance except for the Unallocated Reserve.

MHF's reserve funds are derived from the net proceeds of five issues of state of Maryland (State) general obligation bonds aggregating \$39,300,000 and \$7,500,000 in proceeds derived from State appropriations. In addition, the funds have earned investment income and paid claims. The unrestricted accumulated deficit reflects MHF's operations since inception less interest income.

**MARYLAND HOUSING FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 1 PROGRAM DESCRIPTION (CONTINUED)

The reserves are held by the Office of the Treasurer of the State, which credits MHF with income on investment of reserves for the benefit of MHF.

The Multi-Family Reserve supports several programs. All existing Multi-Family insurance insures projects financed by CDA's revenue bonds and projects with Montgomery County. These programs include:

- Regular Multi-Family Program fully insures permanent mortgages originated prior to 1997 that were funded by CDA and the Housing Opportunities Commission of Montgomery County.
- Risk-Share Program insures both construction and permanent mortgages financed with CDA bond proceeds with credit enhancement under the Federal Housing Administration (FHA) Risk Sharing Program. As a Level I participant under the FHA Risk-Sharing Program, upon payment of a claim by FHA, CDA is responsible for reimbursing FHA up to 50% of such claim. As a Level II participant under the FHA Risk-Sharing Program, upon payment of a claim by FHA, CDA is responsible for reimbursing FHA up to 25% of such claim. MHF then reimburses CDA for its share of such losses. This is an active multi-family program.
- Special Housing Opportunity Program (SHOP) insures mortgages financed or refinanced for the acquisition, construction or rehabilitation of shared living and related facilities for the special needs population which are owned by and sponsored by nonprofit organizations. This is an active multi-family program.
- Single-Family mortgages funded through private lenders and CDA for permanent mortgages in publicly designated renewal or redevelopment areas. Insurance offered provided 100% coverage and is backed by the Multi-Family Reserve Fund. MHF continues to manage the existing portfolio but ceased issuing new insurance under this program in 1997.
- MHF Demonstration Program – Effective December 9, 2014, MHF and CDA created a demonstration program (the “MHF Demonstration Program”) whereby MHF insures short term loans (“Short Term Loans”) financed with proceeds from the sale of short term bonds (“Short Term Bonds”) issued under CDA’s multi-family Housing Revenue Bond Resolution (“HRB”). The MHF Demonstration Program is an additional cost-effective option extended to borrowers for the provision of credit enhancement for Short Term Loans financed under HRB. Eligibility for the MHF Demonstration Program is limited to projects that: (i) need to use more than 25% of its projected tax credit equity to cash collateralize a letter of credit (“LOC”) that otherwise would be delivered to secure Short Term Bonds during construction, and (ii) where the amount of the Short Term Loan (which equals the amount of the cash collateral account that would be required by a LOC provider) is greater than 25% of the projected tax credit equity. No borrower, including all related entities, may have Short Term Loans insured under the MHF Demonstration Program at any one time in excess of \$5 million. In addition, 25% of the projected amount of tax credit equity to be generated by a project must be contributed to the project at the closing of the Short Term Loan. MHF’s obligations under the MHF Demonstration Program are backed only by MHF’s Unallocated Reserve.

MARYLAND HOUSING FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 1 PROGRAM DESCRIPTION (CONTINUED)

The aggregate amount of outstanding indebtedness to be insured under the MHF Demonstration Program may not exceed \$10 million from MHF's Unallocated Reserve.

The Single-Family Regular Reserve insures mortgages funded by private Maryland lending institutions and CDA. These programs include:

- Single-Family Regular Insurance Program consists of mortgages originated prior to 1997. These mortgages may have had primary insurance (MHF is liable for the top 25% of the original mortgage) and/or pool insurance (MHF is liable for the bottom 75% of the original mortgage). Pool insurance coverage was limited to 10% of lendable proceeds for the aggregate of revenue bond issues (stop-loss). Effective August 1, 2010, MHF was released from any obligation to provide the pool insurance on these loans. MHF continues to provide primary insurance on these loans.
- Mortgage Protection Program consists of 30 and 40 year mortgages originated after 2005, funded with CDA bond proceeds with insurance coverage only for the top 35% of the original mortgage and up to six months of mortgage payments (limited to no more than \$2,000 per month). These mortgages maintain a fixed rate of interest for the full loan term and allow borrowers to finance a one-time mortgage insurance premium as part of the mortgage, thereby requiring no additional outlay of cash by the borrower at the closing, resulting in a lower monthly mortgage payment. MHF no longer issues new insurance under this program.
- Reinsurance Program commenced in 2011 and consists of mortgages originated between 2005 and 2010 funded with CDA bond proceeds which had mortgage insurance only for the top 35% of the original mortgage. Under the program, CDA paid a monthly premium for MHF to insure 50% of any losses incurred by CDA on the uninsured 65% of the original mortgage up to \$12.5 million. The program was set to terminate on the earliest date of MHF reaching \$12.5 million in net losses or December 31, 2020. All claims are paid from the Single Family Regular Insurance Reserve. The program terminated in May of 2014 when MHF had paid \$12.5 million in net losses.

Revitalization (Pilot) Reserve insures mortgages funded through CDA and private Maryland lenders for 100% of the mortgage balance.

- Pilot Programs stimulates the flow of private mortgage capital into areas which have suffered decreasing home ownership and associated economic and social instability. These mortgages originated prior to 2005.
- Healthy Neighborhood Program provides credit enhancement to a loan program sponsored by a nonprofit corporation, which is intended to stabilize and strengthen property values in targeted areas in the City of Baltimore. MHF insures less than 3% of the outstanding loan balance under this program.

**MARYLAND HOUSING FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 1 PROGRAM DESCRIPTION (CONTINUED)

Small Business Insurance Reserve

- Business Loan Program provides insurance coverage and credit enhancement on loans originated by CDA or other eligible lenders to stimulate the flow of private capital to fund business projects located in publicly designated renewal or redevelopment areas. The first loan insured under this program originated during 2017.

General Reserve

- The General Insurance Reserve provides 35% insurance on certain CDA single family mortgages as an incentive to refinance or restructure loans for Maryland borrowers with an existing CDA loan. MHF continues to maintain active mortgages but no longer issues new commitments under this program.

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Relationship with the State

MHF is one of many programs administered by DHCD and the State. Other State agencies, such as the Department of Budget and Management, support DHCD by providing services for DHCD and thus allocate a portion of their expenses to DHCD. MHF has no direct employees and is entirely supported by staff at DHCD to perform all necessary functions of MHF. Thus, MHF's accompanying financial statements are not indicative of MHF as if it were a stand-alone entity. MHF is included in the enterprise funds of the State.

Generally Accepted Accounting Principles

MHF reports its financial activities by applying Standards of Governmental Accounting and Financial Reporting as promulgated by the Governmental Accounting Standards Board (GASB). Consequently, MHF applies all applicable GASB pronouncements.

Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions. These estimates and assumptions affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues, expenses, gains, and losses during the reporting periods. Actual results could differ from these estimates.

Cash and Cash Equivalents on Deposit

Cash and cash equivalents may include money market funds, repurchase agreements, investment agreements and any other investments, primarily obligations of the U.S. Treasury and U.S. Government Agencies, which have maturities of 90 or less days at the time of purchase.

**MARYLAND HOUSING FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

Investments

The investment is a U.S. government treasury zero-coupon bond carried at fair value based on quoted market prices. The investment is classified as long-term based on the maturity date.

Loans and Interest Receivable, Net of Allowance for Loans and Related Losses

Loans and interest receivable, net of allowance for loans and related losses, consist of loans made directly by MHF and loans originally made by others and subsequently assigned to MHF under the provisions of the insurance agreements plus interest receivable, net of possible losses.

Acquired Property

Property acquired as a result of claims settled is carried at the principal claim cost, less management's estimate of expenses and losses related to the maintenance and sale of the property, which management believes approximates fair value less costs to sell. As of June 30, 2018 and 2017, acquired property consisted of single-family properties of \$66,580.

Allowance for Unpaid Insurance Losses

MHF provides for estimated insurance losses under each insurance plan. The allowance for unpaid insurance losses is increased by provisions charged to current operating expenses and reduced by claim payments. The provision for possible insurance losses is based on management's review of insured properties, considering past loss experience, current economic conditions and other environmental factors which may affect the frequency of claims and the recovery of claim costs. Actual results could differ from those estimates.

Restricted Net Position

In accordance with accounting guidance issued by the GASB, net position should be reported as restricted when constraints placed on net position use are either: externally imposed by creditors (such as through debt covenants), grantors, contributors, or laws or regulations of other governments; or are imposed by law through constitutional provisions or enabling legislation. Accordingly, all funds and accounts whose purpose is to pay possible future claims are restricted as to their use, as is interest earned on these restricted assets. MHF first applies restricted resources when an expense is incurred for purposes for which those restricted and unrestricted net position is available.

Revenues and Expenses

Operating revenues and expenses generally result from mortgage insurance activities in connection with MHF's ongoing operations. The principal operating revenue is mortgage insurance premiums. Operating expenses include expenses relating to claims from defaulted loans and general and administrative expenses. The interest earned on reserve accounts is restricted revenue.

Premium Income Recognition

Premium income on all loans is recognized on a straight-line basis over the benefit period covered by the premiums.

**MARYLAND HOUSING FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

General and Administrative

MHF is subject to an allocation of intradepartmental support costs of the DHCD, which are included in general and administrative in the Statements of Revenues and Expenses. Such costs could affect MHF's financial position or operating results in a manner that differs from those that might have been obtained if MHF was autonomous. MHF records these costs as invoiced by DHCD for the fiscal year. However, the allocation is subject to review and adjustment subsequent to year-end.

NOTE 3 CASH AND INVESTMENTS

Deposit with State Treasurer

MHF defines cash and cash equivalents as cash and short-term investments that are held on deposit with the State Treasurer. Cash receipts and disbursements of MHF are made through a cash pool maintained by the State Treasurer. None is uninsured and uncollateralized. MHF has on deposit with the State Treasurer both unrestricted and restricted cash and cash equivalents. MHF reports its operating account as unrestricted. MHF reserve accounts are reported as restricted.

Additional information can be obtained from the State of Maryland Comprehensive Annual Financial Report.

Interest Rate Risk

Interest rate risk is the risk that changes in interest rates will adversely affect the fair value of an investment. MHF adheres to Maryland State Treasurer's policy for managing its exposure to fair value loss arising from increasing interest rates. The Maryland State Treasurer's investment policy states that to the extent possible, it will attempt to match its investments with anticipated cash flow requirements. Unless matched to a specific cash flow, the Treasurer's Office will not directly invest in securities maturing more than five years from the date of purchase.

Credit Risk and Concentration of Credit Risk

Credit risk is the risk that an issuer or other counterparty to an investment will not fulfill its obligations. MHF's policy for reducing its exposure to credit risk is to comply with Maryland State Treasurer's policy, which requires that the Treasurer's investments in repurchase agreements be collateralized by U.S. Treasury and agency obligations. In addition, investments may be made directly in U.S. Treasuries or agency obligations.

Concentration of credit risk is the risk of loss attributed to the magnitude of a government's investment in a single issuer. MHF's policy for reducing this risk of loss is to comply with the Maryland State Treasurer's policy, which limits the amount of repurchase agreements to be invested with a particular institution to 30% of the portfolio. Otherwise, there is no limit on the amount that may be invested in any one issuer.

**MARYLAND HOUSING FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 3 CASH AND INVESTMENTS (CONTINUED)

Custodial Credit Risk

Custodial credit risk is the risk that in the event of a bank or counterparty failure, MHF will not be able to recover its deposits or the value of its collateral securities that are in the possession of an outside party. Investments and collateralized securities are held in trust by the trustee or the trustee agent, kept separate from the assets of the bank and from other trust accounts and are held in MHF's name.

Investment Held for Borrower

The investment consists of a U.S. government treasury zero-coupon bond carried at fair value based on quoted market prices. The investment is classified as long-term based on the maturity date.

The following asset reported at fair market value and held by MHF at June 30, 2018 and 2017 is evaluated in accordance with accounting guidance issued by the GASB for interest rate risk, credit risk, concentration of credit risk and custodial credit risk. This investment is held as collateral on a Multi-Family loan and matures on April 15, 2024.

	2018	2017
Investment Held for Borrower (Obligations of U.S. Government Agencies)	<u>\$ 2,152,852</u>	<u>\$ 2,173,189</u>

Fair Value Measurements

MHF categorizes its fair value measurements within the fair value hierarchy established by generally accepted accounting principles. The hierarchy is based on the valuation inputs used to measure the fair value of the asset. Level 1 inputs are quoted market prices in active markets for identical assets; Level 2 inputs are significant other observable inputs; Level 3 inputs are significant unobservable inputs.

The Funds have the following recurring fair value measurements as of June 30, 2018:

- Pooled cash maintained by the State Treasurer of \$84,699,841 (Level 1).
- Investments held for Borrower, consisting of a U.S. government treasury zero-coupon bond of \$2,152,852 carried at fair value based on quoted market prices (Level 1).

**MARYLAND HOUSING FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 4 LOANS AND INTEREST RECEIVABLE, NET OF ALLOWANCE FOR LOANS AND RELATED LOSSES

Loans and interest receivable, net of allowance for loans and related losses, consist of loans made directly by MHF and loans originally made by others and subsequently assigned to MHF under the provisions of the insurance agreements plus interest receivable, net of possible losses. Mortgage loans, notes receivable, and interest receivable were as follows for the years ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Multi-Family	\$ 7,543,866	\$ 7,573,639
Single-Family	156,534	156,534
Other	13,088	13,950
Interest Receivable on Loans	11,043,562	10,592,208
Total	<u>18,757,050</u>	<u>18,336,331</u>
Allowance for Possible Losses on Multi-Family Loans	(7,543,866)	(7,573,639)
Allowance for Possible Losses on Single-Family Loans	(156,534)	(170,484)
Allowance for Possible Losses on Other	(13,088)	-
Allowance for Possible Losses on Interest Receivable	<u>(11,043,562)</u>	<u>(10,592,208)</u>
Total Allowance for Possible Losses	<u>(18,757,050)</u>	<u>(18,336,331)</u>
Loans and Interest Receivable, Net of Allowance for Loans and Related Losses	<u>\$ -</u>	<u>\$ -</u>

Changes in the allowance for possible losses on loans and interest receivable were as follows for the years ended June 30, 2018 and 2017:

	<u>2018</u>	<u>2017</u>
Balance - Beginning of Year	\$ 18,336,331	\$ 17,568,388
Increase in Provision	420,719	767,943
Balance - End of Year	<u>\$ 18,757,050</u>	<u>\$ 18,336,331</u>

MARYLAND HOUSING FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 5 UNEARNED PREMIUMS

The unearned premiums for the unexpired terms of all policies in force or written as of June 30, 2018 and 2017, and the changes for the years then ended were as follows:

	2018			
	Unearned Premiums at Beginning of Year	Premiums Written	Premiums Earned	Unearned Premiums at End of Year
Multi-Family Programs:				
Construction and Permanent Mortgages	\$ 396,844	\$ 622,033	\$ 692,318	\$ 326,559
SHOP Loans	25,143	37,775	39,233	23,685
Total Multi-Family Programs	<u>421,987</u>	<u>659,808</u>	<u>731,551</u>	<u>350,244</u>
Single Family Programs:				
Single Family Regular:				
Primary	72,749	145,385	148,446	69,688
Reinsurance	-	-	-	-
Revitalization (Pilot)	-	-	-	-
Community Development Administration				
Under Multi-Family Reserve	4	-	4	-
General	-	-	-	-
Total Single Family Programs	<u>72,753</u>	<u>145,385</u>	<u>148,450</u>	<u>69,688</u>
Total - Year Ended June 30, 2018	<u>\$ 494,740</u>	<u>\$ 805,193</u>	<u>\$ 880,001</u>	<u>\$ 419,932</u>
	2017			
	Unearned Premiums at Beginning of Year	Premiums Written	Premiums Earned	Unearned Premiums at End of Year
Multi-Family Programs:				
Construction and Permanent Mortgages	\$ 626,837	\$ 704,771	\$ 934,764	\$ 396,844
SHOP Loans	25,351	42,237	42,445	25,143
Total Multi-Family Programs	<u>652,188</u>	<u>747,008</u>	<u>977,209</u>	<u>421,987</u>
Single-Family Programs:				
Single-Family Regular:				
Primary	89,606	155,568	172,425	72,749
Reinsurance	-	-	-	-
Revitalization (Pilot)	376	-	376	-
Community Development Administration				
Under Multi-Family Reserve	105,998	91	106,085	4
General	-	-	-	-
Total Single-Family Programs	<u>195,980</u>	<u>155,659</u>	<u>278,886</u>	<u>72,753</u>
Total - Year Ended June 30, 2017	<u>\$ 848,168</u>	<u>\$ 902,667</u>	<u>\$ 1,256,095</u>	<u>\$ 494,740</u>

MARYLAND HOUSING FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017

NOTE 6 NONCURRENT OBLIGATIONS

Changes in noncurrent obligations for the years ended June 30, 2018 and 2017 were as follows:

	2018				
	Beginning	Additions	Reductions	Ending	Amount Due
	Balance			Balance	Within One Year
Compensated Absences	\$ 75,555	\$ -	\$ (7,156)	\$ 68,399	\$ 42,004
Workers' Compensation	2,000	1,000	-	3,000	450
Investment Held for Borrower	2,463,523	-	(44,338)	2,419,185	266,333
Allowance for Unpaid Insurance					
Losses	10,739,696	-	(360,625)	10,379,071	1,095,792
Total - Year Ended June 30, 2018	<u>\$ 13,280,774</u>	<u>\$ 1,000</u>	<u>\$ (412,119)</u>	<u>\$ 12,869,655</u>	<u>\$ 1,404,579</u>
	2017				
	Beginning	Additions	Reductions	Ending	Amount Due
	Balance			Balance	Within One Year
Compensated Absences	\$ 106,179	\$ 49,897	\$ (80,521)	\$ 75,555	\$ 52,101
Workers' Compensation	2,000	-	-	2,000	300
Investment Held for Borrower	2,569,575	105,295	(211,347)	2,463,523	290,334
Allowance for Unpaid Insurance					
Losses	11,800,213	125,088	(1,185,605)	10,739,696	94,768
Total - Year Ended June 30, 2017	<u>\$ 14,478,967</u>	<u>\$ 280,280</u>	<u>\$ (1,477,473)</u>	<u>\$ 13,280,774</u>	<u>\$ 437,503</u>

NOTE 7 ALLOWANCE FOR UNPAID INSURANCE LOSSES

The allowance for unpaid insurance losses is the estimated claims settlement on notices of default that has been received by MHF, as well as loan defaults that have been incurred but have not been reported by the lenders. Although current accounting guidance specifically excludes mortgage guaranty insurance from its guidance relating to the reserves for losses, MHF establishes loss reserves using the general principles contained in the insurance standard.

For insured Multi-Family program properties, MHF establishes loss reserves on a case-by-case basis when insured loans are identified as currently in default based on MHF's expected claim payment, net of estimated recovery. At June 30, 2018, MHF had no Multi-Family loans in default. As a result, MHF provides only limited loss reserves on the Multi-Family portfolio.

**MARYLAND HOUSING FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2018 AND 2017**

NOTE 7 ALLOWANCE FOR UNPAID INSURANCE LOSSES (CONTINUED)

For insured Single Family loans, MHF establishes its loss reserves based on past loss experiences and the current real estate market. MHF also reserves for defaults that have been incurred but have not been reported prior to the close of an accounting period, using estimated claim rates and claim sizes for the estimated number of defaults not reported. For Single Family program properties, insured loans which have gone through foreclosure and MHF has not paid a claim, MHF also reserves for losses based on past loss experiences and the current real estate market.

MHF's reserve process is based upon the assumptions of past experience, including the current real estate market and housing values in the locations where MHF has experienced high claim rates. Therefore, the reserves are necessarily based on estimates and the ultimate liability may vary from such estimates. Management regularly reviews the evaluation of the loss reserves utilizing current information and updates the assumptions in the estimation process accordingly. Any resulting adjustments are reflected in the current period's earnings as either a provision for losses or reduction in losses. Management believes that the allowance for unpaid insurance losses at June 30, 2018 was appropriately established on an aggregate basis and was adequate to cover the ultimate net cost of settling reported and unreported claims.

Changes in allowance for unpaid insurance losses were as follows:

	<u>Multi-Family</u>	<u>Single-Family</u>	<u>Business</u>	<u>Total</u>
Balance - June 30, 2016	\$ 8,334,537	\$ 3,465,676	\$ -	\$ 11,800,213
Increase (Decrease) in Provision	<u>(996,684)</u>	<u>(106,333)</u>	<u>42,500</u>	<u>(1,060,517)</u>
Balance - June 30, 2017	7,337,853	3,359,343	42,500	10,739,696
Increase (Decrease) in Provision	<u>(282,569)</u>	<u>(261,074)</u>	<u>183,018</u>	<u>(360,625)</u>
Balance - June 30, 2018	<u>\$ 7,055,284</u>	<u>\$ 3,098,269</u>	<u>\$ 225,518</u>	<u>\$ 10,379,071</u>

**MARYLAND HOUSING FUND
NOTES TO FINANCIAL STATEMENTS
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NOTE 8 CHANGES IN NET POSITION

Changes in restricted and unrestricted net position were as follows:

	Restricted Net Position						Unrestricted Accumulated Deficit	Total
	Multi-Family Reserve	Single Family Regular Reserve	Revitalization (Pilot) Reserve	Small Business Reserve	General Reserve	Unallocated Reserve		
Balance - June 30, 2016	\$ 44,698,739	\$ 15,654,671	\$ 2,185,258	\$ -	\$ 8,593,422	\$ 10,943,319	\$ (11,026,214)	\$ 71,049,195
Interest Income Allocated at the Discretion of DHCD Secretary	-	-	-	-	-	1,151,706	(1,151,706)	-
Transfers Out to State Funded Loan Program	-	-	-	-	1,500,000	(2,443,319)	-	(943,319)
Change in Net Position	-	(528,369)	-	-	-	-	2,455,747	1,927,378
Balance - June 30, 2017	44,698,739	15,126,302	2,185,258	-	10,093,422	9,651,706	(9,722,173)	72,033,254
Interest Income Allocated at the Discretion of DHCD Secretary	-	-	-	-	-	1,277,939	(1,277,939)	-
Transfers In (Out) to State Funded Loan Program	-	-	-	5,000,000	(1,500,000)	(3,500,000)	-	-
Change in Net Position	-	(406,847)	-	-	-	-	2,315,764	1,908,917
Balance - June 30, 2018	<u>\$ 44,698,739</u>	<u>\$ 14,719,455</u>	<u>\$ 2,185,258</u>	<u>\$ 5,000,000</u>	<u>\$ 8,593,422</u>	<u>\$ 7,429,645</u>	<u>\$ (8,684,348)</u>	<u>\$ 73,942,171</u>

**MARYLAND HOUSING FUND
NOTES TO FINANCIAL STATEMENTS
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NOTE 9 COMMITMENTS AND CONTINGENCIES

Multi-Family Mortgages

MHF insured mortgage loans as of June 30, 2018, net of partial claim payments, were as follows:

	<u>Number</u>	<u>Current Balance</u>
CDA Construction and Permanent Mortgages Loans Financed by the Housing Opportunities Commission of Montgomery County	77	\$ 344,689,762
CDA SHOP Loans	2	6,229,027
CDA Single Family Loans Under Multi-Family Reserves	145	14,991,239
	1	8,529
Total	<u>225</u>	<u>\$ 365,918,557</u>

As of June 30, 2018, MHF had commitments of \$10,039,340 which had not yet been drawn.

Single-Family Mortgages

All loans insured by MHF are with approved lenders and are collateralized by a first or second lien against the improved property, which must be located in the state of Maryland. The details of insured loans and commitments to insure loans as of June 30, 2018, were as follows:

	<u>Insured Mortgages</u>			
	<u>Number</u>	<u>Original Amount</u>	<u>Current Amount</u>	<u>Contingent Liability</u>
Primary Insurance Coverage				
Single Family Regular				
25% Insured	1,036	\$ 56,400,170	\$ 18,953,148	\$ 4,738,287
35% Insured	257	55,362,517	48,630,495	17,020,673
Revitalization (Pilot) Program				
100% Insured	8	252,450	114,067	114,067
2.5% Insured	313	45,930,803	29,258,122	731,453
General				
35% Insured	25	6,587,325	5,823,352	2,038,173
Total	<u>1,639</u>	<u>\$ 164,533,265</u>	<u>\$ 102,779,184</u>	<u>\$ 24,642,653</u>

As of June 30, 2018, MHF had committed primary insurance coverage on 19 mortgages under the Revitalization Reserve, Healthy Neighborhood Program in the amount of \$2,610,298 and is liable for 2.50%.

Effective August 1, 2010, MHF was released from any obligation to provide pool insurance for loans originated prior to 2005.

**MARYLAND HOUSING FUND
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NOTE 10 PENSION AND OTHER POST-RETIREMENT BENEFITS

Eligible employees of the state of Maryland are covered under the retirement plans of the State Retirement and Pension System of Maryland (the System) and are also entitled to certain healthcare benefits upon retirement. MHF's only obligation for retirement and post-employment benefits is its required annual contribution, which was paid in full by MHF to the state of Maryland prior to year-end. The liability for the employees is recorded by the general fund of the state of Maryland and is not allocated to MHF. The System prepares a separate audited Comprehensive Annual Financial Report which can be obtained from the State Retirement and Pension System of Maryland, 120 East Baltimore Street, Baltimore, Maryland 21202 or by visiting the website at www.sra.state.md.us.