

THE MARYLAND HOUSING FUND ANNUAL REPORT: FISCAL YEAR 2017

A Report to the Maryland General Assembly



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Maryland Department of Housing and Community Development
7800 Harkins Road
Lanham, Maryland 20706
(301) 429-7699
1- 800-756-0119, ext. 7699

<http://www.dhcd.maryland.gov>

Lawrence J. Hogan, Jr., Governor
Boyd K. Rutherford, Lieutenant Governor
Kenneth C. Holt, Secretary DHCD
Tony Reed, Deputy Secretary DHCD



The Maryland Department of Housing and Community Development (DHCD) pledges to foster the letter and spirit of the law for achieving equal housing opportunity in Maryland.

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1.0 THE MHF INSURANCE PROGRAM

The following describes the mortgage insurance programs administered by the Maryland Housing Fund (“MHF”) pursuant to Section 3-201 through 3-208 of the Housing and Community Development Article of the Annotated Code of Maryland, as amended (the “MHF Statute”), and is qualified in its entirety by reference to the MHF Statute and the regulations thereunder (the “MHF Regulations”).

MHF was created in 1971 as a special insurance fund of the State of Maryland and is a governmental unit in the Division of Credit Assurance of the Department. MHF is authorized to insure mortgage loans, including mortgage loans for multifamily developments financed by public agencies such as the Administration (“Multifamily loans”), to provide primary insurance for single family mortgage loans (“Single Family loans”), and to provide credit enhancement for loans to small businesses (“Small Business loans”). 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 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.

In early 1997, the Department suspended all insurance activity of MHF (except for pool insurance for certain Single Family loans), partly as a result of concerns expressed by Moody’s Investors Service (“Moody’s”) during the 1996 and 1997 rating review. The Department responded to Moody’s concerns and has consulted with Moody’s regarding the implementation of certain of MHF’s insurance programs. MHF continues to service active insured loans originated prior to 1997 and is operating the insurance programs described below.

1.1 Multifamily Loan Programs

MHF insures mortgage loans under a group home loan program known as “SHOP” (Special Housing Opportunities Program) that finance or refinance 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 program with loans funded through the Administration and insured by MHF.

The Administration is a participant in the Federal Housing and Administration’s (“FHA”) Risk-Sharing Program (the “FHA Risk-Sharing Program”) for multifamily loans. As a Level I participant under the FHA Risk-Sharing Program, upon payment of a claim by FHA, the Administration would be responsible for reimbursement to FHA of up to 50% of such claim. As a Level II participant under the FHA Risk-Sharing Program, the Administration would be responsible for reimbursement to FHA of up to 25% of such claim. The Administration expects that MHF would reimburse the Administration for its share of such losses, pursuant to a commitment letter issued by MHF to the Administration in connection with each loan. Between 1997 and 2004, the Administration participated in the FHA Risk-Sharing Program only in connection with the refinancing of loans then insured by MHF where the Administration was able to decrease the dollar amount of MHF’s insurance exposure with respect to such loans. In 2004, the Department expanded its MHF insurance program for new loans funded through the Administration with credit enhancement under the FHA Risk-Sharing Program.

MHF has also provided mortgage insurance for short term loans made by the Administration pursuant to the Tax Credit Bridge Loan Insurance program. For a project which qualifies for federal low income housing tax credits, MHF provided limited insurance for bridge loans made by the Administration until equity capital contributions were made by

1.3 Small Business Loan Programs

Legislation was passed effective July 1, 2016, allowing MHF to provide insurance coverage and credit enhancement to loans originated by the Administration or other eligible lenders on business projects that will acquire, operate, construct or rehabilitate businesses located in publicly designated renewal or redevelopment areas. This program is governed by Sections 3-203 and 3-206 of the MHF Statute. MHF transferred \$1.5 million of the Unallocated Reserve to the General Reserve to insure loans under the Small Business Loan Program. The first loan insured under this program originated during 2017.

1.4 Additional Information

For fiscal year 2003, the Maryland Department of Legislative Services asked MHF and the Administration whether there were funds available for transfer to the State. After being advised by Moody's that a transfer, in and of itself, would not have an adverse effect on the rating of the Administration's outstanding parity debt, including the Bonds MHF transferred \$10 million from the Unallocated Reserve to the State. There was no transfer in 2004, 2005, 2006, or 2007. Legislation was enacted during the 2008 session (SB 983) requiring another \$10 million to be transferred. Beginning in fiscal year 2010, and as codified at section 3-203(i) of the MHF Statute, any amount in the Unallocated Reserve at the end of any fiscal year that exceeds an amount necessary to provide backing for insurance issued by MHF by more than \$10 million, shall be transferred to the Department's revolving housing loan funds. During the fiscal years ending June 30, 2012, 2013, 2014, 2015, 2016 and 2017, MHF transferred \$2.1 million, \$1.1 million, \$0.77 million, \$0.88 million, \$0.87 million, and \$0.94 million, respectively. For more information, see "Management's Presentation of the MHF Program" below.

2.0 MANAGEMENT'S PRESENTATION OF THE MHF PROGRAM

The following information is management's presentation of the MHF Program.

2.1 Financial Statements and Information

The financial statement of MHF for the fiscal years ending June 30, 2016 and June 30, 2017 has been audited by CliftonLarsonAllen LLP, and the financial statements for the fiscal year ending June 30, 2015 have been audited by CohnReznick LLP. As indicated in the report of the auditors, such financial statements have been prepared in conformity with accounting principles and the audits conducted in accordance with auditing standards generally accepted in the United States. The financial statements of MHF are reported on a consolidated basis combining results of operations for all of the MHF Programs.

2.2 Income and Reserves

MHF's income from insurance premiums is used to pay expenses.

MHF currently maintains five insurance reserves, which are separate from MHF's operating funds. Four of the reserves cover specific categories of insurance: the Multifamily Reserve, the Single Family Regular Program Reserve, the Revitalization Reserve, and the General Reserve. The investment earnings on each of the four specific reserves are credited to a fifth reserve, the Unallocated Reserve, which may be used to pay claims on all categories of insurance, or may be transferred into any other reserve, or may be restricted for claims under a particular category. The Unallocated Reserve is available for any category of claims or for any other purpose consistent with contractual obligations with the

As described below in “Single Family Information – Certain Additional Expected Single Family Claims” and “Multifamily Information – Certain Additional Expected Multifamily Claims,” the Administration has notified MHF of defaults under insured mortgages that are expected to result in additional claims to MHF. Payment of these claims is not reflected in MHF’s Statement of Net Assets; however, MHF included provisions for these claims in its allowance for unpaid insurance losses.

3.0 DISCUSSION OF OPERATING CASH ACCOUNT

3.1 Selected Activity in MHF’s Operating Cash Account

The following table is management’s presentation of selected activity in MHF’s operating cash account as of June 30, 2017.

	<u>Single Family</u>	<u>Multifamily</u>	<u>Business</u>	<u>Total</u>
Premiums and Fees Collected ⁽¹⁾	\$ 155,659	\$ 991,031	\$ 35,000	\$ 1,181,690
Operating Expenses Paid ⁽²⁾	(80,898)	(515,179)	(18,182)	(614,259)
Premiums Net of Operating Expenses	74,761	475,852	16,818	567,431
Claims ⁽³⁾	(613,276)	-	-	(613,276)
Recoveries ⁽⁴⁾	14,051	-	-	14,051
Net Claim Activity	(599,225)	-	-	(599,225)
Other ⁽⁵⁾	(167,853)	26,860	-	(140,993)
Net Cash from Selected Activity	<u>(\$692,317)</u>	<u>\$502,712</u>	<u>\$16,818</u>	<u>(\$172,787)</u>

Notes:

⁽¹⁾ Premiums and credit enhancement related fees as collected.

⁽²⁾ Operating expenses include salaries and benefits, general administrative and intradepartmental expenses.

⁽³⁾ Amount includes principal, interest, and supplemental expenses incurred on claims and carrying costs on acquired properties.

⁽⁴⁾ Includes proceeds collected on the sale of loans or acquired properties.

⁽⁵⁾ Amount includes changes in other assets and liabilities such as mortgage receivables, notes payables, and escrows.

During the fiscal year ending June 30, 2016 the net cash activity in MHF’s operating cash was (\$2,420,476) for Single Family and \$1,033,294 for Multifamily. The change in Single Family is due to decrease in recoveries. The change in Multifamily is due to increase in recoveries.

During the fiscal year ending June 30, 2017 the net activity in MHF’s operating cash was (\$692,317) for Single Family and \$502,712 for Multi-Family. The change in Single Family cash is due to claims paid combined with an increase in receivables relating to acquired properties and properties in the process of foreclosure. The change in Multi-Family cash is due to premiums outpacing allocated operating expenses.

3.2 Liquidity

MHF’s primary uses of funds are to pay its operating expenses (direct and indirect) and to satisfy Multifamily and Single Family claims under its insurance policies resulting from a loan default (payment or physical) by an insured

that no new insurance payable from the Single Family Reserve shall be issued or committed to, if upon such issuance or commitment and subsequent issuance, that ratio would be exceeded.

Due to MHF having never insured loans that were securitized by Fannie Mae, on April 4, 2014 MHF notified Fannie Mae of its intent to cease seeking certification as a Fannie Mae qualified insurer and requested that Fannie Mae remove MHF from its list of eligible mortgage insurance providers. The Administration and MHF have entered into the First Amendment to Insurance Agreement Between the Maryland Housing Fund and the Community Development Administration, dated as of April 30, 2014, which eliminates the obligation of MHF to take all actions necessary for the qualification of Single Family Regular Program insurance as mortgage insurance from a qualified insurer within the meaning of Section 3.02(6)(2) of the Fannie Mae Charter Act.

3.4 Selected Information about the Single Family Regular Reserve Ratios

	<u>06/30/15</u>	<u>06/30/16</u>	<u>06/30/17</u>
Single Family Regular Program Reserve ⁽¹⁾⁽²⁾	\$ 16,998,461	\$ 15,654,671	\$15,126,302
Amount Available for Calculation of "Ratio of Insurance to Available Reserve" ⁽³⁾	16,998,461	15,654,671	15,126,302
Primary Insurance coverage in force ⁽⁴⁾			
Insurance Agreement prior to 2005	9,045,862	7,177,309	5,752,512
Insurance Agreement post 2005	19,732,726	17,362,733	17,974,919
Pool Insurance coverage in force ⁽⁵⁾	-	-	-
Ratio of Mortgage Loans to the Regular Reserve ⁽⁶⁾	1.69 to 1	1.57 to 1	1.57 to 1

Notes:

⁽¹⁾ The Single Family Program does not include amounts, if any, which have been restricted for possible additional insurance coverage in the Unallocated Reserve. As of June 30, 2017 MHF had committed no additional primary insurance coverage.

⁽²⁾ Fund balances for MHF reserves are calculated in the same manner as in the financial statements of MHF and include investment income earned and allocated by the Secretary to the Single Family Regular Program Reserve.

⁽³⁾ In order to determine the leverage ratios, if the Unrestricted Accumulated Deficit exceeds the Unallocated Reserve, the Single Family Regular Reserve or the Multi-Family Reserve may be reduced in a manner determined by MHF to be appropriate. As of June 30, 2017, there was no reduction in the Single Family Reserve to cover the accumulated deficit.

⁽⁴⁾ The primary insurance coverage is 25% of the allowable claim for loans insured prior to 2005 under the Single Family Insurance Agreement (\$23,010,048 at June 30, 2017). The primary insurance coverage is 35% of the allowable claim for loans insured under the 2005 Single Family Insurance Agreement (\$51,356,912 at June 30, 2017).

⁽⁵⁾ In 2010 MHF provided pool coverage for certain loans done by the Administration prior to 1997. Effective August 1, 2010 the Administration released MHF from any obligation to provide pool insurance for MHF Pool-Insured Loans.

⁽⁶⁾ The ratio in the table is computed based on the maximum amount of risk rather than the aggregate amount of mortgage loans insured, where the maximum amount of risk is calculated by taking (i) the aggregate amount of pool insurance coverage required for the Administration; and then adding to that product (ii) the maximum amount of risk on loans insured under the Single Family Regular Program (see 4 above), and then dividing the sum of those two amounts by (iii) the amount of the Single Family Regular Program Reserve. As of June 30, 2011 MHF fully allowed for the \$12.5 million for the Reinsurance Program by reducing the amount from the Single Family Regular Reserve Program. Therefore, the aggregate amount of reinsurance coverage is not included in the ratio.

4.0 SINGLE FAMILY INFORMATION

4.1 Certain Additional Expected Single Family Claims

Under its Single Family Regular insurance program, MHF is not obligated to pay claims on Single Family insurance until after the insured lender has completed foreclosure, evicted the occupants of the properties (if necessary) and restored the property to a condition satisfactory to MHF. As a result, at any time there are a number of mortgages that have been foreclosed and which are likely to result in payment of claims, but which have not yet reached the point where MHF recognizes them as liabilities in its financial statements. The total principal amount of such potential claims was \$94,768 as of June 30, 2017. On a quarterly basis, MHF includes its projection of net losses with respect to these potential claims in its financial statements as part of the allowance for Single Family insurance losses. Although these amounts are not payable from the Multifamily Reserve, they are potentially payable from other resources of MHF, including operating cash, the Unallocated Reserve and the Single Family Reserve.

4.2 Discussion of Single Family Operations

MHF has taken steps to address the potential Single Family claims. A part of this focus is applying more active loss mitigation strategies to Single Family loans to prevent them from going to foreclosure, including forbearance and extended repayment plans. In addition, operational reviews of the loan servicers are ongoing. The reviews are intended to insure that loss mitigation strategies are being pursued in applicable cases.

MHF is also managing its sales of units acquired through foreclosure or similar action to improve overall returns by employing private sector real estate brokers to perform repairs, listings and sales of all REO units.

4.3 Single Family Claims Experience

The following chart sets forth information about claims on mortgage loans insured under the Single Family Regular Program Reserve and the Revitalization Reserve. This data includes net claim activity for properties sold during fiscal years ending June 30, 2015, June 30, 2016 and June 30, 2017. No properties were acquired by MHF during 2016 or 2017 as the Administration elected to keep title to all acquired properties and only request MHF to pay its prorata claim amount of \$1,295,671 and \$613,276, respectively. The data for all of these reporting periods are subject to adjustment due to additional expenses paid and proceeds received after June 30, 2017.

- (2) Fixed Percentage Settlement – claim settlement under this option is applicable when MHF provides for payment based on a declared percentage of the outstanding loan amount before foreclosure sale, and MHF, under this method, also waives any interest in the subject property;
- (3) Lender Acquisition Settlement – the lender acquires title at foreclosure (or by deed in lieu of foreclosure) and transfers title to MHF, and MHF pays the amount of the claim up to the percentage specified in the insurance policy; and
- (4) Third Party Acquisition – when the property is sold to a third party (at foreclosure, by the lender after taking a deed in lieu of foreclosure, or by the borrower after the commencement of foreclosure proceedings), with the approval of MHF, MHF pays the lesser of the percentage specified in the primary policy before crediting net sales proceeds or the full claim after crediting net proceeds of sale.

For claims paid under the Lender Acquisition Settlement method, MHF requires the Administration to take all steps required after default in order to deliver the property to MHF in a condition satisfactory to MHF. These steps may include foreclosure, eviction of the occupants if necessary, and cleaning of the property. As a result, a substantial period of time may elapse between the time an insured loan goes into default and payment of a claim. MHF Regulations regarding Single Family mortgage insurance do not require MHF to pay interest on a claim from the time an insured lender acquires title to the property, or from the date MHF agrees to take a Loan Assignment or make a Fixed Percentage Settlement, to the time the claim is paid. Claims are not paid after the title to the property has been conveyed, which is at least 60 days after foreclosure and could be longer.

MHF will review cases that involve claims of more than nine months of delinquent interest on a case by case basis to ascertain the cause for the delayed claim and determine the amount of interest, if any, in excess of nine months to be paid. Interest will be paid in excess of nine months where circumstances beyond the control of the insured lender caused the delay in making the claim, such as the filing of bankruptcy by the mortgagor.

5.0 MULTIFAMILY INFORMATION

5.1 Multifamily Insurance in Force and Available Reserves

The following table sets forth information about outstanding insurance on mortgage loans under MHF's Multifamily program as of June 30, 2017. The amounts shown are net of debt service claim payments. The amounts shown do not include insurance on mortgage loans insured by MHF and reinsured by the Federal Home Loan Mortgage Corporation ("FHLMC" or "Freddie Mac"). See the "Reinsurance Agreement" below. The final reinsured mortgage loan paid off during the fiscal year. MHF does not currently have the need to reinsure additional loans through FHLMC.

In addition to the loans listed below, as of June 30, 2017 Single Family loans financed with the proceeds of Housing Revenue Bonds of the Administration, with outstanding principal balances in the aggregate amount of \$10,540, are insured under the Multifamily Reserves.

5.4 Discussion of Multifamily Operations

Portfolio Risk Rating. Since June 1997, the Department has developed and implemented a rating system for the MHF-insured Multifamily portfolio. The Department evaluates each insured project each quarter and assigns the loan a rating of “A,” “B,” or “C.” Factors considered in evaluating projects include the project type, the vacancy level, net operating income and debt service coverage ratio, whether the mortgage is delinquent, the age of the loan and the age of the project, whether there is significant deferred maintenance, adequacy of funds held in reserve for replacements in relation to age and condition of project, rating by the Department in its annual management review, and stability of the market surrounding the property.

“A” Projects are those projects that require no more than standard attention because factors indicate the least prospect of default.

“B” Projects are those projects which are not in default but require more oversight and monitoring and present the possibility for default if existing conditions deteriorate further.

“C” Projects are those projects that are in financial or physical default.

5.5 MHF’s Risk Rating of the Multifamily Projects as of June 30, 2017

	Current Principal Balances	Percentage of Total Principal	Number of Loans	Number of Projects
"A" Loans: ⁽¹⁾	325,176,881	93.16%	65	58
"B" Loans:	23,887,397	6.84%	8	7
Portfolio Totals:	\$349,064,278	100.00%	73	65

Notes:

⁽¹⁾ Included in the 'A' Loans, in the “Current Principal Balance” column, is \$15,890,368 for 149 group home loans, which are not reflected in the 'Number of Loans' or 'Number of Projects' columns.

Portfolio Management. The Division is evaluating each of the loans in the “B” category to develop a plan for stabilizing the loans and reducing its potential for default. Strategies may include loan modification, use of additional resources, adjustments to funding of reserves for replacement going forward, and replacement of management agents. As of June 30, 2017 there were no loans in the “C” category.

5.6 Multifamily Claims Experience

The following chart describes claims paid by MHF on loans insured under the Multifamily Reserve as of June 30, 2017.

Notes:

- (1) Claims on eight Single Family loans insured under the Multi-Family Reserve before 1980.
- (2) Bond Street Deed of Trust Note in the original principal amount of \$543,940.
- (3) Belleview-Manchester was a Construction Loan under Administration's HELP Program; secured by a second mortgage. First insured lender bought property at the foreclosure sale.
- (4) Strathdale Manor Apartments Deed of Trust Note in the original principal amount of \$14,285,000. Claim amount paid by MHF included \$10,700,000 of original principal on the Note and \$145,139 in interest. MHF paid \$2,205,204 of operating deficits for the project. The proceeds of a letter of credit in the amount of \$3,585,000 provided by Maryland National Bank were used to cover the rest of the original principal portion of the Note. As required by an intercreditor agreement between MHF and Maryland National Bank, MHF filed for foreclosure on August 4, 1994, and after prolonged negotiations with Baltimore City, the project developer, and other developers interested in further renovating the project proved unsuccessful, the property was sold to Baltimore City at foreclosure on April 15, 1997. The property was sold for an amount that was insufficient to provide any recovery to MHF.
- (5) Walker Mill Deed of Trust Note in the original principal amount of \$4,400,000, as modified by an allonge dated November 5, 1987, reducing the principal amount of the Note to \$3,400,000. The Deed of Trust Note was sold and assigned to an unrelated third party purchaser on February 6, 1997.
- (6) Edmondale Deed of Trust Note was in the original principal amount of \$508,000.
- (7) Town Properties Deed of Trust Note in the original principal amount of \$884,984. The property was sold to an unrelated third party at foreclosure on August 7, 1997.
- (8) Loch Raven Deed of Trust in the original principal amounts, as amended into two, Deed of Trust Notes: of \$9,765,000 and \$2,785,000, respectively. In return, the Administration accepted a demand note from MHF in the principal amount of \$11,782,615, the amount of the outstanding indebtedness net of the non-refundable deposit for the sale of the Deed of Trust Notes bearing interest at 8.25%. The Deed of Trust Notes were sold and assigned to an affiliate of the borrower on February 3, 1998. MHF received net sale proceeds in the amount of \$8,900,000, which were combined with additional claim payments totaling \$2,890,216 to repay the claim note and accrued interest. The net loss on the transaction was paid from the Unallocated Reserve.
- (9) Village Home Apartments Deed of Trust Note in the original principal amount of \$986,856, dated September 30, 1993. The property was sold for \$640,000. The Administration accepted a claim note from MHF for \$1,009,109. MHF paid \$318,664 plus \$50,720 paid previously as pre-claim payments and \$275 per diem interest and then signed over the proceeds to repay the claim note in December 1999.
- (10) Regent Apartments Deed of Trust Note in the original principal amount of \$1,255,000 dated September 16, 1994. The property was sold for \$860,603. The Administration accepted a claim note from MHF for \$1,299,265. MHF paid \$383,187 plus \$55,475 paid previously as pre-claim payments and \$636 per diem interest and then signed over the proceeds to repay the claim note in January 1999.
- (11) Maple Avenue Deed of Trust Note in the original principal amount of \$3,150,000 dated March 12, 1992. The property was sold for \$1,700,000 less settlement charges. The Administration accepted a claim note from MHF for \$2,953,878. MHF paid \$1,288,286 plus \$310,294 paid previously as pre-claim payments, \$1,259 per diem interest, signed over the proceeds, and, with \$10,000 received directly by the Administration, repaid the claim note in June 1999.
- (12) Westfield Apartments Deed of Trust Note in the original principal amount of \$4,600,000 dated April 12, 1983. The property was sold for \$2,910,539. MHF paid a partial claim in the amount of \$1,433,520 that includes \$390,924 of accrued interest plus \$448,303 paid previously as pre-claim payments.
- (13) Westfield Gardens Deed of Trust Notes in the original principal amounts of \$498,908 and \$28,150 dated September 21, 1983. The property was sold for \$279,435. MHF paid a partial claim in the amount of \$180,318, which included \$1,735 of accrued interest, plus \$38,739 paid previously as pre-claim payments.
- (14) Apartments at the Greens Deed of Trust Notes in the original principal amounts of \$6,348,627 and \$341,850 dated April 21, 1983. The property was sold for \$6,010,026. MHF paid a partial claim in the amount of \$302,222, which included \$21,927 of accrued interest, plus \$46,963 paid previously as pre-claim payments.

trust lien on the land and improvements on which the project is located. To date the project has made net payments on the MHF Note of \$490,510. In July 2010, the loan was paid off and MHF received payment in the amount of \$627,893.

⁽²⁵⁾ Villages of Laurel Deed of Trust Note, is in the original amount of \$5,140,000. The loan was refunded with \$3,173,200 in new bond proceeds. MHF made a partial claim payment in the amount of \$1,645,098 and pre-claim payments in the amount of \$825,689. MHF received cash of \$54,023 and a Cash Flow Note in the amount of \$2,416,765, equal to the net claim paid. The MHF Note is secured by a second deed of trust lien on the land and improvements on which the project is located. To date the project has made net payments on the MHF Note of \$686,059. In March 2011, the loan was paid off and MHF received payment in the amount of \$1,730,706.

⁽²⁶⁾ Hollins Townhouses Deed of Trust Note in the original principal amount of \$2,300,000. MHF paid all amounts in arrears totaling \$176,025, and the Administration accepted a promissory note from MHF in the total principal amount of \$2,427,094, with interest at the annual rate of 7%, which had a maturity date of December 31, 1995. MHF paid the claim note in full as of February 22, 1995. To date, MHF has paid principal and interest on the claim note and operating deficits in full as of February 22, 1995. To date, MHF has paid principal and interest on the claim note and operating deficits in the total amount of \$3,518,764. MHF foreclosed on this development in an uncontested foreclosure proceeding held on July 14, 1995. The original collateral for the loan consisted of 48 scattered site units of which the last unit was sold in April 2011.

⁽²⁷⁾ Renaissance Plaza Deed of Trust Note in the original principal amount of \$7,000,000. MHF paid all amounts in arrears totaling \$428,052 in February 1991. In connection with the default, MHF also paid additional principal of \$6,880,050; interest totaling \$1,498,664, and operating deficits in the amount of \$2,781,137. The Renaissance Plaza project, which consists of three buildings, has been sold pursuant to the orders of a judicial receivership. Closing on the sale of one building occurred on December 30, 1993. MHF received two notes in payment of the purchase price: a first lien mortgage in the amount of \$2,722,544 at 6.22% interest, \$365,000 of which is an amortizing loan, the balance to be paid out of cash flow, if any from the properties; and a second lien gap note in the amount of \$512,404 at 0% interest until maturity. The gap note was paid in full at the closing of financing for rehabilitation of the building on February 18, 1994. The closing of the other two buildings occurred on December 14, 1994. MHF received three notes in payment of the purchase price for the two buildings: a first lien mortgage in the amount of \$2,600,000 at 7.4% interest to begin amortizing on January 1, 1997; a second lien mortgage in the amount of \$4,450,000 at 8.23% interest to be paid out of cash flow, if any, from the properties; and a third lien gap note in the amount of \$500,000 at 0% interest until maturity (April 13, 1995), and a default rate of 7.4% interest. The gap note was paid in full at the closing of financing for rehabilitation of the two buildings on February 14, 1995. The \$2,600,000 deed of trust note was sold at par and assigned to the Administration on September 24, 1996, in connection with an issuance of bonds by the Administration.

⁽²⁸⁾ In February 1996, MHF accepted assignment of a Deed of Trust and Deed of Trust Note in the original principal amount of \$3,900,000 for a project called Mount Pleasant. MHF paid a claim for the project in the amount of \$4,107,891 on February 15, 1996. The property was sold to new ownership that planned to rehabilitate the project using a combination of new equity funds and State and City of Baltimore financing in combination with proceeds of the Administration's Multi-Family 1995 December Bond Issue in the amount of \$2,550,000. New Administration and MHF loan documents were executed in conjunction with a loan closing in July 1996. MHF received a Deed of Trust Note in the amount of \$1,087,259 of which \$293,770 is an amortizing 0% interest loan, and the balance is a cash flow loan with interest accruing at 2% per annum. MHF received partial recovery of \$2,450,000 at the time of closing and \$1,066,720 in September 1996. Reserves for construction contingences and various operating expenses, in the amount of \$460,305, were funded from the recovery proceeds. In June 1998, a construction reserve held by MHF in the amount of \$198,000 and cost certification savings received from the Administration in the amount of \$100,513 were applied to reduce the outstanding principal balance of the Deed of Trust note held by MHF.

⁽²⁹⁾ In May 1996, MHF accepted assignment of a Deed of Trust and Deed of Trust Note in the original amount of \$2,000,000, which financed a project known as Lease Purchase. MHF paid a claim for the project in the amount of \$1,587,498 on May 15, 1996. MHF received partial recovery of this amount upon disposition of the underlying collateral. MHF accepted a deed of assignment on this project on July 12, 1996. Thirty-six of the original 40 units have been sold and the majority of the remaining units are occupied by tenants, some of whom are candidates to purchase their properties.

6.0 ACTUARIAL STUDY

The Insurance Agreement amended in 2006 no longer requires periodic actuarial studies.

Financial operations for MHF have been centralized and are now within the Division of Finance and Administration for the Department.

Certain senior staff members of the Division of Credit Assurance, the Division of Finance and Administration, and MHF are as follows:

<u>Name</u>	<u>Position</u>
Allen W. Cartwright, Jr.	Director, Division of Credit Assurance and MHF
Sergei V. Kuzmenchuk	Chief Financial Officer
Ruth Putnam	Director, Division of Finance and Administration
Robyne Chaconas	Deputy Director, Division of Finance and Administration
Crystal Quinzani	Director of MHF Finance, Division of Finance and Administration

Allen W. Cartwright, Jr. joined the staff of the Division of Credit Assurance as the Deputy Director of MHF in March 2006. Currently, Mr. Cartwright is the Director, Division of Credit Assurance and Director, Maryland Housing Fund. Mr. Cartwright previously served as MHF Manager of Finance from 1988 through 1991. Prior to rejoining the Division of Credit Assurance in 2006, Mr. Cartwright was the Chief of Mission Support and then Chief of Customer Care for the Washington Suburban Sanitary Commission from April 2000 through November 2005. Mr. Cartwright also served as the Director of Finance and then the Assistant Secretary of Finance and Administration for the Maryland Department of Natural Resources from May 1991 through April 2000. He has worked as a finance manager for the Federal Home Loan Mortgage Corporation (Freddie Mac), MCI and DuPont. He is a Certified Public Accountant and earned his Bachelor of Science in Commerce from the McIntire School of Commerce at the University of Virginia.

Sergei V. Kuzmenchuk joined the Department as its Chief Financial Officer in June of 2015 after serving as Chief Financial Officer at the District of Columbia Housing Finance Agency (the "DCHFA") since October 2008. Prior to joining the DCHFA, he served as the Department's Deputy Director of Finance for the Administration from August 2000 until January 2006, and Director of Finance for the Administration from January 2006 until October of 2008. Prior to his work at the Department and DCHFA, Mr. Kuzmenchuk worked in various financial management and international trade and banking capacities, both domestically and overseas. Mr. Kuzmenchuk earned his Master of Business Administration degree in Accounting in 2002 from the Joseph A. Sellinger, S.J., School of Business and Management, Loyola University, and in 1995 earned a Master of Public Management degree in Public Sector Financial Management from the School of Public Policy, University of Maryland, College Park. In 1993, Mr. Kuzmenchuk received his Bachelor of Arts and Master of Arts degrees in English and French Interpretation from the Minsk State Linguistic University, Minsk, Belarus.

Ruth Putnam was named Director of Finance and Administration in 2015. She has been with the Department since 1990 when she joined the Department in the Budget Office. Over the past 26 years she held numerous positions within the Department from Budget Director, Director of Fiscal Planning, Director of Insurance and Accounting, Deputy Director and now Director. Prior to joining the Department, she worked as Manager of Investor Relations in a private corporation. She holds a Bachelor of Arts in Finance from the University of Maryland and has started the Masters of Public Policy Program at the University of Baltimore.

Robyne Chaconas was named Deputy Director of Finance and Administration in May 2016. She came to the Department from the private sector, where she worked for a financial services firm, Robert W. Baird & Co for five years. Prior to that, she was with the Department from 2006-2010, where she held several positions in the Department, including Special Assistant, Legislative Liaison, and Budget Director. She holds a Bachelor of Science degree from the University of Maryland, College Park, and a Masters in Public Administration from the University of Baltimore.

MARYLAND HOUSING FUND
FINANCIAL STATEMENTS
YEARS ENDED JUNE 30, 2017 AND 2016



CliftonLarsonAllen LLP
CLAAconnect.com

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, 2017 and 2016, 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.

Auditor's 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 audits to obtain reasonable assurance about whether the financial statements are free of 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, 2017 and 2016, 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.

**MARYLAND HOUSING FUND
STATEMENTS OF NET POSITION
JUNE 30, 2017 AND 2016**

	2017	2016
ASSETS		
CURRENT ASSETS		
Unrestricted Current Assets:		
Deposit with State Treasurer:		
Operating Account	\$ 1,017,818	\$ 1,190,605
Loans and Interest Receivable, Net of Allowance for Loans and Related Losses	-	53,601
Acquired Property	66,580	66,580
Other	981,069	765,742
Total Unrestricted Current Assets	2,065,467	2,076,528
Restricted Current Assets:		
Deposit with State Treasurer:		
Reserve Accounts	82,030,726	82,068,311
Total Restricted Current Assets	82,030,726	82,068,311
Total Current Assets	84,096,193	84,144,839
NONCURRENT ASSETS		
Investment Held for Borrower	2,173,189	2,244,344
Loans and Interest Receivable, Net of Allowance for Loans and Related Losses and Current Portion	-	247,173
Total Noncurrent Assets	2,173,189	2,491,522
Total Assets	\$ 86,269,382	\$ 86,636,361

See accompanying Notes to Financial Statements

**MARYLAND HOUSING FUND
STATEMENTS OF REVENUES AND EXPENSES
YEARS ENDED JUNE 30, 2017 AND 2016**

	<u>2017</u>	<u>2016</u>
OPERATING REVENUES		
Net Premiums	\$ 1,256,095	\$ 1,619,328
Interest Income on Reserves	1,151,706	943,319
Interest Income on Loans	527,507	530,403
Other Income	219,605	67,685
Total Operating Revenues	<u>3,154,913</u>	<u>3,160,735</u>
OPERATING EXPENSES		
General and Administrative	906,834	1,787,938
Direct Losses on Claims	613,276	1,295,671
Provision (Benefit) for Insurance and Loan Losses	<u>(292,575)</u>	<u>288,456</u>
Total Operating Expenses	<u>1,227,535</u>	<u>3,372,065</u>
Operating Income (Loss) before Transfers	1,927,378	(211,330)
Transfer of Funds	<u>(943,319)</u>	<u>(868,580)</u>
CHANGE IN NET POSITION	984,059	(1,079,910)
Net Position - Beginning of Year	<u>71,049,195</u>	<u>72,129,105</u>
NET POSITION - END OF YEAR	<u>\$ 72,033,254</u>	<u>\$ 71,049,195</u>

See accompanying Notes to Financial Statements

**MARYLAND HOUSING FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

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), and to provide primary insurance for Single Family mortgage loans. 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 unit within the division of Housing Credit Assurance of the Department of Housing and Community Development (DHCD).

MHF maintains five restricted insurance reserves, which are separate from MHF's operating funds. Four of the reserves cover specific categories of insurance; the Multi-Family Reserve, the Single Family Regular Program Reserve, the Revitalization (PILOT) Reserve, and the General Reserve. The investment earnings on each of the four specific reserves are credited to a fifth reserve, the Unallocated Reserve, which may be used to pay claims on all categories of claims or for any other purpose consistent with the contractual obligations with the Administration's bondholders. In 2008, Legislation was passed under Senate Bill 983 requiring MHF to transfer from the Unallocated Account to DHCD's State Funded Revolving Housing Loan Programs all amounts in excess of \$10,000,000 at the end of each fiscal year. These transfers can be found in Note 8 on page 18 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. 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.

**MARYLAND HOUSING FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 1 PROGRAM DESCRIPTION (CONTINUED)

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

- Single Family Regular 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 through CDA bonds with primary coverage of only 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 in the mortgage, which will require no additional outlay of cash for closing, while lowering the monthly mortgage payment. MHF no longer issues new insurance under this program.
- Reinsurance Program commenced in 2011 and consists of mortgages that CDA originated between 2005 and 2010 which had only 35% mortgage insurance. Under the program, CDA pays a monthly premium for MHF to insure 50% of any losses incurred by CDA on the uninsured 65% up to \$12.5 million. The program terminates on the earliest date of either when MHF has reached \$12.5 million in net losses or December 31, 2020. All claims are paid from the Single Family Regular Reserve. The program terminated in May 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, 2017 AND 2016**

NOTE 2 SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

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, 2017 and 2016, 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 and current economic conditions 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, 2017 AND 2016**

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, 2017 and 2016 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.

	2017	2016
Investment held for Borrower (Obligations of U.S. Government Agencies)	\$ 2,173,189	\$ 2,244,344

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, 2017:

- Investments held for Borrower, consisting of a U.S. government treasury zero-coupon bond of \$2,173,189 carried at fair value based on quoted market prices (Level 1).

**MARYLAND HOUSING FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 5 UNEARNED PREMIUMS

The unearned premiums for the unexpired terms of all policies in force or written as of June 30, 2017 and 2016, and the changes for the years then ended were as follows:

	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 for the Year Ended June 30, 2016	<u>\$ 848,168</u>	<u>\$ 902,667</u>	<u>\$ 1,256,095</u>	<u>\$ 494,740</u>
	2016			
	Unearned Premiums at Beginning of Year	Premiums Written	Premiums Earned	Unearned Premiums at End of Year
Multi-Family Programs:				
Construction and Permanent Mortgages	\$ 731,709	\$ 1,439,724	\$ 1,544,596	\$ 626,837
SHOP Loans	32,230	44,018	50,897	25,351
Total Multi-Family Programs	<u>763,939</u>	<u>1,483,742</u>	<u>1,595,493</u>	<u>652,188</u>
Single Family Programs:				
Single Family Regular:				
Primary	89,606	-	-	89,606
Reinsurance	-	-	-	-
Revitalization (Pilot)	376	-	-	376
Community Development Administration Under Multi-Family Reserve	236	129,597	23,835	105,998
General	-	-	-	-
Total Single Family Programs	<u>90,218</u>	<u>129,597</u>	<u>23,835</u>	<u>195,980</u>
Total for the Year Ended June 30, 2015	<u>\$ 854,157</u>	<u>\$ 1,613,339</u>	<u>\$ 1,619,328</u>	<u>\$ 848,168</u>

**MARYLAND HOUSING FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

NOTE 7 ALLOWANCE FOR UNPAID INSURANCE LOSSES (CONTINUED)

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, 2017 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:

	Multi-Family	Single Family	Business	Total
Balance at June 30, 2015	\$ 7,520,713	\$ 4,381,330	\$ -	\$ 11,902,043
Increase (Decrease) in Provision	813,824	(915,654)	-	(101,830)
Balance at June 30, 2016	8,334,537	3,465,676	-	11,800,213
Increase (Decrease) in Provision	(996,684)	(106,333)	42,500	(1,060,517)
Balance at June 30, 2017	<u>\$ 7,337,853</u>	<u>\$ 3,359,343</u>	<u>\$ 42,500</u>	<u>\$ 10,739,696</u>

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	General Reserve	Unallocated Reserve		
BALANCE AT JUNE 30, 2015	\$ 44,898,739	\$ 16,998,460	\$ 2,185,258	\$ 8,593,422	\$ 10,868,580	\$ (11,215,354)	\$ 72,129,105
Interest Income Allocated at the Discretion of DHCD Secretary	-	-	-	-	943,319	(943,319)	-
Transfers Out to State Funded Loan Program	-	-	-	-	(868,580)	-	(868,580)
Change in Net Position	-	(1,343,789)	-	-	-	1,132,459	(211,330)
BALANCE AT JUNE 30, 2016	44,898,739	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 AT JUNE 30, 2017	<u>\$ 44,898,739</u>	<u>\$ 15,126,302</u>	<u>\$ 2,185,258</u>	<u>\$ 10,093,422</u>	<u>\$ 9,851,706</u>	<u>\$ (9,722,173)</u>	<u>\$ 72,033,254</u>

**MARYLAND HOUSING FUND
NOTES TO FINANCIAL STATEMENTS
JUNE 30, 2017 AND 2016**

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.