Center for Public Enterprise

A new class of supply-focused housing investment programs

Ashwin Warrior and Henry Walther, December 2025

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Executive Summary

When the housing tax credit program began in the late 1980s, few anticipated it would reach today's scale, facilitating more than sixty thousand new units of multifamily housing per year, approaching 20% of the nation's annual multifamily starts.

The scale of the programs employed by housing agencies across the country has grown so much in the more than three decades of the tax credit's existence that now, backlogs of projects applying to use the program have grown longer and longer in state after state. Because traditional federal resources like the Low-Income Housing Tax Credit (LIHTC), HOME, and tax-exempt bonds are increasingly oversubscribed, limiting the number of viable projects that can advance each year, many agencies have begun looking for strategies to move projects forward outside of the conventional financing toolkit.

Over the past few years, several state Housing Finance Agencies (HFAs) have converged around a new class of supply-focused investment tools to address today's challenges: a nationwide housing supply shortage, and affordability challenges growing all across the income spectrum. MassHousing, New York State Homes and Community Renewal (HCR), and the Michigan State Housing Development Authority (MSHDA) have each launched revolving funds that provide small, subordinate and quickly recycling public investments to unlock stalled and backlogged developments.

Each program is structured slightly differently, ranging from subordinate construction debt to preferred equity at the permanent stage, but they each share a common goal: accelerate production by deploying quickly revolving subordinate investments, without relying on scarce federal subsidies. Together, these efforts demonstrate an opportunity for HFAs to grow their role in financing new construction and creating affordability in their housing markets.

This report analyzes the mechanics, early outcomes, and lessons learned from these emerging models and highlights opportunities for HFAs and federal policymakers to scale this approach nationwide.

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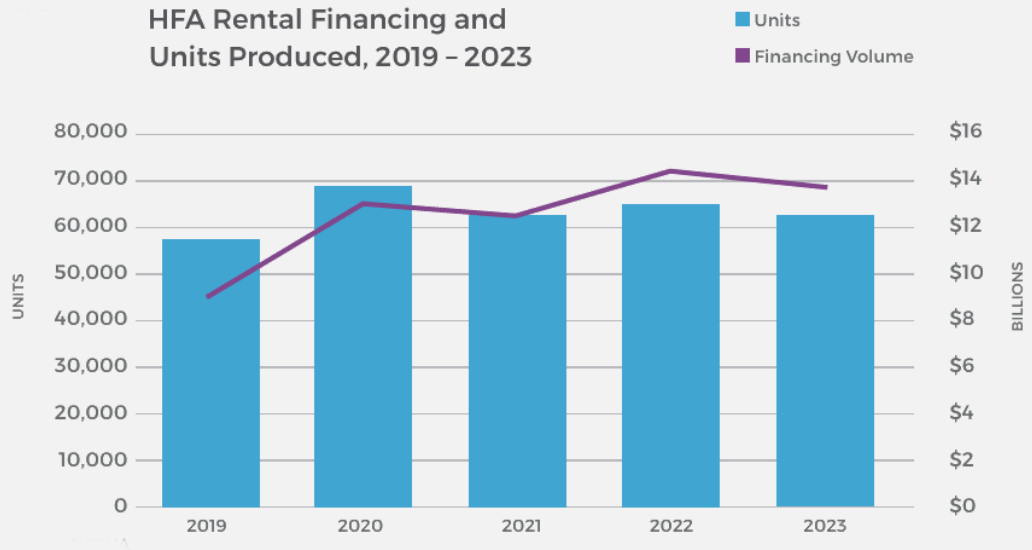
Housing Finance Agency Innovation: Supply-Focused Investment Programs

State Housing Finance Agencies (HFAs) have historically relied on three key federal programs to finance affordable multifamily housing: tax-exempt mortgage revenue bonds, the HOME Investment Partnerships Program (HOME) and the Low-Income Housing Tax Credit (LIHTC).[1] Collectively, these programs and others have helped HFAs finance over $12 billion annually and create more than 60,000 rental homes per year between 2020 and 2023.[2]

Figure 1



Source: National Council of State Housing Agencies[3]

Despite these efforts, demand continues to outstrip housing supply, with estimates of the unmet need ranging from 1.5 million across all home types to 7.4 million homes for rental housing, alone.[4] Existing federal resources available to HFAs are not keeping pace. HFAs across the country are routinely two to three times oversubscribed in request for LIHTC awards while an increasing number of states are running up against their private activity bond volume cap, limiting the amount of housing that can be financed with tax exempt bonds.[5]

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[1] Tax-exempt MRBs are sold by HFAs to investors to raise capital for affordable housing lending; HOME is a flexible federal block grant from HUD; LIHTC provides federal tax credits to developers, who then sell them to private investors to generate equity to build or renovate affordable housing.

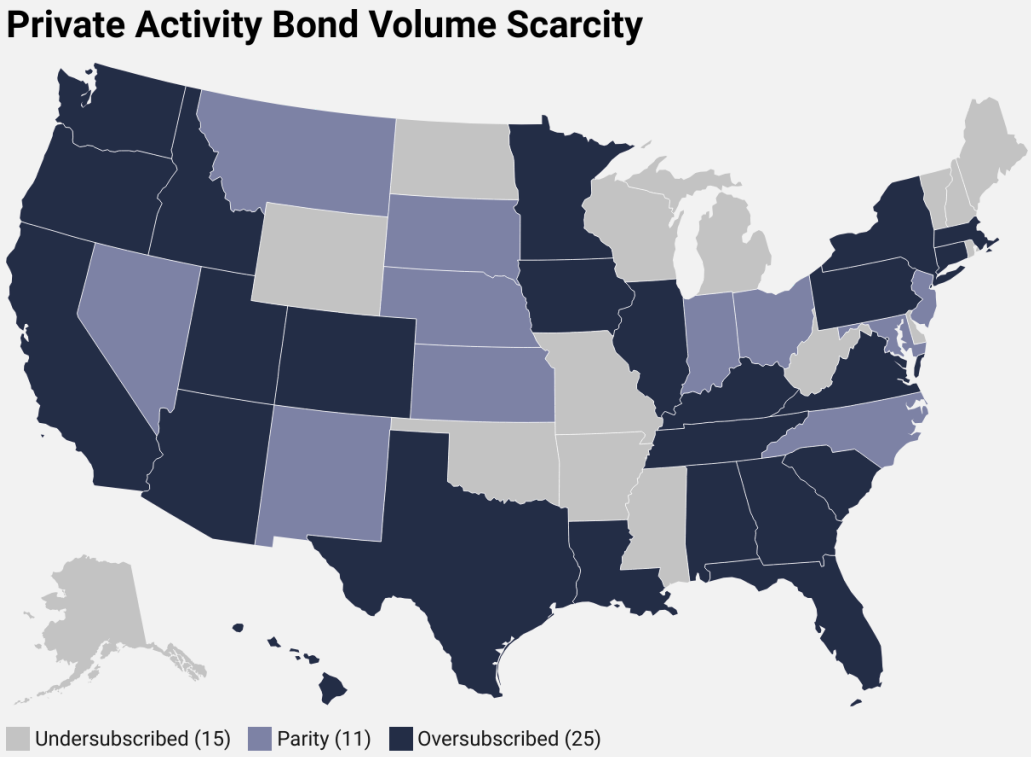
[2] National Council of State Housing Agencies. 2024. *State Housing Finance Agencies: At the Center of the Affordable Housing System.* National Council of State Housing Agencies.

[3] Ibid.

[4] deRitis, C. et al. 2025. *Bringing the Housing Shortage Into Sharper Focus*. Urban Institute.

[5] National Council of State Housing Agencies. 2015. *Statement of the National Council of State Housing Agencies to the Senate Finance Committee's Community Development and*

Figure 2



Source: Adapted from graphic produced by Novogradac & Tiber Hudson[6]

The situation is exacerbated by the current economic environment, with higher interest rates and rising labor and materials costs for multifamily housing putting a damper on both market rate and affordable production. These cost increases result in financing gaps that traditional, private-sector lenders are unable to bridge with standard loan products, leaving developers to turn to outside equity investors with return expectations that make projects infeasible.[7] Due to limited supply, more and more households are feeling the squeeze, with cost-burdens rising rapidly among middle-income households.[8]

Infrastructure Working Group in Support of Preserving and Strengthening the Low Income Housing Tax Credit and Tax-Exempt Private Activity Housing Bond Programs.

[6] Lawrence, P. 2025. "PAB Use for Multifamily Housing Continues to Grow; Financed-By Test Change May Stretch Cap". *Novogradac.*

[7] Williams, P., Y. Feygin. 2024. *Smoothing the Housing Investment Cycle.* Center for Public Enterprise, pg. 5.

[8] Joint Center for Housing Studies of Harvard University. 2025. *The State of the Nation's Housing 2025*.

HFAs introduce new housing supply tools

In the context of these challenges, state governments across the country are working with their HFAs to capitalize housing investment funds and pilot a new class of supply-focused investment programs: subordinate and quickly revolving debt or equity investments with below-market interest rates that can fill strategic financing gaps in mixed-income projects helping to jumpstart housing production.

Three models of innovation

This brief examines three of these newly developed HFA programs:

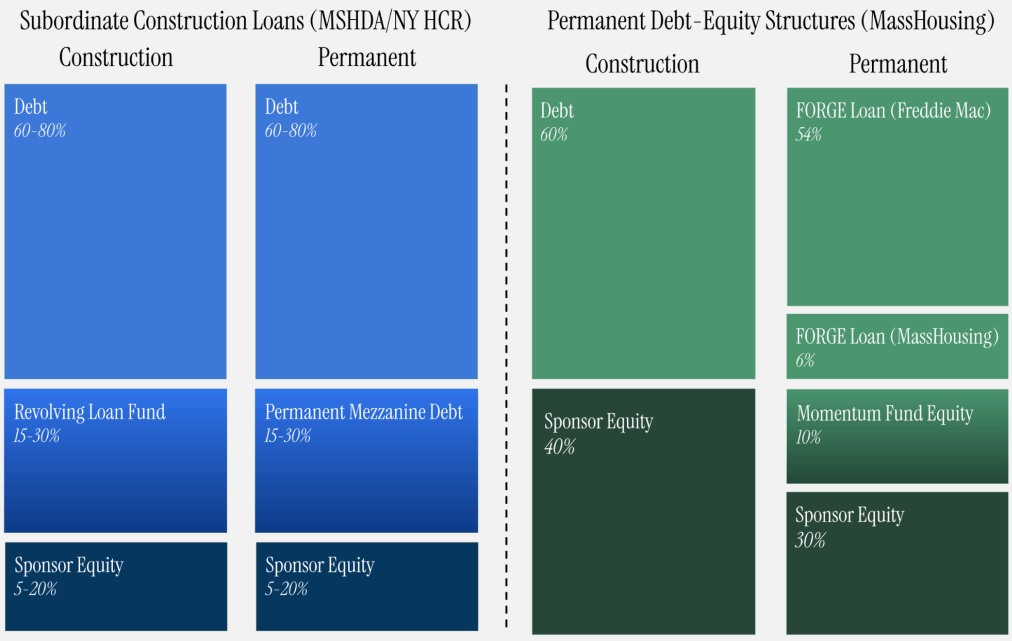
1. MassHousing's BILD (Bringing Innovation to Lending and Development) program
2. New York Housing and Community Renewal's (HCR) Housing Acceleration Fund
3. Michigan State Housing Development Authority (MSHDA) Housing Accelerator Fund

All three are structured as short term investments, but their structures differ in important ways: MSHDA and HCR provide subordinate construction debt. MassHousing's BILD program provides preferred equity (via their Momentum Fund) at the permanent financing stage, paired with a forward-committed senior loan (a "FORGE" loan).

Figure 3 below illustrates this difference. MSHDA and HCR (blue) provide subordinate construction financing, with their funds making up roughly 15-30% of the cost to construct the building. Public capital revolves at conversion to permanent financing, typically with the assistance of a source of permanent mezzanine financing provided by philanthropic, impact, or even private lenders.

In contrast, MassHousing (green) uses preferred equity in combination with a taxable FORGE loan offered in partnership with Freddie Mac. MassHousing financing comes in after construction, during the conversion to permanent financing. This results in lower risk, but repayment of public capital typically occurs later following a refinance or sale of the stabilized asset.

Figure 3



How these funds differ from traditional HFA lending

Many state HFAs already originate and administer construction or construction-to-permanent loans through their multifamily bond and lending programs.[9] These types of loans, however, tend to support individual projects with capital stacks more traditional to the affordable housing sector, such as bond financing paired with 4 percent LIHTC equity or as part of 9 percent LIHTC transaction.

A key difference between these LIHTC-based structures and these newer funds lies in the timing and lien position of the financial injection, as well as its interaction with other resources in the capital stack. **As illustrated in Figure 3 above, these non-traditional investment structures provide HFAs with additional flexibility to take earlier-stage and subordinate risk, sitting in the gap between senior debt and conventional equity**. They are also explicitly designed to not rely on scarce federal subsidies like LIHTC, though they can complement LIHTC to drive deeper affordability.

In this way, these HFAs investments more closely approximate the role of private or limited partner equity in traditional market-rate deals, trading private equity's double-digit return expectations for a lower rate of financial return but the production of a higher volume of

[9] See for example, CHFA's construction-to-perm and CAPABLE programs, Connecticut's construction-only and construction/perm loans, or Vermont's construction and permanent loan offerings.

affordable units. In MSHDA and HCR's case, these programs shift a portion of the construction phase credit risk directly onto public balance sheets. In MassHousing's case, the commitment of a public equity investment at conversion to permanent financing reduces the amount and cost of sponsor or limited partner equity, making deals more feasible. In both cases, these programs help lower the developer's weighted average cost of capital and accelerate production, all while giving HFAs a new tool to shape their local housing markets.

These models draw inspiration from the well-documented success of local HFAs, like the Montgomery County Housing Opportunities Commission (HOC), that have established revolving loan funds for similar purposes.[10] A key difference between these programs and mixed-income public development as practiced by HOC is the lack of an explicit public ownership or development component.[11] Thus far, HFAs establishing these programs have structured them solely as lending or investment vehicles—unlike HOC, which goes a step further and assumes ownership of properties it supports. This brief will focus on the investment vehicles on the lending side.

Benefits for HFAs

The benefits to the agency of these types of programs are threefold:

1. **Develop new project pipelines.** A powerful use for these types of tools is unsticking stalled market-rate projects. HFAs are able to pull forward housing production on existing projects that are fully entitled but would otherwise be stuck waiting for private equity or other gap financing, thereby speeding up the production of housing in the state and adding affordability without needing LIHTC. These tools can also provide an offramp for unsuccessful LIHTC applicants, providing an alternate pathway for projects that would otherwise wait years for funding.

2. **Recycle capital quickly.** These funds are designed to recycle public capital quickly, though the timing varies by structure. MSHDA and HCR revolve their short-term subordinate loans at permanent conversion (36–60 months), while MassHousing's preferred equity injection returns capital later, at refinance or sale of the property (5–10+

[10] See: 1) Housing Opportunities Commission. 2025. "Housing Production Fund."; 2) Williams, P. 2023. "The Basic Logistics of Public Development." Center for Public Enterprise.

[11] Public ownership models include the participation of a public developer that takes a majority ownership stake in the project, which enables a mission-driven entity to own and manage the asset and maintain it as affordable in perpetuity. Most HFAs do not directly own or manage real estate assets and prefer to participate in these models as a lender only. This lowers the long-term risk exposure to the agency and permits more rapid revolution of public capital, but it typically means the agency has less control over day-to-day operations at the property and enforces affordability requirements through a term-limited restrictive covenant. HFAs can still use this model to support public-public partnerships and support public development and permanent affordability, for example, by lending to a public housing or redevelopment authority.

years). In each model, repayments replenish the fund so that the initial appropriation can support multiple projects. The funds grow, not diminish, over time.

3. **Addressing a broader range of housing needs.** These programs unlock affordability through mixed-income production, with a significant portion of developments serving households above 60% AMI all the way up to market rate, meeting goals for housing production across the income spectrum.

In the following sections, we describe in greater detail the context, mechanics, and outcomes of MassHousing's BILD program, New York Housing and Community Renewal's Housing Acceleration Fund, and Michigan State Housing Development Agency's (MSHDA) Accelerator Fund.

Figure 4

State HFA Investment Program Comparison

	Massachusetts (BILD Program)	New York (Housing Acceleration Fund)	Michigan (Housing Accelerator Fund)
Capitalization	$50M state; $50M local match; co-investor platform planned.	$100M state + $115M private lenders	$75M planned using state funds + taxable bonds/philanthropy
Instrument Type	Preferred equity + subordinate second (permanent)	Subordinate construction loan	Subordinate construction loan
Risk Position	Equity-level risk with fixed return	Mezzanine/subordinate construction debt	Mezzanine/subordinate construction debt
Repayment/Revolving Mechanism	Repaid at sale/refi	Repaid at conversion	Repaid at conversion
Affordability Requirements	20% of units at 80% AMI	None required; prioritized	20% at 50% AMI or 40% at 60% AMI
Interest Rate / Cost of Loan	200 basis points over 10 year treasury	3% interest-only state contribution blended with higher rate private capital	Flexible, concessionary
Loan / Investment Limit	Intended to cover 25-35% of total equity.	$30M in NYC, $20M balance of state	Flexible; case-by-case

Table: Center for Public Enterprise • Created with Datawrapper

Case Studies

MassHousing - BILD Program: Momentum Equity & FORGE Loans

Context

In the summer of 2024, the Healey-Driscoll administration in Massachusetts signed the *Affordable Homes Act*, a historic investment that authorized $5.2 billion in spending over five

years to address the state's worsening housing crisis. Included in this Act was the Residential Housing Momentum Fund, a $50 million equity investment fund to be managed by MassHousing, the state's HFA.

In October of the same year, MassHousing established the BILD (Bringing Innovation in Lending and Development) program, a one-stop financing shop that allows developers of mixed-income housing to secure multiple layers of favorable financing through a single, integrated financing program. Within BILD, MassHousing provides equity financing through the Momentum Fund and senior permanent debt through a FORGE (Financing Options for Residential Growth and Expansion) loan, offered in collaboration with Berkadia and Freddie Mac, which can cover up to 80% loan-to-value with 1.25 DSCR.

This innovative financing toolkit was designed to unlock stalled market-oriented projects across Massachusetts. Additional supply is greatly needed. The National Low Income Housing Coalition estimates a statewide shortage of 183,253 rental homes affordable and available for extremely low income renters.[12] While MassHousing expects to make Momentum Fund investments statewide, this problem is particularly acute in Greater Boston. In 2023, over 23,000 units in the City of Boston were fully approved but yet to start construction, primarily due to inadequate financing.[13] Greater Boston is home to the lowest rental vacancy rate (3%) and fifth-most expensive housing costs of any major metropolitan region in the country.[14] Shortly following the establishment of BILD, the City of Boston created a $110 million Housing Accelerator Fund, of which up to $50 million is intended for Momentum Fund co-investment. Developers in Boston must still apply through the BILD program, but when it comes time to cover the public equity contribution, approved/pre-qualified developers can be funded jointly by the state-level Momentum Fund and the city-level Accelerator Fund.

To be eligible for Momentum Equity and the FORGE Loan, developments must be at least 50 units, with at least 20% of units restricted to 80% AMI. MassHousing states they will give preference to developments that are larger in unit count and that are already permitted. At minimum, affordability must be maintained for the greater of 15 years or the life of the MassHousing loan. After that, the affordability period is determined by a 40B comprehensive permit (often 30 years or longer) or by the city or town's zoning regulations.[15]

The Momentum Fund builds upon two successful statewide zoning policies. Chapter 40B allows developers to override local zoning laws in municipalities where less than 10% of their housing stock are on the state's Subsidized Housing Inventory. 40B developments must have at least 20%

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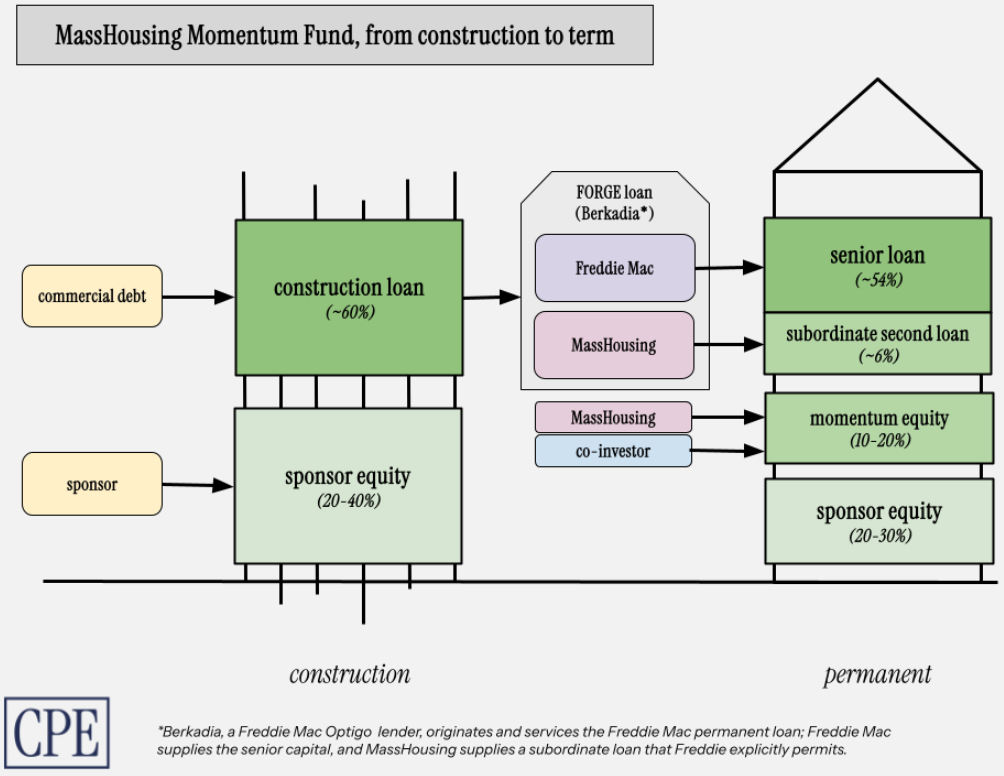
[12] National Low Income Housing Coalition. *Housing Needs By State: Massachusetts.*
[13] Willen, P. 2024. *Addressing Housing Shortages through Tax Abatement*. Federal Reserve Bank of Boston. Current Policy Perspectives 2024-2.
[14] Brinker, A. 2025. "Soaring costs, a tightening rental market, and a construction cliff: Greater Boston's housing market is tougher than ever." The Boston Globe.
[15] MassHousing. 2025. *MassHousing BILD Product Guidelines*. pg. 4.

of units as deed-restricted affordable housing.[16] Section 3A of the MBTA Communities Act requires municipalities served by the MBTA (greater Boston's public transportation system) to create at least one zoning district within a half-mile of a transit station that allows multi-family housing as-of-right.[17] While these policies successfully address certain regulatory hurdles, financing difficulties remain a challenge.

Mechanics

The Momentum Fund provides a preferred equity investment to an eligible housing project. This investment enters the project at the permanent financing stage and sits in the capital stack between the developers' equity and the senior loan. The amount of Momentum Equity cannot exceed the equity contribution from the developer itself, which is required to cover at least 10% of the total capital stack.[18] Momentum Equity is intended to cover 25-35% of total equity.[19]

Figure 5



[16] Executive Office of Housing and Livable Communities. "Chapter 40B Planning and Information."
[17] Executive Office of Housing and Livable Communities. "Multi-Family Zoning Requirement for MBTA Communities."
[18] MassHousing. 2025. *MassHousing BILD Product Guidelines*. pg. 5.
[19] Ibid., pg. 7.

Momentum Equity is priced to a fixed term of 200 basis points above the 10-year treasury rate, which makes it a concessionary investment: it assumes equity-tier risk while earning a low, stable, debt-like return.[20] The investment is typically repaid at a capital event such as a sale or refinancing. After MassHousing receives its full preferred return and the developer achieves a negotiated minimum return hurdle, Momentum Equity is able to receive a portion of the excess proceeds. The principal contribution, the cumulative preferred return, and any potential upside will then be revolved back into the Momentum Fund, ready to be invested in future projects.

MassHousing is in the process of creating a co-investor platform for the Momentum Fund.[21] The City of Boston's Housing Accelerator Fund is an example of this model, where a co-investor takes over a portion of the equity contribution. This could also take the form of private-sector investors, who would provide market rate contributions, which would be blended with Momentum Equity to achieve a larger investment with a less concessionary rate.

The debt component of the BILD package is the FORGE Loan. This is a senior loan that is only available if used in conjunction with a Momentum Equity investment. The FORGE Loan is comprised of two separate loans: a permanent first mortgage loan from Freddie Mac (90% of total debt) and a co-terminus subordinated second mortgage loan from MassHousing (10% of total debt).[22] The MassHousing subordinate loan takes the first loss position, meaning that the HFA will absorb the first 10% of losses before Freddie Mac is affected. This public guarantee dramatically de-risks Freddie Mac, which results in advantageous borrowing terms for the developer. The FORGE loan has other favorable terms for the borrower, such as a 36-month forward rate lock, up to 40-year amortization, and a 80% loan-to-value ratio. Berkadia, a commercial real estate lender, is the originator, underwriter, and servicer for the FORGE loan.[23]

Outcomes

The MassHousing Momentum Fund has contributed to financing two projects, one of which has broken ground:

- **The Residences at East Milton**, a Chapter 40B project in the southern suburbs of Boston, was the Momentum Fund's initial commitment and is the only project to have broken ground. The development is being built on a formerly underutilized commercial site. The development received $5 million in Momentum Equity and a $35.5 million

[20] MassHousing. 2025. *MassHousing BILD Product Guidelines*. pg. 5.
[21] Mishra, S. 2025. *Capital for Affordable Housing: Launching the Momentum Fund in Massachusetts*. Harvard Kennedy School. p.13.
[22] Ibid., pg. 6.
[23] MassHousing. "Bringing Innovation to Lending and Development (BILD)."

FORGE loan as part of the project's $52 million total development cost.[24] It is a 92-unit development with 23 units affordable at 80% AMI.

- **Claremont Grafton** is located adjacent to Grafton's MBTA commuter rail station. The project is being built within the town's Chapter 40R smart growth district, which unlocks additional state investment opportunities. The development is 233 units, 47 of which will be affordable.

The Momentum Fund is already heavily oversubscribed. The National Council of State Housing Agencies recently reported that there are "33 projects, representing over 7,000 new rental units and $4 billion in total development cost and approximately $400 million in Momentum Equity demand, in MassHousing's pipeline."[25]

New York HCR - Housing Acceleration Fund

Context

In October 2025, New York State Homes and Community Renewal (HCR) launched the $215 million Housing Acceleration Fund (HAF). The HAF was created in response to the same market conditions faced in Massachusetts: stalled projects, high interest rates, and low housing production.

To address these issues, Governor Kathy Hochul secured an $100 million appropriation in the FY26 Enacted Budget to seed the HAF. The state selected four experienced private lenders to deploy the state funds while also bringing their own financing. This blended approach grew the total program size to $215 million.

HCR has stated that priority will be given to projects that include income-restricted units beyond what is imposed at a municipal-level, but there is no baseline affordability requirement attached to the HAF loan. Projects proposing to use LIHTC or tax-exempt private activity bonds are not eligible for this program. This was an intentional decision to try and ensure this program served projects that would be able to proceed but for a small amount of concessionary capital and did not simply become another source of gap financing for existing LIHTC projects or draw upon the state's private activity bond volume cap.

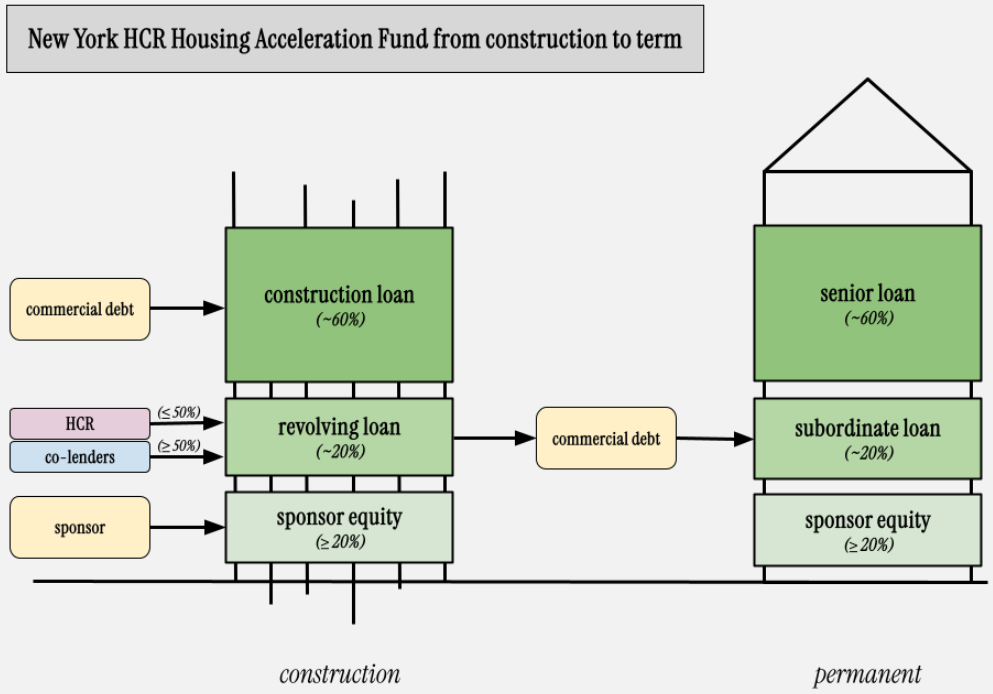
Mechanics

The Housing Acceleration Fund operates as a revolving construction loan, sitting either in a subordinate position behind the senior construction loan or as a subordinate component within the senior loan itself. Unlike the approach from MassHousing and Montgomery County's HOC,

[24] Kimura, D. 2025. "MassHousing Breaks New Ground with Momentum Fund." Affordable Housing Finance.
[25] National Council of State Housing Agencies. 2025. *The Future is Now: MassHousing's Momentum Fund*.

New York's HCR is not lending directly to developers. Instead, it awards capital to four qualified co-lenders (listed in the next subsection) which then originate the loans.[26]

Figure 6



CPE

This HAF loan is blended between HCR and co-lender funds. The HCR portion of the loan has a fixed interest rate of 3% and is an interest-only loan.[27] The co-lender portion of the loan is priced at market rates. The HAF term sheet requires the co-lender to provide at least 50% of the total HAF loan amount.[28] The HCR and co-lender must have pari passu positions in the capital stack, meaning that the HCR will not take first-loss position relative to the co-lenders' matching funds; both have equal seniority.[29]

[26] New York State Homes and Community Renewal. 2025. *Housing Acceleration Fund Term Sheet*. pg. 1.
[27] Ibid., pg. 2.
[28] New York State Homes and Community Renewal. 2025. *Pre-Submission Conference Presentation*. pg. 5.
[29] New York State Homes and Community Renewal. 2025. *Housing Acceleration Fund NOFA - Q+A*. pg. 2

Projects in New York City are eligible for up to $30 million from the HAF, while projects in the rest of the state have a maximum eligibility of $20 million. The HCR portion of the loan is restricted to $15 million and $10 million, respectively.[30]

The HCR portion of the loan is strictly for the construction period and cannot exceed 36 months. It must be repaid upon conversion to permanent financing.[31] The co-lender is permitted to also serve as the senior construction lender, but it must independently originate the HAF loan.[32] The co-lender is not allowed to charge an origination fee for the HAF loan. That fee is included in the loan's overall interest rate.[33]

To be eligible for an HAF loan, developers must meet several criteria. They must perform a "but for" analysis that demonstrates to HCR that the project would not be possible without HAF involvement.[34] The financing is subject to a Loan-to-Cost cap of 80%, including both the senior construction loan and the HAF loan. Finally, developers are required to contribute a minimum of 20% equity towards the total development cost during the construction period.[35]

Outcomes

New York State Homes and Community Renewal estimates that the Housing Acceleration Fund is expected to produce 1,800 new homes statewide.[36] There have not yet been any funds awarded to specific projects. The co-lenders for the program, three community development finance institutions and one commercial bank, were announced in October 2025:

- Community Preservation Corporation: $45.5 million
- Merchants Bank: $42 million
- Enterprise Community Partners: $7.5 million
- Local Initiatives Support Corporation: $5 million

MSHDA - Housing Accelerator Fund

Context

MSHDA, like most HFAs, is regularly inundated with more requests for LIHTC awards than it can make. In a given year, MSHDA may receive well over 100 applications and has typically been able

[30]New York State Homes and Community Renewal. 2025. *Housing Acceleration Fund Term Sheet*. pg. 1.
[31] Ibid., pg. 2.
[32]New York State Homes and Community Renewal. 2025. *Pre-Submission Conference Presentation*. pg. 12.
[33]New York State Homes and Community Renewal. 2025. *Housing Acceleration Fund NOFA - Q+A*. pg. 2
[34] Ibid., pg. 1.
[35] Ibid., pg. 2.
[36] New York State Homes and Community Renewal. "New York State Housing Acceleration Fund."

to make awards to 25 projects across the state.[37] According to agency staff, demand outpaces the available resources across programs by 10 to 1.[38]

Despite maximizing all existing resources, MSHDA still found itself short of state housing production goals by over 50,000 units.[39] Recognizing the need to build faster, in August of 2025, MSHDA established the Michigan Housing Accelerator Fund, authorizing the use of up to $75 million in funding from a variety of sources to increase affordable housing production through the inclusion of affordable units in mixed-income projects (*Note: MSHDA contracted with CPE to help design and establish this fund*).

MSHDA has a recent history of creatively addressing housing issues throughout the state. For example, in 2022 and 2023, the agency leveraged American Rescue Plan funding to establish a missing middle housing program to address the housing shortage for households at 60-120% AMI. In 2023, MSHDA began administering a Housing Tax Increment Financing (TIF) program, enabling reimbursement of housing development costs from increased tax receipts. In early 2025, MSHDA also piloted an Employer-Assisted Housing Fund to bring together major employers to invest in housing for local workers.

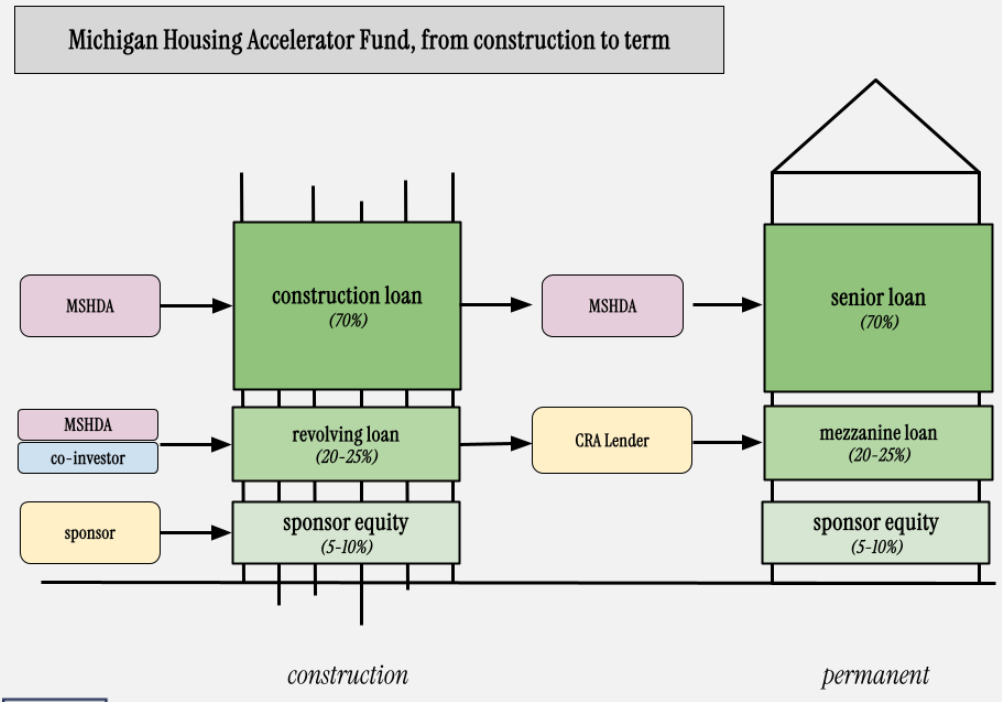
The Accelerator Fund complements this suite of MSHDA programs, but where the agency sees the most potential is in relieving pressure on their existing 4 percent and 9 percent processes.

Mechanics

The Housing Accelerator Fund closely mirrors NY HCR's Acceleration Fund. In both cases, the state is coming in with short-term subordinate construction financing that it intends to revolve out at conversion to permanent financing. Unlike HCR, however, MSHDA is not partnering with a co-lender (although the fund may include dollars contributed by philanthropy or other sources outside the agency). MSHDA will be originating the loans itself, drawing upon expertise and processes developed through its direct lending infrastructure and the creation of its missing middle housing program.

[37] Serlin, C. 2019. "Michigan Awards $13.8 Million in Housing Tax Credits." Affordable Housing Finance.
[38] Murney, M. 2025. "Revolving Loan Funds Offer Powerful, Consistent Gap Funding." TaxCreditAdvisor.
[39] Michigan State Housing Development Authority. 2025. "MSHDA to Launch Michigan Housing Accelerator Fund."

Figure 7



CPE

The Housing Accelerator Fund was established as a pilot program with initial capital coming from existing sources under MSHDA's Mortgage Resource Fund and Housing and Community Development Fund. The goal is to supplement those dollars with philanthropic investment to establish a $75 million working fund.

MSHDA has prioritized flexibility, opting not to set a fixed interest rate but rather allow the cost of capital and project specifics to drive terms. Each project that is selected under the fund is approved by MSHDA's board, with the projects receiving an interest rate lock for up to four months—stabilizing interest costs during early construction.

MSHDA explored a variety of options for the permanent senior loan that could help the accelerator fund to revolve, including funding via a tax-exempt bond issuance or using a HUD 542(c) Risk Share & Federal Financing Bank loan. As program development proceeded, however, they found willing partners from local lenders with Community Reinvestment Act (CRA) requirements who were interested in providing the permanent mezzanine note to enable MSHDA's investment to recycle.

Outcomes

The Accelerator Fund is still in its early stages, but MSHDA has already identified an initial slate of projects it believes could take advantage of this type of financing. To accomplish this, MSHDA looked across its pipeline and evaluated deals, including those that had applied for LIHTC but which had not received awards, to identify projects that could proceed as mixed-income projects. MSHDA has a small number of projects across the state it is moving through the underwriting and approval process and hopes to close on its first projects in the coming months.

Lessons for HFAs

Start with a clearly defined pipeline, not a theoretical market

The rapid success of MassHousing's program is due in part to its built-in pipeline of thousands of projects permitted under the state's 40B program that were entitled but remain unable to move forward due to lack of financing.

HFAs considering similar programs would benefit from analyzing their existing pipeline, particularly LIHTC applicants that missed out on awards or market-rate projects that have stalled, to identify projects that could be reworked as mixed-income deals through a modest public investment. A powerful way to source projects is through the issuance of a Request for Information (RFI) targeting interested parties which can provide information on specific projects and allow the agency to ensure it is designing a financial product to meet an actual need.

Once the proof of concept is established, new opportunities may emerge. For example, large-scale developments that would likely proceed as phased developments (e.g., redevelopment around transit stations, Choice Neighborhoods redevelopment, etc.) with significant LIHTC components could potentially use a tool like this enable more efficient development, allowing multiple segments of the development to proceed at once: a 100% affordable LIHTC project alongside an accelerator fund-enabled mixed-income development on the same parcel of land.

Allow for the internal capacity and flexibility to keep deals moving.

The sweet spot for these types of programs is targeting projects that are close to viable but stuck for lack of finance. HFAs benefit from having experience with construction lending and streamlined internal processes that allow for flexible underwriting, rapid approval timelines, and the ability to adjust terms as market conditions shift. Building in administrative discretion helps agencies respond quickly to real-time obstacles and close deals that would otherwise stall.

Early partnerships can help blend public and private capital seamlessly.

MassHousing and MSHDA both engaged lender partners early—local CRA lenders in MSHDA's case and Freddie/Berkadia in MassHousing's case—which in turn led to more streamlined experiences for their participating developers. HCR included engagement of other lenders from

the start, helping them double the size of their fund and work with existing lenders to identify projects that could succeed under this model.

A critical component of these models is the takeout finance, the mechanism that enables the public capital in the deal to revolve. HFAs should consider cultivating pipelines that result in investments attractive for takeout financing, and consider the breadth of options that might be available in a state to serve that need. Pairing these funds with other public authorities such as public developers, public housing authorities, or other state bonding entities can unlock additional capacity and deepen impact. Coordinated public investment can provide lower-cost takeout financing, deeper and longer-lasting affordability, or other derisking mechanisms to make more mixed-income projects feasible at greater scale.

HFAs can also look at what existing resources they could bring to the table to enhance these types of programs. For example, HFAs could lower the risk on their construction investments by pairing with their own permanent lending through bond issuances or through using programs like the 542(c) HFA Risk Share program.

Tell a clear and compelling narrative

It is perhaps no coincidence that each of these funds has chosen a similar name, evoking movement, speed, and efficiency. HFAs looking to adopt similar tools should articulate a clear narrative of what problems this fund solves, and how it complements, not competes, with affordable housing financed with scarce federal resources like LIHTC and tax-exempt bonds. Clear messaging is essential to educate legislators, attract philanthropic co-investment, and signal to private sector developers that may be uncertain of partnering with the public sector that they have a partner laser-focused on execution. An RFI that clearly lays out these priorities early can help build bridges early on and establish baseline expectations for long-term success.

Looking ahead

MassHousing, New York HCR, and MSHDA are pioneering a new class of HFA-led supply tools: shorter-term, subordinate, recyclable investments that bridge the gap between traditional senior debt and private equity. If these models continue to prove effective, they could represent a “fourth pillar” of HFA production financing, complementing LIHTC, HOME, and tax-exempt bonds.

Although not an exhaustive list, the extent to which these models scale and expand will depend on, at minimum:

- State fiscal capacity to seed initial capitalization;
- In-house capacity at agencies to underwrite and quickly approve projects and be a reliable, trusted partner to private entities;

- Reliable senior takeout partners at conversion or refinance to ensure state investments revolve; and
- Market demand for mixed-income rental projects, and a clearly defined pipeline of stalled market rate or affordable projects.

At the federal level, a modest matching program could rapidly expand these models nationwide. One of the most significant barriers is sourcing the initial capital to seed a revolving loan or equity fund. A federal match would allow HFAs in lower-capacity states to replicate the innovation occurring in Massachusetts, New York, and Michigan, unlocking additional housing production across the country without drawing upon limited resources such as LIHTC or bond volume cap.

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