Single Family Housing Opportunities… Are Bonds Coming Back?

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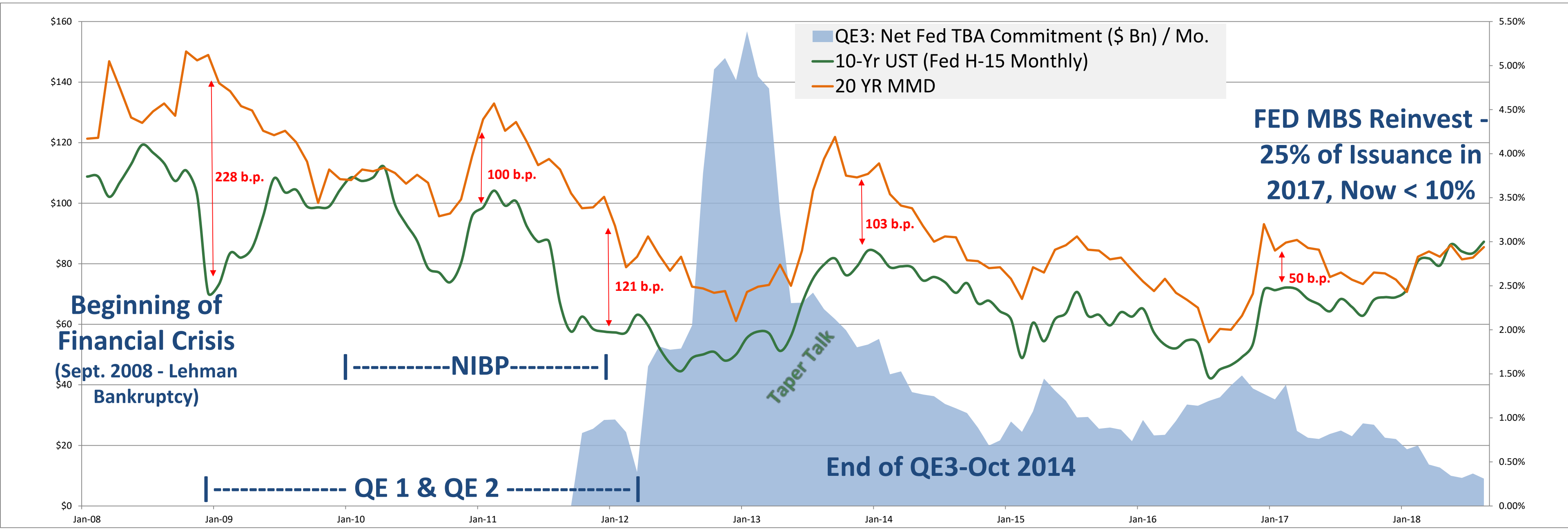
- Years leading up to the financial crisis had been great MRB issuance years for local HFCs & HFAs.
- Financial crisis hits and investors sour on almost all debt classes other than U.S. government issued/insured. The Fed’s QE response leads to a dynamic shift in the relationship of tax-exempt and taxable rates.
- HFAs in limbo waiting for NIBP which arrived in late 2009 and for many lasted through 2011.
- With no follow-on to NIBP and market conditions persisting HFAs look for alternatives – RJ Turnkey TBA program launches February 2012.
- Market conditions which favored TBAs vs. MRBs continued on for several years until a relatively recent narrowing of that gap particularly at lower prepayment speed assumptions.



Post NIBP it has been difficult for HFAs to create competitive single family programs funded through traditional tax-exempt single family mortgage revenue bonds (MRBs).

- Tax-exemption at historically low interest rates is less meaningful.
- "Negative arbitrage" a major challenge in a very low short-term rate environment
- DPA is the primary distinguishing factor for HFA single family programs.

TBA/Turnkey: In the low interest rate environment, since 2013 most HFAs (and nearly all local HFAs) have chosen "TBA" (a non-bond execution) over MRBs to fund their single family programs.

- In the recent past as much as 70%-75% of single family HFA production has been done via TBA.

Mortgage Revenue Bonds: Post NIBP, HFAs creating single family mortgage product using MRBs generally have done so by **subsidizing** the new money mortgages through:

- a refunding component, 0% participations, or resolution/balance sheet strength
  - refunding opportunities, however, are now limited since most of the bonds issued pre-2008 crisis have been refunded.

Rising Rates: A rising rate environment (particularly one that flattens the yield curve) better enables HFAs to originate competitive mortgages rates using MRBs.

Bond Funded Single Family Production Until Recently Generally Less Efficient Than TBA MRBs Now Offering Similar NPV to TBA

	PAC Bond Structure Serials, PAC, Terms	Turnkey/TBA
Origination Period	6 months - level	Continuous
Program/Bond Par	25,000,000	25,000,000
Premium	-	464,750
Total	25,000,000	25,464,750
Mortgage Rate	**4.600%** *Full-Spread*	**4.500%**
Mortgage Yield	4.597%	NA
Bond Yield	3.479%	NA
Spread	1.118%	NA
PV Issuer Fee/Residual (100% PSA)	1,213,311	NA
PV Issuer Fee/Residual (150% PSA)	1,122,949	
PV Issuer Fee/Residual (200% PSA)	1,043,361	NA
PV Issuer Fee/Residual (300% PSA)	925,967	*NA*
PV Premium Raised	-	464,750
DPA Grant	-	-
Reserve Fund	(325,000)	NA
COI (est. $12.5/bond)	(312,500)	NA
NPV (100% PSA)	**575,811**	**464,750**
NPV (150% PSA)	**485,449**	**464,750**
NPV (200% PSA)	***405,861***	***464,750***
NPV (300% PSA)	***288,467***	***464,750***

Footnotes: 1) 1% Origination fee charged to the Borrower
2) NPV analysis using 3% discount rate

"Turnkey"/TBA economics improve, relative to Bonds, as prepayment speeds increase.

Factors Favoring a TBA-Based Lending Platform

1. Greater (and recurring) up-front issuance costs for single family bonds.
2. “Negative arbitrage” deposit normally required by an HFA for a bond issue - for the period before the loans are originated.
3. Up-front funds from lenders/servicers likely no longer an option – question as to how to evidence demand for Texas AG which had been 0.50% from lenders.
4. Lower income & purchase price limits, and the first-time homebuyer requirement, for bond loans.
5. Greater difficulty & work for lenders associated with bond loans – affidavits, three years’ tax returns, “household income” vs. “borrower income” calculations, etc.
6. Disclosure to & potential liability of borrowers for “recapture tax” on bond loans.
7. Non-origination bond redemptions – a negative for the HFA & bondholders, if not all loans are originated.
8. Greater potential liability generally associated with tax-exempt bonds – risk from bond purchasers, IRS, and/or regulatory bodies.
9. Inability to pair a bond loan with a Mortgage Credit Certificate (MCC).

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