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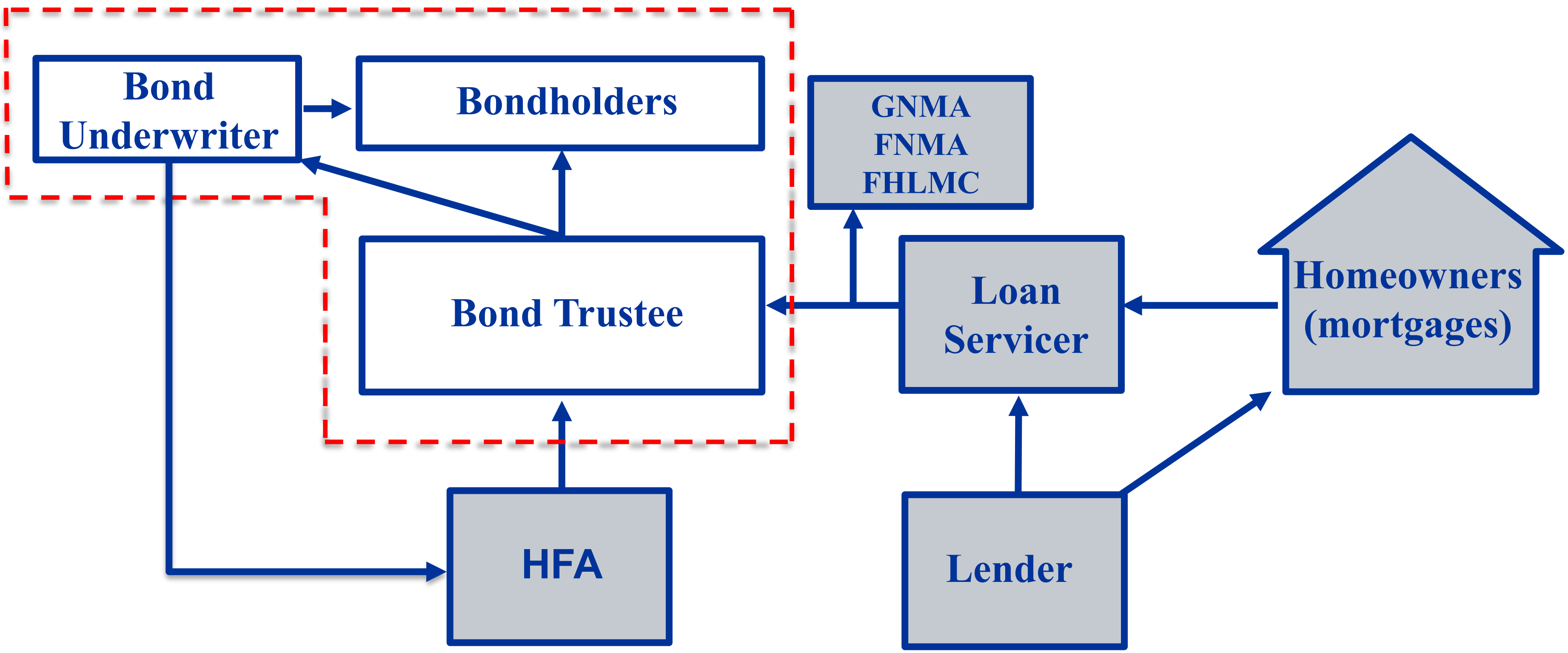
Mortgage Revenue Bonds vs Non-Bond Mortgage Origination Programs

- Mortgage revenue bonds (MRBs) have historically been a very efficient tool for HFAs. However, since 2008 the tax-exempt municipal market has not always allowed local HFAs to efficiently issue mortgage revenue bonds to offer a continuous lending platform.
- Non-bond mortgage programs such as "TBA" (to-be-announced), worked relatively well throughout the 2008-2009 crisis with little market impact, when MRBs were extremely challenging until Treasury's NIBP was launched, and again from 2012-2016.
- HFAs have been able to structure TBA/market driven programs that are very similar to mortgage programs funded by tax-exempt bonds.
- **The primary difference between a bond funded program and a non-bond, market driven program (e.g., "TBA")** is how the mortgage loans/mortgage backed securities (MBS), as applicable, are ultimately delivered by the Master Servicer after loan delivery.
  - In a non-bond program, instead of being sold to a bond trustee and held as security for a mortgage revenue bond, the mortgage loans/MBS are instead sold to a third party. The mortgage loans/MBS sale can occur through:
    1) a TBA contract used to hedge interest rate risk (MBS only);
    2) predetermined terms of a contract with a third party; or
    3) a third party in an open market transaction at the time of mortgage loan/MBS delivery.
- Until the mortgage loans/MBS are available for delivery, **<u>the process is virtually identical to that of a typical single family mortgage revenue bond program</u>**.

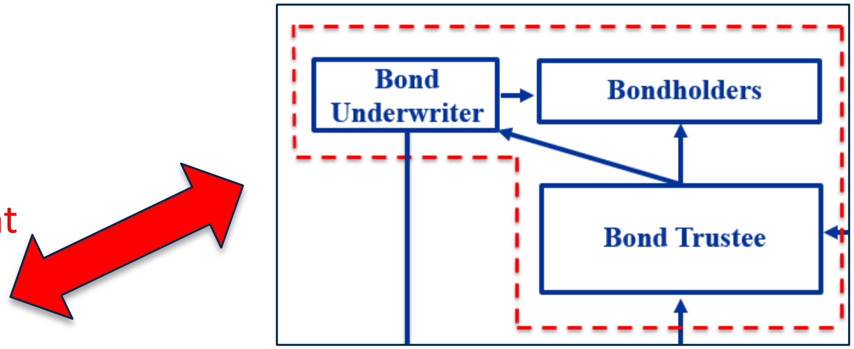
MORTGAGE REVENUE BOND PROGRAM BASICS

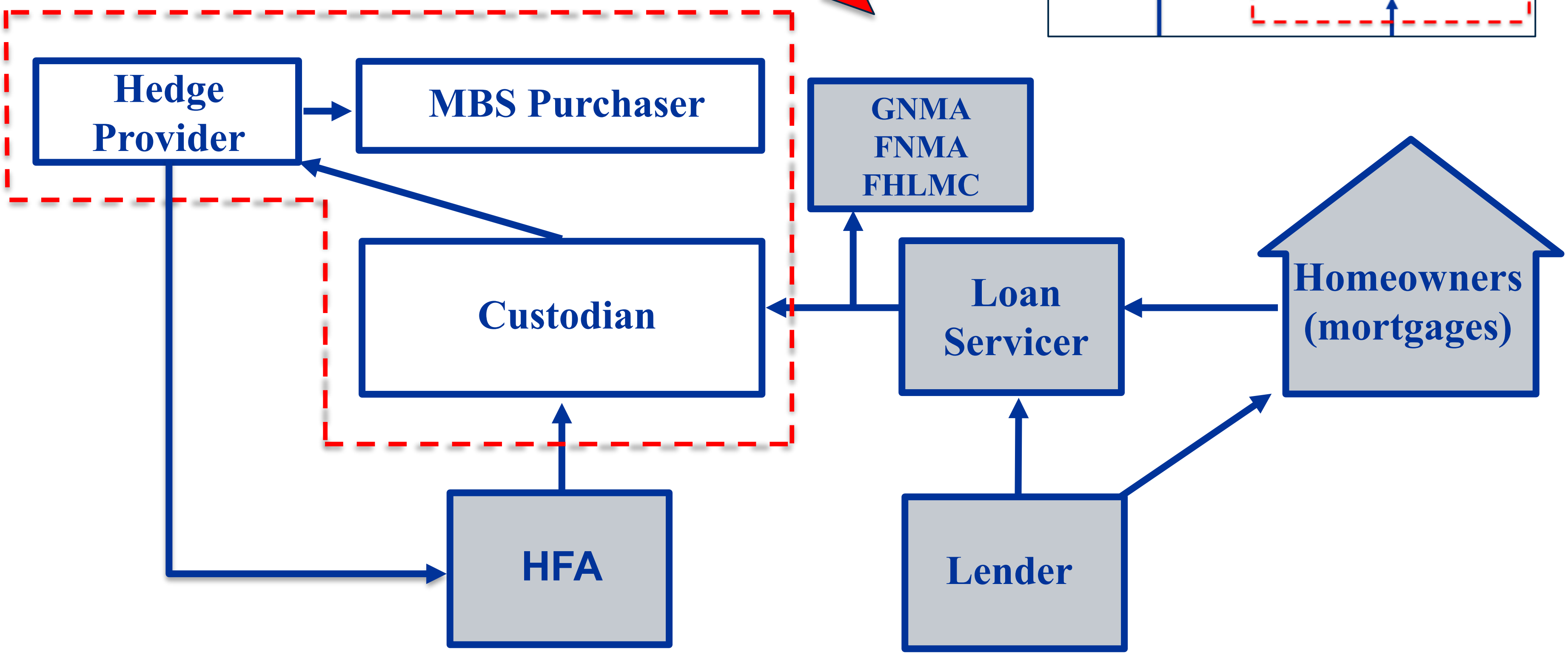
- **HFA/Lenders** – program guidelines/mortgage origination agreement
- **HFA/Servicer** – servicing agreement
- **HFA/Trustee** – trust indenture
- **HFA/Bond Underwriter** – bond purchase agreement



- **HFA/Lenders** – program guidelines/mortgage origination agreement
- **HFA/Servicer** – servicing agreement
- **HFA/Custodian** – custody agreement
- **HFA/Hedge Provider** – MBS purchase agreement

MRB (Page 3)





- **Since 2012 non-MRB programs, such as TBA,** have become an **efficient single family funding mechanism** for state and local HFAs nationwide, instead of or in conjunction with MRBs. TBA programs:
  - Can work side by side with MRB programs (*not mutually exclusive*).
  - May provide a **comparable NPV ($$)** to the HFA than through tax-exempt bonds (depending on loan volume and speed of reservations among other factors).
    - ➢ This dynamic changes with market fluctuations / HFA DPA resources.
  - May allow **broader homebuyer universe** (e.g., borrower income not required to include household income; no 1st-time homebuyer requirement) and less paperwork for lenders (e.g., Form 1003 to establish 1st-time homebuyer status; 3 years tax returns not a requirement).
  - Can be paired with **MCC** (unlike MRB).
  - **Support HFA mission**.
  - Can help HFAs earn **income** and **raise down payment assistance (DPA).**
  - **Maintain lender networks, particularly when MRBs don't work efficiently.**

Timing of HFA Pricing is Critical to Managing Market Risk

Loan Reservation

Lock-in Financing On or Before Loan Reservation

HFA locks in financing **ON or BEFORE** loan commitment is made.

- Traditional Bond Financing with Zeroes or Refundings
- TBA Hedges

HFA risk is limited/transferred to bond investor or hedge provider.

Best execution: Rising or volatile interest rate environment

Lock-in Financing After Loan Reservation

HFA locks in financing **AFTER** loan commitment is made.

- Pass-Through Financing
- Delayed TBA Hedges

HFA is exposed to market risk until financing is obtained.

Best execution: Falling or stable interest rate environment

- **TBA is an evergreen program.**
  - One limiting factor is TBA results in a one-time payment as opposed to MRBs which generate an annuity for the life of the MRBs.
  - Beneficial when PAB volume cap is limited.
  - HFAs can preserve PAB volume cap for MCC programs and multifamily bond financings.
- **How to set the mortgage rates under a TBA program?**
  - HFA Profit target - Min/Max?
    - Under MRB there is a max spread HFAs can keep on tax-exempt financings, per tax regs.
    - Under TBA: HFA determines profit target.
  - Preservation of DPA funds?
    - DPA as a Grant or Second Mortgage?

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