

Entry Name: Opening New Doors in the Mortgage Finance Market – IHFA’s Flexible Financing Approach to Mortgage Finance

**NCSHA ANNUAL PROGRAM AWARDS  
ENTRY DESCRIPTION  
-Management Innovation Category-**

Name of Entry:	<u>“Opening New Doors in the Mortgage Finance Market”—IHFA’s Flexible Financing Approach to Mortgage Finance</u>
Category Name	<u>Management Innovation Category (Financial Management)</u>
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HFA:	<u>Idaho Housing and Finance Association (IHFA)</u>

Overview:

Since 2006, Idaho Housing and Finance Association (IHFA) has taken a number of innovative and noteworthy steps to keep mortgage production alive and growing as our traditional mortgage financing opportunities have been interrupted by disruptions in the market for tax-exempt mortgage revenue bonds (MRBs). Since 2008, market concerns about the housing market and high rates for MRBs have made it difficult to use these bonds to finance affordable mortgages for first-time homebuyers at competitive rates. At the same time, the markets for liquidity support have collapsed, precluding the issuance of variable-rate bonds coupled with interest rate swaps to provide more attractive rates. The New Issue Bond Program (NIBP) provided a temporary channel in late 2009 to counter the difficult market environment, but historic and unprecedented declines in interest rates and the narrowing of credit spreads between U.S. Treasury securities and mortgage backed securities has reduced the effectiveness of the NIBP as a secondary market vehicle in 2010. Because of market conditions, IHFA has only issued \$35 million of its potential NIBP issuing authority of approximately \$320 million.

Market conditions in the traditional MRB market since 2008 have forced most state housing finance agencies to curtail their mortgage lending programs, while waiting for the MRB market to improve. Instead of “waiting out the market,” starting in 2006, IHFA took proactive steps to create a flexible financing program and keep our mortgage lending activities strong and vibrant:

1. In 2006, IHFA changed its lending program guidelines to allow certain qualified mortgage loan brokers to become eligible to originate IHFA loan products. Mortgage loan brokers were previously excluded from offering IHFA loan products. The inclusion of mortgage loan brokers has expanded IHFA’s market share and mortgage brokers currently comprise approximately one-third of total production.
2. In 2007, IHFA developed its Advantage loan program, a conventional loan product that can be used for purchase of a home or refinancing an existing mortgage. The Advantage loan has no first-time homebuyer requirement, no sales price limits and offers a below-

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market fixed rate due to favorable pricing offered by Fannie Mae under an Affinity Agreement signed by IHFA and Fannie Mae in 2007.

The Advantage loan program has served a total of over 3,300 Idaho families since 2007, and has allowed IHFA to originate \$393 million in new mortgage loans that could not have been done using traditional tax-exempt mortgage revenue bonds. The production history of IHFA Advantage loans since their inception is shown in the submitted chart as a visual aid.

3. IHFA has opportunistically taken conventional mortgage loans that were purchased in some existing 2007 and 2008 mortgage revenue bond issues and sold those mortgage loans to the Fannie Mae cash window during 2008. Selling these loans to Fannie Mae allowed IHFA to originate \$234 million of new mortgage loans insured by government agencies and deliver those mortgage loans into existing mortgage revenue bond issues. All of the loans originated by this “loan substitution” have been at market rates or below market-rate mortgage levels. This “loan substitution” has had two additional important and beneficial effects: 1) increasing IHFA’s capacity to originate new affordable mortgage loans; and 2) substituting government insured mortgage loans in bond issues in place of conventional loans in existing bond issues has enhanced the credit soundness of these existing bond issues because the national credit rating agencies assign more favorable loan-loss assumptions to government-insured loans.
4. In 2008, IHFA applied to become an approved Freddie Mac seller/servicer and was approved as such in November 2008. IHFA’s Freddie Mac commitment was a special loan commitment for an initial amount of \$250 million followed up by an additional commitment of \$100 million that allows pricing at or slightly below market-rate levels on FHA, VA and RD loans. Freddie Mac offers much better pricing on loans insured by FHA, VA and RD than Fannie Mae and offers an attractive secondary market for these government guaranteed loans. To date, IHFA has sold \$311 million of loans to Freddie Mac. This \$311 million of loan production represents financing for over 2,400 families in Idaho.
5. IHFA has been approved as an issuer of GNMA securities as another market outlet for IHFA government-insured loans. IHFA issued its first GNMA trade execution in April 2010 and has originated a total of \$105,800,000 in GNMA securities to date, representing over 900 loans to Idaho homebuyers.

Prior to 2008, all IHFA mortgage loan production was packaged into tax-exempt Mortgage Revenue Bond (MRB) securities as whole loans and sold to bondholders. Now, each loan is evaluated at the time it is made and is routed to its best available market outlet. IHFA has retooled itself from being an active issuer of MRBs (issuing a total of \$1.355 billion of MRBs between 2003 and 2008) to an opportunistic originator of mortgage loans to the best execution option available in the secondary mortgage market.

While IHFA is hopeful that tax-exempt bond market conditions improve in the future to allow the resumption of its mortgage revenue bond program, we have taken steps to allow us to operate our

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lending program and pursue the best secondary market execution opportunity available in any mortgage environment.

Issuing mortgage revenue bonds in today's tax-exempt market would produce a full-spread mortgage rate to the borrower that is approximately .50% to .75% higher than the mortgage rates available through the Fannie Mae, Freddie Mac or GNMA secondary market options described above. IHFA has elected to delay issuing new mortgage revenue bonds until such time as market rates offer opportunities for competitive mortgage rates. Until market conditions normalize, IHFA will continue to explore and access alternative secondary markets to allow us to continue to provide affordable mortgages to Idahoans seeking home ownership. Today's execution options for IHFA are: bonds issued under NIBP, mortgage loans sold to Fannie Mae and Freddie Mac cash windows, MBS securitization through GNMA, Fannie Mae or Freddie Mac, or the traditional Mortgage Revenue Bond market. IHFA is also prepared to respond to any new market execution options that may arise in the future such as Build America Bonds for housing, tax-exempt MBS or other vehicles designed to provide access to secondary market investors.

When the markets stabilize, it is likely we will use these alternative secondary markets to expand its capacity and serve Idaho homebuyers. In either case, IHFA will continue to open doors in the secondary mortgage markets to fulfill its housing mission.