

Entry Description

Like many other state Housing Finance Agencies, the Iowa Finance Authority (IFA) has struggled with the challenges of limited bond cap to subsidize programs for first-time home buyers. Increased demand for our homeownership programs meant IFA had to resort to partially taxable bond deals in an effort to stretch the availability of tax-exempt bond cap.

But from challenge comes opportunity.

In early 2008 IFA's finance team engineered a plan that would salvage precious tax-exempt bond cap and provide unique benefits to our agency and the home buyers we help. We sold 208 single-family whole loans, valued at nearly \$20 million, to Fannie Mae, generating \$262,748 in revenue for IFA.

The unique "cash sale" was an obvious change from our typical MBS pooling process. IFA's master servicer, Countrywide Home Loans, sold IFA's single family loans directly to Fannie Mae at a premium. IFA received residual profits from the sale, creating these important benefits.

- 1) IFA preserved tax-exempt bond authority by not using bond funds to finance the loans
- 2) The loans sold to Fannie Mae, along with the associated debt that otherwise would have been required, were not recorded on IFA's balance sheet; thus, improving IFA's future financial leverage ratios.
- 3) The sale generated revenue for IFA to support our homeownership programs.
- 4) The loans were sold at a premium/profit.
- 5) Borrowers of these loans are not subject to recapture tax.

As part of the sale agreement, Countrywide will service these mortgages for Fannie Mae, just as they do for IFA, so borrowers won't recognize any changes in their monthly payment.

The cash sale model gives IFA another tool/option to support low-cost mortgage financing to low- and moderate-income families.