



**Program Name:** **Innovative Private Placement Provides Capital for Homeownership Program During Critical Economic Times**  
**Category and Subcategory:** **Management Innovation: Financial**  
**HFA:** **Missouri Housing Development Commission**

In 2008, Missouri Housing Development Commission (MHDC) partnered with the Federal Home Loan Bank (FHLB) of Des Moines to develop a private placement of taxable bonds for MHDC's homeownership program. This arrangement proved to be an imperative capital resource that financed MHDC's homeownership program during exceedingly difficult times in the capital markets. Some Housing Finance Agencies (HFAs) suspended their single family lending programs during this time period.

MHDC finance staff worked diligently with its bond counsel and financial advisors to develop terms and documents for presentation to the FHLB in developing this program. MHDC's commitment and collaboration with the FHLB was successful in developing a program not only for Missouri and other states within the FHLB of Des Moines region, but a model program that can be used by other HFAs in other FHLB regions as well. This private placement arrangement enabled MHDC to remain an active bond issuer, utilizing fixed-rate debt during a very challenging municipal bond market and unprecedented economic times. The current economic situation calls for critical support for the housing sector. MHDC achieved this success by partnering with the FHLB of Des Moines, a fiscally strong institution that is S&P AAA-rated.

MHDC and the FHLB entered a bond purchase agreement for one or more subseries of taxable bonds to be secured on a parity basis with other bonds outstanding under MHDC's Single Family Mortgage Revenue Bonds (Homeownership Loan Program).

In accordance with the terms of the bond purchase agreement, FHLB will purchase up to an aggregate amount of \$75,000,000 in bonds during a six-month period. MHDC has no commitment to sell any bonds to FHLB. The purchase amount of each draw is at least \$5,000,000 and may be increased beyond \$5,000,000 in increments of \$1,000,000. Draw sizes in these amounts work well in management of negative arbitrage for MHDC's homeownership program.

**Program Name:** Innovative Private Placement Provides Capital for Homeownership Program During Critical Economic Times  
**Category and Subcategory:** Management Innovation: Financial  
**HFA:** Missouri Housing Development Commission

The terms of the bonds are approximately 31 years. The bonds are general obligation bonds of MHDC and are fully registered bonds issued in book-entry form with each subseries of bonds assigned separate CUSIP identification numbers. The bonds meet Standard & Poor's requirements for the AAA rating. The bonds settle two weeks after each Pricing Date.

The proceeds of the bonds are used to purchase mortgage-backed securities during a six-month acquisition period. The mortgage-backed securities are guaranteed as to timely payment of principal and interest by the Government National Mortgage Association (GNMA), Fannie Mae or the Federal Home Loan Mortgage Corporation (FHLMC) and are backed by pools of qualifying mortgage loans to finance the purchase of, or to refinance certain qualifying loans for, single family residences in the state of Missouri. MHDC's Master Servicer regularly pools closed and purchased qualifying mortgages into the guaranteed mortgage securities for settlement with MHDC's bond trustee.

Payment of interest on the bonds is made monthly. The bonds are structured to be 'pass-through' bonds with all mortgage principal payment and prepayments applied to the reduction of the outstanding balance of the bonds on each subsequent monthly interest payment date.

Pricing of the bonds is based on a spread to the ten-year U.S. Treasury Note.

A subseries transaction begins with a pricing indication. By 10:00am Central Standard Time on the morning of any "Indication Date," MHDC has the option to call the FHLB and receive an indication on what the spread would be for that date. The Indication Date must be on Monday, Tuesday or Wednesday and permit the "Pricing Date" to occur in the same calendar week as the Indication Date. After receiving the indicative pricing, MHDC communicates to the FHLB if MHDC plans to issue bonds and, if so, the amount MHDC plans to issue.

Final pricing of each subseries of bonds is set two business days following the Indication Date. On the Pricing Date, the interest rate of the bonds is determined by the FHLB and is equal to the stated bid yield of the on-the-run 10-year U.S. Treasury Note as posted by Bloomberg at 10:00am Central Standard Time on the Pricing Date, plus the spread indicated by the FHLB to MHDC on the Indication Date. The fixed-rate interest rate on the bonds is established accordingly.

During periods of disarray in the municipal capital markets, this taxable private placement program provided better pricing than could be accessed in the tax-exempt market. This phenomenon resulted in lower mortgage rates being produced to assist Missouri's homebuyers.

**Program Name:** Innovative Private Placement Provides Capital for Homeownership Program During Critical Economic Times  
**Category and Subcategory:** Management Innovation: Financial  
**HFA:** Missouri Housing Development Commission

Since implementation of this private placement program, the disruption in the capital markets made other tax-exempt and taxable bond financings nearly impossible to execute. This program provided the critical resources necessary to support Missouri first-time homebuyers and to provide an on-going resource for MHDC's 73 participating lenders, maintaining essential distribution for MHDC's homeownership programs. Since the private placement program's inception, MHDC has sold \$50 million in taxable bonds in subseries ranging from \$10 million to \$12 million in size to the FHLB of Des Moines.

This private placement taxable resource proved imperative in providing the first-position mortgages to first-time homebuyers who qualify for the federal first-time homebuyer tax credit made available until December 1, 2009. MHDC furthered its mission of serving Missouri first-time homebuyers by also monetizing the tax credit for use for down payment and closing costs through MHDC's separately-financed Tax Credit Advance Loan (TCAL) program. The successful capitalization of MHDC's homebuyer program enabled many first time homebuyers to access this important financial opportunity.

In addition, this private placement bond program provides the capital to support homebuyers in Missouri's 67 disaster counties who qualify for participation in MHDC's lending programs through December 31, 2009.

Further, this program provides important capital for assisting homeowners who are in critical need of an opportunity to refinance mortgages that do not fit their current circumstances, such as adjustable-rate mortgage or a sub-prime mortgage. Many of these borrowers are not adequately served in the present conventional mortgage market and rely on MHDC as a safe and viable alternative for quality mortgage products.

While improvements in the capital markets have provided opportunities for MHDC to sell tax-exempt bonds that produce competitive mortgage rates, this on-going taxable private placement program has been continued with execution of a second bond purchase agreement. It enables MHDC to have capital resources should the tax-exempt market again prove difficult and, furthermore, to provide critical resources to serve borrowers who cannot be served by MHDC's tax-exempt program, including repeat buyers and refinancings.

This private placement program is available to other HFAs. The FHLB of Des Moines has indicated that an HFA should first approach its region's FHLB and, if that bank does not want to enter into such an arrangement, that HFA may approach the FHLB of Des Moines to pursue this unique opportunity.