

NCSHA 2016 Annual Awards Entry Form

(Complete one form for each entry)

Deadline: Wednesday, June 15, 2016

Visit ncsha.org/awards to view the Annual Awards Call for Entries.

Instructions: Type entry information into the form and save it as a PDF. Do not write on or scan the form. If you have any questions contact awards@ncsha.org or 202-624-7710.

Fill out the entry name *exactly* as you want it listed in the program.

Entry Name: _____

HFA: _____

Submission Contact: (Must be HFA Staff Member) _____ **Email:** _____

Please provide a 15-word (maximum) description of your nomination to appear on the NCSHA website.

Use this header on the upper right corner of each page:

HFA: _____

Entry Name: _____

Select the appropriate subcategory of your entry and indicate if you are providing visual aids.

| Communications | Homeownership | Legislative Advocacy | Management Innovation |
|---------------------------------------|--|-----------------------------|--------------------------------|
| Annual Report | Empowering New Buyers | Federal Advocacy | Financial |
| Creative Media | Encouraging New Production | State Advocacy | Human Resources |
| Promotional Materials and Newsletters | Home Improvement and Rehabilitation | | Operations |
| | | | Technology |
| Rental Housing | Special Needs Housing | Special Achievement | Are you providing visual aids? |
| Encouraging New Production | Combating Homelessness | Special Achievement | Yes |
| Multifamily Management | Housing for Persons with Special Needs | | No |
| Preservation and Rehabilitation | | | |

**Ohio Housing Finance Agency
Balance Sheet Restructuring
Special Achievement****Introduction**

The Ohio Housing Finance Agency's ("OHFA" or the "Agency") successfully executed an innovative Plan of Finance to restructure and reinvigorate its Residential Mortgage Revenue Bond Resolution (the "Resolution"). The 2016 Series D-J refunding and new money bond sale and the 2006 FIJ fixed rate remarketings reduced Resolution costs and improved profitability, improved the debt composition by adding fixed rate bonds to a resolution that previously had a preponderance of variable rate debt, and created substantial subsidy for future lending and has more generally positioned the Agency for success into the future. The Agency believes that because of the pioneering nature of this financing that had many interwoven and complex features, this constitutes a compelling candidate for the NCSHA's Special Achievement Award.

Background: OHFA's financing Challenges and Opportunities

In the years just before the financial crisis, OHFA was averaging approximately \$700 million in new bond financed loan production, including a single year in which it surpassed over \$1 billion in lending (2007). However, since the collapse of the financial markets in September 2008, OHFA bond issuance in support of single family lending has been very modest, apart from New Issue Bond Program facilitated lending in 2010-2012. Due to the lack of new assets being put in the RMRB Resolution and high levels of mortgage paydowns (due to foreclosure and refinancing) the Resolution declined by approximately 80 percent, from a bond balance of \$3.1 billion in June 2010 to \$560 million at the start of May 2016. OHFA has remained active in the support of affordable single family home ownership in Ohio, including full participation in the NIBP, which is contained in a separate bond resolution; however, since the end of NIBP in 2012, new loan originations have largely been financed via direct MBS sales.,

With the portfolio runoff, the constitution of OHFA's single family resolution changed also, with 57 percent of its balance sheet in variable rate bonds outstanding, and only 43 percent in fixed rate bonds. Furthermore, in many tax plans the only bonds remaining to be called were variable rate bonds, creating fixed payer orphan swaps. Essentially OHFA was paying for variable rate protection they did not need (where OHFA is a net payer in today's market).

Fortunately, relatively short-dated future par termination rights on these swaps created compelling opportunities in the current market for both accelerating the reduction of this overhang (and the associated costs), and for realizing debt service savings in today's very low interest rate environment. Such financing options were rendered viable by virtue of the relative wealth of this Resolution, the parity position having grown from 105 percent in 2010, to 127 percent in 2015.

Further, as is well recognized, in the current very low rate environment, the ability of HFA's both to serve lower income first time homebuyers and to compete with the conventional market is driven by the provision of down payment assistance either in the form of a grant or a second loan. To the extent that comes out of profit or wealth, this may erode the HFA's wealth over time, so funding sources are

constantly being sought; program subsidy in the context of a tax-exempt financing provides one such source, but only to the extent that production is being tax exempt bond financed.

Plan of Finance and Implementation

On May 5, 2016, Ohio Housing came to market with the \$225 million 2016 Series D-J bond sale which provided approximately \$105 million in bond proceeds to finance new loan production, with the remaining \$120 million in bonds serving to refinance prior debt to realize debt service savings for program subsidy. The larger purpose of this complex sale was to boost OHFA's on-balance sheet bond financing of profitable and competitive home ownership mortgage lending by creatively utilizing the full panoply of compelling financing options available and leveraging accumulated Resolution Wealth. The larger plan of finance goals and results are described in the summary chart below:

| Goal | Why and How? | Results* |
|---|---|--|
| Return to On-Balance Sheet Lending | <ul style="list-style-type: none"> Render OHFA less dependent on Current Income Sale of MBS Build All Costs (DPA / Lender Fees / Hedging) into a Transaction as Recoverable Fees Put Equity to work for OHFA benefit | <ul style="list-style-type: none"> Commence on-balance sheet lending – \$100 mm now and subsidy for additional full spread on-balance sheet new lending More efficiently pays for 2016 D Mortgage Origination Costs (DPA & Lender Fees) |
| Generate Zero Participations for Program Subsidy | <ul style="list-style-type: none"> Replaced existing higher interest rate swaps with new forward start swaps at lower rates Savings from swap replacements generate Subsidy for Future Borrowers / Program Benefits Subsidy hedges Mortgage Finance Costs (listed above) | <ul style="list-style-type: none"> Swap replacements generate 200-300 bps. of rate benefit Estimate of Zeroes Generated: \$38 mm (at 400% PSA Swap Pricing and 300/200 Prepay Split) <ul style="list-style-type: none"> May permit 52 bps. of rate reduction on \$200 mm (subject to further evaluation and assumptions regarding yield computations) |
| Maximize OHFA Fees / Full Spread | <ul style="list-style-type: none"> Although the PV of Full Spread is subject to Prepay variations, Open Tax Plan assumed on 2016 D-J Full Spread permits 20 bps. takeout, plus residual dependent upon prepayment realized | <ul style="list-style-type: none"> Interim Tax Calculations assume high rate of prepayment to eliminate phantom subsidy Open tax plan management process 20 bps. OHFA fee achieved in all scenarios |
| Accelerate Reduction of “Orphan” Swaps (Swap “Overhang”) | <ul style="list-style-type: none"> To reduce net payment on orphan swaps in continued low rate environment To accomplish this without paying termination costs Issue Fixed Rate Buffer Bonds in Current Tax Plans to absorb prepayments where feasible including fixed new money and partial fixed remarketing – where there are 9/1/16 par cancel options | <ul style="list-style-type: none"> Reduced Overhang Position: <ul style="list-style-type: none"> 5/1/2016: \$109.240 mm 5/25/2016: \$145.540 mm (3-month addition) 9/1/2016: \$29.750 mm 3/1/2017: \$0 – No overhang 9/1/2017: \$0 – No overhang 3/1/2018: \$0 – No overhang |
| Reduce Risk of Future Swap Overhang | <ul style="list-style-type: none"> New Swaps / Bonds Structured to accommodate (without Overhang resulting in Orphan Swaps) 400% PSA Prepayments on Mortgage ALL Loans | <ul style="list-style-type: none"> Using Short Dated Non-Cancelable Swap to prevent Notional Swap from being greater than the bonds outstanding Very conservative high prepayment optionality (400% PSA assumed on all Mortgages) on Long Dated Cancelable Swap to mitigate future swap overhang Decrease in Variable (\$257 mm to \$221 mm) and Increase Fixed Rate Bonds (\$309 mm to \$450 mm immediately) Increase in Fixed to Total Debt Outstanding Ratio from 54.6% to 67.1% |
| Diversification of Swap Counterparties | <ul style="list-style-type: none"> Waiver to Include A1 Counterparties Reduces concentration of counterparty exposure via diversification | <ul style="list-style-type: none"> Currently OHFA has 5 separate banks as swap counterparties <ul style="list-style-type: none"> Some of these swap agreements will terminate in coming years (2016-2018) New forward start swaps adds Citi to OHFA's existing swap counterparties |

*Preliminary, subject to change.

The sale itself was brought to market in a public sale on May 5th, capturing very near historical lows in the financial markets. Debt structure features (including swaps) included:

- Fixed Rate Serial Bonds (Non-AMT) through 2024
- Large (64% of fixed rate bonds) 100% PSA back-loaded fixed rate premium PAC Term Bond (Non-AMT)

- Forward-starting short-dated “companion PAC Swap” (at 125% PSA) = non-cancelable short average life floating-to-fixed 70% LIBOR swap expected to create a low “all-in” synthetic fixed rate cost of funds over the life of the transaction
- Forward-starting long-dated “cancelable Swap” = cancelable long average life floating-to-fixed 70% LIBOR swap where OHFA purchased partial par cancelation options commencing in 2018 with the full par-amount callable at par by 2025
- Protection from future orphan swap position achieved by
 - Combining VRDOs / Swaps on a common tax plan with new money fixed rate bonds (buffer bonds)
 - Structuring swap cancelation options assuming high levels of prepayment (400% PSA)
- Forward-starting swaps in association with refunded VRDOs constitute economic refunding of prior bonds; transferred higher rate mortgage assets generate subsidy
 - Long-dated synthetic fixed rates provide a significantly lower expected cost of funds as compared with fixed rate bonds
 - Additionally, forward-premiums on interest rate swaps are inexpensive in current market (similar forwards are expensive or not available for traditional fixed rate bonds)

This structure and the resulting sale, including the forward start swaps to generate savings in the manner of an economic refunding, came at a low point in interest rates and resulted in an initial expected cost of funds of 2.60% (projected interim yield on an open tax plan), which in turn resulted in full spread lending on over a \$100 million of new low rate loans (March to May OHFA tax-exempt eligible loan production) *and* approximately \$38 million in new Zero Percent Participation loans for future subsidy purposes to facilitate future bond financing of loan production at full spread into 2017.

Remarketings / Swap Reallocations. The above referenced restructuring was complemented by the partial remarketing of OHFA’s 2006 Series F, 2006 Series I and 2006 J. Unlike the refunded bonds associated with a portion of the 2016 sale, these 2006 bonds have swaps that are quickly approaching their par swap termination options, and this allowed for a remarketing of a portion of the bonds to fixed rate debt. This partial remarketing has a few key benefits, including: allowing the existing tax plan to remain open at a lower cost of funds, thereby recovering spread on under full spread tax plans; and the creation of buffer bonds so that no additional orphan swaps are generated by calling VRDOs. After the remarketing takes effect on June 15th, \$33.98 million in VRDOs will become fixed rate, which will not only reduce the Agency’s overall VRDO exposure, but after the anticipated existing par cancelation options are exercised on the swaps, the cost of funds on the 2006 FIJ bonds remarketed to fixed will be reduced from roughly 4.71% on the existing outstanding swaps (inclusive of 0.55% for liquidity and remarketing) to 1.95% or less on the fixed rate bond (the highest yield on the fixed rate bonds). The approximate net PV savings on the remarketing totals to \$2.4 million (assuming 2% PV rate), all of which is retainable income.

Conclusion. As a result of this significant restructuring and projected new bond financed lending (facilitated by the creation of \$38 million in zero percent participations created by this transaction), the Resolution is expected to increase by roughly 60 percent in the coming year assuming that the generated subsidy realizes about \$300 million in bond proceeds for new loans. Additionally, this sale helps position OHFA for the future, leaving the Agency with a much strengthened balance sheet, reduced variable rate exposure, a speedy reduction in orphan swaps and increased annuity income created by on balance sheet loan production. Highlighted in Exhibit A are the changes to the balances sheet as a result of the transactions. In total, we estimate that the Agency will generate cost savings of \$23.1 million in this transaction which includes cost reduction on the swap overhang, the reduced rates on the remarketing of the 2006 FIJ to fixed and the reduced rates on the 2016 refunding and restructuring. This is in addition to the subsidy and the income from the expected full spread production of new loans in the Resolution. See chart at right and details provided in Exhibit B.

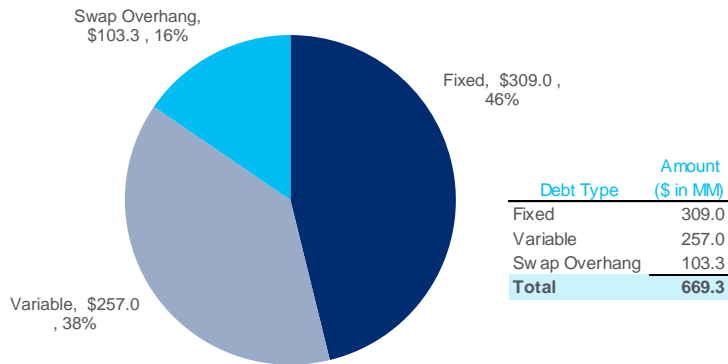
Savings Generated / Enhanced Profitability From Refunding and Remarketing (Amounts in \$)¹

| Estimated Savings Results | |
|---|-------------------|
| Net PV Refunding Savings ² | 15,231,554 |
| Net PV Remarketing Savings | 2,414,335 |
| PV Reduction Swap Overhang | 5,459,805 |
| Net PV Savings | 23,105,694 |
| Estimated Future Subsidy and Profitability | |
| Zeroes Generated ³ | 38,000,000 |
| Profit = Full Spread Lending on: | |
| \$300 mm | 9,000,000 |
| \$400 mm | 12,000,000 |

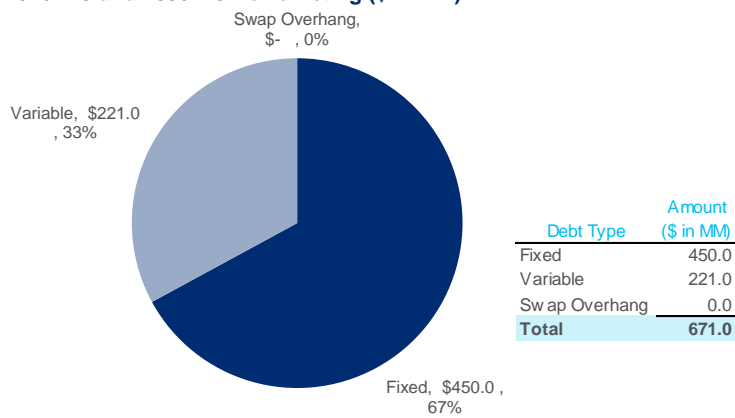
1. Assumes PV Rate of 2%
 2. Source of subsidy for future lending, shown below
 3. Estimate based on variety of assumptions. See footnote in Exhibit B

Exhibit A: Change in Debt Mix

Prior to 2016 D-J and 2006 FIJ Remarketing (\$ in MM)



Post 2016 D-J and 2006 FIJ Remarketing (\$ in MM)



Future Using Subsidy for New Lending (\$ in MM)

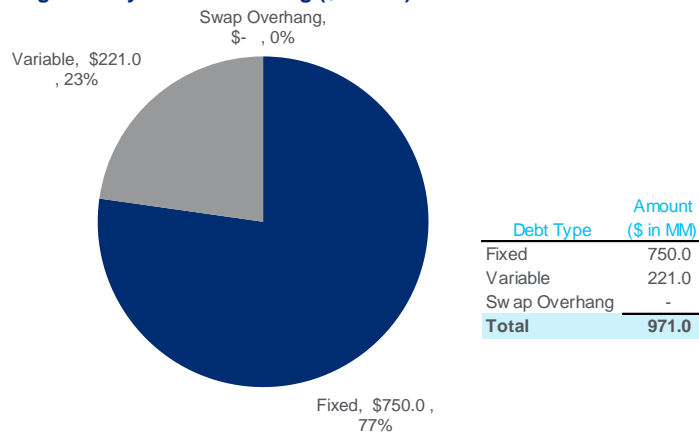


Exhibit B: Summary of Cost Savings and Future Profitability

Results of 2016 Refunding and 2006 FIJ Remarketing¹

| | 2016 E-J | 2006 FIJ | Sw ap Overhang | Totals |
|--------------------------------|---------------|--------------|----------------|----------------|
| Sw ap / Bond Amount (\$) | 120,190,000 | 33,980,000 | 103,325,000 | N/A |
| Existing Debt | | | | |
| Sw ap - WA Fixed Pay Rate | 4.40% | 4.16% | 4.32% | N/A |
| Sw ap - Variable Rate Received | -1.00% | -1.00% | 0.60% | N/A |
| Bond - Variable Rate Paid | 1.00% | 1.00% | 0.00% | N/A |
| Support Costs | 0.55% | 0.55% | 0.00% | N/A |
| Net Cost | 4.95% | 4.71% | 4.92% | N/A |
| New Debt | | | | |
| Sw ap - WA Fixed Pay Rate | 1.93% | 0.00% | 0.00% | N/A |
| Sw ap - Variable Rate Received | -1.00% | 0.00% | 0.00% | N/A |
| Bond - Variable Rate Paid | 1.00% | 0.00% | 0.00% | N/A |
| Support Costs | 0.55% | 0.00% | 0.00% | N/A |
| Fixed Rate Bond Cost | 0.00% | 2.06% | 0.00% | N/A |
| Net Cost | 2.48% | 2.06% | 0.00% | N/A |
| Savings | | | | |
| Per Annum Cost Reduction (%) | 2.47% | 2.65% | 4.92% | N/A |
| Per Annum Cost Reduction (\$) | 2,970,904.78 | 899,253.65 | 5,085,873.03 | 8,956,031.46 |
| Est. Avg Life | 6.03 | 3.27 | 1.10 | N/A |
| Gross Savings FV (\$) | 17,924,351.12 | 2,936,819.74 | 5,580,332.90 | 20,861,170.86 |
| COI | (780,019.39) | (362,879.90) | - | (1,142,899.29) |
| Net Savings FV (\$) | 17,144,331.73 | 2,573,939.84 | 5,580,332.90 | 25,298,604.47 |
| Net Savings FV (%) | 14.26% | 7.57% | N/A | N/A |
| Net Savings PV (\$) | 15,231,554.50 | 2,414,335.13 | 5,459,804.52 | 23,105,694.14 |
| Net Savings PV (%) | 12.67% | 7.11% | N/A | N/A |

1. These figures are estimates which have been approximated based on a variety of assumptions. Factors such as future interest rates, prepayment experience, PV rate and a variety of other factors will impact performance.