

2013 NCSHA Award Nomination



Management Innovation: Finance

REDUCING NEGATIVE ARBITRAGE AND INCREASING YIELD ON RESERVES

Douglas Garver, Executive Director
Errin Jackson, Director of Debt Management



2013 Annual Awards Entry Form
(Complete one for each entry.)

Entry Name Reducing Negative Arbitrage and Increasing Yield on Reserves

Fill out the entry name <i>exactly</i> as you want it listed in the awards program.

HFA Ohio Housing Finance Agency

Submission Contact Arlyne Alston, Director of Communications and Marketing

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Entry form with description, check(s), and visual aids (optional) must be received by NCSHA by **Monday, July 1, 2013**.

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

HFA _____

Entry Name _____

Communications	Homeownership	Legislative Advocacy	Management Innovation
<input type="checkbox"/> Annual Report <input type="checkbox"/> Promotional Materials and Newsletters <input type="checkbox"/> Creative Media	<input type="checkbox"/> Empowering New Buyers <input type="checkbox"/> Home Improvement and Rehabilitation <input type="checkbox"/> Encouraging New Production	<input type="checkbox"/> Federal Advocacy <input type="checkbox"/> State Advocacy	<input checked="" type="checkbox"/> Financial <input type="checkbox"/> Human Resources <input type="checkbox"/> Operations <input type="checkbox"/> Technology
Rental Housing	Special Needs Housing	Special Achievement	Are you providing visual aids?
<input type="checkbox"/> Multifamily Management <input type="checkbox"/> Preservation and Rehabilitation <input type="checkbox"/> Encouraging New Production	<input type="checkbox"/> Combating Homelessness <input type="checkbox"/> Housing for Persons with Special Needs	<input type="checkbox"/> Special Achievement	<input type="checkbox"/> YES <input checked="" type="checkbox"/> NO

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HFA: Ohio Housing Finance Agency

Category: Management Innovation – Financial

Entry Name: Reducing Negative Arbitrage and Increasing Yield on Reserves

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When the Guaranteed Investment Contract (GIC) market virtually vanished in 2009, housing finance agencies were left with enormous negative arbitrage issues when issuing bonds prior to originating the underlying mortgages, which was historically how HFAs had done business. In an effort to minimize negative arbitrage, the Ohio Housing Finance Agency (OHFA) began using a warehouse line extended by their loan servicer to purchase the loans from originating lenders, pool the loans into Mortgage-Backed Securities (MBS), and warehouse the MBS without using bond proceeds. The bonds would then be issued after the majority of the underlying MBS were already originated, therefore lessening the effect of negative arbitrage.

When the MBS were being warehoused by the loan servicer, OHFA would receive only one third of the pass-through interest earned on the MBS. In July 2012, OHFA began using reserves within its General Trust Indenture to self-warehouse the MBS. This enabled the Agency to retain the entire pass-through interest on the MBS until the bonds were issued.

The reserves in the OHFA's General Trust Indenture were a limited resource. In October 2012, the Agency was accepted by the Federal Home Loan Bank of Cincinnati as a Housing Associate Member, enabling OHFA to take advantage of advances offered by the bank. When the reserves within the General Trust Indenture became completely tapped in June 2013, OHFA utilized a fully collateralized advance under the Housing Associate Membership with a cost of borrowing as low as 0.14%. This enabled the Agency to purchase approximately \$25 million of MBS with a rate of return of 3.42%, with a cost of funds of only 0.14%. OHFA then netted 3.28% as opposed to having the loan servicer hold the loans until the bond proceeds were available.

Through April 30, 2013, OHFA earned approximately \$2.4 million by self-warehousing the MBS, for an imputed interest yield of 3.76%. If the Agency would have continued to use the warehouse line with the loan servicer for the same portfolio of MBS, the rate of return would have been approximately 1.25%, or \$800,000. The reserves used for self-warehousing were previously invested earning only approximately 0.96%, or \$600,000. By utilizing reserves to self-warehouse the MBS, OHFA was able to generate at least \$1.6 million in additional return on the General Trust Indenture's reserves.