2011 NCSHA Award Nomination
Ohio Housing Finance Agency

OHIO **HOUSING** FINANCE AGENCY

Management Innovation: Financial

Reducing Debt and Offering Competitive Interest Rates Amidst an Economic Downturn

Douglas Garver, Executive Director
Robert Connell, Director of Debt Management

2011 NCSHA Award Nomination – Ohio Housing Finance Agency
Management Innovation – Financial
Reducing Debt and Offering Competitive Interest Rates amidst an Economic Downturn
Douglas Garver, Executive Director
Robert Connell, Director of Debt Management

During 2010, various federal government initiatives such as the purchase of large quantities of Mortgage Backed Securities (MBS) and U.S. Department of the Treasury debt, caused anomalies in the financial markets that made it difficult for the Ohio Housing Finance Agency (OHFA) to access tax-exempt capital markets in a manner that it could offer Ohio first-time homebuyers below market mortgage rates.

The initiatives of the federal government created a market environment wherein tax-exempt interest rates were actually higher than corresponding taxable mortgage rates. Because many traditional lenders use taxable interest rates such as the 10-year U.S. Treasury Note as the index for establishing their mortgage rates, general market mortgage rates were able to be set at interest rates below those at which OHFA could issue tax-exempt bonds. This made it nearly impossible for OHFA to provide a below market mortgage rate for its First-Time Homebuyer program. However, OHFA was able to take advantage of these same anomalies in order to strengthen its General Indenture and reduce its outstanding debt.

On September 1, 2010, OHFA exercised its option to retire $123 million of outstanding bonds issued between 1997 and 2000. However, rather than use Agency resources as customarily done, OHFA took advantage of artificially high MBS dollar prices by selling $123 million of MBSs associated with the aforementioned bonds into the secondary market. Proceeds of the MBS sales were used to call the $123 million of bonds thus reducing the Agency's outstanding debt. Premiums paid for the mortgage backed securities generated an additional $12.4 million for the Agency's General Indenture.

In addition to strengthening the Agency's General Indenture, and because $12.4 million did not come from tax-exempt bond proceeds, its use is unrestricted and available to the Agency for whatever purposes it deems necessary for accomplishing the Agency's mission. The proceeds may be used as a means to subsidize the mortgage rate for Agency's First-Time Homebuyer Program, thus providing Ohio's low-to moderate-income first-time homebuyers with a more advantageous interest rate than could be provided without the subsidy. Furthermore, the funds provided the OHFA Board with the opportunity to commit additional Agency resources for use in non-First-Time Homebuyer programming such as OHFA's Housing Investment Fund (HIF). The Agency's HIF program, in partnership with non-profit organizations, for-profit organizations, public housing authorities and local governments, undertakes housing initiatives and meets housing needs by using unique, innovative, and replicable approaches that are not met by other OHFA programs. For example, HIF may use the funds for Accessible Housing, Vacant and Abandoned Housing**,** Very Low-Income Housing Assistance, and Special Needs Housing. The above are just a couple of examples of the potential uses for the funds made possible only because the funds come from a source other than restricted tax-exempt bond proceeds.

.