



Entry Form 2018 Annual Awards for Program Excellence

Entry Deadline: Friday, June 15, 2018, Midnight ET

Each entry must include a completed entry form. Please complete a form for each entry your HFA is submitting. The completed entry form will become the first page of your entry.

This form is a fillable PDF. Type your information into the entry form and save it as a PDF. Please do not write on or scan the entry form. **Questions: Call 202-624-7710 or email awards@ncsha.org.**

Entry Title: Enter your entry's title exactly as you wish it to be published on the NCSHA website and in the awards program.

In-House Interest Rate Management & MBS Structuring

Category: Management Innovation

Subcategory: Financial

Entry Summary: A 15-word (max) summary of the program, project, or practice you are entering.

In-house interest rate risk management/MBS structuring achieves cost savings,

earnings, and increased dynamic autonomy.

HFA: Illinois Housing Development Authority

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Visual Aids:

Are you mailing to NCSHA 10 copies of any visual aids that cannot be included in your entry PDF? Yes No

Payment:

- My HFA is mailing a check to NCSHA.
- My HFA is emailing the credit card authorization form to awards@ncsha.org.

Management Challenge:

The Illinois Housing Development Authority (“IHDA”) transitioned from purchasing whole loans to mortgage-backed securities (“MBS”) in 2009. While the underlying security type changed, IHDA continued to manage its pipeline, interest rate risk and financing processes similar to that of whole loan purchases. IHDA would purchase mortgage-backed securities and then issue bonds or sell those securities that would not or could not be bond-funded, designing pools by simply aggregating like type, rates and maturities. The transition yielded issues which included, among other concerns, increased interest rate risk and inefficient mortgage-backed security structuring.

IHDA’s Executive Department felt strongly that the Authority needed to address the additional risks and inefficiencies related to our transition to MBS products. Adequately addressing these issues required a detailed understanding of the To Be Announced (“TBA”) market, trade settlement and pool structuring, which IHDA did not have at that time. In 2014, IHDA partnered with a third party in order to enter the TBA market and address these risks. The third party entity executed TBA trades on IHDA’s behalf and effectively designed the pools to meet the pending TBA trade settlements. The combination of these services provided IHDA with the ability to both hedge the interest rate risk and meet the trade settlements. IHDA staff had not been involved in effectively managing the interest rate risk and the structuring of mortgage-backed securities prior to the implementation of the TBA hedging strategy.

Opportunity:

In a standard risk management operation, the Authority would maintain control over the structuring of the mortgage-backed securities and control the hedging operations from origination through settlement. Management determined that performing the operations internally would not only reduce overall costs, but would generate positive revenue in year one. However, in order to perform these functions, key in-house staff would be required to have a full grasp of the TBA market, trade settlement process and pool structuring requirements. In light of this, management determined that there was an opportunity to collaborate with a third party vendor in a training capacity. The training platform would ultimately result in IHDA’s ability to transition the functions performed by the third party vendor to IHDA staff. Over the course of the contract period, the Authority was able to shadow the processes of the vendor until the shadowed process maintained the same results. As a result of this partnership, the Authority was able to better position itself to reduce costs and increase revenues, and, in turn, focus those revenues on driving our mission of financing affordable housing.

Implementation and Improvements:

While IHDA immediately experienced post-internalization cost savings, we were also able to significantly increase revenues. IHDA was truly the best representative to manage its pipeline considering our insight into the Authority’s product types, prepayment speeds and investor appetite, in addition to being better equipped to manage counterparty/broker relationships.

Illinois Housing Development Authority
In-House Interest Rate Management & MBS Structuring
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Results were noticeable within the first post-implementation quarter. There was a concentrated effort to partner with our brokers and counterparties in order to learn from each other, for IHDA to evaluate their preferred MBS structures, and to provide the investors with more detailed information about IHDA's products, including DPA characteristics and prepayment speeds. IHDA ultimately became active in building custom pools to meet their various needs, especially related to GNMA MBS and CRA credit.

As IHDA staff took full ownership of the TBA trade and pool structuring processes, we used data related to our trade executions, bids, counterparties, loan and borrower demographics and market trends to determine our best execution scenarios. The resulting analysis indicated that there was a sizable gap on the government delivery and settlements, as well as noticeable pricing gaps between the government and conventional products. With this data, IHDA determined that there was an opportunity to more efficiently structure the government pools to narrow the pricing gap and achieve higher government MBS sale prices.

The improvements in financial operations have had a significant positive impact on the overall financial health of the Authority. IHDA has managed the entire process in-house over the last two years, and as a result, the TBA transaction return on investment has increased by **2.49%** annually in addition to experienced cost savings of approximately \$305,000 a year, allowing the Authority to reinvest in a critical need in Illinois. With a newfound flexibility to allocate additional staff and financial resources to the design and implementation of new single-family programs, IHDA has improved both its financial health and its ability to fulfill a core piece of its mission.