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125 YEARS 1890 – 2015

AUSTIN 2018 ANNUAL CONFERENCE & SHOWPLACE

OCTOBER 13 – 16

HFAs AT THE CENTER

NCSHA

National Council of State Housing Agencies
Austin, Texas

Multifamily Housing
Mind the Gaps: Solutions for Multifamily Financing
Single Asset Affordable Multifamily Financings – moving from a Muni World to an MBS World

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GSE Role in Multifamily Finance

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- As of 2nd quarter 2018 the GSE’s had overwhelming market share of all multifamily financings:
  - FHA, Fannie, Freddie MAC - 49%
  - Banks - 32%
  - State and Local Government (including holdings of retirement funds) – 7%
  - Life Insurance companies – 6%
  - CMBS, CDO, ABS – 3%
  - Unincorporated business – 1%
  - Other and rounding – 2%

Source: Mortgage Bankers Association

GSE credit enhancement has long been used for tax-exempt affordable housing transactions e.g.

- FHA/GNMA – mortgage insurance and MBS transaction
- Fannie Mae – fixed rate standby and floating rate direct pay credit enhancement transactions, Fannie Mae Collateral agreement financings
- Freddie MAC – M series pools structured as VRDN’s. Some single asset direct pay floating rates transactions
- Prior to 2008 most were structured as muni transactions – VRDN’s or semiannual pay MBS backed transactions
- Still prior to 2008 housing bonds could be sold at tax-exempt rates that were lower than taxable rates

New Affordable Multifamily Housing Debt Buyers

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- The trend is for affordable tax-exempt multifamily debt market to be purchased by other than the traditional buyer: funds, insurance companies and retail
- Now a trend to affordable GSE transaction debt being sold to the natural buyers of MBS
  - Banks that traditionally buy MBS, can use tax-exemption and need whole loan MBS for CRA or want to buy sliced and diced MBS for liquidity purposes
- We are now seeing a trend to tax-exempt affordable multifamily transaction debt being priced through taxable multifamily rates.

2017 Stifel Multi family Housing Bond Underwritings by Type

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Stifel Multifamily Underwritings or Private Placements single asset or small pools (not large pools)					
	Number	Par	Pct. of Number	Pct. of Par	Ultimate tax status
Private Placements	5	$ 38,962,000	7%	3%	taxable
FHA/GNMA Cash Collateralized	37	$ 531,075,000	51%	45%	taxable
M-TEMS (Fannie Mae MBS)	9	$ 199,777,000	12%	17%	tax-exempt
S&P rated non credit enhanced or unrated	14	$ 343,025,000	19%	29%	tax-exempt
Remarketing's	6	$ 65,300,000	8%	6%	taxable
Freddie MAC Tax-Exempt Pass throughs	2	$ 6,886,960	3%	1%	tax-exempt
	73	**$ 1,178,139,000**	**100%**	**100%**	

GSE Affordable Multifamily Debt Components for MBS Buyers

GSE transactions must be structured differently to meet the needs of MBS buyers:

- Interest and principal are paid monthly
- Pass through structures - all payments passed directly through to investors
- Based on prevailing interest rate methodologies
  - Fannie Mae – actual/ 360
  - Freddie and FHA are 30/360
- Fannie Mae and Freddie have balloons to match the end of LIHTC compliance period
- FHA is starting to move in the same direction
- Pricing is being done off CMBS/MBS desks vs Muni desks
- Pricing is based on average life and not final maturity
- Interest rates for 10 -15 year maturities typically priced as a spread to 10-year LIBOR
- Disclosure is designed to mimic MBS disclosure
- Enhanced CRA disclosure for banks that buy MBS's
- Bonds use structures to get best risk rating from banks from Controller for the Currency e.g. exchange features so that investors can get MBS risk ratings

FHA/GNMA

- 40-year GNMA’s cannot be sold effectively to traditional municipal bond buyers
- Some ingenious bond lawyers have devised the side by side cash collateral multifamily transactions for GNMA CLC/PLC transactions.
- Short-term tax-exempt bonds issued to meet 4% tax-exempt bond criteria while GNMA CLC’s are issued to fund construction.
- The taxable CLC/PLC’s are sold to large investment banks that purchase them for $1 billion +REMIC offerings

Short Term Bonds → Short Term Tax-Exempt Muni Buyers

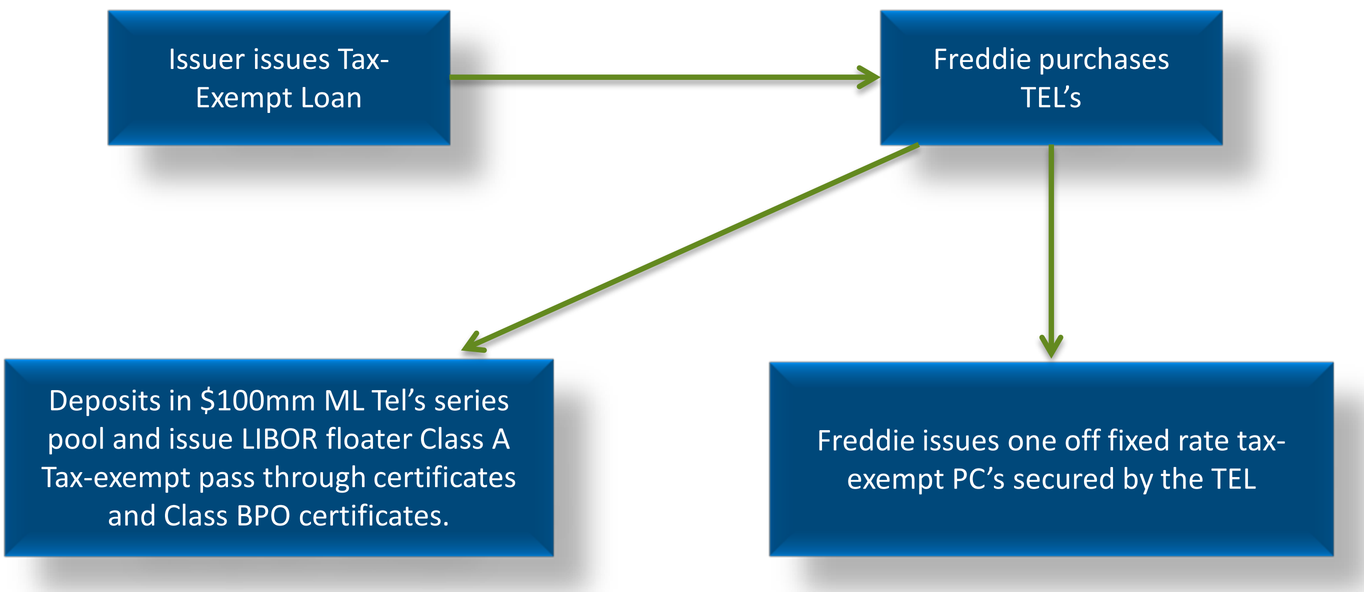
GNMA CLC’s/PLC’s → Large taxable REMIC’s which are sliced and diced to be sold to various banks and other investors to match their desired maturities. Priced at 15CPJ to the average life is approximately 7 years.

Fannie Mae

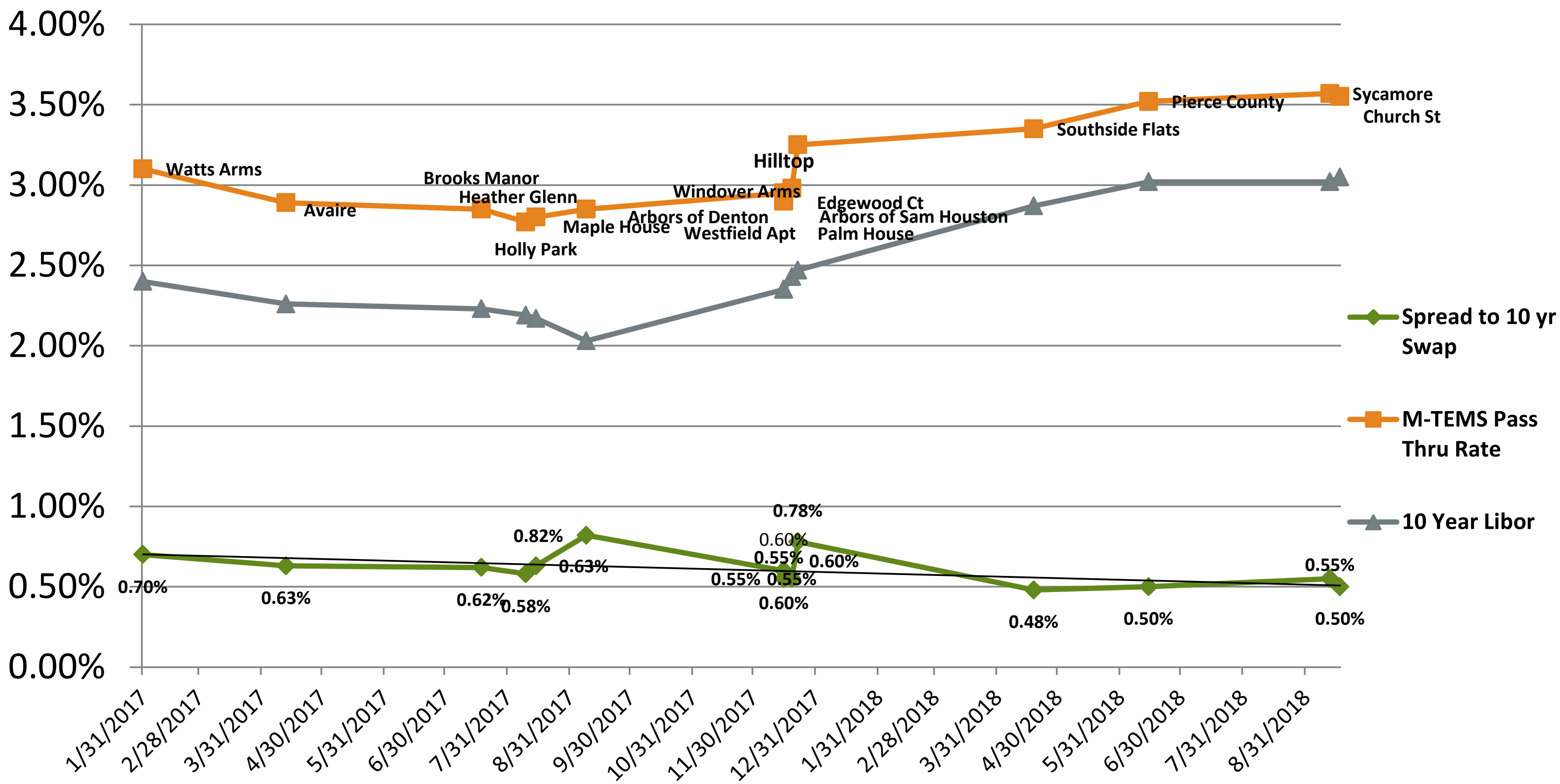
- Fannie Mae has new M-TEBS program for tax-exempt affordable housing financings
- MBS deposited into pass through tax-exempt bond structure after loan has closed and MBS delivered
- Bonds sold as soon as Fannie Mae commitment issued – bond proceeds invested in treasuries until MBS delivered
- Can be structured with balloons to match borrower needs – anywhere from 5-18 years
- The bond pass through rate is the mortgage rate less servicing and guaranty fees
- Can be structured as immediate delivery or funded forward for substantial rehab or new construction – typical forward period is 30 months with one six month extension
- Sold to investors who buy Fannie Mae DUS MBS

Freddie Mac

- Freddie Mac – TEL's (tax-exempt loans)
- Freddie buys tax-exempt loan directly from Issuers either for immediate delivery for mod rehab transactions or issues a commitment for a forward delivery for substantial rehab or new construction
- Freddie either
  - accumulates the TEL's into a pool of at least $100mm TEL's and deposits them into a ML pass through trust which issues guaranteed Class A Certificates and non-guaranteed Class B certificates (usually split 90/10%) and send sells the Class A pass through certificates to the capital markets as LIBOR floaters. The Class B's as sold to typically institutional investors, or,
  - sells the TELS's as one-off fixed rate tax-exempt Participation Certificates.



Fannie Mae MBS M-TEMS Trade Summary



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Marketing affordable housing MBS

- Sold to banks that typically buy MBS and need CRA and can use tax exemption. Investors to date have been 95%+ banks
- While an offering statement is used that complies with MSRB rules will include a term sheet in MBS format that provides information that investors typically receive when buying MBS's
- Provide cash flows that are like MBS cash flows on Bloomberg
- Will cross reference municipal cusips, mortgage cusips and pool numbers on Bloomberg so that investors can readily access GSE disclosure and analytics on Bloomberg that is based on pool numbers
- Stifel has set up unique product name on Bloomberg for Stifel underwritten tax-exempt MBS called M-TEMS. M-TEMS will bring an investor to the list of M-TEMS so that they can access the information easily
- Investors can get quarterly updates on property performance through the Fannie Mae (and soon Freddie Mac) MBS disclosure systems which get picked up on Bloomberg. Don't have to wait 6 months after year end for financial reports on EMMA. Better disclosure = more liquidity.
- Finally now can sell tax-exempt housing bonds through taxable

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