National Council of State Housing Agencies

2018 NCSHA

Latest Trends in Tax-Exempt Debt Financing

October 2018 / Confidential

Jefferies

Disclaimer

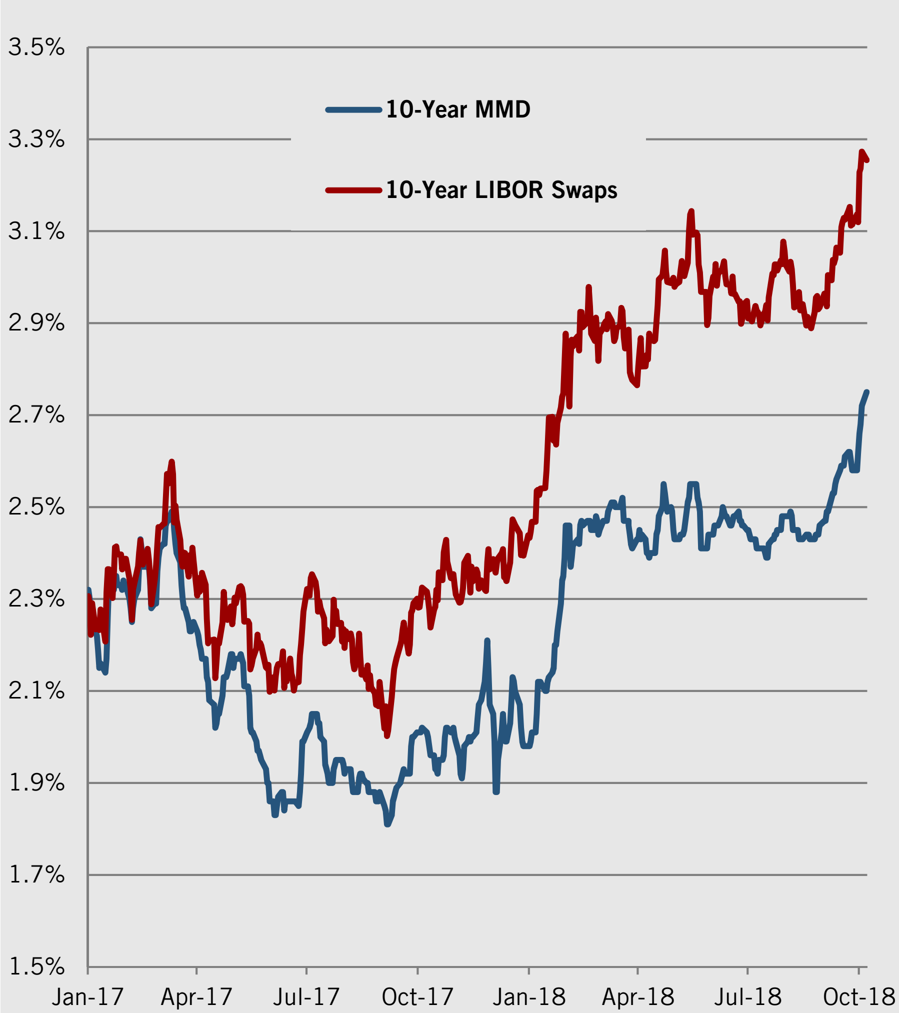
This material has been prepared by Jefferies LLC, a registered broker-dealer. The information upon which this material is based was obtained from sources believed to be reliable, but has not been independently verified, therefore, we do not guarantee its accuracy. It may be based on subjective assessments and assumptions and may utilize one among alternative methodologies that produce differing results; accordingly, it should not be relied upon as an accurate representation of future events. This is not an offer or solicitation of an offer to buy or sell any security or investment.

This document is not a product of any Jefferies research department and should not be construed as a research report. The information provided in this document is strictly for informational purposes only. No responsibility is accepted, and no representation, undertaking or warranty is made or given, in either case, expressly or impliedly, by Jefferies as to the accuracy, reliability or completeness of the information contained herein or as to the reasonableness of any assumptions on which any of the same is based or the use of any of the same. Accordingly, Jefferies and its officers, directors, employees, agents or representatives will not be liable for any direct, indirect or consequential loss or damage suffered by any person resulting from the use of the information contained herein, or for any opinions expressed by any such person, or any errors, omissions or misstatements made by any of them.

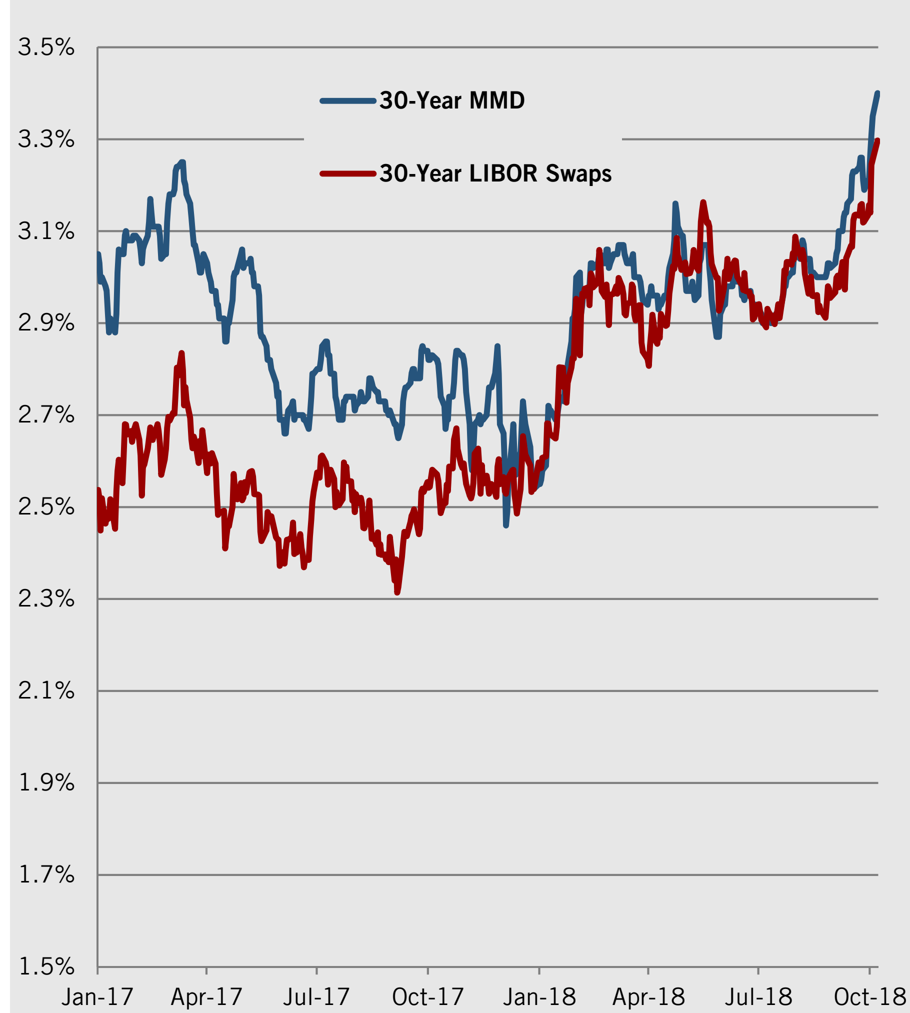
Jefferies LLC is not acting as a municipal advisor, financial advisor or fiduciary to the recipient or any other person or entity. Jefferies will not have any duties or liability to any person or entity in connection with the information being provided herein. The information provided is not intended to be and should not be construed as "advice" within the meaning of Section 15B of the Securities Exchange Act of 1934. The recipient should consult with its own financial and/or municipal, legal, accounting, tax, and other advisors, as applicable, to the extent it deems appropriate.

Since 2017, the Relationship Between Tax-Exempt and Taxable Rates Has Shifted

Tax-Exempts vs. Swaps (10-Year Term, Since January 2017)

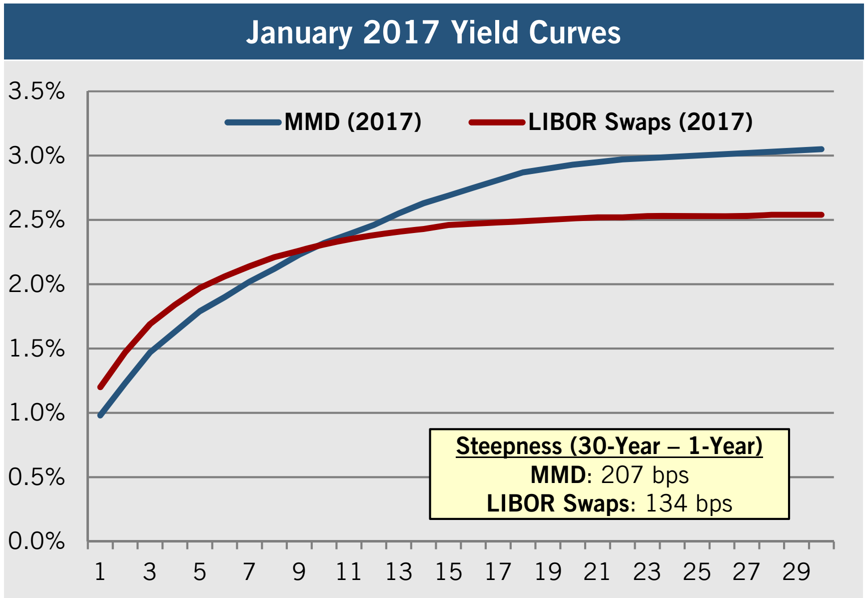


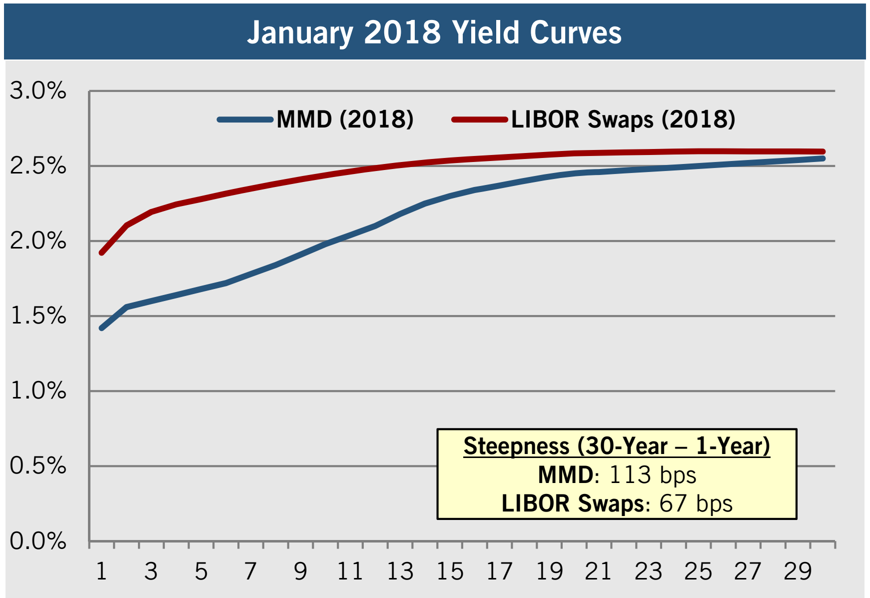
Tax-Exempts vs. Swaps (30-Year Term, Since January 2017)

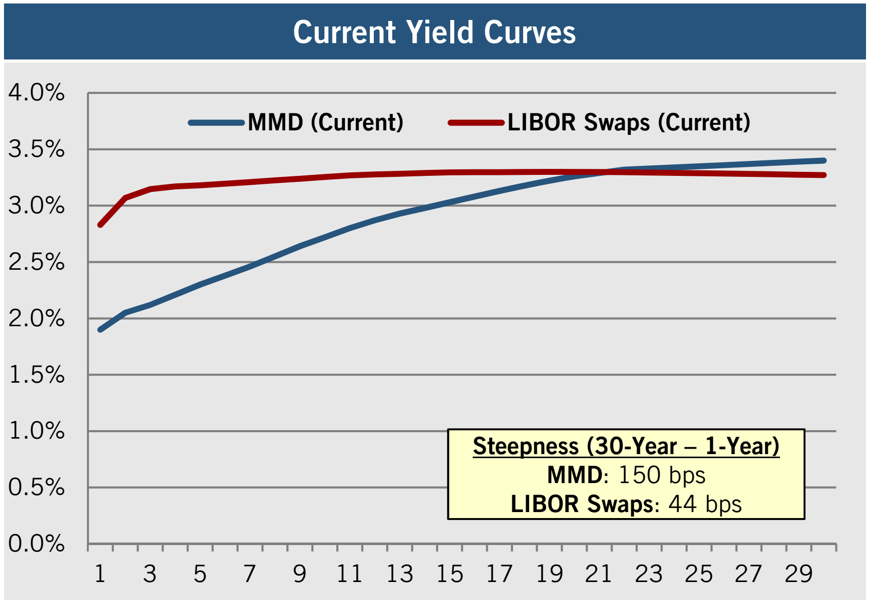


Source: Thomson Reuters and Bloomberg.

Shape of the Yield Curves Have Changed Drastically







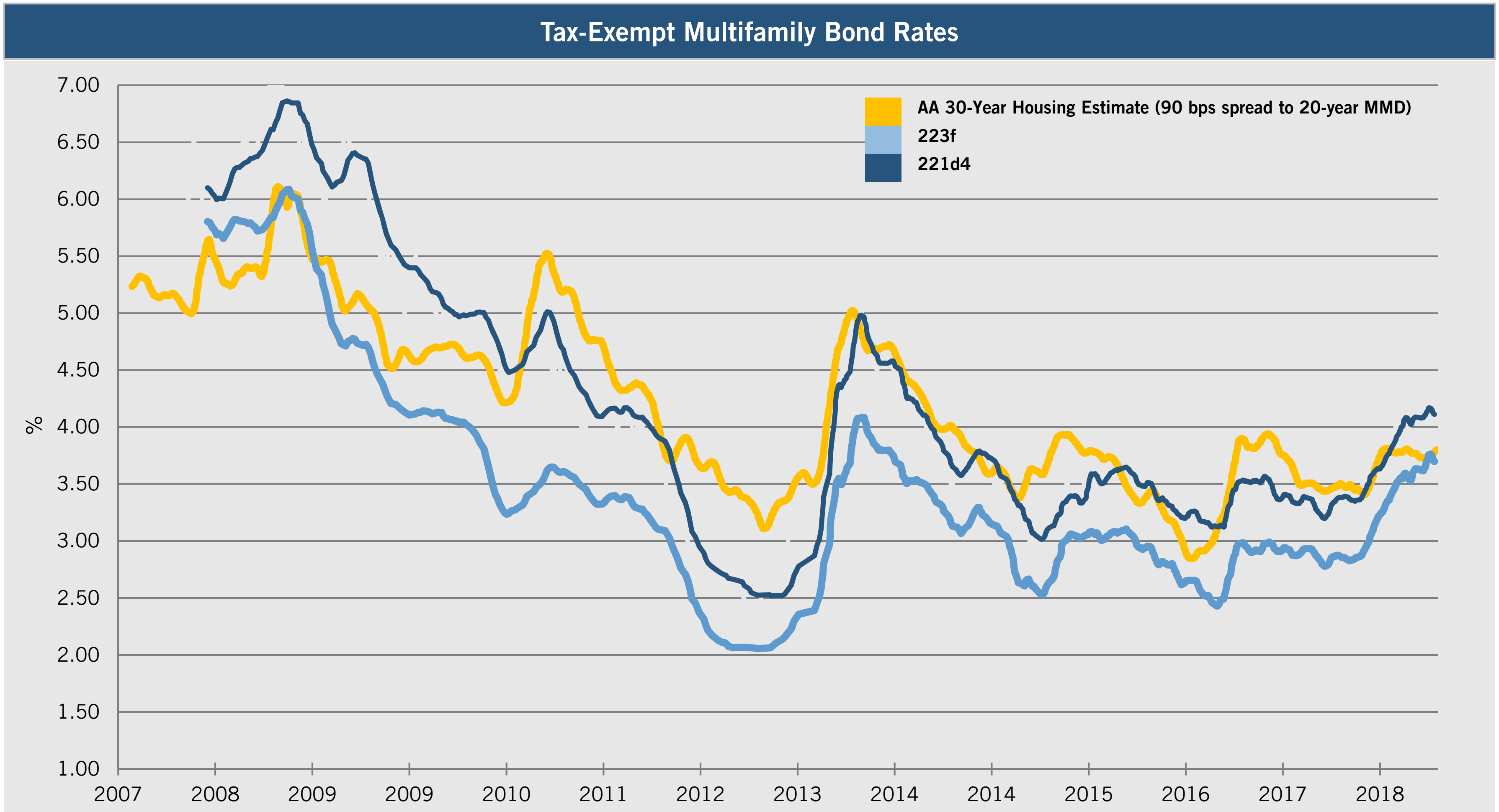
Source: Thomson Reuters and Bloomberg.

Most Common Conduit Executions

Private Placement	▪ Direct purchase by bank or other investor in loan or bond form ▪ Unrated with minimal cost of issuance ▪ Drawdown structure lowers negative arbitrage ▪ Typically 17-year term and longer amortization	**Highly dependent on CRA and return targets (5.00-5.75% all-in)**
GNMA Cash-collateralized Structure	▪ Issue short term tax-exempt bonds to generate 4% LIHTC ▪ Bond secured by proceeds of GNMA security (FHA Insured) ▪ Davis-Bacon wages ▪ 35-40 year term and amortization	**Benefits from GNMA market rates but with traditional bond process and Davis-Bacon (4.50-5.00% all-in)**
Freddie Mac TEL	▪ Direct purchase by Freddie Mac through lender network ▪ Can be paired with bank direct purchase as a permanent loan forward ▪ Loan will be part of securitization ▪ Typically 17-year term with longer amortization	**Rates and forward structure are attractive but what's in store for future as program matures (5.00-5.20% all-in)**
Fannie Mae M-TEB	▪ Each project loan packaged into MBS instead of Credit Enhancement instrument ▪ MBS secures tax-exempt pass-through bond which generates 4% LIHTC ▪ Can accommodate new construction as part of cash collateralized structure ▪ Typically 17-year term with longer amortization	**Significant market growth over the last three years (4.80-5.00% all-in)**

Note: Rates are indicative.

Multifamily Cost of Funds Comparison



Source: Thomson Reuters and Berkadia.

Multifamily New Construction & Preservation Funding Alternatives

Structure	Description	Considerations	Tax-Exempt Bond Yield	Taxable Bond Yield
New Construction Structuring Options				
Traditional 42-year Mortgage Revenue Bond	Serials & Terms	Producing a competitive cost of Non-AMT funding	**4.20%**	**4.72%**
42-Year Pass-through	Term Bond	Potential savings for taxable where applicable	**4.53%**	**4.68%**
17-year Mortgage Revenue Bond Balloon	Term Bond	Attractive MRB savings for shorter Final	**3.79%**	**4.47%**
17-year Revenue Pass-through Balloon	Term Bond	Potential savings for shorter Final, particularly taxable where applicable	**3.91%**	**4.06%**
Preservation Structuring Options				
35-year Preservation Mortgage Revenue Bond Bond	Serials & Terms	Recognizable savings for shorter Final	**4.07%**	**4.63%**
35-year Preservation Pass-through	Term Bond	Potential savings for taxable where applicable	**4.48%**	**4.63%**
15-year Mortgage Revenue Bond Balloon	Serials & Terms	Attractive MRB savings for shorter Final where applicable	**3.66%**	**4.40%**
15-year Pass-through Balloon	Term Bond	Potential savings for shorter Final, particularly taxable where applicable	**3.81%**	**3.96%**

Note: 42-year structures assume two-year construction period interest-only followed by 40-year amortization. Pass throughs assume FHA Risk-share insurance on permanent long-term mortgage. Indicative rates as of 10/09/2018.

HFA Direct Lending Models

	General Obligation Bonds	Structured Finance	Open Indenture	FHA Risk-Share
Overview	**Use G.O. rating to fund loans through debt issuance**	**Structure to rating agency criteria to achieve ratings**	**Overcollateralized Indenture with insured and uninsured loans**	**Use unique insurance product for HFA loans to secure debt**
Strengths	▪ Direct underwriting ▪ Potentially more straightforward disclosure ▪ Structuring flexibility ▪ No DSRF	▪ Minimal capital ▪ Favorable rating agency view of affordable housing ▪ Criteria change risk ▪ Challenges with more depressed areas	▪ Build up of wealth through spread earnings over time ▪ Program underwriting flexibility ▪ Structuring flexibility	▪ Unique tool with 100% federal guarantee ▪ Developing pass-through market ▪ Programmatic efficiency with 50/50 program ▪ Little capital with 90/10 program ▪ Access to Federal Financing Bank
Challenges	▪ Municipal cost of funds ▪ G.O. Covenants	▪ Typically lower leverage ▪ A rating cap ▪ Municipal cost of funds	▪ Need for capital ▪ Value takes time ▪ Municipal cost of funds	▪ Davis-Bacon wages or need to cover construction risk ▪ Initial set-up with FHA/HUD
Cost of Capital	4.05-4.25%	4.25-4.45%	4.05-4.25%	4.05-4.35%
Example	Iowa	Non-profits	NYC, NYS, CT, MI, NJ	CO, MA, MD, DC, IL

Indicative rates as of 10/09/2018.

The HFA Model is Working

COST OF FUNDS

✓With recent yield curve shifts, advantage is back

RISK-SHARE

✓Unique loan enhancement product with longer term (40 years), providing up to 5% of additional value in proceeds or reduced debt service

NEGATIVE CARRY

✓Reduced benefit of competing drawdown products likely to continue as yield curve flattens (today approximately 1-2% of total debt)

SUBSIDY CAPITAL

✓Greater need for subsidy due to higher costs and reduced LIHTCs brings HFAs and other governmental entities to the table

AFFORDABLE HOUSING MANDATES

✓Regulatory focus on affordable housing increases need for HFAs as partners