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ENIX

2024

**Affordable Homeownership
Financing in a High-Interest
Rate Market**



Panelists

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2024 ANNUAL NCSHA CONFERENCE

AFFORDABLE HOME OWNERSHIP FINANCING IN A HIGH INTEREST RATE ENVIRONMENT

SINGLE FAMILY MARKET TRENDS AND BEST EXECUTION

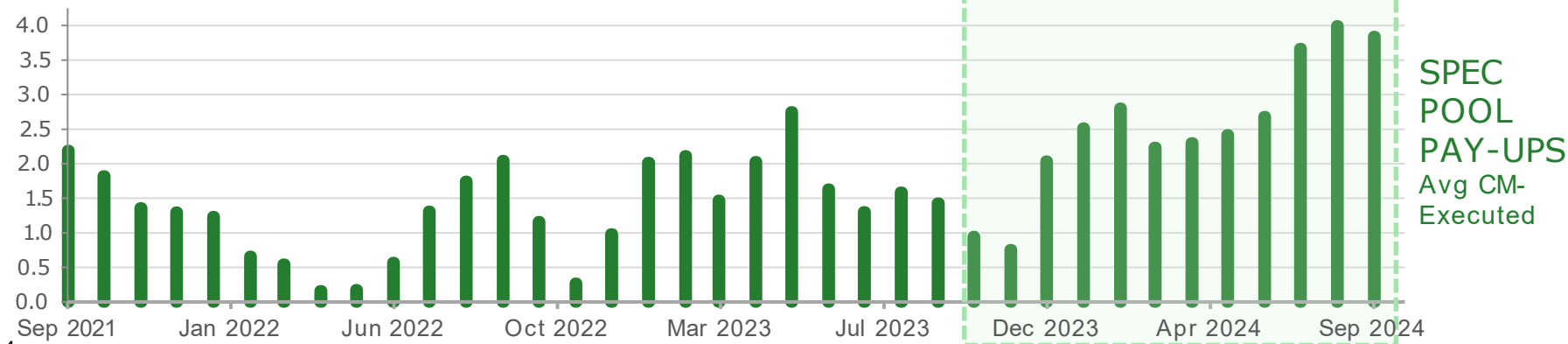
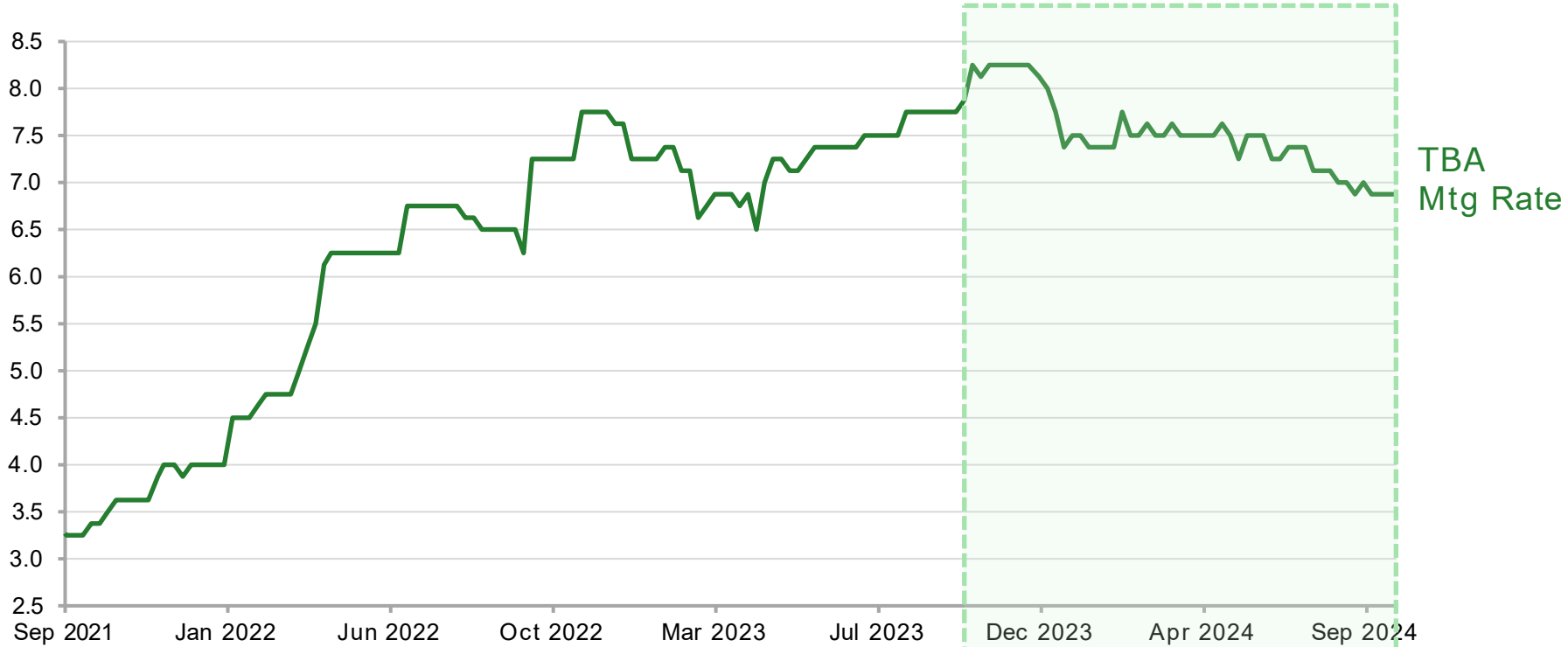
SEPTEMBER 30, 2024

ANSEL CAINE | CAINE MITTER & ASSOCIATES INC | #1 HOUSING MUNICIPAL ADVISOR IN 2023
FINANCIAL ADVISOR | QUANTITATIVE CONSULTANT | SWAP ADVISOR | TBA ADMINISTRATOR



TBA PROGRAM PERFORMANCE IS IMPROVING

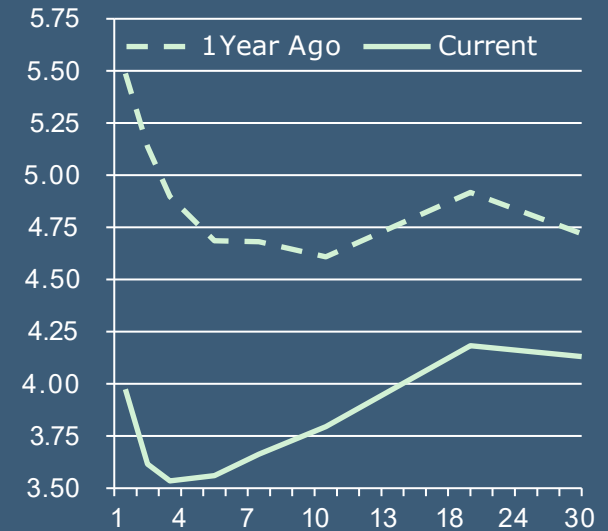
Mortgage Rate on Generic FHA Loan w/ DPA Silent 2nd Financed w/ TBA Program



For most of the past year, TBA execution has underperformed due to:

1. High interest rates, and
2. An inverted yield curve

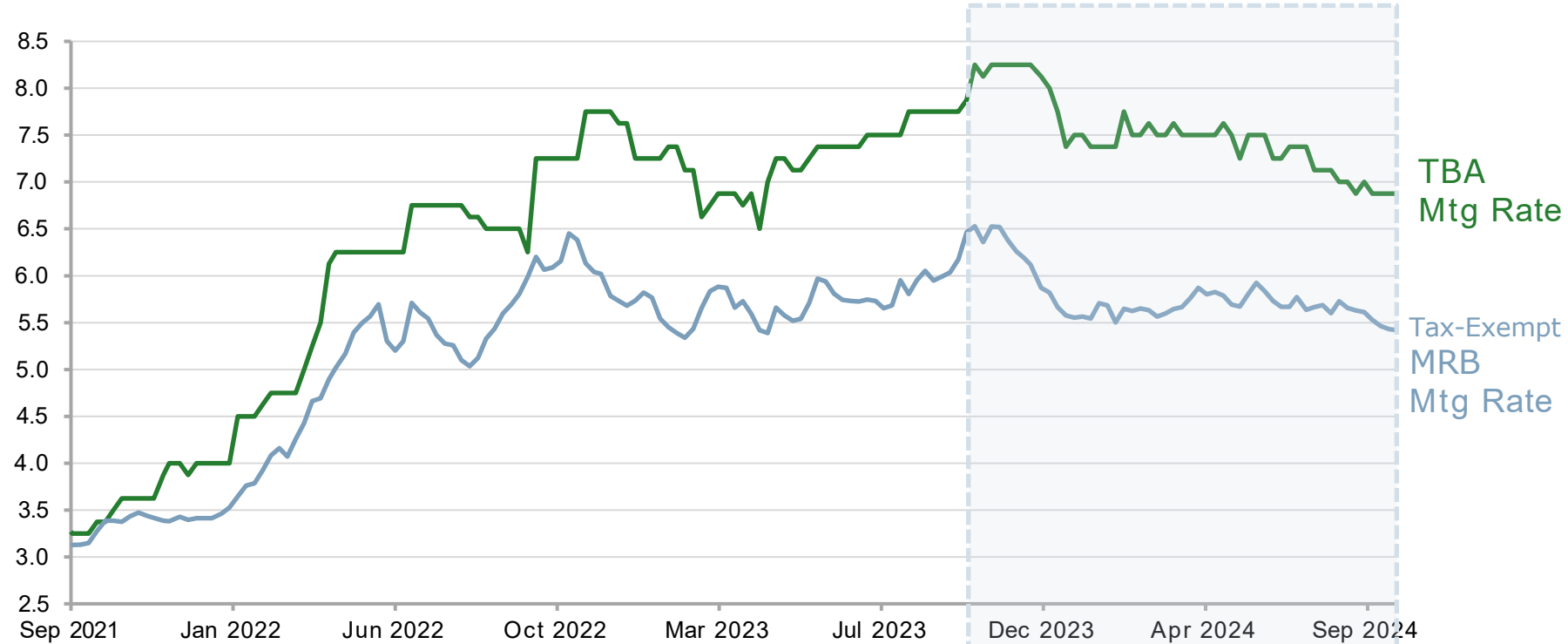
US Treasury Curve



The current, steeper yield curve, and lower absolute rates have led to bigger pay-ups and lower TBA program mtg rates

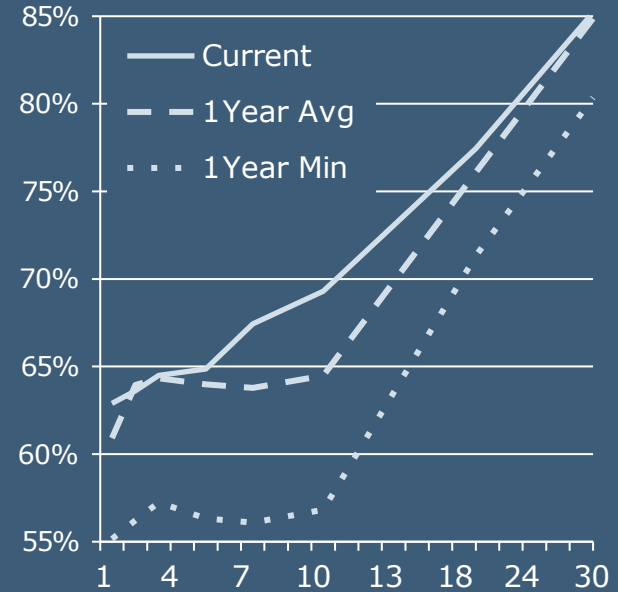
TAX-EXEMPT MRB VALUE REMAINS STRONG

Mortgage Rate on FHA Loan w/ DPA Financed w/ TBA or Tax-Exempt MRB



Meanwhile, the value of tax-exempt MRBs has remained high

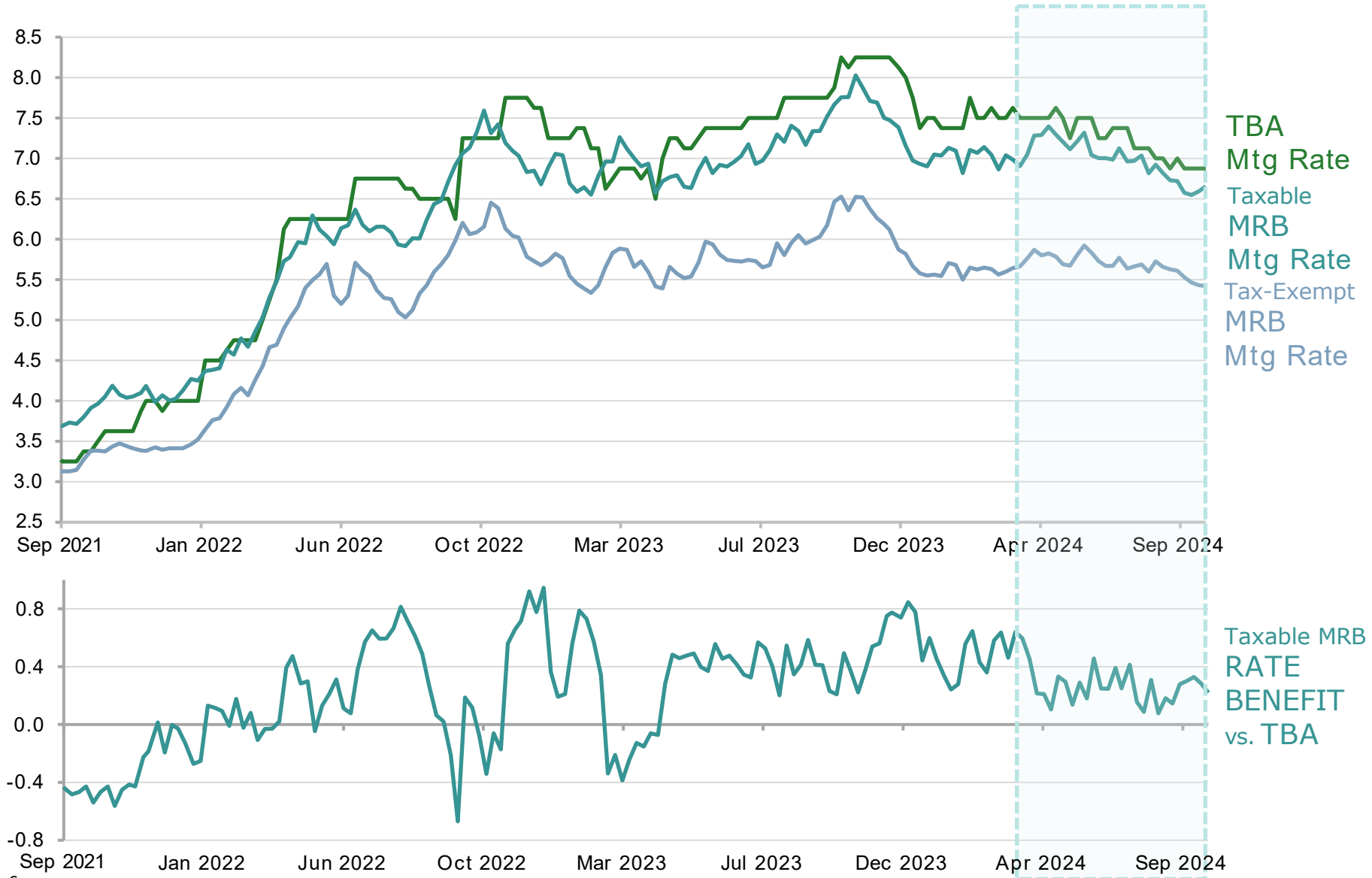
MMD/UST Ratio Curve



The value of tax-exemption remains strong despite MMD ratios trending upward and better performance in the TBA market

TAXABLE MRB VALUE TRENDING LOWER

Mortgage Rate on FHA Loan w/ DPA Financed w/ TBA, TE MRB or Taxable MRB



Taxable MRBs are currently used to:

1. Stretch volume cap, and
2. As a TBA alternative for non-first-time homebuyer loans

Mortgage Rate Benefit: MRB vs TBA

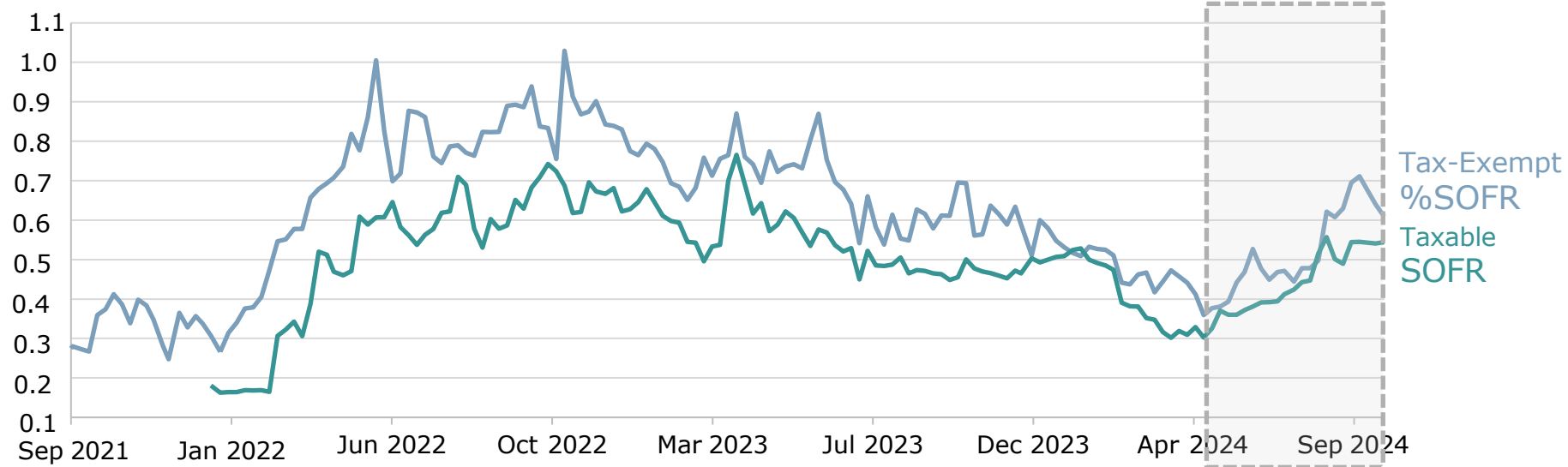
% Taxable	Mtg Rate Benefit
0	1.45%
25	1.15%
50	0.85%
75	0.55%
100	0.20%

Results will vary by mortgage product

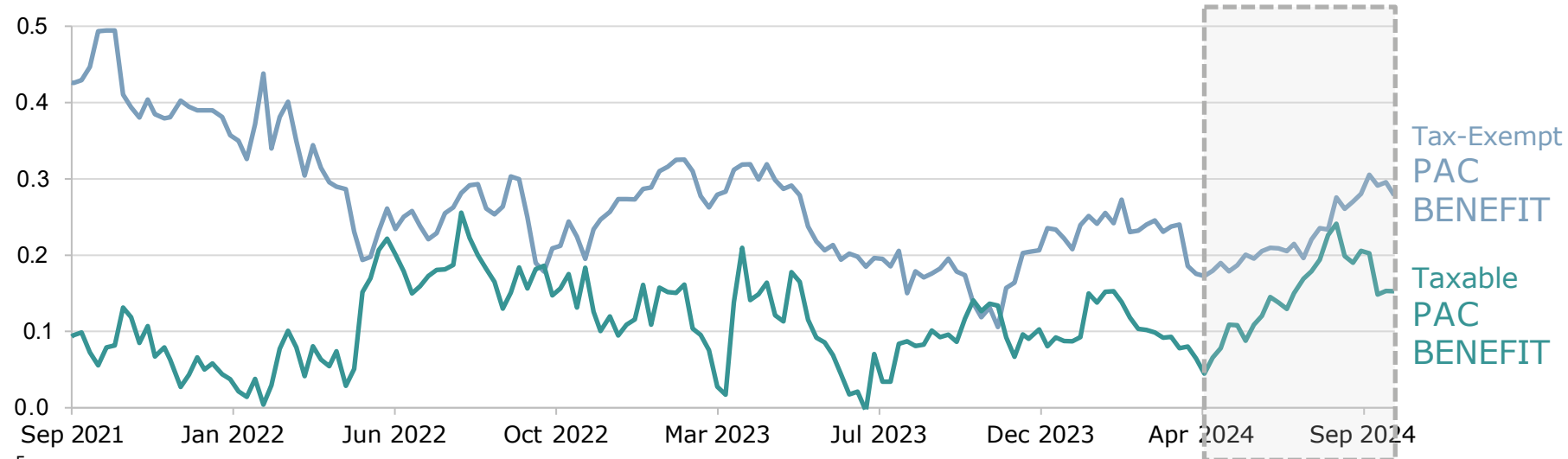
HFAs evaluate taxable MRB as a TBA alternative in the context of pipeline risk and prepayment risk

STRUCTURED PRODUCTS IMPROVED VALUE

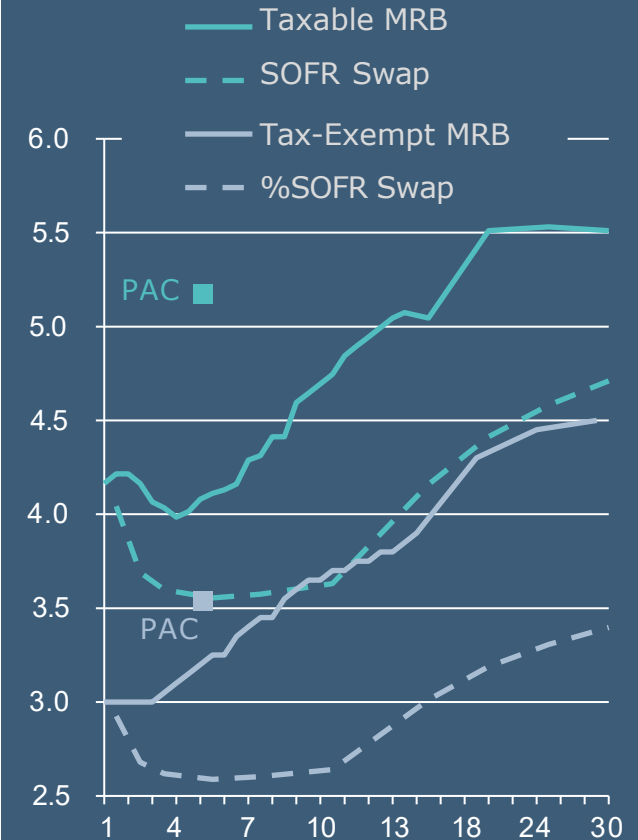
Mortgage Rate Reduction of a 1/3 Floating-to-Fixed Swap, 2/3 Fixed MRB Structure



Mortgage Rate Reduction of Back-Ended PAC MRB Structure (100psa, 5yr Avg Life)



Current Yield Curves



All swap analytics assume 9yr Bermudan par termination option, the cost of liquidity and PAC bond on fixed rate portion

BEST EXECUTION

Improved performance in the TBA market and continued strong performance in the MRB market have created best execution opportunities for HFAs that ...

- Realize the full specified pool pay-up on each MBS sale

Competitive specified pool sales through a network of broker-dealers to realize full pay-up
- Analyze relative economics at the product and loan level

Best ex for Mtg Product A may be different than best ex for Mtg Product B; pay ups will vary based on loan type
- Optimize economic return at multiple pipeline and deal cycle milestones

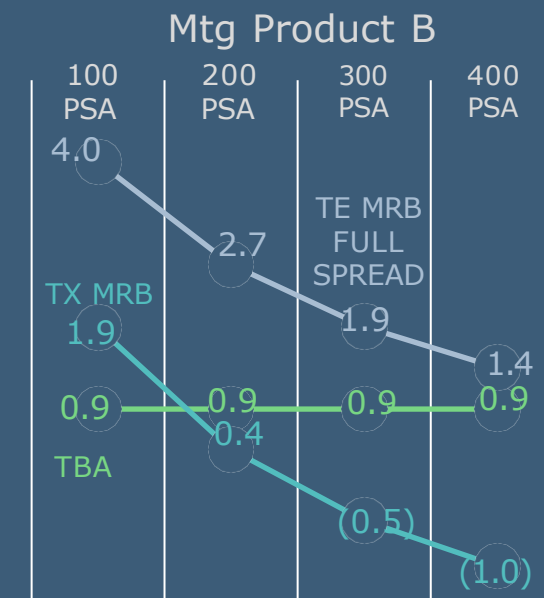
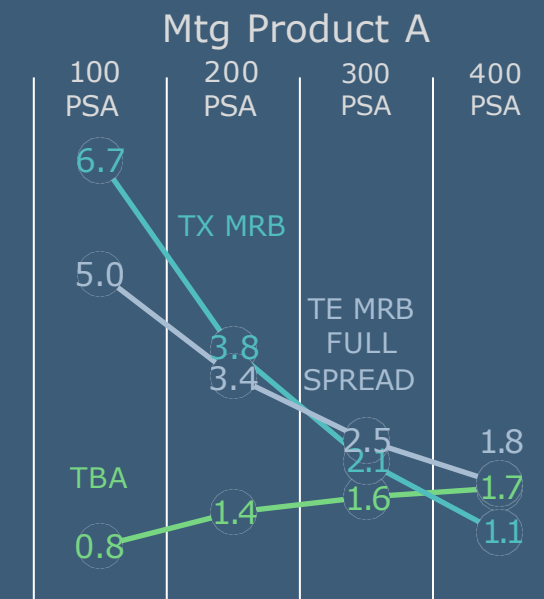
Daily TBA and MRB rate sheets, optimize loan pools, MRB structure, MRB pricing
- Regularly assess medium and long-term resource capacity

How do you expect your program to utilize TBA vs. MRB, taxable vs. tax-exempt, and variable vs. fixed over the next year? How about over the next three to five years?
- Utilize resources when the value is greatest

Deploying limited PAB volume cap, variable rate debt, and cash resources when return on investment is high will stretch resources further
- Rigorously assess risk

Evaluating value in the context of prepayment risk, interest rate risk, counterparty risk, basis risk, delivery risk, and the other risks related to various executions. Is it better to lock in value today or take spread over time?

BEST EX MODEL (%NPV)



THANK YOU

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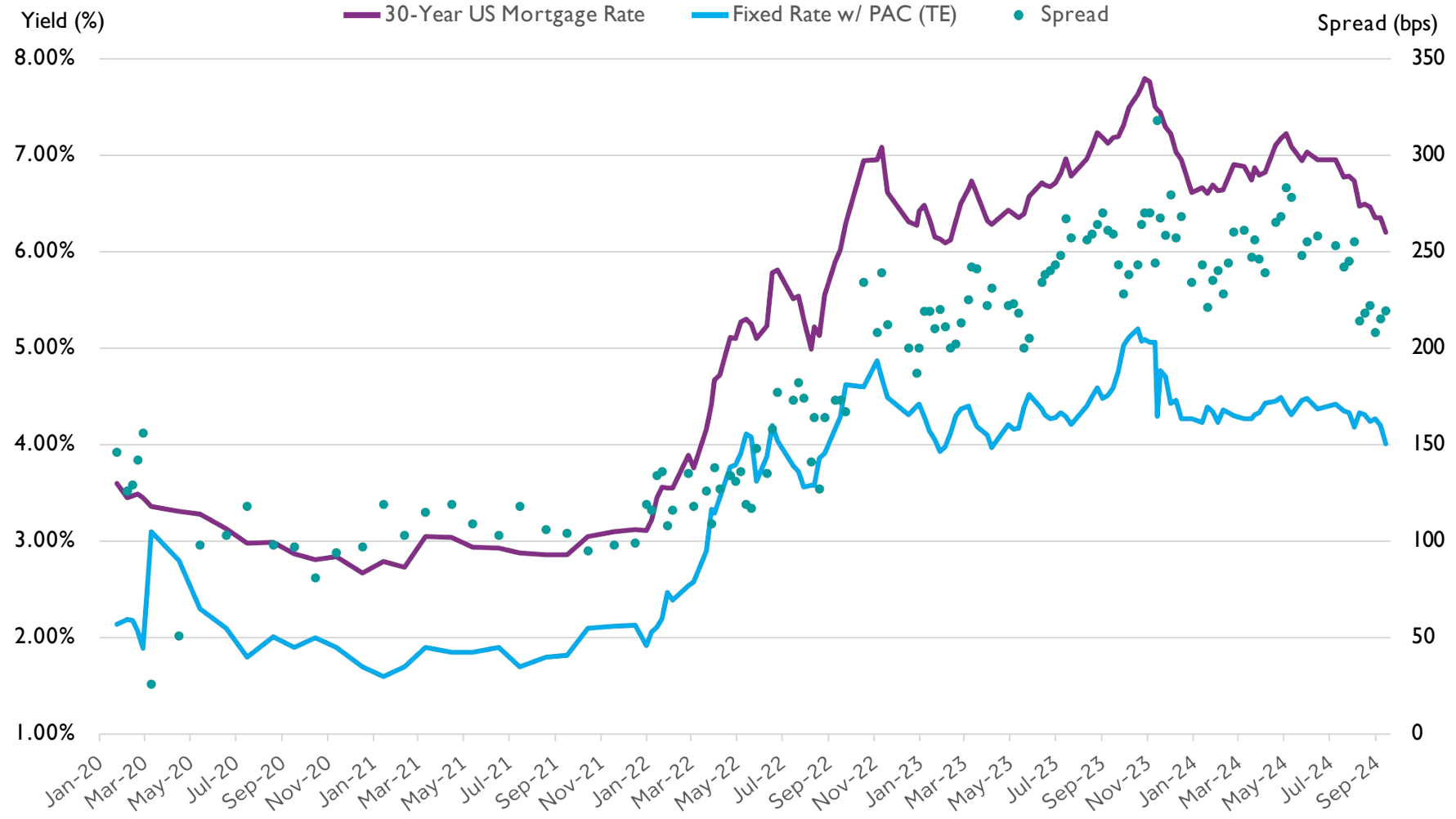


Financing Homeownership in a High Rate Environment

September 30, 2024



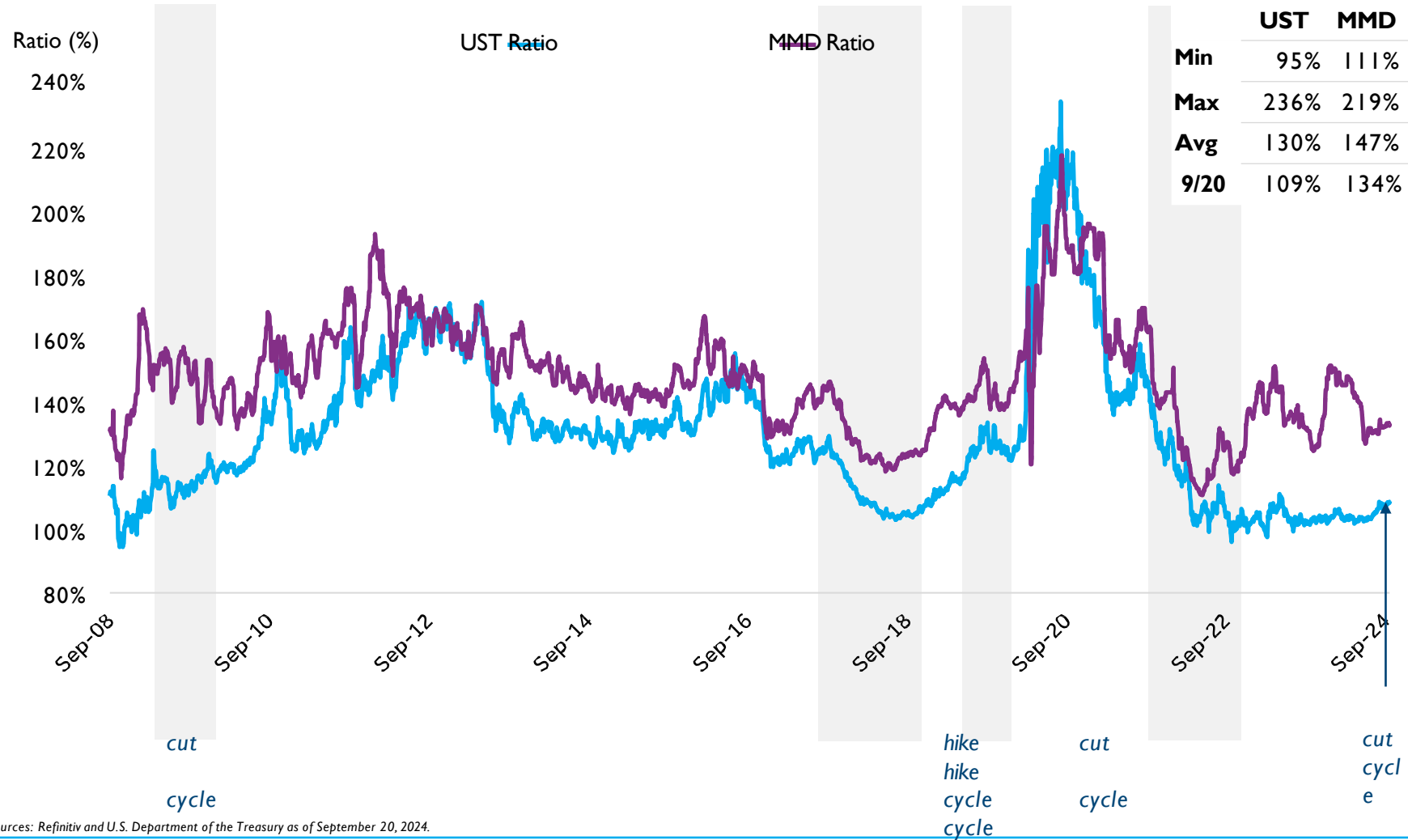
Tax Exempt Funding Costs vs National Mortgage Rate



Sources: Barclays and FRED as of September 24, 2024.

Yield Curve May Steepen as Fed Begins a Cutting Cycle

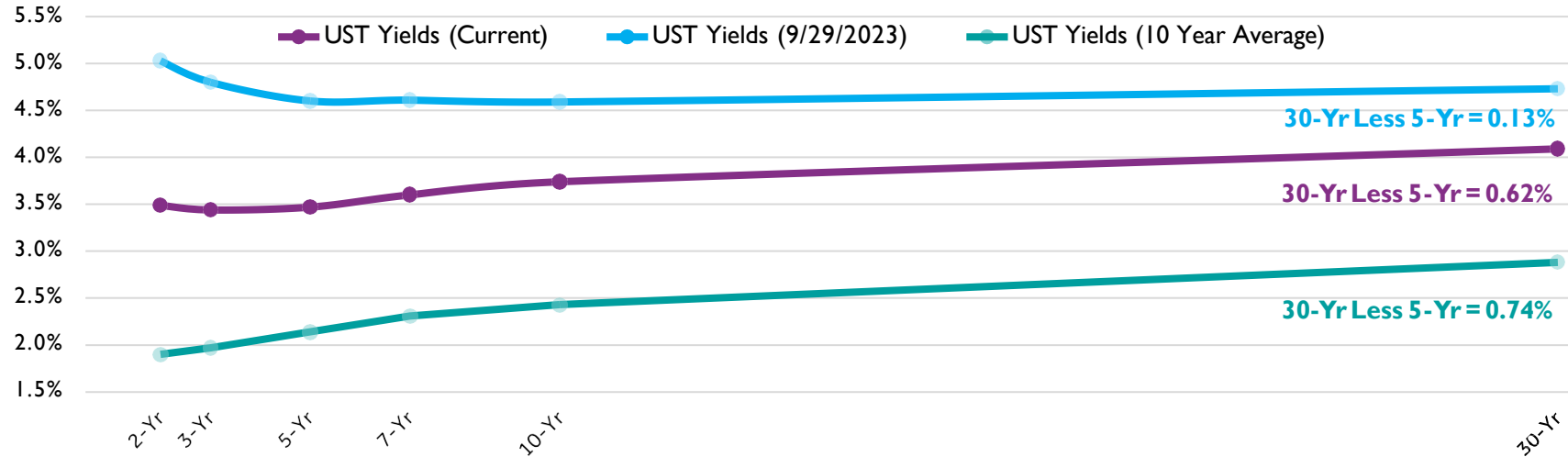
30-Year/10-Year UST & MMD Ratios



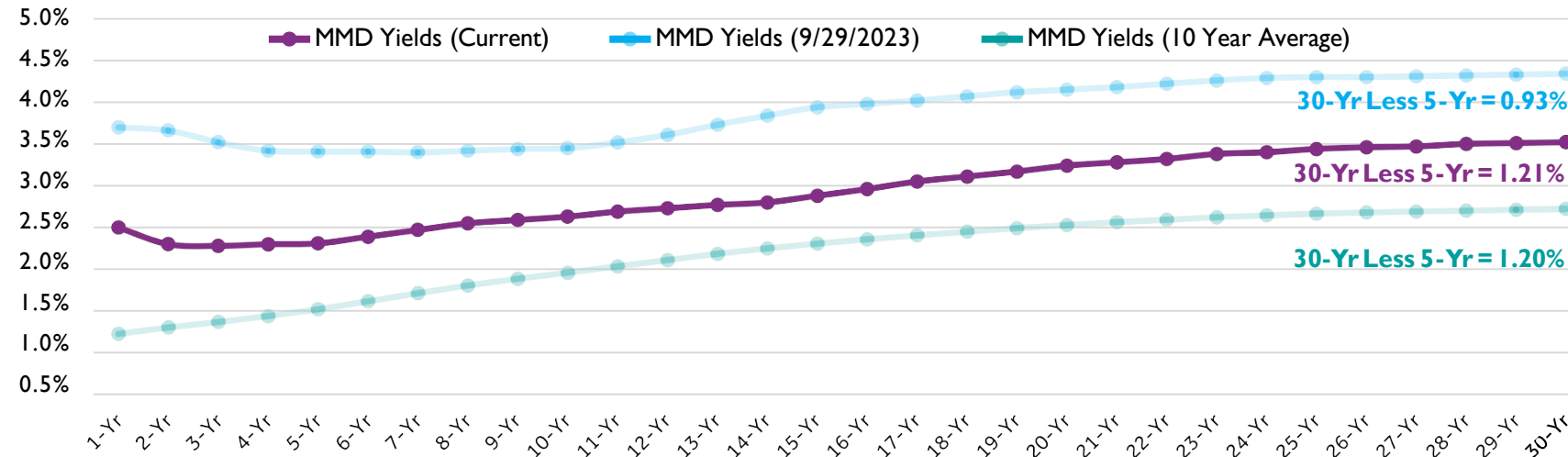
Sources: Refinitiv and U.S. Department of the Treasury as of September 20, 2024.

Current Curve Versus 10 Year Average

Current vs. 10 Year Average UST Yield Curves¹



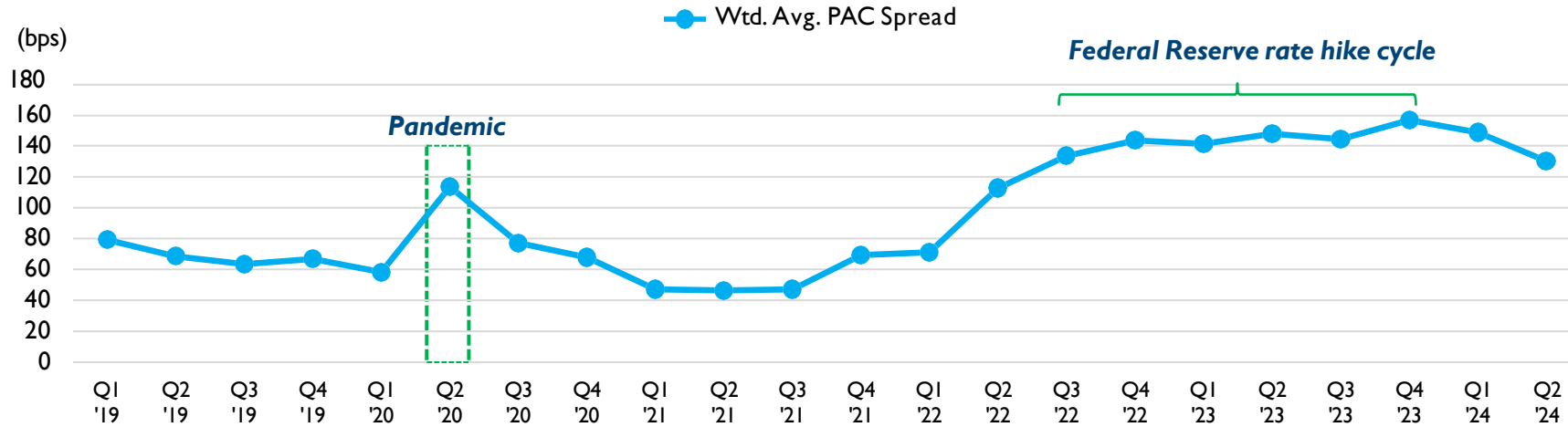
Current vs. 10 Year Average MMD Yield Curves¹



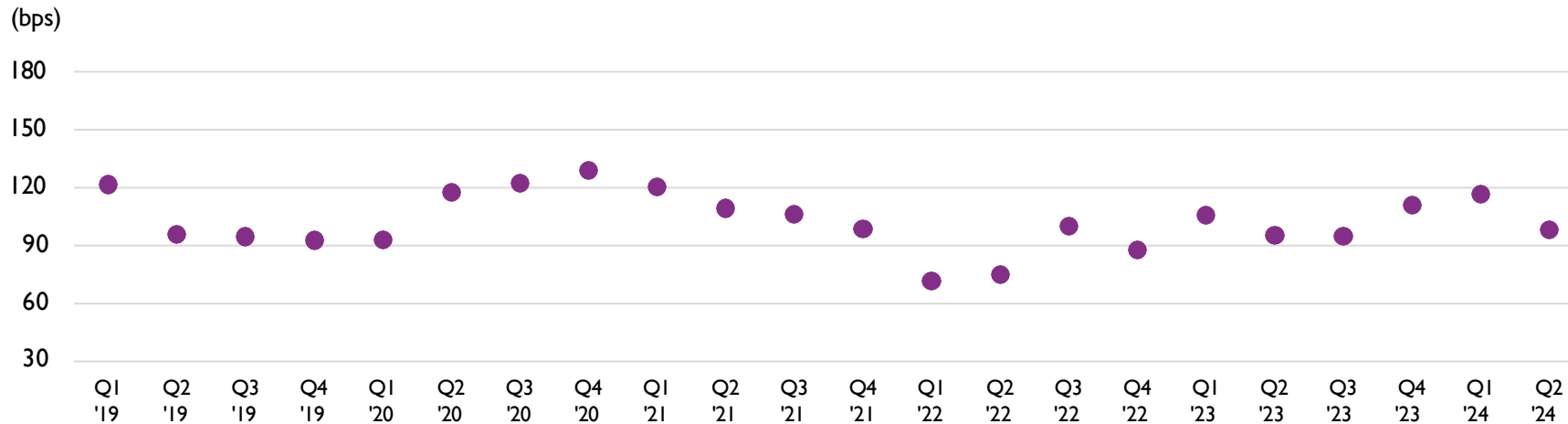
¹ Indicative rates reflect 10 year average UST yields and current housing spreads.

Tax Exempt PAC Spreads and Relative PAC Value

Weighted Average PAC Spreads



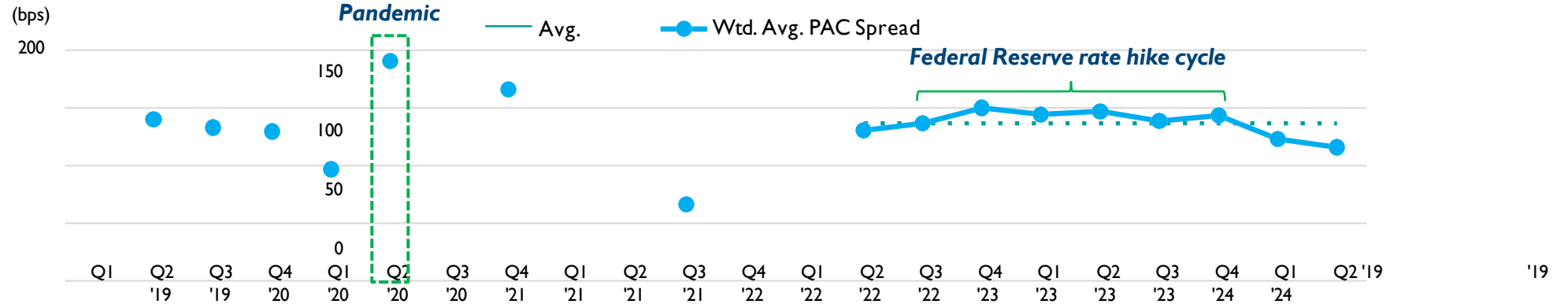
30YR Less 5YR MMD



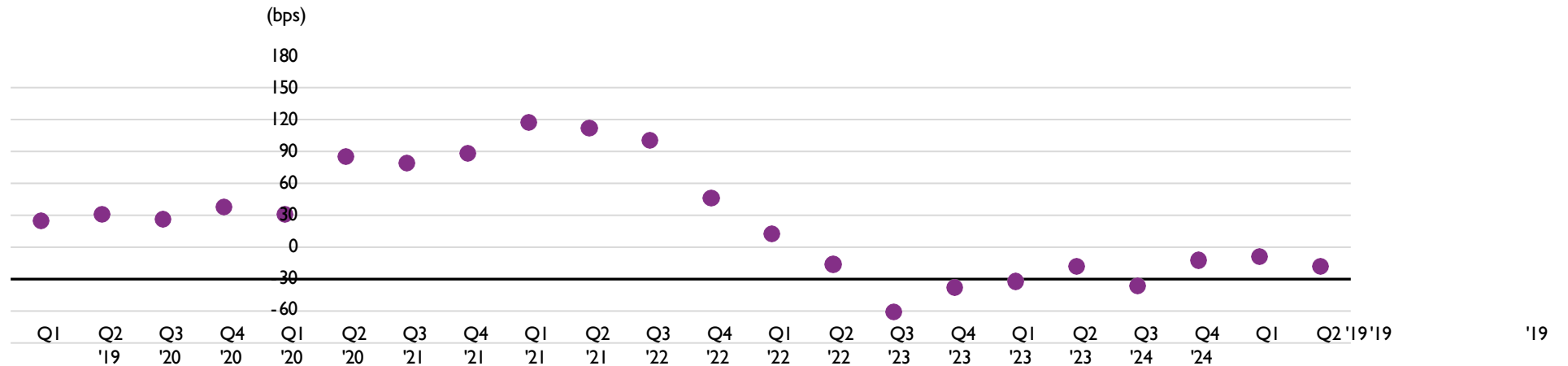
Source: Bloomberg and Refinitiv as of September 20, 2024.

Taxable PAC Spreads and Relative PAC Value

Weighted Average Taxable PAC Spreads



30YR Less 5YR UST



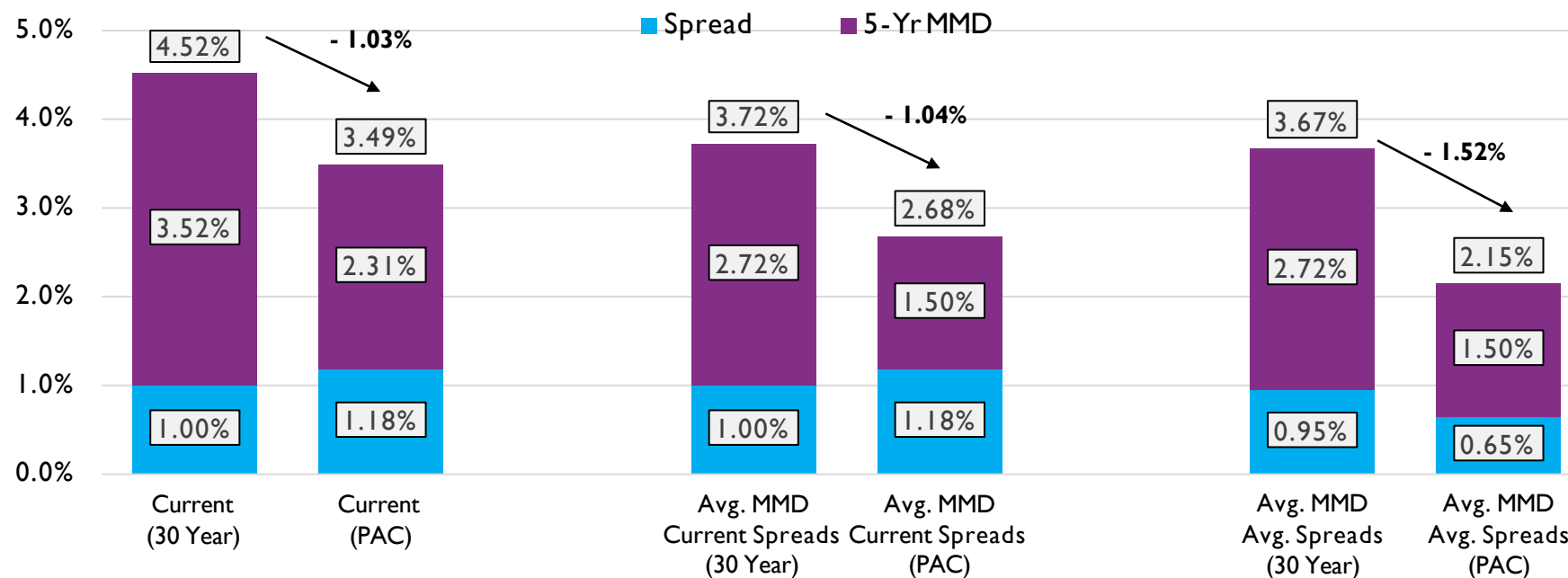
Sources: Bloomberg, Refinitiv, and U.S. Department of the Treasury as of September 20, 2024.

PAC Values: Current¹ vs Historical

While PACs are still seeing a strong investor response in the market, the structural benefit is modest.

	Current Rates	10 Year Avg. MMD, Current Spreads	10 Year Avg. MMD, 10 Year Avg. Spreads
Bond Yield Benefit 75% PSA PAC	18 bps	21 bps	29 bps
Bond Yield Benefit 100% PSA PAC	-	-	39 bps

Spread & Benchmark Assumptions (PAC & 30 Year Term Bonds)



1. Rates as of September 20, 2024
 2. 6.00% CPN, 75% - 500% PSA Back-Loaded PAC
 3. 6.00% CPN, 100% - 500% PSA Back-Loaded PAC

Thank you

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NATIONAL COUNCIL OF STATE HOUSING AGENCIES

AFFORDABLE HOMEOWNERSHIP FINANCING IN A HIGH-INTEREST RATE MARKET

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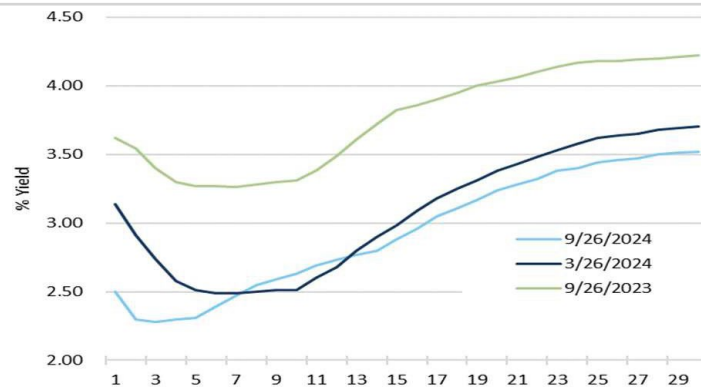
AFFORDABLE HOMEOWNERSHIP FINANCING IN A HIGH-INTEREST RATE MARKET

Focus on the bigger picture as markets continue to change and evolve

- FOMC decided to cut rates by 50 bp to a targeted range of 4.75% - 5.00% marking the first rate cut since March 2020 as Powell stressed “The time has come for policy to adjust” and placed an emphasis on supporting the labor market
- Median projections of 4.25% - 4.50% by year end 2024 signaling 2 more 25 bp cuts

Rate Analysis - 1/1/2012 to 9/26/2024								
	10-Year AAA MMD	30-Year AAA MMD	Bond Buyer 20 GO Bond Index	Bond Buyer Revenue Bond Index	10-Year U.S. Treasury	30-Year U.S. Treasury	SIFMA	1- Mont h SOFR
Current	2.63	3.52	3.81	4.10	3.79	4.12	3.15	3.67
Maximum	3.59	4.57	5.03	5.40	4.93	5.09	5.20	5.36
Minimum	0.58	1.27	2.02	1.97	0.55	1.17	0.01	0.01
Average	1.99	2.86	3.48	3.92	2.38	2.96	0.95	1.38
% Time Lower	85.7%	83.0%	64.8%	54.4%	88.6%	91.6%	90.4%	85.7%

(1) SOFR 1 Month is blended with LIBOR 1 Month rates prior to 2019



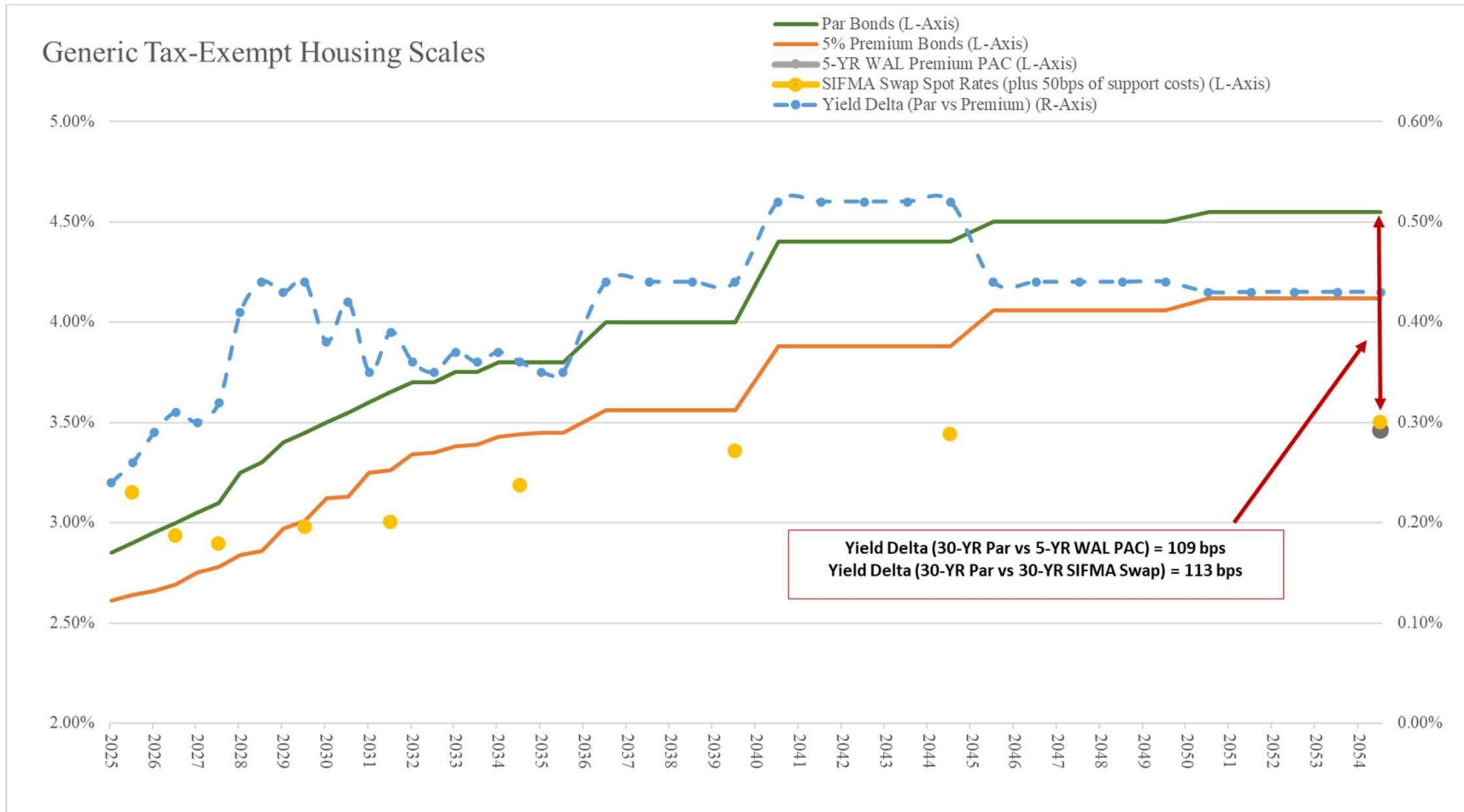
AFFORDABLE HOMEOWNERSHIP FINANCING IN A HIGH-INTEREST RATE MARKET

Focus on the bigger picture as markets continue to change and evolve

- Tax-Exempt MRB Par Structure is always the ideal to maintain maximum optionality
- Taxable MRBs continue to provide value
- With QE expected to continue and potential for a steeper yield curve, TBA may provide alternative
- Additional structuring options for Tax-Exempt and Taxable financings lower borrowing costs at the expense of flexibility
 - **PACs -- Results in approximately 20bps of all-in yield benefit when included**
 - Spreads have widened, but still provide value on a relative basis for Tax-Exempt and Taxable structures
 - Limits indenture optionality, especially in recent higher rate environment
 - Slower prepayments can cause stress to maintain schedules
 - **5% Premium Coupons -- 24 bps to 52 bps of yield benefit throughout the curve for Tax-Exempt**
 - Lock-out structures can limit optionality
 - Recent higher rate environment has produced more attractive par cross-call candidates
 - Typically structured within 10-year range and provides approximately 5bps of all-in yield benefit when included
 - Longer structures provide additional benefit and may result in future economic savings (shorter par calls can increase optionality)
 - **Front Loaded Structures -- Yield curve has steepened**
 - Base structure on faster prepay assumption
 - Dependent on capacity of indenture cashflows and may be better suited in faster prepayment environment
 - **VRDBs and Swaps -- An alternative to fixed rate Taxable, PACs or longer premium bonds**
 - Can be structured with more customized optionality
 - Consider cost and availability of credit
 - Tax plan maintenance, basis risk and counterparty risk

AFFORDABLE HOMEOWNERSHIP FINANCING IN A HIGH-INTEREST RATE MARKET

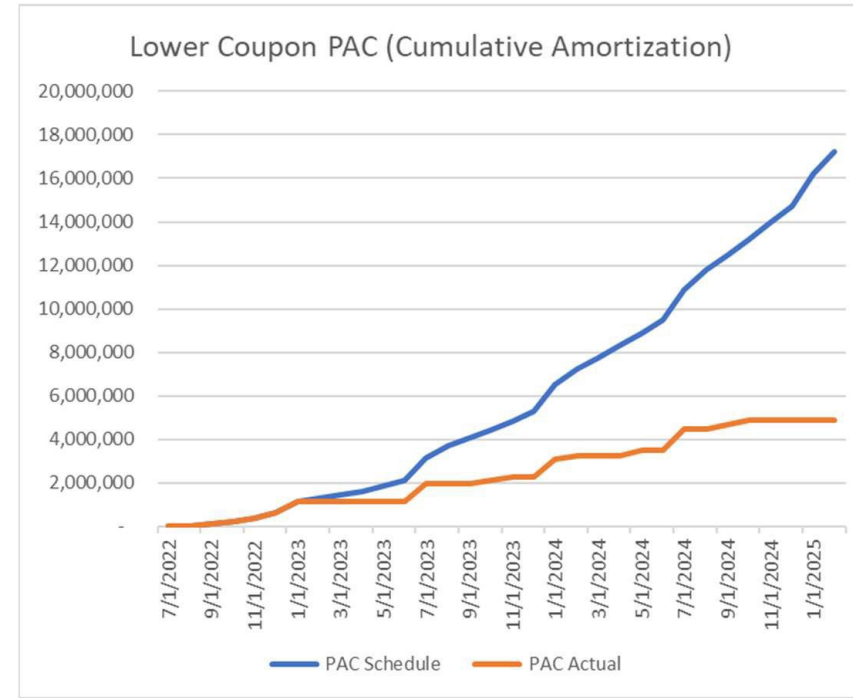
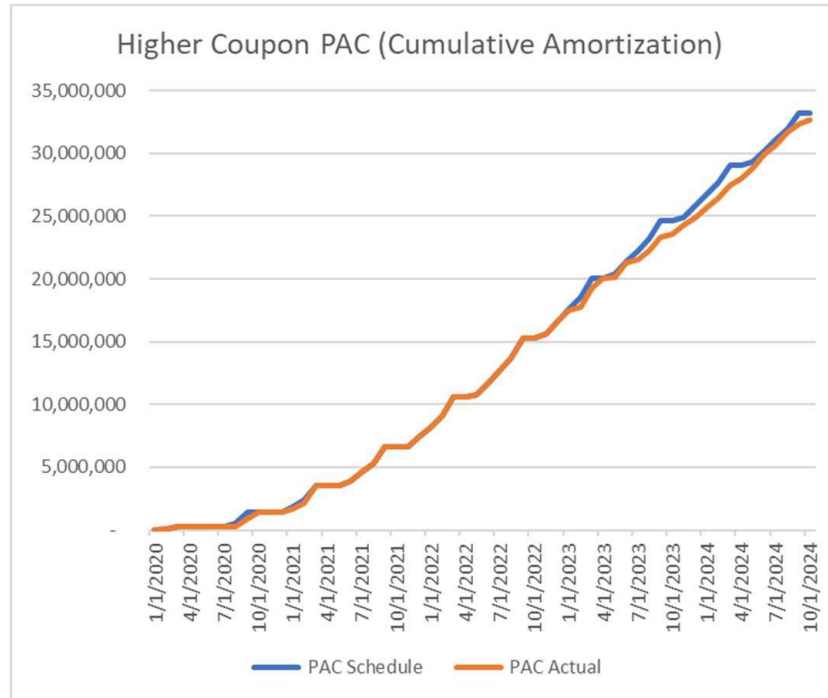
Focus on the bigger picture as markets continue to change and evolve



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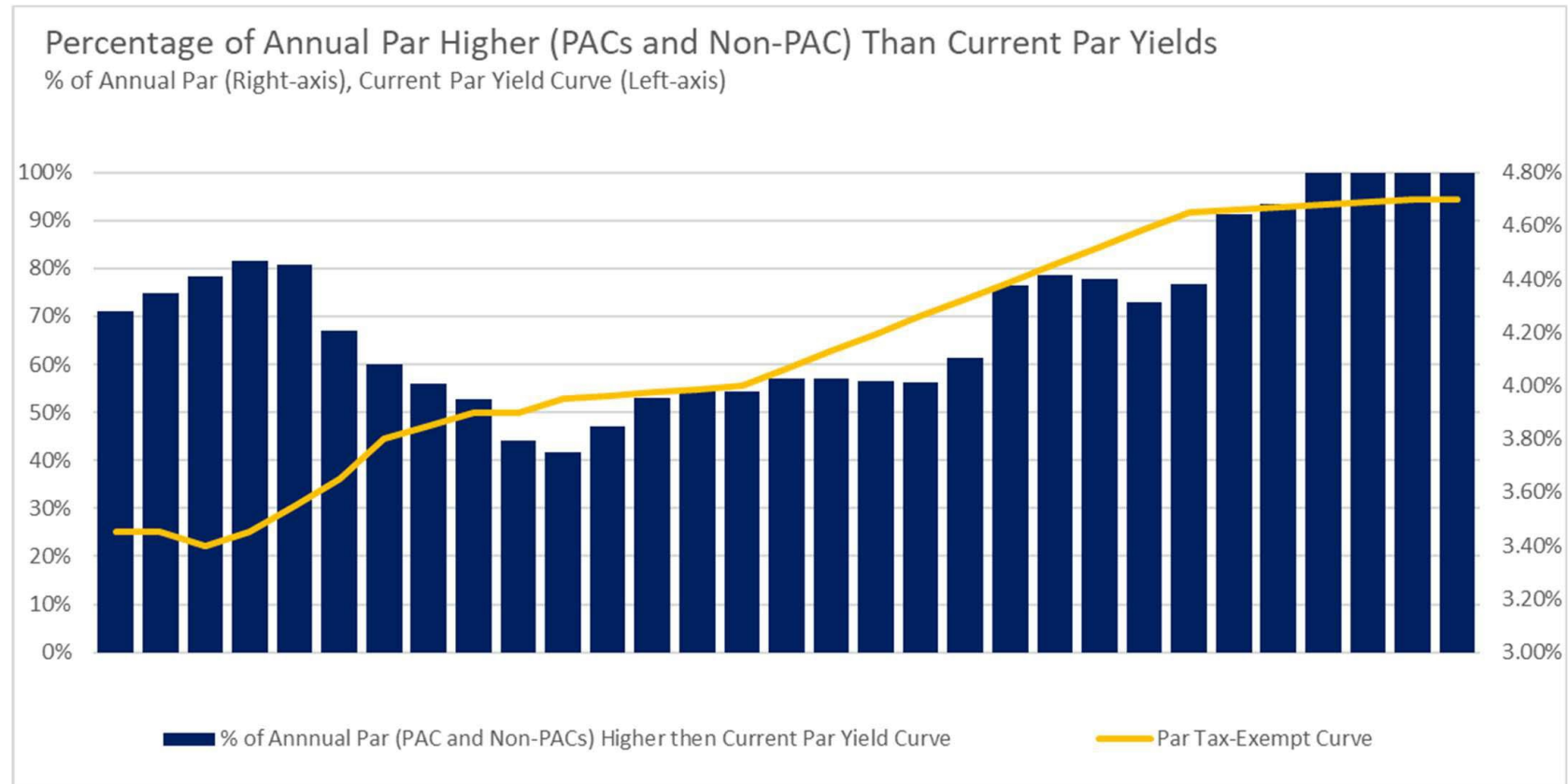
➤ In the current higher rate environment slower prepayments have caused stress on PAC amortizations



AFFORDABLE HOMEOWNERSHIP FINANCING IN A HIGH-INTEREST RATE MARKET

Focus on the bigger picture as markets continue to change and evolve

➤ Consideration for 5% Premium Coupons should be accessed relative to future optionality



AFFORDABLE HOMEOWNERSHIP FINANCING IN A HIGH-INTEREST RATE MARKET

Focus on the bigger picture as markets continue to change and evolve

- Conventional mortgage basis vs. blend of 5-yr and 10-yr USTs
- Wider mortgage basis since the QT cycle began in 2022
- With easing on the horizon and the steepening of the yield curve, one can expect mortgage basis to tighten
- Should make the mortgage secondary market more competitive from a rate setting standpoint



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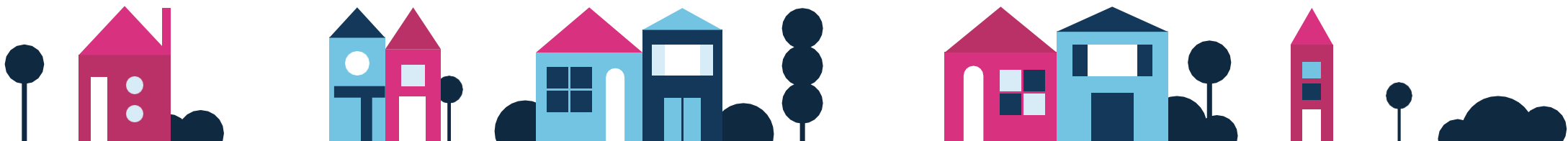
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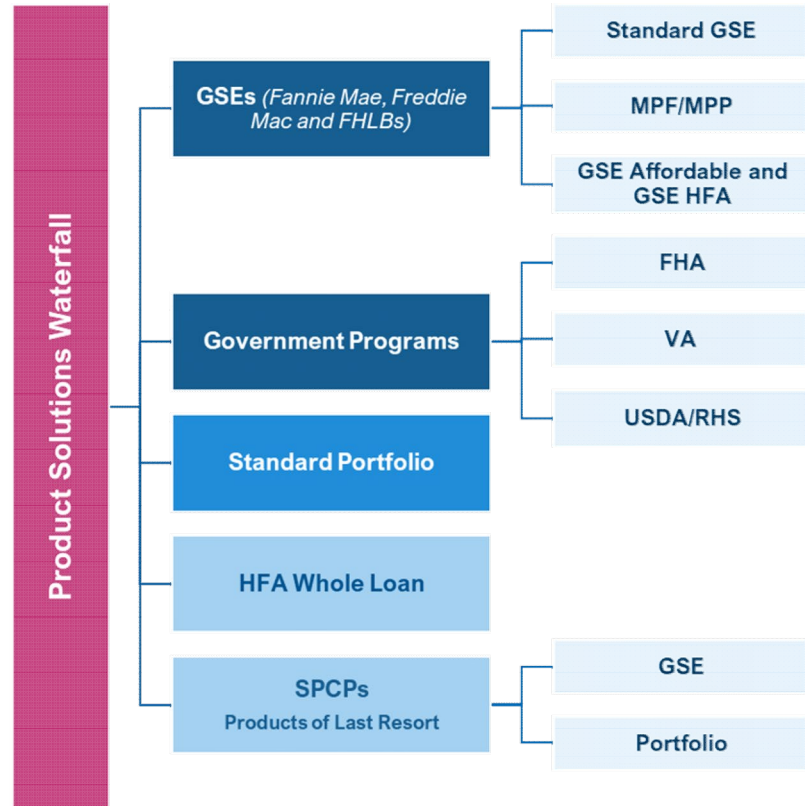
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An intentional product solutions waterfall can ensure market credit needs are addressed

Diagram is illustrative only



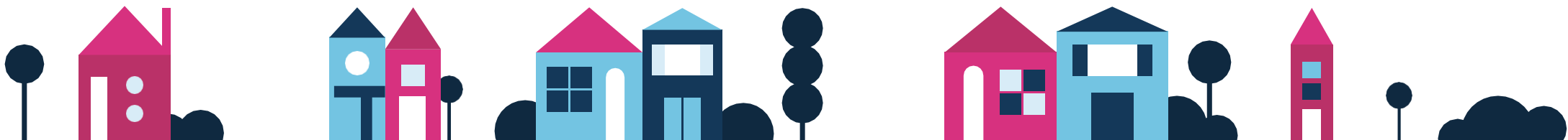
There is increasing intentionality among lenders thinking of their offerings as a product solutions **waterfall** designed to meet identified community lending needs and challenges.

If they're not already embedded, HFA programs can offer a unique set of solutions within a product waterfall.

Depository portfolio programs include proactive product offerings and solutions to catch loans that fall outside of other investor eligibility.

GSE affordable housing and Duty-to-Serve (D2S) and Equitable Housing Finance Plan (EHFP) solutions are seeing increased utilization.

Targeted **SPCPs** informed through community engagement and data analysis are emerging to meet acute needs.





Use of affordable lending programs is increasing, led by HFA programs

State and Local HFA Programs



- Lower rates due to TE MRB market emergence
- DPA is in high demand
- GSE delivery fee changes are boosting GSE HFA market share

GSE Affordable, Duty to Serve, EHFP Programs



- GSE delivery fee changes are boosting usage
- Flagship programs are driving most volume
- HFA programs are seeing highest percentage growth within GSE programs

Bank and Credit Union Portfolio Products



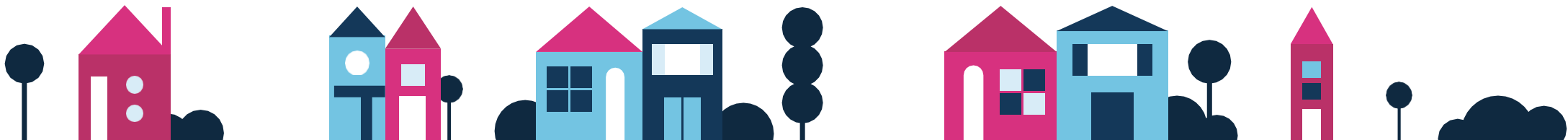
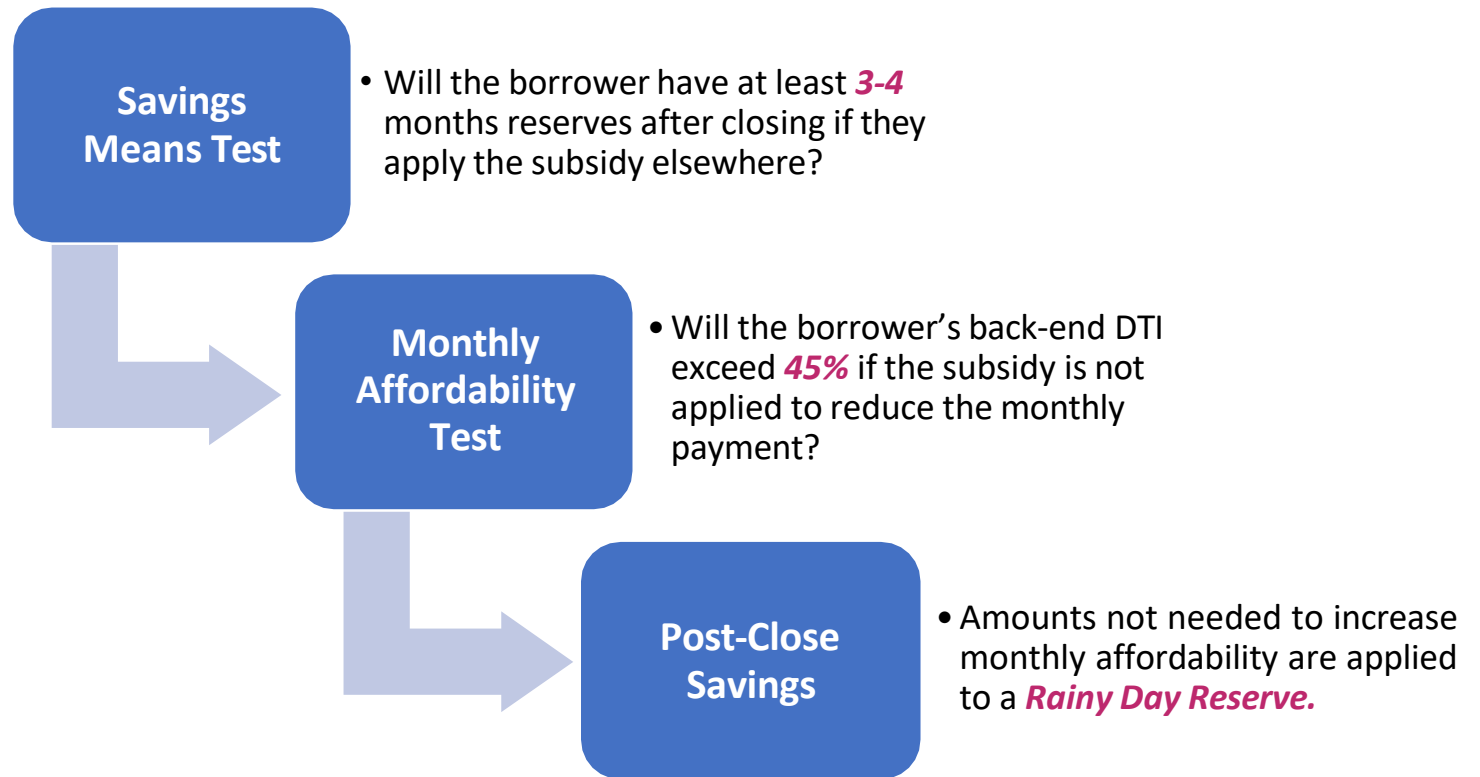
- Higher-rate environment is driving ARM usage
- Liquidity challenges not meaningfully impacting affordable lending product offerings
- Greater focus on fair lending compliance is driving innovation and SPCPs

Reimagining the application of Down Payment Assistance (DPA)

DPA typically comes in the form of a grant, forgivable and/or deferred loan used to cover down payment and/or closing costs.

Most DPA reduces the borrower's cash needed to close, helping them overcome one of the most common barriers to homeownership.

However, applying a means test might reveal other applications of DPA that would benefit the borrower and position them better for long-term success.

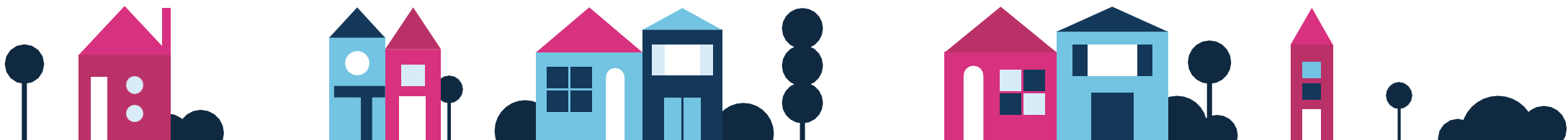


Using DPA to create monthly affordability

To increase monthly affordability, DPA could be applied to a) reduce a loan's balance, b) buydown the interest rate, or c) buydown or eliminate monthly MI.

Interest rates, duration expectations and the borrower's DTI will dictate the most efficient application of the DPA.

Principal Reduction	Interest Rate Buydown	MI Buydown
<ul style="list-style-type: none"> • Less total debt • Potentially lower LTV, could reduce delivery fees and MI • Potentially reduce risk layering, increasing approval rate • Grant proceeds added to equity if not recaptured 	<ul style="list-style-type: none"> • Increased rate of principal accrual • Less interest over life of loan • Buydown benefit is regressive: Each discount point buys less in rate reduction (typically, the 1st discount point buys a 0.25% reduction in rate) 	<ul style="list-style-type: none"> • Reduce or potentially eliminate monthly MI • Typically reduces monthly payment more than rate buydown • Buydown benefit is linear: Each point of upfront MI proportionally reduces the renewal rate <p><i>(Use Choice Monthly for partial buydown of monthly MI renewal rate; use BPMI Single to eliminate monthly MI)</i></p>



Reimagining the use of DPA to optimize affordability

	No DPA	Reduce Cash-to-Close	Reduce Principal	Buydown Rate	Buydown MI
Cash-to-Close	\$ 14,400	\$ 5,400	\$ 11,400	\$ 14,130	\$ 11,307
Monthly Payment	\$ 2,252	\$ 2,252	\$ 2,173	\$ 2,159	\$ 2,143
<i>96 Months:</i>					
Interest Expense	\$ 134,817	\$ 134,817	\$ 132,037	\$ 131,937	\$ 134,817
Paid-In Equity Accrual	\$ 34,926	\$ 34,926	\$ 34,205	\$ 37,608	\$ 34,926

■ worst outcome for the consumer
 ■ best outcomes for the consumer

Assumptions & Notes:

- \$250,000 purchase price; \$9,000 DPA grant available in the DPA scenarios
- “DPA” scenario is a 97% LTV loan, 30-year fixed-rate mortgage at 6.125%
- 2 borrowers, 700 credit score, buying in Milwaukee’s Sherman Park neighborhood with a 38% housing expense-to-income (HEI) ratio and a 43% debt-to-income ratio
- Closing costs, excluding MI and discount points, are 1.8% of the purchase price; and taxes and insurance (excluding MI) is 1.5% of the purchase price
- Add \$9,000 to the “Paid-In Equity Accrual” total for the “Reduce Principal” scenario if grant is no longer subject to recapture.

Potential applications of DPA

Reduce Cash-to-Close		Reduce Principal (95% LTV)		Buydown Interest Rate		Buydown MI	
Loan Details		Loan Details		Loan Details		Loan	
Details		Details		Details		Details	
Interest Rate	6.125%	Interest Rate	6.125%	Interest Rate	5.625%	Interest Rate	6.125%
Purchase Price	\$ 300,000	Purchase Price	\$ 300,000	Purchase Price	\$ 300,000	Purchase Price	\$ 300,000
Loan Amount	\$ 291,000	Loan Amount	\$ 285,000	Loan Amount	\$ 291,000	Loan Amount	\$ 291,000
Cash-to-Close		Cash-to-Close		Cash-to-Close		Cash-to-Close	
Down Payment	\$ 9,000	Down Payment	\$ 15,000	Down Payment	\$ 9,000	Down Payment	\$ 9,000
Closing Costs	\$ 5,400	Closing Costs	\$ 5,400	Closing Costs	\$ 5,400	Closing Costs	\$ 5,400
Upfront MI	\$ -	Upfront MI	\$ -	Upfront MI	\$ -	Upfront MI	\$ 5,907
Discount Points	\$ -	Discount Points	\$ -	Discount Points	\$ 8,730	Discount Points	\$ -
Gifts	\$ -	Gifts	\$ -	Gifts	\$ -	Gifts	\$ -
DPA / Grants	\$ (9,000)	DPA / Grants	\$ (9,000)	DPA / Grants	\$ (9,000)	DPA / Grants	\$ (9,000)
Borrower Out-of-Pocket	\$ 5,400	Borrower Out-of-Pocket	\$ 11,400	Borrower Out-of-Pocket	\$ 14,130	Borrower Out-of-Pocket	\$ 11,307
Monthly Payment		Monthly Payment		Monthly Payment		Monthly	
Principal	\$ 283	Principal	\$ 277	Principal	\$ 311	Principal	\$ 283
Interest	\$ 1,485	Interest	\$ 1,455	Interest	\$ 1,364	Interest	\$ 1,485
MI	\$ 109	MI	\$ 67	MI	\$ 109	MI	\$ -
T&I	\$ 375	T&I	\$ 375	T&I	\$ 375	T&I	\$ 375
Monthly PITI	\$ 2,252	Monthly PITI	\$ 2,173	Monthly PITI	\$ 2,159	Monthly PITI	\$ 2,143
Life-of-Loan Outcomes		Life-of-Loan Outcomes		Life-of-Loan Outcomes		Life-of-Loan	
Duration Assumption (Mos)	96	Duration Assumption (Mos)	96	Duration Assumption (Mos)	96	Duration Assumption (Mos)	96
Tot Interest Expense	\$ 134,817	Tot Interest Expense	\$ 132,037	Tot Interest Expense	\$ 131,937	Tot Interest Expense	\$ 134,817
Tot Paid-In Equity	\$ 34,926	Tot Paid-In Equity	\$ 34,205	Tot Paid-In Equity	\$ 37,608	Tot Paid-In Equity	\$ 34,926

MGIC

Thank you!

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AUDIENCE Q&A

