

Homeownership Financing 102: MBS & TBA

Richard E. Kubanik
Associate Director



January 16, 2019

S&P's Role in the TBA Market

Single Family Credit Ratings

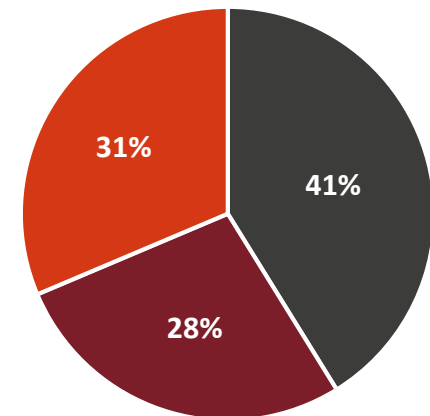
- S&P Global **does not** assign a rating to a TBA sale
 - Maintains 23 Issuer Credit Ratings (ICRs) that are impacted by TBA sales

- S&P Global rates 51 single family programs:
 - Single-family mortgage revenue bonds backed by whole loans
 - Hybrid programs
 - Single-family mortgage revenue bonds backed by:
 - Ginnie Mae MBS
 - Fannie Mae MBS
 - Freddie Mac MBS

Distribution of USPF Housing Credit Ratings December 2018

HFA SF Program Classification

■ MBS ■ Single Family Whole Loan ■ Hybrid



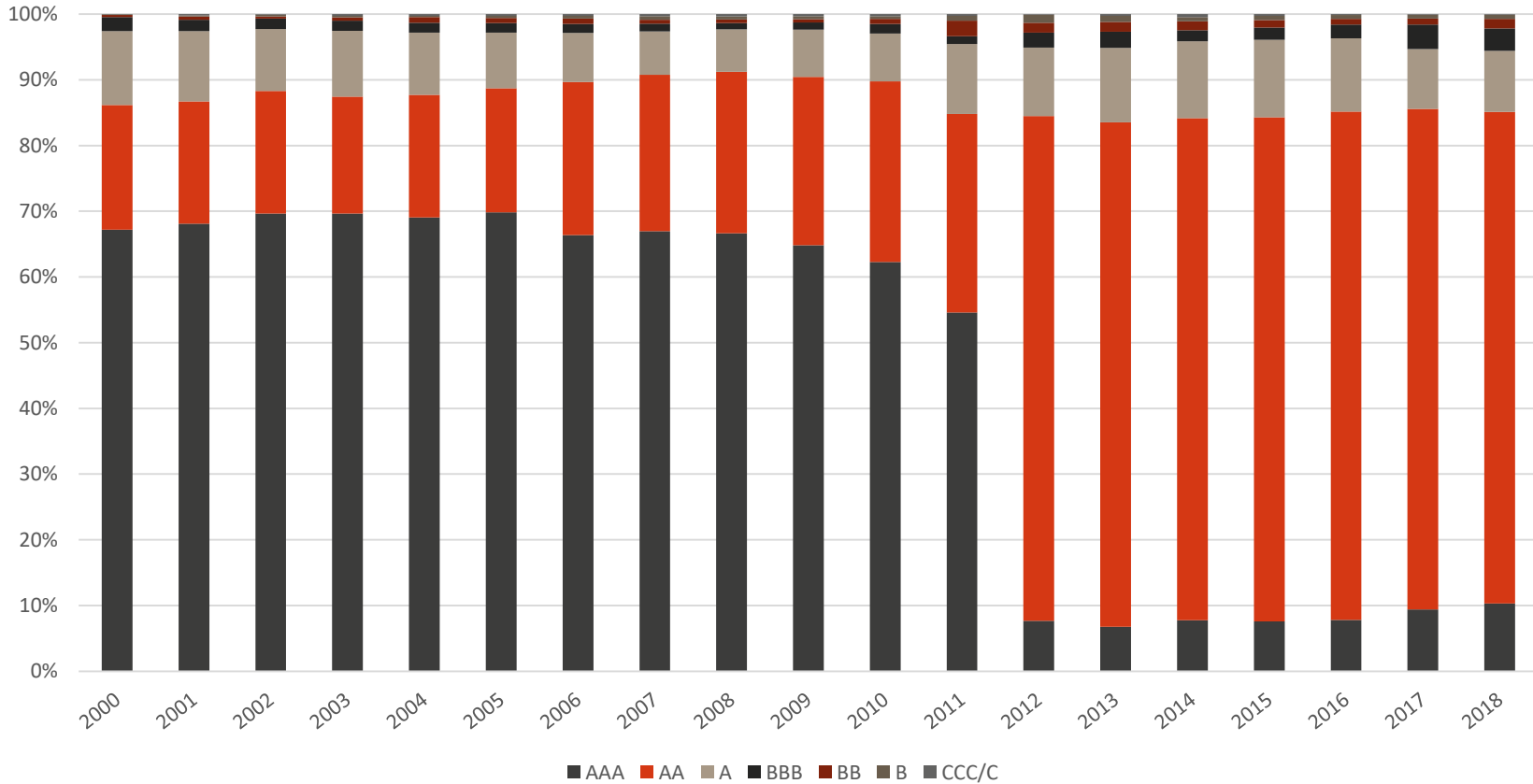
Just **28%** of the HFA programs that we rate are made up of only single family whole loans.

Source: S&P Global Ratings Fixed Income Research

Single Family Performance

Single Family Median Rating Remains Stable at AA

U.S. Public Finance Housing Rating Distribution

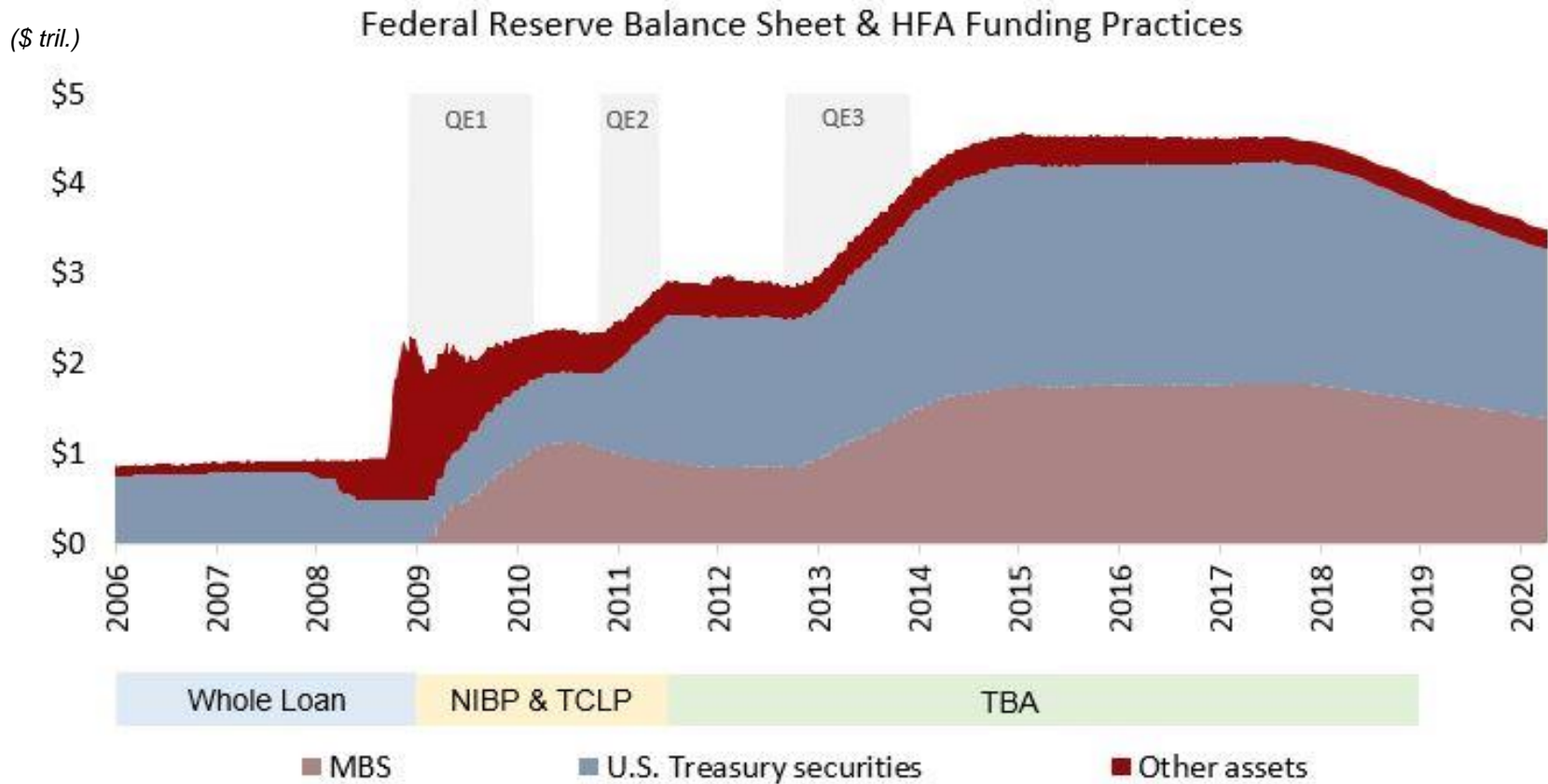


Source: S&P Global Ratings Fixed Income Research

Single Family Issuance

Historical Market Context

- TBA's rise corresponds with QE and Fed balance sheet expansion

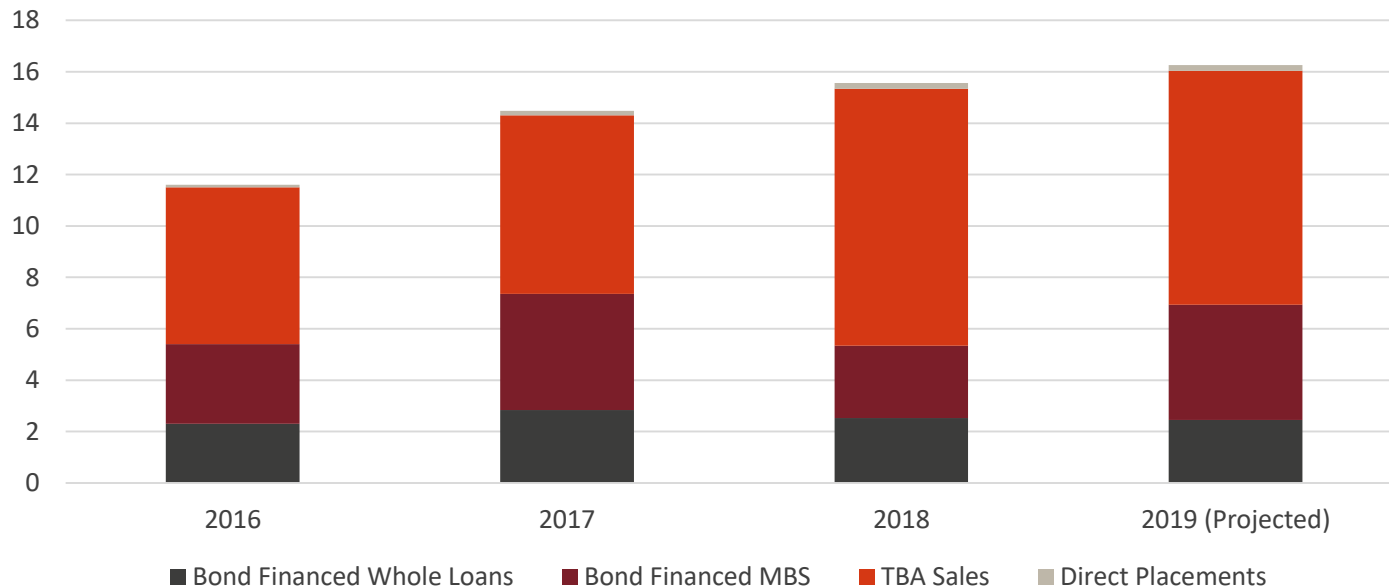


Single Family Issuance

Recent Trends

- TBA dominates S&P rated new issuance according to June 2018 survey
 - 12 of 25 S&P rated State HFAs project \$9B of TBA
 - TBA sales expected to represent 56% of 2019 new originations, down from 65% in 2018.

TBA Remains a Significant Funding Source



TBA Benefits & Risks

TBA

Benefits of TBA

- Ginnie Mae securities are backed by the full faith and credit of the U.S. government, which will cover the loan in the event that the mortgagor defaults.
- Sales to the TBA market, which are taxable, allow HFAs to earn a larger spread on premiums associated with the sale.
- HFAs can also fund down payment assistance and provide refinancing options through TBA sales.
 - Can reach beyond first-time homebuyers

TBA

Benefits of TBA (continued)

- TBA does not require the use of volume cap.
 - Can combine with MCCs
- Complements and can be operated in conjunction with a mortgage revenue bond program which fulfills the HFAs' mission.
- HFAs with their own servicing arms can retain the loan servicing function for loans, which provide additional ongoing fee revenue for the HFA.
- Generally, lower cost of issuance compared to bonds.

TBA

Risks of TBA

- TBA sales provide one-time cash infusions (fee income) but don't offer the long-term mortgage interest payments associated with bond programs.
 - Cash flow analysis discussion with management
- TBA sales require a receptive market of competitive bidders to benefit from lucrative premiums on the loans.
 - Federal Reserve is deleveraging its balance sheet
- Loan pipeline management risk.
 - Review of historical performance

TBA Ratings Impact

TBA- Rating Agency Impact

Effects on Balance Sheet & Income Statements

- There are no TBA ratings but we see TBA impact on an HFA's Issuer Credit Rating (ICR) especially the Income Statement.

	<i>Balance Sheet Impact</i>	<i>Income Statement Impact</i>	<i>Credit Implications</i>
<i>Bond Financed Whole Loans</i>	Asset: Mortgage Liability: Debt	Annuity revenue for life of loan and potential servicing revenue	Subject to S&P loan loss model
<i>Bond Financed MBS</i>	Asset: Mortgage Liability: Debt	Annuity revenue for life of loan and potential servicing revenue	Loan loss levels at AA+ ability to repay
<i>TBA Sales</i>	Asset: None Liability: None	One-time gain in year of the sale and potential servicing revenue	Pipeline management, hedging costs

TBA- Rating Agency Impact

MD&A example from TBA issuer

- A \$43.3 million increase in other operating income as a result of the following:
 - \$20.3 million increase in gain on sale of loans. This change was driven by an increase in the amount of single family loans being pooled into mortgage backed securities and sold through the TBA market at a premium. During 2017 the Authority experienced a 51.7% increase in the amount of loans sold when compared to 2016. Similarly, the Authority experienced a 66.5% increase in single family loan sales when compared to 2015. This growth in single family loan sale volumes is depicted in the table below.

Single Family Loans Sold (in thousands)	2017	2016	2015
GNMA	\$ 1,444,972	\$ 972,252	\$ 573,837
FNMA	408,157	269,039	186,918
FHLMC	69,746	25,455	-
Total Single Family Loans Sold	\$ 1,922,875	\$ 1,266,746	\$ 760,755

TBA- Rating Agency Impact

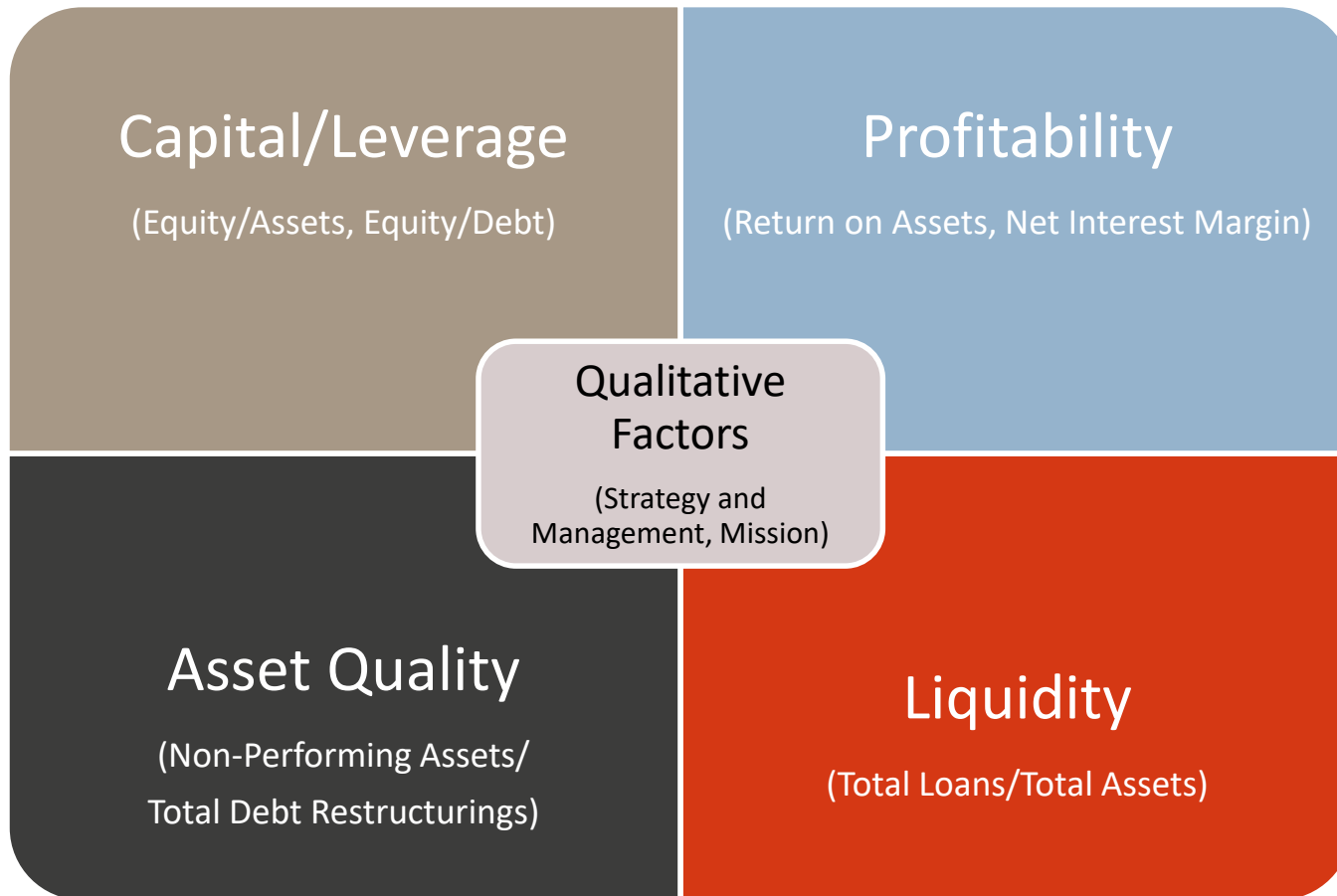
FY 17 Income Statement of TBA Issuer

	General Program	Single Family	Multifamily/ Business
Interest income and expense:			
Interest on loans receivable	\$ 10,284	\$ 18,783	\$ 27,160
Interest on investments	480	12,988	3,600
Interest on debt	(2,310)	(28,209)	(25,964)
Net interest income	8,454	3,562	4,796
Other operating income (loss):			
Loan servicing income	24,278	-	(25)
Gain on sale of loans	106,788	-	-
Investment derivative activity gain (loss)	(100)	78	3,165
Net increase (decrease) in the fair value of investments	1,170	4,714	66
Other revenues	12,109	1,261	3,487
Total other operating income	144,245	6,053	6,693
Total operating income	152,699	9,615	11,489
Operating expenses:			
Salaries and related benefits	27,515	-	-
General operating	87,895	2,974	1,526
Depreciation	684	-	-
Provision for losses	569	198	(69)
Total operating expenses	116,663	3,172	1,457
Net operating income	36,036	6,443	10,032



TBA- Rating Agency Impact

Issuer Credit Rating (ICR) Financial Ratios



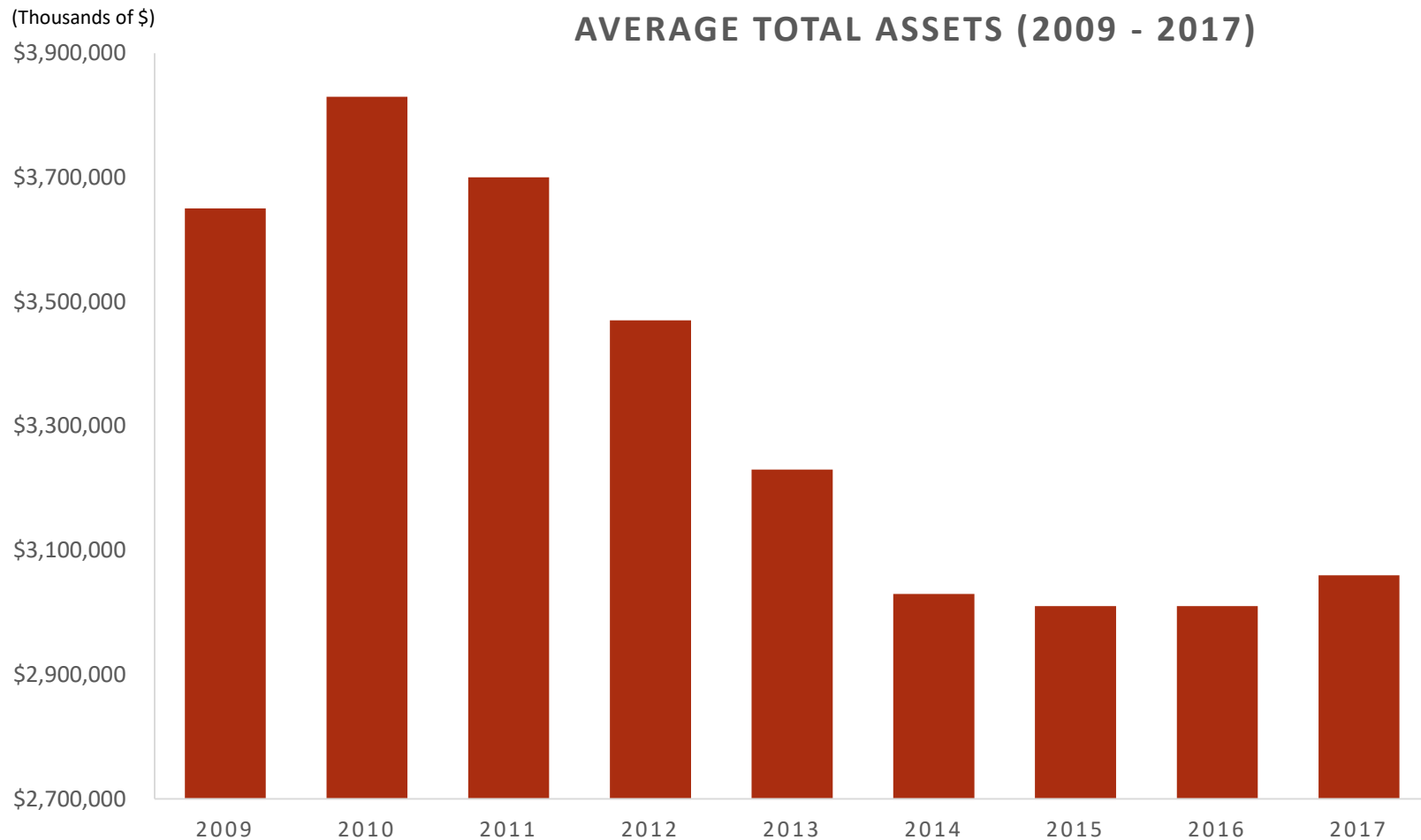
TBA- Rating Agency Impact

Issuer Credit Rating (ICR) Financial Ratios (continued)

- **Leverage:** improved due to lower asset and liability levels
- **Profitability:** if premium sales continue, these ratios will strengthen from strong current income but net interest margins could fall as annuity stream declines.
 - Importance of cash flow analysis
- **Asset Quality:** no impact since no asset added to balance sheet
- **Liquidity:** reserve cash/short-term investments to meet fallout risk or interest rate movements

TBA- Impact on Financial Statements

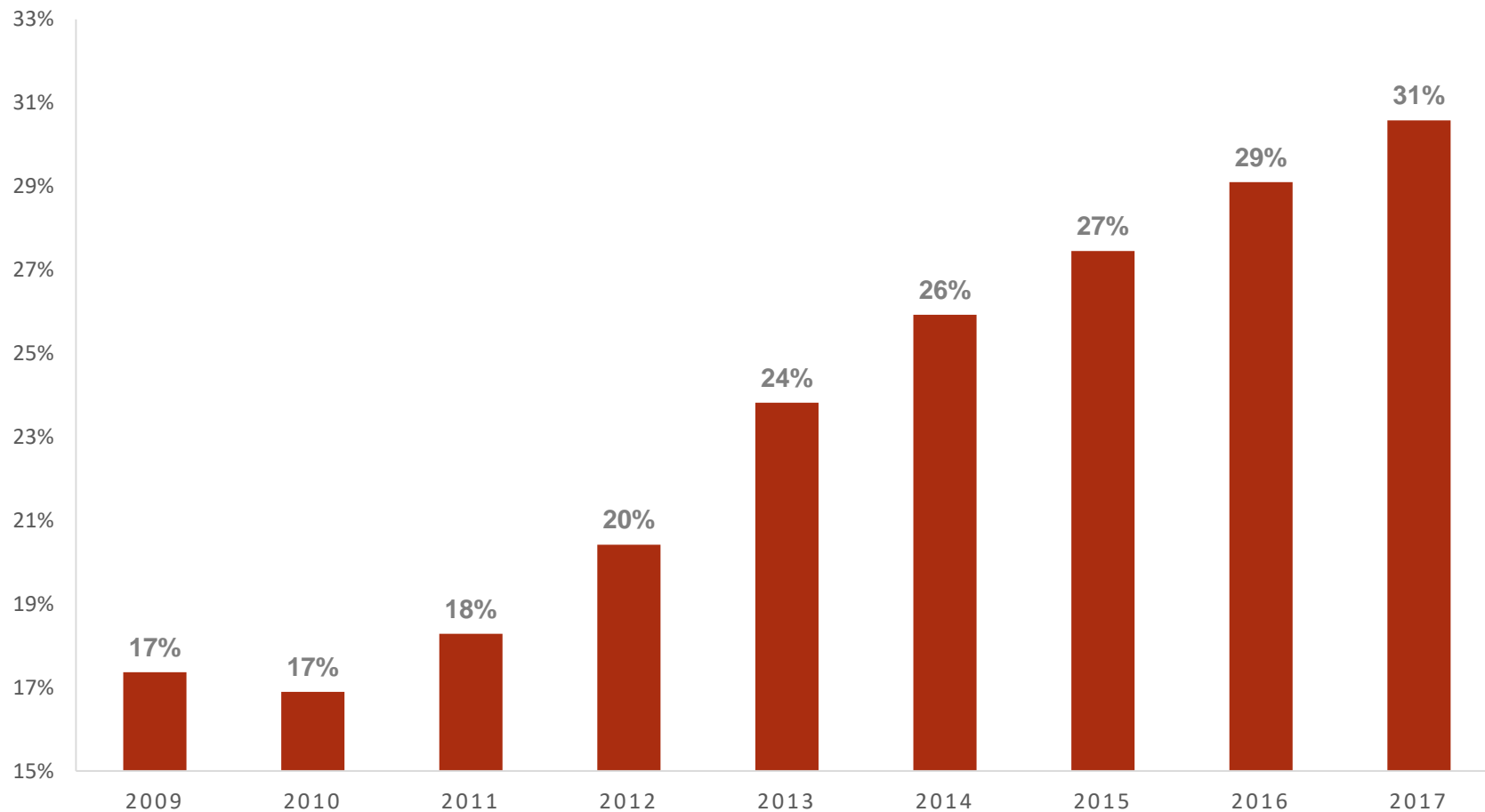
Total assets plummet as originations are off balance sheet...



TBA- Impact on Financial Statements

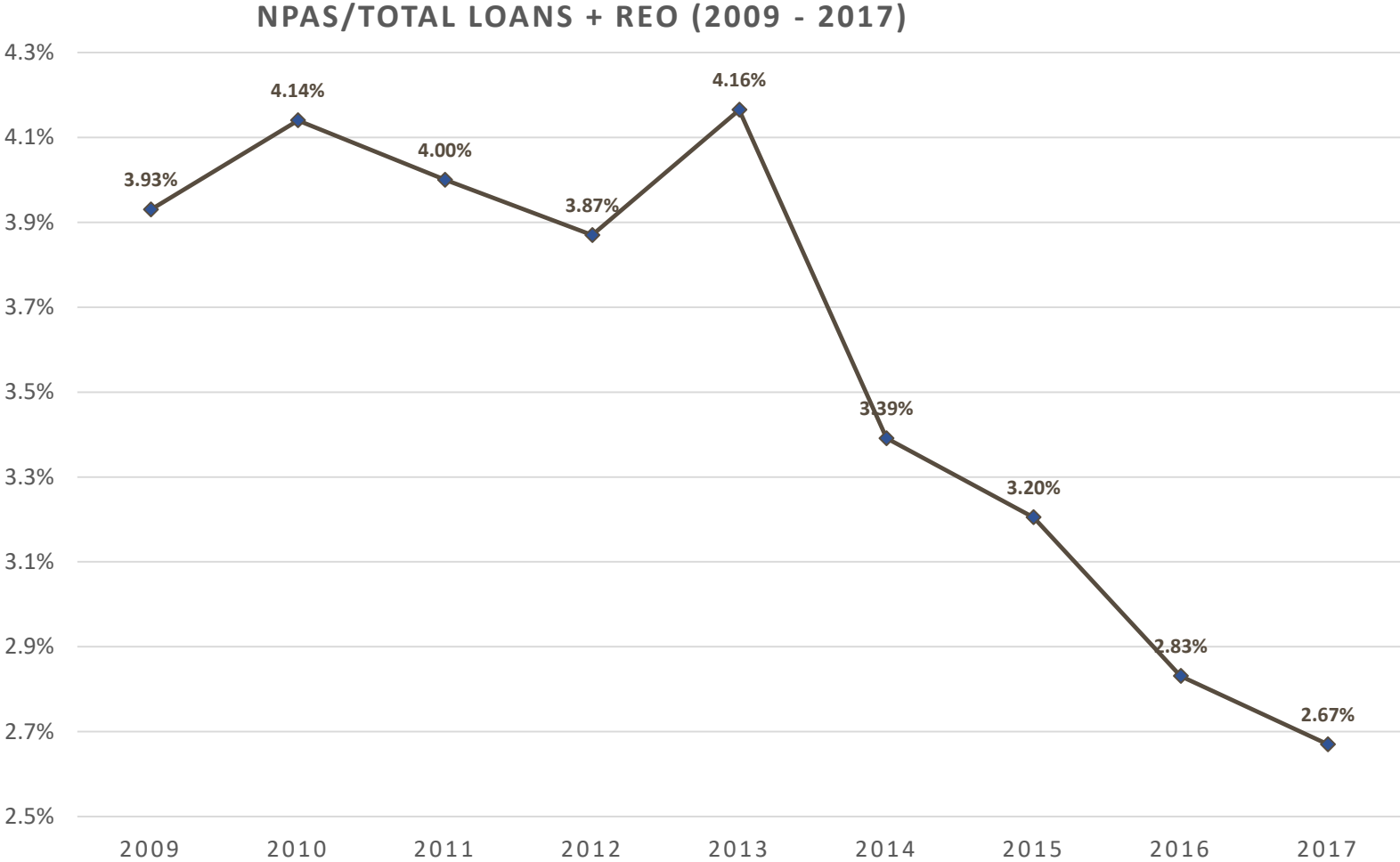
... but leverage looks stronger....

TOTAL EQUITY / TOTAL ASSETS (2009 - 2017)



TBA- Impact on Financial Statements

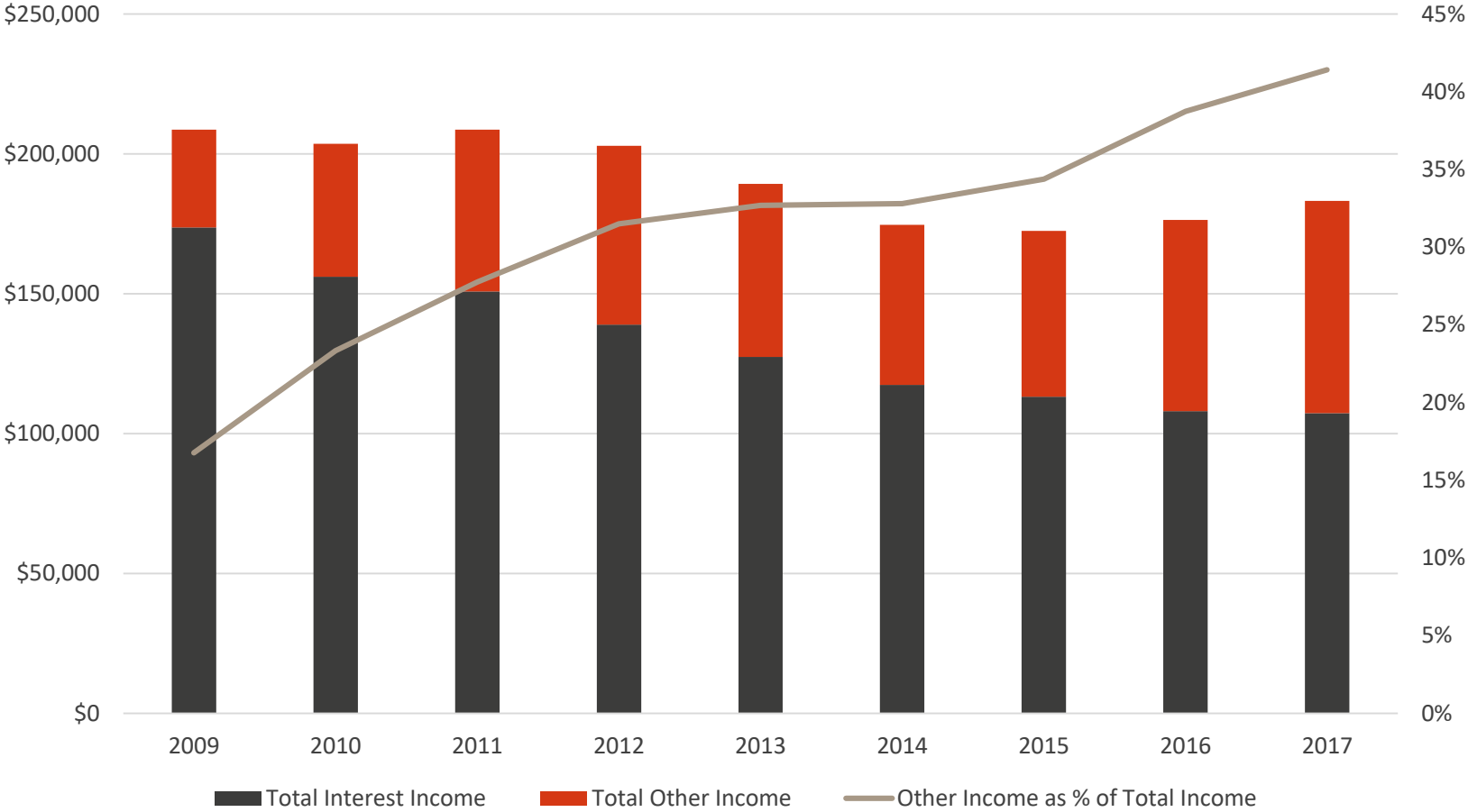
... and are supported by strong underlying assets



TBA- Impact on Financials Statements

Impact seen in income performance

Average HFA Income by Type



TBA- Recent Trends

TBA dominates “other income”

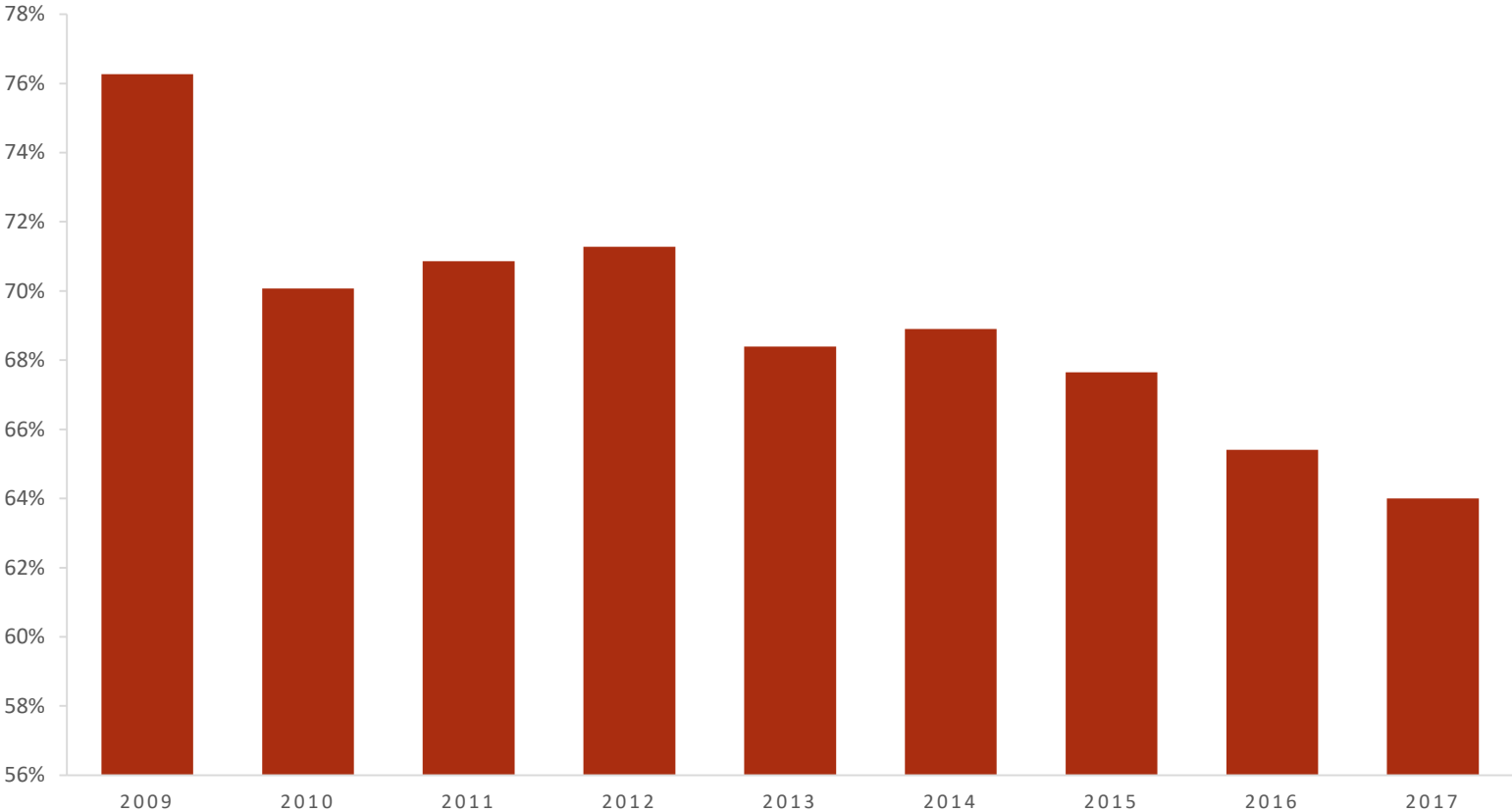
TBA Income as % of Operating Income



TBA- Recent Trends

Liquidity increases as well as exposure to short end of yield curve

TOTAL LOANS/TOTAL ASSETS (2009 - 2017)



MBS & TBA 102- Take Away

1. Bond-financed MBS now exceed bond-financed whole loans
2. Each HFA is unique and will have its own approach to TBA
3. TBA has dominated new originations since 2011
4. Proven a useful tool to meet mission of affordable housing
5. TBA drives ROA and revenue diversification; has kept ratings stable

Contact Information

Richard E. Kubanik

Associate Director

55 Water Street

New York, NY 10041

T: 212.438.5112

Richard.Kubanik@spglobal.com



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