2019 NCSHA

Latest Trends in Single Family Debt Financing

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Jefferies

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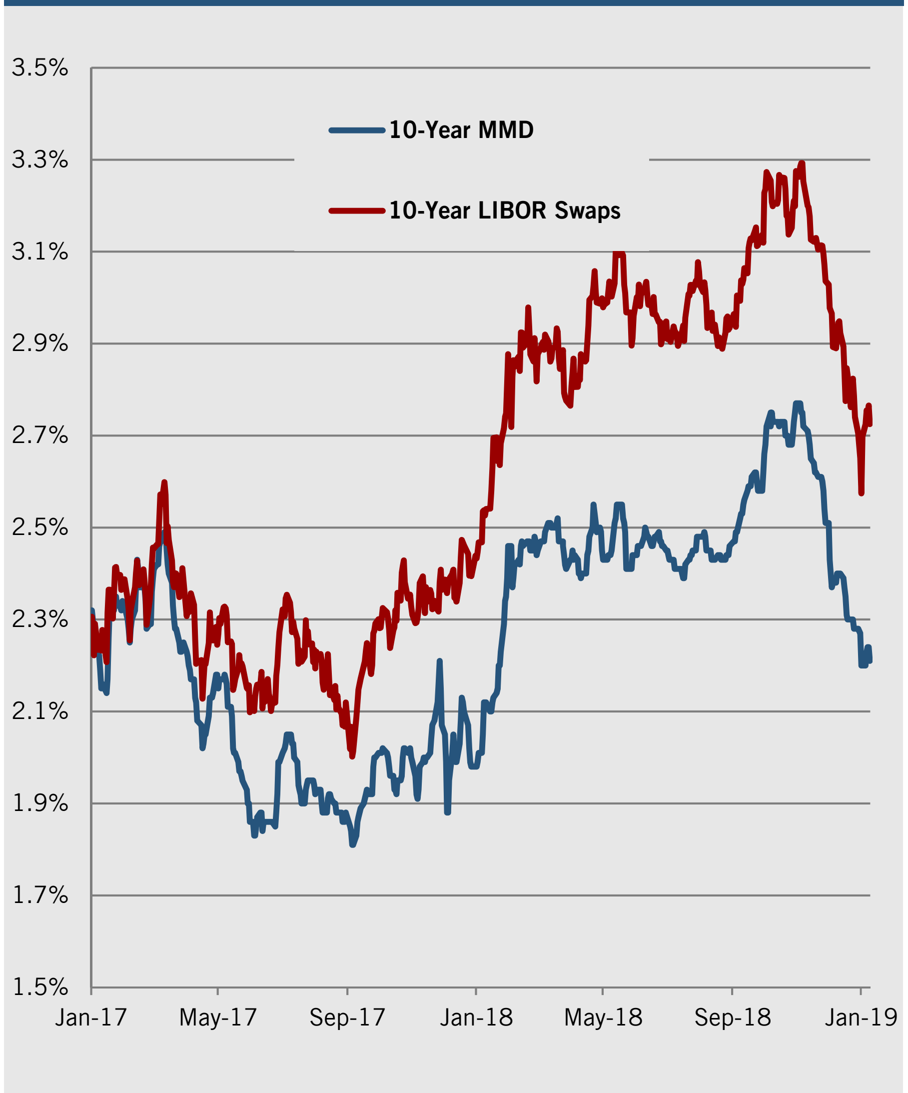
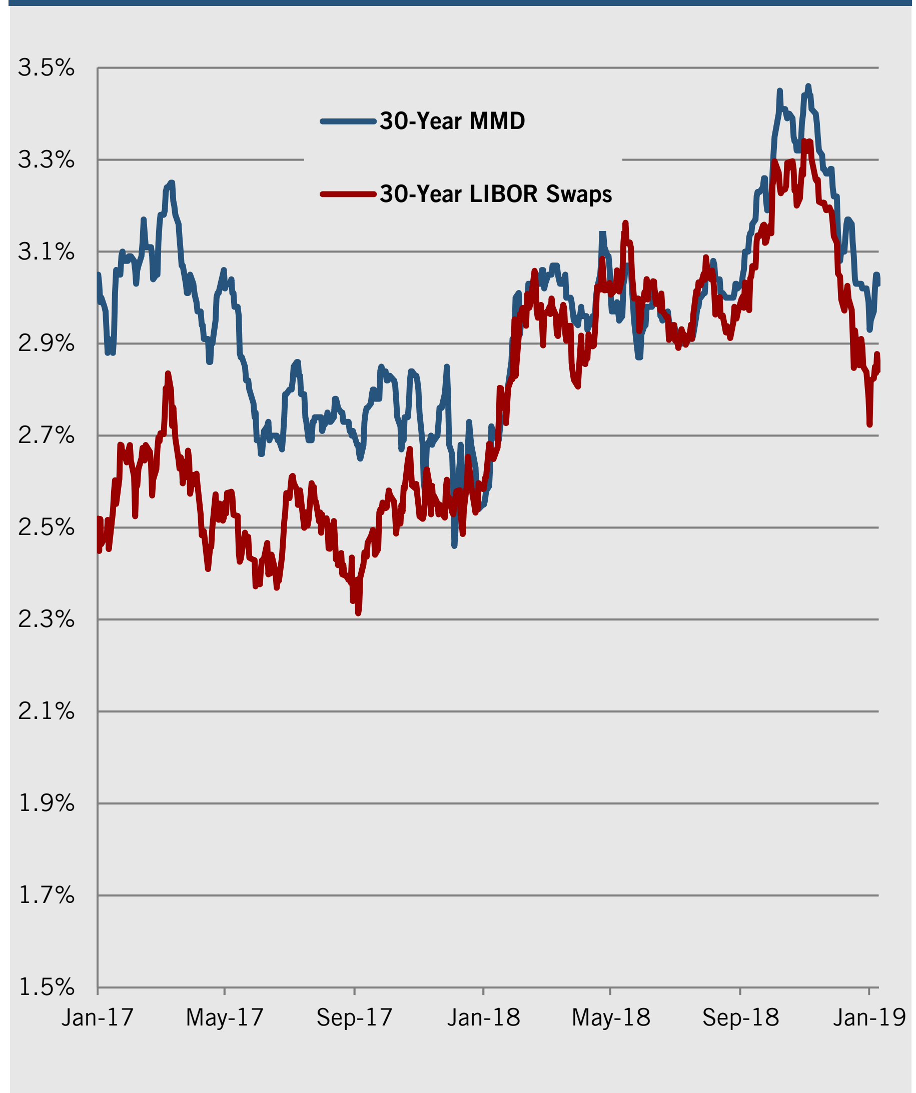
Since 2017, the Relationship Between Tax-Exempt and Taxable Rates Has Shifted

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



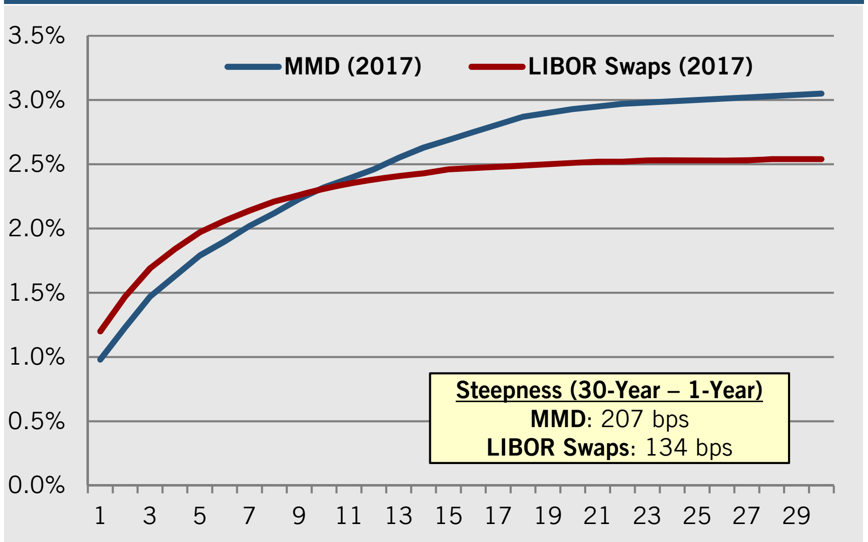
Tax-Exempts vs. Swaps (30-Year Term, Since January 2017)



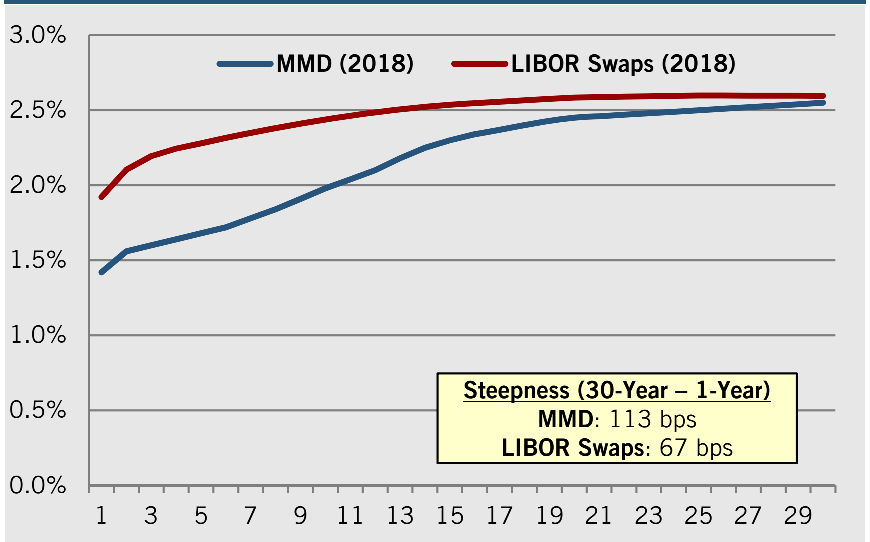
Source: Thomson Reuters and Bloomberg.

Shape of the Yield Curves Has Changed Drastically

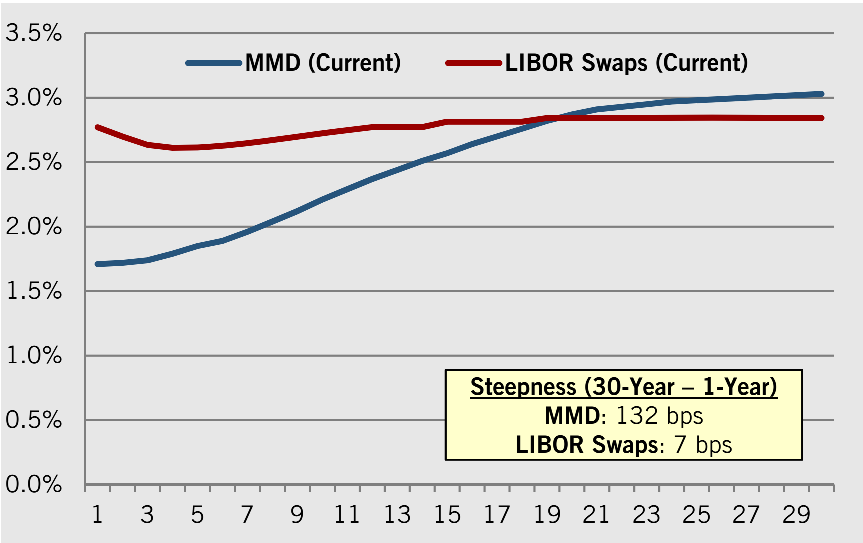
January 2017 Yield Curves



January 2018 Yield Curves



Current Yield Curves



Source: Thomson Reuters and Bloomberg.

Structuring Trends in Current Market

Mortgage Revenue Bonds Provide Rate Advantage

- Reflected in the steepness of tax-exempt curve vs. flatter taxable curve
- More spread available to HFAs
- Provide better rate advantage than Pass-through bonds
- Maintain both TBA and MRB programs
- TBAs are useful to accomplish lending non-qualified or taxable loans

Indicative Rates[1]
Single Family Housing (Aaa)
30-Year Debt

MRB	Pass Through Bonds
3.31%	3.40%

Traditional Single Family Structure (Serials, Terms and PAC with 5-yr Average Life.) Bond Yield @ 100FHA

[1] *Source: Jefferies and market data*

Structuring Trends in Current Market

Zero Participation Loans Are Back

- Current rate environment has created excess spread opportunities
- Zero percent loan participations reduce spread and transferred to raise spread in future

Schematic:

$10 Million Zero % Loan Participations
5.00%

Principal Portion Only
$10 Million

+

$100 Million Loan Pool
5.00%

Combined Loan Yield = 4.54%

Interest Portion Only
5.00%

+

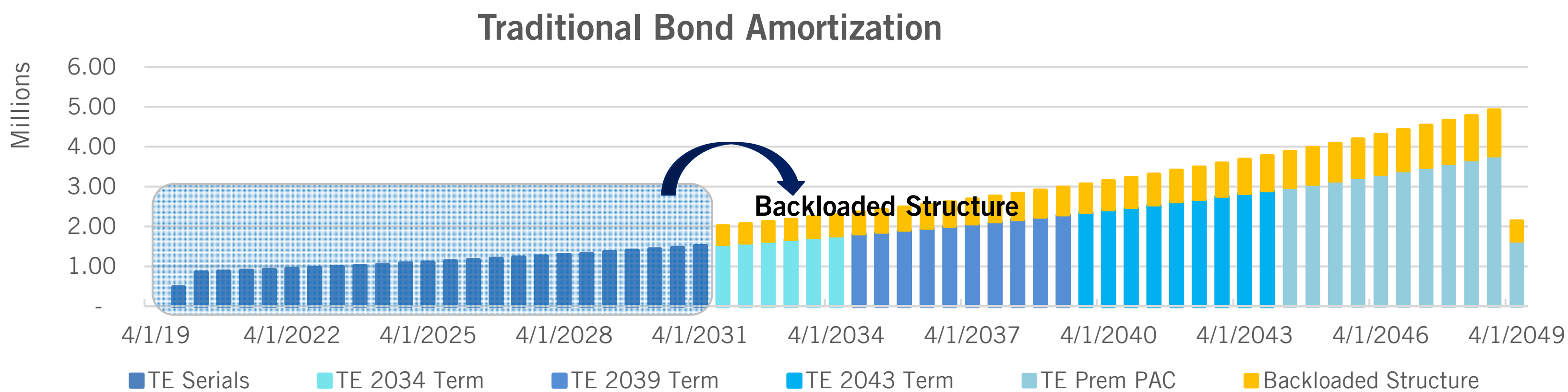
$100 Million Loan Pool
5.00%

Combined Loan Yield = 5.50%

Structuring Trends in Current Market

Flexibility to Backload Bonds for Recycling

- Prior structures that lower bond yields not as necessary
  (E.g. Front loading, Super PACs, Swaps)



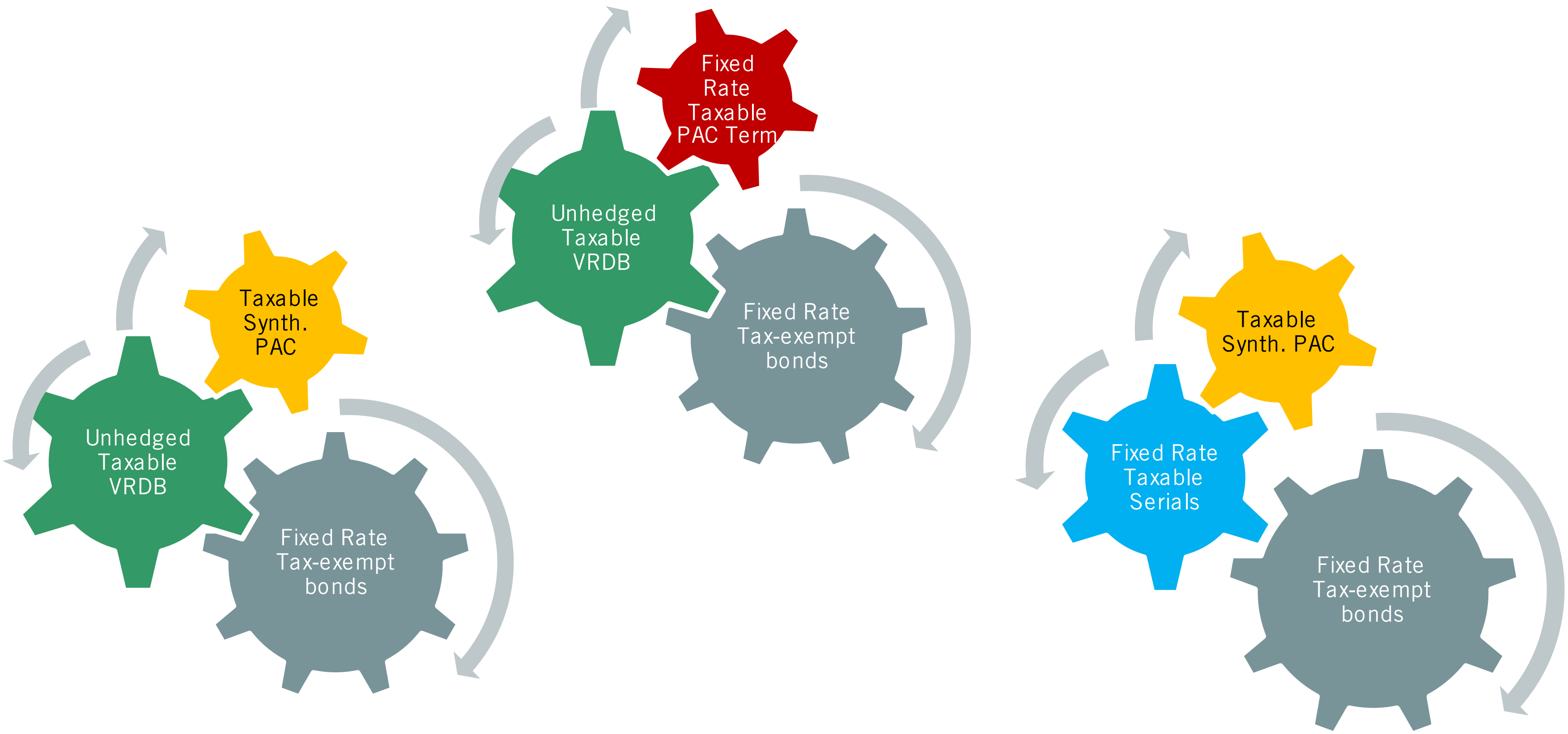
PAC Bonds Remain an Effective Tool

- PAC bonds are priced to the average life, investor friendly
- Generates premium proceeds

Structuring Trends in Current Market

Taxable Structures Supplement Volume Cap Scarcity

- Shortage of bond volume cap increases taxable bond issuance
- Different variations of taxable structures can minimize the interest rate cost

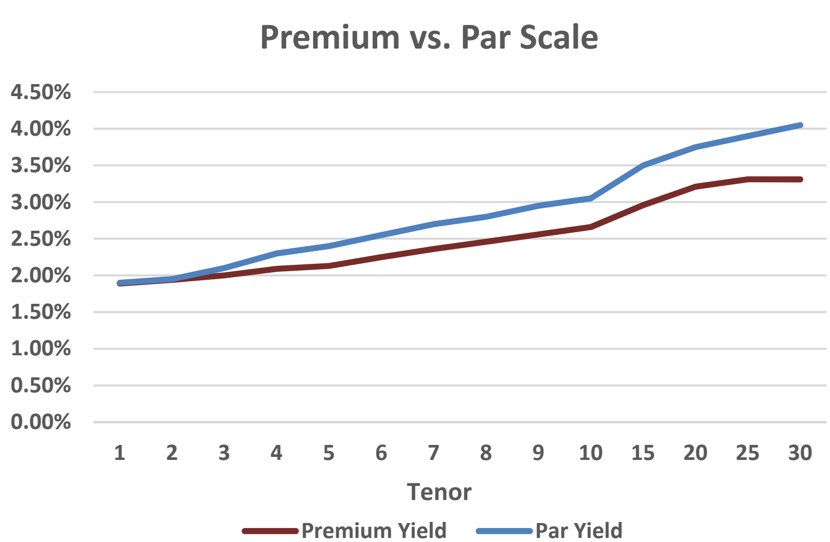


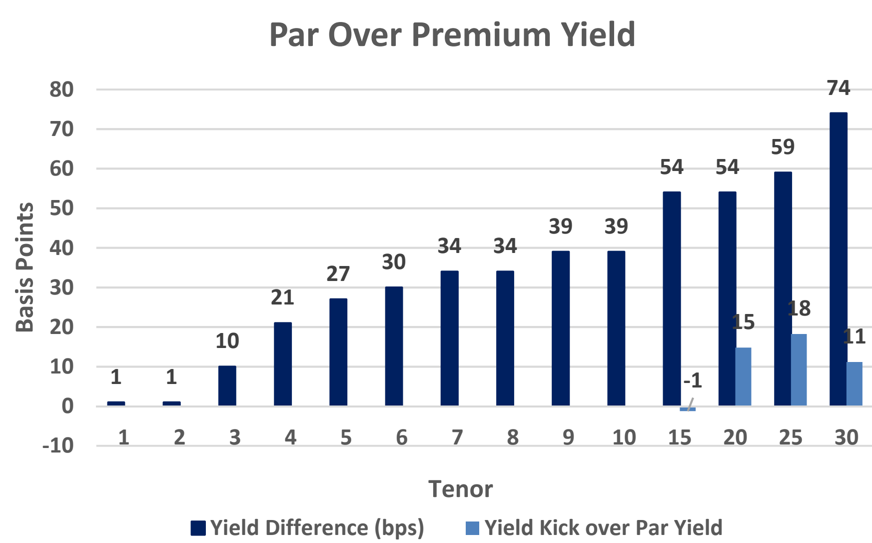
Structuring Trends in Current Market

Financing DPAs with Bonds and Premium

- HFAs can increase premium proceeds beyond Premium PAC Bonds
- Can be used for DPAs, issuance costs or fund additional loans
- Premium Bonds can lower bond yields and cost of funds
- Investors seek a prepayment lockout through the call date
- Risk includes negative arbitrage at high prepayment speeds
- Yields kick when premium bonds are not called by the call date

Recent Single Family Housing Scale for Aaa Credit [1]





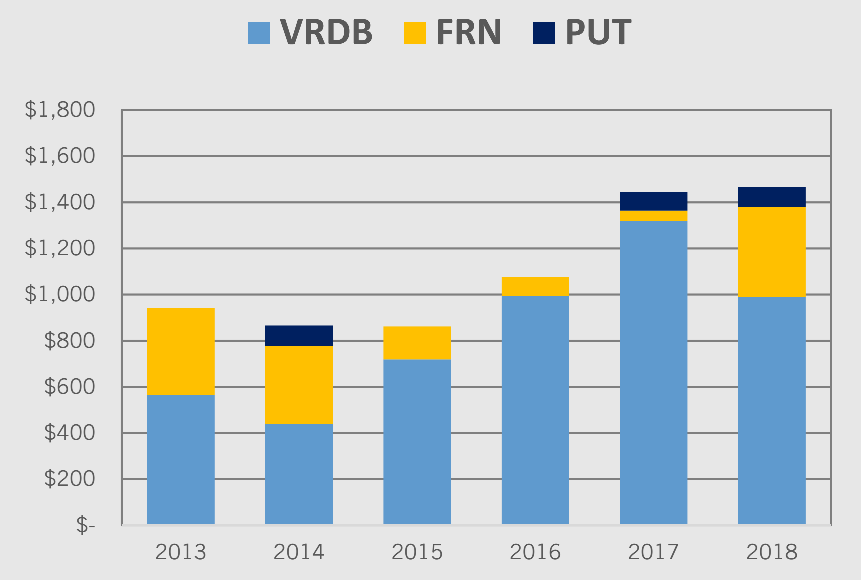
[1] *Source: Jefferies*

Structuring Trends in Current Market

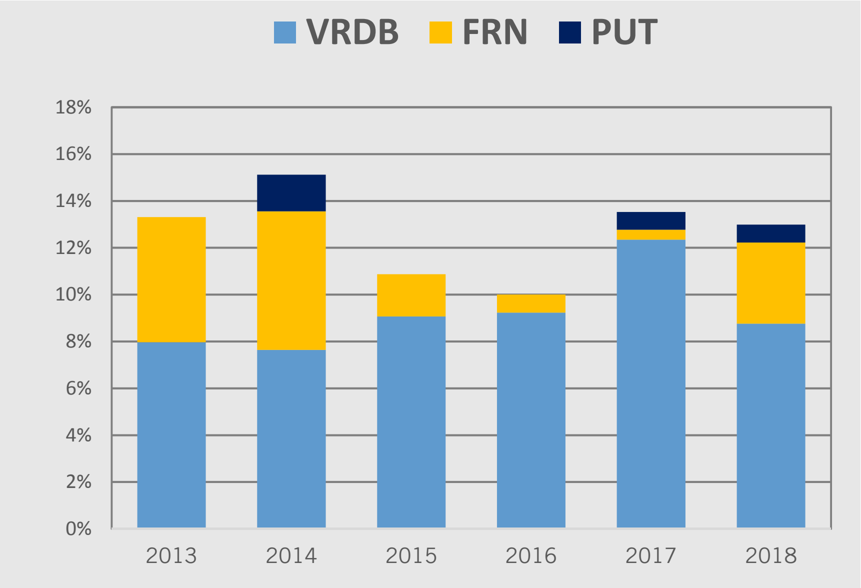
Short Term Products (e.g. VRDBs, FRNs, Puts)

- More interest in short term products in higher rate environments
- Daily VRDBs have outperformed weeklies by an average of 7 bps since 2017
- Swaps and interest rate caps are common hedges that minimize interest rate risks
- Put Bonds access short term rates without interest rate risk

Single Family Variable Rate Issuance ($)



Single Family Variable Rate Issuance (% of Total Single Family Issuance)



Source: Thomson Reuters, as of January 14, 2019

Comparison of short-term product alternatives

Comparison of Short-Term Alternatives

	VRDBs	FRNs/Index Bonds	Fixed Rate MTBs / Put Bonds
Overview	▪ The "standard" short-term product ▪ Daily/weekly remarketing with liquidity support from a highly-rated bank	▪ Bonds price at a fixed spread to an index (i.e., SIFMA, LIBOR, CPI) ▪ No bank liquidity required	▪ Fixed coupon/yield with relatively short put date and long final maturity ▪ No bank liquidity required
Trading Spread	▪ Established on each reset date at lowest interest rate that sells all of the bonds at par	▪ Established at issuance ▪ Fixed spread to index	▪ Established at issuance ▪ Fixed spread to MMD
Liquidity Fees	▪ Approximately 30 bps for A to AA rated credits	▪ n/a	▪ n/a
Remarketing Fees	▪ 5-10 bps	▪ n/a	▪ n/a
Reset	▪ Daily or weekly	▪ Typically weekly	▪ n/a
Tender Provision	▪ Daily or 5 business days	▪ Secondary market sale	▪ Subject to successful remarketing on mandatory tender date
Liquidity Provider	▪ Bank ▪ Potential for self-liquidity from issuer	▪ N/A	▪ Market
Failed Remarketing	▪ Bonds become "bank bonds"	▪ <u>Maturity/Hard Put</u>: Event of Default ▪ <u>Soft Put</u>: No default; typically, bonds pay interest at a Step-Up Rate	▪ <u>Maturity/Hard Put</u>: Event of Default ▪ <u>Soft Put</u>: No default; typically, bonds pay interest at a Step-Up Rate
Step-Up Rate/ Fail Rate	▪ n/a	▪ Can vary by issuer, but typically 8-12%	▪ Can vary by issuer, but typically 8-12%
Challenges	▪ Dependent on bank liquidity	▪ Upon failed remarketing, investors will hold bond until final maturity ▪ Issuers will pay the Step-Up Rate	▪ Upon failed remarketing, investors will hold bond until final maturity ▪ Issuers will pay the Step-Up Rate

Case Study: Alaska Housing Finance Corporation

Single Family Housing **July 2018**

Alaska Housing Finance Corporation

General Mortgage Revenue Bonds II

2018 Series A and 2018 Series B

$167,780,000

Jefferies

Senior Manager

Pricing Highlights

- **Generated $34.10 million of retail orders, equating to approximately 30% of total bonds offered for retail**
- **Generated $166.57 million of institutional orders across 15+ accounts, with $151.27 million orders directly generated by Jefferies**

Transaction Highlights:

Finance Plan

- Issue new money bonds to meet goal of funding ~$100 million of new mortgages while maximizing Pre-Ullman recycling capacity
  - New money structure included PAC bond due in 2048 to eliminate the need for a 30-year term bond that would have been sold at a higher yield
- Refunding bonds structured to preserve Pre-Ullman benefits for maximum term (including preservation of higher spread for AHFC), allowing for maximum recycling of repayments and prepayments

Execution

- Time between pricing and closing of 40 days to minimize negative arbitrage
  - No additional interest cost for longer close
- Aggressively marketed the transaction and demonstrated pricing leadership and structural versatility:
  - the 2031 maturity was restructured and sold as a 5% premium bond at a 2.97% yield to call, resulting in 43 bps in savings to call versus a traditional par bond and a yield to maturity just through the par bond level
  - Jefferies brought two new investors to the Corporation