



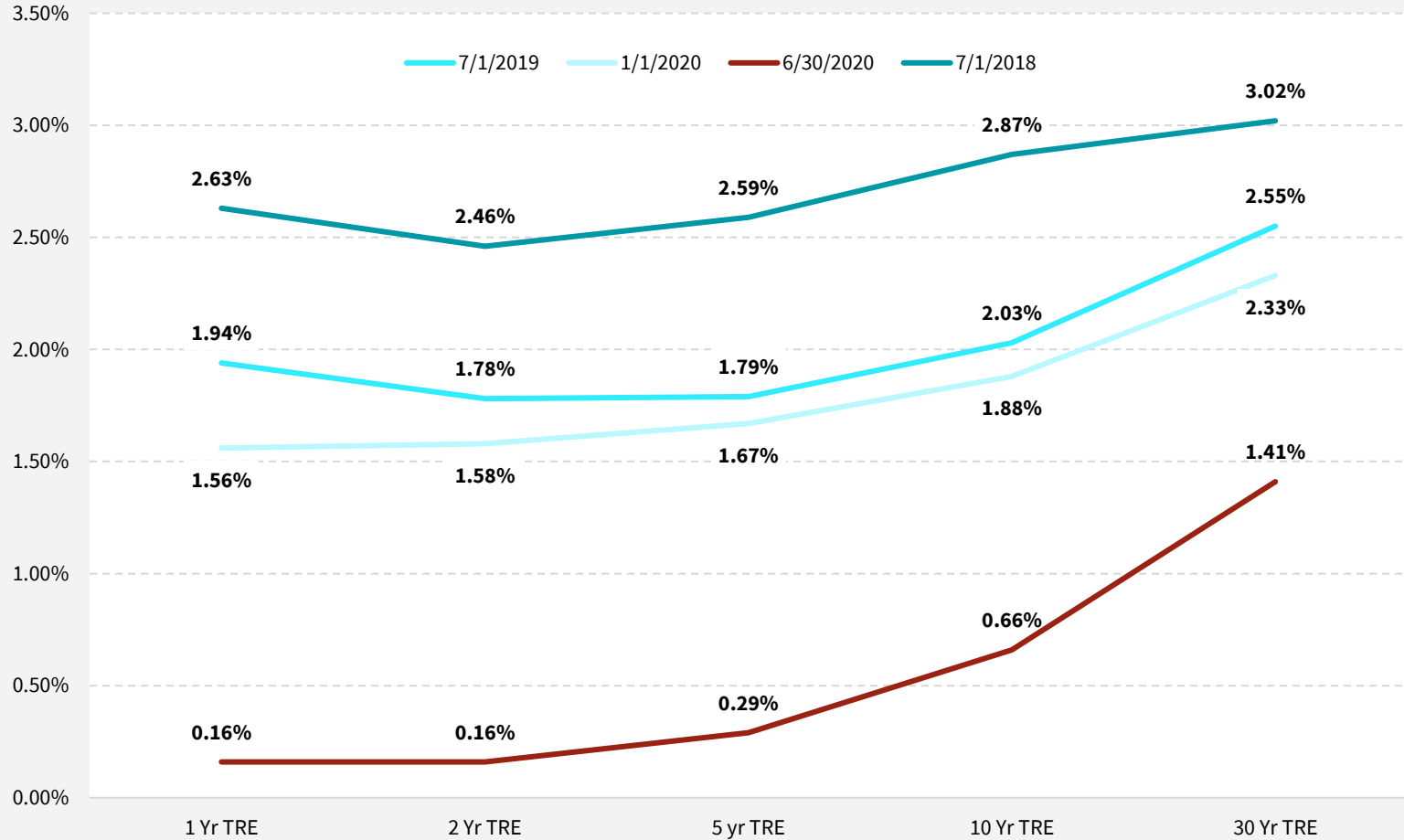
Homeownership Financing: The Business of State Housing Finance Agencies

Charles Karimbakas
Chief Financial Officer

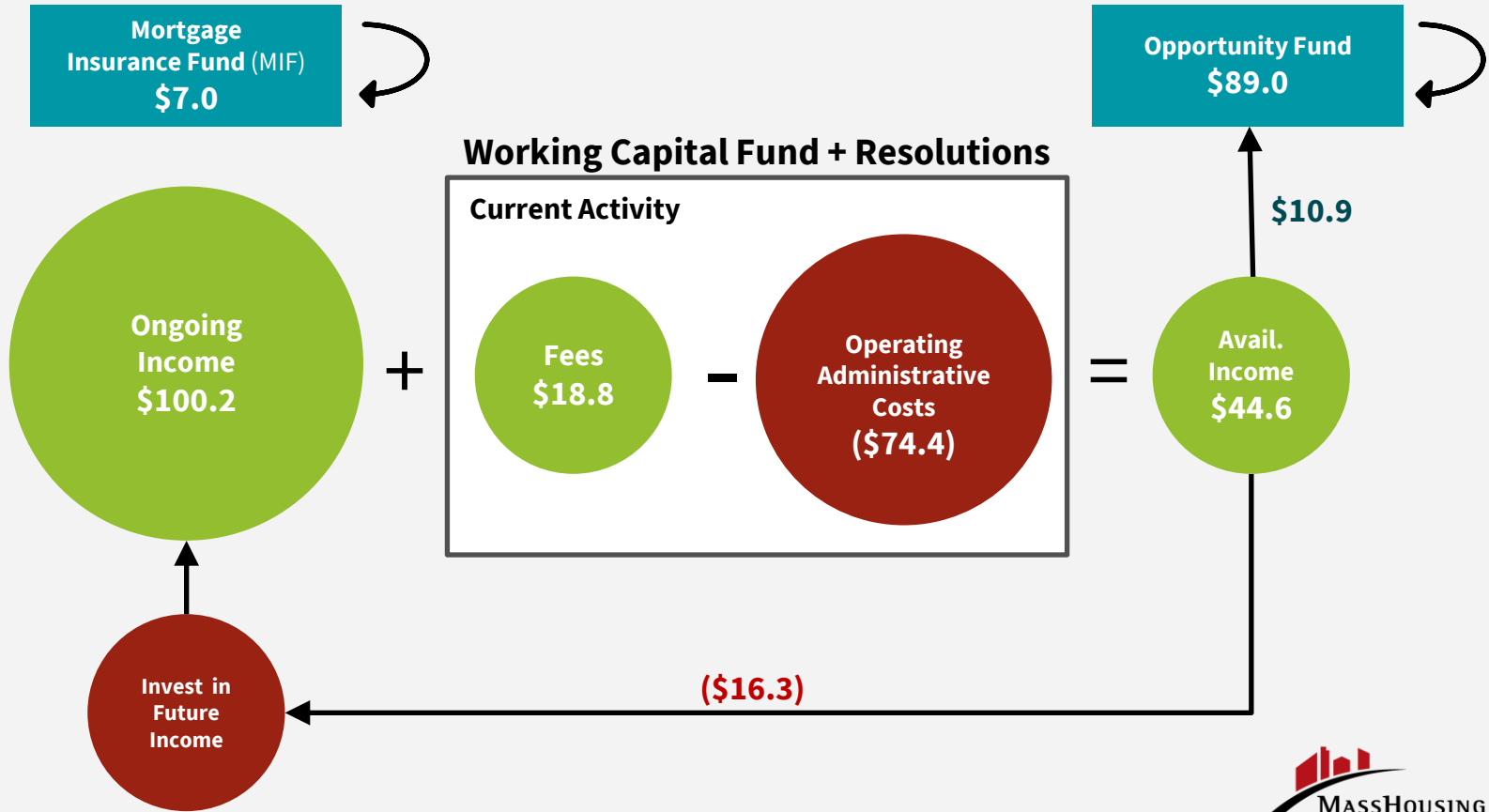
February 3, 2021

US Treasury Yield Curve

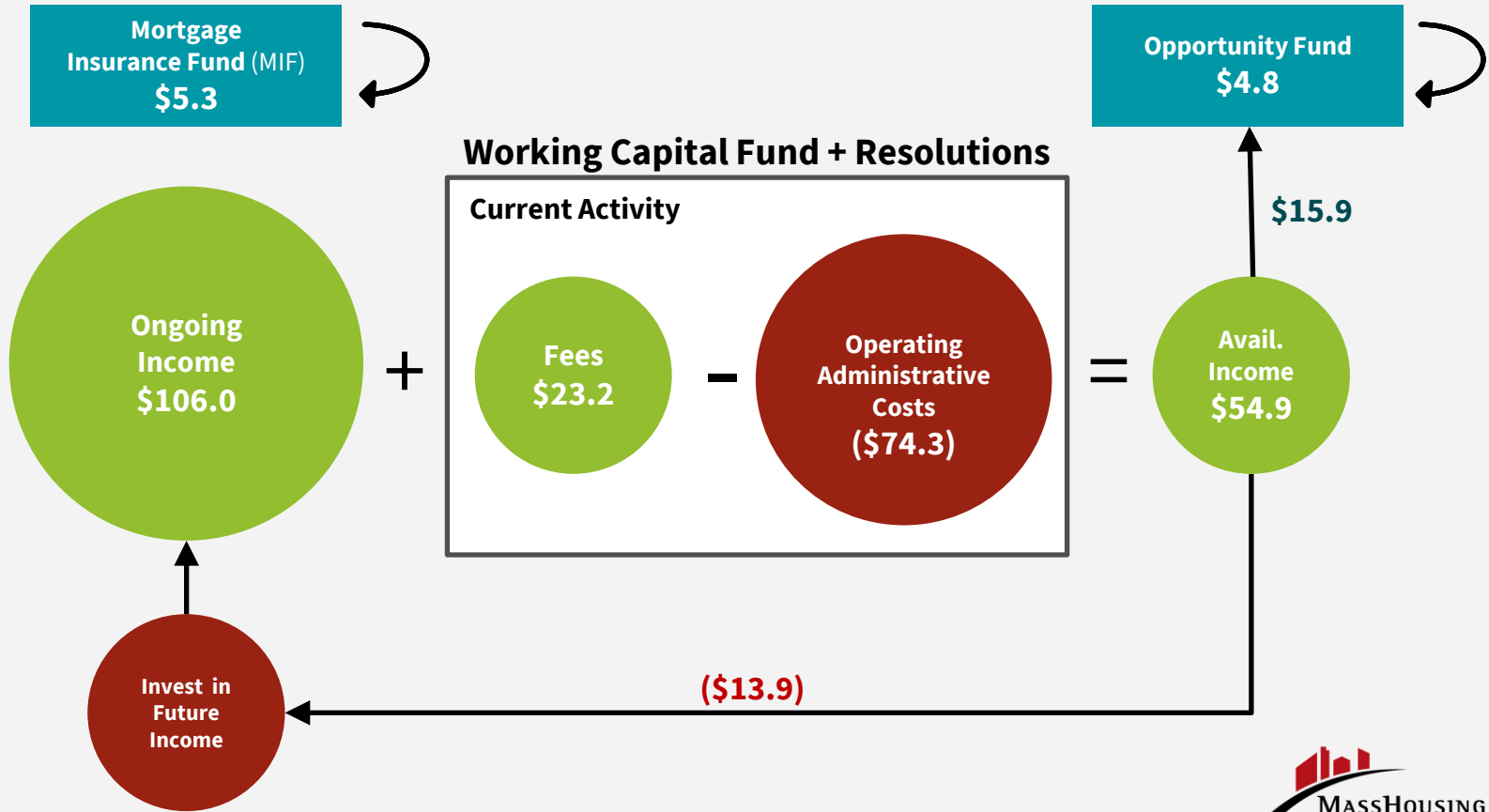
US TRE Yield Curve



2020 Financial Performance

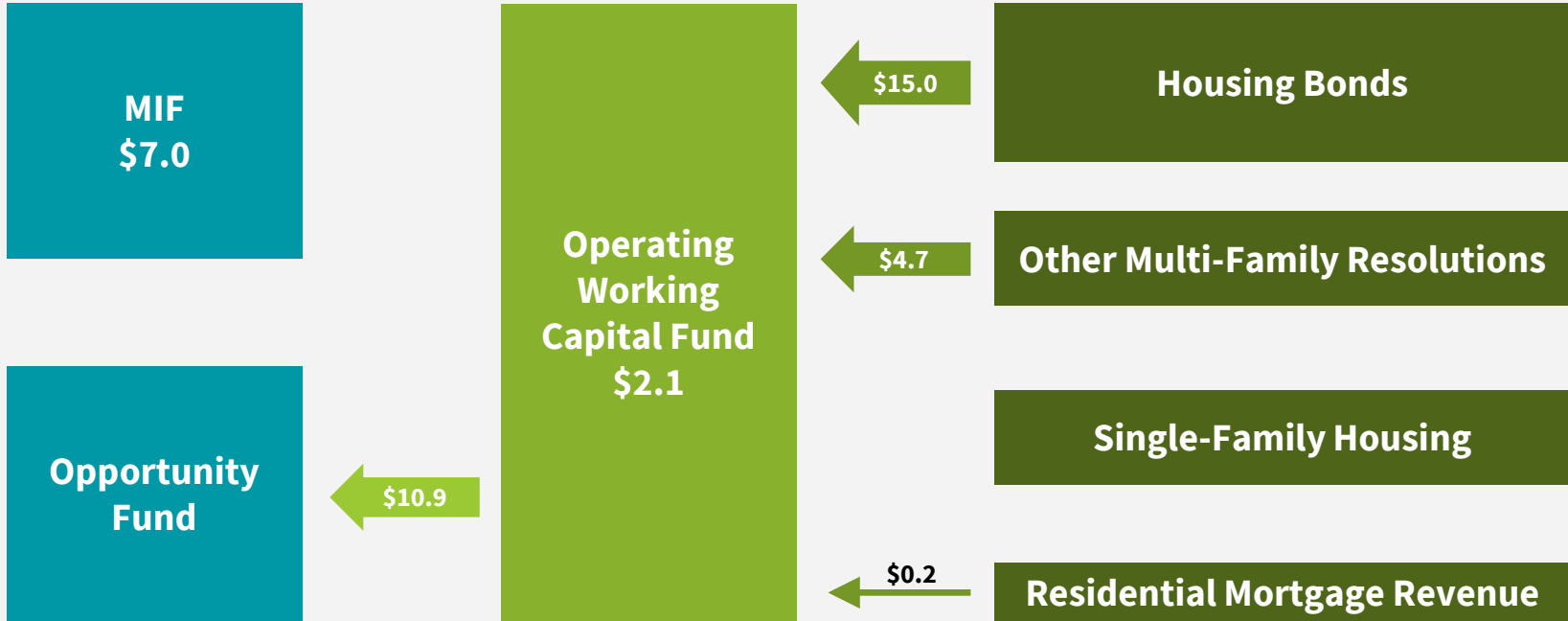


2019 Financial Performance



Keys to Future Sustainability

Components with \$ Transfers for Fiscal Year 2020 (\$ millions)



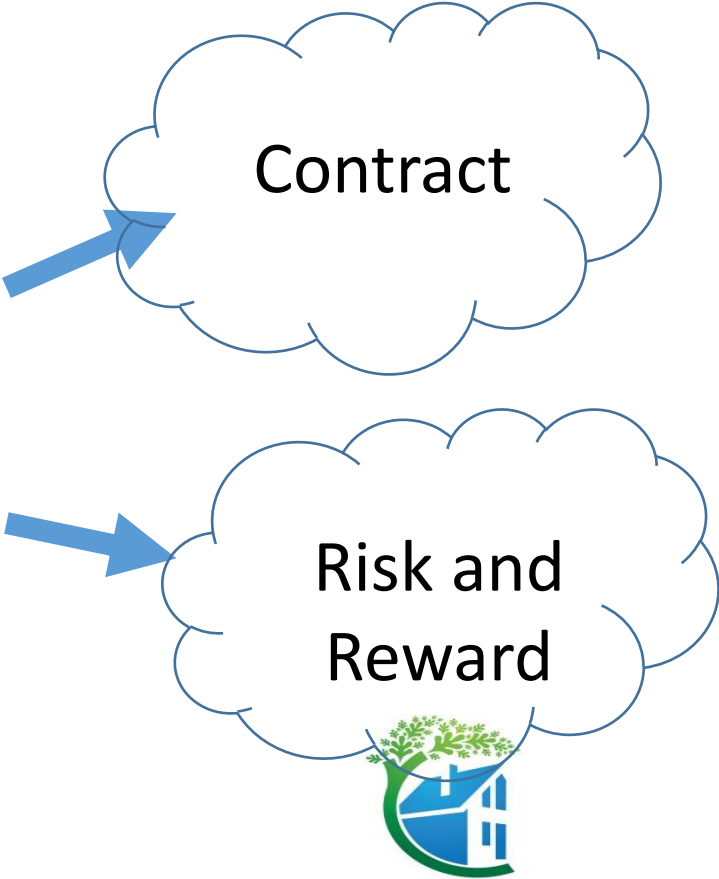
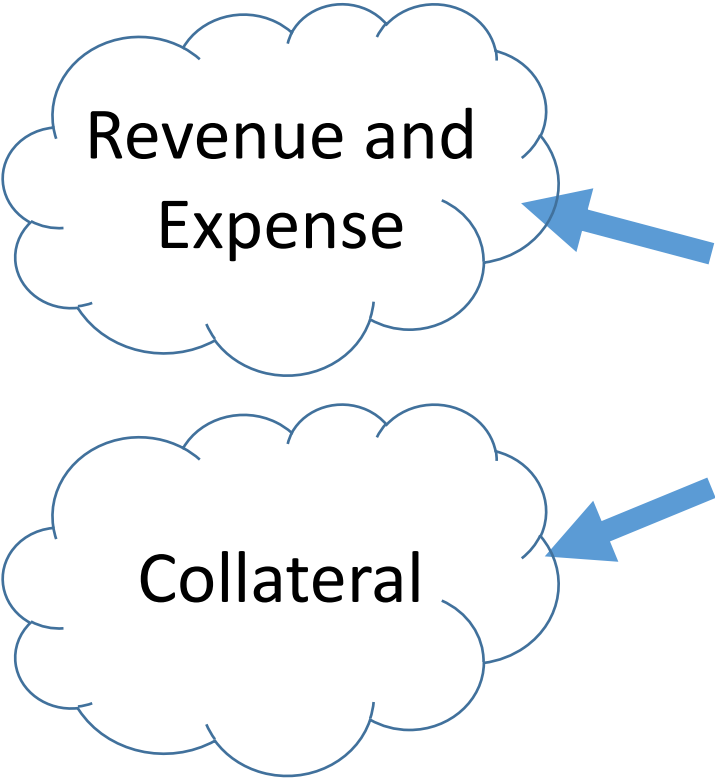
Homeownership Financing: The Business of State Housing Finance Agencies

Hazim Taib
Chief Financial Officer

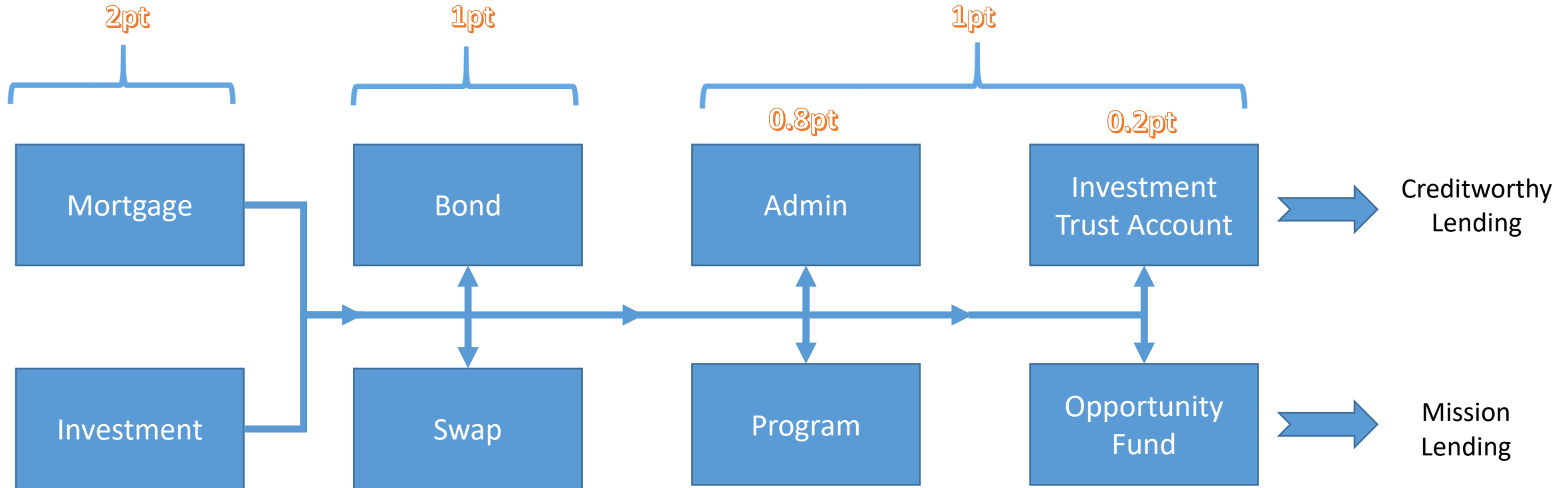
February 3, 2021



Things to Consider



Flow of Funds



Bond: 0.8
Swap: 0.2

Admin
Ongoing: 0.3
COI: 0.15

Program
Servicing: 0.25
Loss Mit: 0.10



Decision Making





National Council of
State Housing Agencies

National Council of State Housing Agencies

HFA Institute

The Business of State Housing Finance Agencies

MBS Interest-Only Securities for HFAs

February 2021

Jefferies

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Historically HFA's used the municipal bond market to fund their single-family mortgage originations

Prior to 2008 financial crisis

**Sale of municipal
bonds**



- Structured as traditional Mortgage Revenue Bonds:
 - Underlying loans pledged as whole loans or MBS
 - Serial bonds, Term Bonds and PAC bonds
 - Often incorporating variable rate debt and swaps to achieve a competitive mortgage rate

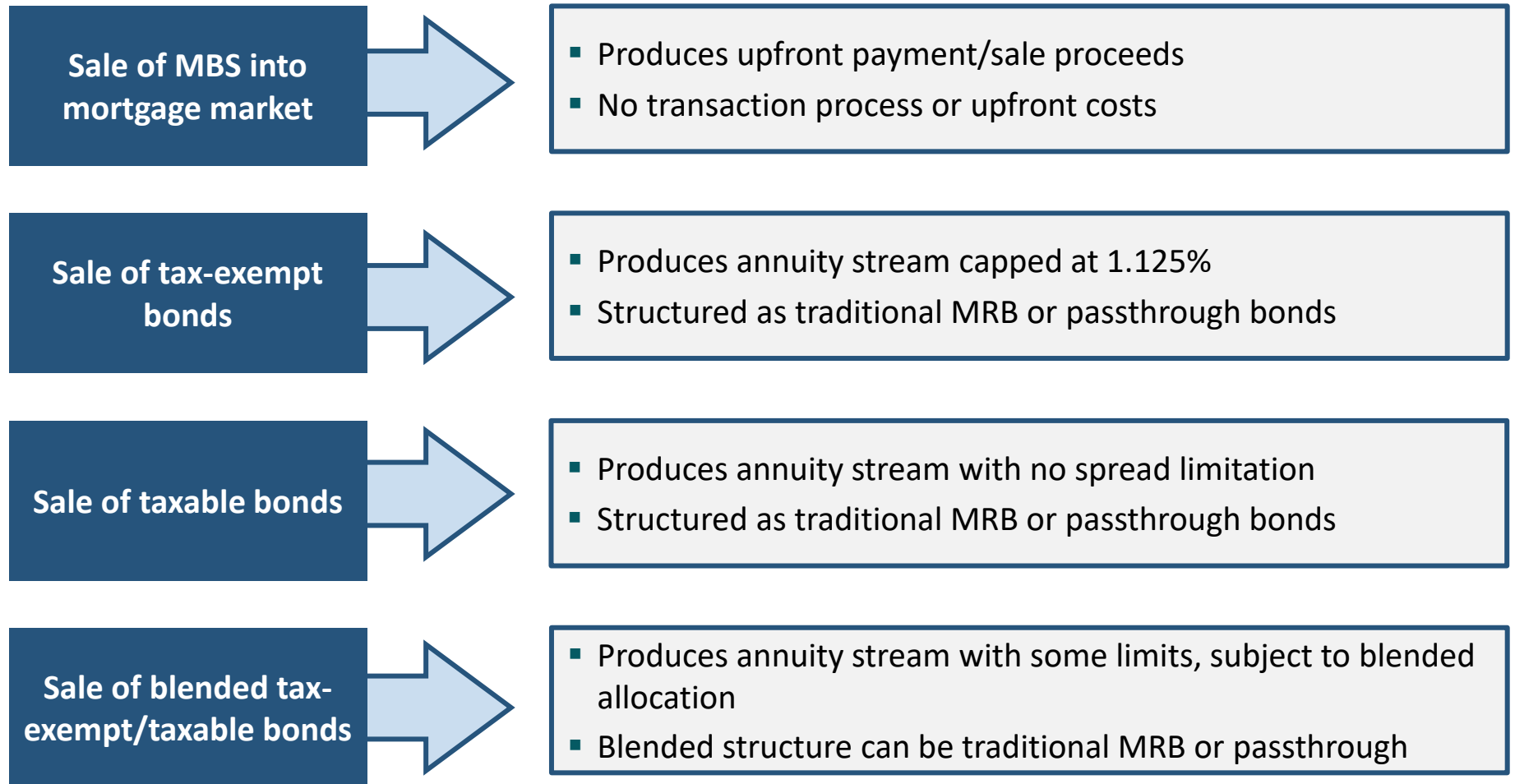
Post 2008 financial crisis

**Mortgage-Backed
Securities**



- Most HFA's began selling their originations into the Mortgage market in lieu of issuing bonds
- Income switched from annuity to upfront payment
- HFA's converted to MBS backed bond issues

Today, HFA's have developed multiple funding options for their single-family mortgage originations

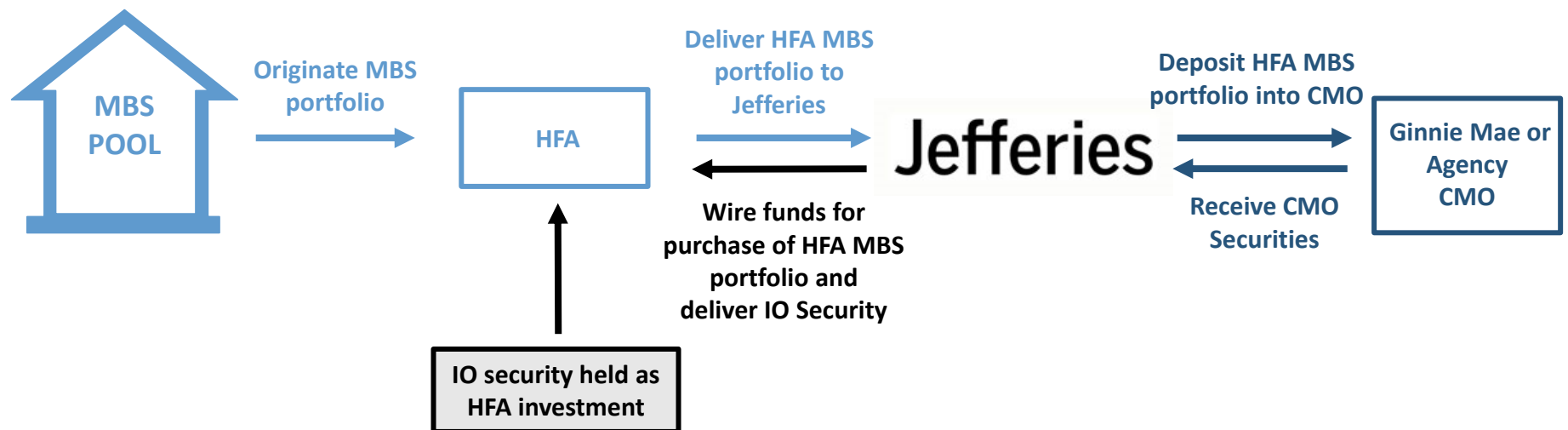


Choice of execution is determined by volume cap limits, market conditions and preference of annuity vs. upfront payment

New Funding Alternative for HFAs Single Family Originations: MBS Interest-Only Securities

- Provides HFAs with MBS securities the option to receive an annuity stream similar to a bond issue with the ease of execution of an MBS Sale
- The schematic below summarizes a new financing alternative that has been utilized by six state HFAs thus far, with several others in process
- It can be executed on a regular basis with the price locked in at trade time (once pool is identified) and the related Interest-Only (“IO”) security CUSIP delivered at the end of the month (via trading account with CMO/MBS dealer)
- The IO security can be held in any HFA investment account or Resolution that allows for such investment, producing income stream, i.e. spread
- As this is not a bond issue, documentation and securities issuance occurs at the CMO level, which is minimal
- Unlike a bond issue, once the MBSs are delivered to Jefferies, the HFA will not have an option to unwind the CMO trust to extract collateral (no 10-year call)

This approach produces a significant income stream for the HFA, often more than a bond transaction, with no upfront costs of issuance, volume cap use, tax restrictions or ongoing administration



Sample Ginnie Mae CMO Offering

Offering Circular Supplement
(To Base Offering Circular dated August 1, 2020)



\$1,497,477,100
Government National Mortgage Association

GINNIE MAE®

**Guaranteed REMIC Pass-Through Securities
and MX Securities**
Ginnie Mae REMIC Trust 2020-134

The Securities

The Trust will issue the Classes of Securities listed on the front cover of this offering circular supplement.

The Ginnie Mae Guaranty

Ginnie Mae will guarantee the timely payment of principal and interest on the securities. The Ginnie Mae Guaranty is backed by the full faith and credit of the United States of America.

The Trust and its Assets

The Trust will own (1) Ginnie Mae Certificates and (2) certain previously issued certificates.

The securities may not be suitable investments for you. You should consider carefully the risks of investing in them.

See "Risk Factors" beginning on page S-19 which highlights some of these risks.

The Sponsor and the Co-Sponsor will offer the securities from time to time in negotiated transactions at varying prices. We expect the closing date to be September 30, 2020.

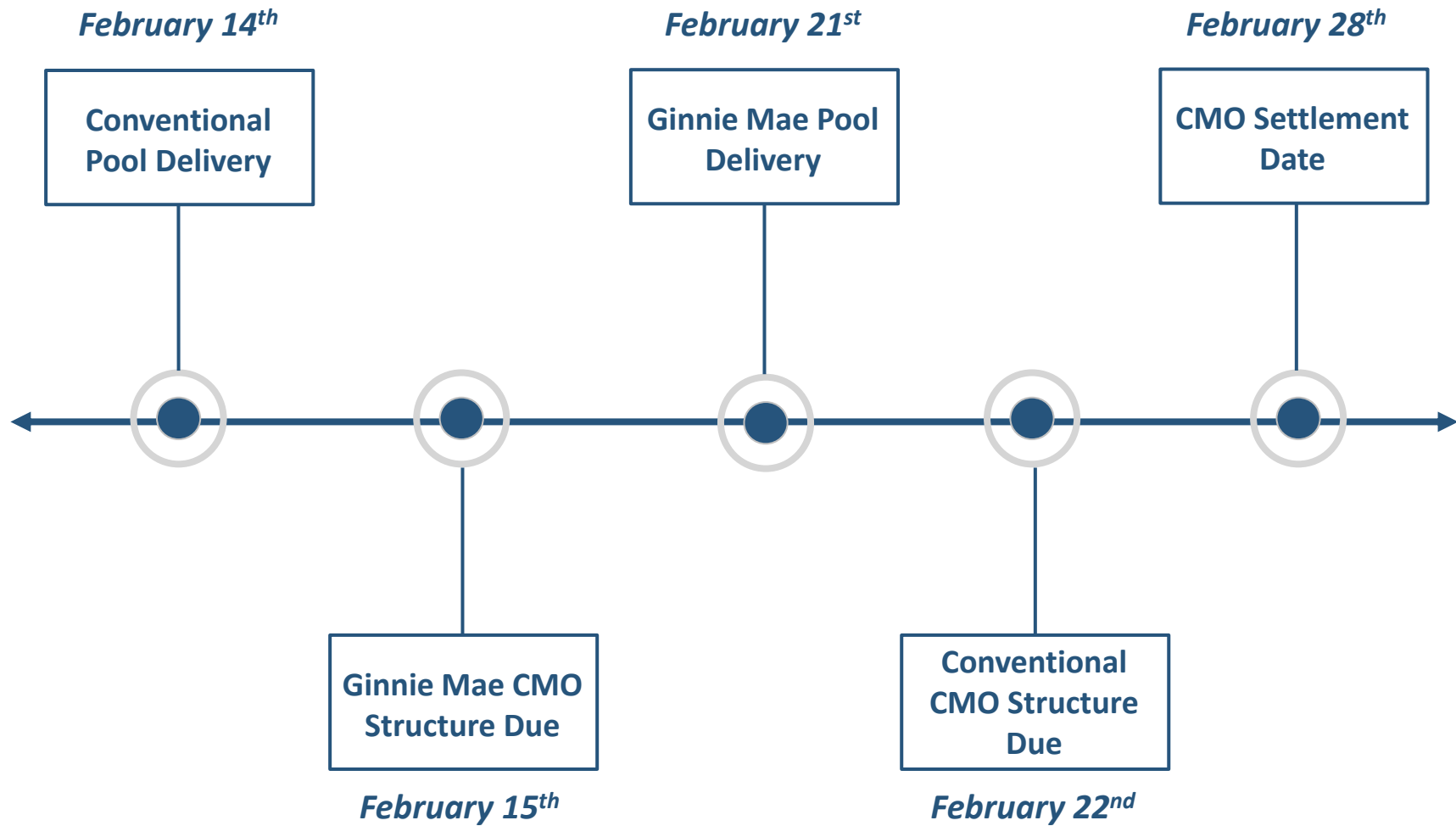
You should read the Base Offering Circular as well as this Supplement.

The securities are exempt from registration under the Securities Act of 1933 and are "exempt securities" under the Securities Exchange Act of 1934.

| Class of REMIC Securities | Original Principal Balance(2) | Interest Rate | Principal Type(3) | Interest Type(3) | CUSIP Number | Final Distribution Date(4) |
|---------------------------|-------------------------------|---------------|-------------------|------------------|--------------|----------------------------|
| Security Group 1 | | | | | | |
| BC | \$ 1,074,269 | 1.00% | SUP | FIX | 38382JAA4 | September 2050 |
| BD | 4,666,000 | 1.00 | PAC | FIX | 38382JAB2 | September 2050 |
| BF | 60,272,924 | (5) | PT | FLT | 38382JAC0 | September 2050 |
| BL | 4,396,194 | 1.00 | SUP | FIX | 38382JAD8 | September 2050 |
| BQ | 20,000,000 | 1.00 | PAC | FIX | 38382JAE6 | September 2050 |
| BS(1) | 60,272,924 | (5) | NTL(PT) | INV/IO | 38382JAF5 | September 2050 |
| QF | 33,219,536 | (5) | PT | FLT | 38382JAG1 | September 2050 |
| QP | 13,499,000 | 1.00 | PAC | FIX | 38382JAH9 | September 2050 |
| QS(1) | 33,219,536 | (5) | NTL(PT) | INV/IO | 38382JAJ5 | September 2050 |
| QU | 3,110,768 | 1.00 | SUP | FIX | 38382JAK2 | September 2050 |
| Security Group 2 | | | | | | |
| EK | 7,840,000 | 1.00 | SUP | FIX | 38382JAL0 | September 2050 |
| BM(1) | 6,220,000 | 1.00 | PAC | FIX | 38382JAM8 | September 2050 |
| BP | 19,087,000 | 1.00 | PAC | FIX | 38382JAN6 | September 2050 |
| BT(1) | 13,522,000 | 1.00 | PAC/AD | FIX | 38382JAP1 | September 2050 |
| BZ | 3,331,000 | 1.00 | SUP | FIX/Z | 38382JAQ9 | September 2050 |
| IB | 33,333,333 | 3.00 | NTL(PT) | FIX/O | 38382JAR7 | September 2050 |
| Security Group 3 | | | | | | |
| CB | 49,662,700 | 1.25 | PT | FIX | 38382JAS5 | September 2050 |
| IC | 28,969,908 | 3.00 | NTL(PT) | FIX/O | 38382JAT3 | September 2050 |
| Security Group 4 | | | | | | |
| EB | 23,365,000 | 1.00 | PAC/AD | FIX | 38382JAU0 | September 2050 |
| EC(1) | 31,575,000 | 1.50 | PAC/AD | FIX | 38382JAV8 | September 2050 |
| EF | 26,381,462 | (5) | PT | FLT | 38382JAW6 | September 2050 |
| EI | 9,346,000 | 2.50 | NTL(PAC/AD) | FIX/O | 38382JAX4 | September 2050 |
| EM | 94,000 | 2.00 | PAC/AD | FIX | 38382JAY2 | September 2050 |
| ES | 26,381,462 | (5) | NTL(PT) | INV/IO | 38382JAZ9 | September 2050 |
| EV(1) | 188,000 | 1.50 | PAC/AD | FIX | 38382JBA3 | September 2050 |
| EZ | 5,541,000 | 2.00 | SUP | FIX/Z | 38382JBB1 | September 2050 |
| FY | 14,500,000 | (5) | PT | FLT | 38382JBC9 | September 2050 |
| SY | 14,500,000 | (5) | NTL(PT) | INV/IO | 38382JBD7 | September 2050 |
| ZE | 7,809,193 | 1.50 | SUP | FIX/Z | 38382JBE5 | September 2050 |
| Security Group 5 | | | | | | |
| GH(1) | 27,000,000 | 2.00 | PAC/AD | FIX | 38382JBF2 | August 2050 |
| GL(1) | 153,000 | 2.00 | PAC/AD | FIX | 38382JBG0 | September 2050 |
| GZ | 6,339,491 | 2.00 | SUP | FIX/Z | 38382JBH8 | September 2050 |
| Security Group 6 | | | | | | |
| HA | 62,747,276 | 1.00 | PAC/AD | FIX | 38382JBJ4 | September 2050 |
| HD | 1,000,000 | 0.50 | PAC/AD | FIX | 38382JBN2 | September 2050 |
| HG | 25,000,000 | 0.75 | PAC/AD | FIX | 38382JBK1 | September 2050 |
| HI | 2,250,000 | 3.00 | NTL(PAC/AD) | FIX/O | 38382JBL9 | September 2050 |
| HZ | 31,761 | 1.00 | PAC | FIX/Z | 38382JBM7 | September 2050 |
| IH | 71,793,187 | 3.00 | NTL(PT) | FIX/O | 38382JBN5 | September 2050 |
| XA | 2,415,698 | 1.00 | SCH | FIX | 38382JBP0 | July 2048 |
| XB | 2,994,046 | 1.00 | SUP | FIX | 38382JBQ8 | July 2048 |
| XC | 1,000,000 | 1.00 | TAC/AD | FIX | 38382JBR6 | September 2050 |
| XD | 1,000,000 | 1.00 | TAC/AD | FIX | 38382JBS4 | September 2050 |
| XE | 1,000,000 | 1.00 | TAC/AD | FIX | 38382JBT2 | September 2050 |
| XG | 1,000,000 | 1.00 | TAC/AD | FIX | 38382JBU9 | September 2050 |
| XH | 1,000,000 | 1.00 | TAC/AD | FIX | 38382JBV7 | September 2050 |
| XJ | 2,000,000 | 1.00 | TAC/AD | FIX | 38382JBW5 | September 2050 |
| XK | 2,000,000 | 1.00 | TAC/AD | FIX | 38382JBX3 | September 2050 |
| XL | 4,500,000 | 1.00 | TAC/AD | FIX | 38382JBY1 | September 2050 |
| XZ | 1,000 | 1.00 | SUP | FIX/Z | 38382JHZ8 | September 2050 |
| Security Group 7 | | | | | | |
| IM | 28,543,800 | 2.50 | NTL(PAC/AD) | FIX/O | 38382JCA2 | September 2050 |
| MA | 47,500,000 | 1.00 | PAC/AD | FIX | 38382JCC8 | September 2050 |
| MY | 73,000 | 1.00 | PAC/AD | FIX | 38382JCC8 | September 2050 |
| ZM | 10,806,000 | 2.50 | SUP | FIX/Z | 38382JCD6 | September 2050 |

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Interest-Only Execution Timeline

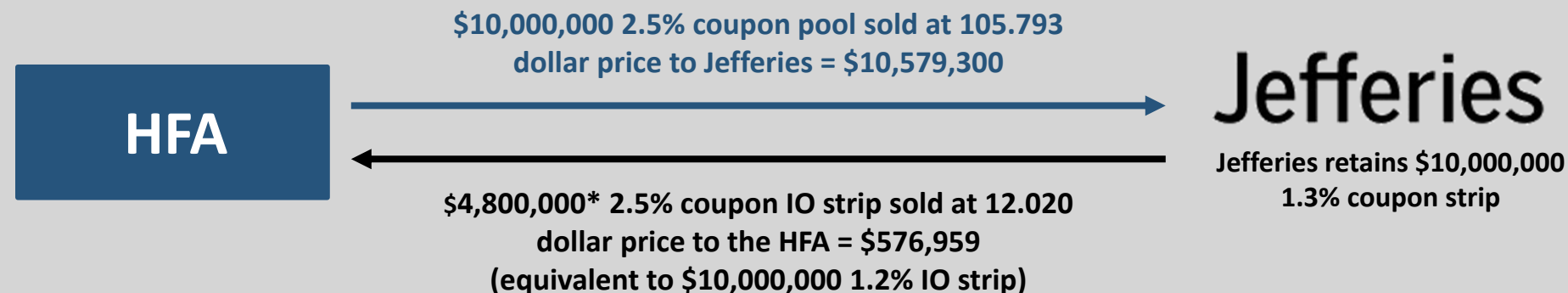


Interest-Only Execution Mechanics

- For example, Jefferies executes a trade under this structure for an HFA with a Ginnie Mae 2.5% passthrough pool of loans and a principal amount of \$10,000,000
- The MBS would be delivered to Jefferies by the HFA and then deposited with Ginnie Mae and reissued as a REMIC/CMO
- The CMO would settle at month end and Jefferies would deliver an IO security to the HFA on the same day
- The purchase price of \$105.79 for the sale of the collateral from the HFA is based on recent TBA pricing
- Jefferies would retain a 1.30% par coupon security
- The HFA would receive an IO security reflecting the remaining 1.20% coupon as an annuity stream at a cost equal to the premium received on the MBS purchase

- Based on the above market conditions, in lieu of issuing municipal bonds at approximately 1.65%, Jefferies could purchase the MBS collateral at a par yield of 1.30% – **35 bps lower** than the municipal bond offering which provides an **interest strip of 120 bps** over the life of the portfolio

Trade Mechanics



* Market convention dictates that the IO notional amount is downsized to reflect the underlying MBS coupon

Benefits and Considerations of Jefferies' I/O Execution

| Benefits | Considerations |
|--|---|
| <ul style="list-style-type: none">✓ Significant annuity earnings, often greater than what can be achieved with bonds✓ Tradeable security✓ Ease of execution✓ No arbitrage restrictions✓ No issuance costs✓ Minimal documentation related to trading account and trade booking✓ No ongoing administration or disclosure requirements✓ No use of volume cap | <ul style="list-style-type: none">✗ No option to unwind the CMO trust to extract collateral (no 10-year par call)✗ No cross-calling or recycling from MBS principal✗ IO security subject to mark-to-market price movement, similar to MBS itself✗ Can not manage zero participations |

The HFA community has realized the value of diversified funding options for its programs — the IO execution is another attractive financing tool to complement existing strategies

HOMEOWNERSHIP FINANCING TO STRENGTHEN THE HFA

CSG | advisors

— GENE SLATER —

HELPING CLIENTS NAVIGATE UNCHARTED WATERS

Serving public agencies & non-profits since 1978





HFA'S HOMEOWNERSHIP FINANCING STRATEGY FOR 2021

MANY CHOICES

- ✓ wider range of options than ever before
- ✓ favorable financing rates

BUT CLEAR STRATEGY NEEDED

So that the homeownership program:

- ✓ helps buyers now
- ✓ strengthens HFA's sustainability
- ✓ isn't solely driven by individual deals

THREE KEY ELEMENTS

- ✓ down payment assistance
- ✓ preserving resources
- ✓ building ongoing net income



1. DOWN PAYMENT ASSISTANCE (DPA) FINANCING STRATEGY

WHY EXPAND DPA RESOURCES

- ✓ Help buyers now, when DPA is key, and
- ✓ Financially strengthen HFA, including DPA in future
- ✓ Concern at running out of DPA has led some HFAs to limit assistance

HOW EXPAND RESOURCES

- ✓ Use DPA as an agency investment
- ✓ Invest bond proceeds and/or agency cash
- ✓ To lower rate on DPA, leverage:
 - zero participations
 - opportunity fund
- ✓ Long-term budget including prepayments
- ✓ Versus forgiveness or subordinating DPA



2. BUILD CAPACITY FOR WHEN CONDITIONS LESS FAVORABLE

VOLUME CAP

- ✓ Volume Cap
- ✓ Taxable financing never been more attractive
- ✓ blended debt, taxable pass-through bonds, interest-only strips
- ✓ Less need for and less value from volume cap
- ✓ Recycling high prepayments
- ✓ Retain cap for future years, while needing some now for zeroes

ZERO PARTICIPATIONS

- ✓ Many HFAs have or can build up zeros now
- ✓ How much is enough?
- ✓ Is lowest cost execution always best?
- ✓ Spending zeros to strengthen program and HFA
 - ✓ Fund low cost DPA
 - ✓ Reduce 1st mortgage rates
 - ✓ Can target lower rates for some borrowers



Linking these tools together

Preserving resources for future years

3. STRENGTHENING FUTURE INCOME

PRESSURE ON FUTURE HFA INCOME

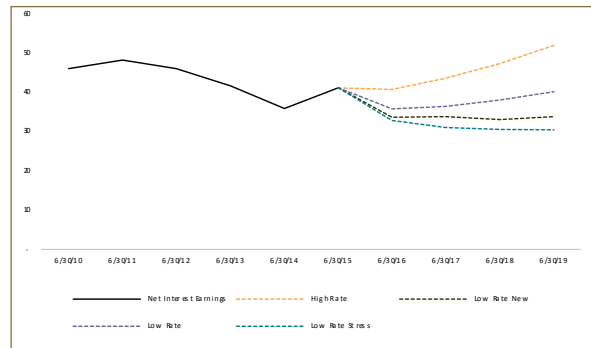
From:

- ✓ Prepayments
- ✓ Lower reinvestment rates

Why ongoing net income so crucial

*ultimately the key limit on what
HFA can do for all borrowers*

ONGOING INCOME FROM PAST ACTIVITIES



Systemic Approach

Ask underwriters and advisors to show cumulative projected impacts
Opportunity-driven business makes overall criteria even more important

2021 LENDING TO BUILD ONGOING NET INCOME

Balanced strategy:

- ✓ Mix of executions
- ✓ Cash income v. more zeros
- ✓ Use zeros effectively
- ✓ Interest-only strips to boost average spread
- ✓ DPA to reduce future prepayments
- ✓ Current v. future income
- ✓ Build resources

