Housing Bond Facility Summary

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What the facility would achieve

Provide a way to help HFAs as they both:

- Address dislocations in the market for housing bonds that will continue with Fed quantitative easing (which was the same situation as in 09); and
- Do so at a time when HFAs are on the front line of dealing with issues caused by the pandemic (homeowner defaults, non-payment of rent by those most likely to become unemployed, creating or tapping special funds to help, as well as moratoria on foreclosures, evictions, etc.

Why the Fed should implement it

By using the already-tested, successful, national model of NIBP provide a prototype for how the Fed can exercise its new authority to directly buy municipal debt.

- HFA bonds are all highly rated, of a similar type, are from a limited set of similar issuers and structures, and can be priced in a systematic way, as in NIBP;
- Can be done very quickly, since it builds on a system that worked so well; and
- Can provide a win for the Fed and model for supporting other muni issuance.

Why it's still needed even with Fed Money Market Facility

The Fed Money Market Fund Facility removed much of the pressure in the short-term markets. Even as rates improve, until there are tax-exempt money market funds who want to buy and hold more VRDB paper. The vehicle would help assure demand, at a highly profitable level to Fed, until there are plenty of buy and hold purchasers out there to bring rates down to the swap levels.

Differences from NIBP

Much is the same: pricing mechanisms, mf and sf, ability to use market bonds, for bonds to be either taxable or tax-exempt, rating standards, etc. Key differences:

- Fed as the purchaser directly (rather than Treasury through the GSEs), and thus doesn't require GSE securitization or roles of Fannie and Freddie
- Enables the Fed to temporarily purchase VRDBs that are still trading well above the swap payment rates for HFAs.
- Eliminated having to initially put all bonds in a short-term escrow (driven by HERA expiration).
- Dropped the minimum requirement for 40% market bonds; instead HFAs can leverage the Facility Bonds (old "Program Bonds") with as many market bonds as can work retained the limit of 30% of each issue for refunding old bonds, but doesn't need to be of past variable rate debt.
- Dropped provisions on no variable rate debt in the same indenture, since these aren't a credit risk issue for HFAs and we're not dealing with a credit crisis.
- Retained the ability to include up to 103% premium on single-family bonds for downpayment assistance, and adjusted the assumed PSA yield to 150% given broad national experience esp. at today's low mortgage rates.
- Simplified ongoing detailed reporting requirements.

More Information:

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