Life After Libor
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Libor exposure in the public finance sector

» Less than 1% of Moody’s-rated credits have significant exposure to Libor sunset in 2021

» Exposure concentrated in 3 sectors
  – Gas Prepayment: 29%
  – Housing: 7%
  – Higher Education: 5%

» Strong credit profile and structural provisions will allow issuers to mitigate Libor transition risk
Libor exposure in the housing sector

» 7% of Moody’s-rated housing credits have significant exposure to Libor; mainly on the swap side
  – 15 single-and-multi-family programs
  – 6 issuer ratings
  – 1 military housing rating

» Like other municipal issuers, HFAs have been slow in addressing Libor transition, awaiting guidance from:
  – ISDA: replacement language in the derivative contracts
  – GASB: accounting guidance (comment period ends 11/27)
Actions taken by HFAs on swaps

» In January 2019, NDHFA entered into a hybrid SIFMA-based swap, switching to Libor after 5 years
  – Par termination option at the end of the 5th year
  – Hedges interest rate risk on Day 1, but also provided transition flexibility

» IHDA & IFA subsequently engaged similar swaps with par termination option effective at the end of the initial SIFMA period

» MN Housing and NDHFA also started incorporating replacement language into their swap contracts
  – Flexibility to change to a mutually-agreed upon replacement index
Actions taken by HFAs on floaters

» CHFA issued its first SOFR-linked floater in May

» SOFR (secured overnight financing rate) has been volatile since its inception in April 2018

Sources: Bloomberg, Federal Reserve Bank of New York
HFA financial strength mitigates Libor risk

- HFA fund balance grew by 20% to $10.4 billion in 2018
- Variable rate debt as % of outstanding bonds likely to drop to 12% in 2019
- Conservative stress test shows minimal effect on HFA financial strength

Sources: Moody’s-adjusted HFA audited financial statement
Key Takeaways

» HFA financial strength and sophisticated management mitigate Libor transition risks
  – Par termination options are valuable and unique in the public finance space

» However, prolonged delay in the development of a comprehensive plan will be credit negative