

THE HFA INSTITUTE 2025

MRBs 101



National Council of
State Housing Agencies



**MRBs and
Other Federal
Homeownership
Programs**
JANUARY 15 – 17



Housing Credit
JANUARY 14 – 16



**Section 8 and
Other Federally
Assisted
Multifamily
Housing**
JANUARY 15 – 17



**HOME and
Housing Trust
Fund**
JANUARY 12 – 14



DISCUSSION LEADER

Valentia Doolin, Homeownership Director | Oklahoma Housing Finance Agency

SPEAKERS

Shirley Flores, Director | S&P Global Ratings

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MORTGAGE REVENUE BONDS

TAX-EXEMPT BOND REQUIREMENTS

PROGRAM REQUIREMENTS

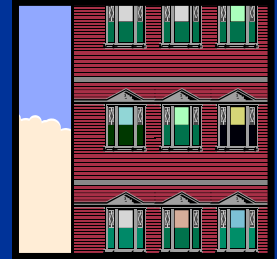


New Homebuyers

- 1st-time homebuyer requirement
 - really 3-year rule
 - exception for targeted-area lending
 - exception for veterans (once)
 - rule applies to each borrower
 - 5% exception
 - same rule for MCCs (except 5% exception)

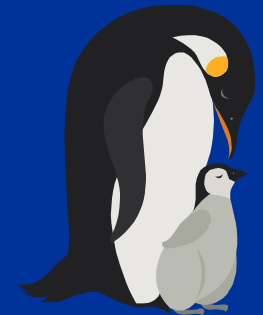


- principal residence requirement
 - based on expectations
 - 60-day safe harbor
 - only land that provides basic livability
 - limited, if any, business use of home
 - 2, 3 or 4-family building is ok with certain restrictions
 - same rule for MCCs



INCOME

- family income limits
 - HUD § 8 rules control
 - limits for
 - small (1-2) families (100% AMGI)
 - and large (3+) families (115% AMGI)
 - higher limits for targeted areas (120%-140%)
 - high housing cost area adjustment (up to 140%)
 - same rule for MCCs



PURCHASE PRICE

- purchase price limits
 - based on acquisition cost, not loan amount
 - limits based on –
 - FHA insurable limits/factor (0.878 in 2024)
 - 90% of such limits, except 110% in targeted areas
 - higher limits possible if more accurate data
 - issuer study requires separate data for new and existing
 - same rule for MCCs

COMPLY !

- **Importance of Program Compliance**

- a single non-compliant loan could render bond issue taxable
- Issuer would negotiate with IRS to avoid its bondholders being taxed
- settlement may be possible, but costly
- finding of taxability could jeopardize Issuer borrowing opportunities or raise borrowing costs



SAFE HARBOR

- Better alternative....
 - safe harbor compliance
 - obtain affidavits of borrower, seller
 - 3 years tax returns
 - have comprehensive program guide
 - remove any non-complying loan when discovered
 - similar rules for MCCs (but cannot pull the loan)



NON-PROGRAM REQUIREMENTS



USES

- limit on use of bond proceeds for other than making loans
 - costs of issuance (not more than 2%)
 - bond reserve fund (not more than 10%)
 - down payment assistance ok

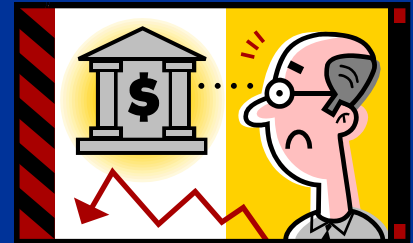
“TEFRA” Hearing



- public hearing and elected official approval
 - newspaper, radio or TV public notice or internet
 - 7 days in advance of hearing is safe harbor
 - hearing conducted by issuer to get public comment
 - highest elected official of issuer’s jurisdiction gives approval after hearing

Yield on Loans

- limit on interest rates and points charged on loans
 - limit is on yield not coupon
 - 1-1/8% over bond yield
 - is aggregate of all loans allocated to bond issue



Rebate



- payments of certain excess earnings to IRS every 5 years
 - called “rebate”
 - is only on non-mortgage loan investments
 - pay net excess of earnings over bond yield

Targeted Areas

- Required set-aside of 20% of proceeds for loans in 'targeted areas'
 - targeted areas are qualified census tracts or 'areas of chronic economic distress'
 - one year 'set-aside'
 - higher purchase price and income limits for these loans
- Program requirement is active promotion of product

Recapture

- borrower may be required to pay certain gain on sale of home back to feds
(Recapture)
 - never more than 6.25% of loan amount
 - limited to $\frac{1}{2}$ gain on sale
 - won't owe if income hasn't increased
 - won't owe if sale is more than 9 years after purchase
 - ~25 issuers "indemnify" (reimburse) borrowers



Reimbursement

- Issuer must declare “official intent” if it expends money before bonds are issued
 - needed if Issuer “warehouses” loans before bonds are issued
 - reimbursement must occur within 18 months of loan funding
 - intent is declared by resolution or similar official documentation

Limit on Bonds Issued

Volume Cap

- each State has limit of private activity bonds that can be issued annually
 - based on population of State (with small state minimum)
 - 2024: \$130 x population or \$388,780,000
 - not just single-family and multi-family housing (12 categories of bonds use cap)
 - unused cap may be carried forward for 3 years

Volume Cap (continued)

- “new money” bonds, use \$1 of volume cap for \$1 of bonds
- refunding bonds only use “cap” if bond maturity is extended past certain limits
- MCCs use \$4 of “cap” for every \$1 of MCCs

10-Year Rule

- loan repayments must be used to redeem bonds and not used to re-lend (“10-year rule”)
 - generally, won’t apply first 10 years
 - applies sooner for refunding bonds

Refundings

- refundings: bond proceeds used to pay off outstanding bonds
 - used to lower debt costs of issuer
 - used to “recycle” at current lending rates
 - trust indentures dictate when/if old bonds can be redeemed early
 - certain maturity limits on refunding bonds

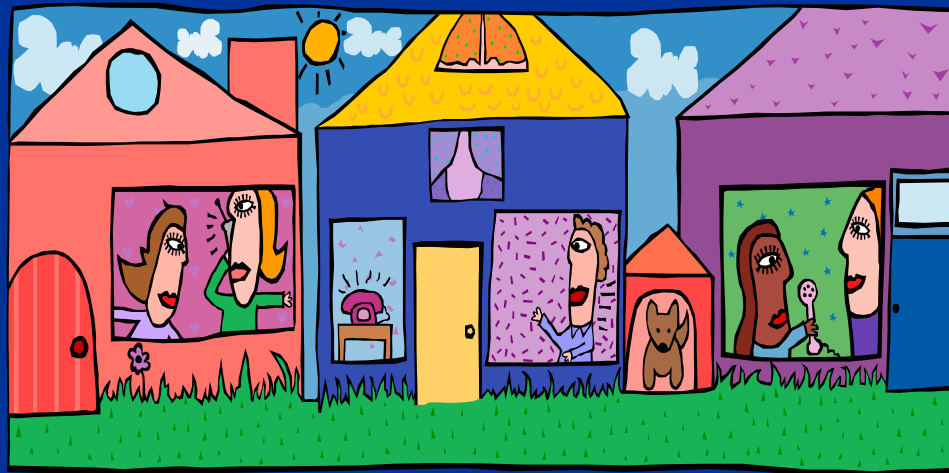
Unexpended Proceeds

- bond proceeds not used to make loans within 42 months must be used to redeem bonds



- only applies to 'new money' bonds

Questions?



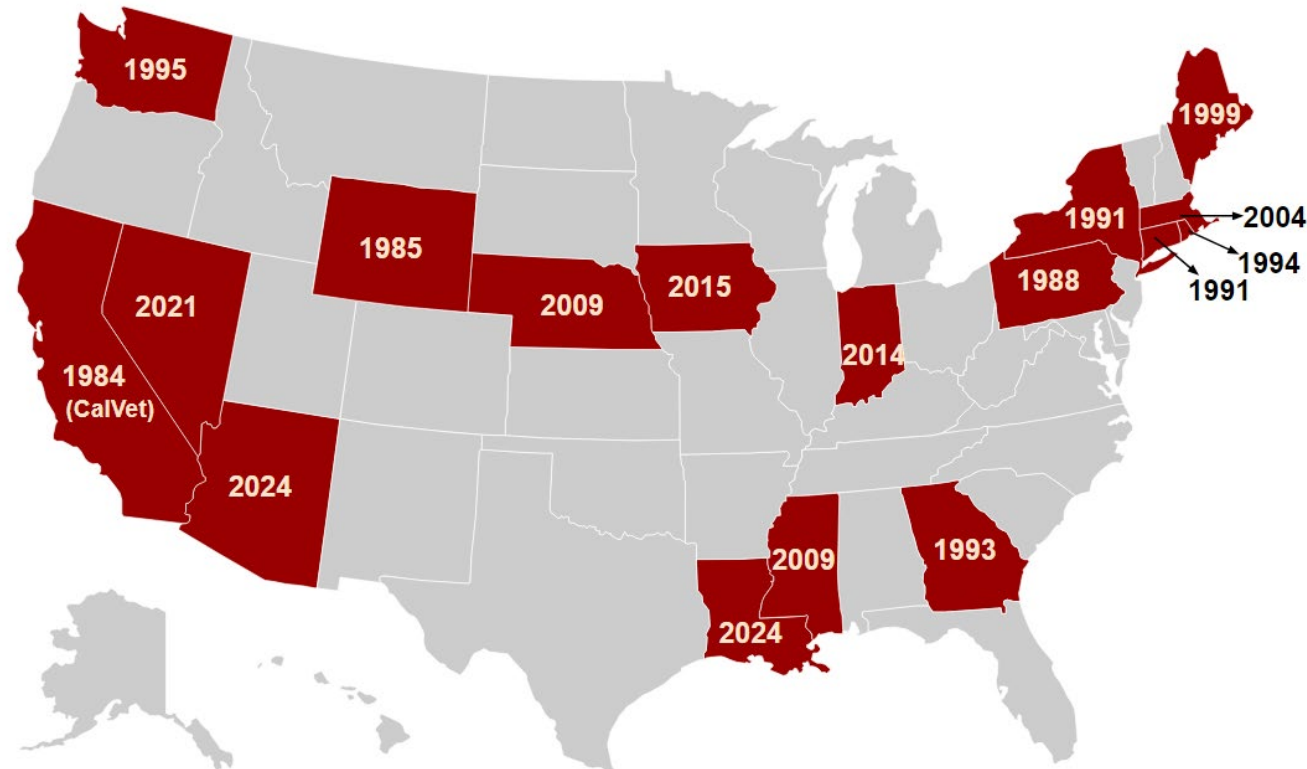
cfX Incorporated
NCHSA HFA Institute 2025: MRBs 101



NCHSA Institute 2025: MRBs 101

cfX Incorporated: Full Service Municipal Advisor & Quantitative Consultant

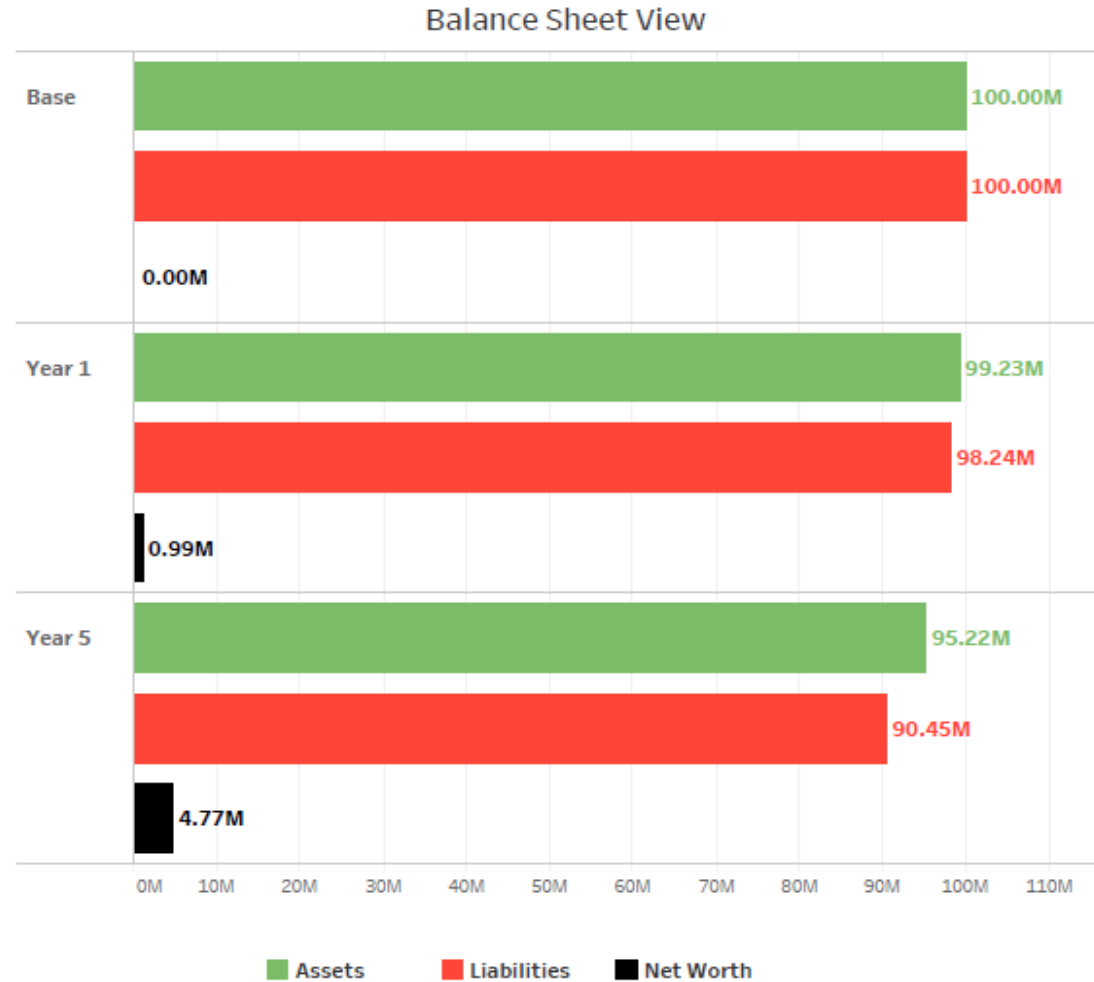
- State HFAs are our sole focus: 17 state clients
- 24-person team. 10 have worked with cfX for > fifteen years
- 6-person Software Application Development group



HFA MRB Basics: Business Model

- General MRB business model is simple yet very effective and reliable:
 - **Borrow tax-exempt:** lend proceeds to first-time homebuyers at interest rates greater than the bond debt interest rates. (Taxable borrowing and non-first-time lending also viable.)
 - **Matched book:** loan assets = bond liabilities in amount and term. Net assets (also know as parity or equity) grow through positive net income over time: the spread from difference between loan rates and bond rates.
 - **Simple example:** Borrow \$100M at 5% and lend \$100M at 6% with matched 30-year bond and loan principal amortization.

HFA Basics: Business Model



Adding Complexity

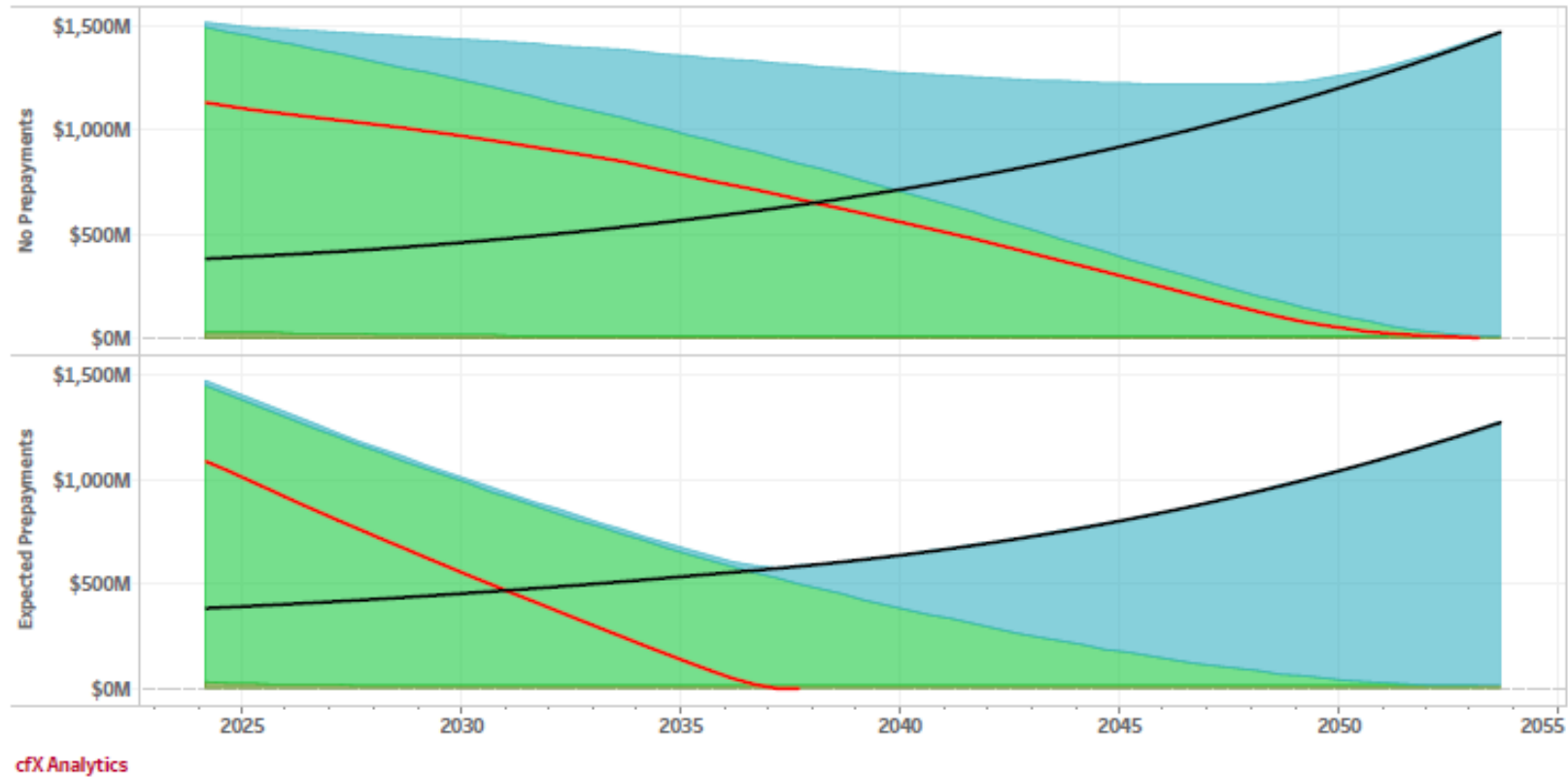
- Several factors add complexity to the MRB business model:
 1. **Scale:** Up to 50-year program history – billions of assets and liabilities accrued over time
 2. **Optionality:** 30-year fixed rate mortgages can be prepaid without penalty at any time during the life of the loan
 3. **Range of Products:** Down Payment Assistance, Multifamily loans, Variable rate debt, Derivatives, PAC bonds, Taxable Blends...
 4. **Volume Cap:** a majority of states now face significant private activity bond constraints
 5. **Compliance:** IRS regulations create compliance obligations (limit on potential earnings, arbitrage rebate, 10-year rule, 32-year rule, more)...and opportunities
 6. **Market:** HFAs can only sell debt that investors want to buy and lend at rates that are competitive
 7. **Credit:** loan delinquency and foreclosure rates effect borrowing costs and capital requirements

Core HFA Financing Vehicle: Parity Indenture

- To manage business complexity and drive profitability and mission benefits, nearly all HFAs issue bonds within parity indentures
 - All assets support all liabilities now and into future
 - For example, 2007 CD bonds on parity with 2025 AB bonds issued today. All loans support all debt.
 - Legal structure beneficial – flexibility for issuer vs investor acceptance
 - Growing parity from spread earnings allows management of finances through difficult market and credit environments
 - Rating agencies require stress cash flows to support high credit ratings – parity structure helps to “pass” stress tests
 - Open structure linking across years of issuances allows for volume cap preservation and tax compliance optimization

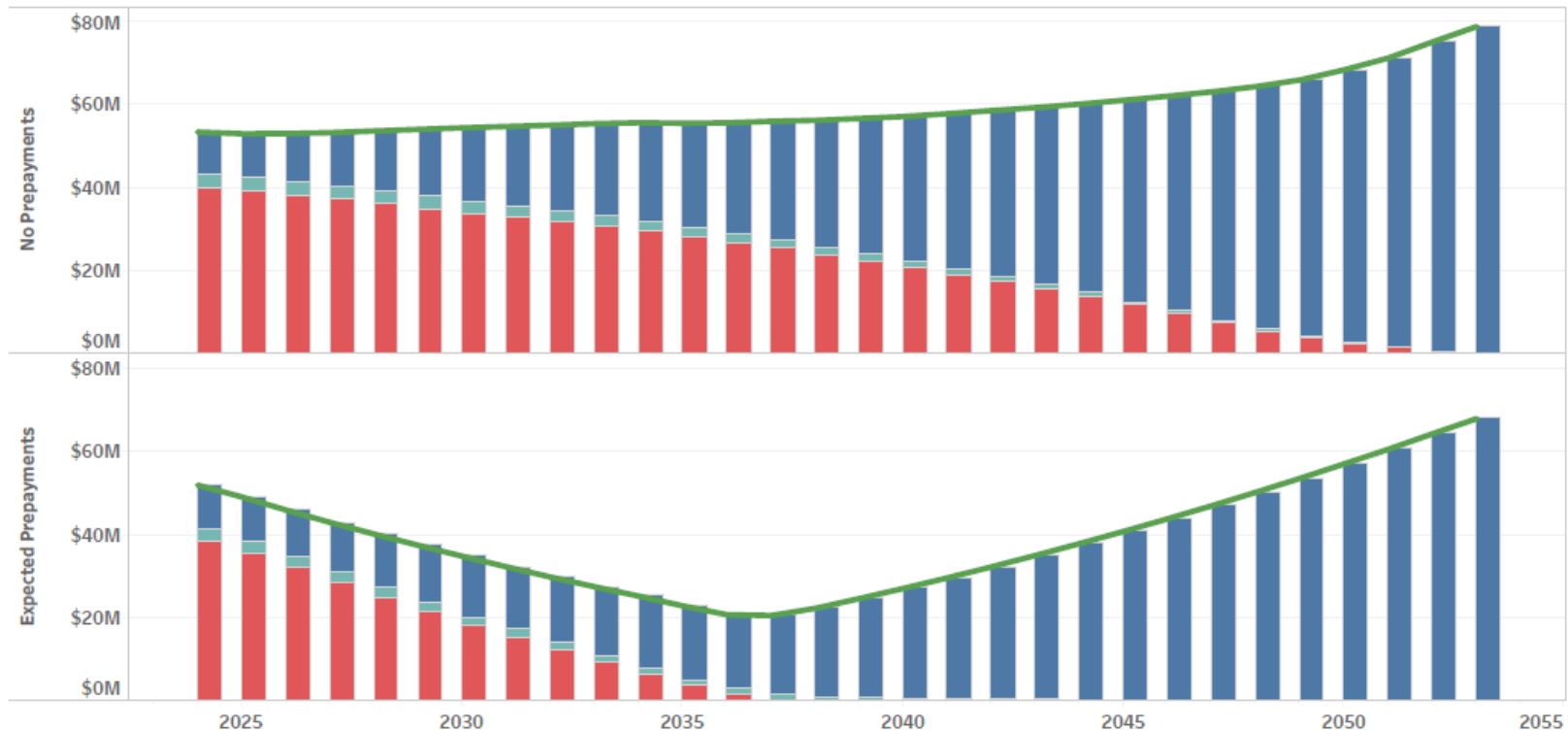
Parity Indenture Analytics: Balance Sheet

ABC Housing Finance Authority: Single Family Housing Bonds
Outstanding Assets and Liabilities
No Prepayments & Expected Prepayments Scenarios



Parity Indenture Analytics: Income Statement

ABC Housing Finance Authority: Single Family Housing Bonds
Income Statement Flows
No Prepayments & Expected Prepayments Scenarios

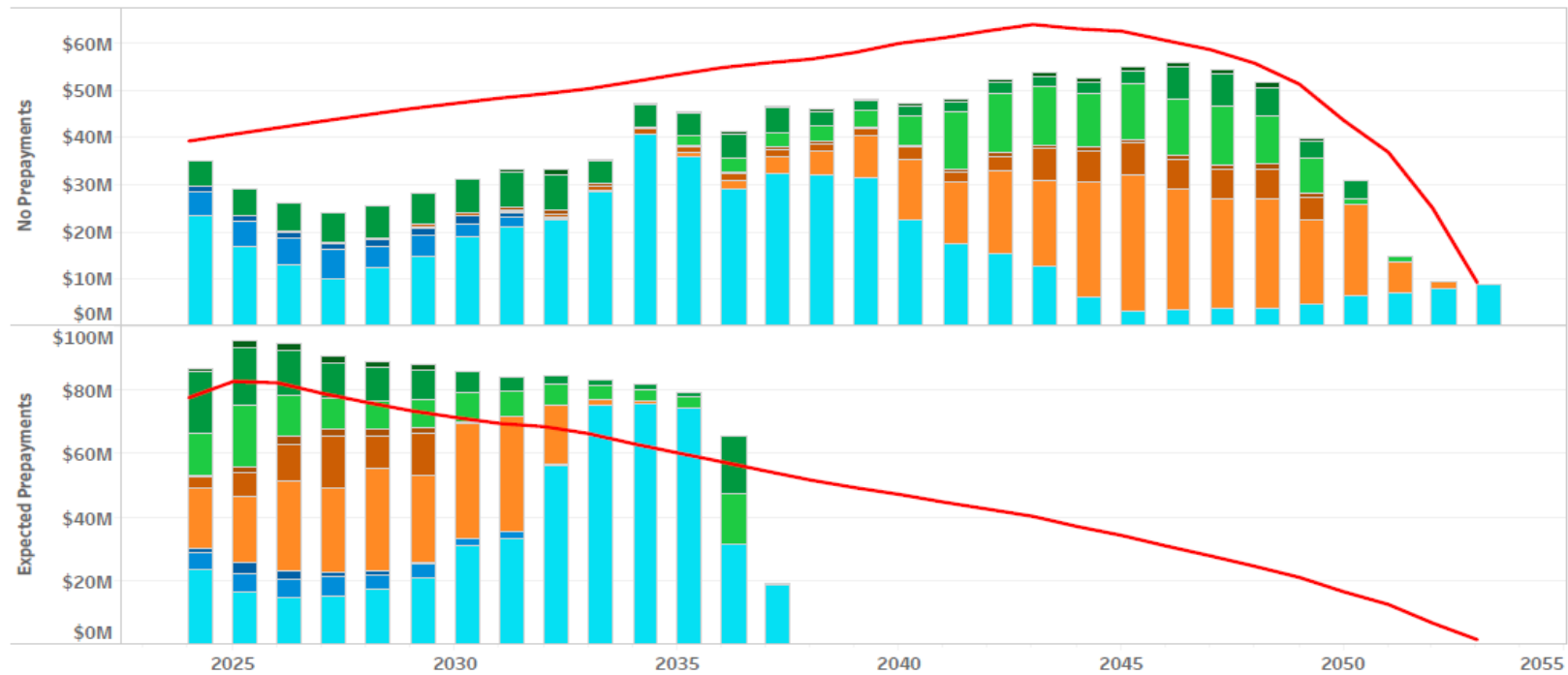


cfX Analytics



Parity Indenture Analytics: Redemptions

ABC Housing Finance Authority: Single Family Housing Bonds
 Bond & Mortgage Principal Payments (Annual)
 No Prepayments & Expected Prepayments Scenarios



cfX Analytics

- Variable Taxable
- PAC Taxable
- Fixed Taxable
- Mtg Prin Pmts
- Variable AMT
- PAC AMT
- Fixed AMT
-
- Variable non-AMT
- PAC non-AMT
- Fixed non-AMT
-



Conclusion / Alternate Financing Mechanisms

- Original HFA business model of MRBs issued within parity indentures has benefited borrowers and HFAs over time
 - Strong financial performance and program support
 - Below market interest rates
 - High LTV lending
 - Down payment assistance programs
 - Blend in use of higher-risk liabilities when market demands, pare down usage when not needed
 - Ensures long-term HFA success through mortgage lending business and economic cycles
 - Stable income over decades with long-dated fixed-rate assets and liabilities
 - Ability to protect equity and deploy it when needed
- TBA/loan sale executions drive greater profitability in certain markets, but are less inherently structured to support long-term sustainable delivery of mission goals

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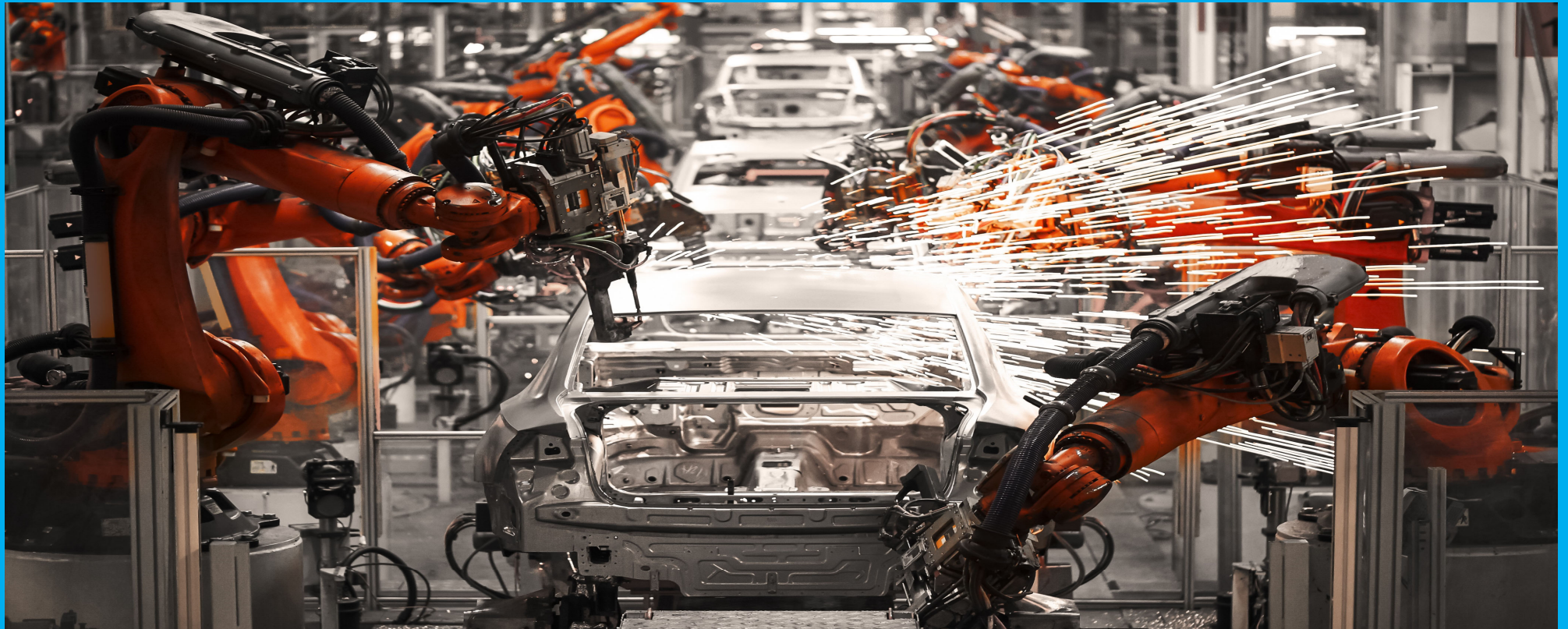




NCSHA – HFA Institute 2025

January 16, 2025
Alex Vlamis

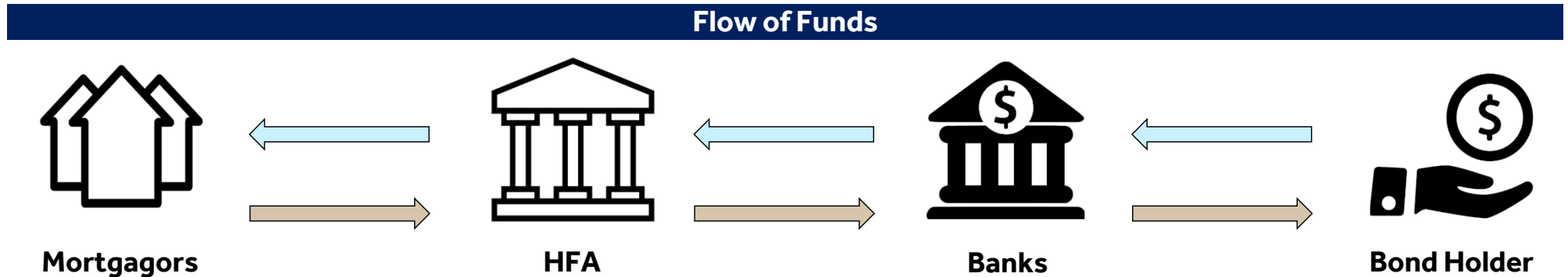




Mortgage Revenue Bonds ("MRBs")

MRB Flow of Funds, Function and Economics

A mortgage revenue bond (MRB) is a type of municipal bond used to finance qualified mortgages for first-time homebuyers.

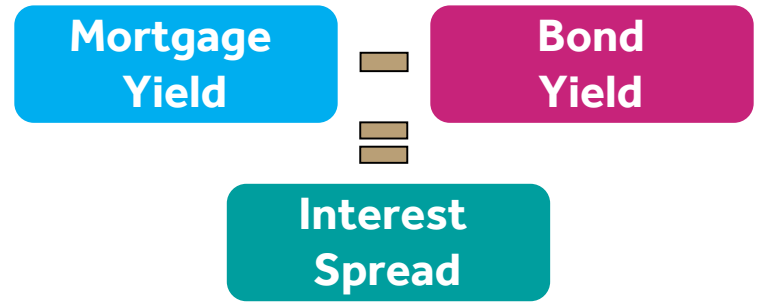


What are MRB's Used to Finance?

- Mortgages / MBS
- DPALs
- Lender Comp / SRP

Mortgage Revenue Bond

Economics



Factors Reflected in Cost of Funds

CREDIT

- Rating
- Loan collateral
- Indenture net position



ECONOMIC METRICS

- TSY yield curve
- Recent MRB prices (comps)
- Rate outlook



INVESTORS

- Supply
- Diverse objectives
- Liquidity premium

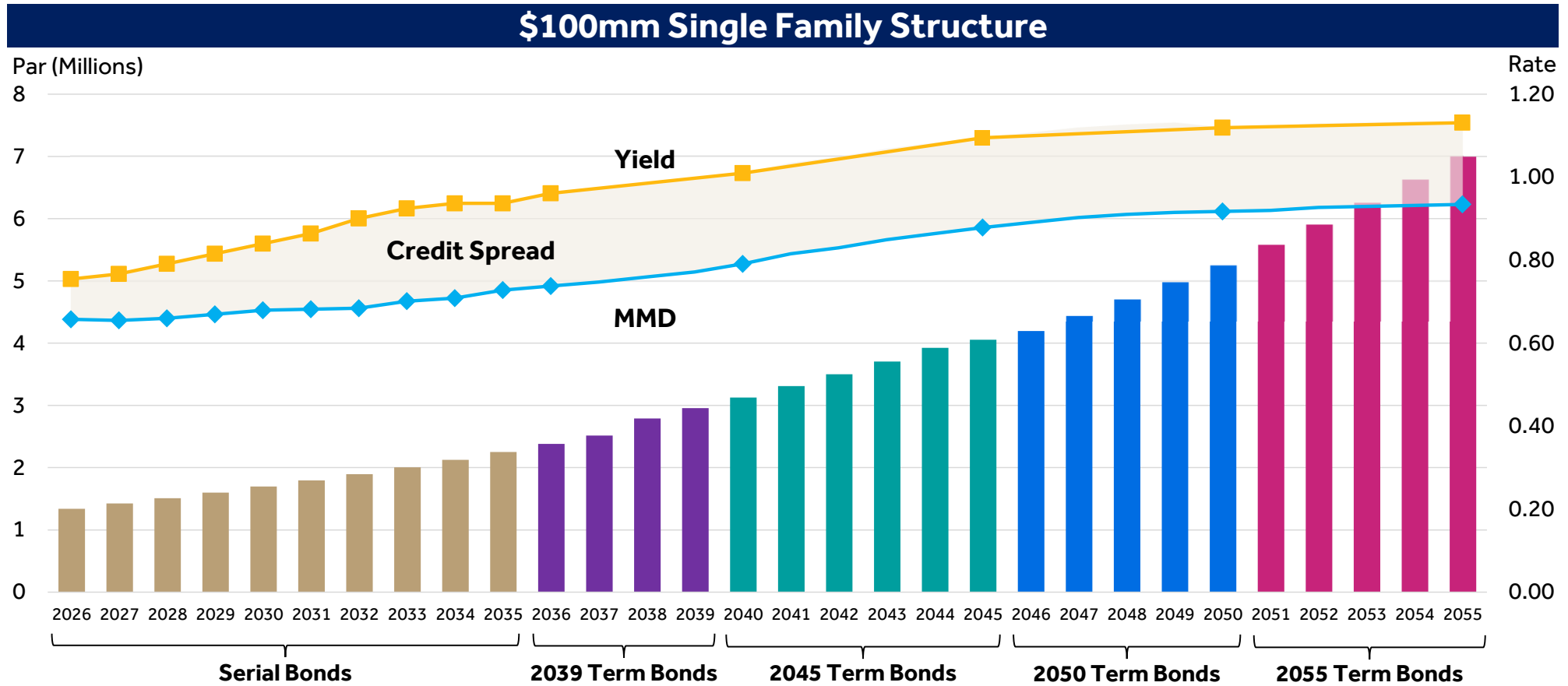


MRB Pricing

Municipal Market Data (MMD) AAA Curve acts as a benchmark for tax-exempt bonds, similar to treasuries acting as a benchmark for taxable.

Tax-Exempt MRB Pricing			
Tenor	AAA MMD Benchmark	Credit Spread (bps) to MMD	Yield
15	3.38%	+ 72	4.10%
20	3.76%	+ 69	4.45%
25	3.92%	+ 68	4.60%
30	3.99%	+ 66	4.65%

Mortgage Revenue Bond Structure





MRB Investors Who, Why, When & Where

Investors

Retail

Individuals

**Professional
SMA**

**Mutual Funds
/ ETFs**

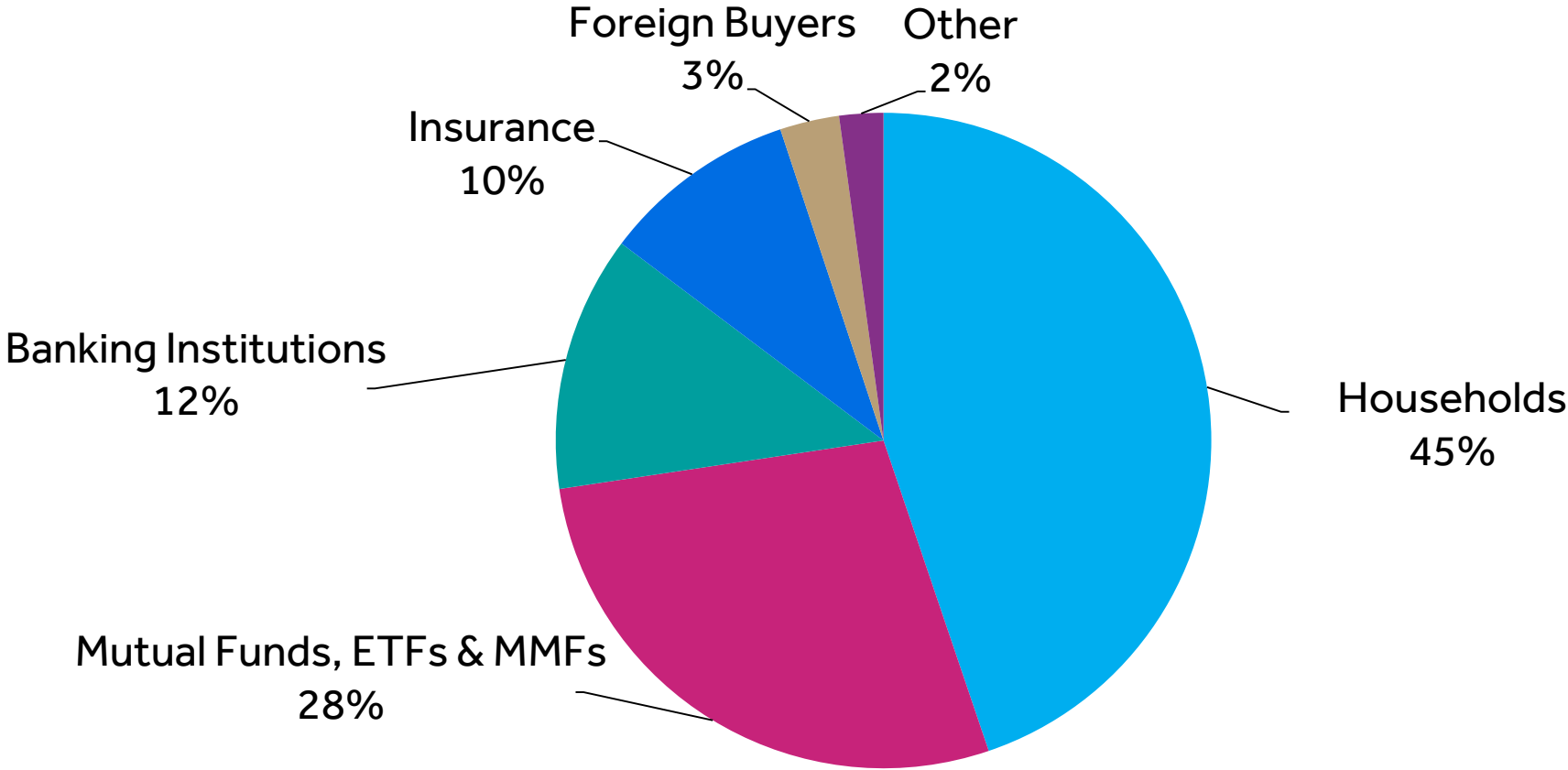
Institutional

**Bank
Portfolios**

**Opportunistic
Buyers**

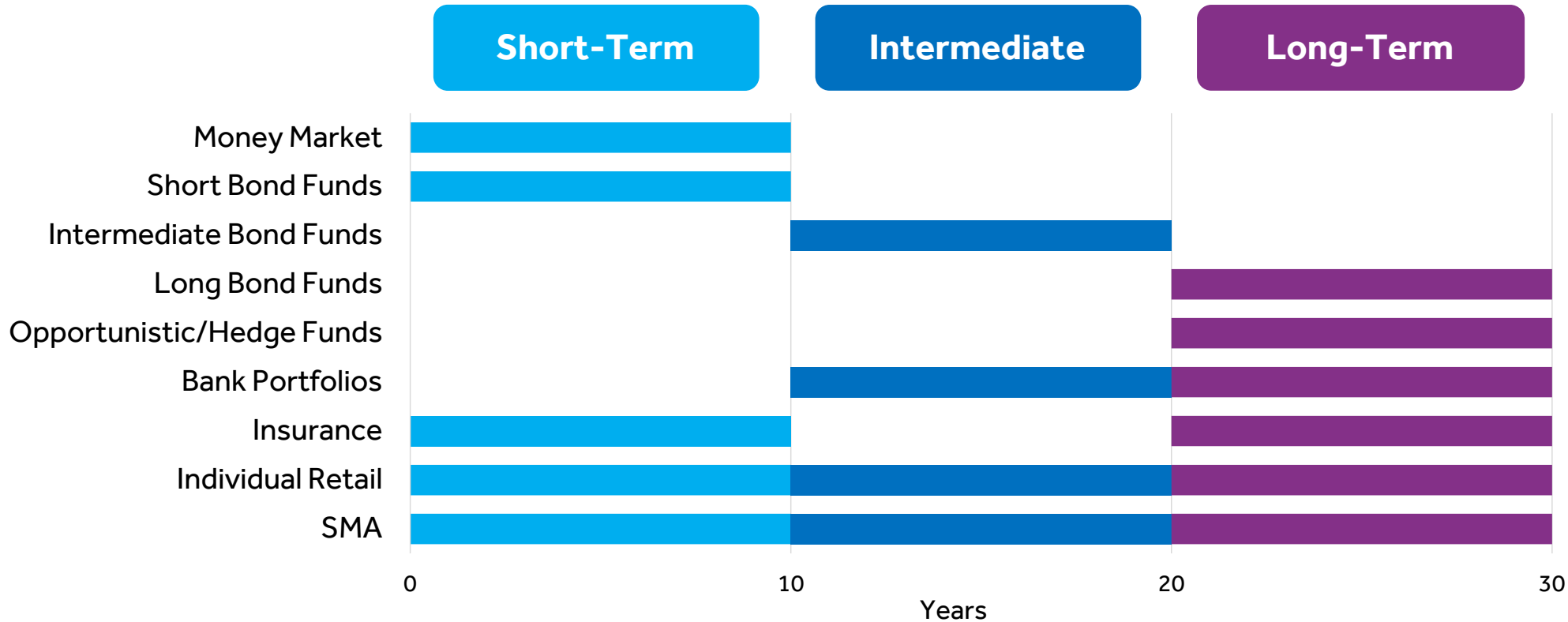
Insurance

Municipal Holdings by Investors – 2024 Q3



Source: Federal Reserve, as of 2024Q3

Housing Bond Investors by Maturity



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Credit Rating Basics and Overview of HFA Bond Ratings

Mortgage Revenue Bonds (MRBs) 101

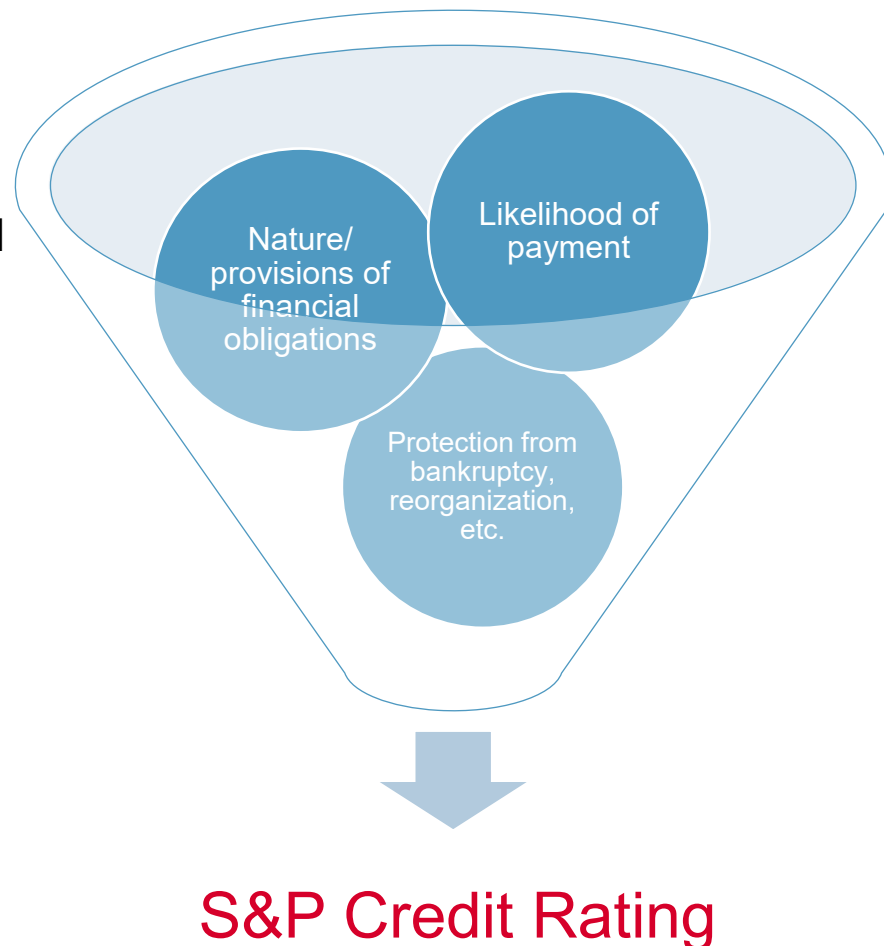
Shirley Flores
Director & Lead Analyst
Americas Public Finance - Housing

January 16th 2025

S&P Global
Ratings

What is a credit rating?

- A forward-looking opinion about an issuer's (or program's) relative creditworthiness.
- Establish a common and transparent global language for investors to form a view on, and compare the relative likelihood of, whether an issuer may repay its debts on time and in full.
- *“Credit ratings help facilitate an **efficient capital marketplace**. They provide transparent third-party information that's not only forward-looking but **standardized for consistency**.”*
- Personal finance analog: **Credit Scores**



Uses of Credit Ratings

Additionally, credit ratings provide investors with:



Common terminology to describe different levels of creditworthiness (e.g., AAA)



Third-party opinions



Information to help make more informed decisions



Assistance in understanding and measuring credit risk, and emerging risk types: sustainability & climate change, cyber risk, technology & digital disruption

Smooth functioning of the capital market enables:



People to start and grow businesses



Governments to improve infrastructure



Manufacturers to build factories and create jobs

S&P Global's Credit Rating Definitions

	Rating Category	Description
Investment Grade	AAA	The obligor's capacity to meet its financial commitments on the obligation is extremely strong .
	AA	The obligor's capacity to meet its financial commitments on the obligation is very strong .
	A	More susceptible to the adverse effects of changes in circumstances and economic conditions than obligations in higher-rated categories. However, the obligor's capacity to meet its financial commitments on the obligation is still strong .
	BBB	An obligation rated 'BBB' exhibits adequate protection parameters . However, adverse economic conditions or changing circumstances are more likely to weaken the obligor's capacity to meet its financial commitments on the obligation.
Non-Investment Grade	BB, B, CCC, CC, and C	Regarded as having significant speculative characteristics . While such obligations will likely have some quality and protective characteristics, these may be outweighed by large uncertainties or major exposure to adverse conditions.
	D	An obligation rated 'D' is in default or in breach of an imputed promise . The 'D' rating also will be used upon the filing of a bankruptcy petition or the taking of similar action and where default on an obligation is a virtual certainty, for example due to automatic stay provisions .

*Ratings from 'AA' to 'CCC' may be modified by the addition of a plus (+) or minus (-) sign to show relative standing within the rating categories.

HFA Ratings In Perspective

S&P Rating	
AAA	 Microsoft <i>Johnson & Johnson</i>
AA+	  Alphabet
AA	 Walmart  amazon
AA-	  
A+	  TOYOTA
A	 TARGET   
A-	 HONDA  RALPH LAUREN
BBB+	  McDonald's  verizon [✓]
BBB	  TESLA  CVSHealth.
BBB-	 Discovery 

Median HFA
MRB Program
Rating



Types of S&P Ratings for HFAs

Issuer Credit Ratings (ICRs)

- Reflects the general creditworthiness of an HFA
- Sometimes referred to as the “General Obligation” (GO) pledge of the HFA, meaning all legally available revenues
- Rated using **Methodology And Assumptions: Housing Finance Agencies And Social Enterprise Lending Organizations**, published Dec. 27, 2016
- Rated Universe: 23 HFAs
- Information sources: audited financials, questionnaires, conversations with HFA management
- Criteria framework: Financial strength (capital adequacy, profitability, asset quality, liquidity); Management, legislative mandate, or federal designation; and Economy

Program/Issue Ratings

- Reflects the credit strength of an HFA program/indenture/resolution
- Covers bonds backed by pools of mortgage loans on residential properties, which are typically established and overseen by a state or local HFA
- Rated using the **Methodology For Rating U.S. Public Finance Mortgage Revenue Bond Programs (MRBP)**, published Oct. 10, 2022
- Rated Universe: 74 program ratings
- Information sources: cash flow runs, questionnaire, periodic disclosures, conversations with HFA management
- Criteria Framework: Legal framework analysis; Program management & operational risk analysis; Credit quality of the asset pool; Cash flow analysis; Modifiers & holistic analysis; Application of other criteria

Mortgage Revenue Bond Programs

By the numbers: mortgage revenue bond programs overall

AA+



Median MRB program rating

74



Program ratings across **34** states

Programs with predominantly:

72%



Single-family loans

28%



Multifamily loans

\$118.7 bil.

Par amount of debt outstanding



100%



MRB programs with a stable rating outlook



84%

Programs with no program management or operational risk cap



4.1%

Median credit loss



123%

Median minimum A/L parity



116%

Median net A/L parity after losses

Data as of Aug. 16, 2024. A/L--Asset-to-liability. MRB--Mortgage revenue bond. Source: S&P Global Ratings. Copyright © 2024 by Standard & Poor's Financial Services LLC. All rights reserved.

S&P's Sector View

- HFA balance sheet growth continued with level trends in equity.
- Credit quality for MRB programs remained stable or slightly improved with slower prepayments, stable loan quality and unchanged A/L parity.
- Delinquencies declined further to 10-year lows.
 - 90 days through foreclosure equaled 1.4% as of Q2 2024, which was consistent with the national rate for all loans but lower than the 3.2% Mortgage Bankers' Assn. national rate for FHA loans.
- HFA management teams are key to the rating stability of MRB programs.

S&P's Sector Outlook

2025 Outlook: Webinar scheduled for Jan. 22 at 2:00 p.m. ET

- MRB programs will likely continue to fund their missions through the issuance of debt
- Down payment assistance programs will likely continue to boost single-family loan production
- Potential uptick in delinquency rates as our economic forecast shows modest slowing with a gradual increase in unemployment
- HFA management teams remain well-positioned to continue meeting their respective missions despite possible shifts in fiscal or housing policy under the new administration.

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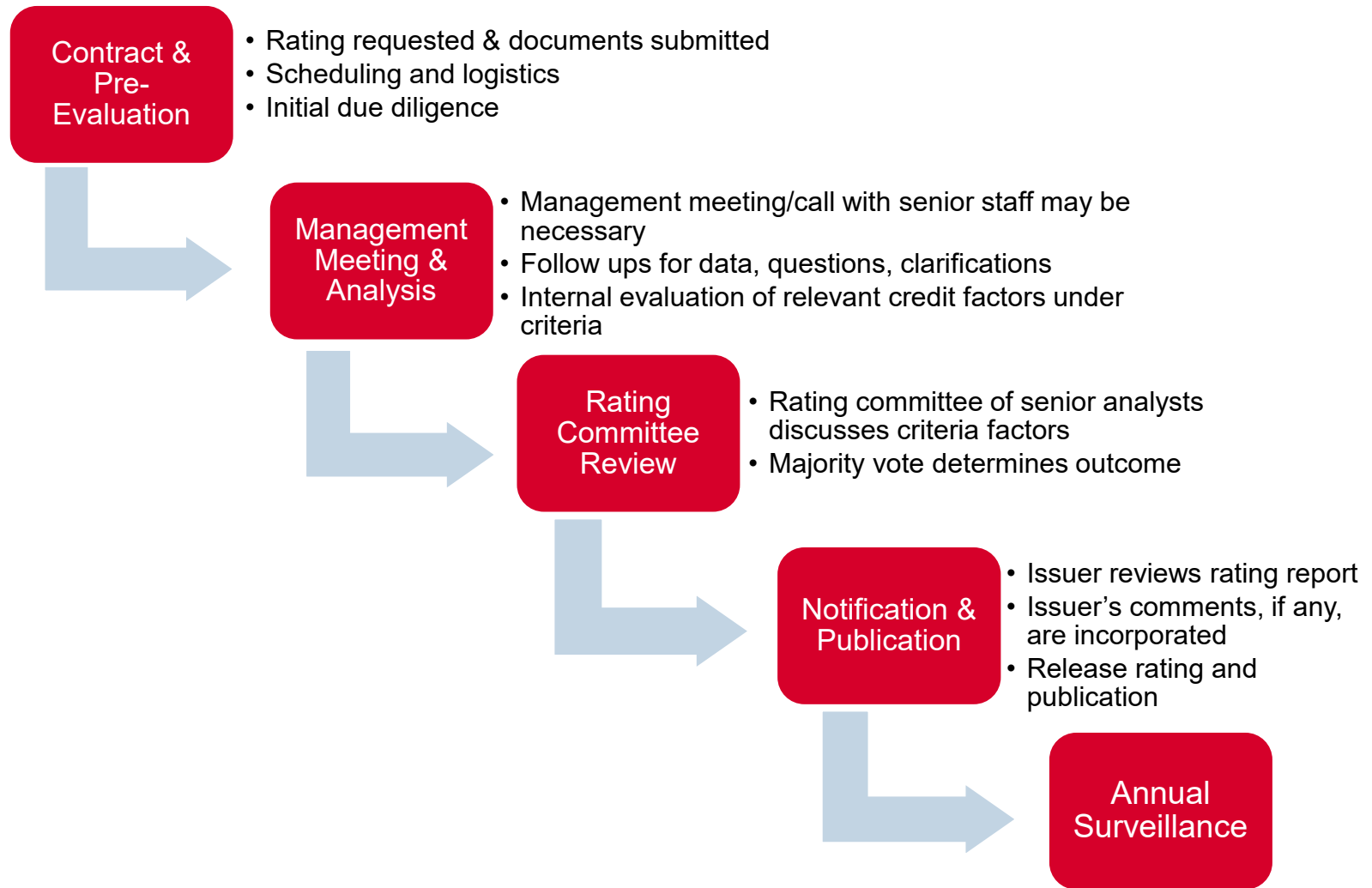
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Appendix

S&P Rating Process Overview



Other Things to Know About S&P's Ratings

- An assortment of personnel on various S&P teams play a role in generating a given rating
- Timelines to produce a rating vary by sector, security, and analyst/team capacity
- Avoid the “F-word” (fees) when interacting with your analysts!
- Analysts are strictly prohibited from “structuring” transactions
- A criteria RFC provides a formal method to provide feedback, but S&P Global Ratings accepts feedback on criteria 365 days/year

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