

THE HFA INSTITUTE 2024

MRBs and MCCs 101



National Council of
State Housing Agencies



**MRBs and
Other Federal
Homeownership
Programs**
JANUARY 10 – 12



Housing Credit
JANUARY 9 – 11



**Section 8 and
Other Federal
Multifamily
Programs**
JANUARY 10 – 12



**HOME and
Housing Trust
Fund**
JANUARY 7 – 9



DISCUSSION LEADER

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MORTGAGE REVENUE BONDS

TAX-EXEMPT BOND REQUIREMENTS

PROGRAM REQUIREMENTS



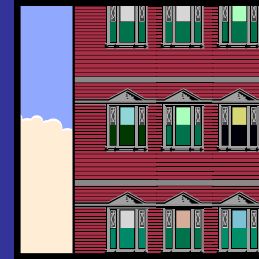
New Homebuyers

- 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 (0.883 in 2023)
 - 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 !

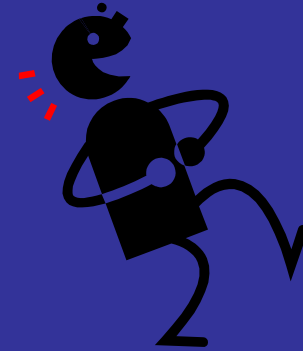
- **Importance of Program Compliance**

- 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

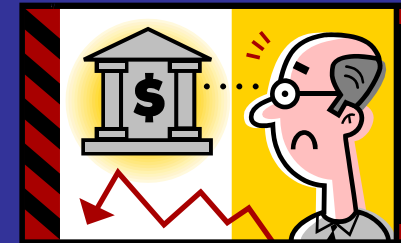
“TEFRA” Hearing



- 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 ½ 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



- certain tax returns must be filed at time of bond issuance and annually
 - within specified time after bonds are issued
 - every August 15th, an annual mortgagor report

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: \$125 x population or \$378,230,000
 - 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



MCCs

Additional MCC program requirements...



MCCs



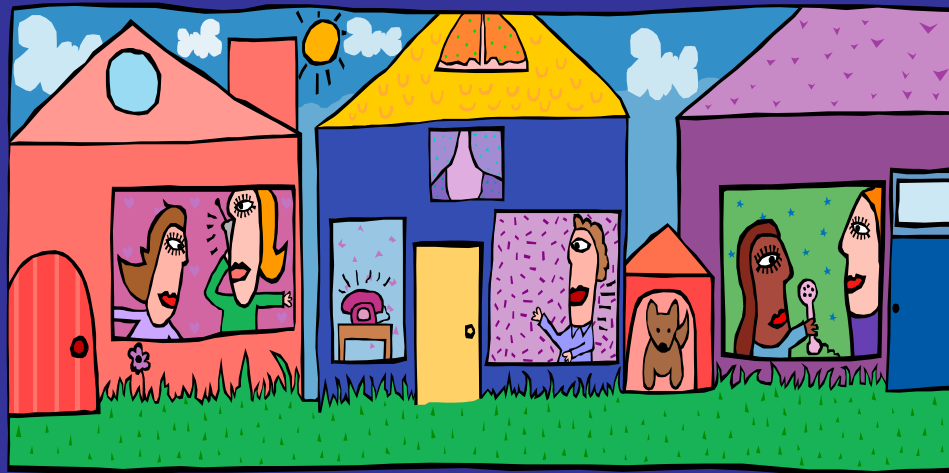
- homebuyer gets credit on income tax
 - % of mortgage interest paid (20%-50%) up to amount of federal income tax for year
 - gets credit each year that loan is outstanding, so long as occupying house as principal residence
- borrower must be able to use any qualified lender to obtain loan

MCCs

- may not use with tax-exempt bond loan
- any loan product permitted
- Issuer may not control source of loan funds
- Issuer may approve an MCC being transferred to one assuming loan
- MCC “disappears” when loan is repaid



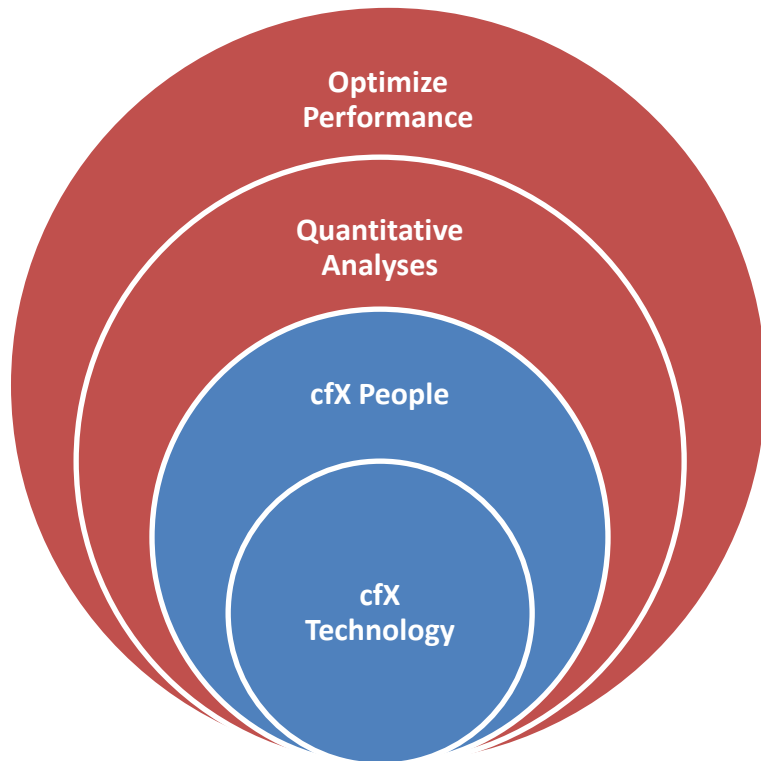
Questions?



cfX - Optimizing Affordable Housing Finance

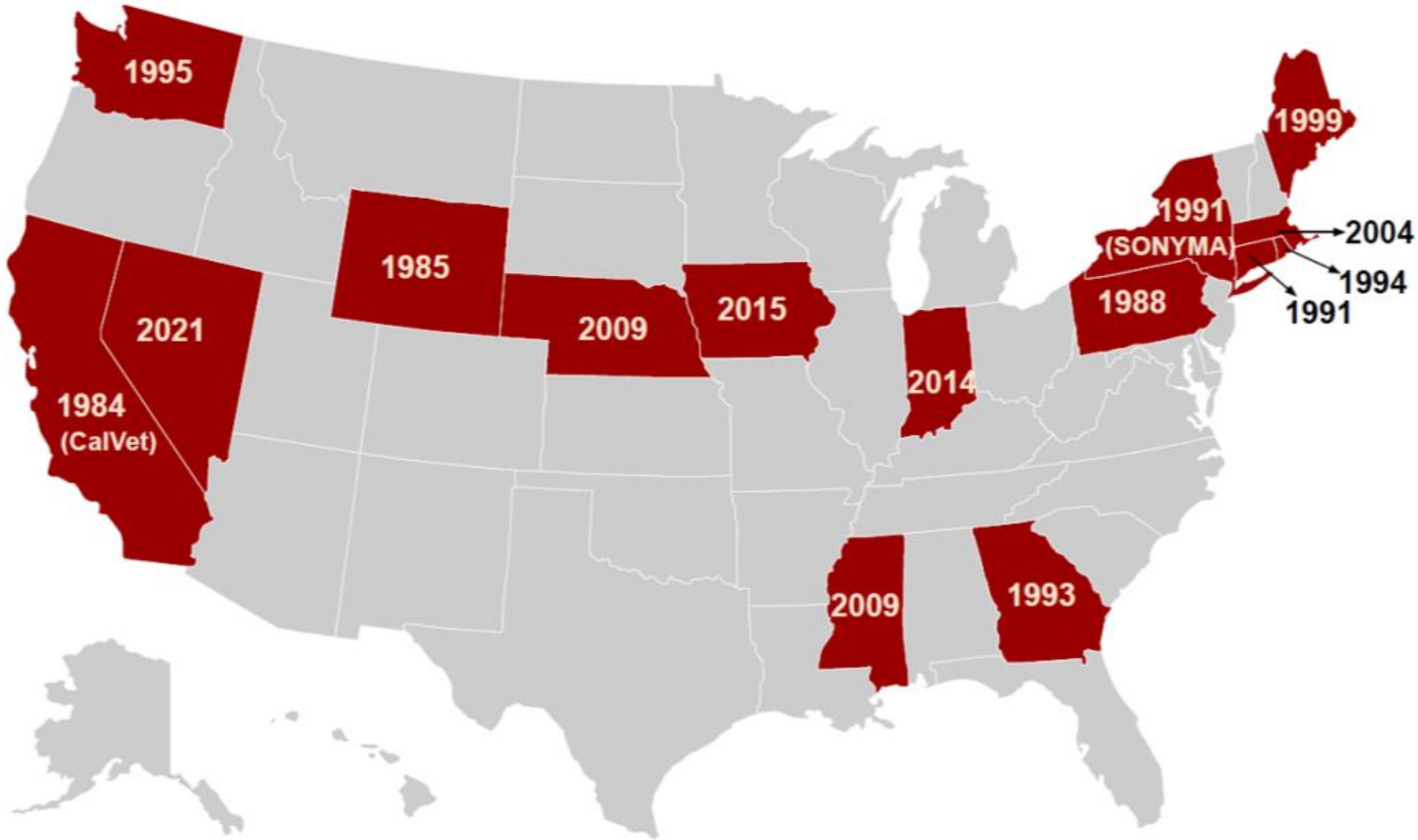
**NCSHA HFA Institute
MRBs and MCCs 101
January 11, 2024**

cfX - Optimizing Affordable Housing Finance



- **cfX Technology**
 - 30 years of continuous investment
 - Unmatched HFA-specific applications, databases and data feed translators
 - Attention to data security and sustainability
- **cfX People**
 - Largest group of experienced housing-focused advisors
 - Commitment to the mission and clients
 - Reliable, long-term partner

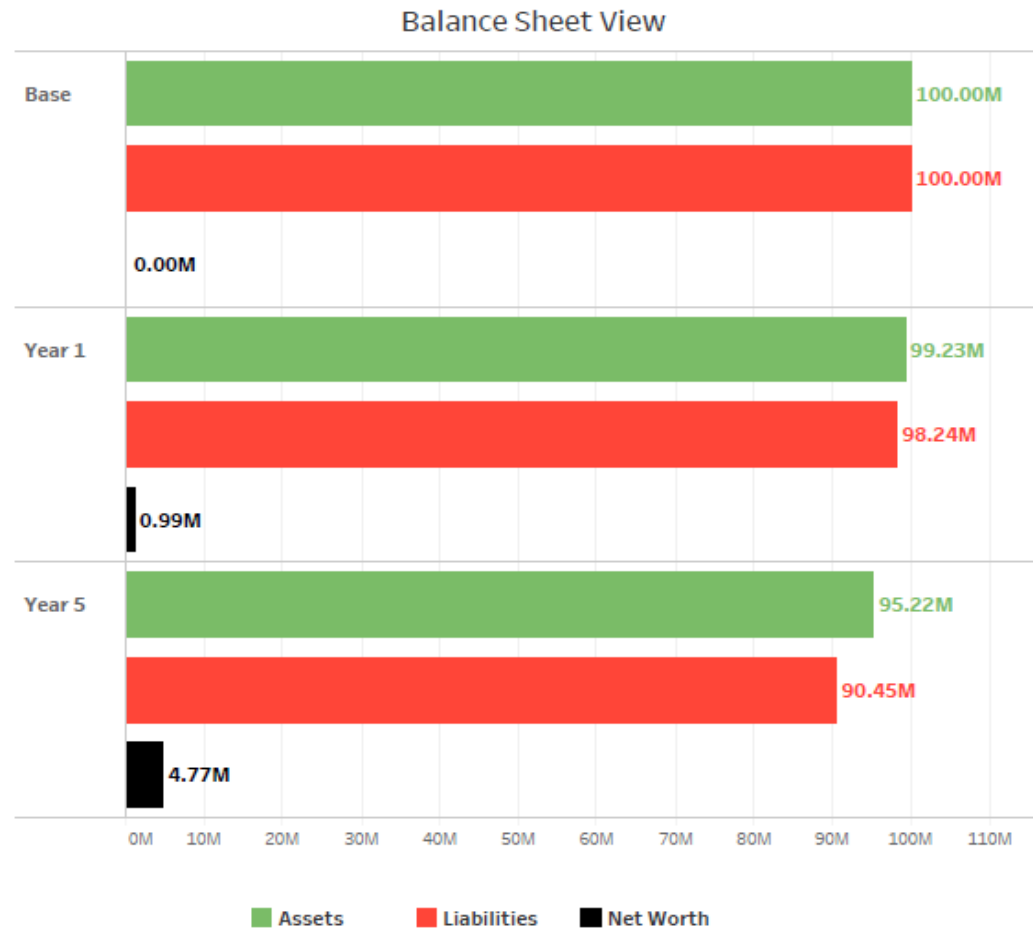
cfX – Current HFA Clients



HFA Basics – Business Model

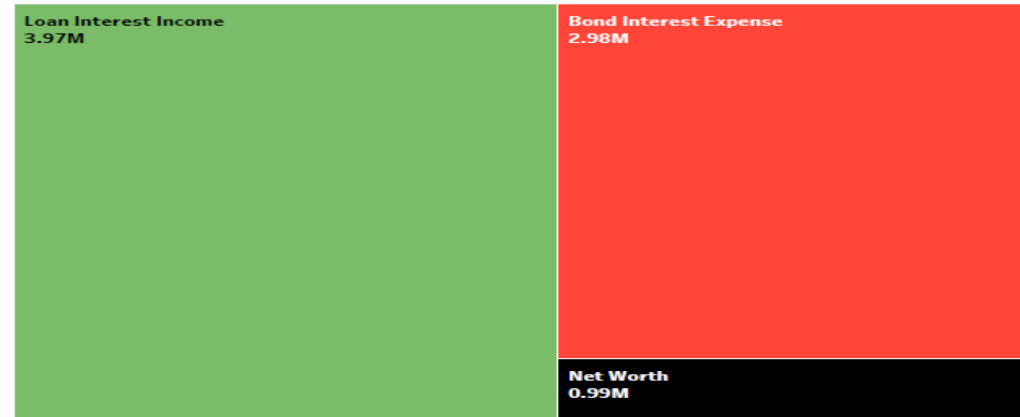
- General business model is simple yet very effective
 - Borrow **tax-exempt** and lend at an interest rate greater than the cost of bond debt
 - **Matched book:** loan assets = bond liabilities in amount and term. Net assets (parity) grow through positive net income over time (spread from difference between loan rate and bond rate)
 - **Simple example:** Borrow \$100M at 3% and lend \$100M at 4% - match bond and loan principal amortization

HFA Basics – Business Model

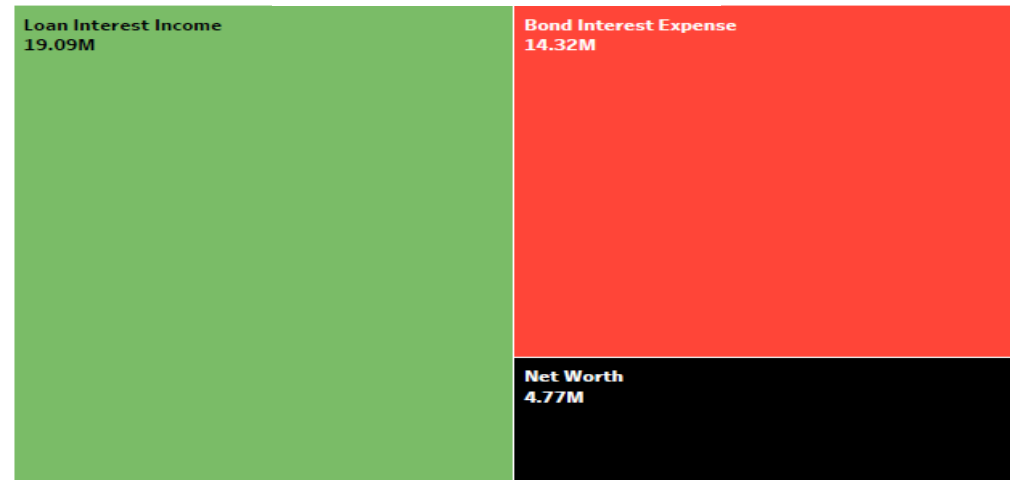


HFA Basics – Business Model

Income Statement: Year 1



Income Statement: Year 5



Business Model Complexity

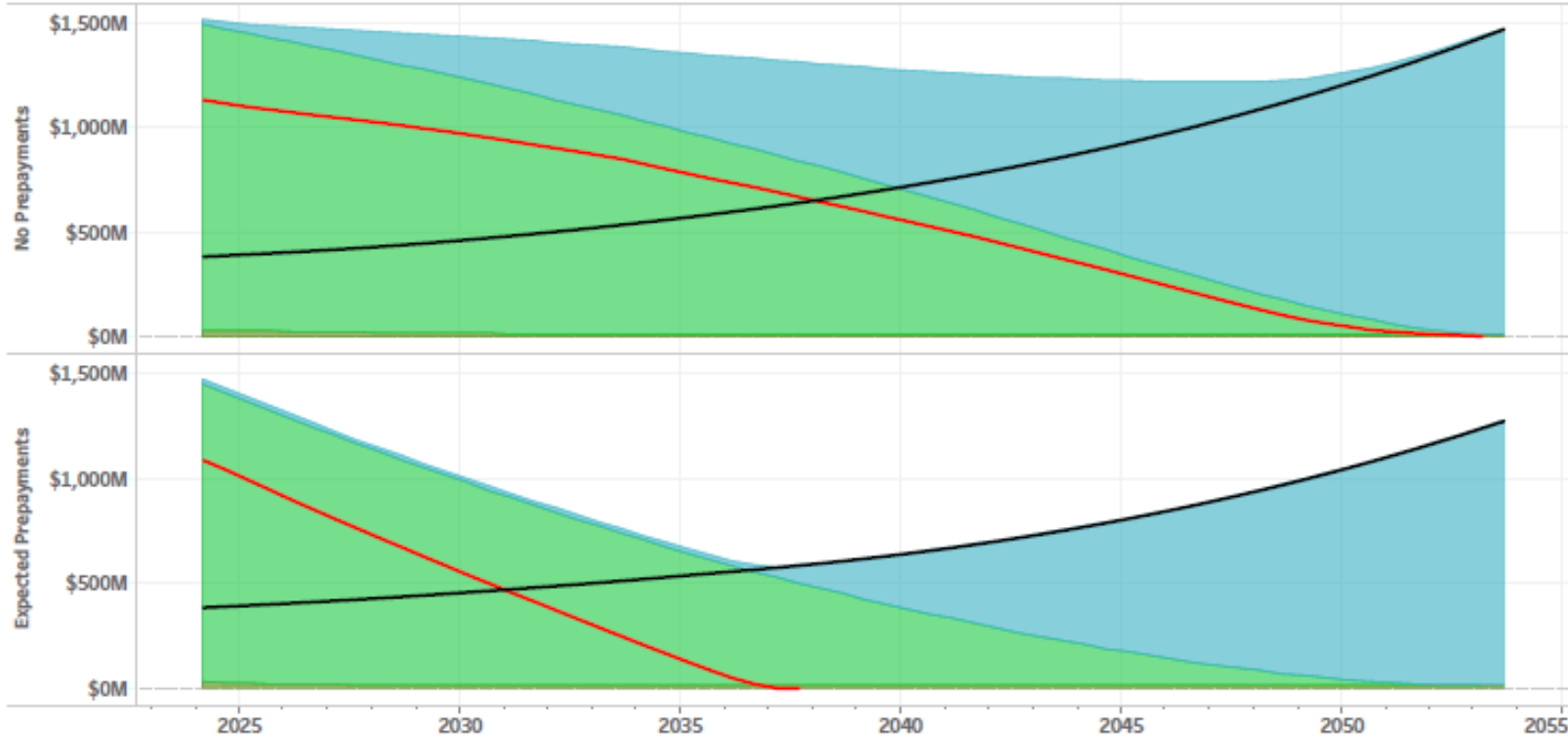
- Several factors lead to added complexity of HFA business model
 - **Scale:** 40–50-year program history – billions of assets and liabilities
 - **Optionality:** 30-year fixed rate mortgages can be prepaid without penalty at any time during the life of the loan
 - **Compliance:** IRS rules and regs create compliance obligations (ex. limit on potential earnings).....and opportunities
 - **Market:** HFAs can only sell debt that investors want to buy and lend at rates that are competitive
 - **Credit:** loan delinquency and foreclosure rates effect borrowing costs and capital requirements

Parity Indenture

- To manage business complexity efficiently, most HFAs issue bonds in a parity indenture
 - All assets support all liabilities now and into future
 - Legal structure – flexibility for issuer vs investor acceptance
 - Growing parity to manage difficult market and credit environments
 - Rating agencies require stress cash flows to support high credit ratings – parity needed to “pass” stress tests
 - Open structure allows for volume cap preservation and tax compliance optimization

Parity Indenture – No vs Expected Prepayments

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

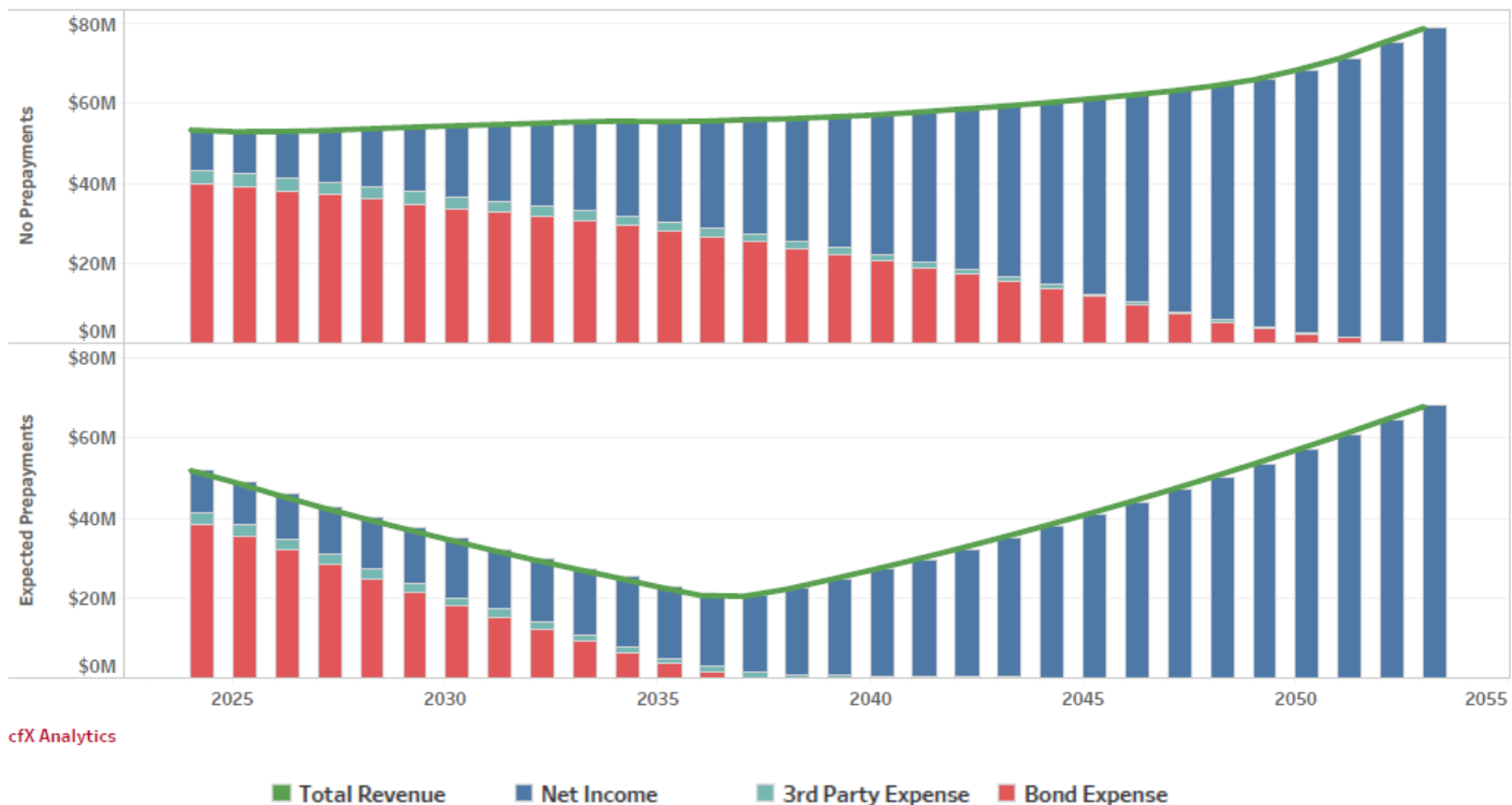


cfX Analytics

- Net Worth
- Liabilities
- Investments
- MBS
- Loan

Parity Indenture – No vs Expected Prepayments

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

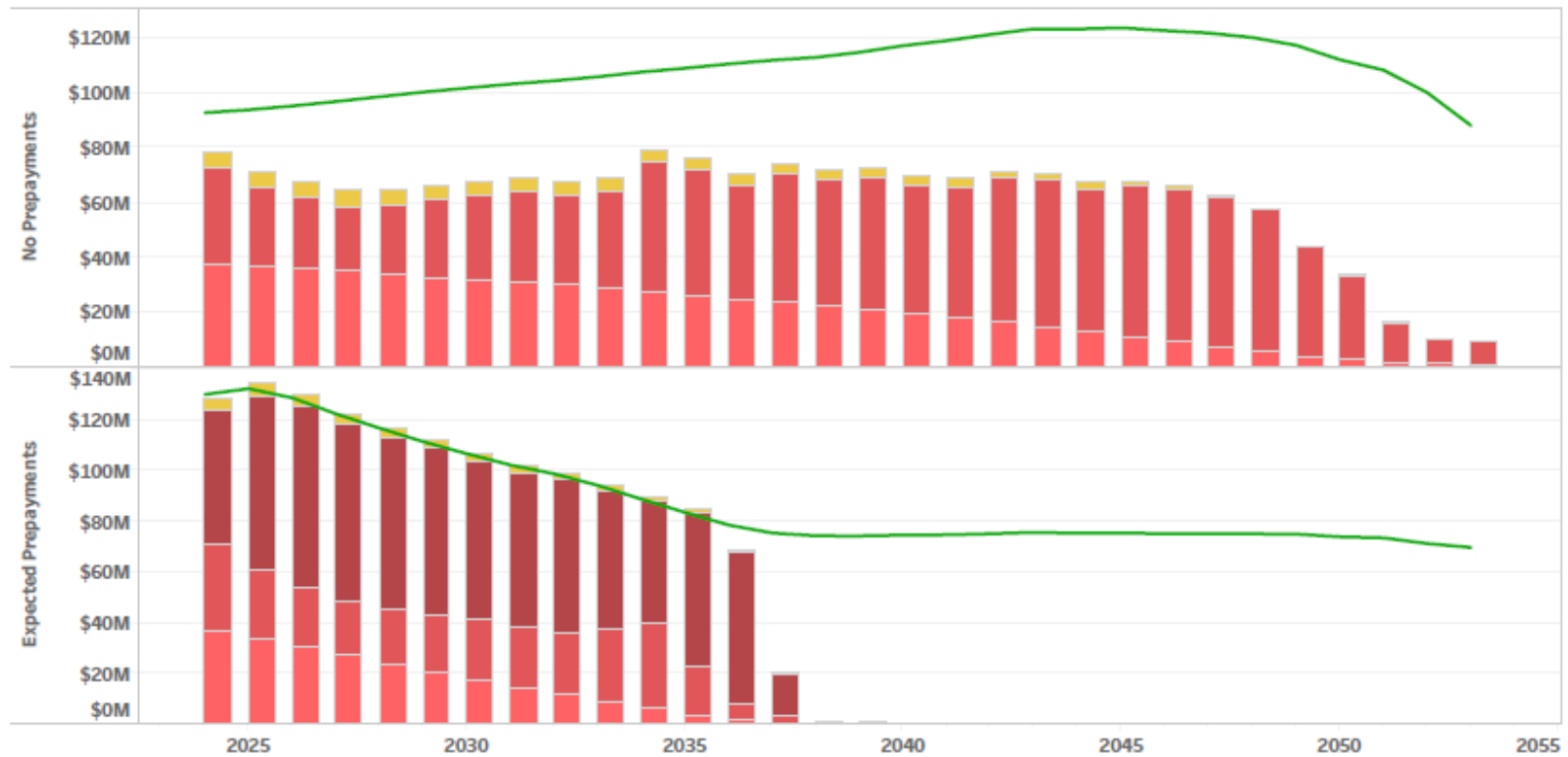


cfX Analytics



Parity Indenture – No vs Expected Prepayments

ABC Housing Finance Authority: Single Family Housing Bonds
 Combined Revenue Fund Inflows & Outflows (Annual)
 No Prepayments & Expected Prepayments Scenarios

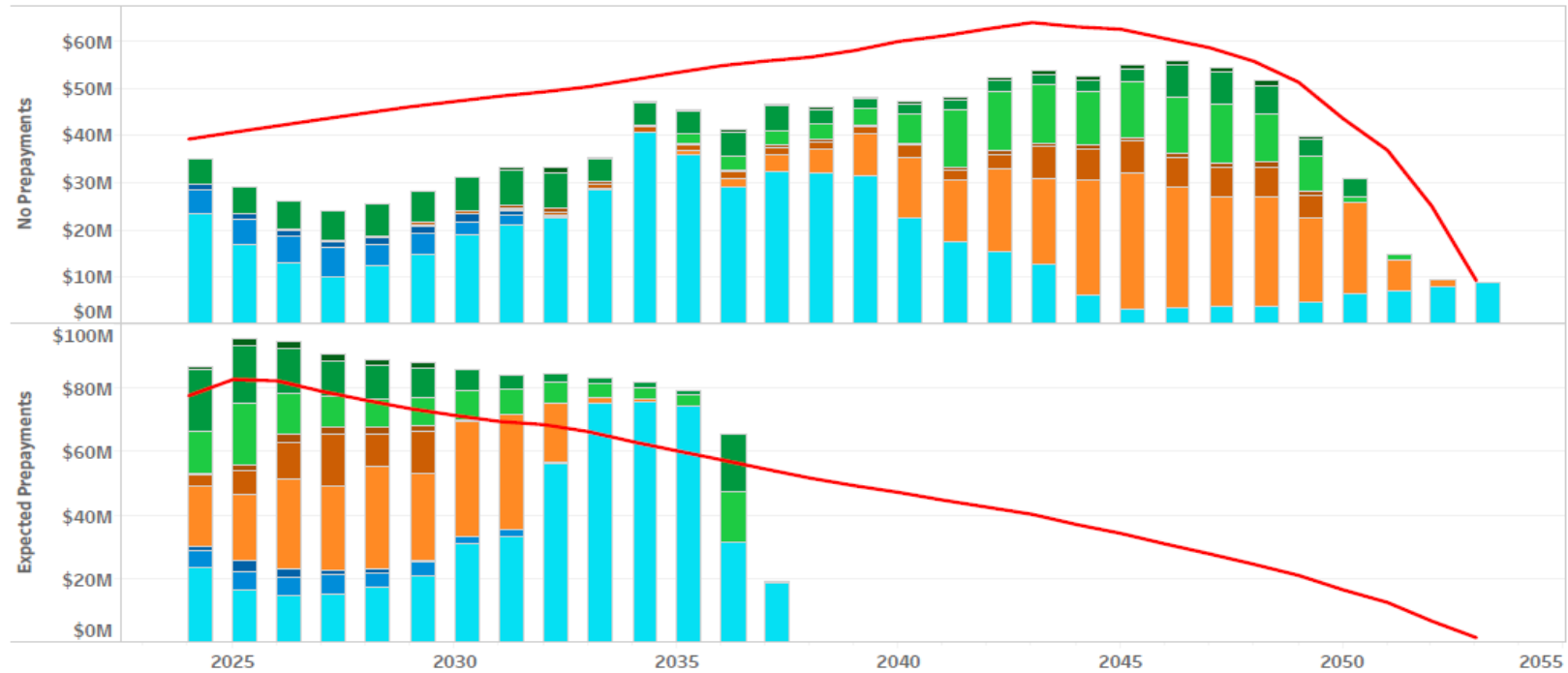


cfX Analytics

■ Total Inflows
 ■ Other Outlays
 ■ Redeemed Prin |
 ■ Scheduled Prin
 ■ Bond Interest

Parity Indenture – No vs Expected Prepayments

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

- Original HFA business model has benefited borrowers and HFAs over time
 - The ability to generate spread and grow parity has led to strong financial performance and program development
 - Below market interest rates
 - High LTV lending
 - Down payment assistance programs
 - Parity indentures help grow wealth and manage complexities of the mortgage lending business and economic cycles



NCSHA - HFA Institute 2024

Mortgage Finance with MRBs

January 11, 2023

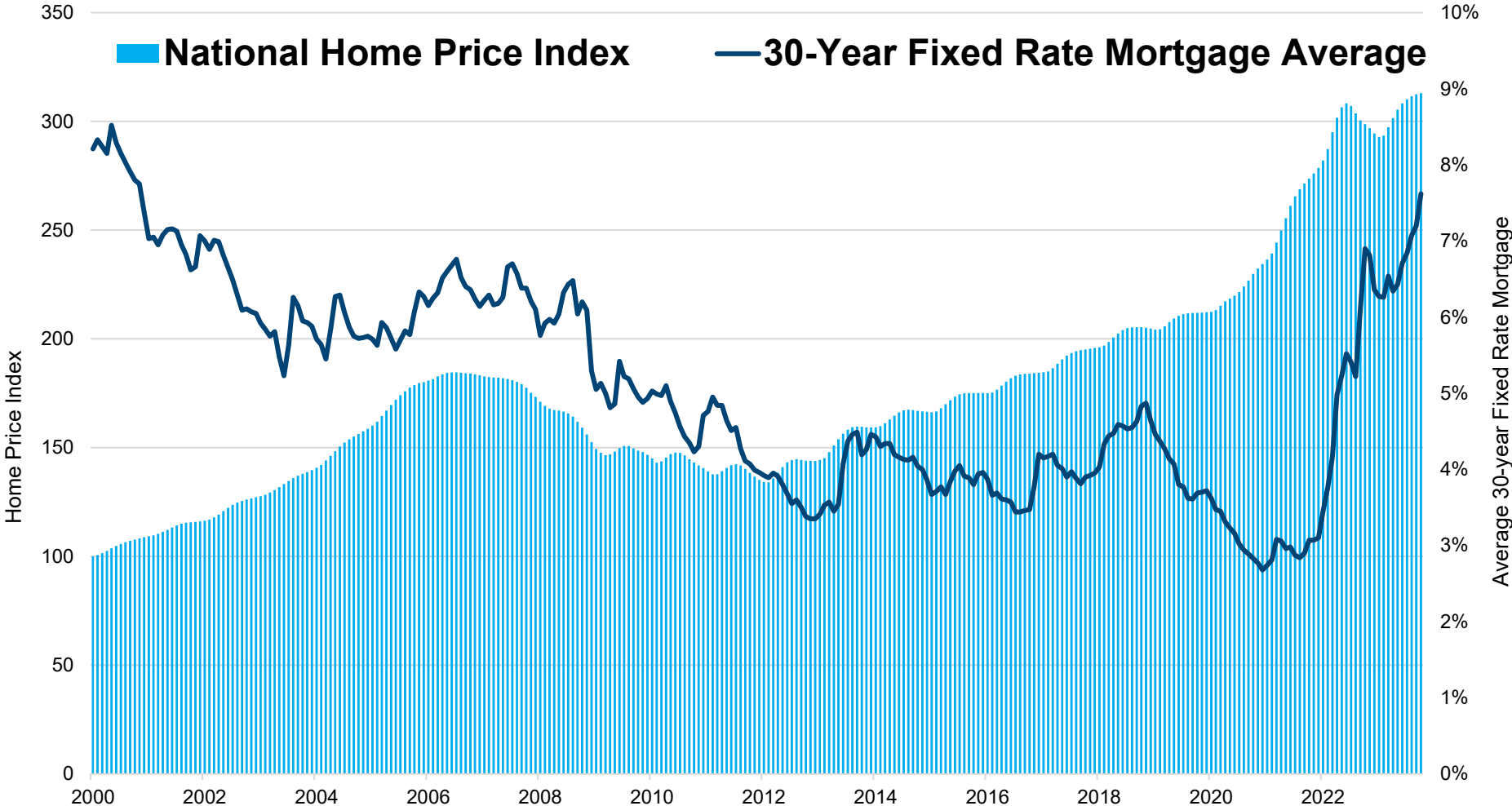
Nicholas Christopher Vakirtzidelis



Housing Market Overview

Housing Affordability

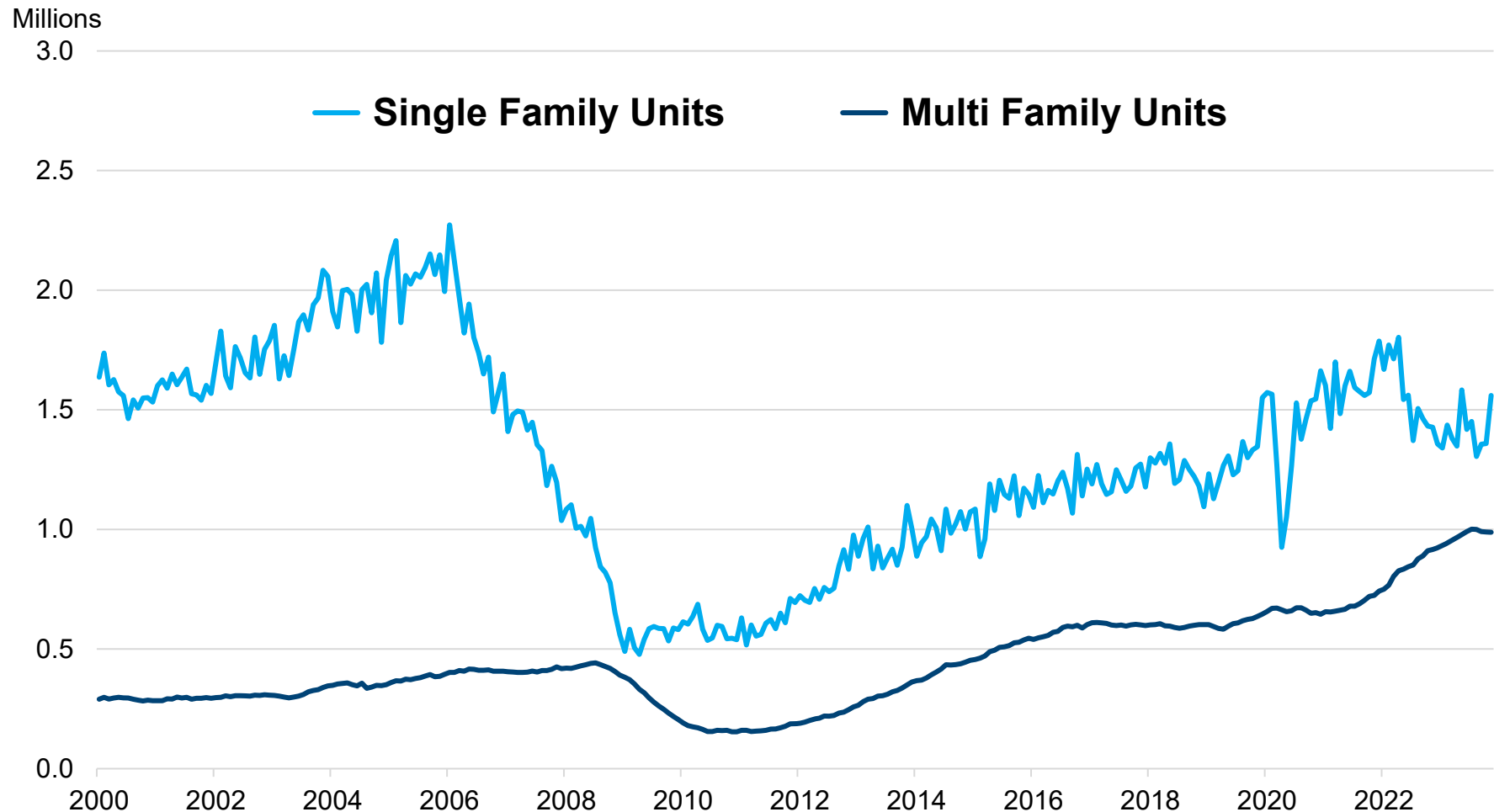
Affordability Over Time



Source: Federal Reserve Bank of St. Louis.

The GFC and Housing Construction

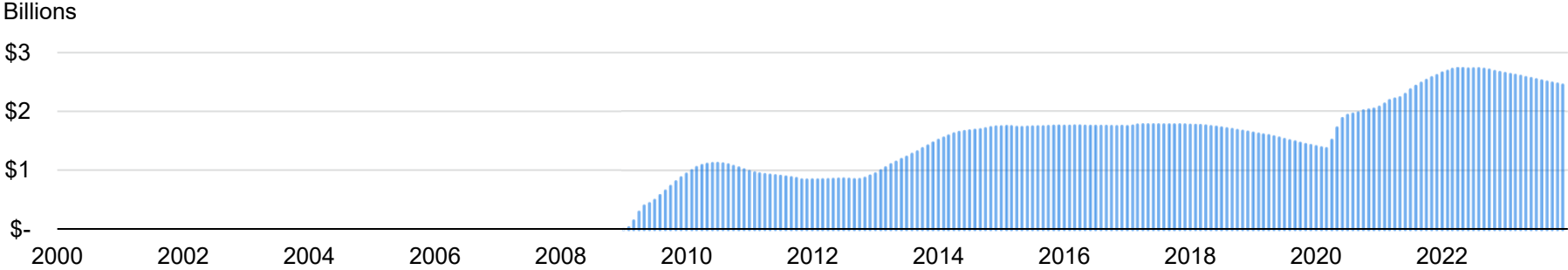
Units Under Construction



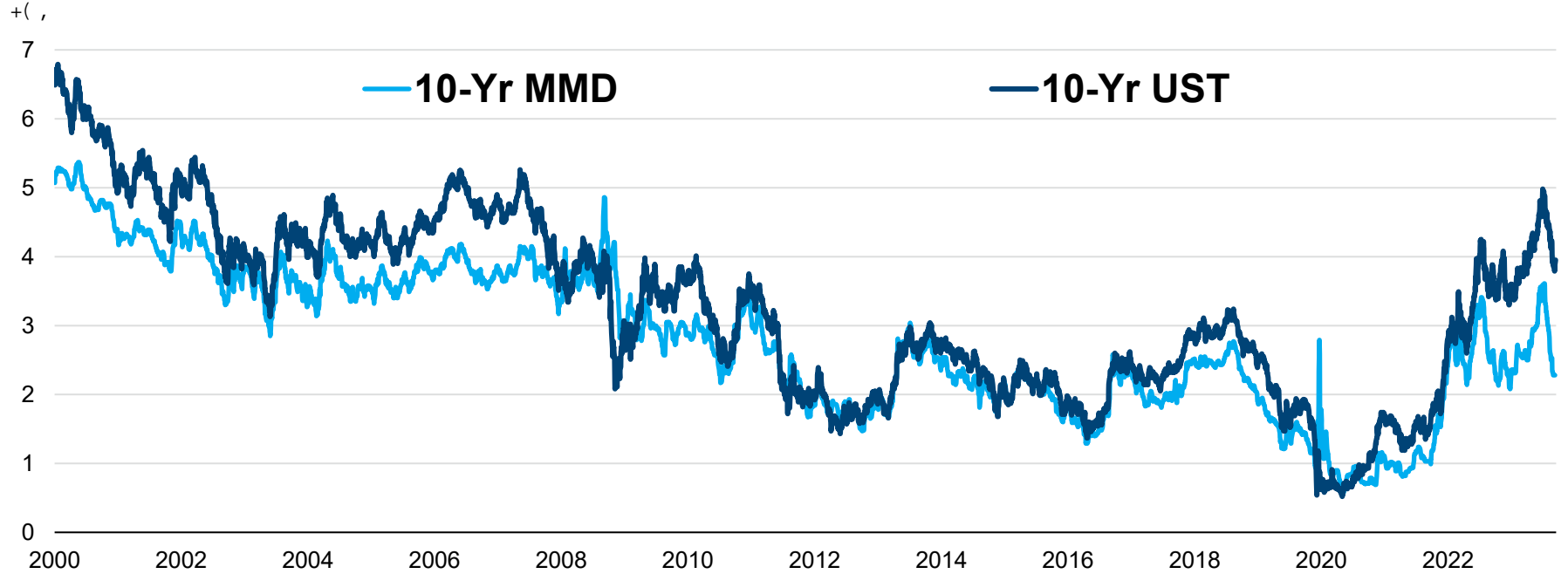
Source: Federal Reserve Bank of St. Louis.

Optimal Single-Family Execution

Fed Balance Sheet – Mortgage-Backed Securities



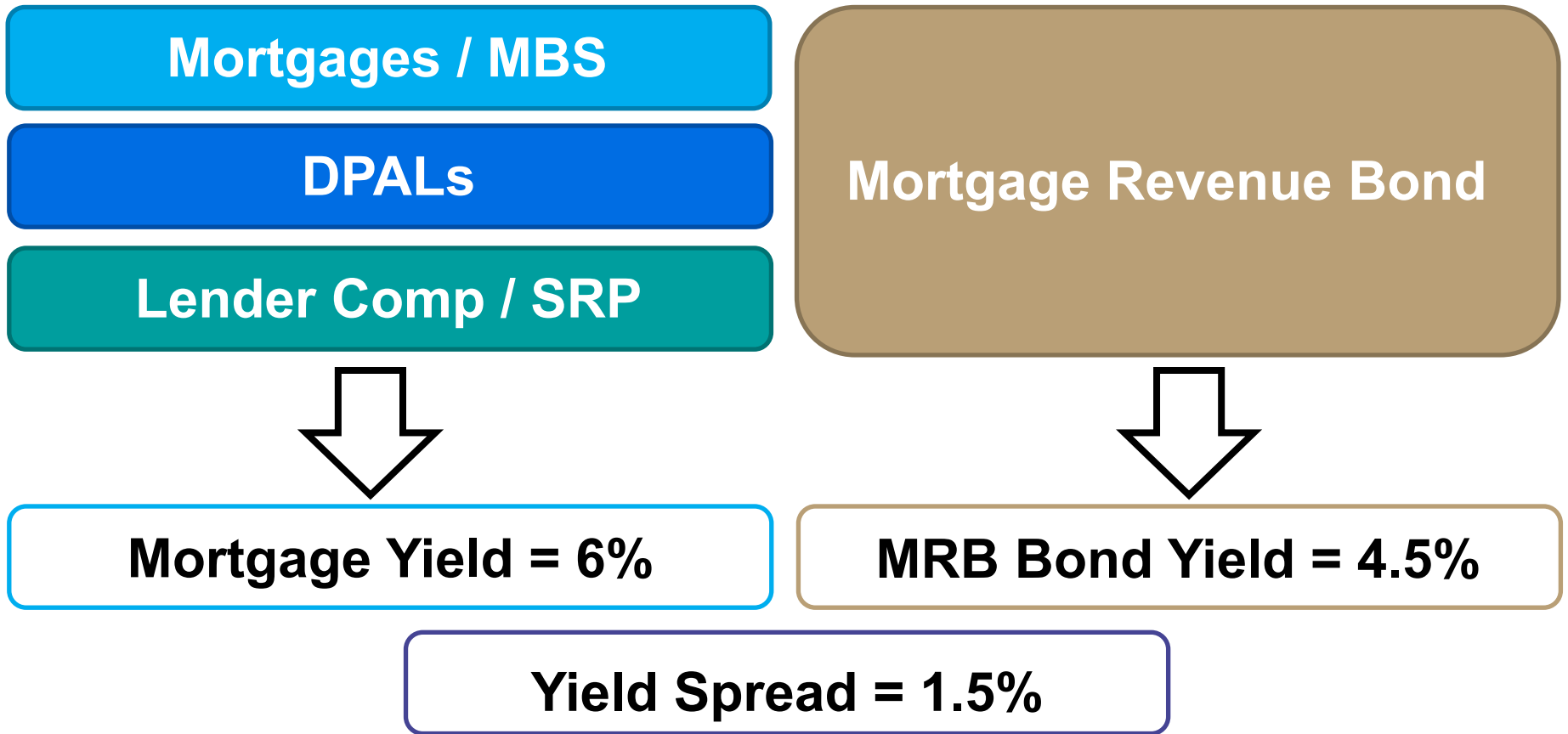
10-YR Municipal Market Data and 10-YR UST Yields



Source: FRED, TM3 and U.S. Department of the Treasury.

MRB Economics

MRB Economics



How is the yield of a MRB determined?

Factors Reflected in Cost of Funds

- Rating
- Loan collateral
- State scarcity

Credit

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

Economic Metrics

- Liquidity premium
- Diverse objectives
- Tax brackets

Investors

MRB Investors

Retail

Individuals

**Professional
SMA**

**Mutual Funds
/ ETFs**

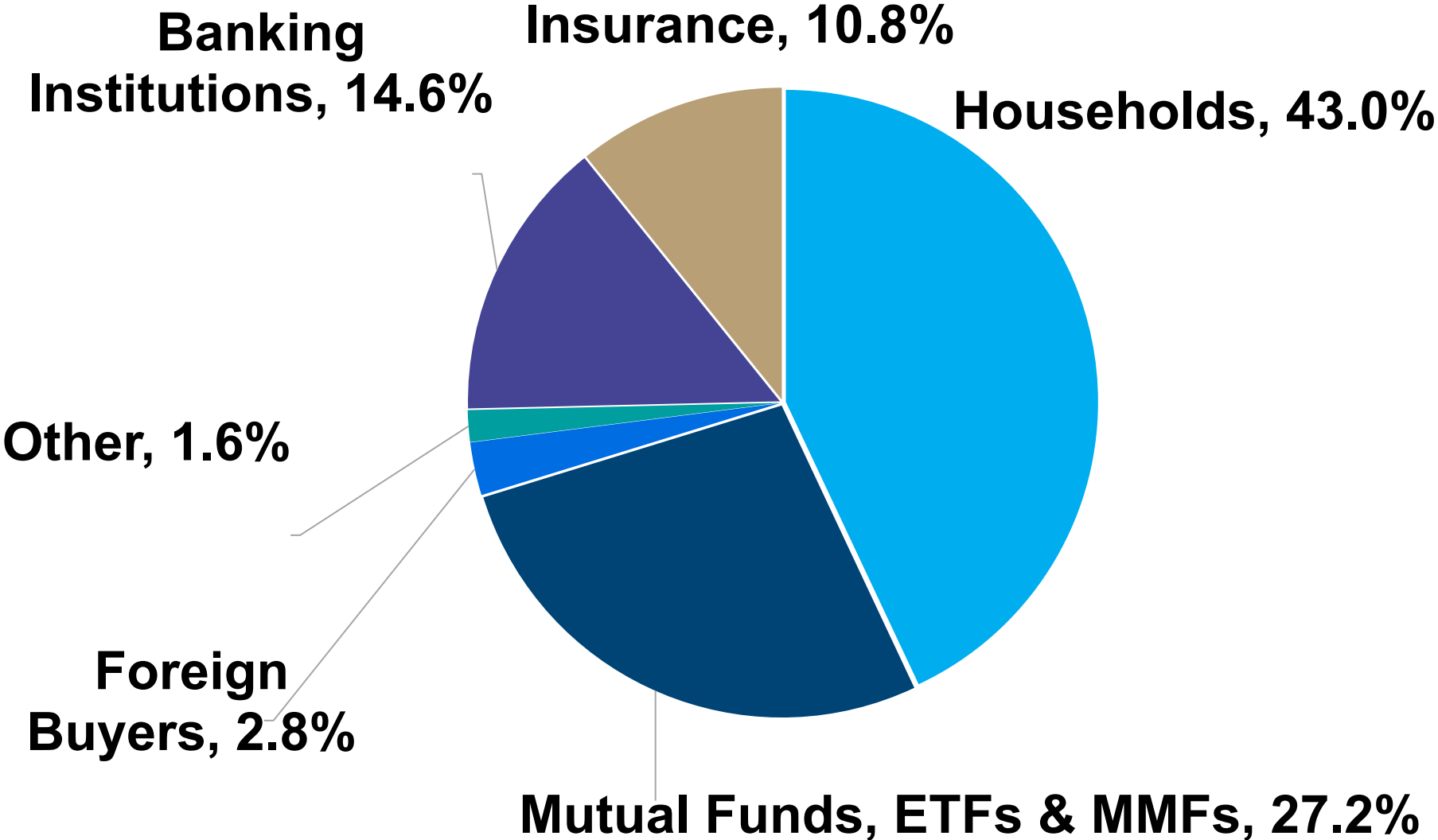
Institutional

**Bank
Portfolios**

**Opportunistic
Buyers**

Insurance

Municipal Holdings by Investors - 2023



Housing Bond Investors by Maturity

Short-Term Buyers

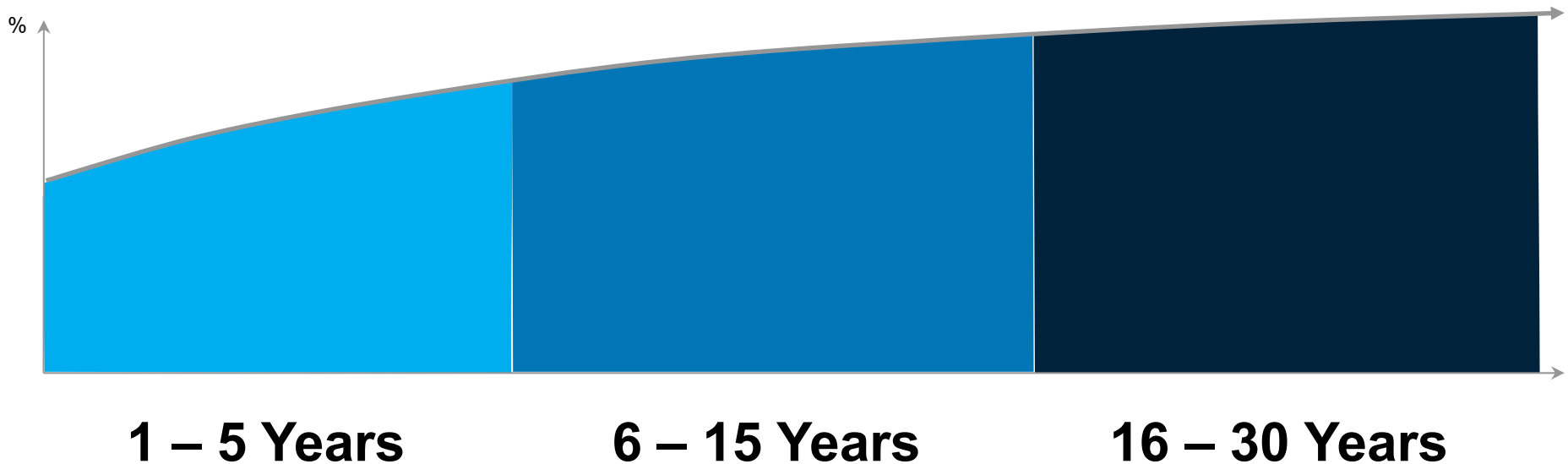
- Money Market
- Money Managers
- Short-term Bond Funds
- SMA
- Individual Retail

Medium-Term Buyers

- Money Managers
- Bank Portfolios
- Intermediate Bond Funds
- SMA
- Individual Retail

Long-Term Buyers

- Bond Funds
- Insurance
- Hedge Funds
- Opportunistic Funds



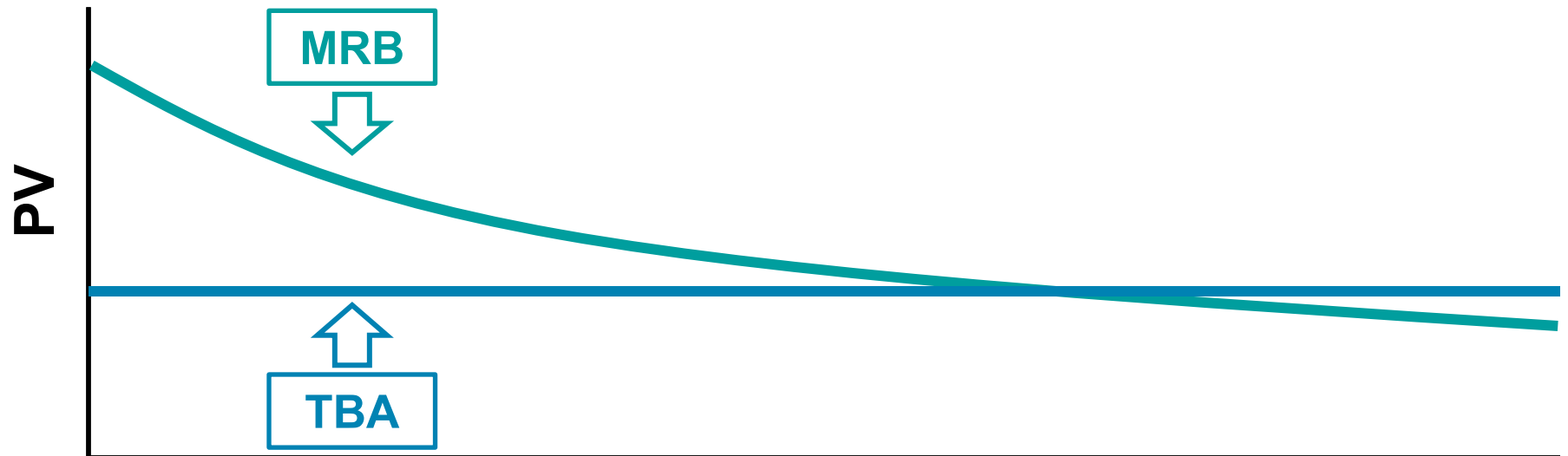
MRB Pricing

Municipal Market Data (MMD) AAA Curve provides the offer side of AAA rated state obligation bonds.

Tax-Exempt MRB Pricing			
Tenor	AAA MMD Benchmark	Spread (bps) to MMD	Yield
15	2.85%	+ 130	4.15%
20	3.13%	+ 127	4.40%
25	3.37%	+ 118	4.55%
30	3.43%	+ 122	4.65%

Tax-exempt MRBs Provide Better Execution

MRB vs. TBA Execution



Prepayment Speed

Prepayment
Speeds

DPAL

Mortgage
Portfolio

Cost of Issuance

Lender Comp &
SRP

Fixed vs. VRDB
Financing

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Credit Rating Basics and Overview of HFA Bond Ratings

Mortgage Revenue Bonds (MRB) and Mortgage Credit Certificates (MCC) 101

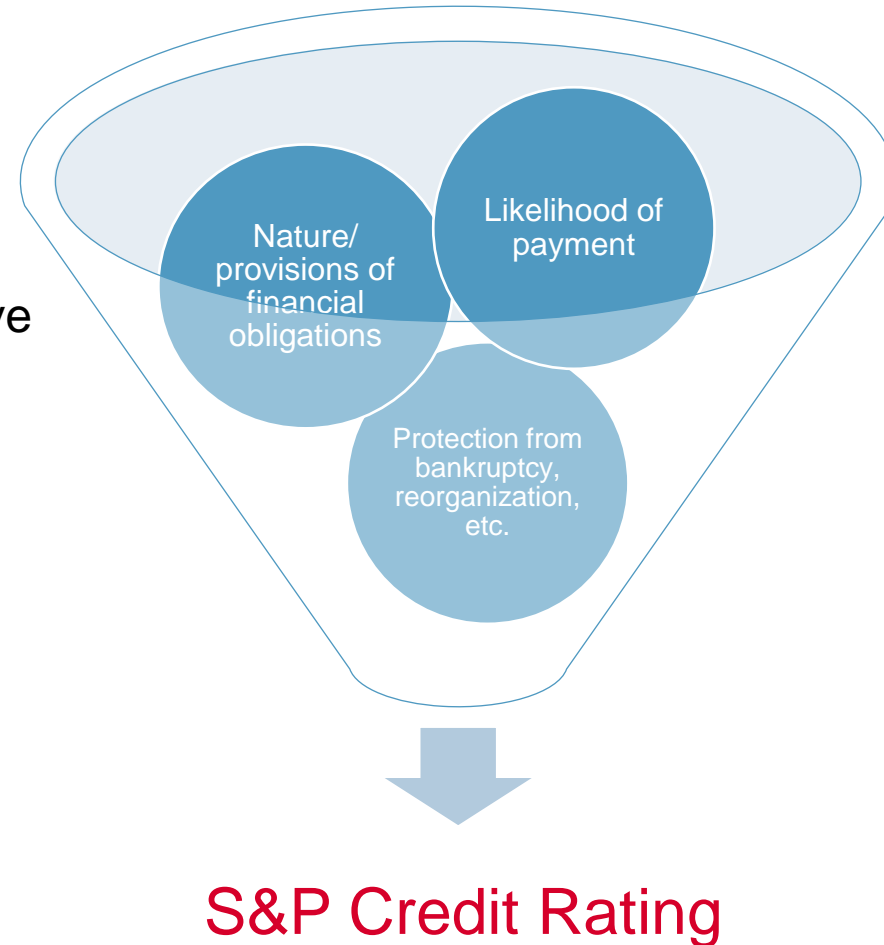
Stuart Nicol
Associate Director
Americas Public Finance - Housing

January 11th 2024

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 Ratings' Impact

>35,000 issuers helped to access capital markets

>1 million credit ratings outstanding on government, corporate, financial sector and structured finance entities and securities.

\$47 Trillion in outstanding debt surveilled

\$75 Trillion in debt rated by S&P Global since 2000

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.		

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: 73 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

AA+



Median MRB
program rating

73



Program ratings
across **34** states

Programs with predominantly

68%



Single-family
loans

32%



Multifamily
loans

\$94.1 bil.

Par amount of
debt outstanding



100%



MRB programs with a
stable rating outlook



87%

Programs with no
program management
or operational risk cap



4.6%

Median credit
loss



121%

Median minimum
A/L parity



115%


Median net A/L
parity after losses

Data as of July 13, 2023. A/L--Asset-liability. MRB--Mortgage revenue bond. Source: S&P Global Ratings. Copyright © 2023 by Standard & Poor's Financial Services LLC. All rights reserved.

HFA Ratings In Perspective

S&P Rating	
AAA	 Microsoft <i>Johnson & Johnson</i>
AA+	  Alphabet
AA	  amazon
AA-	  
A+	 
A	  Qualcomm 
A-	 
BBB+	  verizon✓
BBB	  
BBB-	 

Median HFA Program Rating



Single-Family MRB Stats

By the numbers: mortgage revenue bond single-family and hybrid programs

AA+



Median single-family program rating

119%



Median minimum A/L parity

57:43



Median ratio of MBS to whole loans

60%



Median insurance recovery rate

4.5%



Median credit loss

4.21%



Median weighted average loan rate



49.8%

Median of loans < 5 years seasoned



24 years

Median loan term to maturity



4.6%

Median 30-day+ delinquency rate



0.7%

Median foreclosure rate

Data as of July 13, 2023. A/L--Asset-liability. MRB--Mortgage revenue bond. Source: S&P Global Ratings. Copyright © 2023 by Standard & Poor's Financial Services LLC. All rights reserved.

Multifamily MRB Stats

By the numbers: mortgage revenue bond multifamily programs

AA+

Median multifamily program rating



123%

Median minimum A/L parity



9.4%

Median credit loss



1.11

Median base credit loss multiplier



(with 1.00 being neutral risk)

20%

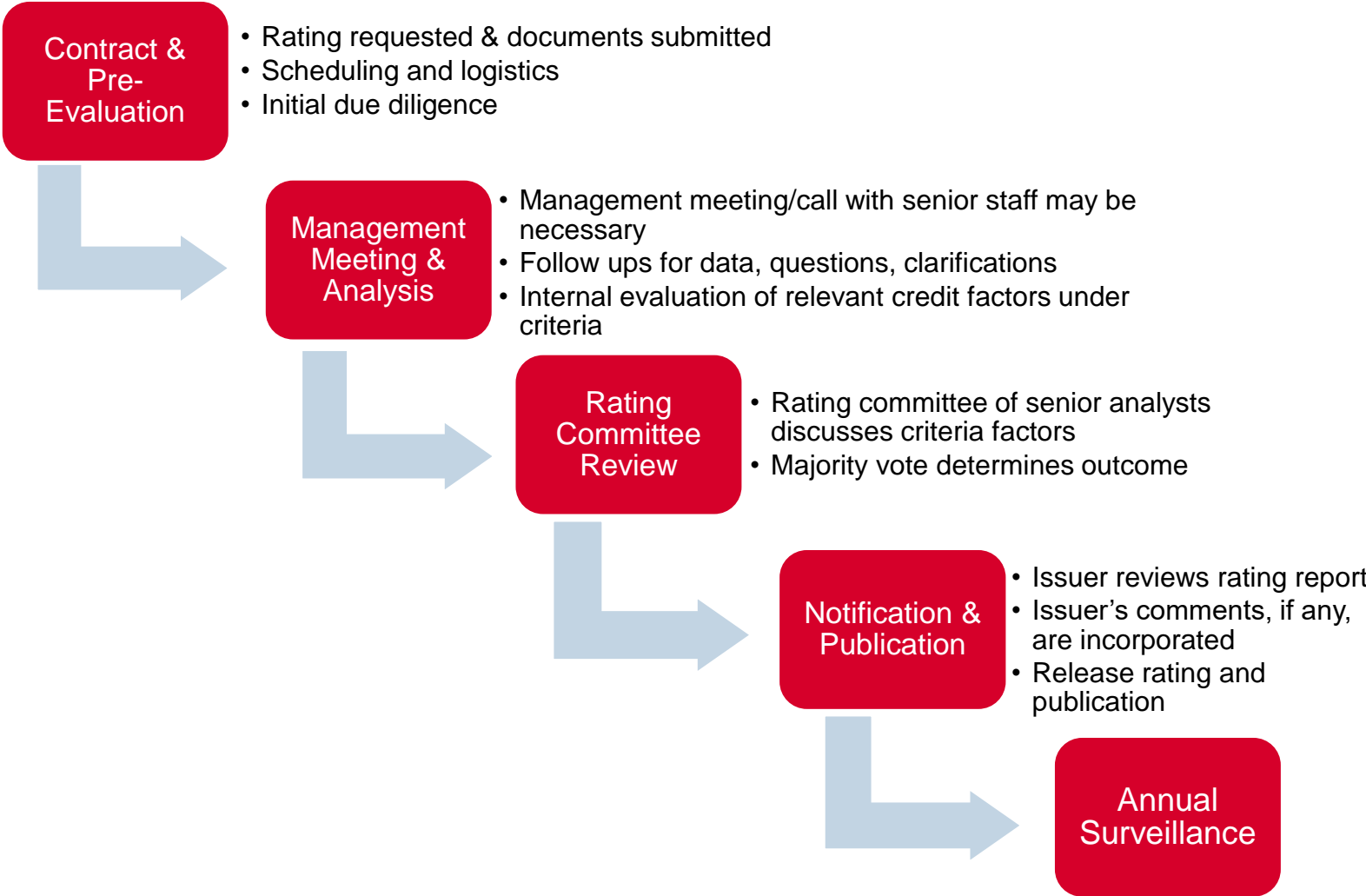
Median insurance recovery rate

(at 'AAA' level)



Data as of July 13, 2023. A/L--Asset-liability. Source: S&P Global Ratings.
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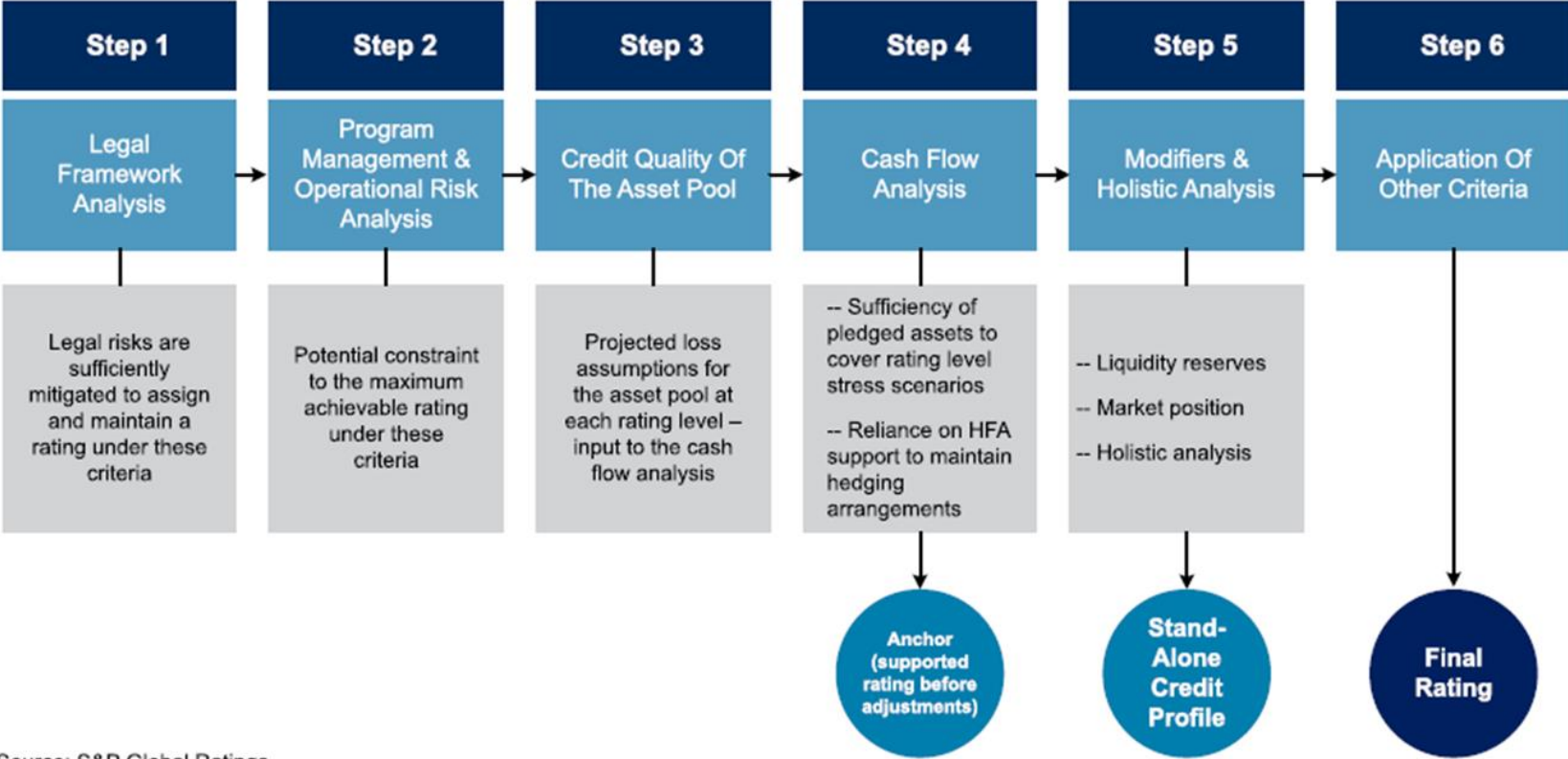
S&P Rating Process Overview



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

Mortgage Revenue Bond Program (MRBP) Methodology



Source: S&P Global Ratings.
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What we saw in 2023 will be similar to 2024 trends

2023 Outlook: Stable

- HFA balance sheets remained strong, with sufficient liquidity
- Single-family MRB programs strengthened in the past year as prepayments slowed and origination increased.
- Multifamily MRB program A/L parity declined in the past year but remained strong, as HFAs used program equity to help finance affordable multifamily developments.
- Delinquencies continued to decline
 - 90 days through foreclosure equaled 1.1% as of Q2 2023, lower than 1.6% national rate for all loans and significantly lower than the 3.7% Mortgage Bankers' Assn. national rate for FHA loans.
- DPA has continued to be an integral part of HFA financing
 - Approximately 60% of them in 2022, compared with 41% in 2017, offered some form of down payment assistance to more than 90% of home buyers.
 - As demand swells and changes, many agencies are adapting their DPA programs. Changes include increases in income limits, assistance amounts, and creation of new first-generation programs
 - In addition, many state legislatures are allocating more money for HFAs to create or expand their DPA offerings.

What we saw in 2023 will be similar to 2024 trends

2024 Outlook: Webinar scheduled for Jan. 25 at 2:00 p.m. ET

- S&P Global Ratings expects the U.S. economy to expand 1.5% in 2024 but with rising costs of capital, unemployment is likely to increase to 4.6% in 2025
- We anticipate low-to-moderate income and first-time homebuyers will continue to be faced with higher interest rates and low inventory that further erodes purchase power
 - DPA will become even more integral as part of HFA financing
- Higher-for-longer interest rates in 2024 could result in additional debt to bolster supply, however HFAs have financial footing to support this
 - HFA management teams continue to demonstrate the foresight and resilience to steer their organizations profitably through uncharted territory.
- We expect delinquencies to remain flat
 - We have observed stronger credit performance of loans originated or purchased by HFAs, through periods of stress, relative to other U.S. mortgage loans to borrowers with similar characteristics

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THE HFA INSTITUTE 2024

MRB and MCC Policy Priorities

Greg Zagorski
NCSHA



National Council of
State Housing Agencies



**MRBs and
Other Federal
Homeownership
Programs**
JANUARY 10 – 12



Housing Credit
JANUARY 9 – 11



**Section 8 and
Other Federal
Multifamily
Programs**
JANUARY 10 – 12



**HOME and
Housing Trust
Fund**
JANUARY 7 – 9



NCSHA's MRB/MCC Advocacy

- NCSHA is the principal advocate in Washington for Housing Bonds (both MRBs and multifamily) and MCCs
- Maintaining and strengthening MRBs/MCCs has long been one of NCSHA's top priorities
- Instrumental in preserving the tax exemption for PABs in 2018 tax reform bill (Tax Cuts and Jobs Act)
- Current NCSHA Action Priority: *“Stimulating the development and rehabilitation of affordable for-sale housing with improvements to Mortgage Revenue Bonds and Mortgage Credit Certificates through the enactment of the Affordable Housing Bond Enhancement Act.”*

What Would the AHBEA Do?

- Adopts long-standing NCSHA priorities for strengthening MRBs and MCCs and frees up more bond cap for affordable housing
- Increases the MRB home improvement loan limit from \$15,000 to \$50,000 and indexes the limit for inflation
- Allows MRBs to be used to fund refinancing loans
- Permits states to re-designate carryforward authority and use it for either single-family or multifamily housing during the carryforward period
- Extends the MCC expiration period from two years to four and the MCC revocation period from one year to two.

What Would the AHBEA Do?

- Changes the MCC benefit calculation to a simple percentage of the original loan balance
- Reduces the time period for the MRB and MCC recapture tax from nine years to five
- Eliminates MCC lender reporting requirement
- Shortens the MCC comment period from 90 to 30 days
- Mandates IRS reporting on states' use of PAB cap

AHBEA Lead Sponsors



SENATE



Catherine
Cortez Masto
(D-NV)



Bill Cassidy
(R-LA)



HOUSE



TBD



Gwen Moore
(D-WI)

AHBEA Status

- Cortez Masto and Cassidy introduced Senate bill in June (S. 1805)
- Working to get Republican lead in House to join Moore in introducing House version
- Focus in 2024 on adding cosponsors from both parties
- Look for larger legislative vehicles to advance bill

More
information on
AHBEA in the
NCSHA
Advocacy
Center



The Affordable Housing Bond Enhancement Act
(S. 4445 / H.R. 8184)
Introduced by Sen. Catherine Cortez Masto and Rep. Gwen
Moore
Section-by-Section Summary

The Affordable Housing Bond Enhancement Act, introduced by Senator Catherine Cortez Masto (D-NV) and Rep. Gwen Moore (D-WI), will expand the supply of affordable homes and improve access to homeownership for low and moderate-income homebuyers through simple and impactful improvements to the Mortgage Revenue Bond (MRB) and Mortgage Credit Certificate (MCC) programs.

MRBs are a type of municipal bond used by state housing finance agencies (HFAs) to finance low-interest mortgages for low- and moderate-income home buyers. Investors are willing to accept a lower rate of return for Housing Bonds than they would get on other investments because the interest on the bonds is exempt from federal income tax. The lower rate is then passed on to lower the interest rate paid by lower-income home buyers. In a typical year, as many as 60,000 families buy their first homes with MRB mortgages. In total MRBs have helped over 3.4 million working households become homebuyers. The median income of MRB loan borrowers in 2021 was 64 percent of the national median income.

In addition, HFAs can also use their MRB authority to issue Mortgage Credit Certificates (MCCs), which provide a nonrefundable federal income tax credit for part of the mortgage interest qualified home buyers pay each year. The MCC program is a flexible subsidy source, which can be adjusted depending on the incomes of different home buyers and provides a relatively constant level of benefit to first-time home buyers regardless of the spread between market and MRB rates. State HFAs have used MCCs to provide critical tax relief to more than 386,000 families.

Section 1: Title

This section provides the title of the bill, "The Affordable Housing Bond Enhancement Act," identifies the affected sections of the tax code and provides a table of contents.

Section 2: Annual IRS Reporting on Private Activity Bond Issuance

Congress provides each state an amount of private activity bonds (PABs) of which some may be used for a variety of purposes including MRBs and MCCs.



Questions?



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