

# *Maximizing the Benefits to the HFA of Single-Family Financing Activity*

**2019 NCSHA Annual Conference, Boston**

**Gene Slater**



Helping clients navigate  
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\*CSG was established in 1999. Predecessor firms include Gressel Gressel Slater, Caine Gressel Midgley Slater and CGMS Incorporated.

# ***A Key Distinction***

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*Maximizing Your Single-Family Financing Activity*

v.

***Maximizing the Benefits to the HFA  
of Your Single-Family Financing Activity***

***How to use single-family financing today  
to enhance the HFA's long-term sustainability***

# ***Single-Family and HFA Sustainability***

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*The great issue for most HFAs today – as it has always been*

***How to assure your decisions today  
give the HFA more choices 5 years from now, not less***

*Single-family financing decisions have often been made  
without regard to cumulative impact of:*

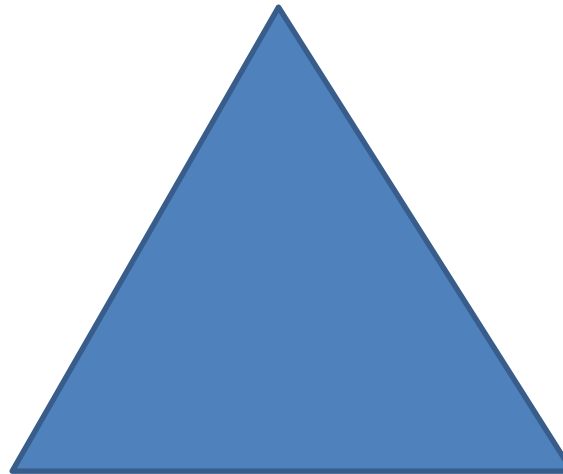
- volume itself*
- swaps on agency flexibility*
- TBA sales for current income*
  - PAB leveraging & allocations*
- type of downpayment assistance*

# *Impact on HFA Sustainability*

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Sustainability depends on how an HFA addresses 3 major risks

**Real Estate / Lending Risk**

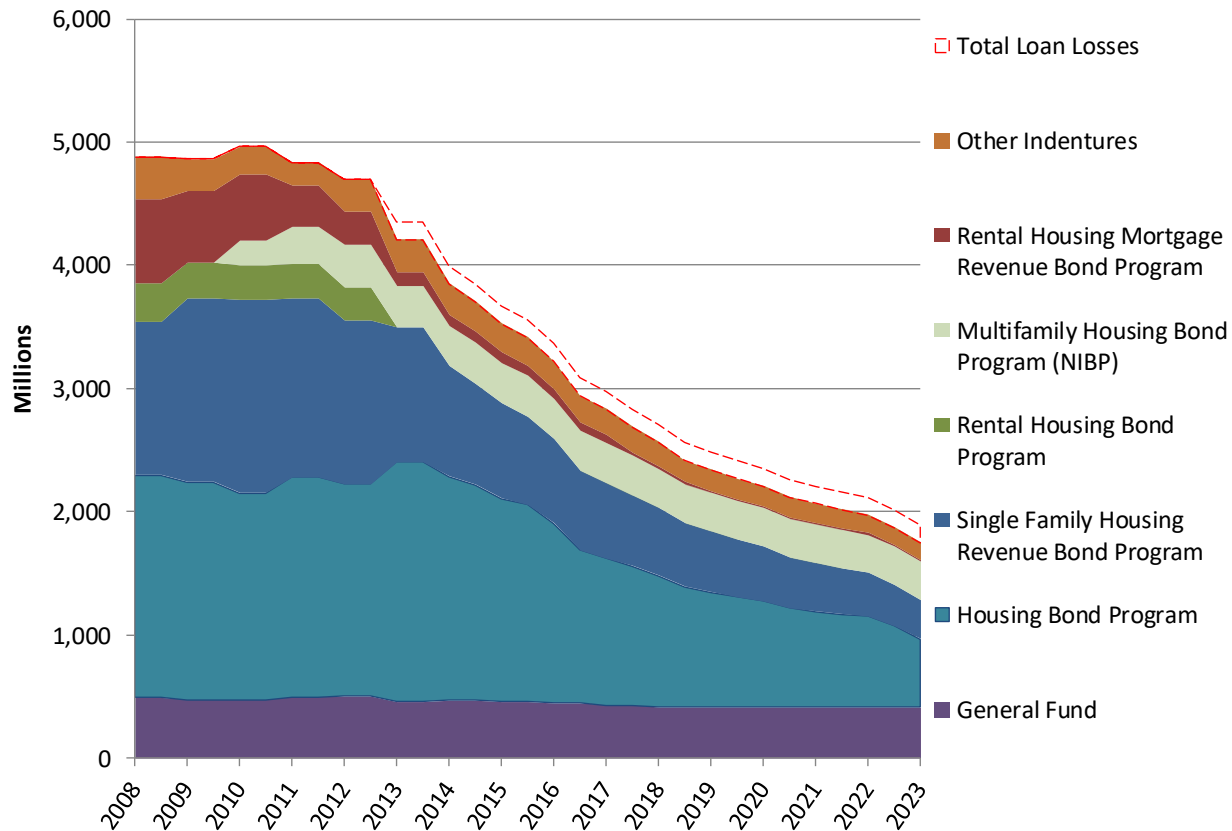


**Financing Risk**  
Debt and Liquidity

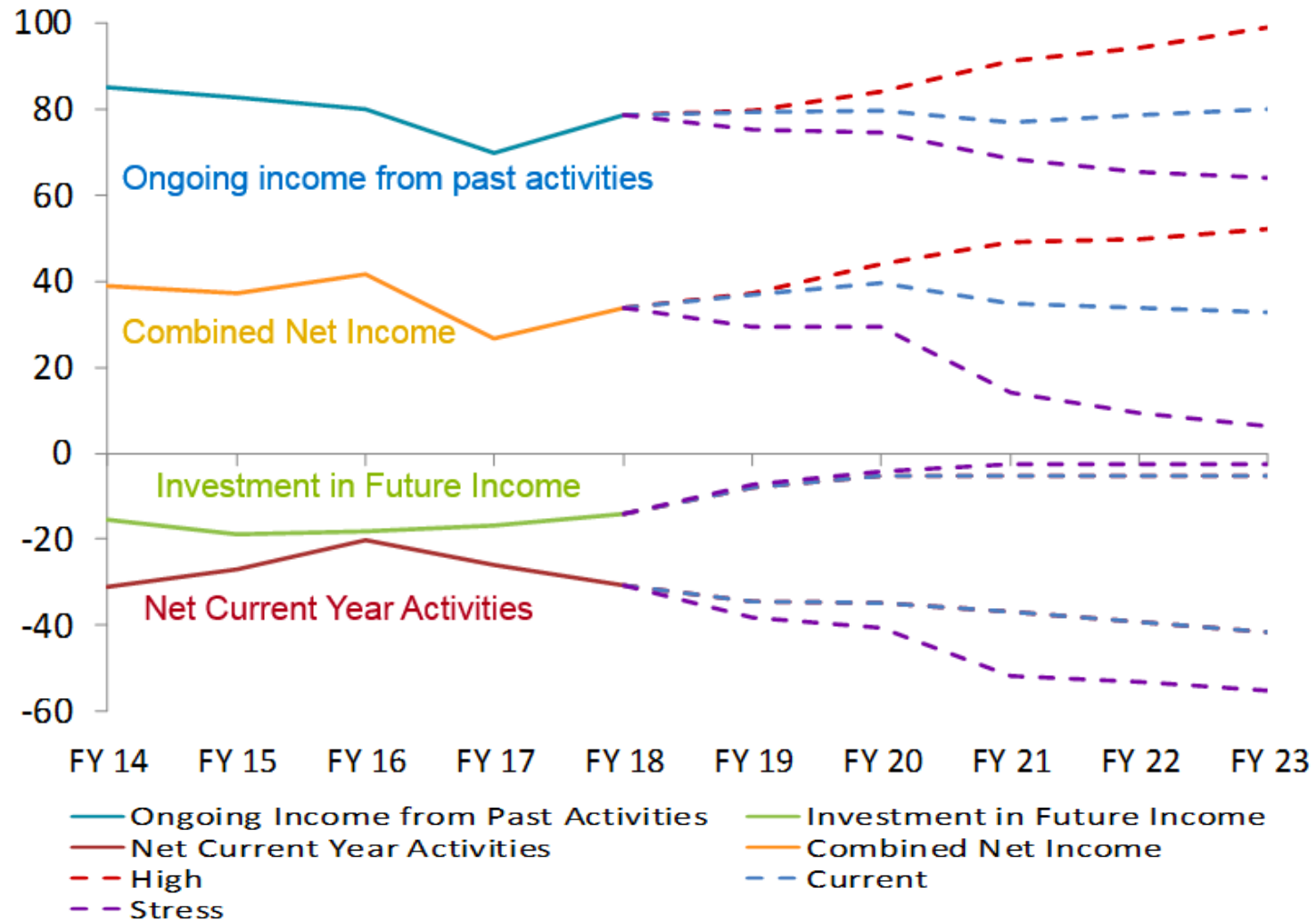
**Income Risk**  
Profitability and Stability

# Income Stability

## Projected assets without balance sheet production

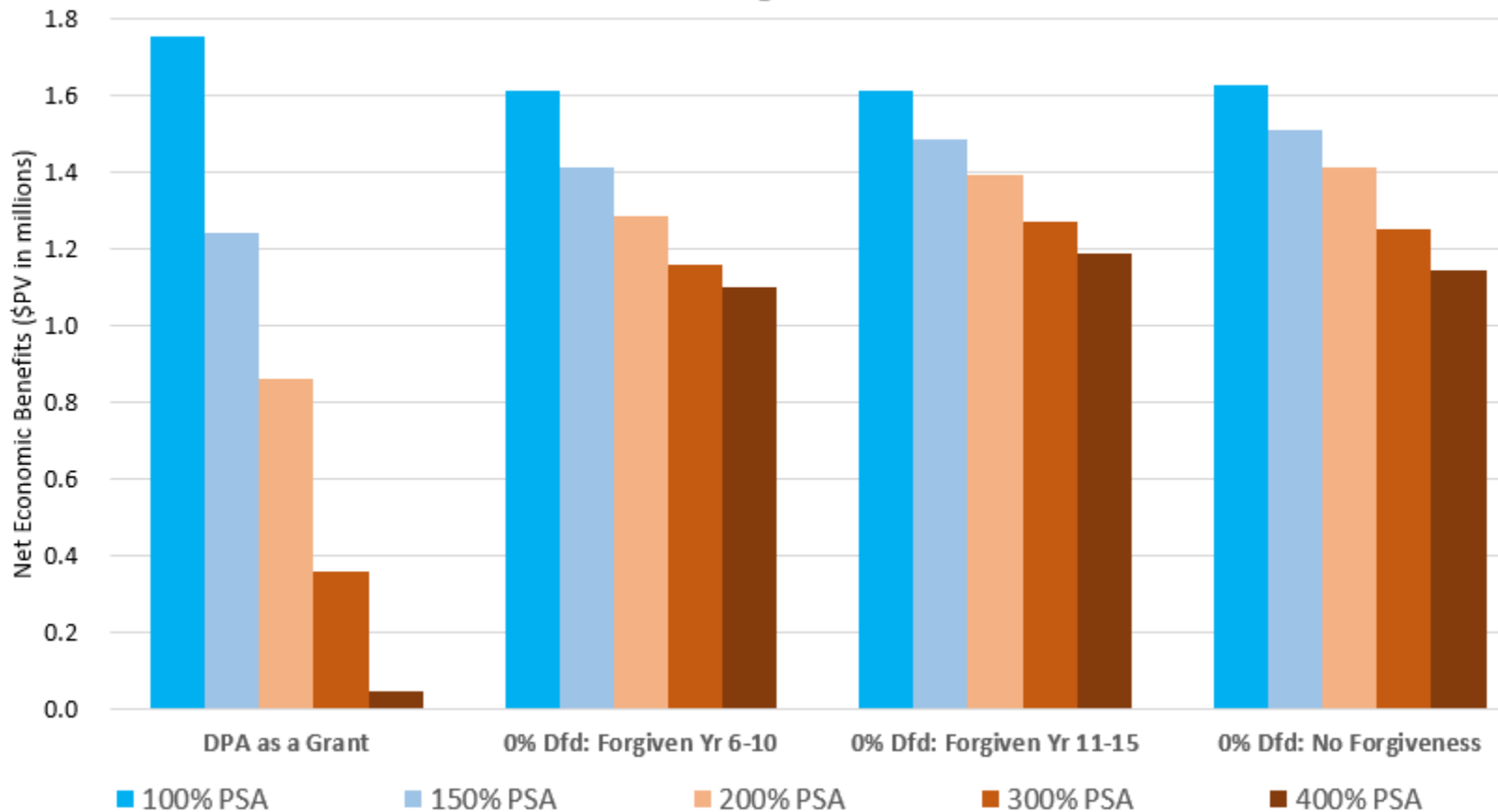


# Income Stability



# Downpayment Assistance

## PV Economic Benefits of Bonds and DPA 2nds



# *Opportunities Created by 2019*

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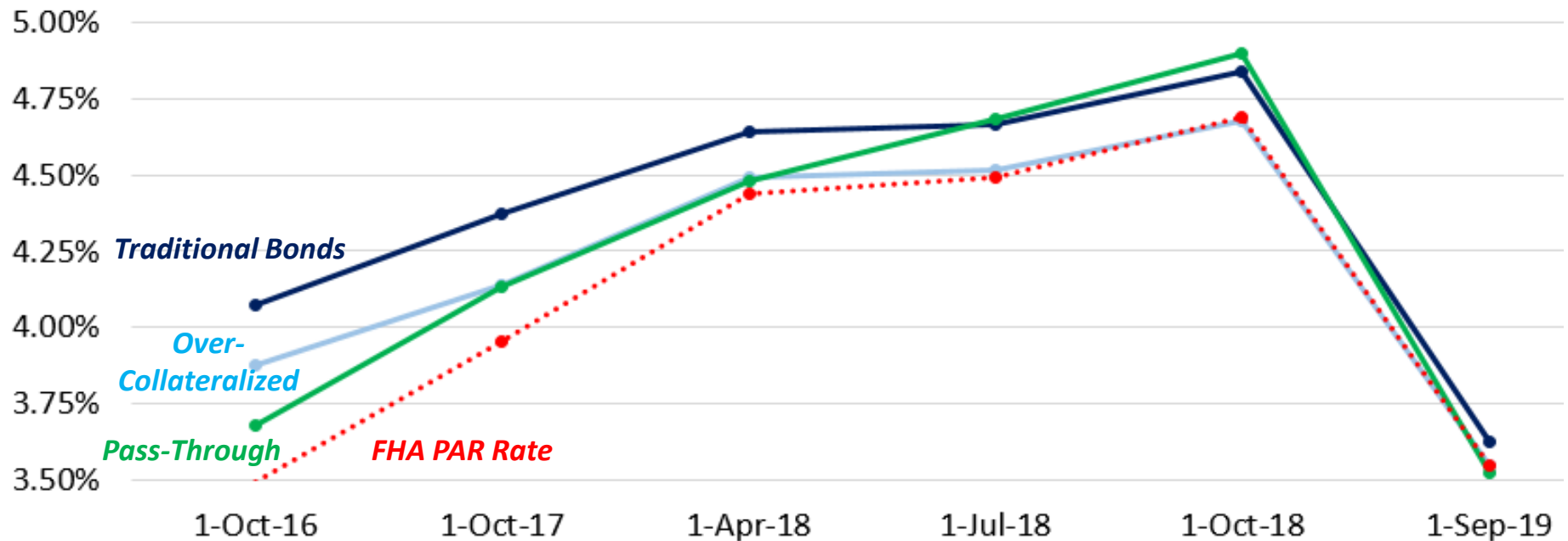
*From perspective of sustainability:*

- full spread bond financing*
- increased net present value of bonds v. TBA sales  
at break-even prepayment speed*
- full spread plus zero participations*
- leverage volume cap with taxable  
at or above full spread*



# Competitive Bond Execution

## MRB Full Spread Mortgage Rates vs. FHA Par Rate



**Assumptions:**

1. 100% FHA Loans with 1% origination fee.
2. Full spread rates were determined in all scenarios assuming 100% FHA prepayments.
3. The overcollateralized bond scenario includes 10% of additional mortgages at a 4.00% mortgage rate and a 240 month term.
4. The premium passthrough bond scenario includes a 3% premium and a 5bp yield penalty.

\* Par rate as indicated by Phoenix Analytic Services, Inc.

# ***Challenges Benefiting from Opportunities***

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*Fannie Mae & Freddie Mac Guarantee Fees*

*Dropping Interest Rates*

*Increased Prepayment Speeds*

*Volume Cap Pressures*

*Funding Downpayment Assistance Long-Term*

# Challenge: Volume Cap

## Impact of Volume Cap Choices on HFA's Future

	Single-Family		Conduit Multi-Family		Net Change	
	Lending	Net Present Value (a)	Lending	Present Value of Additional Fees	Change in Present Value	Impact of 3 years production
New PAB	100 m.	2.1 m.	100 m.			
From past recycling	100 m.	2.1	0	0		
Taxable	<u>100 m.</u>	<u>2.1</u>	<u>0</u>	<u>0</u>		
Total long-term	300 m.	6.3	52	1.0	5.3 m.	
Future recycling of PAB	<u>91</u>	<u>1.35</u>	<u>0</u>	<u>0</u>	<u>1.35 m.</u>	
Total long-term lending	391 m.	\$ 7.65	52 m.	\$ 1.0	6.65 m.	\$ 20 m.
Leveraging PAB	3.9 x		0.52x		-	
Refunding benefit	tbd	Est. 1.2			1.2 m	
Less TBA Sale of same loans	-391	-2.93 (b)			-2.93	
<b>Net Impact</b>		<b>5.92</b>		<b>1.0</b>	<b>4.92</b>	<b>14.8 m.</b>

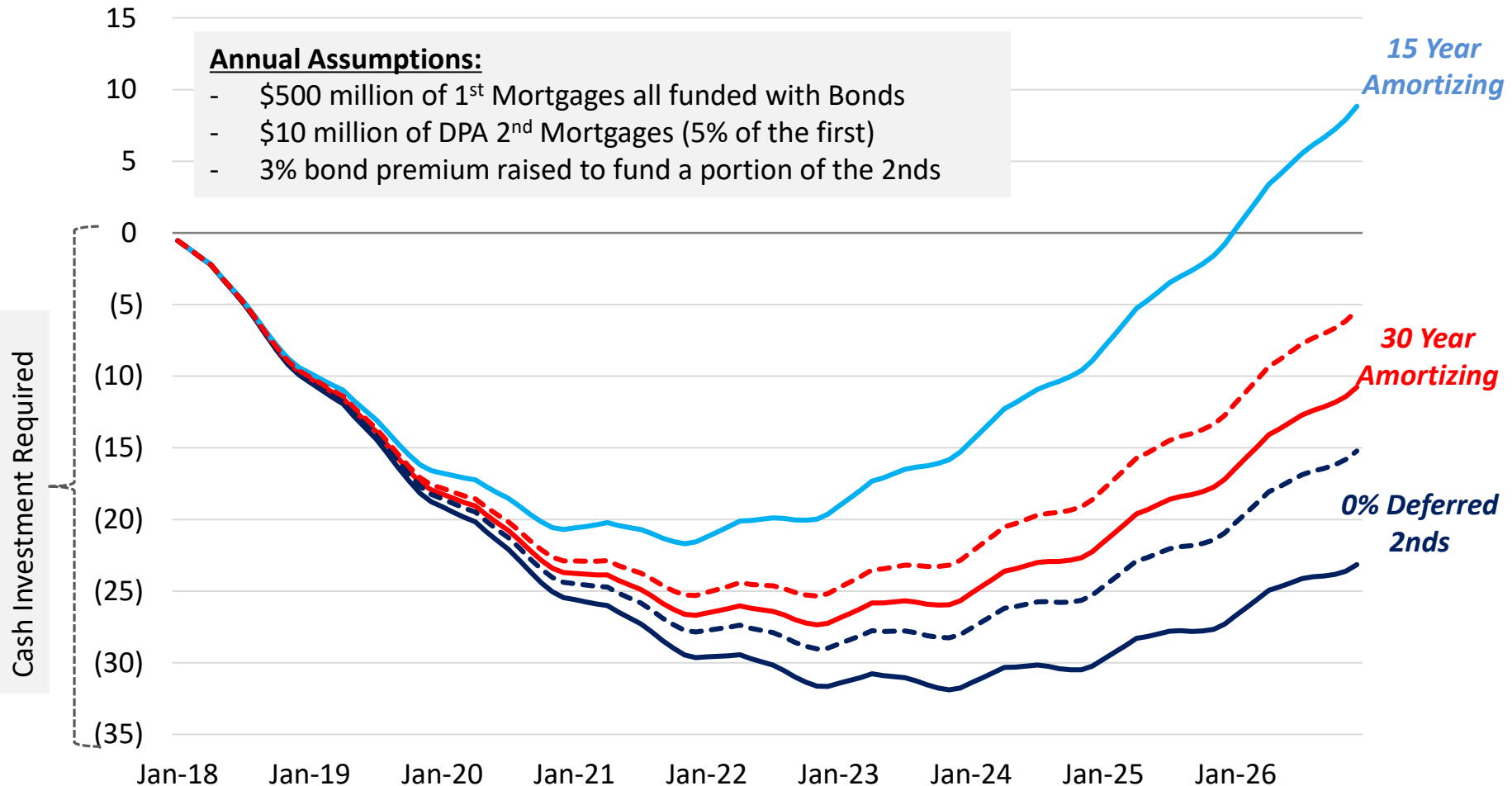
(a) 4% discount rate, 150% prepay speed; (b) 0.75% on 160 mill. loans now and present value of 0.75% on 91 mill. future loans

# Challenge: Funding all the DPA Needed

## Cash Needed to Fund DPA 2<sup>nd</sup> Mortgages

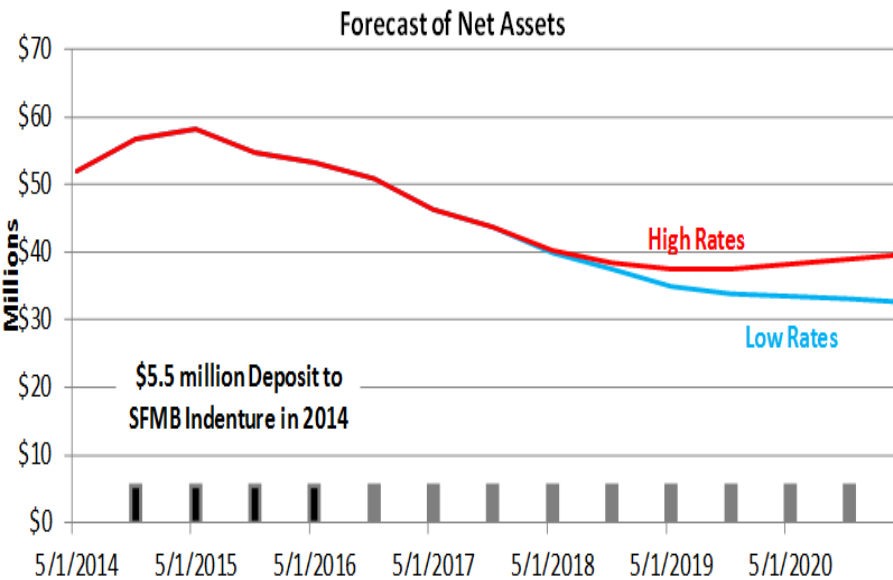
### Annual Assumptions:

- \$500 million of 1<sup>st</sup> Mortgages all funded with Bonds
- \$10 million of DPA 2<sup>nd</sup> Mortgages (5% of the first)
- 3% bond premium raised to fund a portion of the 2nds

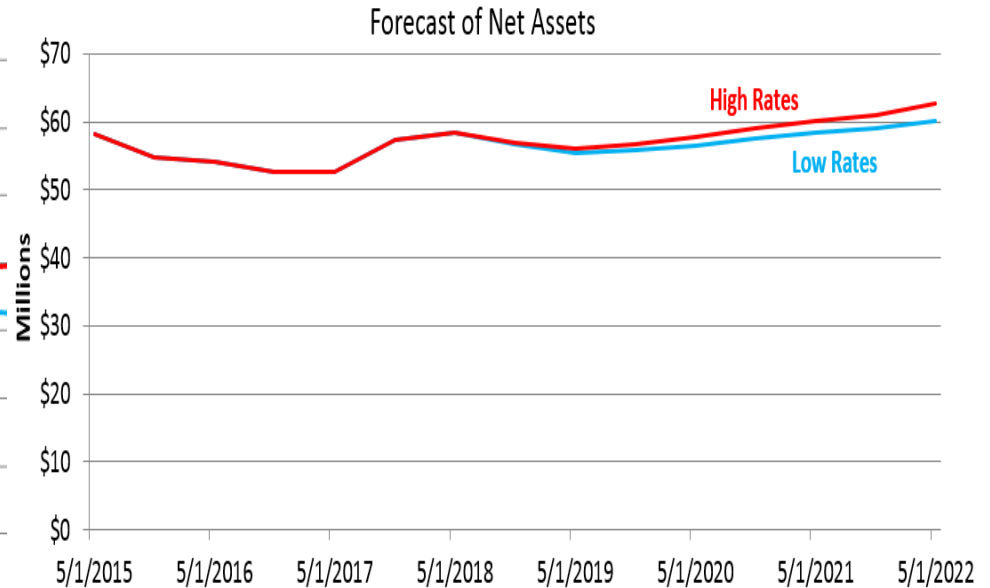


# Challenge: Reducing HFAs Sensitivity to Future Rates

Forecasted Net Assets (Two Years Ago)



Forecasted Net Assets (Current)




# ***Benefiting from Opportunities***

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*Need for clear criteria and measures*

*Budgeting for success*



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