

2023
BOSTON

**What's Next in Single-Family
Finance?**

WHAT'S NEXT IN SINGLE-FAMILY
FINANCE
OCTOBER 2023

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TBA Mortgages – What really happened to you in 2022 and 2023??

- Bug called QT stung them hard. Been in and out of coma several times since
- Risk management heroes at a few regional banks did not receive the memos warning them of climbing yields
- The V word that mortgages hate, spiked
- Overseas buyers went missing, leaving G2/FN swaps in the dust
- The few remaining mortgage buyers stayed busy absorbing origination supply, and the failed bank mortgage portfolios, at widening spread levels
- The inverted yield curve

Where does all this leave mortgages?

At the widest spread levels we have seen since the GFC!

G2SF Current Coupon & 5yr Treasury yield



Source: Bloomberg

G2SF Current Coupon & FNCL Current Coupon



Source: Bloomberg

Treasury yield curve (current, and 1 month ago)



Source: Bloomberg

TBA mortgages – What have you done for me today??

- Where did the premium \$ prices once easily achievable in the TBA market go?
 - Not only did treasury yields climb to multi decade highs
 - Not only did the mortgage treasury basis widen to multi decade highs
 - Specified pool payups also got annihilated given:
 - Lack of need for prepay protection in the face of rising yields
 - Lack of demand from banks, money managers, CMO desks, and other investors
- Have TBA mortgages helped anyone in the HFA community this year?
 - Those with alternate sources for DPA monies
 - Pick up the slack after the bond caps were reached
 - Originate non bond eligible mortgages

TBA mortgages – Will you ever shine bright like a diamond again??

- I need a steeper yield curve
- I need more buyers
 - Banks need to get past regulatory overhauls
 - USD needs to weaken so overseas has more buying power
- I need clarity on Fed's roadmap for sidelined investors to come back into the market
- I need range bound treasury yields, which should in turn translate to lower volatility

So where does all this leave us HFAs?

Continue having TBA origination as a tool in your tool kit. Don't give up on me!

What's Next in Single-Family Finance?



October 2023

Jefferies

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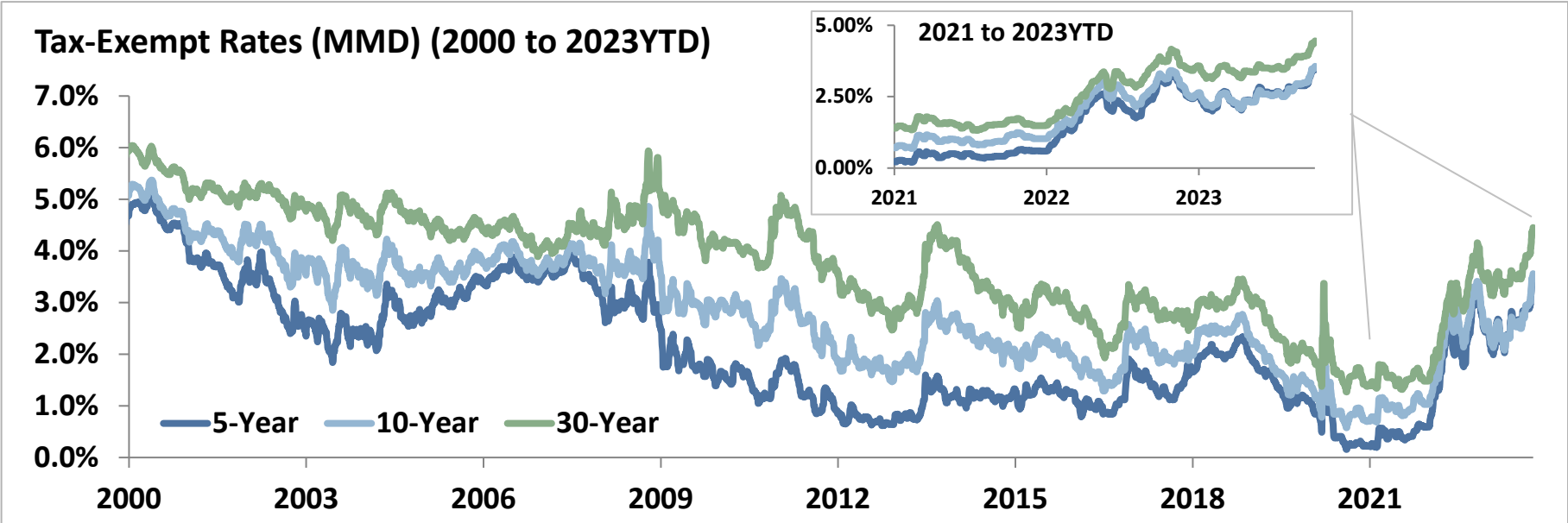
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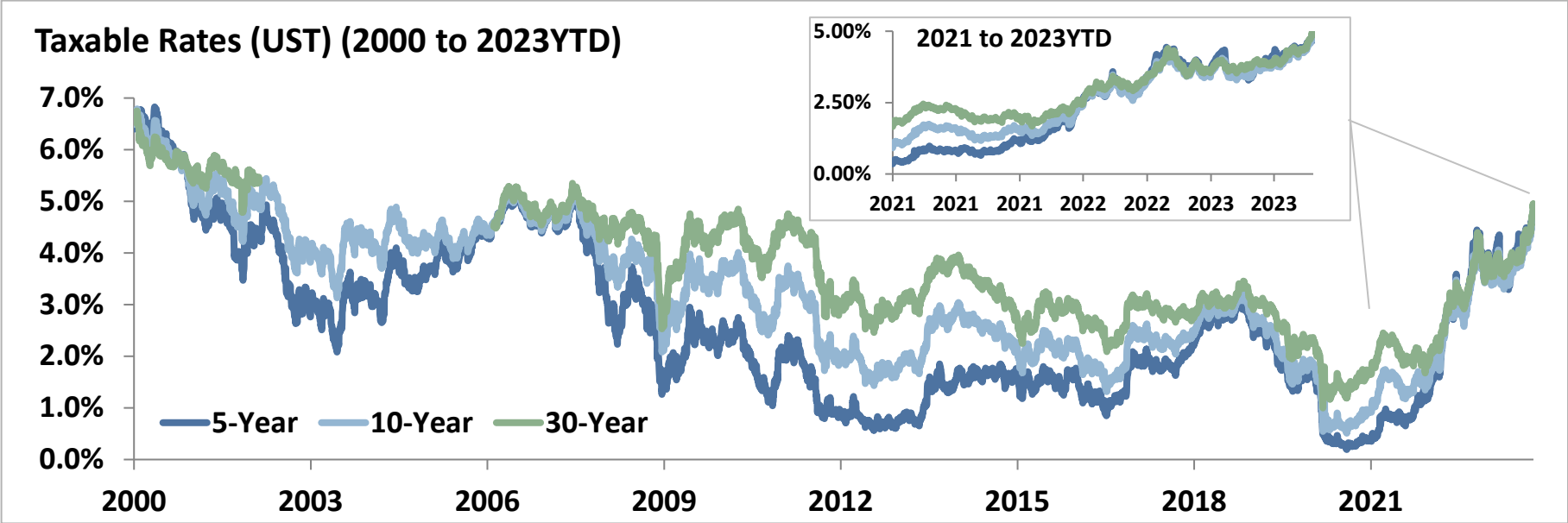
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Continued Pressure on Benchmark Rates

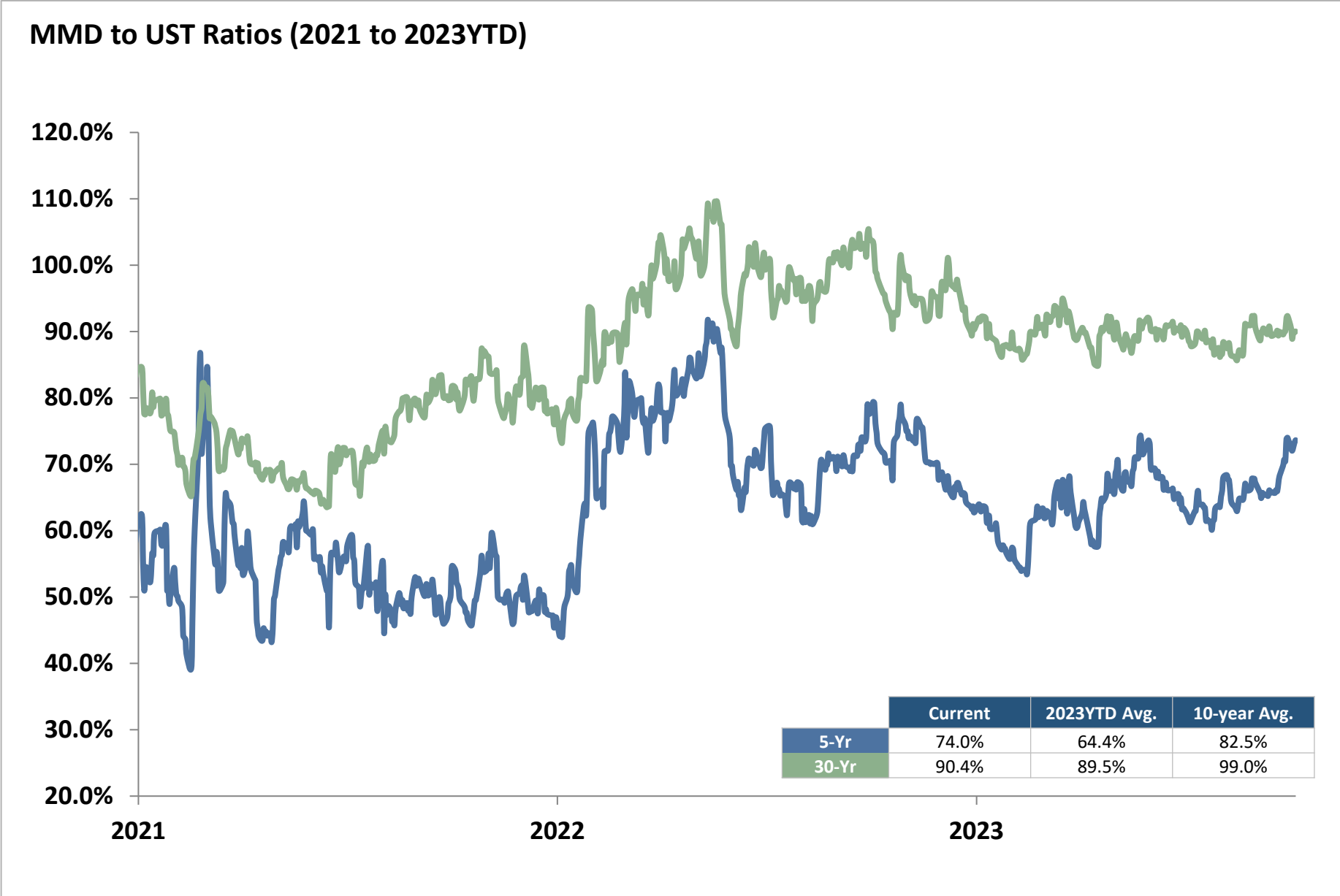


Source: Refinitiv



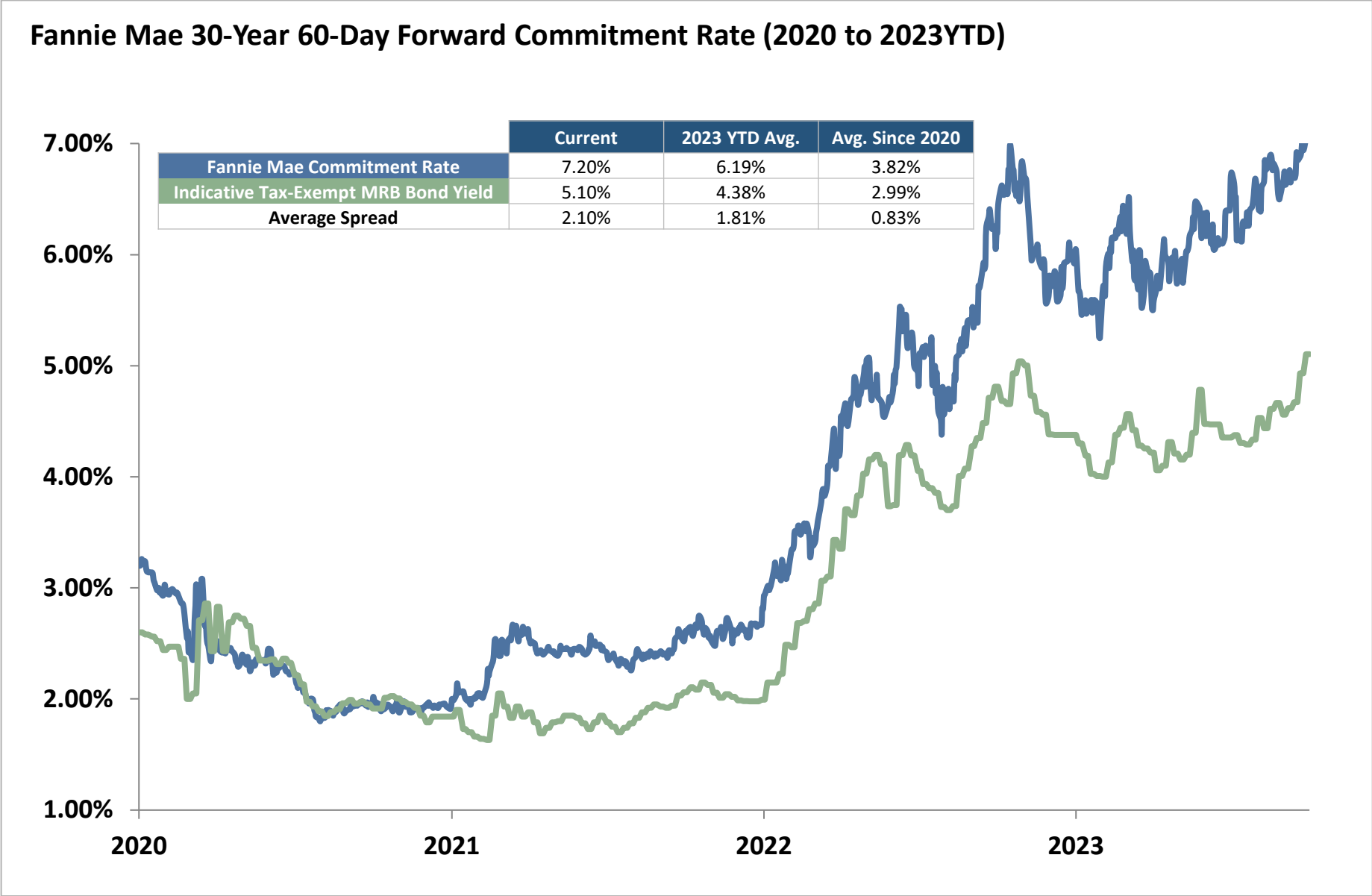
Source: US Treasury

Municipal Ratios Continue to be Attractive



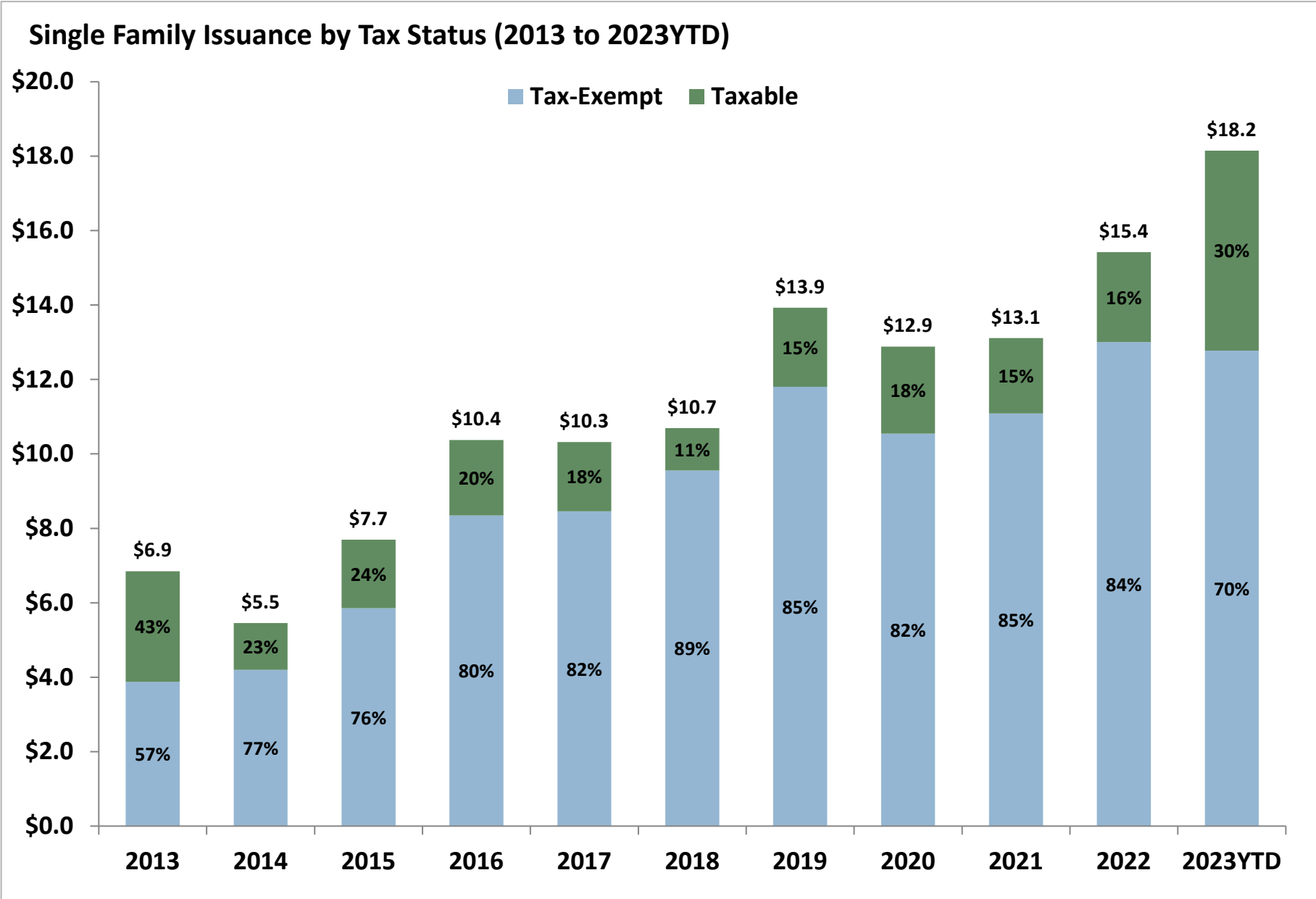
Source: Refinitiv

Benchmark Mortgage Rates – This is why HFA’s Have Been so Successful Recently!



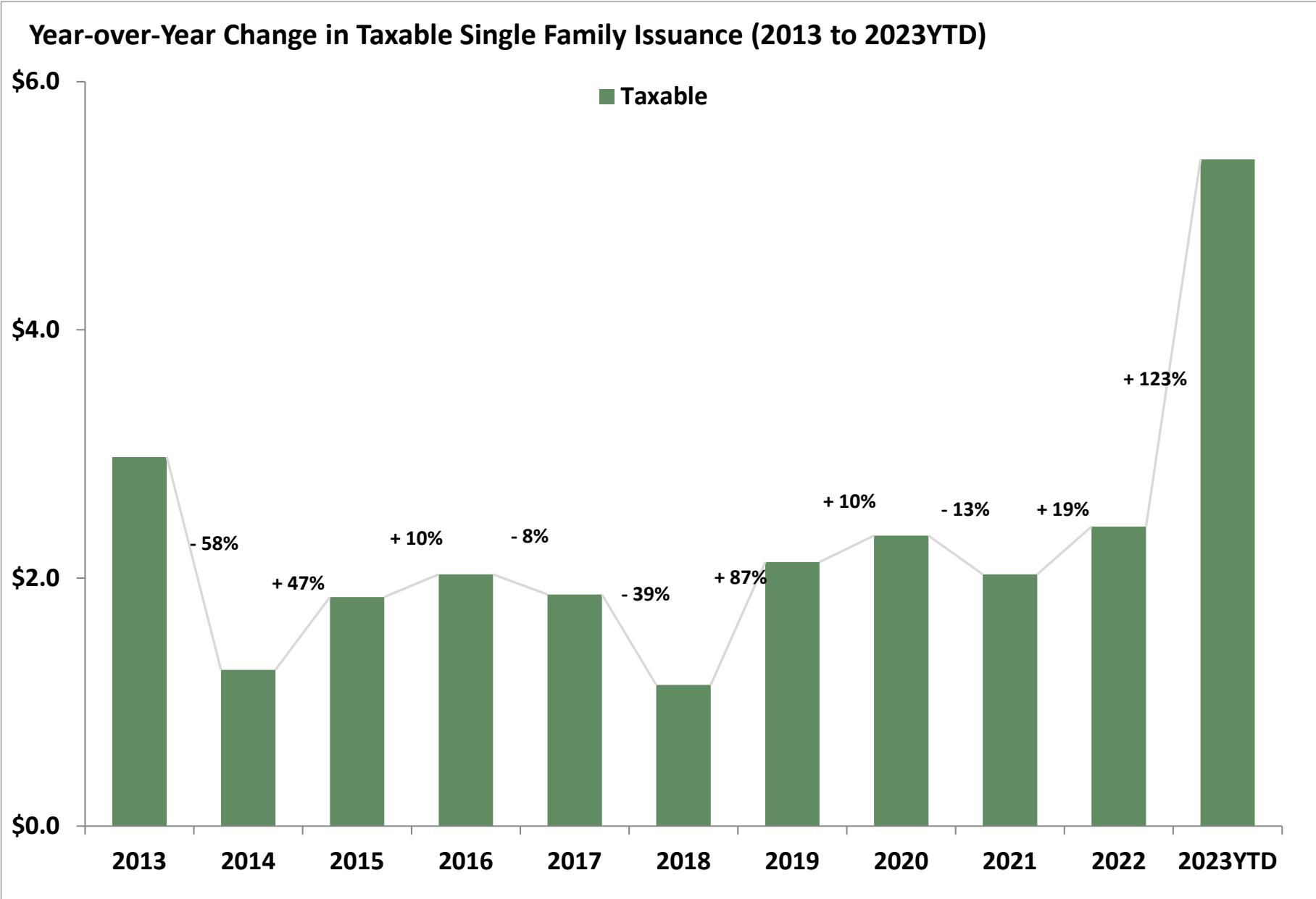
Source: Fannie Mae, Jefferies Housing Group. 100% FHA bond yield for 30-year generic single family housing revenue bond transaction with 5-year average life backloaded PAC Bond structured for mortgage principal receipts

Single Family Housing Issuance Has been Steadily Increasing



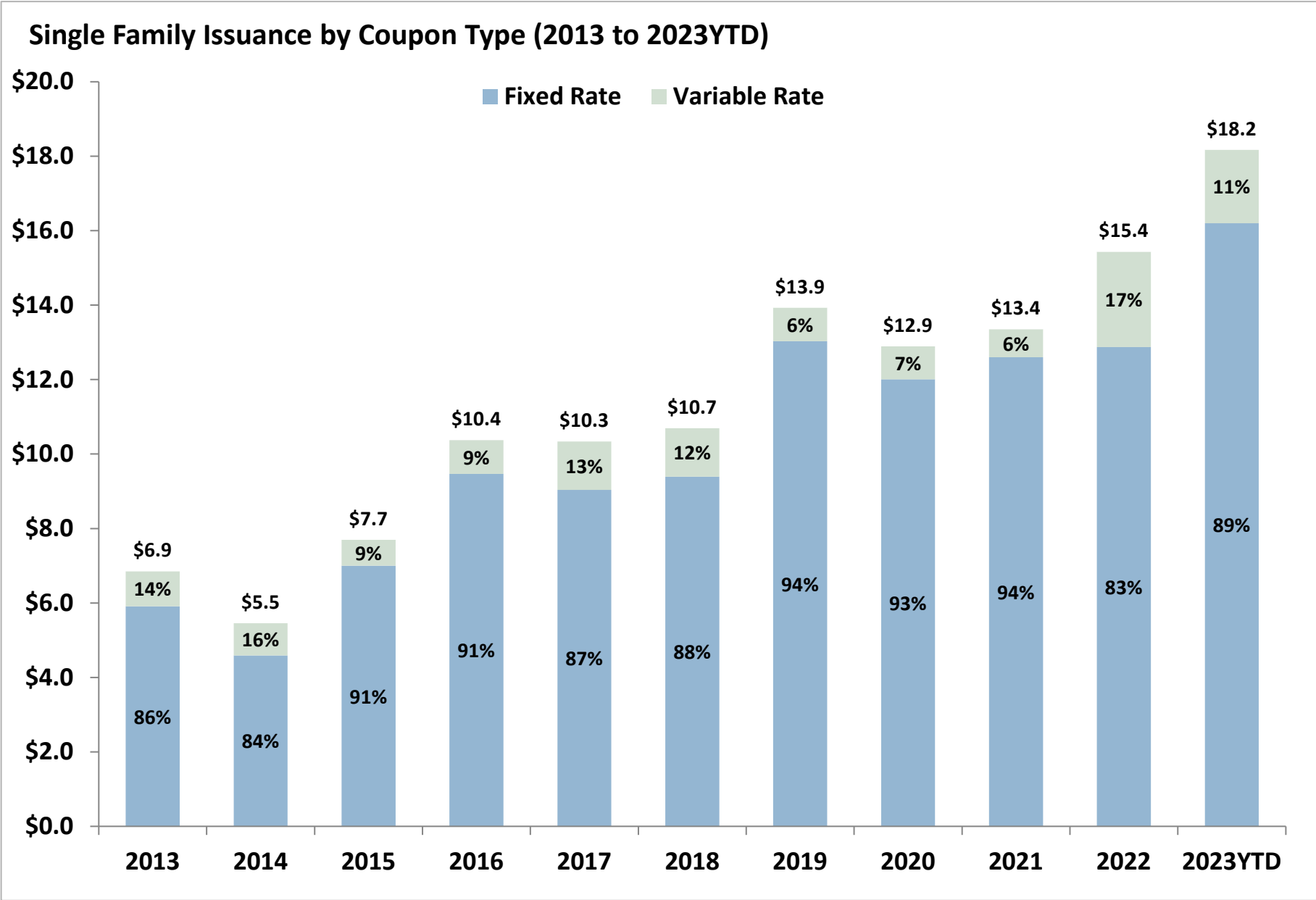
Source: Refinitiv, includes all long term negotiated issuance, all amounts in Billions

Taxable Single Family Housing Issuance Has Dramatically Increased this Year



Source: Refinitiv, includes negotiated issuance, all amounts in Billions

While Variable Rate Debt has Remained Constant

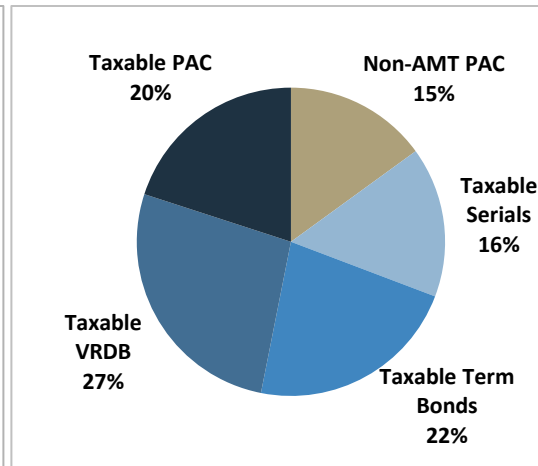


Source: Refinitiv, includes all long term negotiated issuance, all amounts in Billions

Blending Taxable with Tax-exempt Bonds: Colorado HFA 2023 Series OP

Minimizing Use of Volume Cap and Achieving Full Spread

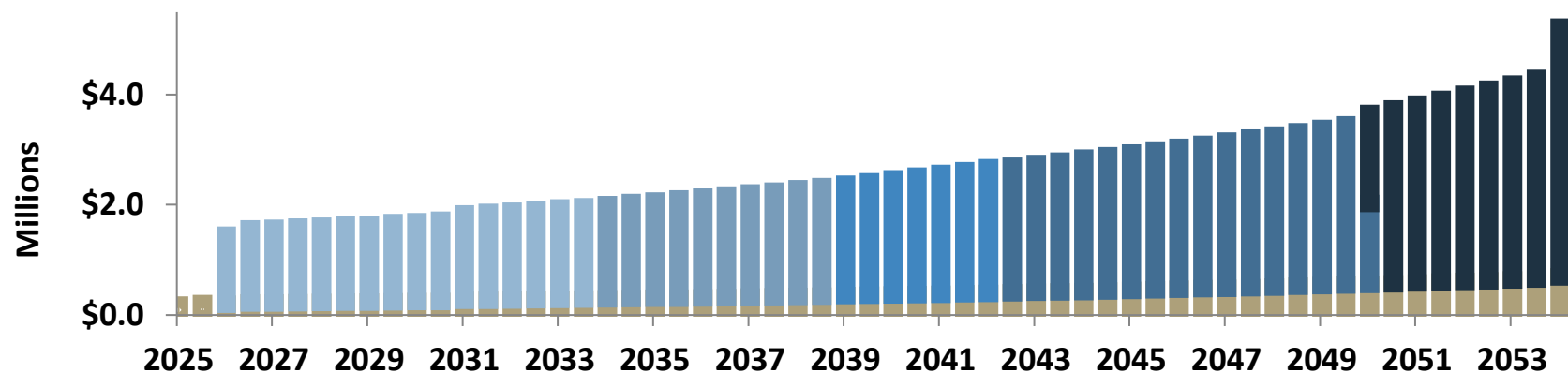
- The 2023 Series OP Bonds were structured as 15% tax-exempt and 85% taxable to minimize use of volume cap, with a \$40.3 million taxable synthetic fixed rate term bond (30% of total par)
- With this structure CHFA achieved over full spread on the aggregate issuance, even while taxable borrowing costs spiked in the beginning of October
- Using synthetic fixed debt allowed the Authority to lower funding costs by 65 bps
- Proceeds of the bonds will be used to finance:
 - \$144.3 million of the Authority’s First Step program mortgages at 7.265%
 - \$5.8 million of non-amortizing 0% 2nd mortgages



Bond Type	Serials	2038 Term	2042 Term	VRDB	PAC	PAC
Tax Status	Taxable					Non-AMT
Yield	5.521% - 6.271%	6.311%	6.458%	5.454%	6.137% (\$101.6)	5.110% (\$106.3)
Par (\$mm)	\$23,650	\$18,475	\$15,055	\$40,320	\$30,000	\$22,500

Mortgage Yield	6.93%
Bond Yield	5.63%
Spread	1.30%

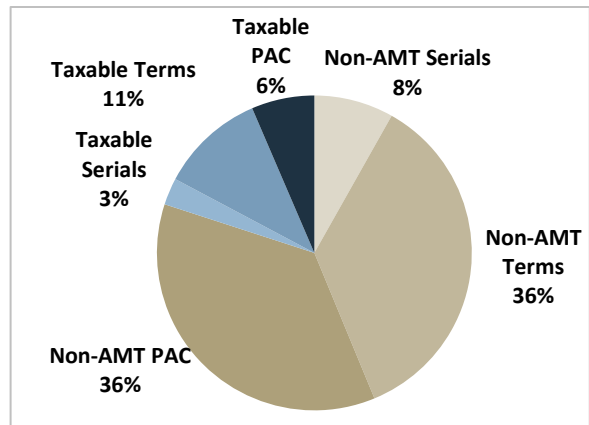
Amortization Profile



Blending Taxable with Tax-exempt Bonds: Texas DHCA RMRB 2023 BC

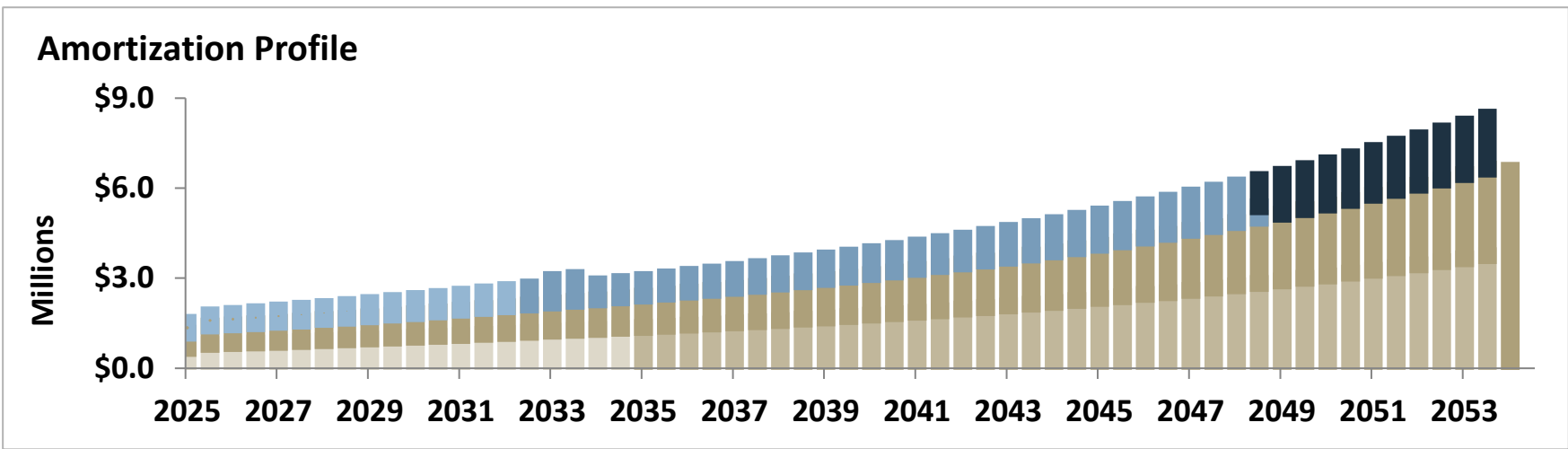
Minimizing Proceeds for DPA

- The Series 2023 BC Bonds were structured as 80% tax-exempt, 20% taxable, with \$15.3mm in premium serial bonds, \$58.1mm in premium term bonds, a large \$90.6mm 6-yr avg. life Non-AMT PAC, and a taxable PAC to increase premium for the Department
- With this structure TDHCA generated \$10.4mm in premium
- Proceeds of the bonds will be used to finance:
 - \$212.1 million in My First Texas Home loans, with repayable DPA
 - \$51.3 million in My Choice Texas Home loans (TDHCA non-FTHB program)



Bond Type	Serials	Term Bonds	PAC	Serials	Term Bonds	PAC
Tax Status	Non-AMT			Taxable		
Yield	3.35% - 4.30% (\$104.4)	4.40% - 4.98% (\$101.9)	4.43% (\$107.9)	5.380% - 5.788%	5.858% - 6.024%	5.839% (\$101.7)
Par (\$mm)	\$20,430	\$88,980	\$90,590	\$6,925	\$26,925	\$16,150
Premium (\$mm)	\$904.0	\$1,099	\$7,173	--	--	\$271.2

Mortgage Yield	6.10%
Bond Yield	5.59%
Spread	0.51%

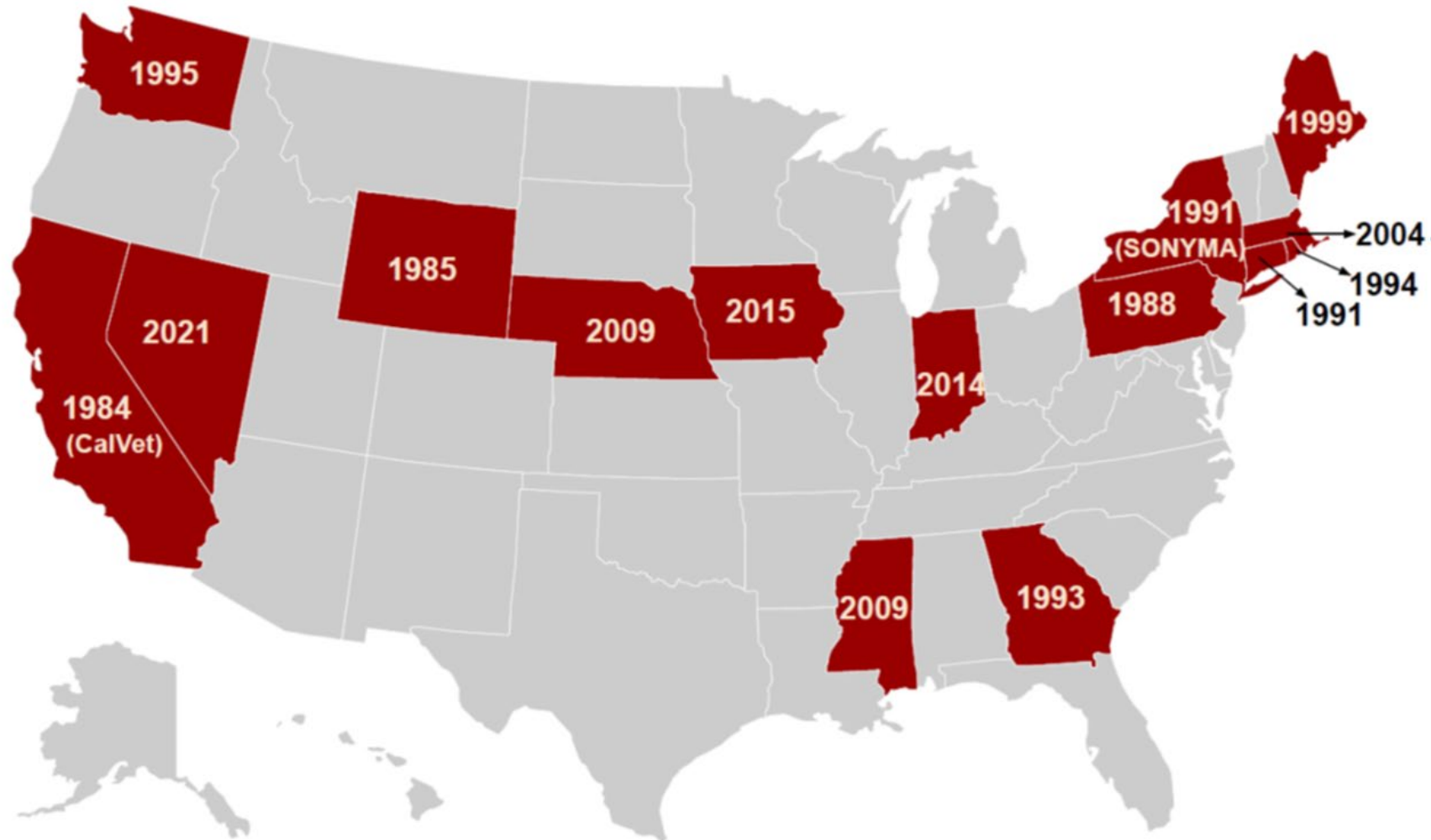


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What's Next in Single-Family Finance?

- Chuck Karimbakas
- Managing Director, cfX

Current cfX HFA Clients



Unprecedented Increase in Mortgage Rates

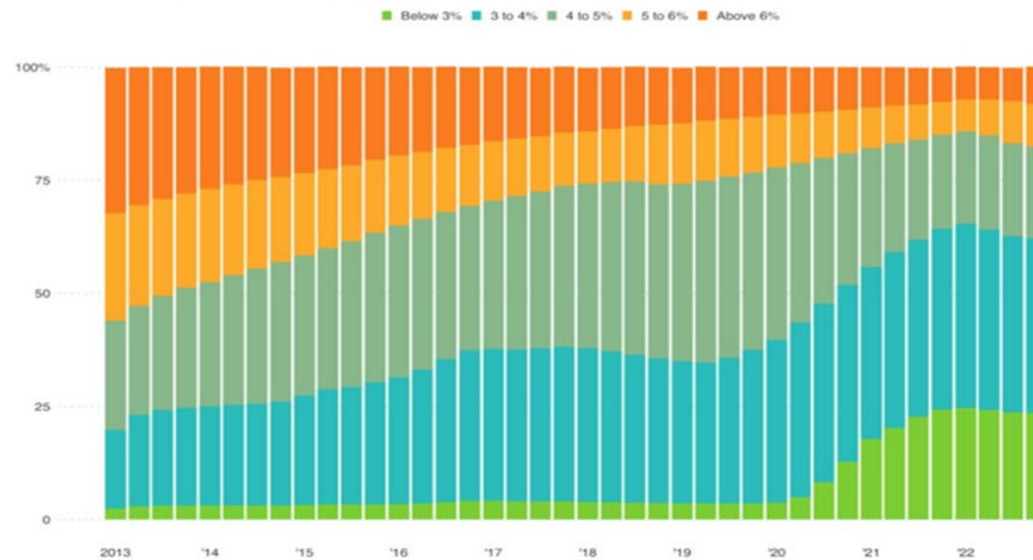
30 Year Fixed Mortgage Rates



This graph provides average 30 year fixed mortgage rates from several different surveys including Mortgage News Daily (daily index), Freddie Mac (weekly survey), Mortgage Bankers Association (weekly survey) and FHFA (monthly survey).

More Than 9 in 10 Mortgage Holders Have a Rate Below 6%

Share of mortgage loans outstanding by mortgage rate



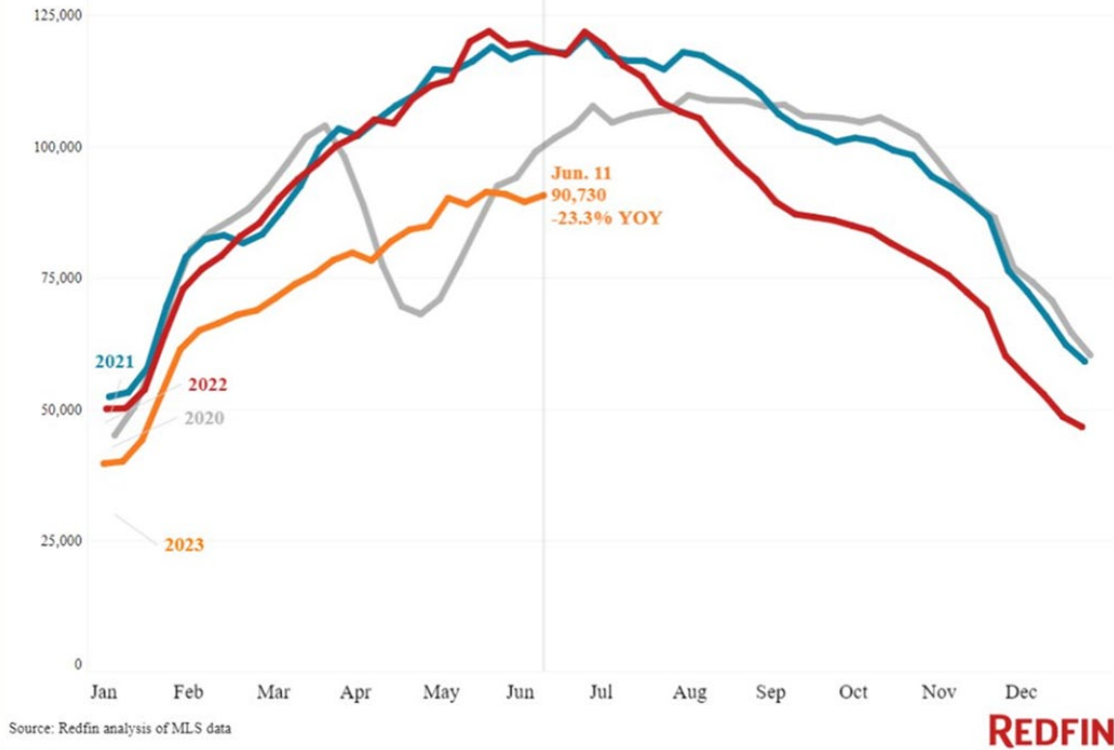
Source: FHFA, National Mortgage Database (NMD)

Why 8% Mortgage Rates Aren't Crazy

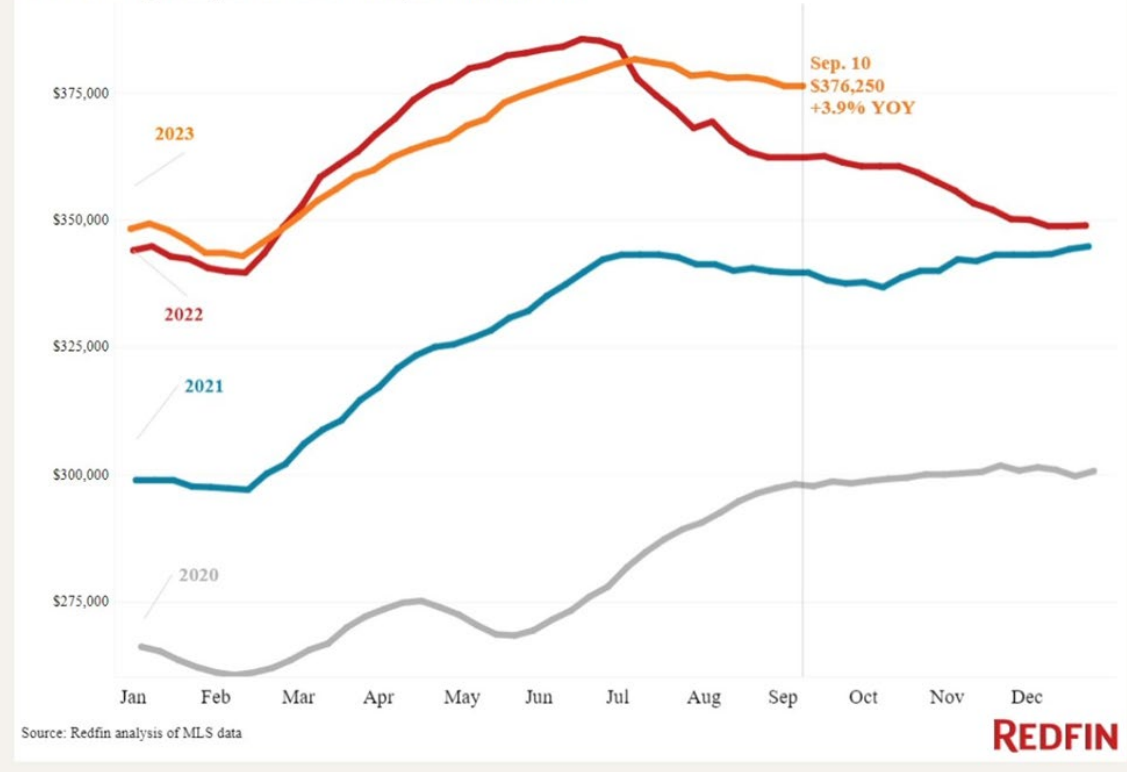
With fewer buyers for mortgage bonds, the rates on home loans can go unusually high

Limited Supply Drives Increase Home Values

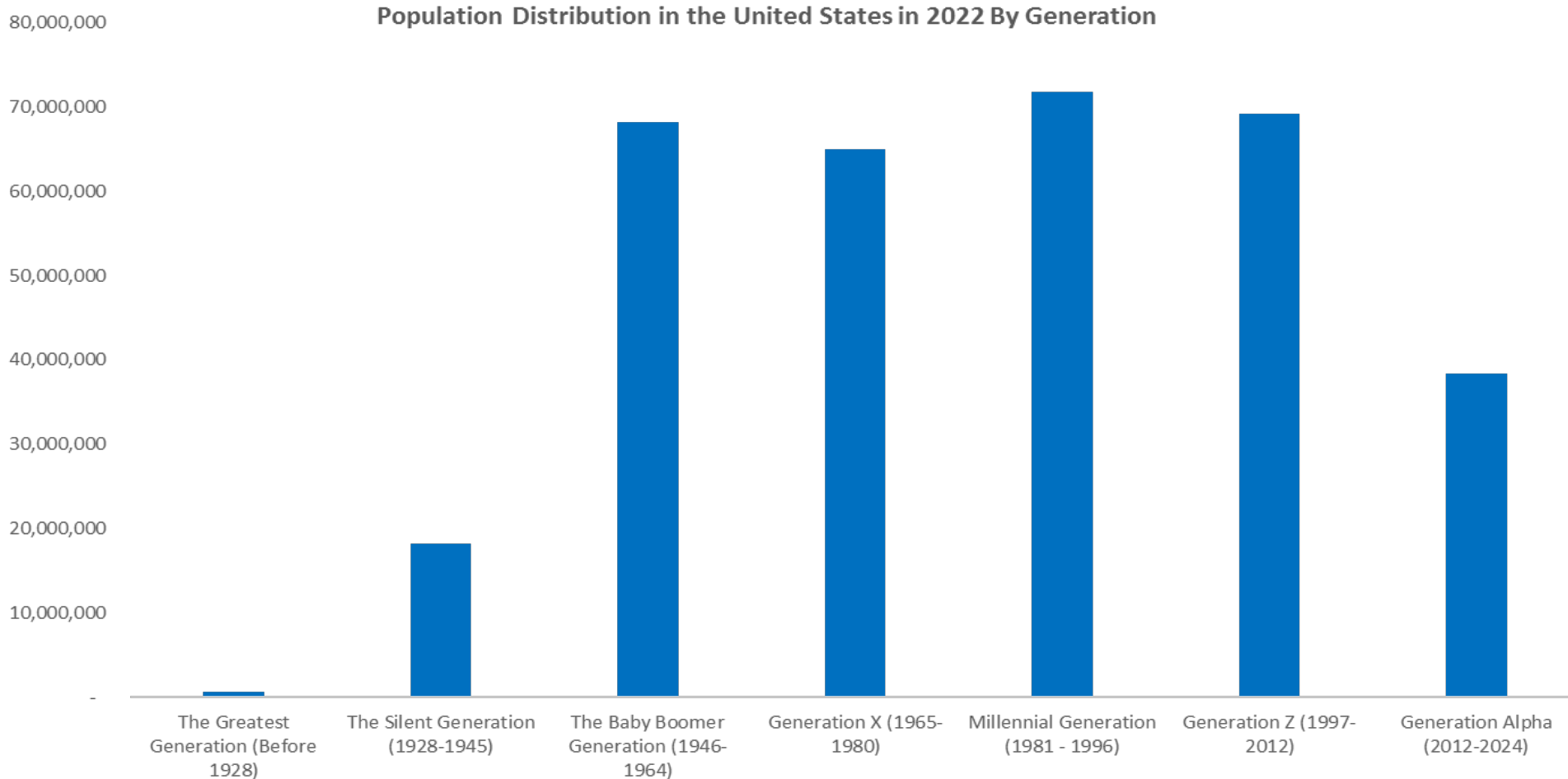
New Listings of Homes -23% Year Over Year
4-week rolling average of weekly new listings of homes for sale



Median Sale Price +3.9% Year Over Year
4-week rolling average of the median sale price of homes sold



Millennials and Generation Z Driving Demand



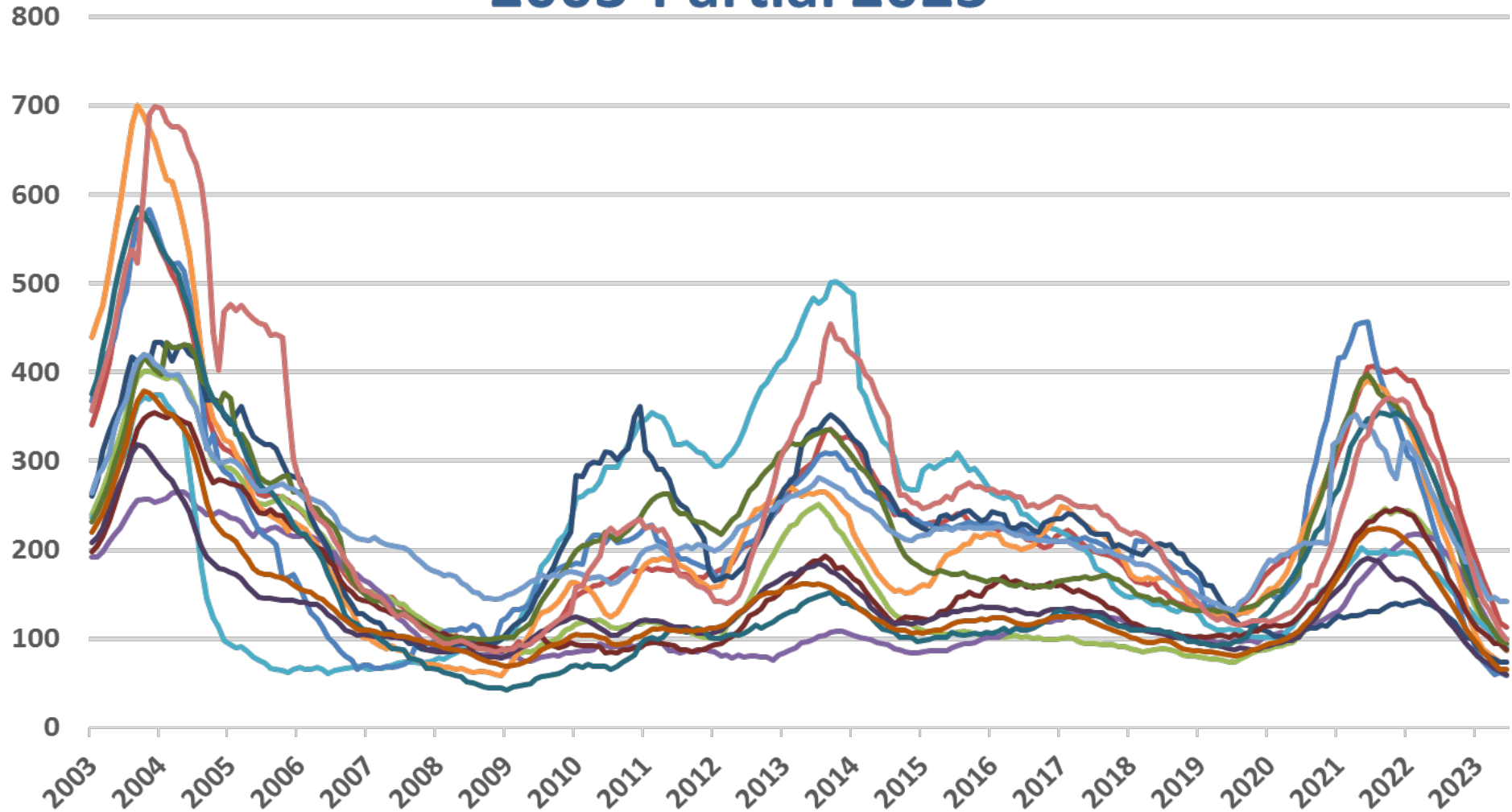
HFA Production Significantly Higher in 2023

- HFA increased production driven by several factors
 - Value of tax-exemption is greater with higher overall rates
 - Use of Down Payment Assistance programs to attract borrowers
 - Loan sales not as attractive as rates rise and due to QT
- Prepayments have slowed dramatically as mortgage rates have risen
 - Slower prepayments are beneficial to HFAs as spread is earned over a longer duration

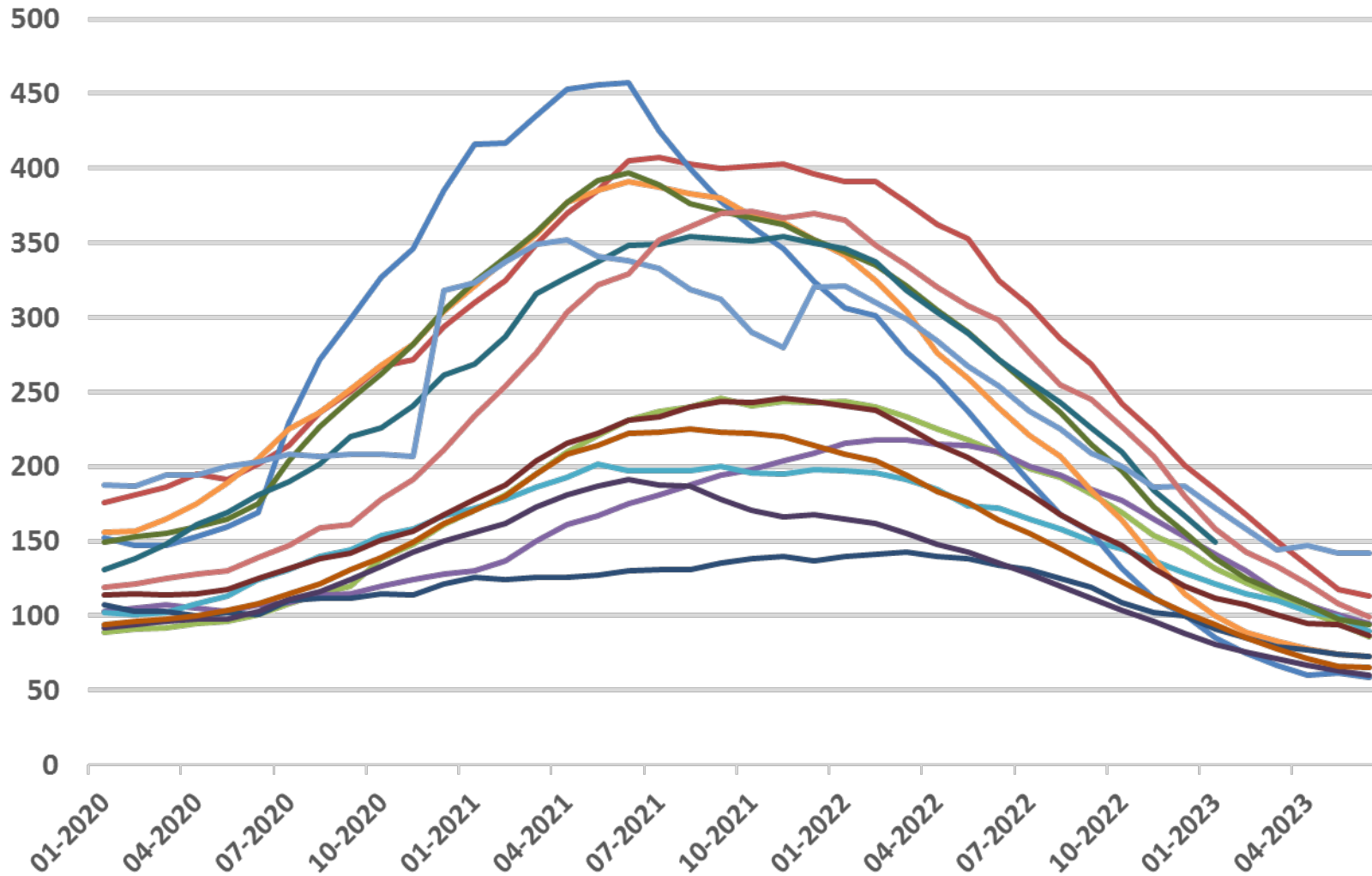
Bond Selloff Might Force Fed to Rethink Shedding Assets

Federal Reserve's quantitative tightening is one of the factors pushing long-term rates higher

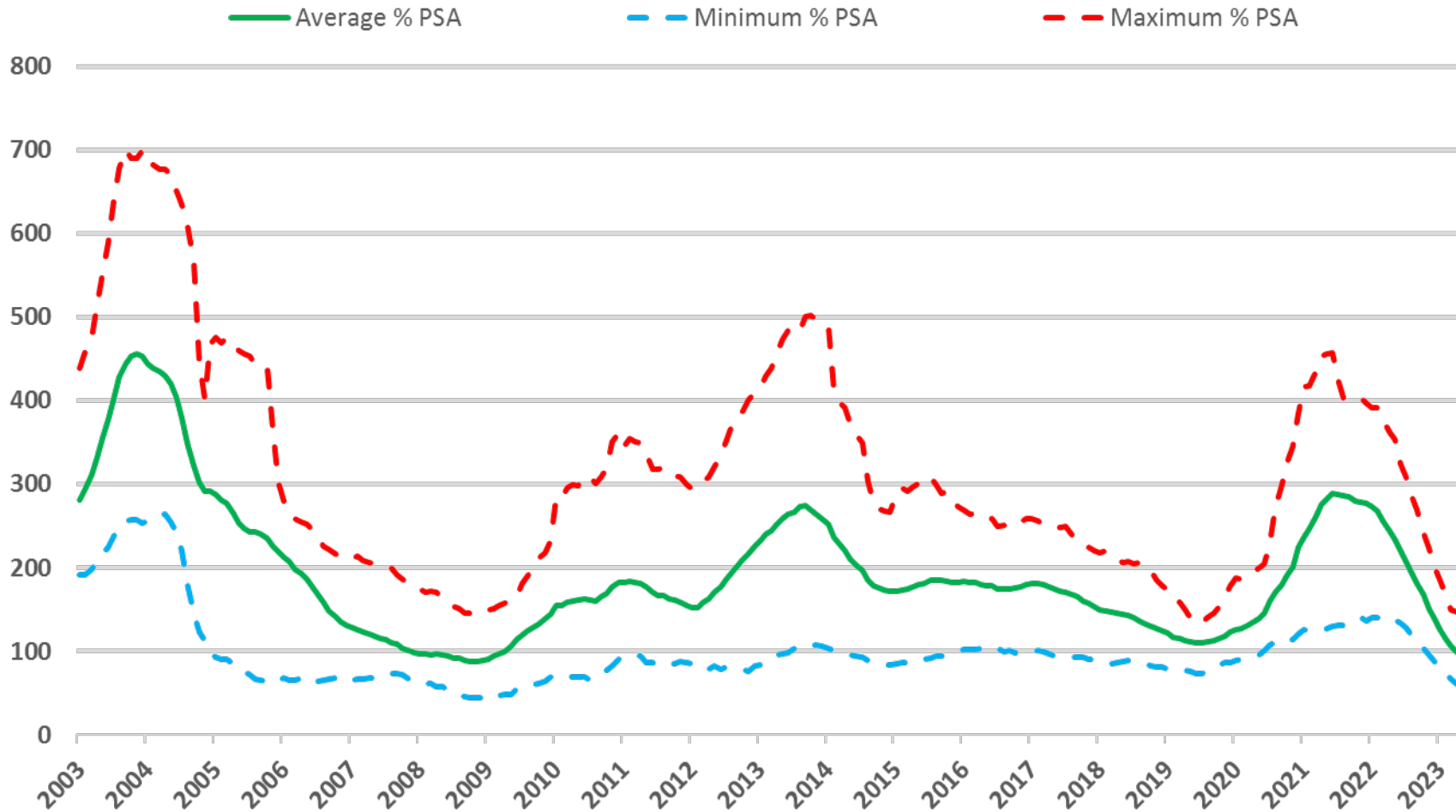
Trailing 1-Year % PSA Rates for 14 State HFAs 2003-Partial 2023



Trailing 1-Year % PSA Rates for 14 State HFAs 2020-Partial 2023

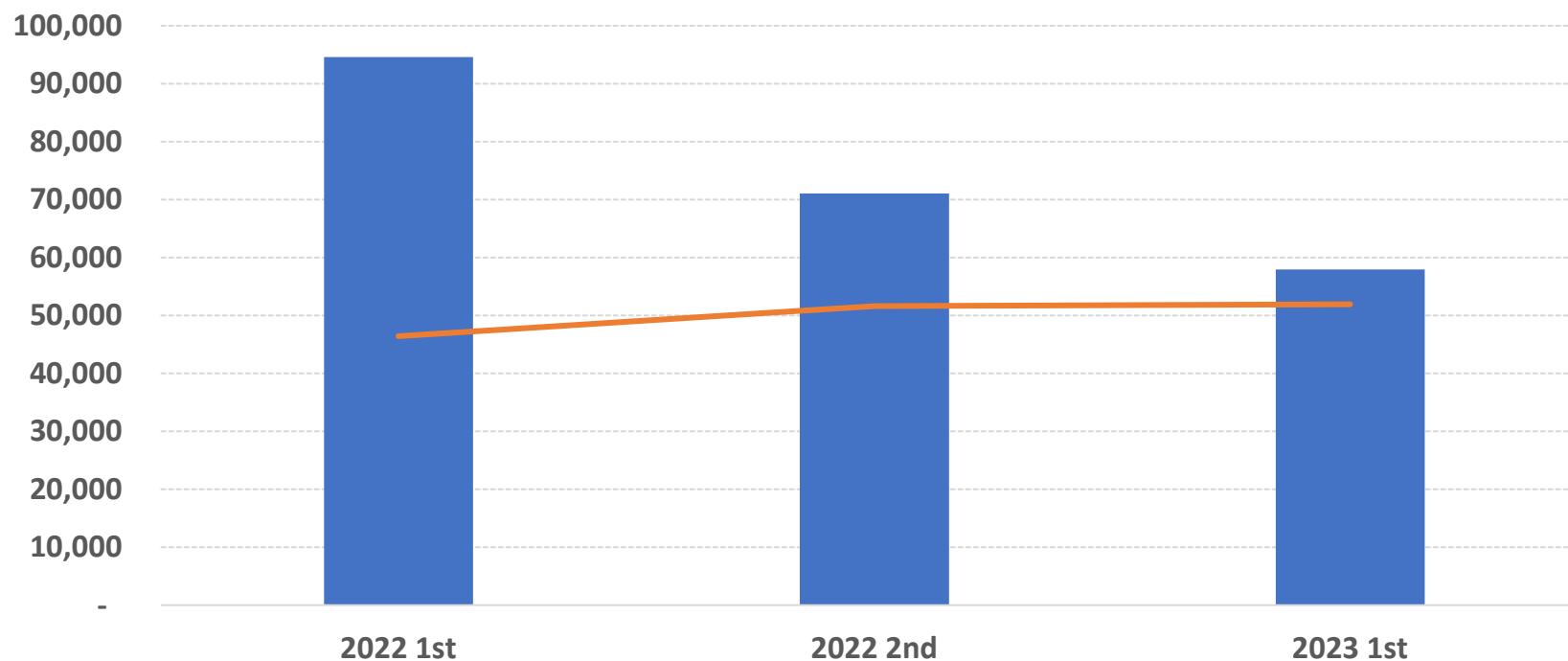


Trailing 1-Year % PSA Rates for 14 State HFAs 2003-Partial 2023: Min, Avg, Max



Unrestricted Principal vs Scheduled Maturities and PAC calls for Select cfX HFA Clients

in 000's



■ Average Unrestricted Prin

— Scheduled Bond Retirement plus PAC Table Target

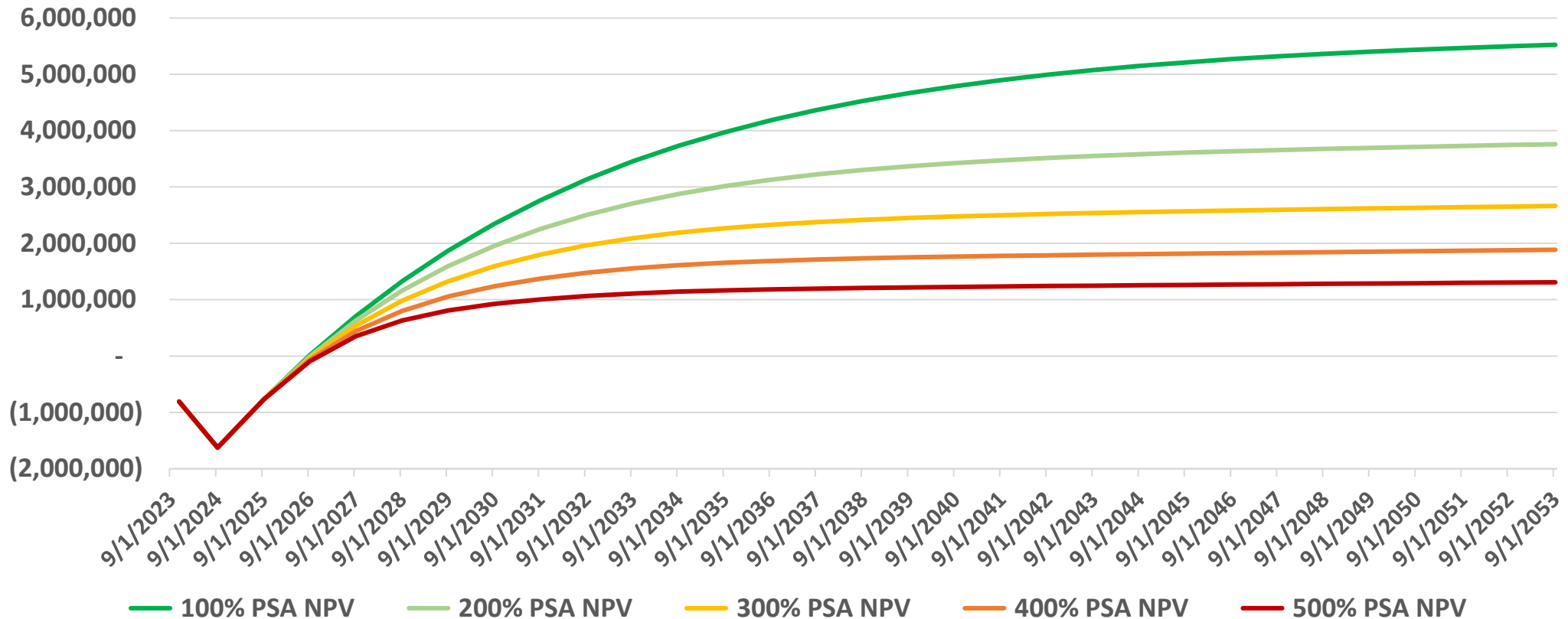
MRB's Perform Better With Slow Prepayments

<i>Transaction Costs</i>			<i>MBS Purchase Impacts</i>		<i>% of MBS</i>	<i>PSA</i>	<i>Breakeven</i>	<i>NPV (\$)</i>	<i>NPV (%)</i>
Par Amount	99,805,000		MBS Par	96,188,712		100%	3/1/2027	5,521,035	5.74%
PAC Premium	191,486		DPA Par	2,944,222	3.06%	200%	9/1/2027	3,758,534	3.91%
Gross Proceeds	99,996,486		Lender Comp	(1,923,774)	-2.00%	300%	9/1/2027	2,663,468	2.77%
Total Takedown	-		Borrower Points	-	0.00%	400%	9/1/2027	1,884,065	1.96%
U/W Fees & Expenses	-		Average USB SRP	1,070,203	1.11%	500%	9/1/2027	1,308,455	1.36%
Cost of Issuance	998,050		MBS premium	(853,571)	-0.89%				
Total COI	998,050		09/01/2024 Earnings	(30,343)	varies w/PP				
		<i>% of MBS</i>	09/01/2024 Net Income	(883,914)	<i>see below</i>				
PAC Premium	191,486	0.20%							
COI	(998,050)	-1.04%							
Net Closing Impact	(806,564)	-0.84%							

MRB's Perform Better With Slow Prepayments

MRB Net Present Value

(Stand-alone analysis - Does not include any indenture management gains)



Conclusion

- Higher interest rates longer will constrain HFA liquidity
 - Large parity resolutions will have enough unencumbered assets to meet scheduled debt service
 - PAC calls to the table at 100PSA should be monitored closely in the coming year
- HFA spread and profit will continue to benefit from higher interest rates and slower prepayments
- When rates fall – managing portfolio runoff will be a challenge
 - Consider select refinance programs
 - Down payment assistance loan prepayments will help offset lost spread

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- Over the past 22 years, CSG has advised on more long-term housing issues and a higher volume of issues than any other financial advisory firm
- 100% employee owned, 53% women owned.

*Source: Thomson Reuters rankings of financial advisors in tax-exempt long-term housing new issues, 2000-2022.

30+
State &
Local
Housing
Agencies

33+
Public Housing
Authority
Clients

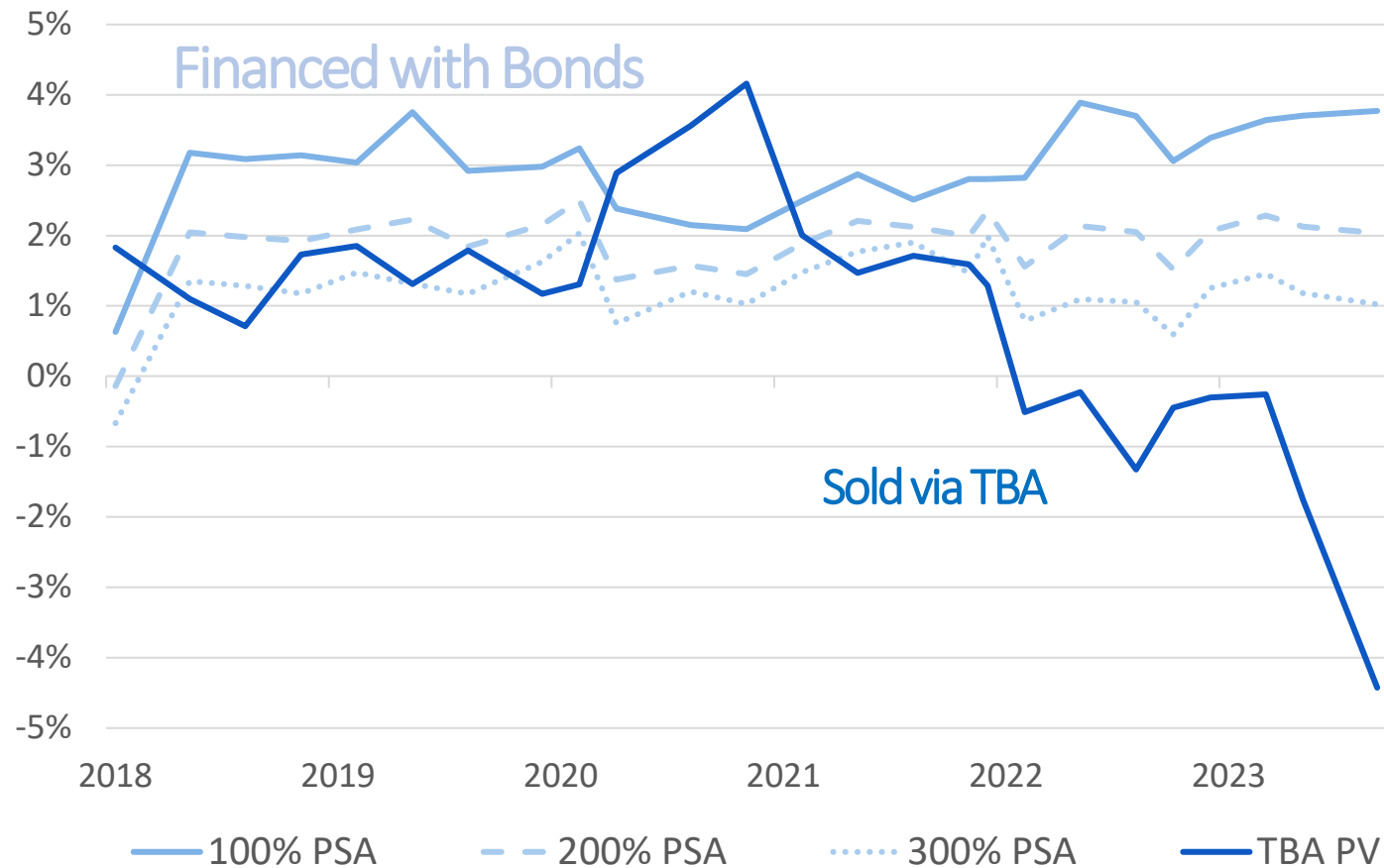
600+
Homeowners
served

1,800+
Multifamily
& 501c3
bond issues

1,000,000
homes financed
since 1978

IT PAYS TO BE FLEXIBLE

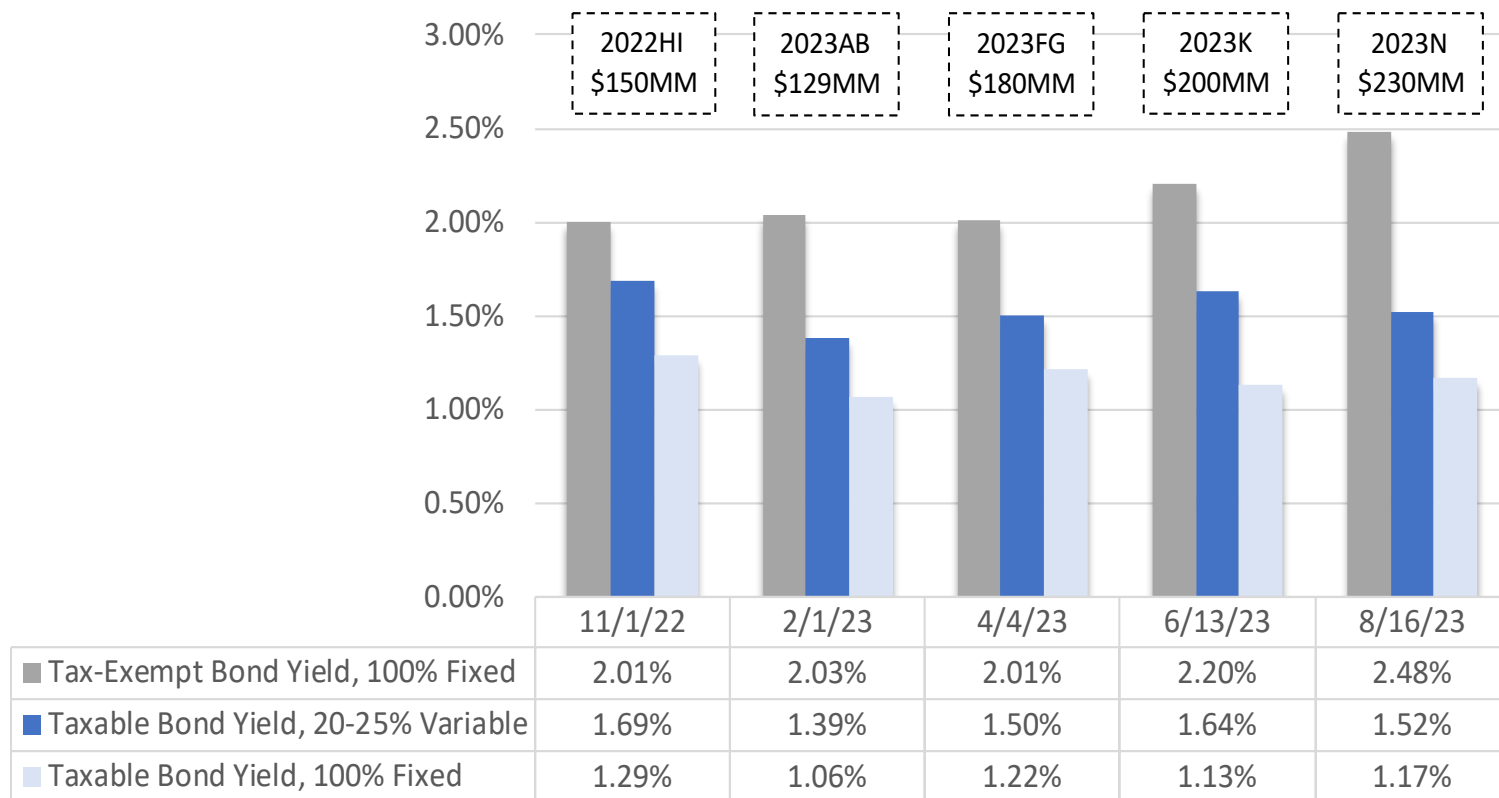
Net Present Value: Funding with TBA or Bonds



- Assumes full spread mortgage rates and 84% GNMA / 16% Conventional loan split, with 0.5% origination fee.
- Bond financing scenarios represent a full spread traditional bond issuance with premium PAC bonds.

SPREADS ARE VERY ATTRACTIVE

Spreads: Freddie Mac Weekly Loan Rate Survey, less Bond Yields



- Freddie Mac's weekly loan rate survey is based on first-lien prime conventional conforming home purchase mortgages with a loan-to-value of 80 percent.
- Source: <https://www.freddiemac.com/pmms>

COMPARISON OF BORROWER SUBSIDY

100% PSA					
Assumed Typical Mortgage		Subsidized Interest Rate Reduction (100bps)		0% Deferred Payment Loans	
Mortgage Amount	250,000	Amount of Subsidized Rate Loans	53,500,000	Amount of Deferred Payment Loans	10,000,000
Monthly Payment at 7.00%	\$1,654	To Set Mortgage Rate 1.00% Lower		Deferred Payment Loan Size	24,500
		Monthly Payment at 6.00%	\$1,491	Mortgage Amount	225,500
		Reduction in Monthly Payment	-\$162	Monthly Payment at 7.00%	1,492
				Reduction in Monthly Payment	-\$162
		Total Borrowers Assisted	214	Total Borrowers Assisted	408
		PV Impact to Agency at 100% PSA	-3,799,880	PV Impact to Agency at 100% PSA	-3,791,830
		Cost Per Loan	-17,756	Cost Per Loan	-9,290
150% PSA					
		Amount of Subsidized Rate Loans	46,750,000	Amount of Deferred Payment Loans	10,000,000
		Total Borrowers Assisted	187	Total Borrowers Assisted	408
		PV Impact to Agency at 150% PSA	-2,514,878	PV Impact to Agency at 150% PSA	-2,514,903
		Cost Per Loan	-13,449	Cost Per Loan	-6,162
200% PSA					
		Amount of Subsidized Rate Loans	44,750,000	Amount of Deferred Payment Loans	10,000,000
		Total Borrowers Assisted	179	Total Borrowers Assisted	408
		PV Impact to Agency at 200% PSA	-1,925,156	PV Impact to Agency at 200% PSA	-1,925,283
		Cost Per Loan	-10,755	Cost Per Loan	-4,717
250% PSA					
		Amount of Subsidized Rate Loans	43,900,000	Amount of Deferred Payment Loans	10,000,000
		Total Borrowers Assisted	176	Total Borrowers Assisted	408
		PV Impact to Agency at 250% PSA	-1,602,780	PV Impact to Agency at 250% PSA	-1,604,044
		Cost Per Loan	-9,127	Cost Per Loan	-3,930



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