



National Housing & Rehabilitation Association

Annual Meeting & Symposium

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MBS as Tax-Exempt Bond Collateral (M.TEB)

The Fannie Mae M.TEB structure was created to avoid a dual transaction structure (Conventional MBS paired with Short Term Bonds). RBC CM marketed inaugural structure in 2015

M.TEB Features

- Typical All-in Interest Rates of mid-4.00% Range
- Aggressive Guaranty/Servicing Fees
- **Highly cost effective structure** for Acquisition/Rehab and New Construction
- **Flexible Structure:** Premium pricing, 20-35 Yr amortization , IO & varied prepayment
- **Greater Certainty of Execution** with Delegated Underwriting and Streamlined Processing
- **Strong Investor Base** for Aaa/AA+/MBS Bonds – traditional tax exempt buyers, taxable MBS buyers, CRA buyers, Financials institutions, Insurance companies
- Long Term Tax Exempt Debt; **Opportunities to refund** at a later date
- Ability to add **Supplemental Loans** post- closing to “earn-out” additional proceeds



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Fannie Mae M.TEB Transactions to Date

- RBCCM has closed 10 M.TEB transactions (approx. **\$200 Million**) since 2015
- Bond/Pass-through Rates ranging from **2.60% to 3.45%**
- Up to **90% LTV** and up to **35 Year Amortization**
- Issues funded developments in **California, Florida, Illinois, Texas** (and pending issues in Georgia and Pennsylvania)
- RBCCM has developed an investor base of **26 institutions** to date
- Strong Investor Participation in M.TEB Offerings to date
- Structure is flexible and accommodates the following:
 - Interest Only Periods of 1-2 Years
 - Premium Pricing to generate additional proceeds
 - Varied Prepayment Terms (e.g. 10 year par call)



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RBC Capital Markets – Recent Fannie Mae M.TEB Experience



Recent M.TEB Underwriting: \$50 million TDHCA

- ✓ \$50 million offering through Texas Department of Housing & Community Affairs for Vista on Gessner Apartments
- ✓ 48 building comprising 805 units in Houston, TX
- ✓ Closing Date: 02/05/2017
- ✓ RBC Capital Markets sole managed the underwriting and received strong investor interest
- ✓ Final maturity of March 1, 2035
- ✓ Bonds priced at par to yield 3.40%
- ✓ Ninth M.TEB underwriting for RBC CM
- ✓ Three additional M.TEB offerings in process

RBC CM has Served as Sole Manager on Eight Additional M.TEB Issues, and was the First Investment Bank to execute the Bond Structure

 <p>\$17,500,000</p> <p>Housing Authority of the City of Los Angeles</p> <p>New Visions</p> <p>Multifamily Housing Revenue Bonds</p> <p>Sole Manager February 2018</p>	 <p>\$13,840,000</p> <p>California Public Finance Authority</p> <p>Sycamore Court</p> <p>Multifamily Housing Revenue Bonds</p> <p>Sole Manager June 2017</p>	 <p>\$16,000,000</p> <p>Jacksonville Housing Finance Authority</p> <p>Timberwood Trace</p> <p>Multifamily Housing Revenue Bonds</p> <p>Sole Manager January 2017</p>	 <p>\$18,750,000</p> <p>Texas Department of Housing and Community Affairs</p> <p>Skyline Place Apartments</p> <p>Multifamily Housing Revenue Bonds</p> <p>Sole Manager September 2016</p>	 <p>\$8,600,000</p> <p>Illinois Housing Development Authority</p> <p>Gates Manor</p> <p>Multifamily Housing Revenue Bonds</p> <p>Sole Manager August 2016</p>	 <p>\$7,400,000</p> <p>Illinois Housing Development Authority</p> <p>Woodland Towers</p> <p>Multifamily Housing Revenue Bonds</p> <p>Sole Manager June 2016</p>	 <p>\$19,500,000</p> <p>Illinois Housing Development Authority</p> <p>Crossroads of East Ravenswood</p> <p>Multifamily Housing Revenue Bonds</p> <p>Sole Manager June 2016</p>	 <p>\$23,150,000</p> <p>Texas Department of Housing and Community Affairs</p> <p>Williamsburg Apartments</p> <p>Multifamily Housing Revenue Bonds</p> <p>Sole Manager December 2015</p>	 <p>\$21,750,000</p> <p>Illinois Housing Development Authority</p> <p>Fullerton Court Apartments</p> <p>Multifamily Housing Revenue Bonds</p> <p>Sole Manager January 2015</p>
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Source: Thomson Reuters SDC

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M.TEB Investor Base Has Grown with Increased Volume

M.TEB Bond Transaction	Investors
Housing Authority of the City of LA	5
Vista on Gessner	9
Sycamore Court	3
Timberwood Trace	5
Skyline Place Apartments	10
Gates Manor	6
Woodland Towers	4
Crossroads of East Ravenswood	6
Williamsburg	4
Fullerton Court	7
	26 distinct investors



RBCCM Approach to Selling Fannie Mae M.TEB

Extensive Investor Relationships: RBCCM has developed a pool of approximately **65** purchasers of Single Family MBS Pass Through Bonds on approximately **\$2 Billion** marketed to date and **26** different purchasers for Fannie Mae M.TEBs

Broad Range of Investors: CRA investors, Insurance Companies, Banks and Money Managers ensure successful marketing of bonds throughout the country, including areas with limited CRA appetite.

Public Offering to Expand Investor Base: “Aaa/AA+” rated bonds are attractive to all classes of investors. Expanded investor base leads to improved pricing execution and liquidity over time.

State Municipal Bond Pricing Differences: Pricing will vary depending on location of the project.

- Bonds in **CRA Markets** will price at lower rates
- Bonds funding projects in States with state and/or local income taxes are **exempt from federal tax, and state and local taxes**. “Specialty state” bonds trade at lower interest rates than “national” bonds
 - Examples include **California, New York, Maryland**



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Flexible Application of M.TEB Structure Forward Commitment

- **Fannie Mae – New Construction and Substantial Rehab**
 - Fannie Mae Forward Commitment – up to 36 months
 - Construction loan or Letter of Credit required
 - Permanent bond pricing locked at issuance
 - Bond/Loan proceeds secure bonds until MBS is delivered. Reinvestment in Treasuries reduces interest during construction
 - Upon Conversion, MBS will be delivered to the Trustee and secure the Bonds
 - **All-in Rate with Bonds and Fannie Mae Guarantee & Servicing is in mid- 4% range**
 - Economics compare favorably to Private Placement executions



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Advantages to M.TEB Forward Commitment Product

- Low interest rate in mid 4.00% range **drives additional proceeds**
- Interest must be capitalized for both M.TEB and Construction Loan:
 - M.TEB Interest is offset by interest earnings on bond proceeds/loan proceeds. On a net basis (after investment earnings) **capitalized bond interest is reduced to approximately 1.60% per annum**
 - **Construction loan may be structured on a draw down basis** allowing for reduced capitalized interest
- Use of a Construction loan (vs letter of credit which has strict rating requirements) **broadens the universe of construction lenders**
- M.TEB product allows for **post-closing supplemental loans** assuming project meets debt service coverage requirements