



NH&RA

NATIONAL HOUSING &
REHABILITATION ASSOCIATION

NH&RA Multifamily Bond Symposium

Housing Bond Market Update

February 26, 2020

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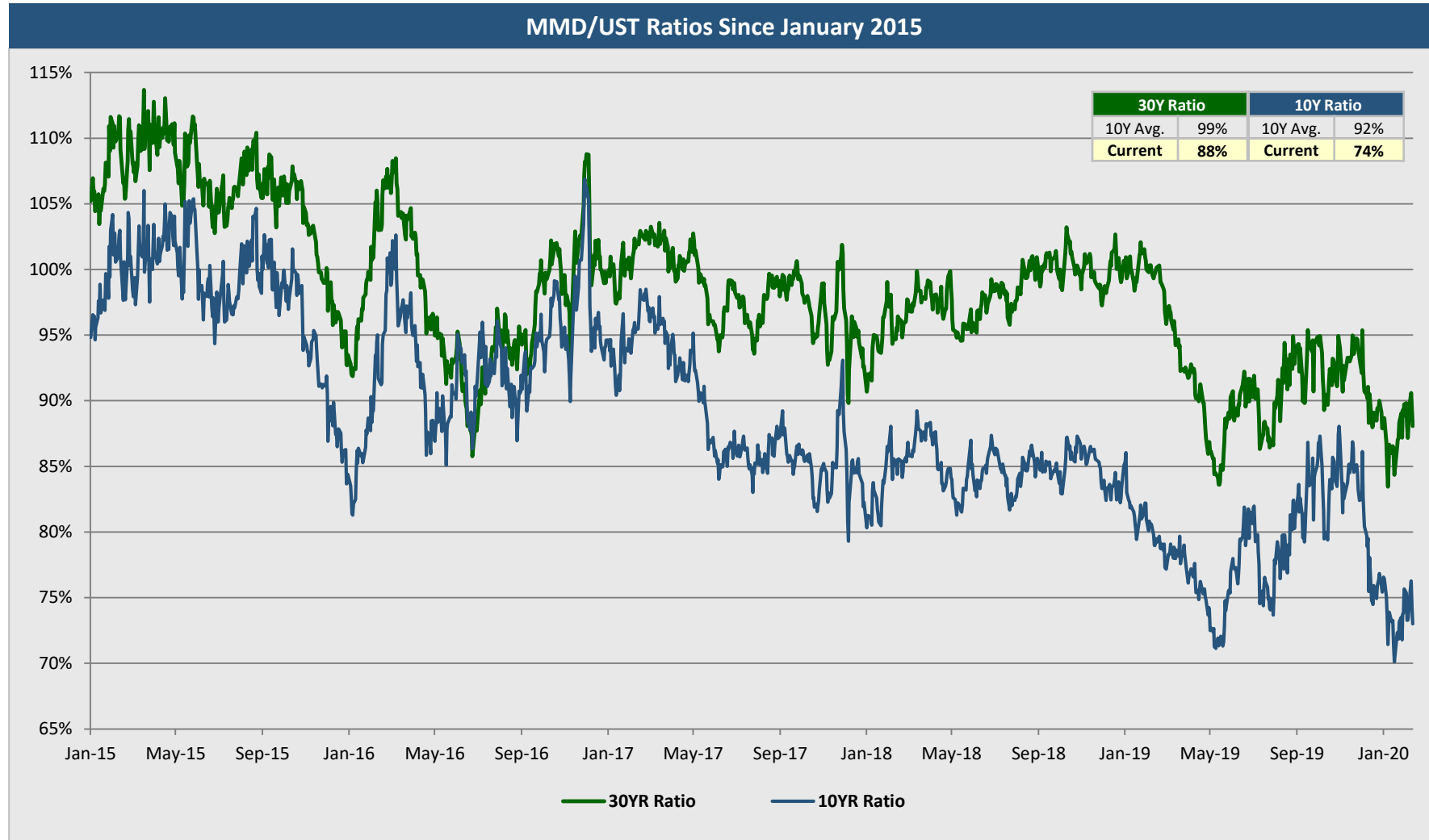
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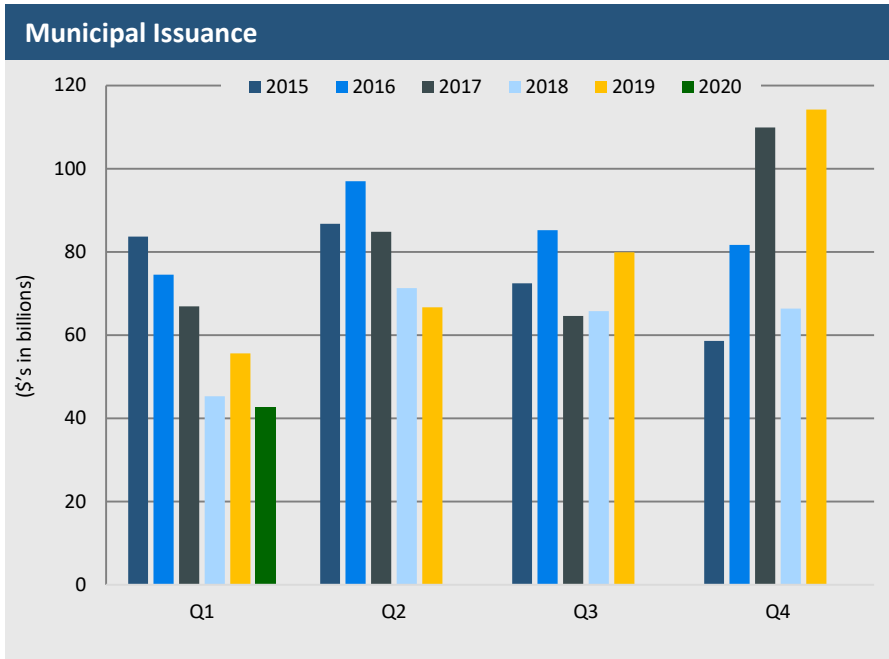
MMD / UST Ratios

- Tax-exempt/taxable ratios are low when compared to their historical averages – value of tax-exemption today is high

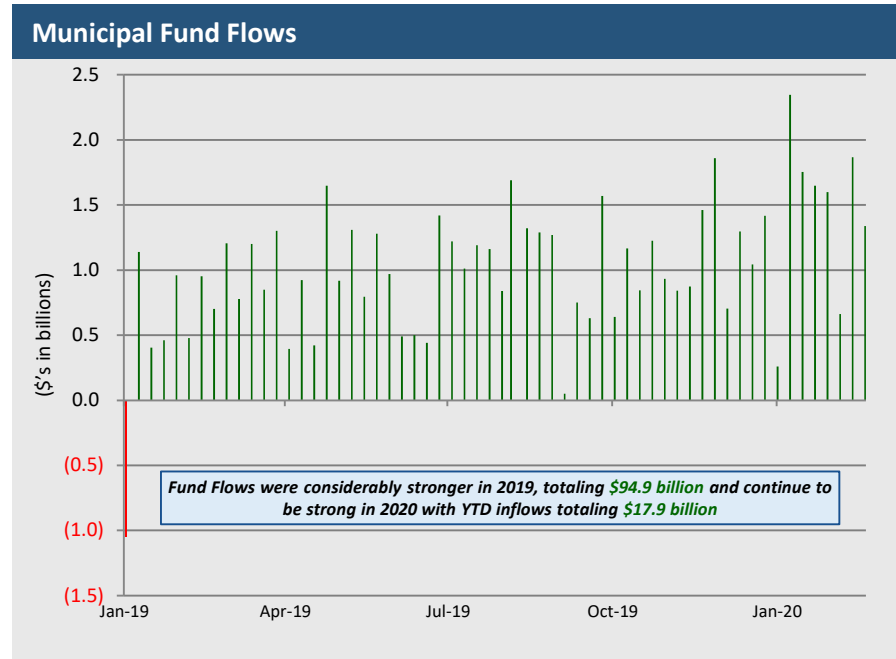


Source: Thomson Reuters and Bloomberg.

Municipal Supply and Demand



Source: Thomson Reuters as of 2/21/2020

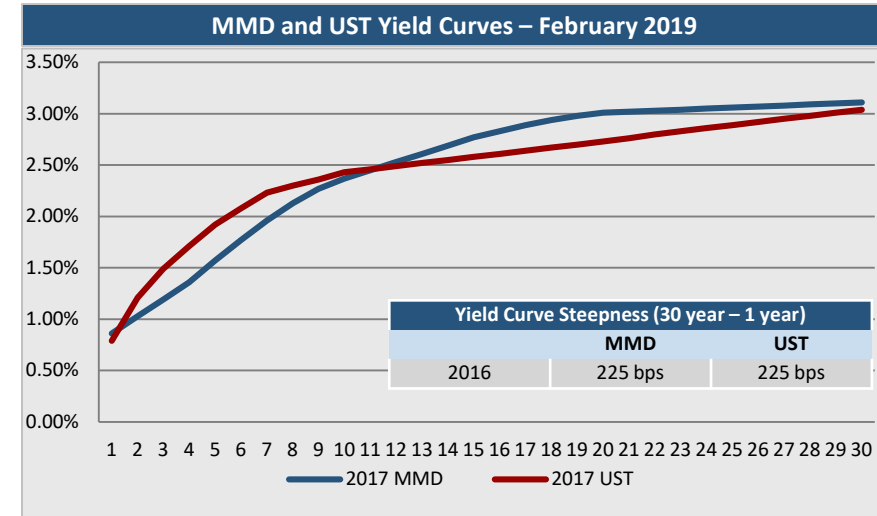
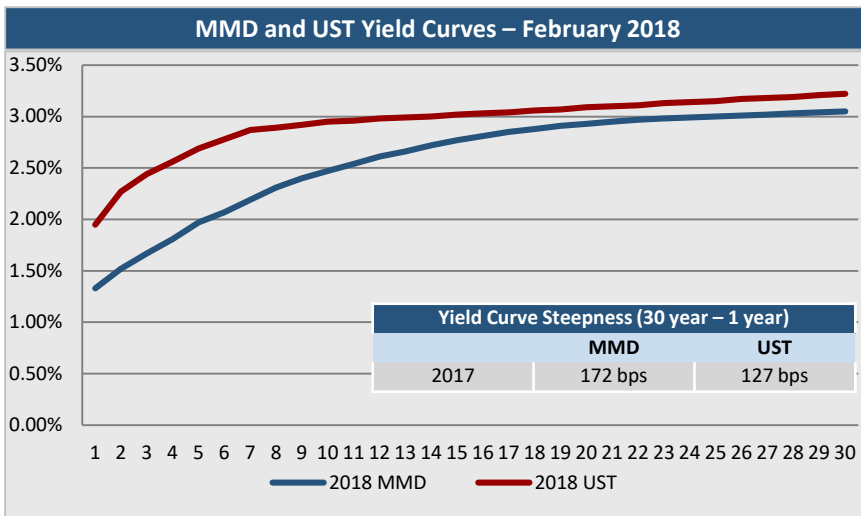
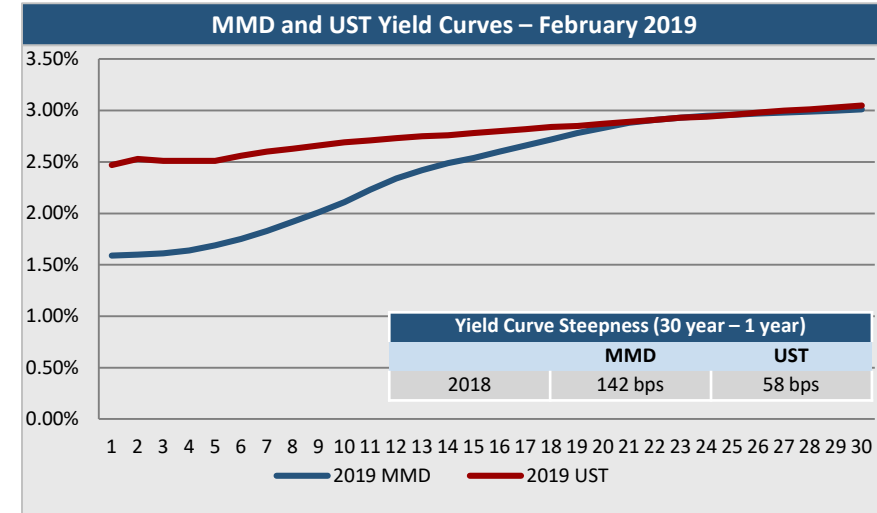
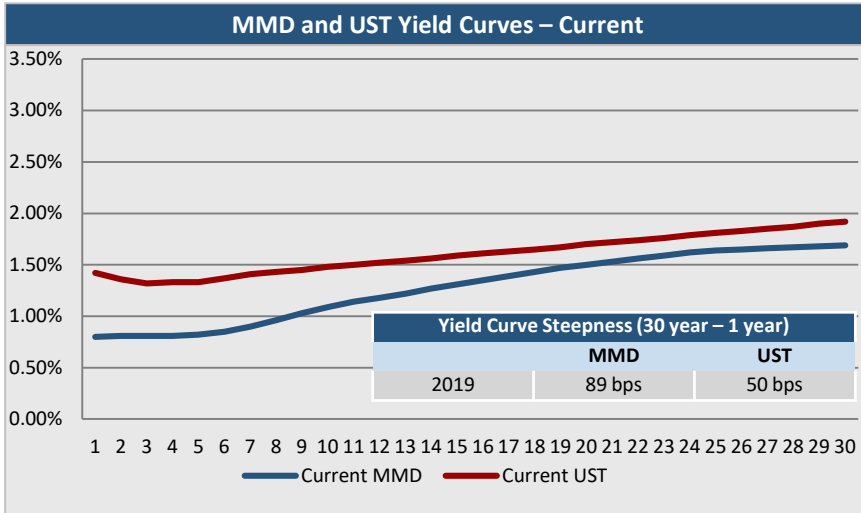


Source: EPFR data as of 2/21/2020

Key Points

- Municipal supply has not kept up with the rise in demand, lagging behind 2017 levels
- These positive technicals have contributed to a dramatic decline in rates, with 10-year and 30-year MMD declining **118** and **130 bps**, respectively, since January 2019
- Municipal inflows remain extremely strong with 59 consecutive weeks of positive flows totaling over **\$110.0 billion** in inflows
 - Last week, tax-exempt fund flows were \$1.3 billion in inflows which included \$330.3 million in high yield inflows
- A combination of weak supply and robust fund flows should set up for a strong technical environment for tax-exempt securities
- Coronavirus concerns have further fueled general rally in rates and continued support for municipal bonds

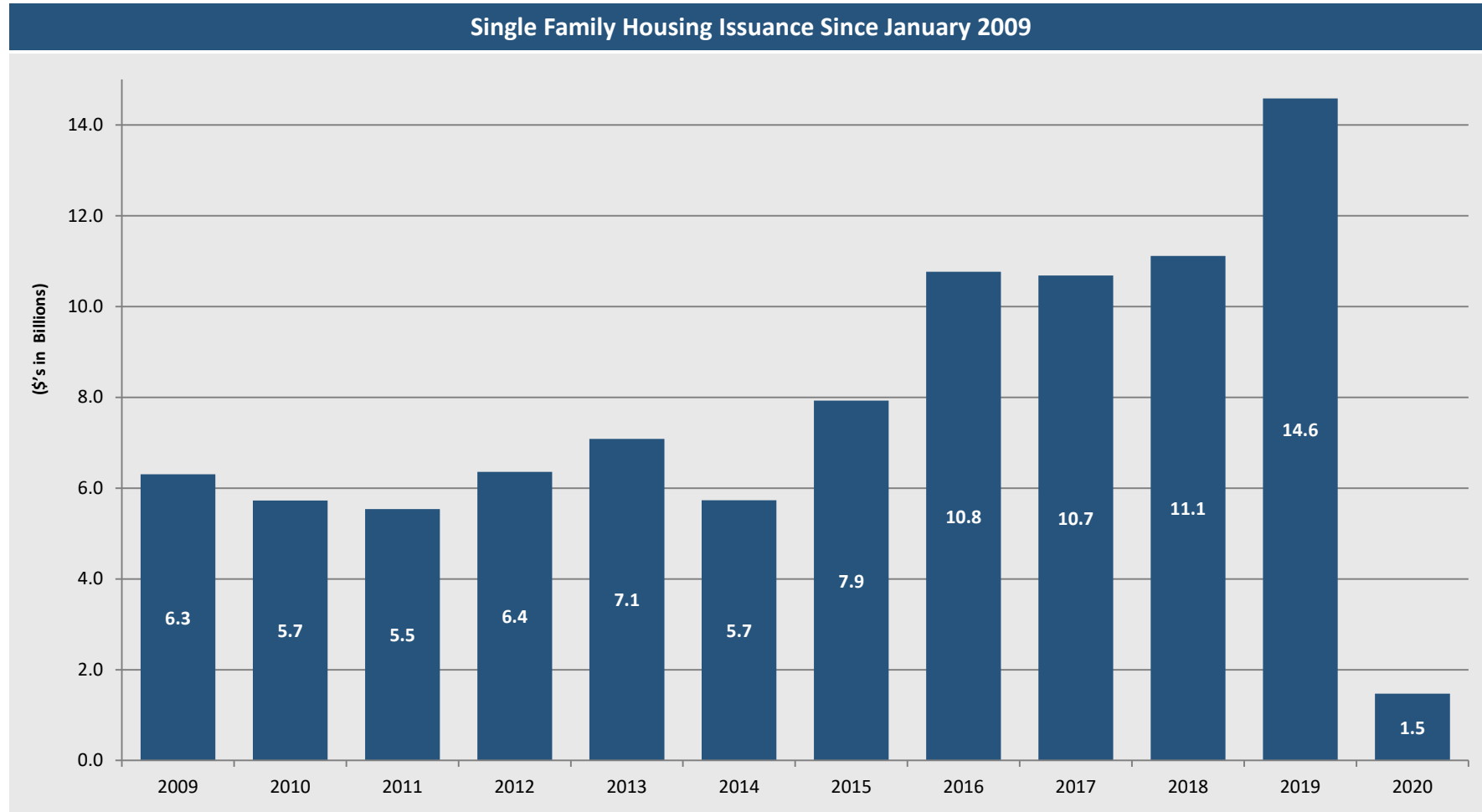
Yield Curve Relationships are Bringing Back Value of Tax-Exempt Financing Models



Source: Thomson Reuters and Bloomberg.

Single Family Housing Issuance

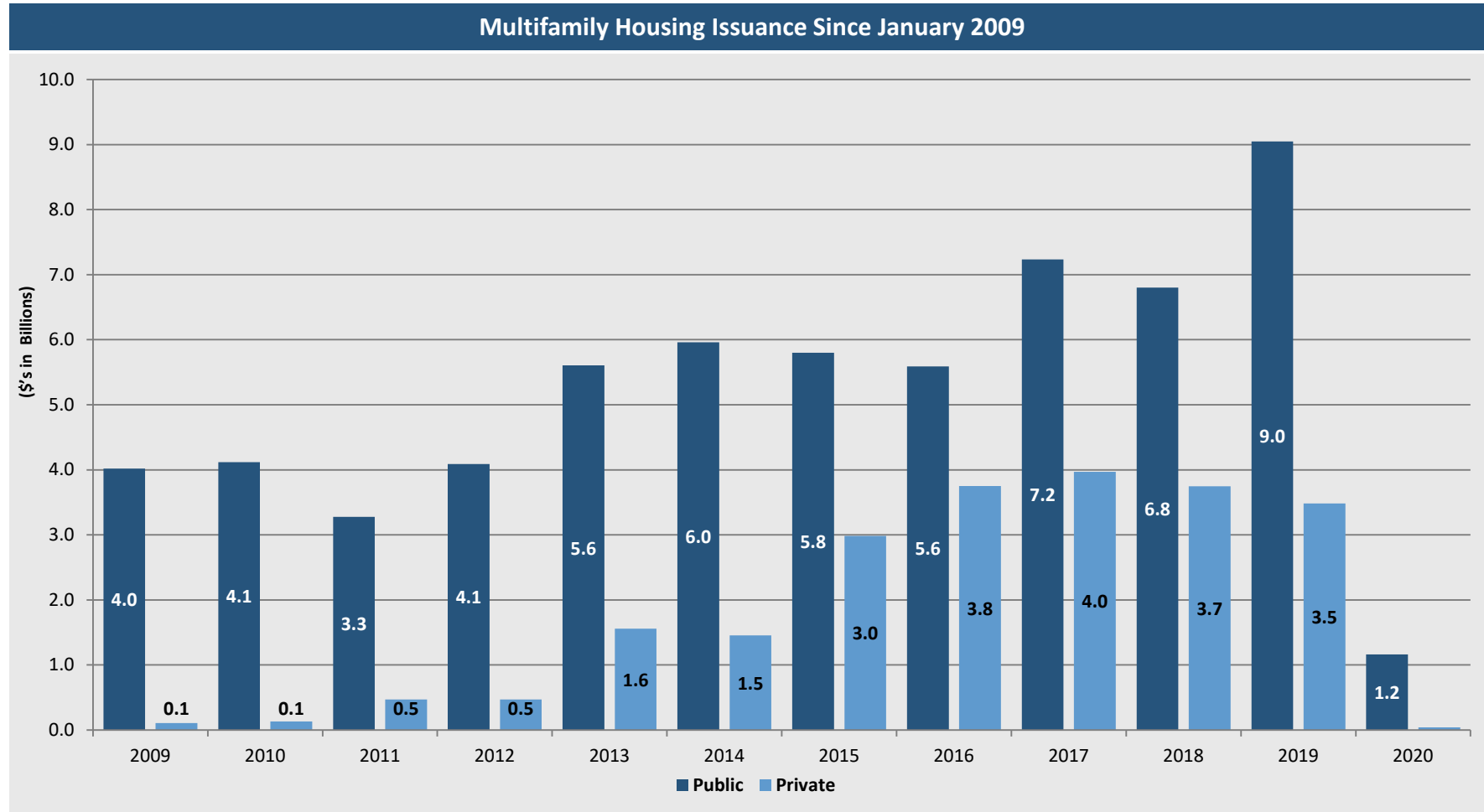
- Although single family issuance was sluggish in the first part of the decade, HFAs have almost doubled their volume of single family bonds since 2015
- Last year, single family housing issuance increased by nearly \$3.5 billion or 31.2% when compared to the prior year



Source: Thomson Reuters

Multifamily Housing Issuance

- During the past 10 years, over 74% (\$59.4 billion) of multifamily housing transactions have been public offered, while 26% (\$20.6 billion) have been privately placed
- Privately placed deal volume increased considerably during the 2012-2016 period but has recently declined



Source: Thomson Reuters

HFA Direct Lending Models

	General Obligation Bonds	Structured Finance	Open Indenture	FHA Risk-Share
Overview	Use G.O. rating to fund loans through debt issuance	Structure to rating agency criteria to achieve ratings	Overcollateralized indenture with insured and uninsured loans	Use unique insurance product for HFA loans to secure debt
Strengths	<ul style="list-style-type: none"> ✓ Direct underwriting ✓ Potentially more straightforward disclosure ✓ Structuring flexibility ✓ No DSRF 	<ul style="list-style-type: none"> ✓ Minimal capital ✓ Favorable rating agency view of affordable housing ✓ Criteria change risk ✓ Challenges with more depressed areas ✓ Can be paired with tax credits 	<ul style="list-style-type: none"> ✓ Build up of wealth through spread earnings over time ✓ Program underwriting flexibility ✓ Structuring flexibility 	<ul style="list-style-type: none"> ✓ Unique tool with 100% federal guarantee ✓ Developing pass-through market ✓ Programmatic efficiency with 50/50 program ✓ 40 year term ✓ Ability to structure balloons with HUD's approval
Challenges	<ul style="list-style-type: none"> ✗ G.O. capacity 	<ul style="list-style-type: none"> ✗ Typically lower leverage ✗ A rating cap ✗ Municipal cost of funds 	<ul style="list-style-type: none"> ✗ Need for capital ✗ Value takes time 	<ul style="list-style-type: none"> ✗ Davis-Bacon wages or need to cover construction risk ✗ Initial set-up with FHA/HUD
Cost of Capital	2.70--3.00%	2.90--3.30%	2.70--3.00%	2.70--3.00%

Note: Jefferies' estimate for cost of capital.

Publicly Offered GSE Debt Has Been Very Well Received in 2019



- 2019 issuance of Fannie Mae M-TEBs totaled \$613.8 million
- As market has grown, there now exists relative spread stability for immediate and forward funded transactions
- Increasing use of “forward” structures paired with construction loans



- 2019 saw an unprecedented amount of fixed rate tax-exempt transactions in the ML (TEL) and M (TEBs) programs totaling over \$1.6 billion
- Jefferies has participated as senior or joint bookrunner in over \$1.3 billion of tax-exempt Freddie Mac transactions during 2019 and ranks as the #1 bookrunning underwriter
- Appealing investments for select CMBS and municipal market investors

The Tax-Exempt High Yield Market is very Receptive to Affordable Housing

Middle Income Housing February 2020



\$219,795,000
Essential Housing Revenue Bonds
Series 2020A
(Serenity at Larkspur)

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Pricing Summary

Maturity	Non-Rated Par	Coupon	Yield
2/1/2050	\$219,795,000	5.000%	3.200%

Over 100% loan to cost

Middle Income Housing August 2019



\$110,800,000
Essential Housing Revenue Bonds
Series 2019A
(Verdant at Green Valley)

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Pricing Summary

Maturity	Non-Rated Par	Coupon	Yield
8/1/2049	\$110,800,000	5.000%	3.600%

Over 100% loan to cost

Middle Income Housing April 2019



\$189,335,000
Workforce Housing Revenue Bonds
Series 2019A
(Annadel Apartments)

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Pricing Summary

Maturity	Non-Rated Par	Coupon	Yield
4/1/2049	\$189,335,000	5.000%	4.650%

Over 100% loan to cost

Section 8 Housing December 2017



\$127,020,000
Multifamily Housing Revenue Bonds
Series 2017
(University Square Apartments Project)

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Pricing Summary

Maturity	Non-Rated Par	Coupon	Yield
12/1/2047	\$9,200,000	5.250%	5.250%
12/1/2058	\$27,075,000	5.500%	5.500%

Future HAP contract renewal and rent increase leverage

The Tax-Exempt Market is Working for Housing

COST OF FUNDS

- ✓ With recent yield curve shifts, tax-exempt public market advantage is back

RISK-SHARE

- ✓ Unique loan enhancement product with longer term (40 years), providing up to 5% of additional value in proceeds or reduced debt service

NEGATIVE CARRY

- ✓ Reduced benefit of competing drawdown products, despite recent steepening

SUBSIDY CAPITAL

- ✓ Greater need for subsidy due to higher costs and reduced LIHTCs brings HFAs to the table

AFFORDABLE HOUSING MANDATES

- ✓ Regulatory focus on affordable housing and ESG increases need for HFAs as partners

HOUSING FINANCE AGENCY INVESTMENTS

- ✓ After years of reduced participation, HFAs are taking back market share and growing programmatic activity