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Muni MTEB

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MBS Muni Term as an Alternative to MTEBs

Key Differences

Fannie Mae recently approved a modified MTEBs structure in which the MBS is held as collateral for bonds with semi-annual payment dates, instead of the traditional monthly-pay pass-through

Key differences between the structures include:

1. **Semi-annual P&I**, versus monthly
2. **New Rating Agency Cashflow Requirements**, including growing excess reserves and positive asset parity relative to bonds outstanding
3. **No Exchange Feature**, preventing bondholders from swapping for a like amount of MBS

Benefits

Lower Cost of Capital

By pricing bonds over an amortizing structure instead of a bullet maturity, the Borrower can take advantage of the yield curve and achieve a lower cost of capital

Wider Audience of Municipal Investors

Traditional MTEBs have relied on CMBS crossover investor participation, given their familiarity with similar structures

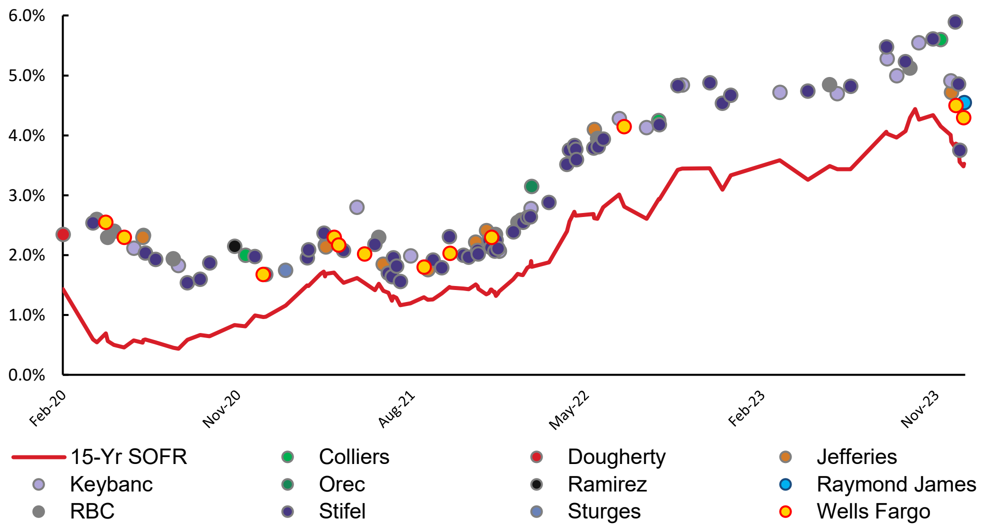
Modified structure appeals to traditional muni buyers, providing more attractive yields given lack of crossover demand in the current market

Potential retail interest

No Change to Project Cashflows

From a project perspective, the loan is structured as a monthly-pay like a traditional MTEB, with monies held in a Debt Service Fund for semi-annual remittance to bondholders

Historical MTEBs Yields[1]



Muni Term Structure
December 2023 Market Performance[2]

Riverhead IDA (River Pointe)		
Coupon (%)	Yield (%)	Price
4.50	4.50	100.000

- Final spread of **+126 bps** to MMD **(J+23 bps)**
- For comparison, a GSE-enhanced pass-through traded in the secondary market at **J+45 bps** the same week[3]
- **First MBS Term Bond to price @ par**

Erie County IDA (Westchester Park)		
Coupon (%)	Yield (%)	Price
4.25	4.30	99.395

- Muni desk estimated an improvement of **30-35 bps** over pass-through structure[4]

Sources: *(1) Refinitiv TM3 & SDC, EMMA, and Bloomberg as of 12/29/2023; Reflects negotiated, MTEB & MBS Term issues; (2) Bloomberg, Wells Fargo Municipal Syndicate desk.; (3) Spreads to MMD and UST as of 12/7/2023; (4) Wells Forgo Municipal Syndicate desk as of 12/20/2023.*

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Case Study: NY River Pointe

Project Overview	
Project Type	Acq/Rehab
Mortgage Lender	National Bank
Issuer	Riverhead IDA Economic Job Development Corporation
Location	Riverhead, New York
Tax-Exempt Allocation	$37,000,000
Maturity Date	17 Years
Units	135

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Cash-Backed Forward Structure

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Cash-Backed Forward

- Works with any Tax-Exempt financing that involves a forward commitment from a Permanent Lender to purchase the debt at conversion
- Takes advantage of inverted yield curve and provides other significant benefits
- Provides positive earnings during Cash-Backed mode, as well as additional equity to the project*
- Allows Equity Investor to also serve as Construction Lender without certain tax implications
- In Texas, significantly reduces interest costs on construction loan due to draw down structure

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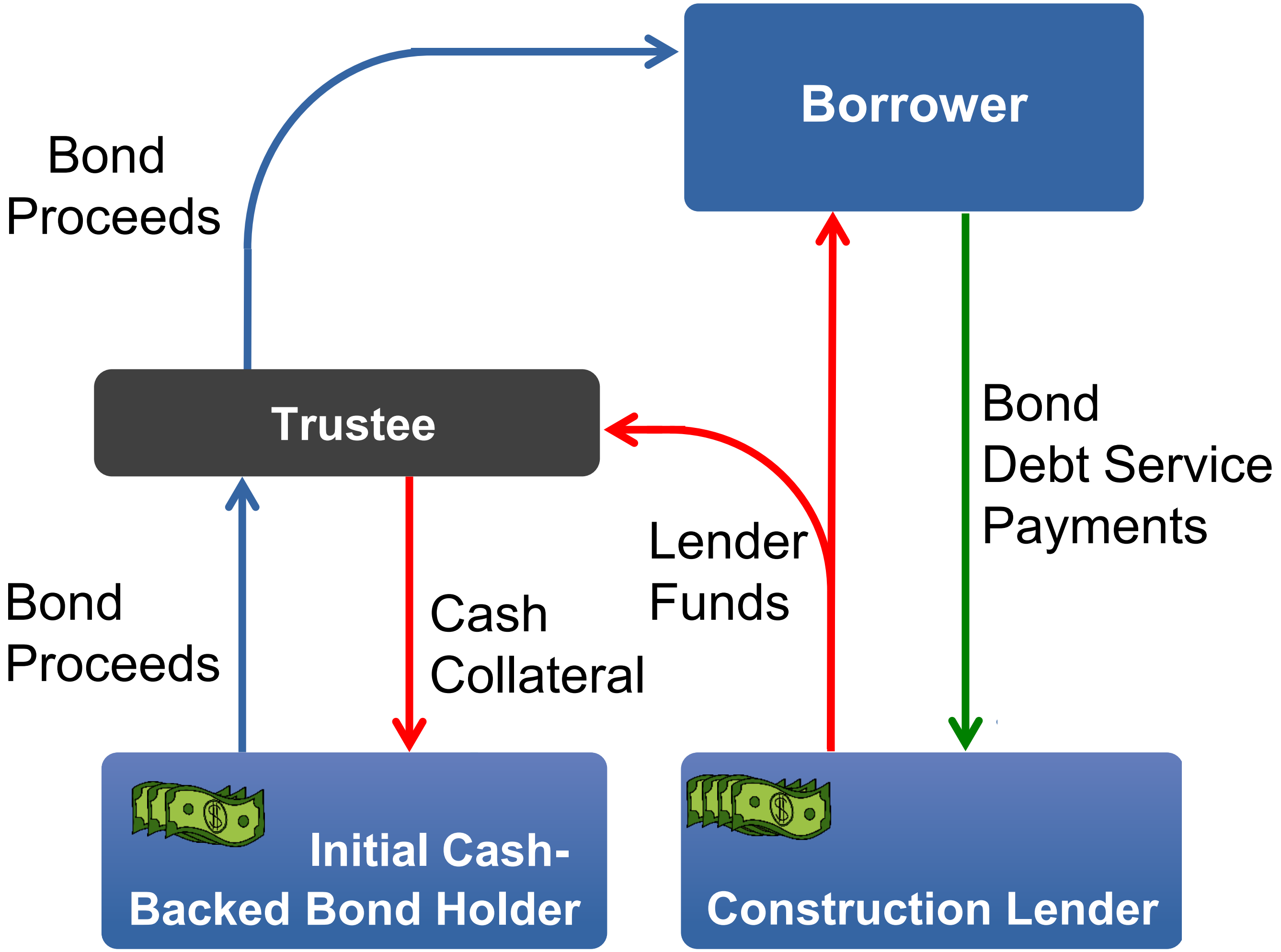
Cash-Backed Forward



Cash-Backed Forward Benefits

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Cash-Backed Forward Yield Blending

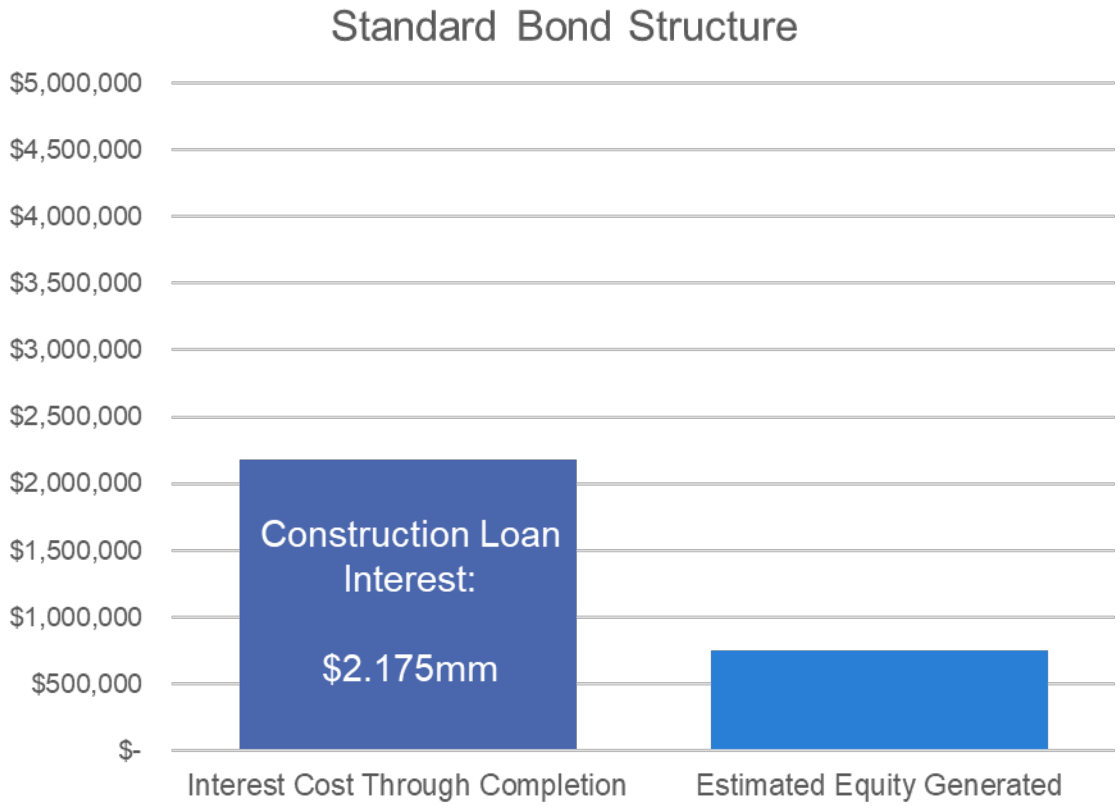
1. Positive Earnings During Cash-Backed Mode (subject to bond counsel approval to blend yields)

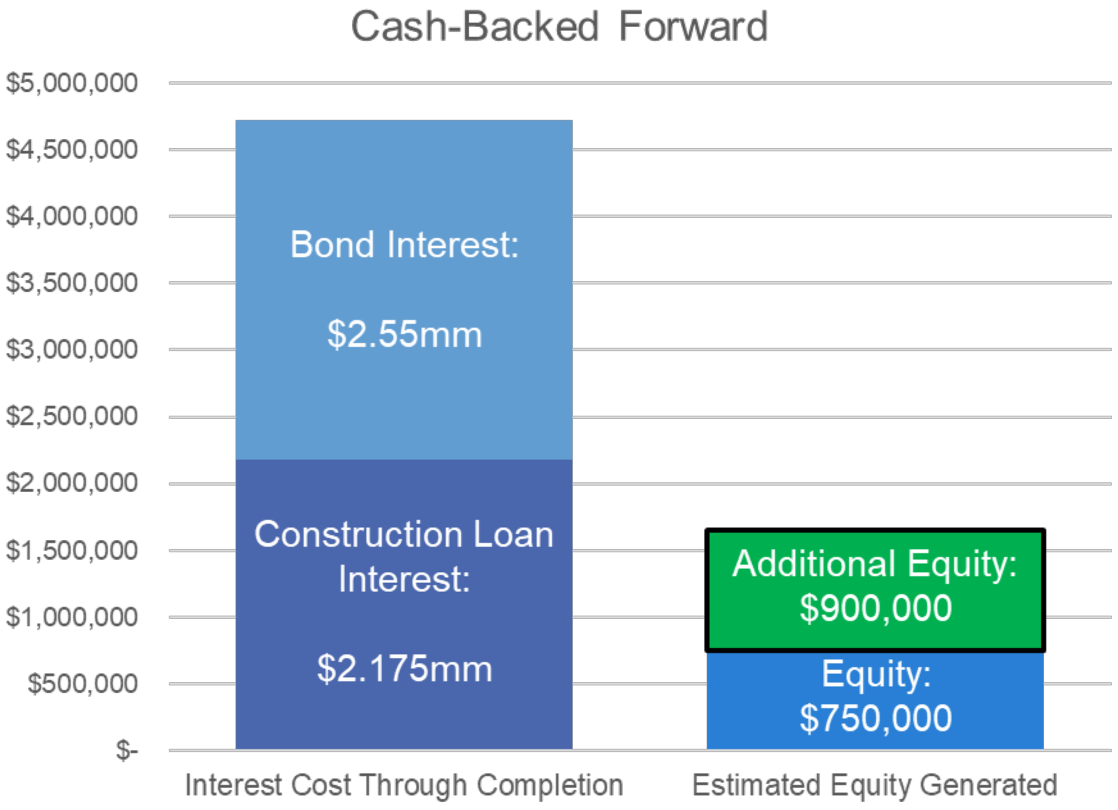
“**Yield Blending**” refers to the ability to blend the short-term bond yield with the long-term bond/note yield over the first 5 years for arbitrage rebate purposes.

The resulting blended bond yield often results in the ability to retain certain earnings at or below such rate (subject to bond counsel approval).

Cash-Backed Forward Benefits

2. Additional equity generated when counting bond interest through completion in eligible basis





Est. Savings: $900,000

* *Inclusion of bond and construction loan interest subject to approval from Developer's accounting firm.*
** *Assumes $30mm par amount and 3-year initial term to Conversion, 24-month construction period, with level draw schedule.*
*** *Equity generated assumed to be 35% of interest cost through completion. Confirm impact of investment income with equity investor*
**** *Additional equity generated from taxable construction loan interest in situations where equity investor and construction lender are not related parties*

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Cash-Backed Forward Comparison

Summary of Overall Structure			
	Standard Draw-Down Bond Structure	**Cash-Backed Forward**	**Savings***
Est. Positive Earnings	$0	$540,000	$540,000
Est. Additional Equity	$750,000	$1,650,000	$900,000
Est. Additional Costs of Issuance	$0	($250,000)	($250,000)

Est. Savings: $1,190,000

* *Lower savings in situations where equity investor and construction lender are not related parties*

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Cash-Backed Forward Other Benefits

1. Earnings on bond proceeds count towards 50% test

Standard Bond Structure:

$$\frac{\text{Tax-Exempt Bonds}}{\text{Aggregate Basis}} = \frac{\$30{,}000{,}000}{\$60{,}000{,}000} = \boxed{50.0\%}$$

Cash-Backed Structure:

$$\frac{\text{Tax-Exempt Bonds} + \text{Earnings on Bond Proceeds}}{\text{Aggregate Basis} + \text{Bond Interest Through Completion}} = \frac{\$30{,}000{,}000 + \$1{,}395{,}000}{\$60{,}000{,}000 + \$2{,}550{,}000} = \boxed{50.2\%}$$

Without Bond Interest in Basis:

$$\frac{\text{Tax-Exempt Bonds} + \text{Earnings on Bond Proceeds}}{\text{Aggregate Basis}} = \frac{\$30{,}000{,}000 + \$1{,}395{,}000}{\$60{,}000{,}000} = \boxed{52.3\%}$$

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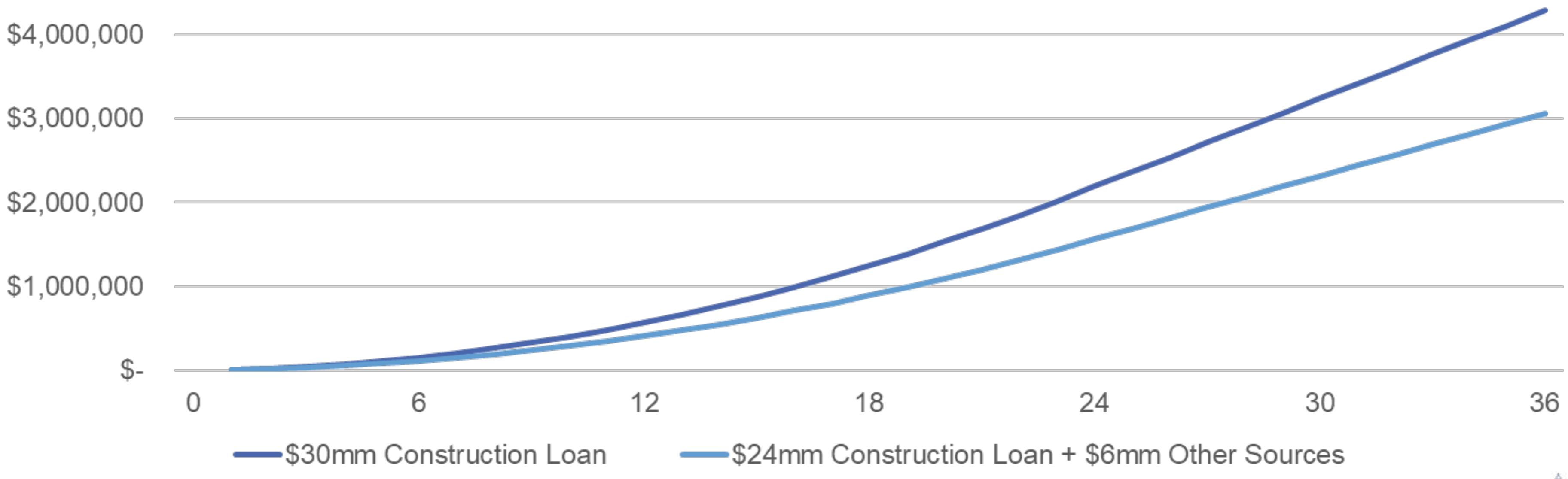
Cash-Backed Forward Other Benefits

2. If Bond Amount > Perm Loan, allows other funds to be used as collateral (reduced construction loan)

For example, if instead of a $30mm Construction Loan collateralizing the bonds, $6mm of collateral came in the form of a cheaper source of funds, then the Construction Loan interest cost could reduce by roughly $1.3mm



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Cash-Backed Forward Other Benefits

3. Allows Equity Investor to also serve as Construction Lender without triggering program investment test

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Case Study: CO Overlook at Thornton

Project Overview	
Project Type	Acq/Rehab
Mortgage Lender	National Bank
Issuer	Maiker Housing Partners
Location	Thornton, Colorado
Tax-Exempt Allocation	$46,000,000
Maturity Date	18.5 Years
Units	160

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Case Study: CO Overlook at Thornton

Summary of Overall Structure			
	Standard Draw-Down Bond Structure	Cash-Backed Forward	Savings*
Est. Positive Earnings	$0	$665,000	$665,000
Est. Additional Equity	$0	$1,000,000	$1,000,000
Est. Additional Costs of Issuance	$0	($330,000)	($330,000)

Est. Savings: $1,335,000

Volume Cap Scarcity & Recycled Bonds

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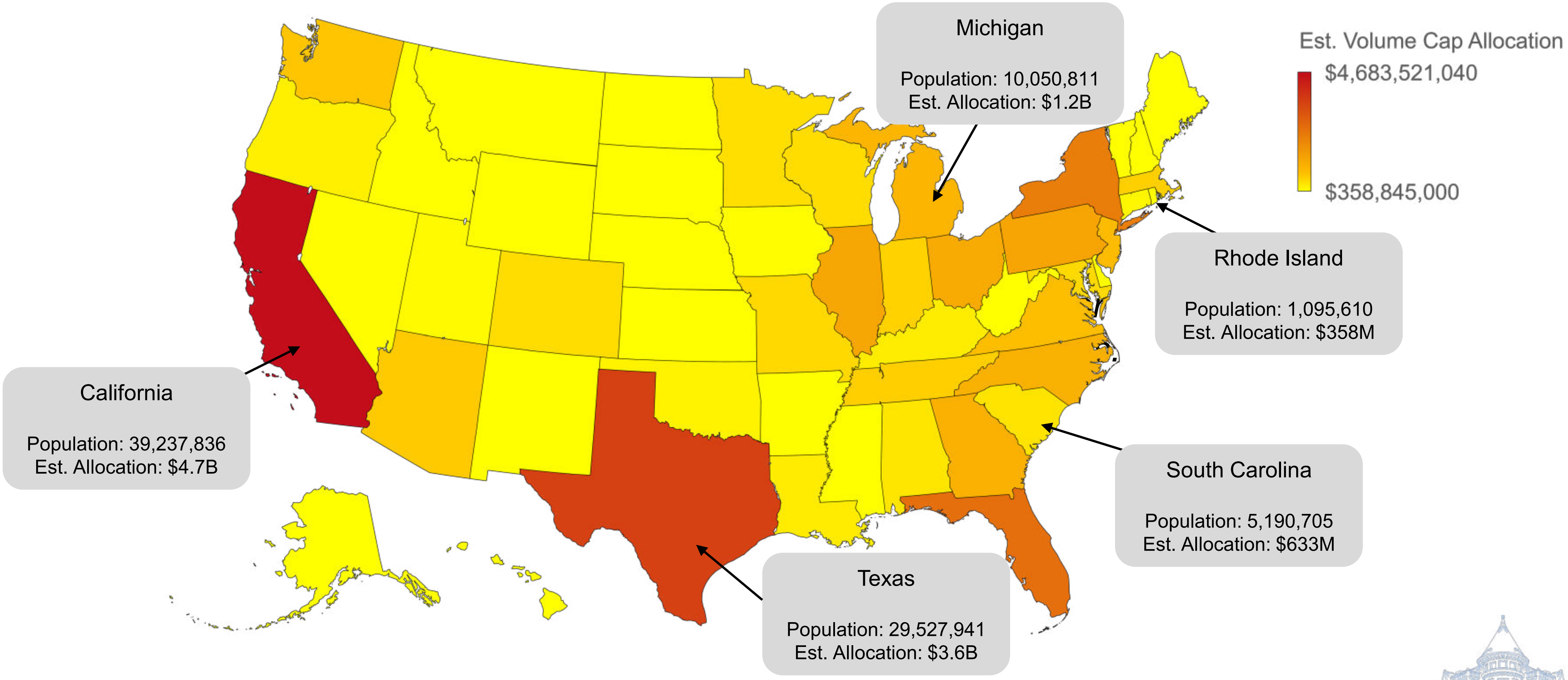
Private Activity Volume Cap Allocation By State

2023 Volume Cap: $120 per capita or
$358,845,000 minimum for small states.



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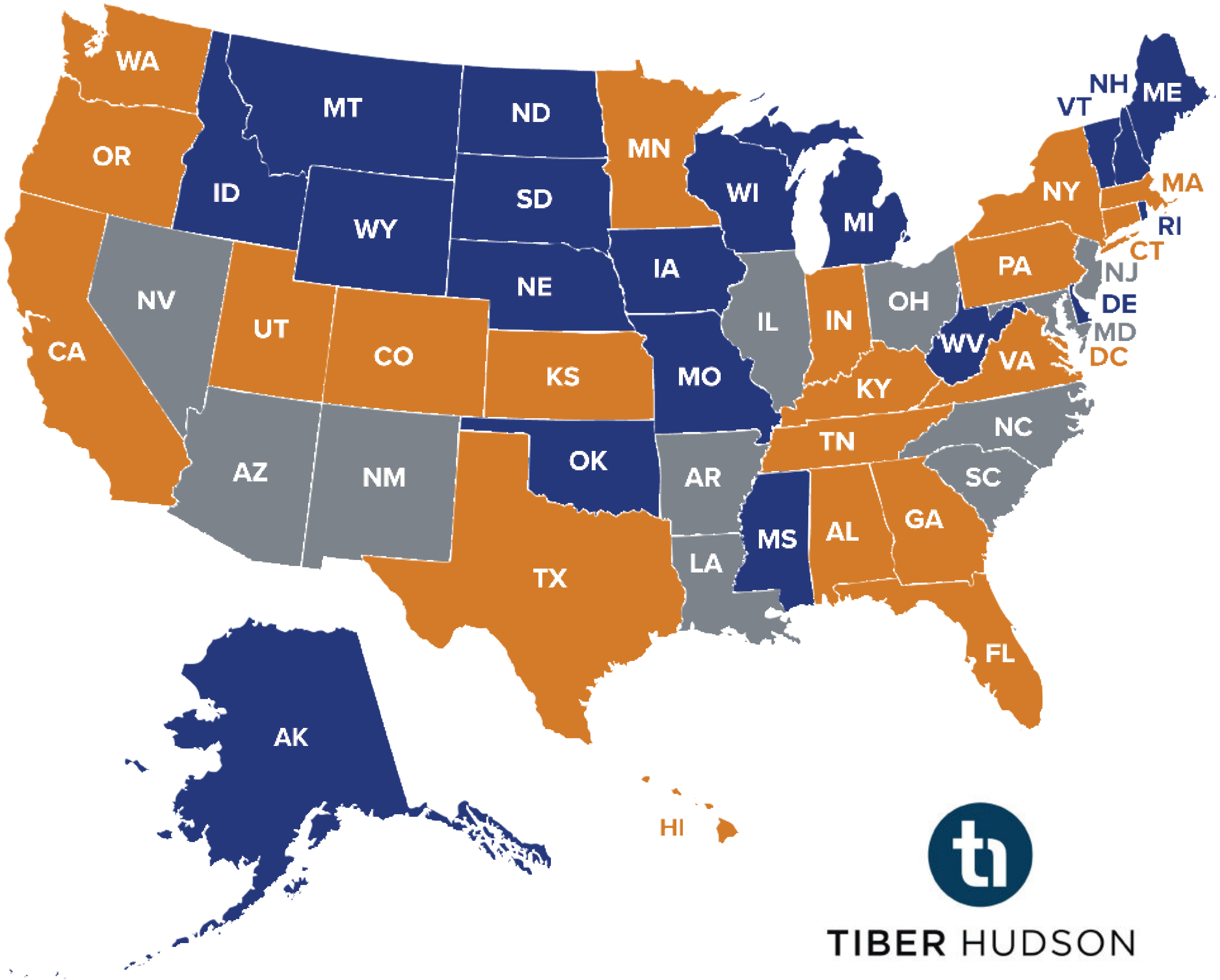
Multifamily Volume Cap Scarcity



Undersubscribed (19 states)

Parity (11 states)

Oversubscribed (20 states & Washington, D.C.)

Information as of February 2024
Source: Tiber Hudson; Novogradac

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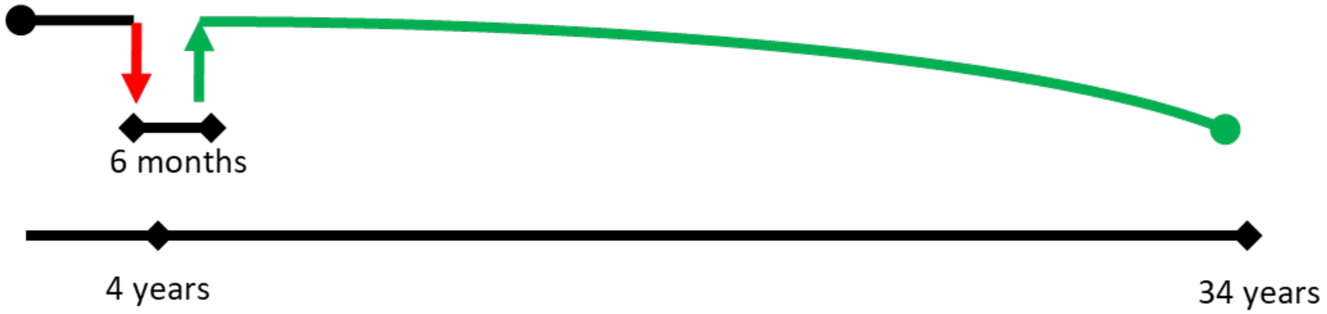
Basic Rules for Recycled Bonds



- The bond refunding must occur within 4 years of the initial issuance for an eligible rental housing project originally financed with private activity bonds.
- Requires new loan to an eligible project within 6 months of the effective date of the prepayment.
- Recycled bonds can only go out a total of 34 years from the initial bond issuance.
- The new project is subject to public notice requirements (TEFRA) prior to the issuance of the refunding bonds
- Recycled bonds are not taken into account for 50% test purpose, but can be used for LIHTC transactions that can support additional perm debt.
- Projects using recycled bonds must follow tax exempt bonds rules for household income affordability

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Benefits of Recycled Bonds

1. Provides additional permanent debt for projects that can support an amount in excess of the bond amount

	No Recycled Bonds	With Recycled Bonds
Tax-Exempt Bond Amount	$25,000,000	$25,000,000
Recycled Bond Amount	$0	$5,000,000
Total Bonds Issued	**$25,000,000**	**$30,000,000**

Tax-Exempt Permanent Loan Proceeds	$25,000,000	$30,000,000
Taxable Permanent Loan Proceeds	$5,000,000	$0
Total Permanent Loan Proceeds	**$30,000,000**	**$30,000,000**

Tax-Exempt Loan Interest (7.00%)*	$33,500,000	$40,200,000
Taxable Loan Interest (8.00%)*	$7,500,000	$0
Total Loan Interest (18 years)	**$41,000,000**	**$40,200,000**

Savings: $800,000

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Benefits of Recycled Bonds

2. Can be used without LIHTC to obtain a lower cost of funds

- Must meet all requirements of Section 142(d) transactions, without LITHC rules, including no federal rent restrictions
- Roughly 100bps of savings in California
- Can be priced for shorter duration than a LIHTC deal
- Combine with Fannie Mae MTEB program for great results in current market

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