

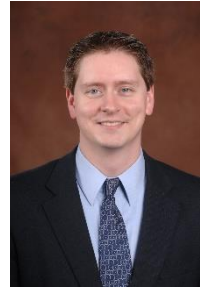


2023 Florida ALHFA ANNUAL EDUCATIONAL CONFERENCE

HFA Board Members: Housing Programs 101 and Beyond

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- **Tim Wranovix**, Director,
Raymond James
- **Rhonda Bond-Collins**, Shareholder,
Bryant Miller Olive
- **Monique Spotts**, Special Counsel,
Foley & Lardner
- **Mark Fredericks**, Senior Vice President,
AmeriNat



HFA Goals/Objectives – Single Family

- Finance mortgage loans for low-to-moderate income homebuyers at attractive rates compared to “conventional” market
 - Tax-Exempt MRBs (historically)
 - TBA (since 2013)
 - TBA stands for “To Be Announced” and it is a forward sell/buy trade of federally-insured MBS (GNMA, FNMA, or Freddie Mac)
- Provide down payment assistance (DPA)
- Provide mortgage credit certificates (MCCs)
- Provide continuous funding of mortgage loans
- Maintain financial strength of the HFA
- Minimize financial risk to the HFA

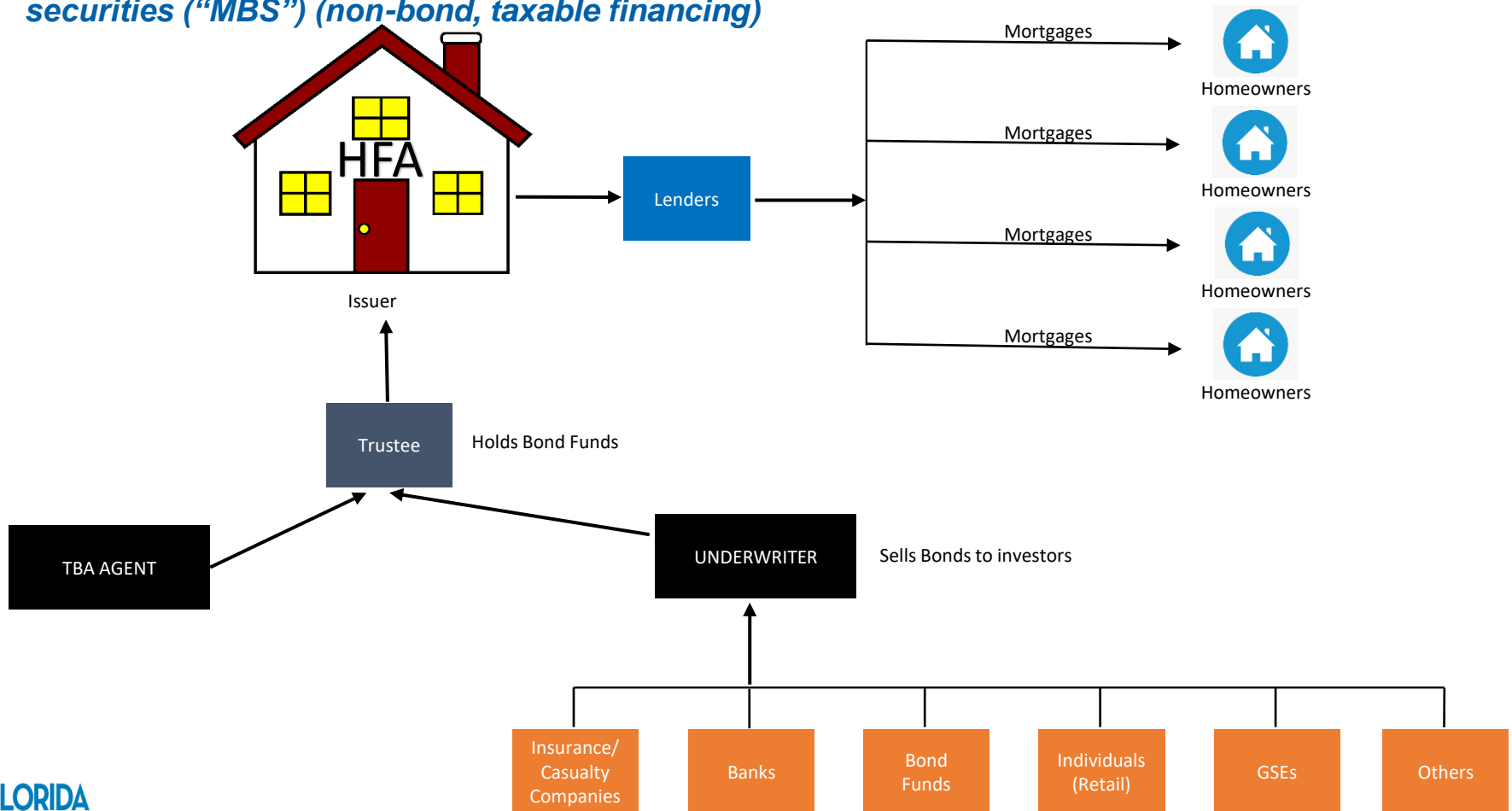


Driven by
market dynamics

Single Family – Mortgage Revenue Bond (MRB) Financing & TBA

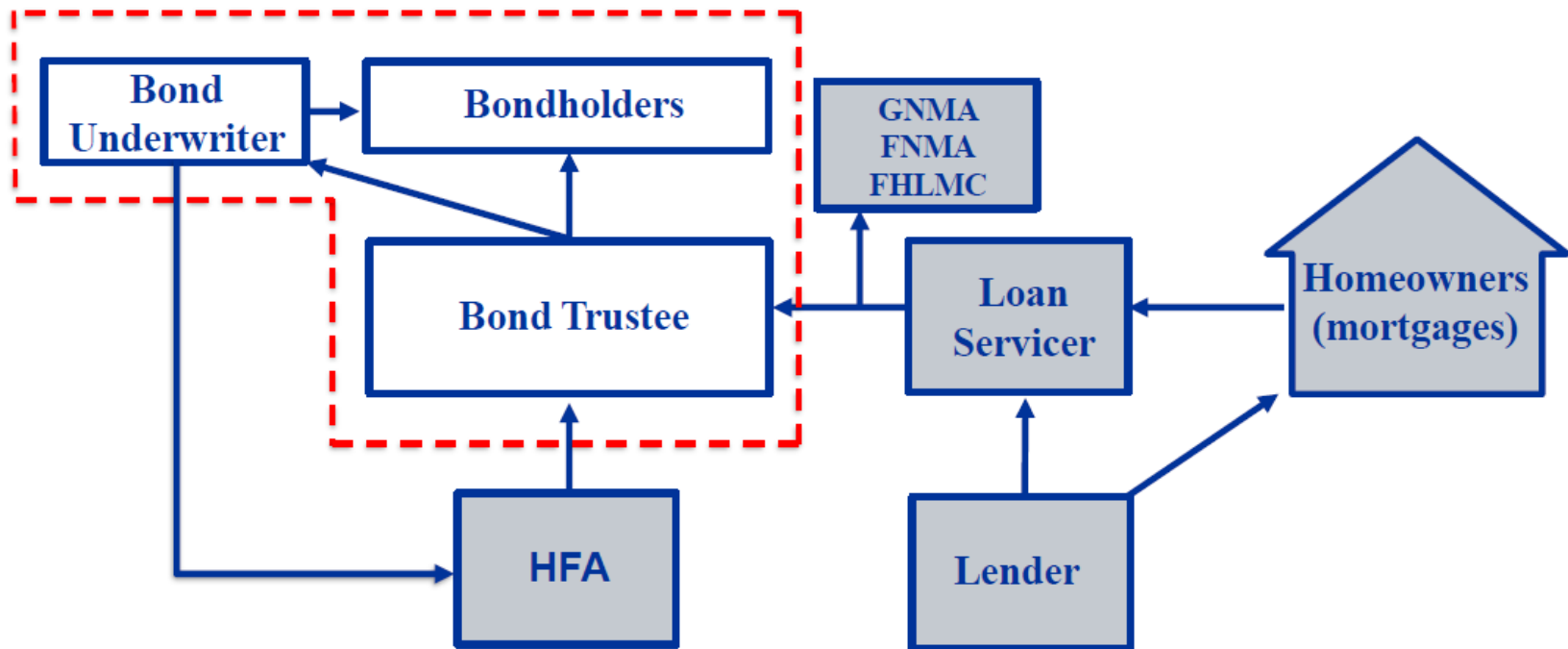
BONDS: Underwriter sells MRBs to bond investors to finance mortgages (typically tax-exempt)

TBA: TBA Agent purchases mortgages originated by lenders in the form of mortgage-backed securities (“MBS”) (non-bond, taxable financing)



Single Family – Mortgage Revenue Bond Program Basics

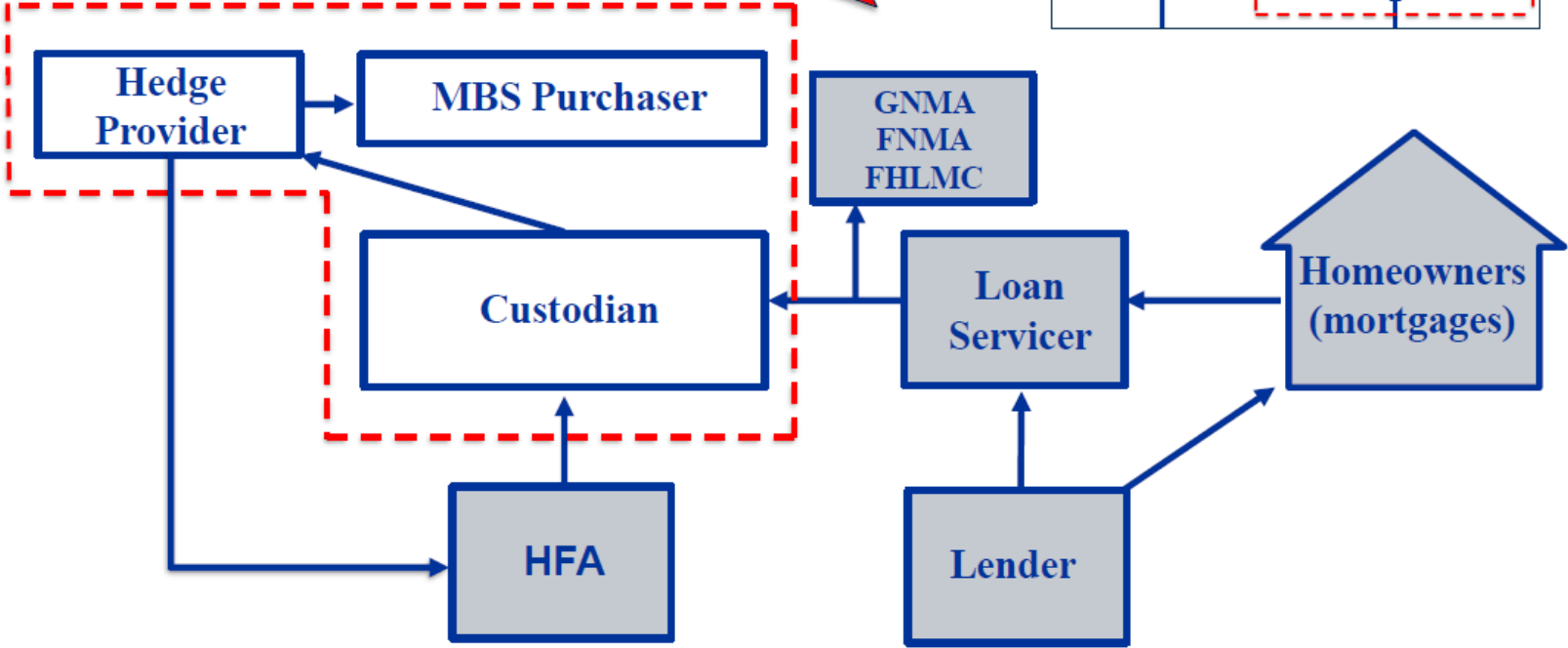
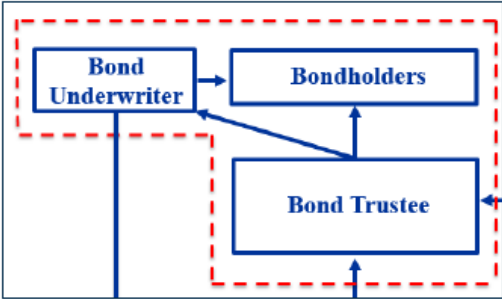
- HFA/Lenders – program guidelines/mortgage origination agreement
- HFA/Servicer – servicing agreement
- HFA/Trustee – trust indenture
- HFA/Bond Underwriter – bond purchase agreement



Single Family – TBA Program Basics

- HFA/Lenders – program guidelines/mortgage origination agreement
- HFA/Servicer – servicing agreement
- **HFA/Custodian – custody agreement**
- **HFA/Hedge Provider – MBS purchase agreement**

MRB



Methods to Finance Single Family Programs

MRB

- Tax-exempt issuance limited by volume cap
- Profit limited to 1.125% (if tax-exempt) – annuity; no limit if taxable
- Par issuance sized based on:
 - Originations – amount and speed
 - Risks – market risk and non-origination risk
 - Costs of Issuance (COI) – economies of scale

TBA

- No volume cap needed, unless paired with MCC
- Profit is locked in or capped at the time of sale (1-time vs annuity)
- Risks to HFA (e.g., prepayment) eliminated upon MBS sale to 3rd party
- Most effective in low interest rate environment

Managing Single Family Mortgage Originations

- Mortgage originations are driven by supply and demand (seasonality)
 - Selecting the appropriate mortgage rate + DPA
 - Impact of DPA programs (form/terms)
 - Comparable “conventional” product (i.e. the “market”)
- Continuous lending
 - Selection of a target volume of originations for the year based on program goals and available bonding authority
 - To manage interest rate risk, the lending rate on program loans can be adjusted periodically so that offered rates are in line with the market
 - Issuer sets its mortgage rate based on a spread to a “conventional” market benchmark or based on a spread to current MRB financings (+25 bps to create market cushion)

Managing Single Family Mortgage Originations

Timing of “Locking-in” Pricing is Critical to Managing Market Risk

Loan Reservation

Lock-in Financing On or Before Loan Reservation

HFA locks in financing **ON or BEFORE** loan commitment is made.

- Traditional Bond Financing Subsidy or Refundings
- RJ Turnkey/TBA Hedges

HFA risk is limited/transferred.

Best execution: Rising or volatile interest rate environment

Lock-in Financing After Loan Reservation

HFA locks in financing **AFTER** loan commitment is made.

- Pass-Through Financing
- Delayed TBA Hedges

HFA is exposed to market risk until financing is obtained.

Best execution: Falling or stable interest rate environment

Single Family MRB Issuance – Negative Arbitrage

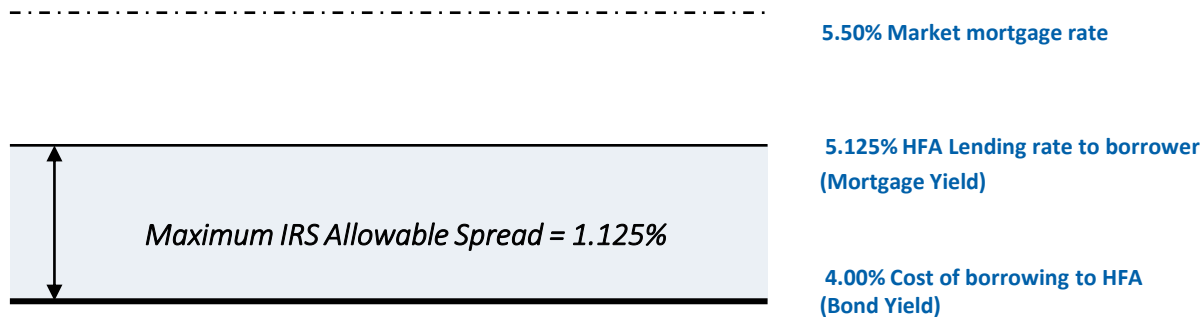
Negative Arbitrage - The cost of covering the bond interest during the origination period caused by slow originations and limited reinvestment options for bond funds during the origination period.

Causes:

- Interest rates fall after bonds are priced
- Lack of eligible housing stock in certain markets for first time home buyers
- Rating Agency stress tests to achieve “Aaa” rating

Single Family MRB Issuance – HFA Earnings

Spread between Mortgage and Bond Yields = ongoing annuity over the life of mortgage/bonds



- ✓ To Cover Cost of Issuing Bonds
- ✓ To Cover Negative Arbitrage
 - prior to MBS purchase
 - between mortgage & bond payments
- ✓ To Pay Ongoing Bond Costs
 - Trustee Fee
 - Issuer Fee
 - Servicing and FHLMC/FNMA/GNMA g-fee
- ✓ To Compensate HFA

Taxable MRB Issuance

- Used typically (i) to avoid IRS tax limitations (e.g., 1.125% spread limit), (ii) to offer mortgages to larger universe than tax-exempt financing (i.e., TBA replacement) or (ii) due to volume cap constraints
- Higher cost debt than tax-exempt MRBs
- Priced on a spread to benchmark U.S. Treasuries (instead of MMD benchmark for tax-exempts)
- Different (larger) set of investors from tax-exempt bonds
- When used with Tax-Exempt bonds, Taxable bonds generally are Front-loaded:
 - Reduces the impact of the higher cost taxable debt

Common Terms

- **PSA** refers to Prepayment Speed Assumption, which indicates the increments (e.g., 100% PSA) of the Standard Prepayment Model of the Securities Industry and Financial Markets Association (SIFMA) (PAC Bonds + Pass-Thru Bonds).
- **Planned Amortization Class, or “PAC” bonds** have long maturity dates (e.g. 30+ years) but also principal amortizations “planned” with expected mortgage prepayments which allow such PACs to be priced as short-term bonds to an average life (e.g., 5-years) based on a PSA band (e.g., 100% - 400%) PSA prepayment speed.
- **Bond yield** is the discount factor that sets the present value of the bond interest and principal payments and allowable fees equal to bond proceeds, assuming prepayment experience of 100% FHA (prepayment speed model).
- **Mortgage yield** is the discount factor that sets the present value of the mortgage interest and principal payments equal to the loan amount, adjusted for certain upfront amounts paid (e.g., origination points) or received (e.g., down payment assistance) by the borrower. Used for 1.125% tax compliance.

Single Family MRB – Tax Law Constraints (Basics)

- **Spread:** The IRS allows a maximum spread between the bond yield and the mortgage yield. 1.125% spread is the maximum for tax-exempt single family mortgage revenue bonds (MRBs); *note, however, that taxable MRBs have no yield limit, and tax-exempt multifamily MRBs have a 1.50% yield limit.*
- **10-Year Rule:** When mortgage proceeds are received by HFA within the first ten years from the original date of issuance, the HFA can (i) call a like amount of bonds (original bonds or “cross-call” bonds if an open resolution, at the HFA’s choice) or (ii) use the prepayments to originate new mortgage loans, either through (a) “internal recycling” or (b) current refunding such mortgage proceeds into new bond issuances. However, proceeds received on and after their 10-year date must be used to call the related tax-exempt bonds with such mortgage prepayments.
- **32-Year Rule:** Refunding bonds cannot have a final maturity that exceeds the higher of (i) 32-years from the original issue date of the refunded bonds, or (ii) the weighted average maturity of the refunded bonds.
- **42-Month Rule:** If new money bond proceeds are not used to originate mortgages within 42-months from the bond issuance date, such unused proceeds must be used to redeem such bonds. Taxable bonds and refunding bond proceeds (other than non-origination calls) are not subject to the 42-month rule.
- **Tax-Exempt MRB Program Constraints:** First-time home buyer, “household” income limits, purchase price limits.



Bonds 101

Rhonda D. Bond-Collins
Bryant Miller Olive P.A.

July 14, 2023

Tallahassee | Orlando | Miami | Jacksonville | Tampa | Atlanta | Washington D.C.



Legal Authority of the Issuer

- Chapter 159
- Resolutions/Ordinances
- Policies and Procedures of HFA

Acronyms

AMI	Area Median Income
BPA	Bond Purchase Agreement
CDBG	Community Development Block Grants
CUR	Credit Underwriting Report
DBF	Division of Bond Finance
ELI	Extremely Low Income
LURA	Land Use Restriction Agreement
PAB	Private Activity Bond
POS	Preliminary Official Statement
OS	Official Statement
SAIL	State Apartment Incentive Program
SHIP	State Housing Initiatives Partnership Program
TEFRA	Tax Equity and Fiscal Responsibility Act of 1982

Role of the HFA Board Member

- What does an HFA Board Member need to know?
 - What is the project?
 - What is the security for the project?
 - What is the cost to the Issuer?
 - What if any, are the risks to the Issuer?
 - What is the public benefit?
 - Issuer Fees (Are there any Related Party Issues?)
 - Critical tool is the Credit Underwriting Report.

Financing Team (Multifamily Transactions)

- Bond Counsel
- Issuer's Counsel
- Borrower
- Borrower's Counsel
- Tax Credit Investor
- Disclosure Counsel (when there is an offering document)
- Underwriter
- Lender/Purchaser
- Credit Underwriter
- Servicer
- Trustee/Fiscal Agent

Process

- Application from the Borrower to the HFA
- Review of Application by Financial Advisors
- Inducement Resolution adopted by the Issuer
 - “official intent” for purposes of tax code (reimbursement period starts)
- Credit Underwriting
- Publish TEFRA Notice (7 days prior to the hearing)
- Hold TEFRA Hearing (Telephonic; Who is the hearing officer?)
- TEFRA approved by highest elected official

Process (continued)

- When does a TEFRA expire?
 - (a) one year;
 - (b) three years; or
 - (c) never expires.

Process (continued)

- Allocation Request to the Division of Bond Finance
- When should allocation be requested?

Regional Pool
Project Specific
November Pool

- When does allocation expire?

< \$50 million expires 155 days from date granted

Validate – toll expiration date to December 29 (with notice to DBF)

≥ \$50 million - carry forward if not used

Carryforward no longer project specific - expires in 3 years

Servicing

- Negotiate Documents: Trust Indenture/Funding Loan Agreement; Loan Agreement/Financing Agreement; Mortgage; LURA; Guaranties; Servicing Agreements
 - Types of Security
 - Mortgage
 - HUD
 - Cash Collateral
 - Freddie Mac
 - Fannie Mae

Servicing (continued)

- Construction Loan and Mortgage Servicing
- Compliance Monitoring
- Financial Monitoring

Closing Process

- Examples of Subordinate Financing Sources:
 - HOME
 - ELI
 - SAIL
 - CDBG
 - SELLER NOTES
- Final Bond Resolution by Issuer approving substantially final documents
- Post POS (assumes public offering)
- Sell Bonds/sign BPA

Closing Process (continued)

- Post OS
- Distribute Closing Documents and Opinions
- Obtain Ratings (public offerings)
- Closing

Closing Time Frame

- What is the average amount of time to close a multifamily bond issue from inducement by the Issuer to closing?
 - (a) 60 days;
 - (b) 90 days;
 - (c) 120 days;
 - (d) 1 year; or
 - (e) Longer than 1 year.

Delays

- Examples of Causes for Delays?
 - Due diligence items
 - Third party consents

Low Income Housing Tax Credits

- 4% tax credits vs. 9% tax credits

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Underwriting For Housing Finance Authorities

Comparable Due Diligence

- Banks, Fannie Mae, Freddie Mac, FHA

Guidelines and Directives

- Rule
- RFA
- Application
- Federal Regulations
- Board and Staff Directives

Underwriting For Housing Finance Authorities

Elements of Credit Underwriting

- Rule/RFA/Application/Federal Regulations Conformance
- Architectural and Construction Considerations
- Budget and Pro Forma Analysis
- Market Analysis
- Sponsor and Participant Review

Construction Loan Servicing For Housing Finance Authorities

Hard Cost Requests

- Pay Application
- Site Inspections
- Title Endorsements

Soft Cost Requests

- Invoices
- Contracts

Permanent Loan Servicing

- Payment Monitoring
 - P&I
 - Escrows
 - Reserves for Replacements
- Escrow Analysis
- Capital Needs Assessment
- Draw Processing for Reserves for Replacements
- Financial Monitoring

Compliance Monitoring For Housing Finance Authorities

Land Use Restriction Agreements

- Reporting
 - Tenant Income Certifications
 - Certificate of Continuing Program Compliance
- Property Inspections
 - File Review
 - Site and Unit Inspections
 - Condition Assessment
 - Feature and Amenity Compliance