

# New Mexico Mortgage Finance Authority

## Legislative Oversight Meeting

October 4, 2023



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# MFA's Single Family Mortgage Program Bonds – Highlights



- Tax-exempt bond proceeds are used to make below market rate mortgages to first time home buyers (with income and purchase price limits set by the IRS).
- MFA doesn't take real estate risk. Timely loan repayments are guaranteed by FNMA or GNMA (regardless of borrower delinquency).
- Repayments of the loans repay the bonds. Spread between net mortgage and bond rates is an annuity for MFA.
- With GNMA/FNMA as revenue source, bonds are rated Aaa (Moody's).
- As of March 31, 2023, MFA had \$1.35 billion of MBSs and the single family mortgage program bonds outstanding.
- There are 38 series of bonds outstanding – all fixed rate debt (no variable).
- MFA helped over 2,200 families become homeowners in 2022.

NEW ISSUE – BOOK-ENTRY ONLY

Rating for Offered Bonds: Moody's: "Aaa"  
(See "RATING" herein)

*In the opinion of Kutak Rock LLP, Bond Counsel, under existing laws, regulations, rulings and judicial decisions, and assuming the accuracy of certain representations and continuing compliance with certain covenants, interest on the Offered Bonds is excluded from gross income for federal income tax purposes and is not a specific preference item for purposes of the federal alternative minimum tax. See "TAX MATTERS" herein.*



**NEW MEXICO MORTGAGE FINANCE AUTHORITY**  
**\$99,900,000**  
**Single Family Mortgage Program Class I Bonds**  
**2022 Series D Bonds**  
**(Tax-Exempt) (Non-AMT)**

Dated: Date of Delivery

Due: As shown on inside cover

The New Mexico Mortgage Finance Authority (the "Authority") is issuing the above-captioned bonds (the "Offered Bonds"), in the aggregate principal amount of \$99,900,000 pursuant to a General Indenture of Trust dated as of November 1, 2005, as heretofore amended and supplemented (the "General Indenture"), and a 2022 Series D Indenture dated as of August 1, 2022 (the "2022 Series D Indenture"), each between the Authority and Zions Bancorporation, National Association, as trustee (the "Trustee"), to finance certain mortgage loans under the single family mortgage programs of the Authority.

The Offered Bonds are issuable only as fully registered bonds in denominations of \$5,000 each or any integral multiple thereof. The Offered Bonds are registered in the name of Cede & Co., as nominee of The Depository Trust Company ("DTC"), New York, New York. Interest on the Offered Bonds is payable by the Trustee to the registered owners thereof semiannually on March 1 and September 1 of each year, commencing March 1, 2023, at the rates set forth on the inside front cover hereof. Principal on the Offered Bonds is payable at maturity or earlier redemption upon surrender at the principal corporate trust office of the Trustee. So long as DTC or its nominee is the registered owner of the Offered Bonds, disbursement of payments of principal, redemption price and interest to DTC is the responsibility of the Trustee; disbursement of such payments to Direct Participants (as defined herein) is the responsibility of DTC; and disbursement of such payments to the Beneficial Owners (as defined herein) is the responsibility of Direct Participants. See "APPENDIX F – BOOK-ENTRY SYSTEM" attached hereto.

Under the General Indenture, the Authority may issue additional series of bonds ("Additional Bonds") and other obligations related to bonds ("Auxiliary Obligations") upon satisfaction of the conditions set forth in the General Indenture. The General Indenture provides that Bonds (defined herein) and Auxiliary Obligations be designated a priority class, with Class I being the highest priority and the priority order decreasing as the Roman numerals increase. Bonds and Auxiliary Obligations of each Class issued under the General Indenture are equally and ratably secured by the pledges and covenants contained therein with other Bonds and Auxiliary Obligations of the same Class. The Offered Bonds are being issued as Class I Bonds under the General Indenture. All Bonds issued under the General Indenture to date have been issued as Class I Bonds (collectively, the "Outstanding Bonds"), and the Outstanding Bonds, the Offered Bonds and any Additional Bonds are referred to herein collectively as the "Bonds." The General Indenture, the 2022 Series D Indenture and all supplemental indentures, including supplemental indentures providing for the issuance or remarketing of any Bonds, are referred to herein collectively as the "Indenture." See "APPENDIX A – SUMMARY OF CERTAIN PROVISIONS OF THE GENERAL INDENTURE" attached hereto.

The proceeds of the Offered Bonds, other moneys made available upon the issuance of the Offered Bonds and other available funds, will be made available for use by the Trustee, on behalf of the Authority, to (a) purchase: (i) mortgage loan pass-through certificates (the "GNMA Certificates") guaranteed as to timely payment of principal and interest by the Government National Mortgage Association ("GNMA"), (ii) mortgage loan pass-through certificates (the "Fannie Mae Certificates") issued and guaranteed as to timely payment of principal and interest by the Federal National Mortgage Association ("Fannie Mae") and/or (iii) mortgage loan pass-through certificates (the "Freddie Mac Certificates") issued and guaranteed as to timely payment of principal and interest by the Federal Home Loan Mortgage Corporation ("Freddie Mac"), and (b) pay certain costs of issuing the Offered Bonds. The GNMA Certificates, the Fannie Mae Certificates and the Freddie Mac Certificates are collectively referred to herein as "Mortgage Certificates." See "FINANCING PLAN" herein.

The Offered Bonds are subject to redemption prior to maturity as more fully described herein. Any investor purchasing an Offered Bond at a price in excess of its principal amount should consider that such Offered Bond is subject to redemption without premium in certain cases as described herein. See "DESCRIPTION OF THE OFFERED BONDS" herein.

The Offered Bonds are special obligations of the Authority, payable solely from and secured solely by the pledge pursuant to the Indenture of the revenues and assets derived from the proceeds of the Bonds, including the Mortgage Certificates and the moneys and securities held in the Funds and Accounts created by the Indenture (other than the Rebate Account and amounts deposited therein). In no event shall the Offered Bonds constitute an obligation or liability (either general or special) of the State of New Mexico (the "State") or any political subdivision thereof or constitute or give rise to a pecuniary liability of the State or any political subdivision thereof. The Authority has no taxing power and has no power to pledge the general credit or taxing power of the State or any political subdivision thereof. The Offered Bonds and all other Bonds outstanding from time to time, and all interest thereon, are secured on a parity basis.

The Offered Bonds are not a debt of the United States of America, or any agency thereof, including GNMA, or of Fannie Mae or Freddie Mac, and are not guaranteed by the full faith and credit of the United States of America, GNMA, Fannie Mae or Freddie Mac. The obligations of Fannie Mae and Freddie Mac are not backed by the full faith and credit of the United States of America.

*The Offered Bonds are offered when, as and if issued and received by the Underwriters, subject to the approval of Kutak Rock LLP, Omaha, Nebraska, Bond Counsel, and certain other conditions. Certain legal matters will be passed upon by the Underwriters by Orrick, Herrington & Sutcliffe LLP, San Francisco, California, and for the Authority by Stelzner, Winter, Warburton, Flores, Sanchez & Dances, P.A., Albuquerque, New Mexico. It is expected that the Offered Bonds will be available for delivery through the facilities of DTC in New York, New York on or about August 18, 2022.*

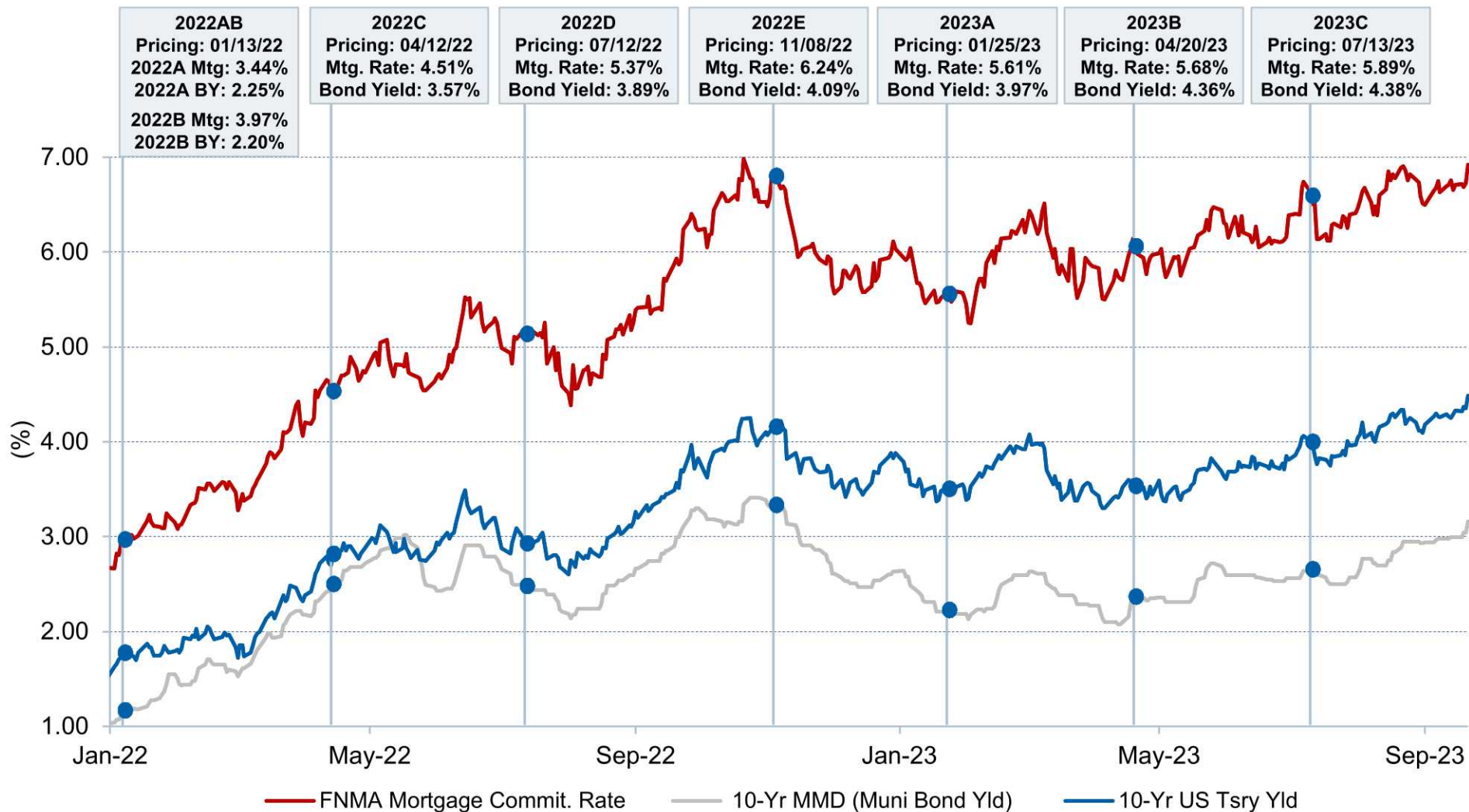
RBC Capital Markets

Raymond James

Dated: July 12, 2022

# MFA Issues Tax-Exempt Bonds to Fund Below Market Mortgages to First Time Homebuyers

- Spread between mortgage rates and bond rates = annuity for 30 year life of loan (limited to 1.125%)
- Mortgage rates have more than doubled since 2022

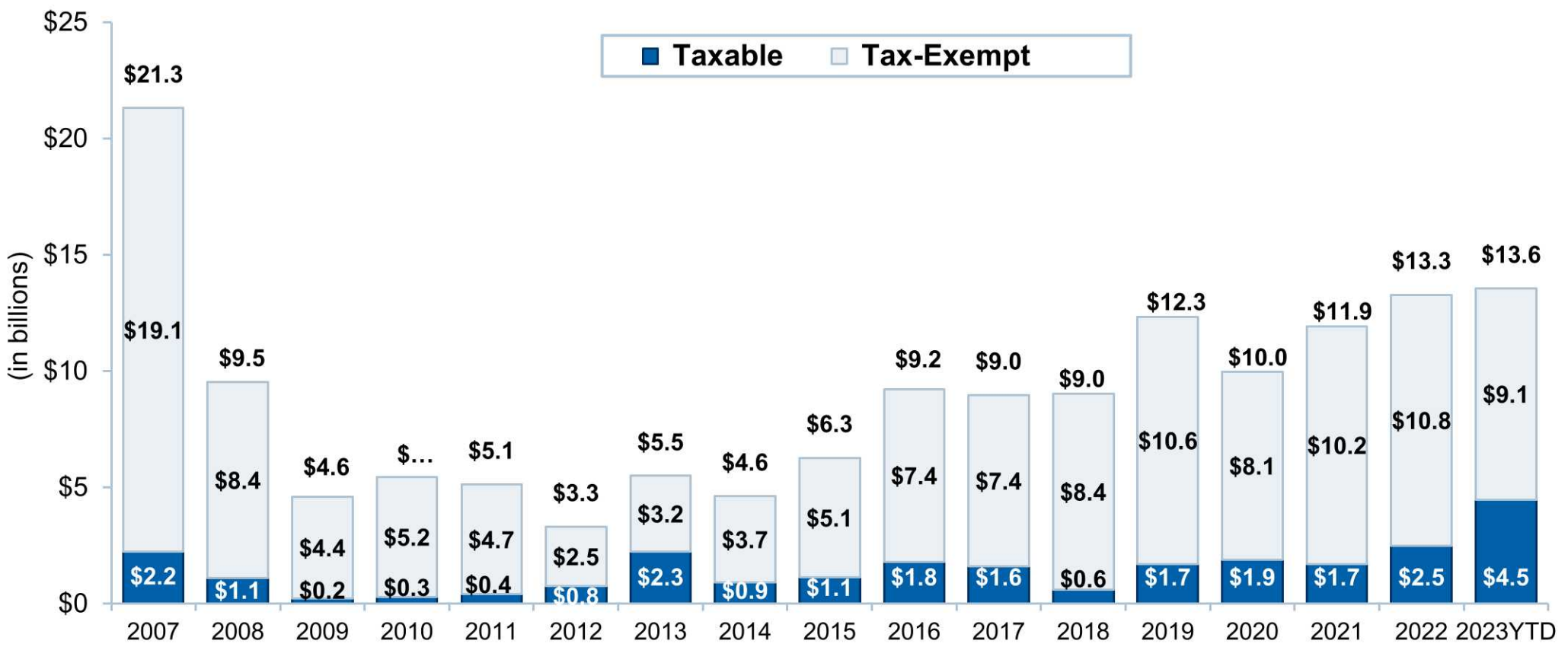


Rates	01/03/2022	09/21/2023	Δ Since Jan 22
FNMA Mortgage	2.67	6.92	4.25
10-Year Treasury	1.63	4.49	2.86
10-Year MMD	1.04	3.16	2.12

Source: Bloomberg; MFA Single Family Mortgage Program Class I Bonds Official Statements



# Historical Single Family Housing Volume by Taxable and Tax-Exempt

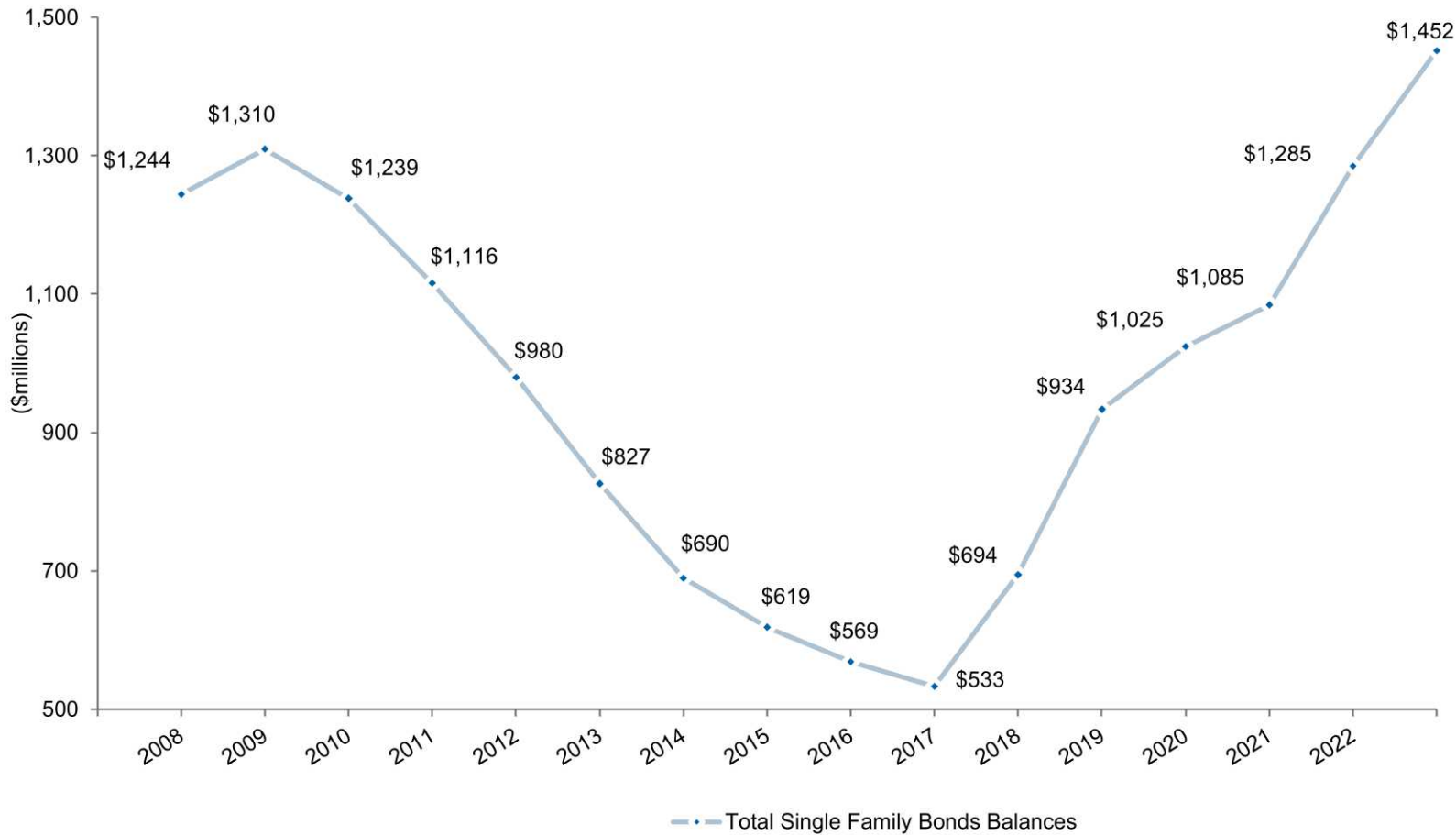


Source: Bloomberg, as of September 19, 2023

# NMMFA Historical Single Family Bond Balances (as of 9/30 of each year)



## MFA Single Family Bond Balances 2008 - 2023

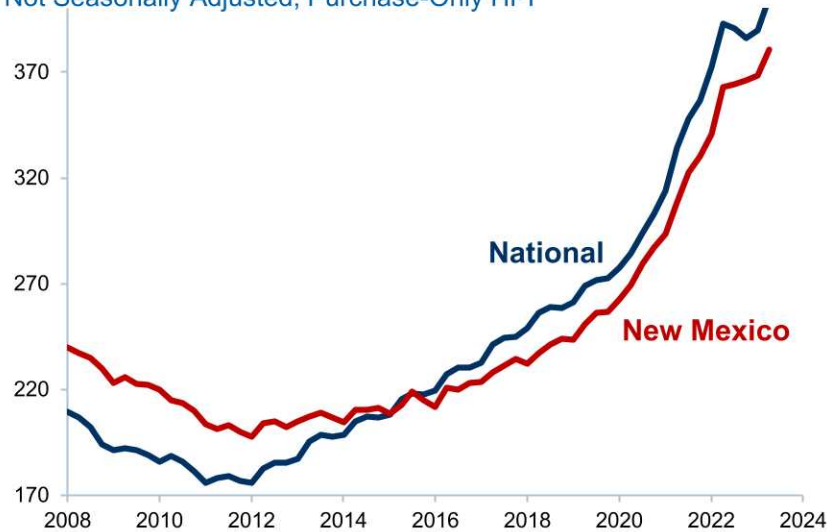


MFA SF Bonds (\$MM)	
Year	Balance
2008	\$1,244
2009	\$1,310
2010	\$1,239
2011	\$1,116
2012	\$980
2013	\$827
2014	\$690
2015	\$619
2016	\$569
2017	\$533
2018	\$694
2019	\$934
2020	\$1,025
2021	\$1,085
2022	\$1,285
2023	\$1,452

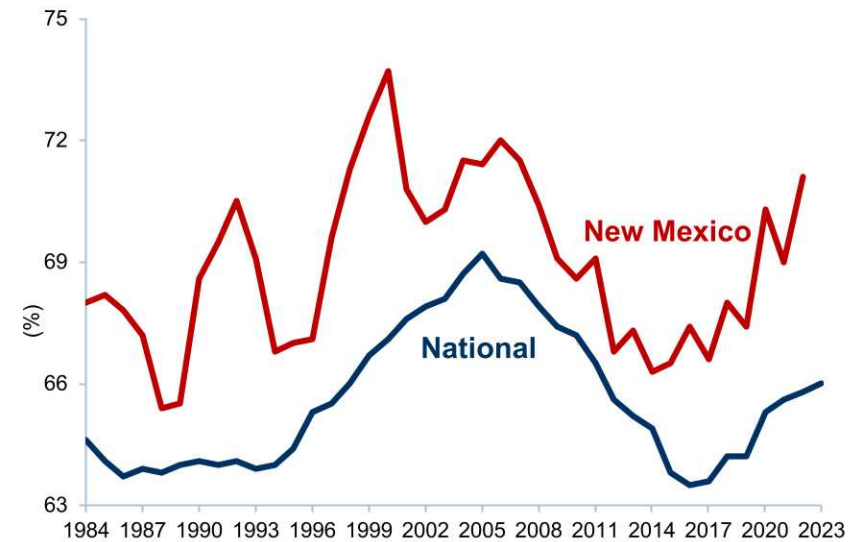
Source: NMMFA Audited Financial Statements (2008 to 2022) and 2023C Official Statement

## FHFA House Price Index

Not Seasonally Adjusted, Purchase-Only HPI



## Homeownership Rates



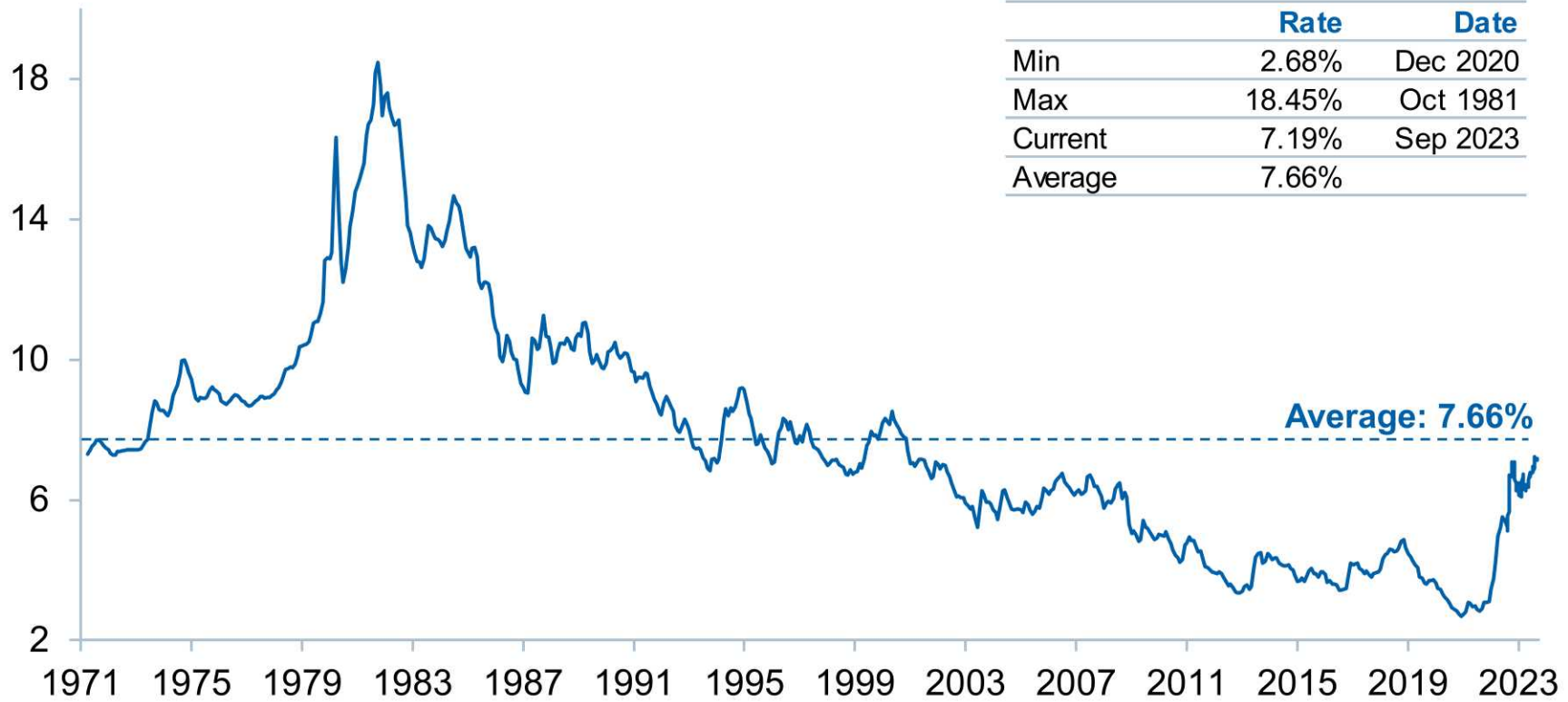
## Housing Trend in New Mexico

- Home prices continued to rise in 2023
  - New Mexico Median Home Value \$293,280 (2.7% YOY Increase)
  - National Median Home Value \$349,770 (0.4% YOY Increase)
- Homeownership rates are higher than the national average: New Mexico @ 71% (2022) vs. National @ 66% (2023)
- For the same home in New Mexico, the monthly mortgage payments are 13% higher than a year ago (after 69% YOY increase in 2022; 90% increase in 2 years)

## Housing Affordability in New Mexico

	Two Years Ago	One Year Ago	Current
Purchase Price*	\$251,133	\$285,570	\$293,280
Downpayment (5%)	\$12,557	\$14,278	\$14,664
Loan Amount	\$238,576	\$271,291	\$278,616
Mortgage Rate	2.90%	6.29%	7.19%
Monthly Payment	\$993	\$1,677	\$1,889
<b>YOY Change (\$)</b>		<b>\$684</b>	<b>\$212</b>
<b>YOY Change (%)</b>		<b>69%</b>	<b>13%</b>

## Freddie Mac Primary (Conventional, Conforming 30-Yr Fixed Rate) Mortgage Market Survey Since 1971



Source: <https://www.freddiemac.com/pmms>



# Who Issued Bonds in New Mexico in 2023YTD (as of 09/21/2023)

New Mexico Bond Issuance 2023YTD		
Date	Issuer	Par (\$000)
10/19/23	Alamogordo Municipal School District No 1	5,665
10/11/23	Las Cruces School District No 2	12,500
10/10/23	Clovis Municipal School District No 1	2,500
08/31/23	New Mexico Mortgage Finance Authority	36,923
08/25/23	New Mexico Mortgage Finance Authority	59,858
08/23/23	West Las Vegas Schools	1,500
08/17/23	New Mexico Mortgage Finance Authority	100,000
06/15/23	Santa Fe Public School District	20,000
06/15/23	Santa Fe Public School District	5,000
06/15/23	Santa Fe Public School District	6,000
06/08/23	Lea County Public School District No 8 Eunice	11,510
06/07/23	Loving Municipal School District No 10	8,740
05/31/23	New Mexico Finance Authority	36,655
05/31/23	New Mexico Finance Authority	39,120
05/25/23	New Mexico Mortgage Finance Authority	80,000
05/24/23	City of Sunland Park NM	4,500
05/17/23	Alamogordo Municipal School District No 1	3,765
05/17/23	Albuquerque Municipal School District No 12	70,000
05/17/23	Albuquerque Municipal School District No 12	42,885
05/16/23	Central New Mexico Community College	45,850
05/09/23	County of Bernalillo NM	17,970
05/03/23	Hobbs School District No 16	7,615
04/27/23	State of New Mexico	223,710
04/26/23	City of Albuquerque NM	19,300
04/11/23	Revenue	12,000
03/30/23	City of Las Cruces NM	17,000
03/30/23	University of New Mexico/The	51,995
03/07/23	Los Alamos Public School District	10,000
03/07/23	Revenue	19,425
02/28/23	Bernalillo Municipal School District No 1	9,285
02/23/23	New Mexico Mortgage Finance Authority	60,000
01/17/23	Control Authority	12,500
<b>Total</b>		<b>1,053,771</b>

Annual Bond Issuances in NM		
Year	Par (\$000)	# of Issues
2023YTD	\$1,053,771	32
2022	\$1,663,817	37
2021	\$1,800,902	33
2020	\$2,098,039	46
2019	\$2,512,312	59
2018	\$2,041,185	49
2017	\$1,912,205	53
2016	\$1,868,998	70
2015	\$2,419,875	83
2014	\$2,294,173	76



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# FINANCING TRENDS AMONG HFAS: IMPLICATIONS FOR MFA



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# HFA Trends and Challenges

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## 1. Dramatic and rapid increase in mortgage loan rates

- Borrower's ability to qualify for a loan is significantly challenged

## 2. House price appreciation has reduced supply of affordable housing stock

- Homeownership remains in high demand
- House price appreciation has reduced house supply nationally, challenging state HFA loan production, though recently seeing some signs of increased supply

## 3. MFA has been able to offer lower loan rates to first-time homebuyers

- MFA's recent FHA First Home loan rate (6.00%) is 1.16% lower than the national average

## 4. Private activity volume cap is in higher demand

- In 2023, New Mexico is limited to \$358 million in volume cap
- More volume cap is being utilized by multifamily bonds with 4% tax credits
- Cap is also used when funding single family loans with tax-exempt bonds
  - though MFA utilizes techniques to limit the amount of volume cap it uses when issuing bonds



# MFA Resources for Funding Affordable Loans

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## 1. Issuing tax-exempt bonds

- Historically provides a lower cost of funds to HFAs
- Investors bid aggressively for MFA bonds; excellent reputation, redemption mgmt.

## 2. Packaging loans into MBS and selling the loans

- Selling MBS via the To-Be Announced (TBA) market through 3<sup>rd</sup> party administrator
- Investors pay more for MFA loans than generic loans, allowing MFA to offer lower loan rates than it could otherwise

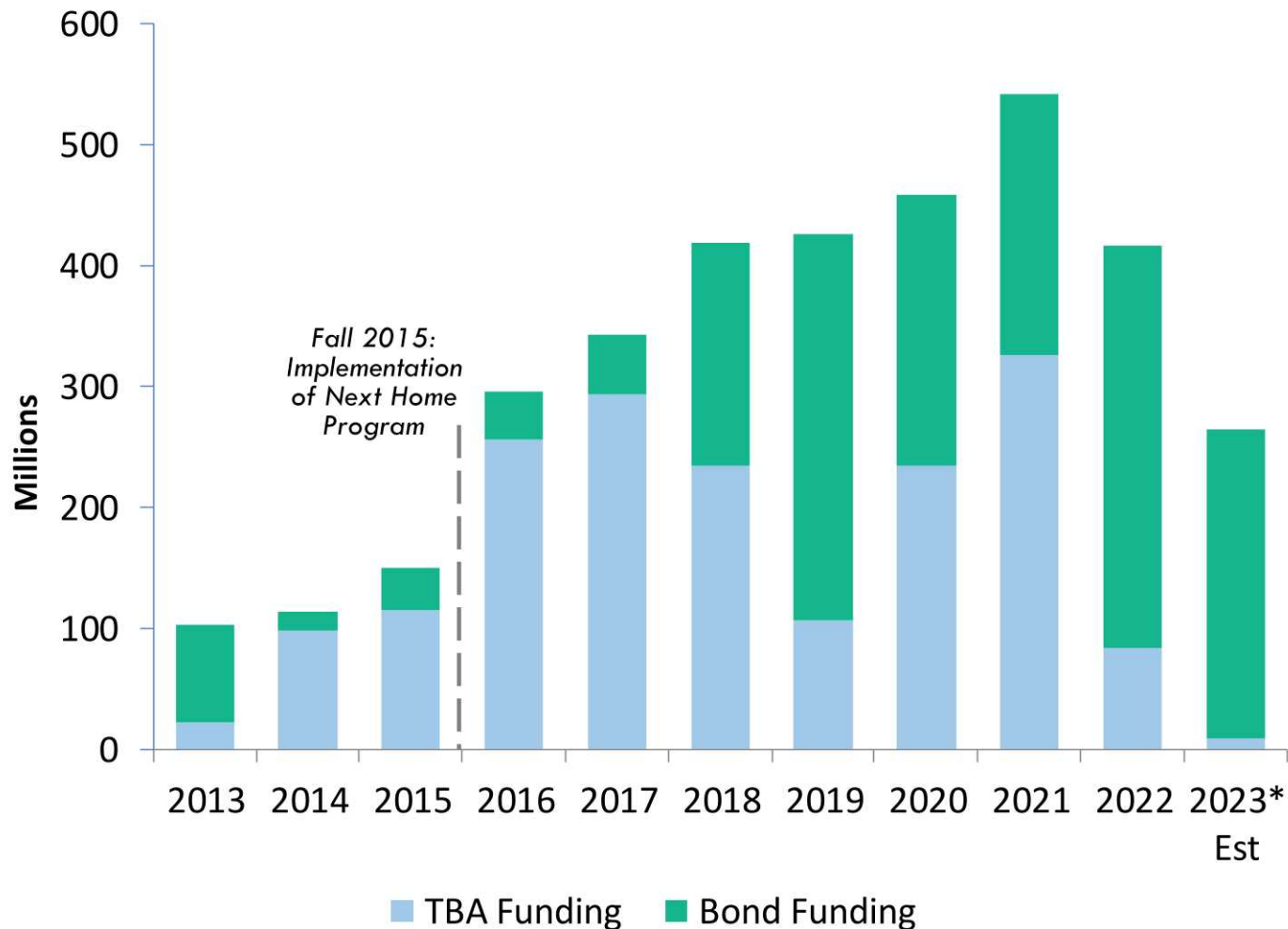
## 3. Downpayment assistance (DPA) to eligible borrowers using its Housing Opportunity Fund (HOF)

- Funds for downpayment is often the biggest obstacle for first-time homebuyers
- MFA has used more than \$85 million of HOF funds to purchase DPA second mortgages the last 6 years

# MFA Production Growth and Shift

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- Stable increase in production through FY 2021
- FY 2022 production began declining with Next Home pause, rising rates and home prices



\* Based on MBS settled or purchased each fiscal year.

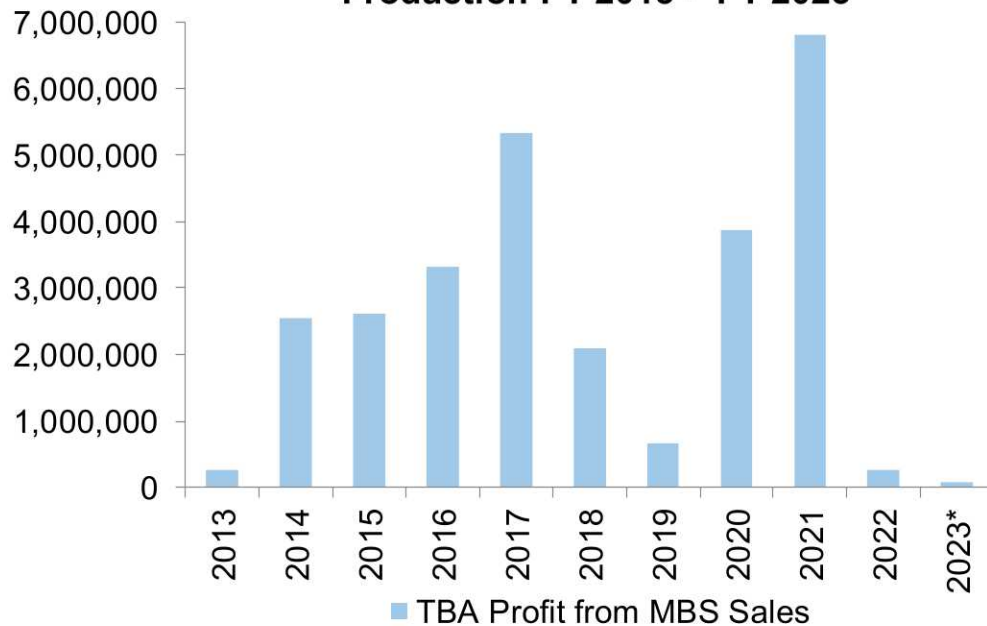
\*\* FY2023 YTD actual production is shown through July 2023, and projected production is shown for subsequent months.

# MFA Has Generated a Mix of Revenue Streams

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*MFA has generated both immediate revenue from TBA...*

**Single Family TBA Revenue:  
Production FY 2013 - FY 2023\***



\* Based on actual loan production through July 31, 2023 and projected production for subsequent months

*...as well as long-term revenue streams from bonds.*

**Single Family Forecasted Bond Revenue:  
New Production and Refundings during  
FY 2013 - FY 2023\***



\* Issuer fee run at 150% PSA



# Actively Monitoring Interest Rates is Crucial

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## CSG and MFA Actively Monitor and Review:

- Market mortgage rates in relation to MFA's rates on a daily basis
- Municipal bond market rates and costs of funds across difference financing options on a weekly basis
- TBA Sale Market MBS prices daily
- MFA programmatic goals including attractive rates and downpayment assistance to New Mexicans

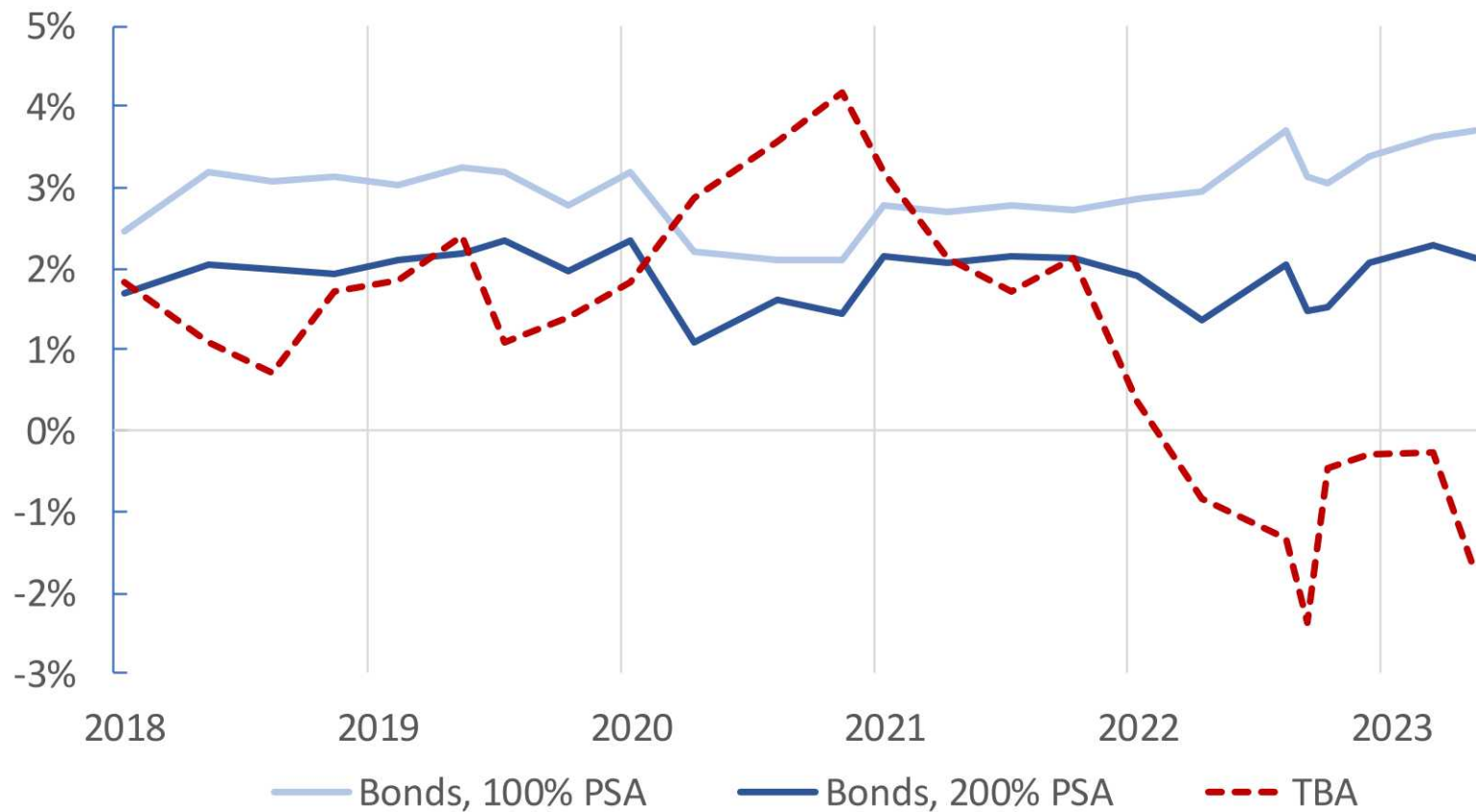
TBA									
15:22									
4 TBA30 9 TBA15 6 MBS 7 Swaps 8 Butterflies									
20 FN30 23 FN15 23 GD30 24 GD15 29 GN30 28 GN15 27 GNII									
		3.0			3.5			4.0	
Oct	94-12 / 13	1 - 1 - 10+		97-08 / 09	1 - 2 - 10		99-30+ / 31+	1 - 1 - 09	
Nov	94-09+ / 10+	1 - 2 - 10		97-04+ / 05+	1 - 1 - 10+		99-26+ / 27+	1 - 1 - 09	
Dec	94-06+ / 07+	1 - 2 - 10		97-01+ / 02+	1 - 1 - 10		99-22 / 23	1 - 1 - 09	
Oct/Nov	03 / 03 <sup>a</sup>	1 - 1 + 00 <sup>2</sup>		03 <sup>2</sup> / 03 <sup>2</sup>	2 - 1 + 00 <sup>2</sup>		04 / 04 <sup>2</sup>	1 - 1 - 00 <sup>2</sup>	
Nov/Dec	03 <sup>2</sup> / 03 <sup>2</sup>	1 - 1 + 00 <sup>2</sup>		03+ / 03 <sup>2</sup>	1 - 1 + 00 <sup>2</sup>		04 <sup>2</sup> / 04+	1 - 1 -	
		4.5			5.0			5.5	
Oct	102-11 / 12	1 - 1 - 07		104-11+ / 12+	1 - 1 - 05		106-00+ / 01+	1 - 1 - 07	
Nov	102-06+ / 07+	1 - 1 - 07		104-07 / 08	1 - 1 - 05+		105-29 / 30	1 - 1 - 08	
Dec	102-01+ / 02+	1 - 1 - 07+		104-01+ / 02+	1 - 1 - 06+		105-23+ / 24+	1 - 1 - 11+	
Oct/Nov	04 <sup>2</sup> / 04 <sup>2</sup>	1 - 1 -		04 <sup>2</sup> / 04 <sup>2</sup>	1 - 1 + 00+		03 <sup>2</sup> / 03+	1 - 1 + 00 <sup>2</sup>	
Nov/Dec	04 <sup>2</sup> / 05	1 - 1 + 00 <sup>2</sup>		05 <sup>2</sup> / 05 <sup>2</sup>	1 - 1 + 00 <sup>2</sup>		05+ / 05 <sup>2</sup>	1 - 1 + 03+	
Benchmarks					Roll Analysis-				
Treas 2Y	99-23+ / 23 <sup>a</sup>	2.889 / 885	- 01	Cpn	PSA	Drp	B/E Drp	B/E Rte	B/E PSA
Treas 3Y	99-10 <sup>a</sup> / 11	2.988 / 985	- 02	3.00	102.00	3.000	9.449	2.316	
Treas 5Y	99-03 / 03 <sup>a</sup>	3.073 / 071	- 03 <sup>a</sup>	3.50	117.00	3.250	10.280	2.454	
Treas 7Y	98-29 / 29+	3.176 / 173	- 08	4.00	161.00	4.000	11.408	2.515	
Treas 10Y	97-00+ / 01	3.231 / 229	- 11	4.50	235.00	4.625	12.532	2.620	5322.485
Treas 30Y	92-15+ / 16	3.403 / 402	- 31	5.00	251.00	4.625	13.747	2.965	4728.101



# Relative Profitability of Bonds versus TBA

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## Historical Net Present Value of Bonds and TBA



# MFA as viewed by Rating Agencies

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## MFA's Issuer Credit Rating was affirmed by Moody's Investors Service ("Moody's") in June 2020 with a "Aa3" / Stable rating

Strengths noted by Moody's included:

- High asset-to-debt ratio
- High quality of MFA's asset portfolio
- Low risk debt profile (no variable rate debt)
- Well-established risk management policies
- Sound oversight and management

Credit challenges:

- Lower profitability compared to Aa3 rating category peers; "expect trend to reverse"

## 2023 Moody's Update to Credit Analysis on Single Family Indenture (2005) "Aaa" / Stable:

- "Strong credit quality, strong asset-to-debt ratio, satisfactory liquidity resources, capable and active management team"

MFA Current Ratings		
	<u>S&amp;P</u>	<u>Moody's</u>
Issuer Credit Rating	AA-	Aa3
2005 Indenture	AA+	Aaa*
2009 Indenture	AA+	--

\* Bonds beginning 2015A and after.

Rating Definitions		
Moody's	S&P	Fitch
Aaa	AAA	AAA
Aa	AA	AA
A	A	A
Baa	BBB	BBB
Ba	BB	BB
B	B	B
C	D	D
1,2,3	+/-	+/-



# Challenges and Opportunities

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## Challenges:

- Affordable housing supply
- Costs to develop new units and affordable homes is high
- Overall market, inflation and interest rate environment is highly volatile
- Private activity volume cap is in greater demand
- Evolving regulatory environment

## Opportunities:

- Continued growth as leader in New Mexico mortgage market
- Ability to offer significantly lower loan rates by issuing tax-exempt bonds
- MFA is well positioned financially to continue offering its loan programs