

# NEW MEXICO MORTGAGE FINANCE AUTHORITY



## FINANCING TRENDS AMONG HFAS: IMPLICATIONS FOR MFA

**CSG** | advisors

September 2015

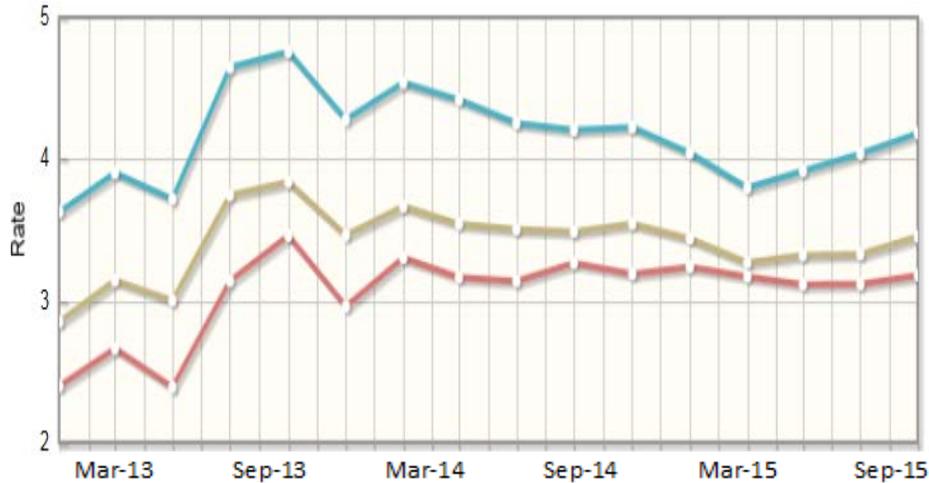
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# Historical Mortgage Rates, 2013 to date

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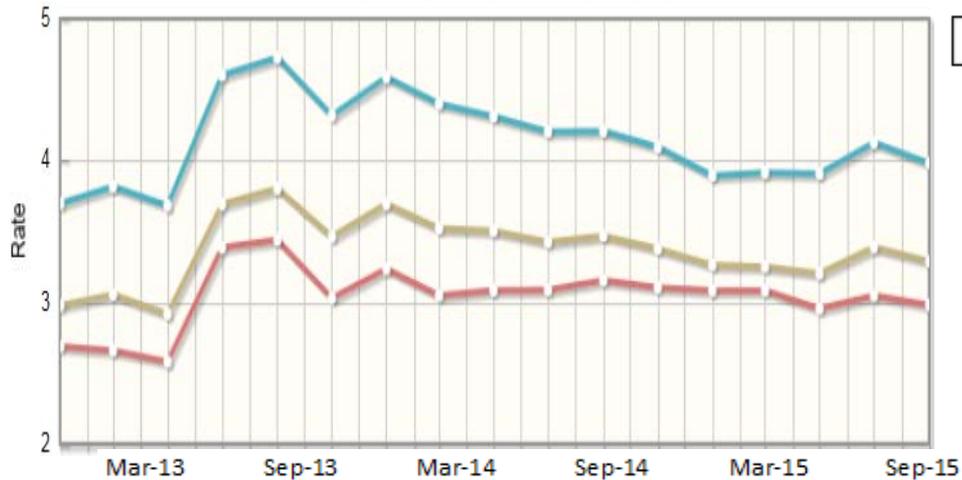
## New Mexico Rates



## MFA's Approach:

- Daily and weekly monitoring of interest rates
- Emphasis to remain competitive to market and attractive to homebuyers

## National Rates



# Actively Monitoring Interest Rates is Crucial

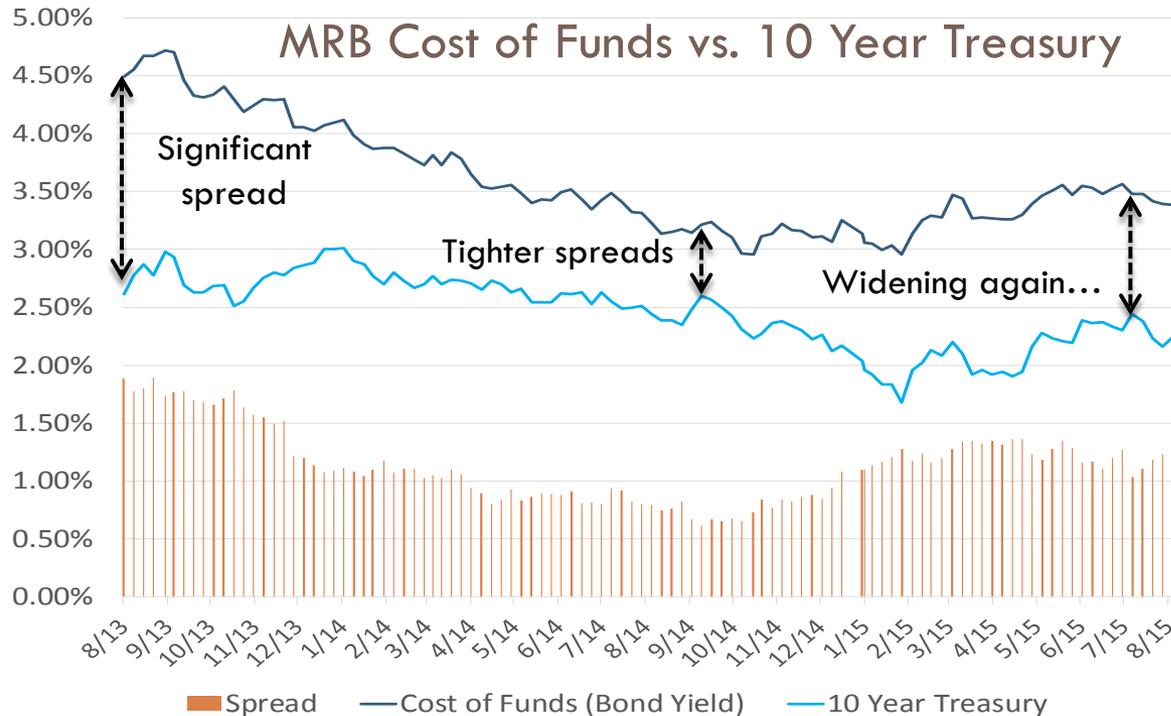
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	2015A	2014A	6/2/2015	6/9/2015	6/16/2015	6/23/2015	6/30/2015	7/7/2015	7/14/2015	7/21/2015	7/28/2015	8/4/2015	8/11/2015	8/18/2015
<b>Mortgage Rate Information</b>														
NMMFA Regular Saver (1+1)	3.50%	4.00%	3.500%	3.750%	3.750%	3.500%	3.750%	3.500%	3.750%	3.500%	3.500%	3.500%	3.500%	3.500%
Fannie Mae 60-day Commitment Rate (net yield)	3.41%	4.14%	3.50%	3.68%	3.65%	3.70%	3.70%	3.61%	3.75%	3.69%	3.62%	3.50%	3.52%	3.54%
Fannie Mae 90-day Commitment Rate (net yield)	3.44%	4.19%	3.55%	3.72%	3.69%	3.74%	3.75%	3.66%	3.79%	3.73%	3.66%	3.56%	3.56%	3.58%
Freddie Mac National Weekly Survey - Avg Rate <sup>(2)</sup>	3.76%	4.46%	3.87%	3.87%	4.04%	4.00%	4.02%	4.08%	4.04%	4.09%	4.04%	3.98%	3.91%	3.94%
Freddie Mac National Weekly Survey - Avg Pts <sup>(2)</sup>	0.60%	0.50%	0.60%	0.60%	0.60%	0.70%	0.70%	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%	0.60%
Freddie Mac Southwest Weekly Survey - Avg Rate <sup>(2)</sup>	3.82%	4.48%	3.91%	3.90%	4.08%	4.07%	4.06%	4.13%	4.08%	4.12%	4.08%	4.03%	3.92%	3.99%
Freddie Mac Southwest Weekly Survey - Avg Pts <sup>(2)</sup>	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
<b>Market Indices</b>														
10 Year Treasury	2.07%	2.84%	2.19%	2.39%	2.36%	2.37%	2.33%	2.30%	2.44%	2.38%	2.23%	2.16%	2.24%	2.16%
30 Year Treasury	2.70%	3.90%	2.94%	3.11%	3.09%	3.16%	3.09%	3.08%	3.21%	3.10%	2.93%	2.86%	2.89%	2.81%
<b>Bond Financing Information</b>														
30 Year MMD	2.88%	4.19%	3.19%	3.31%	3.29%	3.28%	3.28%	3.27%	3.31%	3.25%	3.12%	3.10%	3.11%	3.06%
30 Year NAMT Bond	4.00%	5.00%	4.20%	4.25%	4.25%	4.20%	4.30%	4.35%	4.25%	4.25%	4.15%	4.10%	4.10%	4.05%
Spread to 30 Year MMD	1.08%	0.81%	1.01%	0.94%	0.96%	0.92%	1.02%	1.08%	0.94%	1.00%	1.03%	1.00%	0.99%	0.99%
Premium PAC Yield (5 yr avg life)	1.95%	2.40%	2.21%	2.30%	2.29%	2.22%	2.20%	2.24%	2.15%	2.15%	2.15%	2.13%	2.18%	2.25%
Spread to 5 Year MMD	0.82%	1.20%	0.79%	0.77%	0.80%	0.76%	0.82%	0.88%	0.83%	0.85%	0.88%	0.81%	0.83%	0.90%
<b>100% Market: Fixed Rate 30yr Level Debt with Prem PAC<sup>(3)(4)(5)</sup></b>														
Cost of Funds (Bond Yield)	3.28%	4.05%	3.47%	3.55%	3.53%	3.48%	3.53%	3.57%	3.48%	3.48%	3.41%	3.39%	3.39%	3.39%
FSMR- GNMA Regular Saver (1+1)	4.28%	4.88%	4.47%	4.55%	4.54%	4.37%	4.53%	4.46%	4.48%	4.37%	4.42%	4.39%	4.28%	4.39%
FSMR - GNMA Saver Zero	4.53%	5.38%	4.72%	4.80%	4.79%	4.74%	4.78%	4.84%	4.73%	4.75%	4.67%	4.64%	4.65%	4.64%
FSMR - GNMA Saver Plus	N/A	5.88%	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
FSMR- 100% GNMA Regular Saver (1+1)	4.46%	5.03%	4.45%	4.53%	4.51%	4.46%	4.51%	4.55%	4.46%	4.46%	4.40%	4.37%	4.37%	4.37%
Zero Needed for New Issuance <sup>(6)</sup>	\$5.7m	\$5.2m	\$7.7m	\$6.3m	\$6.2m	\$6.8m	\$6.2m	\$7.6m	\$5.8m	\$6.8m	\$7.2m	\$7.0m	\$6.1m	\$7.0m
Issuance Size	\$35.0m	\$30.0m	\$30.0m	\$30.0m	\$30.0m	\$30.0m	\$30.0m	\$30.0m	\$30.0m	\$30.0m	\$30.0m	\$30.0m	\$30.0m	\$30.0m
TBA Pricing Pass-through (GNMA II) 3.50%	104.52%	101.11%	104.47%	103.70%	103.89%	103.39%	103.53%	104.08%	103.67%	103.61%	103.98%	104.41%	104.39%	104.14%
TBA Pricing Pass-through (GNMA II) 4.00%	106.08%	104.48%	106.06%	105.97%	105.80%	105.63%	105.72%	106.14%	105.63%	105.67%	105.86%	106.09%	106.22%	105.80%
TBA Pricing Pass-through (GNMA II) 4.50%	108.45%	107.36%	108.13%	108.09%	107.73%	107.64%	107.77%	107.97%	107.69%	107.64%	107.63%	107.67%	107.50%	107.16%
TBA Yield Pass-through (GNMA @3.00%) @ 100% PSA	2.80%	3.46%	2.84%	2.96%	2.92%	2.97%	2.94%	2.87%	2.95%	2.95%	2.90%	2.82%	2.84%	2.88%
TBA Yield Pass-through (GNMA @3.00%) @ Dealer PSA	2.72%	3.62%	2.77%	2.94%	2.89%	2.95%	2.92%	2.82%	2.93%	2.93%	2.86%	2.75%	2.78%	2.83%
Dealer Forecasted PSA	194	194	194	194	194	194	194	194	194	194	194	194	194	194
Current Reservation Rates														
Saver	3.50%	4.00%	3.500%	3.750%	3.750%	3.500%	3.750%	3.500%	3.750%	3.500%	3.500%	3.500%	3.500%	3.500%
Zero	3.75%	4.50%	3.750%	4.000%	4.000%	3.875%	4.000%	3.875%	4.000%	3.875%	3.750%	3.750%	3.875%	3.750%
Plus	4.50%	5.00%	4.500%	4.875%	4.875%	4.750%	4.750%	4.750%	4.750%	4.750%	4.750%	4.750%	4.875%	4.500%
Net Profit of Current Rates (if Sold) <sup>(7)</sup>														
Saver	2.19%	0.55%	2.01%	2.37%	2.53%	0.81%	2.44%	1.55%	2.39%	0.92%	1.32%	1.97%	1.67%	1.38%
Zero	1.70%	1.82%	1.42%	1.56%	1.72%	1.00%	1.63%	1.66%	1.58%	1.22%	0.91%	1.35%	1.77%	0.91%
Plus	1.78%	1.06%	1.48%	2.03%	1.73%	1.22%	1.39%	1.56%	1.30%	1.21%	1.30%	1.33%	1.71%	0.67%

# Municipal Bonds Have Underperformed Treasuries:

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## MRB Cost of Funds vs. 10 Year Treasury



## Primary Causes:

- Absolute low levels of interest rates
- Slower growth economy
- Fed “Quantitative Easing”, etc.
- US Treasuries attractive as global safe investment

## Impact on MFA:

- Traditional tax-exempt municipal bonds do not generate competitive mortgage rates
- Requires alternative funding sources for new production

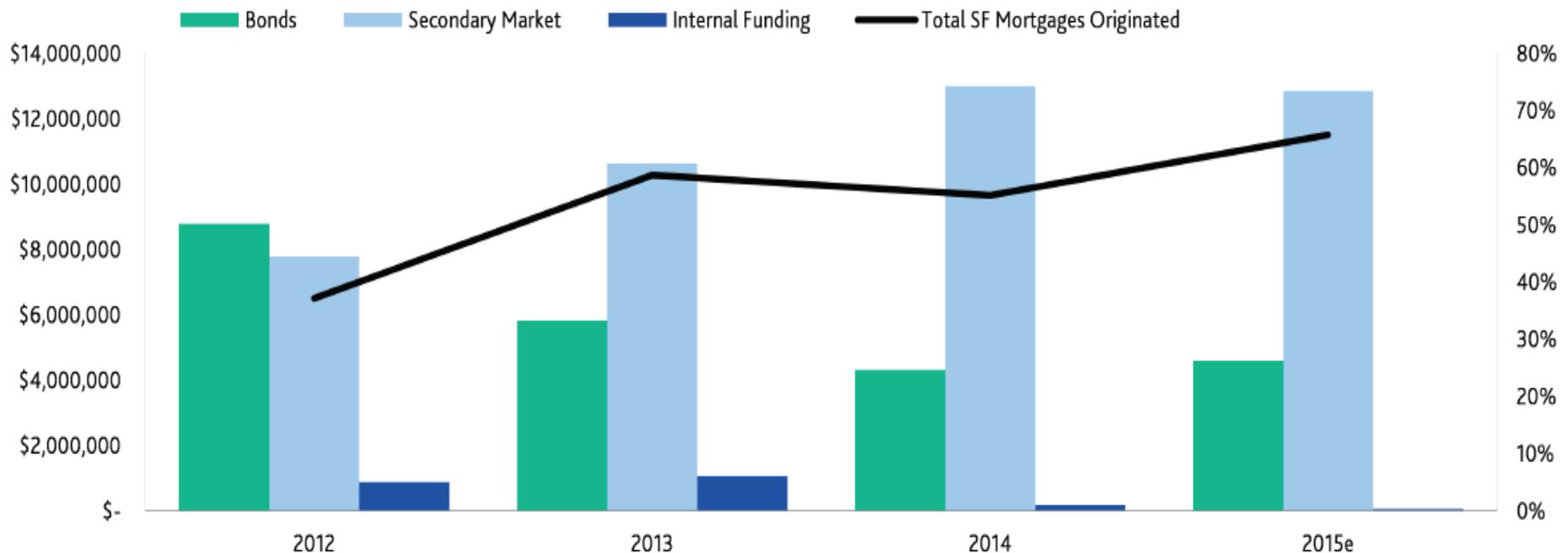
	Aug 2014	Aug 2015	Change from '14 to '15	Mar 2006
MRB Bond Yield	3.31%	3.39%	0.08%	4.66%
10 Year UST	2.51%	2.16%	(0.35%)	4.81%
Spread	0.80%	1.23%	0.43%	(0.15%)

# HFA Trends: Single Family Financing

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## Continued Shift to MBS Secondary Market Execution

- MBS sales via TBA (“To be Announced”) market has become standard execution for many HFAs
- MBS future delivery prices have become method by which HFAs set interest rates, as opposed to tax-exempt bond yields
- ***MFA has been using this execution successfully since 2013***

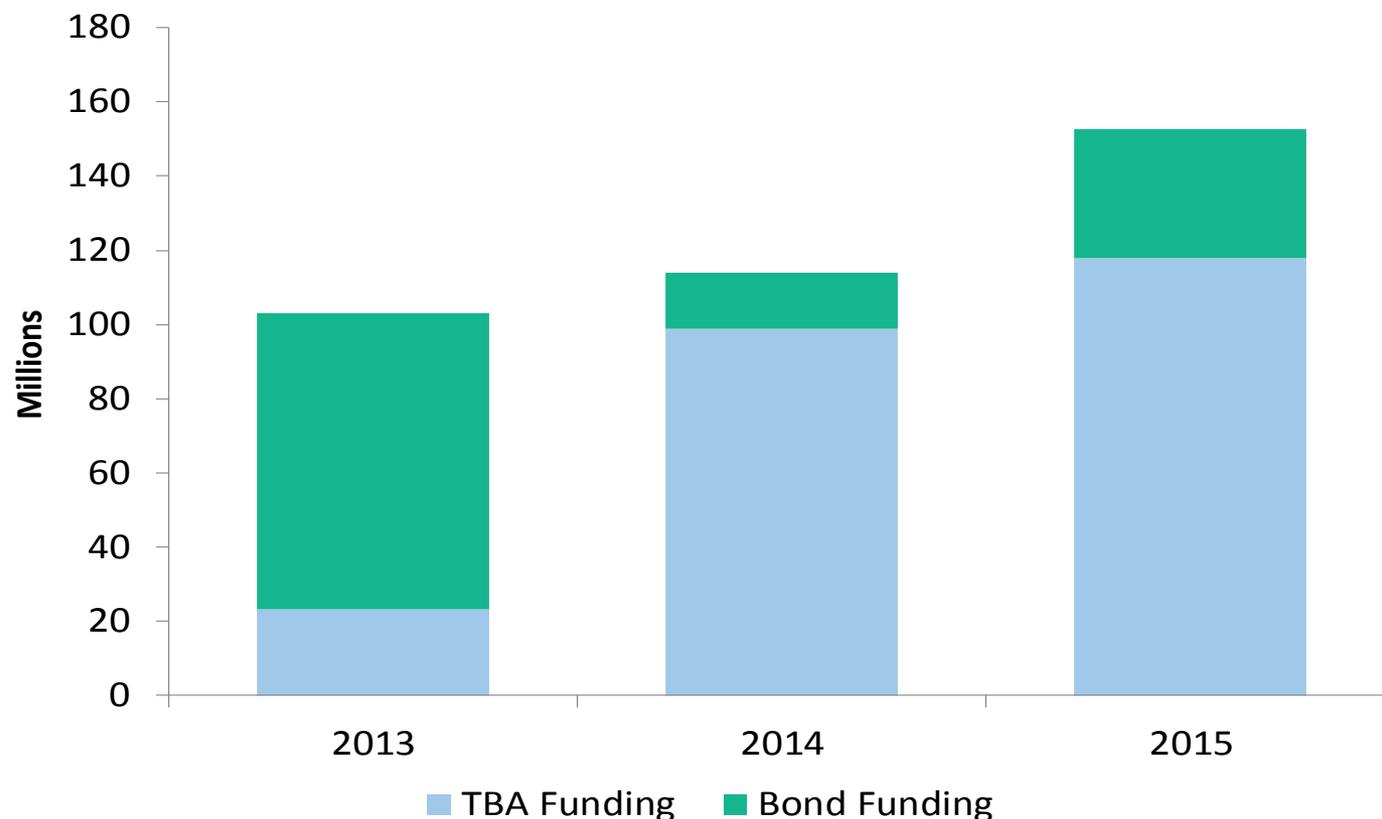


# MFA Production has also shifted to TBA

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- Loan purchased forecasted as \$152.7 million in FY15, an increase of 34% over FY14 production of \$114 million.

## Single Family Production\*



\* Based on MBS settled or funded with bonds each fiscal year.

# HFA Trends – Single Family Financing (cont.)

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## Use of Bonds

1. New production bond issuance more selective
2. Refinancing debt to lock in lower borrowing costs
  - Many bonds sold as taxable so that HFA can retain more savings than if bonds were tax-exempt
  - *In FY15, MFA refinanced over \$45mm, generating \$3.3mm in present value savings*
3. Traditional bond structures (serials, term, PAC bonds)
  - Still not attractive without some form of subsidy
4. Varying techniques to make bond issue effective, including:
  - Monthly pass-through bonds

# Monthly Pass-Through Bonds

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1. Repayments on the mortgage-backed securities are “passed through” monthly to redeem bonds
2. More attractive to investors given greater ability to forecast how the bond will be redeemed
3. *MFA has been a front-runner among HFAs in pass-through bond market*
  - *8 sub-series issued totaling \$150mm since January 2013*
4. Refinancing existing, higher rate debt with monthly pass-through bonds can generate significant savings and improved revenue streams
  - *In FY 2015, MFA refunded over \$45mm, generating \$3.3mm in present value savings*

# Despite Challenging Bond Market, MFA has Remained Active

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## MFA Recent Bond Activity, and Revenue Generation:

### 2013 - 2014 YTD

(in \$ millions)	2013A	2013B	2013C	2014A	2014B	Total
Issuance Date:	Jan-13	Jun-13	Sep-13	Jan-14	Jun-14	
Bond Structure:	Pass-Through	Pass-Through	Pass-Through	Traditional	Pass-Through	
Financing Type:	New Money	New / Refund	New Money	New Money	Refunding	
Bond Proceeds (par):	\$25.0 mm	\$36.2 mm	\$30.0 mm	\$15.0 mm	\$12.5 mm	\$118.7 mm
<b>First Year Revenue Stream:</b>	<b>\$ 95,000</b>	<b>\$ 441,000</b>	<b>\$ 63,000</b>	<b>\$ 37,500</b>	<b>\$ 351,000</b>	<b>\$ 987,500</b>

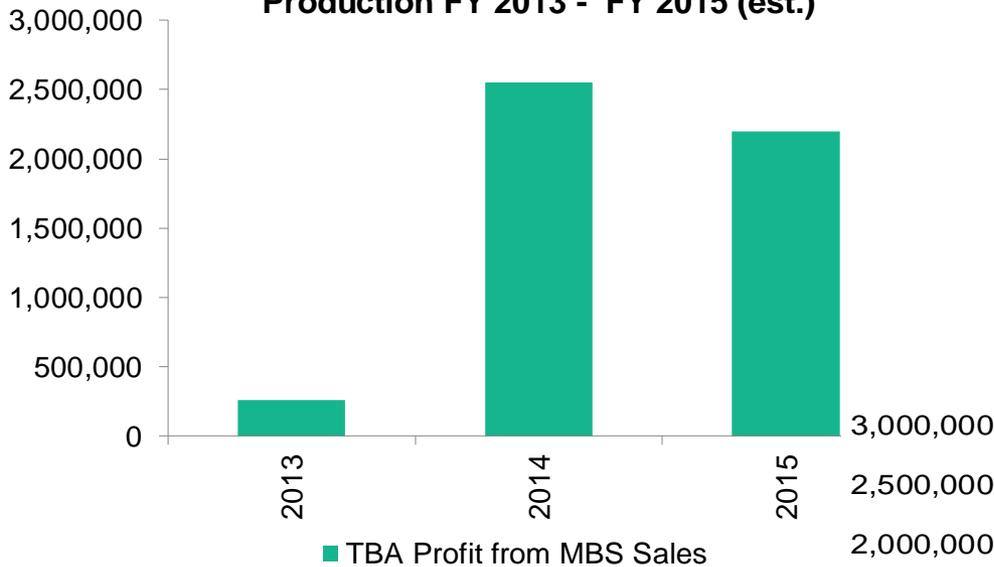
### 2015 (est.)

(in \$ millions)	2015A	2015B	2015C	2015D	2015E (est.)	Total
Issuance Date:	Mar-15	Mar-15	Mar-15	Jul-15	Nov-15	
Bond Structure:	Traditional	Pass-Through	Pass-Through	Pass-Through	Pass-Through	
Financing Type:	New Money	Refunding	Refunding	Refunding	Refunding	
Bond Proceeds (par):	\$35.0 mm	\$7.2 mm	\$25.7 mm	\$13.8 mm	\$24.7 mm	\$106.5 mm
<b>First Year Revenue Stream:</b>	<b>\$ 87,500</b>	<b>\$ 195,000</b>	<b>\$ 143,500</b>	<b>\$ 325,000</b>	<b>\$ 524,500</b>	<b>\$ 1,275,500</b>

# MFA Has Generated a Mix of Revenue Streams

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

**Single Family TBA Revenue:  
Production FY 2013 - FY 2015 (est.)**



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

**Single Family Forecasted Bond Revenue:  
New Production and Refundings during  
FY 2013 - FY 2015 (est.)**



\* Issuer fee run at 150% PSA

# MFA as viewed by Rating Agencies

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MFA's Issuer Credit Rating was affirmed by Standard & Poor's ("S&P") in June 2015 with a "AA-" / Stable rating

Strengths noted by S&P included:

- High quality of MFA's loan portfolio
- Improved profitability in 2014
- Low risk debt profile; 99% fixed rate bonds
- Very low amount of general obligation debt
- High level of legislative and gubernatorial support of MFA
- Stable and effective management

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

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	+/-	+/-

\* Bonds beginning 2015A and after.

# Financing Opportunities / Conclusion

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1. Continued evaluation of optimal single family funding strategy, considering the impact on:
  - Managing pipeline interest rate risk, current profitability, generation of ongoing future revenue streams, and rebuilding assets and balance sheet.
2. Refinancing existing higher rate bonds
  - Takes advantage of continued low interest rate environment
3. Combining TBA program with bonds as long-term funding
  - Could significantly reduce the interest rate risk to MFA of accumulation MBS for a future bond issue as rates are attractive
4. Providing long-term funding for multifamily affordable housing projects
  - Permanent lender on tax credit projects
5. Debt refinance opportunities on existing bonds / projects
  - Multifamily pass-through bonds are attractive funding sources as well