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# Market Rate Ginnie Mae/Fannie Mae TBA Program

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# About FirstSouthwest

- A leader in public finance since 1946 with a national presence
- Involved with, on average, 22 deals per week as underwriter and financial advisor
- Public finance is our core business
  - Underwriting professionals also assist our financial advisory clients
- Equity Capital of over \$115 Million (12/31/2014)
- Registered Broker/Dealer with transparency and accountability
  - Administering TBA Programs for 12 state agencies – including MFA
  - Senior management includes two past Chairmen of the MSRB
  - Support enhanced regulation to clarify the role and responsibilities of financial advisors and underwriters
  - Subject to SEC, MSRB and FINRA rules and regulations



# TBA (Mortgage-Backed) Securities Market

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- Mortgage-backed securities (MBS) are debt obligations that represent claims to the cash flows from a pool of mortgages
- There are a variety of structures in the MBS market but the most common types are pass-through certificates, which entitle the holder to a pro-rata share of all principal and interest payments made on a pool of mortgages.
- As one of the most liquid fixed income sectors in the world, MBS, particularly those backed by agency guarantees, constitute an active subsector of global securities lending markets because of their high credit quality and liquidity.
- “TBAs” or “To Be Announced” transactions represents a contract for the purchase or sale of mortgage-backed securities to be delivered at a future agreed-upon date
- The specific pool numbers or the number of pools that will be delivered to fulfill the trade obligation or terms of the contract are unknown at the time of the trade
- Mortgage pools (incl. fixed rate or variable rate mortgages) guaranteed by Ginnie Mae, Fannie Mae or Freddie Mac are subsequently allocated to the TBA transactions
- The genesis of the TBA market was the agencies’ desire to add liquidity to the mortgage markets. The agencies enable mortgage lenders to sell product forward through primary originations by securitizing the mortgages for purchase in the secondary market

## TBA (Mortgage-Backed) Securities Market – continued

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- To allow lenders to hedge or fund their origination pipelines, settlement dates are set between one and nine months from the date on which the transaction is negotiated (trade date). This permits the lenders to lock in a price for the mortgages they are in the process of originating
- Much of the secondary market activity in TBAs is performed by broker dealers, acting as intermediaries between the primary market participants and the ultimate investor
- Any party interested in buying or selling a security will contact a party that may be interested in taking the other side of the trade. Contact may take place via telephone, fax, e-mail, or electronic communication system
- While the majority of TBA trades performed today are largely manual and depend on phone and fax and paper, increasingly the industry is moving toward automation and electronic systems
- The Securities Industry and Financial Markets Association (SIFMA) has specific rules regarding what constitutes TBA eligible deliveries also known as “good delivery”

# Current Environment for Housing Finance Agencies (HFA's)

- Number of factors make it very difficult for HFA's to issue tax exempt bonds today
  - Fed's market intervention / Federal fiscal policy
  - Historically low mortgage rates
- Currently about 38 state HFAs and a number of local issuers are offering TBA based programs and growing
- Without a pipeline hedge in place, MFA faces market risk, and potential losses should interest rates increase pending loan delivery
- FirstSouthwest Company (FSC) currently administers MFA's TBA program and assumes all of the pipeline and interest rate risk
- FSC is currently managing TBA pipelines in 12 states including 9 state HFAs – Washington, Texas (TDHCA), Wisconsin, Indiana, Delaware, New Mexico, North Carolina, California and Arizona
  - To date managed in excess of \$6.5 billion in MBS Pipeline and purchased over \$4.1 billion in MBS. Averaging over \$400 million a month in new mortgage activity and a current pipeline of over \$1.3 billion

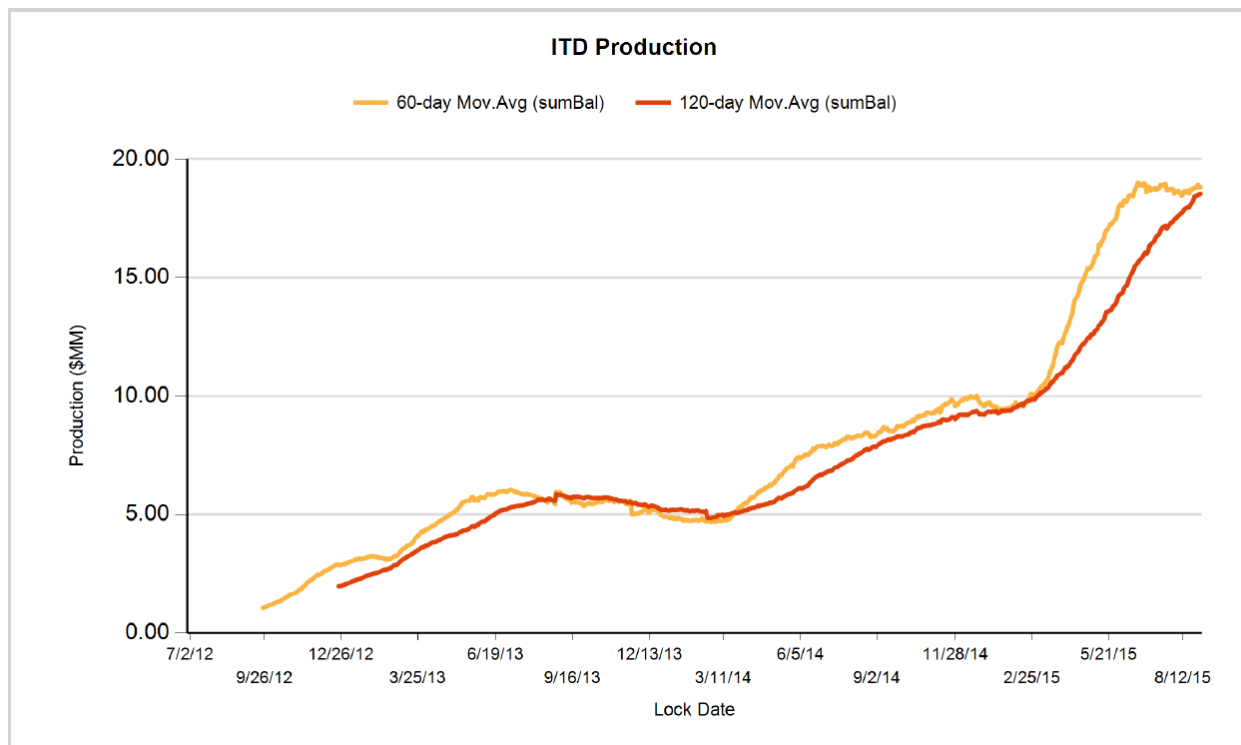
# TBA Program Benefits When Compared to MRB

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- Provides a forward commitment mortgage program with no costs of issuance, negative arbitrage and legal expenses
- Produces a significantly lower mortgage rate when compared with Pass-Thru and traditional MRB structures
- Provide down payment and closing cost assistance without using MFA funds
- Flexibility to adjust rates as the market moves -- no yield implications
- Can be used to provide financing for non-first time homebuyers
- Can be combined with Mortgage Credit Certificates (MCCs) thus creating a lower effective mortgage rate
- Gives MFA the option of offering refinances
- Still more profitable for MFA than traditional MRBs and Pass-Thru structures both on present value and ongoing basis
- It can be used as a tool to accumulate MBS for future bond transactions
  - Either “Pass-thru” or “Traditional MRB” structures
  - MFA has the option to repurchase its MBS at prevailing TBA levels

# HFA TBA Programs Continue to Grow – Despite Volatility

- Since July 2012 representing 12 state HFAs and over \$6.5 billion in new mortgages
- YTD new mortgage originations of \$3.0 billion
- Average daily new mortgages are up over 50% in the last 12 months. 3<sup>rd</sup> QTR new mortgages are up over 100% compared to the same period in 2014

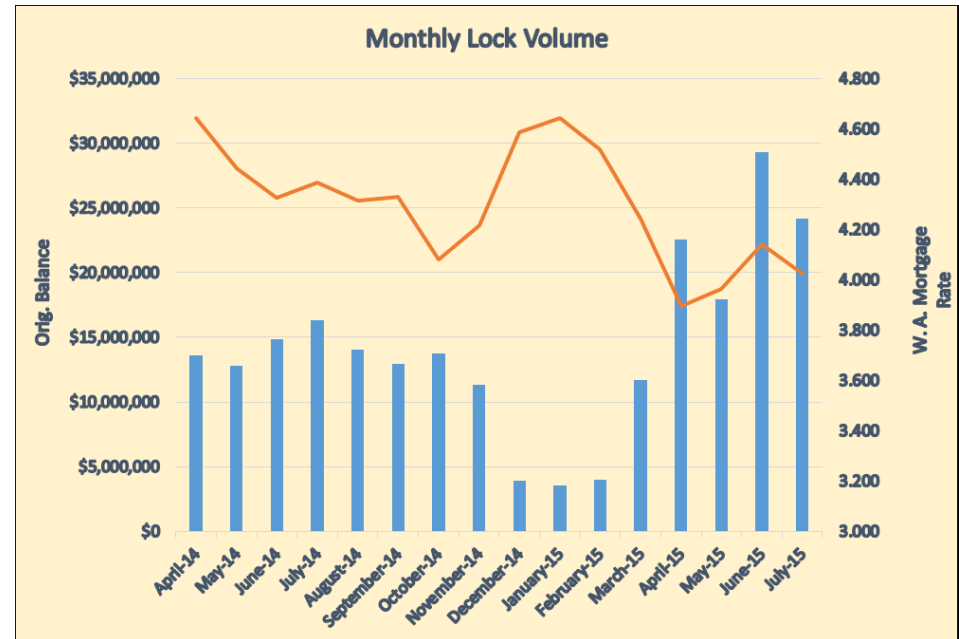




# Production Trends

- As of July 31, 2015 MFA has done over \$343 million in new mortgages under the TBA program
- June 2015 was a record month for MFA -- almost \$30 million in mortgages

Product	Lock Volume By Product	Percentage	Loan Count
FHA	305,897,698	89%	2430
Conventional	29,536,887	9%	228
HUD Section 184	5,165,084	2%	33
VA	1,369,551	0%	10
RHS	647,932	0%	6



# Market Rate TBA Program -- Administration

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- On daily basis, FSC provides mortgage rates to MFA by 8:45AM MT. Based on predetermined margins and amount of DPA, MFA sets the rate and posts it to the MITAS system by 9 AM
- Participating lenders access rates and register the mortgage loan(s) on the MITAS System, with data shared with FSC
- FSC accesses the MITAS system throughout the day to download loan data for loan hedging and pipeline management purposes
- Lenders are held to strict reservation and loan closing deadlines
  - 60 days to be purchased by the master servicer
  - 90 days for delivery to FSC
  - Lock extensions are granted by charging extension fees to lenders
- Lender closes the loan and delivers it to Master Servicer for purchase
- Master Servicer will only purchase loans within the reservation window
- Purchased loans are pooled into MBS and delivered to FSC for purchase based on pooling instructions provided by FSC



# Pricing Example – (based on 09/02/2015)

30YR FIXED RATE GOVERNMENT MORTGAGE	
<b>ASSUMPTIONS</b>	<b>45 Day Rate Lock</b>
Initial Rate Lock Date	9/2/2015
Rate Lock Expiration Date	10/19/2015
Latest Lender Loan Sale to Master Servicer Date	11/2/2015
Latest GNMA Security (MBS) Settlement Date	11/19/2015
Servicing release premium included in rate lock price?	Yes
Gain built into rate lock price for NMMFA	0 points
Lender fees built into rate lock price	0 points

30YR FIXED RATE GOVERNMENT MORTGAGE															
HERO PROGRAM															
Gross Rate (%)	Servicing Fee (%)	Guarantee Fee (%)	MBS Coupon (%)	GNMA Type	SRP	FSC Spread	45 Day Rate Lock TBA Price	45 Day Rate Lock Price	IHFA Purchase Price	45 Day Total Servicing Released Price	Adjusted SRP	DPA (%)	Lender Fee (%)	NMMFA PL (%)	
3.500	0.440	0.060	3.000	GN1	1.790	(0.500)	100.95313	100.45313	101.00000	102.24313	(0.29000)	3.000	2.500	(3.25687)	
3.625	0.565	0.060	3.000	GN2	1.480	(0.500)	100.90625	100.40625	101.00000	101.88625	0.02000	3.000	2.500	(3.61375)	
3.750	0.190	0.060	3.500	GN2	0.510	(0.500)	103.68359	103.18359	101.00000	103.69359	0.99000	3.000	2.500	(1.80641)	
3.875	0.315	0.060	3.500	GN2	1.180	(0.500)	103.68359	103.18359	101.00000	104.36359	0.32000	3.000	2.500	(1.13641)	
4.000	0.440	0.060	3.500	GN2	1.700	(0.500)	103.68359	103.18359	101.00000	104.88359	(0.20000)	3.000	2.500	(0.61641)	
4.125	0.565	0.060	3.500	GN2	1.460	(0.500)	103.68359	103.18359	101.00000	104.64359	0.04000	3.000	2.500	(0.85641)	
4.250	0.190	0.060	4.000	GN2	0.480	(0.500)	105.82422	105.32422	101.00000	105.80422	1.02000	3.000	2.500	0.30422	
4.375	0.315	0.060	4.000	GN2	1.110	(0.500)	105.82422	105.32422	101.00000	106.43422	0.39000	3.000	2.500	0.93422	
4.500	0.440	0.060	4.000	GN1	1.600	(0.500)	105.91016	105.41016	101.00000	107.01016	(0.10000)	3.000	2.500	1.51016	
4.625	0.565	0.060	4.000	GN2	1.440	(0.500)	105.82422	105.32422	101.00000	106.76422	0.06000	3.000	2.500	1.26422	
4.750	0.190	0.060	4.500	GN2	0.440	(0.500)	107.18750	106.68750	101.00000	107.12750	1.06000	3.000	2.500	1.62750	
4.875	0.315	0.060	4.500	GN2	1.030	(0.500)	107.18750	106.68750	101.00000	107.71750	0.47000	3.000	2.500	2.21750	
5.000	0.440	0.060	4.500	GN1	1.460	(0.500)	107.98438	107.48438	101.00000	108.94438	0.04000	3.000	2.500	3.44438	

- FSC sets pricing based on screen traded quote services like Bloomberg and Tradeweb
- Staff have done an excellent job managing margins while setting rates competitively



# TBA Market Snapshot – Significant Volatility Since “Taper”

