

FINANCING TRENDS AMONG HFAS



CSG | ADVISORS

SEPTEMBER 2024

HFA Trends and Challenges

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1. Continued high mortgage loan rates, but coming down

- 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. Lower loan rates to first-time homebuyers, but less benefit currently

HNM's FHA First Home loan rates:

- 12 months ago: 6.00% rate
(1.00%+ lower than other rate comps)
- 2 weeks ago: 5.75% rate
(0.25% - 0.50% lower than other rate comps)

4. Private activity volume cap is in higher demand

- In 2024, New Mexico is limited to \$378 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 HNM utilizes techniques to limit the amount of volume cap it uses when issuing bonds

HNM 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 HNM bonds; excellent reputation, redemption mgmt.

2. Packaging loans into MBS and selling the loans

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

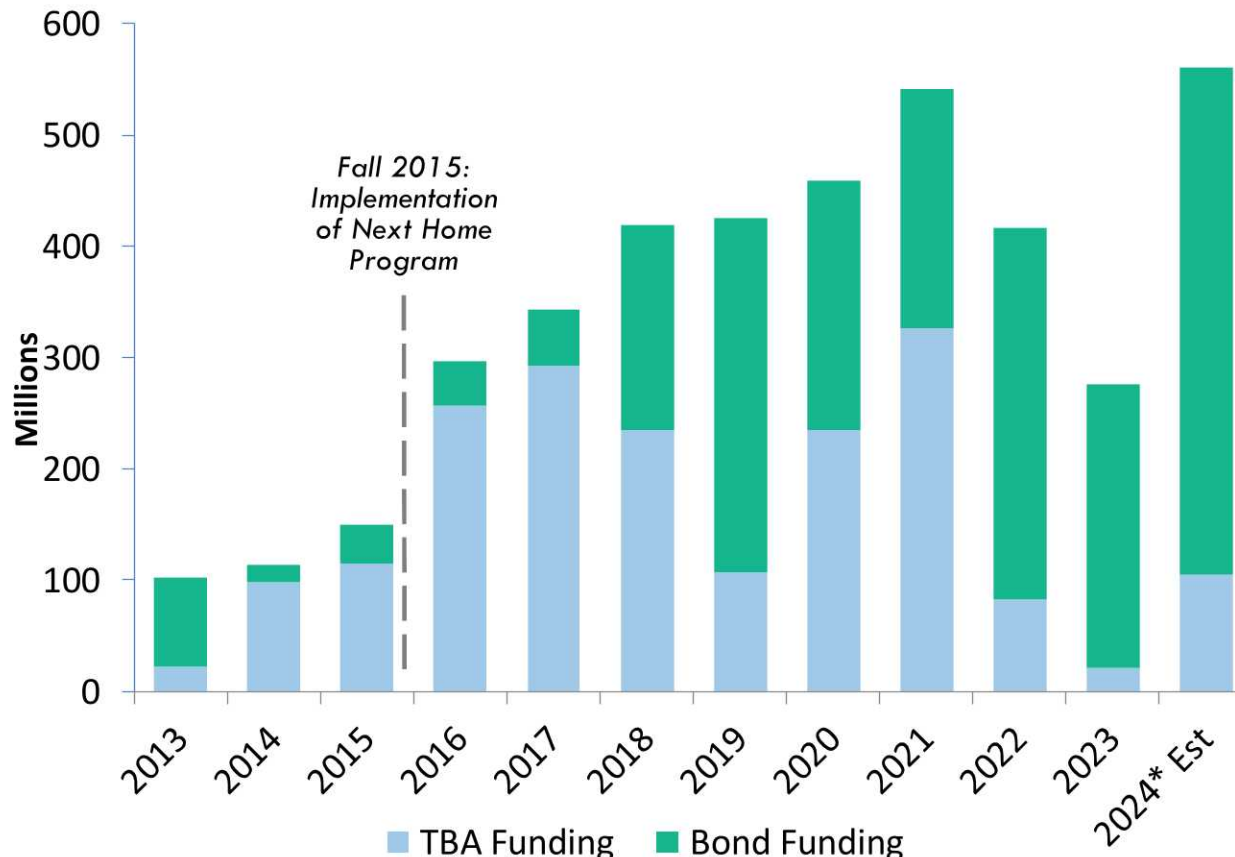
3. Downpayment assistance (DPA) to eligible borrowers using its Housing Opportunity Fund (HOF)

- Funds for downpayment is often the biggest obstacle for first-time homebuyers
- HNM has used more than \$92 million of HOF funds to purchase DPA second mortgages the last 7 years

HNM Production Growth and Shift

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- **FY13 – FY21:** Stable increase in annual production
- **FY22 - FY23:** Production declined due to rising home prices, rates, and Next Home pause
- **FY24:** Strong increase in production with HNM providing rate benefit, and add'l down-payment assistance



Since July 2023, 38% of the state's FHA loan originations were HNM loans.

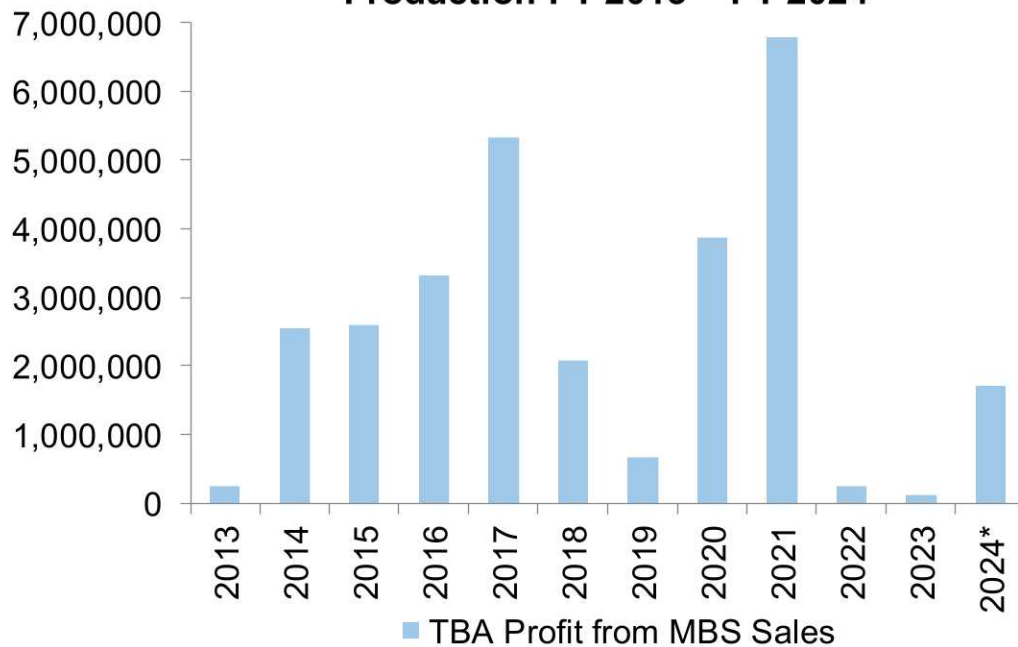
* Based on MBS settled or purchased each fiscal year.

** FY2024 YTD actual production is shown through July 2024, and projected production is shown for subsequent months.

HNM Has Generated a Mix of Revenue Streams

HNM has generated both immediate revenue from TBA...

**Single Family TBA Revenue:
Production FY 2013 - FY 2024***



* Based on actual loan production through July 31, 2024 and projected production for subsequent months. FY 2024 data reflects new profitability methodology.

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

**Single Family Forecasted Bond Revenue:
New Production and Refundings during
FY 2013 - FY 2024***



* Issuer fee run at 150% PSA

Actively Monitoring Interest Rates is Crucial

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CSG and HNM Actively Monitor and Review:

- Market mortgage rates in relation to HNM'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
- HNM programmatic goals including attractive rates and downpayment assistance to New Mexicans

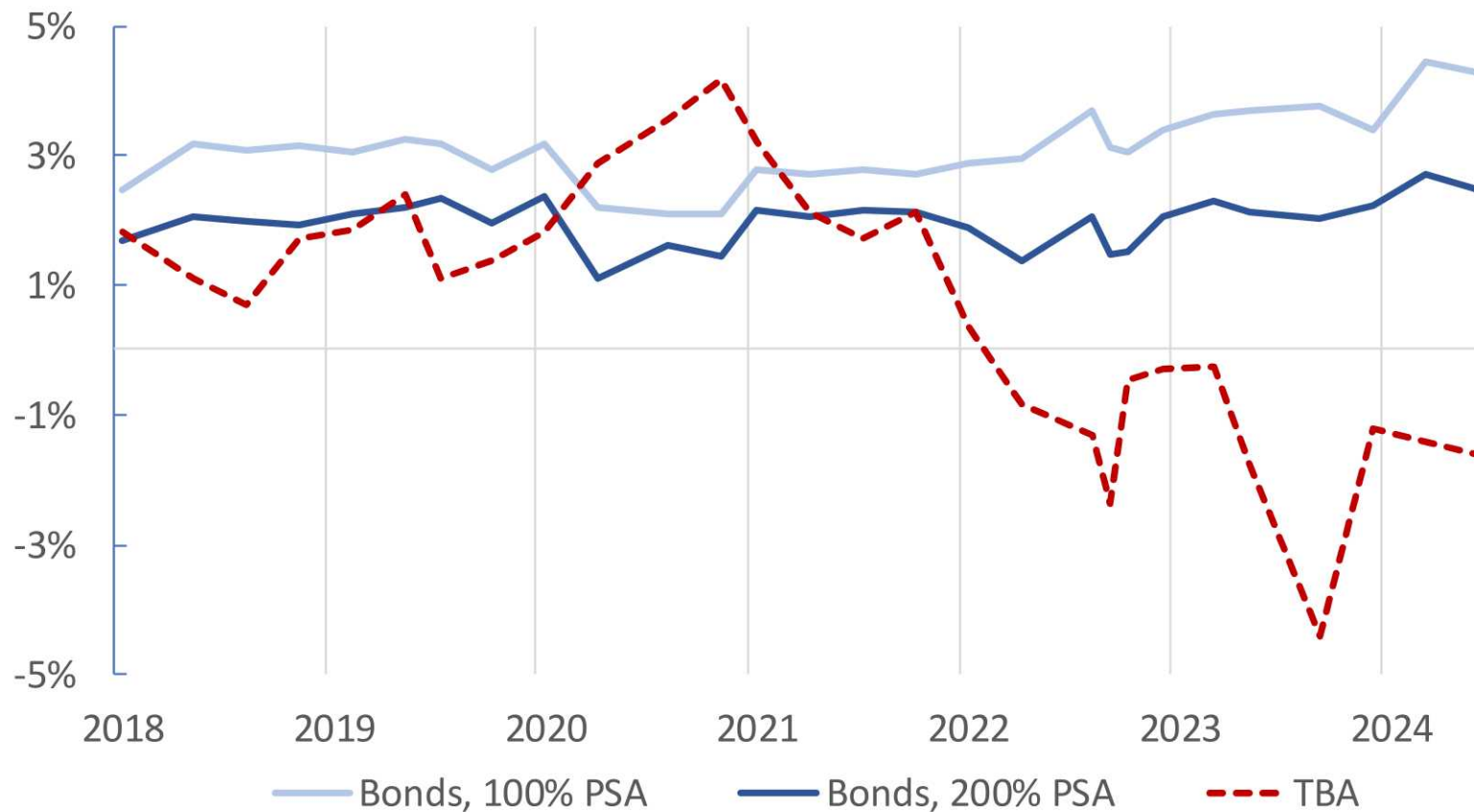
TBA											
15:22											
TBA30 TBA15 MBS Swaps Butterflies											
20 FN30 23 FN15 23 GD30 24 GD15 29 GN30 29 GN15 27 GNII											
		3.0			3.5			4.0			
Oct	94-12 / 13	1 - 1 - 10+		97-08 / 09	1 - 2 - 10		99-30+ / 31+	1 - 1 - 09			
Nov	94-09+ / 10+	1 - 2 - 10		97-04+ / 05+	1 - 1 - 10+		99-26+ / 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 ¹ / ₂	1 - 1 + 00 ¹ / ₂		03 ¹ / ₂ / 03 ¹ / ₂	2 - 1 + 00 ¹ / ₂		04 / 04 ¹ / ₂	1 - 1 - 00 ¹ / ₂			
Nov/Dec	03 ¹ / ₂ / 03 ¹ / ₂	1 - 1 + 00 ¹ / ₂		03+ / 03 ¹ / ₂	1 - 1 + 00 ¹ / ₂		04 ¹ / ₂ / 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 ¹ / ₂ / 04 ¹ / ₂	1 - 1 - --		04 ¹ / ₂ / 04 ¹ / ₂	1 - 1 + 00+		03 ¹ / ₂ / 03+	1 - 1 + 00 ¹ / ₂			
Nov/Dec	04 ¹ / ₂ / 05	1 - 1 + 00 ¹ / ₂		05 ¹ / ₂ / 05 ¹ / ₂	1 - 1 + 00 ¹ / ₂		05+ / 05 ¹ / ₂	1 - 1 + 03+			
Benchmarks			Roll Analysis-			Oct/Nov			Rte		
Treas 2Y	99-23+ / 23 ¹ / ₂	2.889 / 885	- 01	Cpn	PSA	Drp	B/E Drp	B/E Rte	B/E PSA		
Treas 3Y	99-10 ¹ / ₂ / 11	2.988 / 985	- 02	3.00	102.00	3.000	9.449	2.316			
Treas 5Y	99-03 / 03 ¹ / ₂	3.073 / 071	- 03 ¹ / ₂	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



HNM as viewed by Rating Agencies

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HNM'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 HNM'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"

HNM Current Ratings		
	<u>S&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

Challenges:

- Affordable housing supply
- Costs to develop new units and affordable homes is high
- Overall market, inflation and interest rate environment is 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 lower loan rates by issuing tax-exempt bonds
- Well positioned financially to continue its mission