

NEW MEXICO MORTGAGE FINANCE AUTHORITY



FINANCING TRENDS AMONG HFAS: IMPLICATIONS FOR MFA

CSG | advisors

October 31, 2016

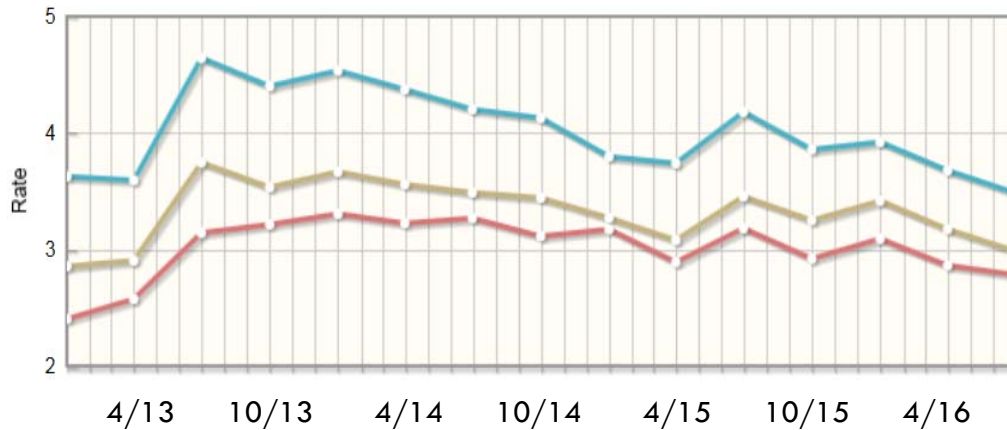
Table of Contents

Market Conditions	3
HFA Trends	6
MFA Bond Execution	9
Single Family Revenue Generation	10
Rating Agency View of MFA	11
Financing Opportunities/Conclusions	12

Historical Mortgage Rates, 2013 to date

3

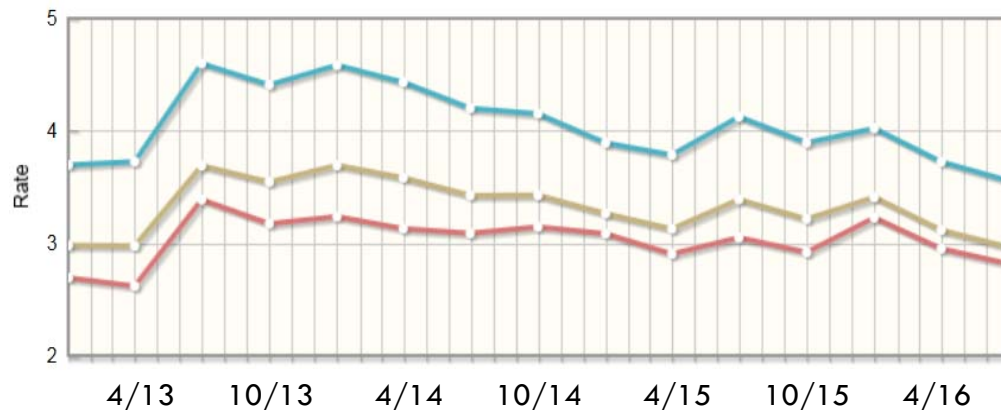
New Mexico Rates



MFA's Approach:

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

National Rates



■ 30-Year-FRM ■ 15-Year-FRM ■ 30-Year-5-1-ARM

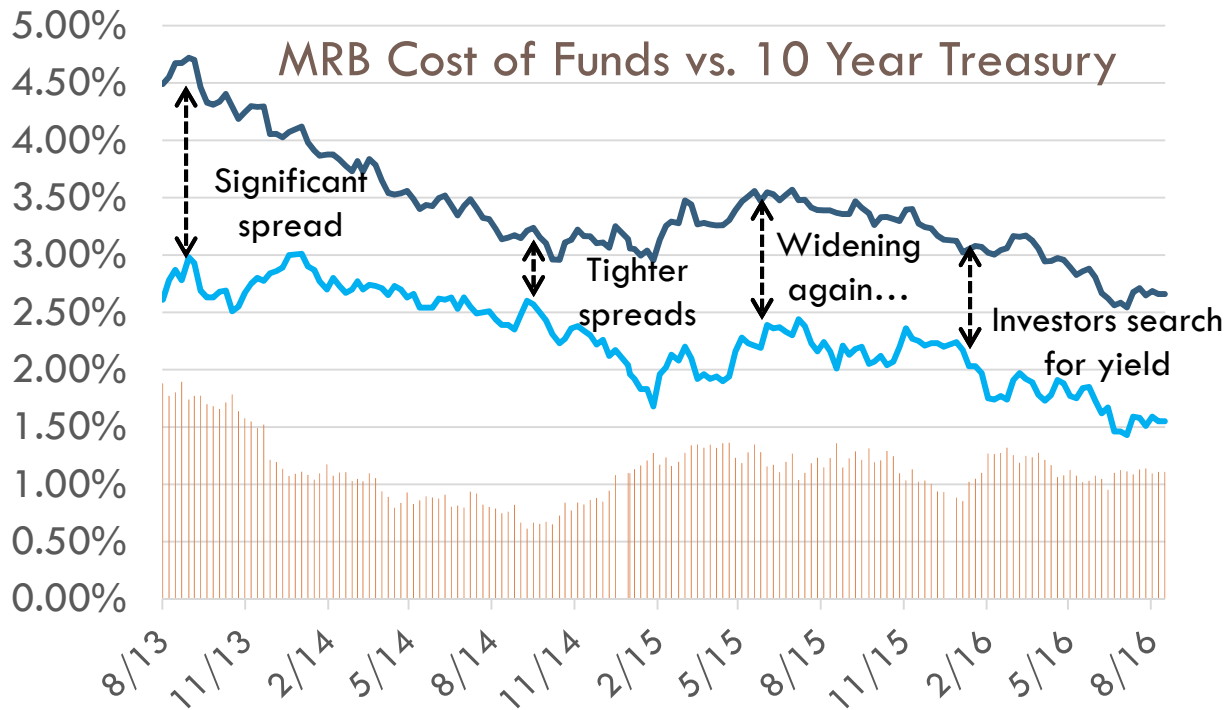
Actively Monitoring Interest Rates is Crucial

4

	2014A	2015A	2016A	5/31/2016	6/7/2016	6/14/2016	6/21/2016	6/28/2016	7/5/2016	7/12/2016	7/19/2016	7/26/2016	8/2/2016	8/9/2016	8/16/2016	8/23/2016
Mortgage Rate Information																
NMFA FIRST HOME	N/A	N/A	N/A	3.500%	3.500%	3.500%	3.500%	3.500%	3.500%	3.500%	3.500%	3.500%	3.500%	3.500%	3.500%	3.500%
Fannie Mae 60-day Commitment Rate (net yield)	4.14%	3.41%	3.31%	3.24%	3.13%	3.05%	3.08%	2.95%	2.87%	2.85%	2.91%	2.91%	2.84%	2.91%	2.87%	2.92%
Fannie Mae 90-day Commitment Rate (net yield)	4.19%	3.44%	3.34%	3.28%	3.17%	3.08%	3.13%	2.98%	2.90%	2.88%	2.94%	2.95%	2.87%	2.94%	2.90%	2.95%
Phoenix Capital GNSF Par Rate				N/A	N/A	N/A	N/A	N/A	N/A	3.42%	3.49%	3.49%	3.42%	3.40%	3.40%	3.43%
PAR Rate Calculation				3.500%	3.375%	3.375%	3.375%	3.250%	3.125%	3.375%	3.500%	3.500%	3.375%	3.375%	3.375%	3.375%
Freddie Mac National Weekly Survey - Avg Rate ⁽²⁾	4.46%	3.76%	3.68%	3.64%	3.66%	3.60%	3.54%	3.56%	3.48%	3.41%	3.42%	3.45%	3.48%	3.43%	3.45%	3.43%
Freddie Mac National Weekly Survey - Avg Pts ⁽²⁾	0.50%	0.60%	0.50%	0.50%	0.50%	0.50%	0.50%	0.60%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
Market Indices																
2 Year Treasury	N/A	N/A	0.98%	0.90%	0.80%	0.73%	0.74%	0.61%	0.59%	0.66%	0.68%	0.72%	0.67%	0.74%	0.72%	0.76%
5 Year Treasury	N/A	N/A	1.50%	1.39%	1.25%	1.14%	1.17%	1.00%	1.00%	1.03%	1.14%	1.15%	1.06%	1.15%	1.14%	1.15%
10 Year Treasury	2.84%	2.07%	1.97%	1.85%	1.73%	1.62%	1.67%	1.46%	1.46%	1.43%	1.59%	1.58%	1.51%	1.59%	1.55%	1.55%
30 Year Treasury	3.90%	2.70%	2.73%	2.65%	2.55%	2.43%	2.47%	2.28%	2.24%	2.14%	2.30%	2.29%	2.24%	2.30%	2.27%	2.24%
Bond Financing Information																
30 Year MMD	4.19%	2.88%	2.84%	2.45%	2.40%	2.22%	2.18%	2.08%	1.99%	1.96%	2.11%	2.15%	2.13%	2.18%	2.13%	2.11%
30 Year NAMT Bond	5.00%	4.00%	3.80%	3.45%	3.35%	3.15%	3.15%	3.10%	3.10%	3.05%	3.20%	3.25%	3.20%	3.25%	3.30%	3.25%
Spread to 30 Year MMD	0.81%	1.12%	0.96%	1.00%	0.95%	0.93%	0.97%	1.02%	1.11%	1.09%	1.09%	1.10%	1.07%	1.07%	1.17%	1.14%
Premium PAC Yield (5 yr avg life)	2.40%	1.95%	2.10%	1.98%	1.96%	1.90%	1.84%	1.77%	1.79%	1.76%	1.78%	1.78%	1.70%	1.71%	1.70%	1.70%
Spread to 5 Year MMD	1.20%	0.79%	0.96%	0.89%	0.90%	0.90%	0.87%	0.91%	0.90%	0.90%	0.90%	0.90%	0.85%	0.84%	0.85%	0.86%
100% Market: Fixed Rate 30yr Level Debt with Prem PAC⁽³⁾⁽⁴⁾⁽⁵⁾																
Cost of Funds (Bond Yield)	4.05%	3.28%	2.86%	2.88%	2.81%	2.67%	2.62%	2.56%	2.58%	2.54%	2.68%	2.71%	2.65%	2.69%	2.66%	2.66%
Zeroes Needed for New Issuance (Traditional) ⁽⁵⁾	\$5.2m	\$5.7m	N/A	\$5.3m	\$4.7m	\$3.5m	\$3.1m	\$2.5m	\$2.7m	\$2.4m	\$3.5m	\$3.8m	\$3.3m	\$3.7m	\$3.5m	\$3.5m
Issuance Size	\$30.0m	\$35.0m	\$40.0m	\$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
FSMR- 100% GNMA FIRST HOME	N/A	N/A	N/A	4.13%	4.05%	3.91%	3.87%	3.81%	3.83%	3.79%	3.92%	3.96%	3.89%	3.93%	3.90%	3.90%
FSMR- 90% GNMA FIRST HOME				4.12%	4.04%	3.90%	3.85%	3.79%	3.82%	3.77%	3.91%	3.94%	3.87%	3.93%	3.90%	3.90%
FSMR- 10% FNMA FIRST HOME				4.62%	4.54%	4.40%	4.35%	4.29%	4.32%	4.27%	4.41%	4.44%	4.37%	4.31%	4.28%	4.28%
100% Market: New Money Premium Pass-Through⁽³⁾⁽⁴⁾⁽⁵⁾																
New Money Pass-through Rate ⁽⁷⁾	N/A	N/A	N/A	2.80%	2.80%	2.75%	2.55%	2.50%	2.55%	2.55%	2.50%	2.50%	2.45%	2.55%	2.50%	2.50%
Zeroes Needed for New Issuance (Pass-through) ⁽⁵⁾	N/A	N/A	N/A	\$4.5m	\$4.5m	\$4.1m	\$2.3m	\$1.9m	\$2.3m	\$2.3m	\$1.9m	\$1.9m	\$1.5m	\$2.4m	\$2.0m	\$2.0m
TBA Pricing Pass-through (GNMA II) 3.50%	101.11%	104.52%	104.72%	105.36%	105.69%	105.81%	105.69%	106.02%	106.27%	106.23%	106.11%	105.88%	106.19%	106.14%	106.17%	106.06%
TBA Pricing Pass-through (GNMA II) 4.00%	104.48%	106.08%	106.30%	106.50%	106.75%	106.70%	106.64%	106.89%	106.97%	106.86%	106.77%	106.64%	106.28%	106.75%	106.80%	106.94%
TBA Pricing Pass-through (GNMA II) 4.50%	107.36%	108.45%	107.17%	107.28%	107.39%	107.19%	107.20%	107.38%	107.28%	107.20%	107.03%	106.95%	107.28%	107.38%	107.36%	107.39%
TBA Yield Pass-through (GNMA @3.00%) @ 100% PSA	3.46%	2.80%	2.77%	2.62%	2.56%	2.52%	2.57%	2.48%	2.43%	2.45%	2.46%	2.48%	2.45%	2.43%	2.43%	2.45%
TBA Yield Pass-through (GNMA @3.00%) @ Dealer PSA	3.62%	2.72%	2.68%	2.46%	2.35%	2.28%	2.34%	2.19%	2.11%	2.08%	2.11%	2.17%	2.08%	2.09%	2.10%	2.14%
Dealer Forecasted PSA	194	194	194	193	213	219	221	227	227	252	243	237	252	235	235	230
Current Reservation Rates																
FIRST HOME	4.50%	3.75%	3.88%	3.500%	3.500%	3.500%	3.500%	3.500%	3.500%	3.500%	3.500%	3.500%	3.500%	3.500%	3.500%	3.500%
NEXT HOME	5.00%	4.50%	4.50%	4.375%	4.375%	4.375%	4.375%	4.375%	4.500%	4.500%	4.500%	4.500%	4.500%	4.500%	4.500%	4.500%
Net Profit of Current Rates (if Sold) ⁽⁴⁾																
FIRST HOME	1.82%	1.70%	2.88%	1.56%	1.91%	2.24%	2.08%	2.76%	2.79%	2.46%	2.46%	2.40%	2.72%	2.51%	2.70%	2.56%
NEXT HOME	1.06%	1.78%	1.89%	1.52%	1.72%	1.77%	1.64%	1.95%	2.25%	2.05%	1.93%	1.86%	2.05%	2.06%	2.10%	2.10%

Municipal Bonds Compared to Treasuries:

5



	Aug 2015	Aug 2016	Change from '15 to '16	Mar 2006
MRB Bond Yield	3.39%	2.66%	(0.73%)	4.66%
10 Year UST	2.16%	1.55%	(0.61%)	4.81%
Spread	1.23%	1.11%	(0.12%)	(0.15%)

Primary Causes for Underperformance:

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

Impact on MFA:

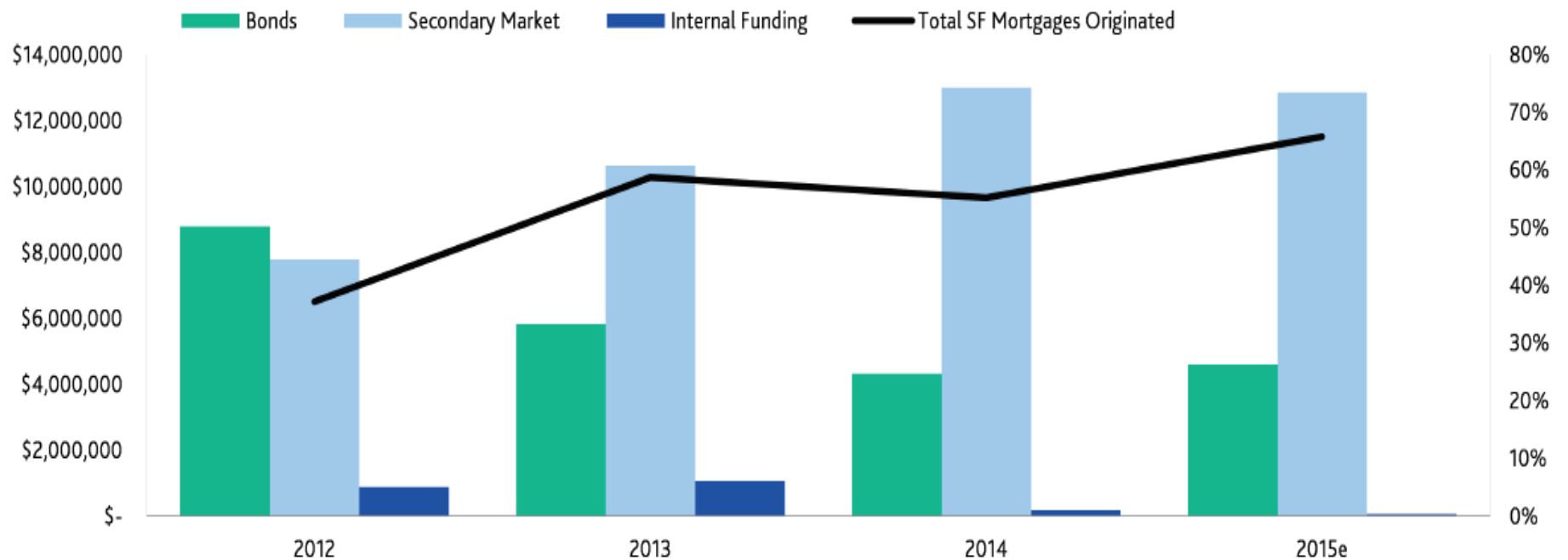
- Traditional tax-exempt municipal bonds require subsidy to generate competitive mortgage rates
- Requires alternative funding sources for new production

HFA Trends: Single Family Financing

6

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***

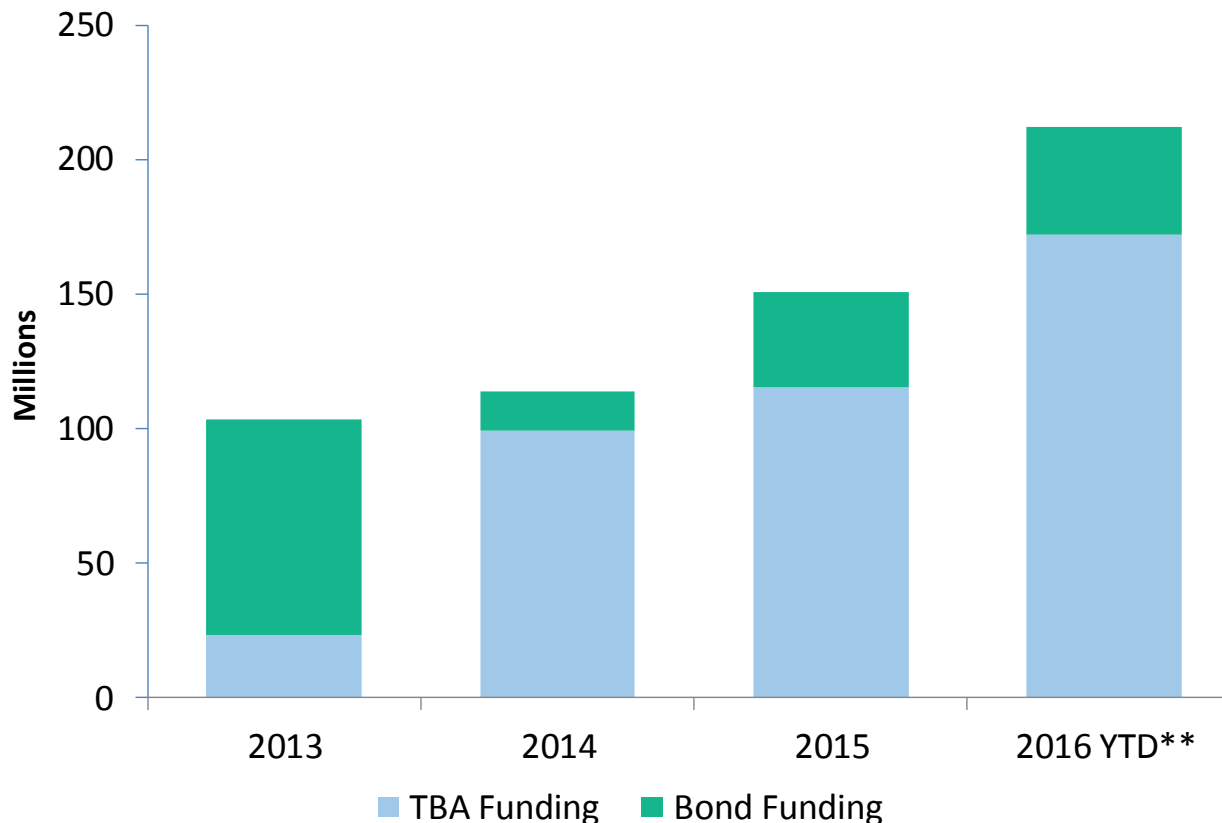


Majority of MFA Production via TBA

7

- **\$212 million of loans were purchased through 9 months of FY2016, an increase of 41% over all of FY15 production of \$151 million.**

Single Family Production*



* Based on MBS settled or funded each fiscal year.

** Based on year-to-date loan production through June 30, 2016.

HFA Trends – Single Family Financing (cont.)

8

Use of Bonds

1. More selective use of bonds for new production
2. Refinancing debt to lock in lower borrowing costs
 - tax-exempt refundings to build subsidy for new production
 - taxable refundings so that HFA can retain more savings
 - *In FY16, MFA refinanced over \$68MM and issued \$40MM in new money, generating \$4.6MM in present value savings*
3. Traditional bond structures (serials, term, PAC bonds)
 - Still require some form of subsidy
4. Varying techniques make bond issues effective:
 - Monthly pass-through bonds
 - Combining new money with tax-exempt refundings
 - Tax-exempt MBS sales
 - can generate additional sale premium to MFA

Despite Challenging Bond Market, MFA has Remained Active

9

MFA Recent Bond Activity, and Revenue Generation:

2013 - 2014

(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):	\$25.0MM	\$36.2MM	\$30.0MM	\$15.0MM	\$12.5MM	\$118.7 mm
First Year Revenue Stream:	\$ 95,000	\$ 441,000	\$ 63,000	\$ 37,500	\$ 351,000	\$ 987,500

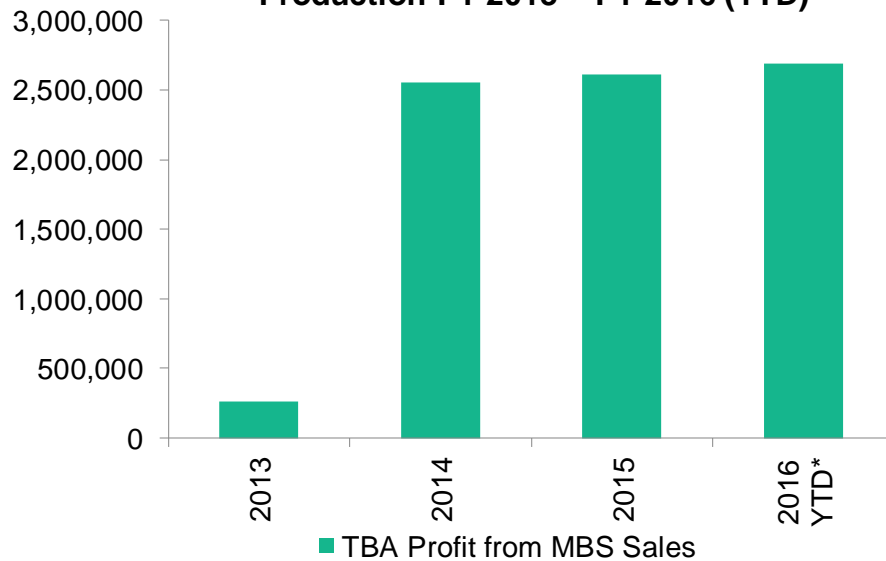
2015 - 2016

(in \$ millions)	2015A	2015B	2015C	2015D	2015E	2016A	2016B	Total
Issuance Date:	Mar-15	Mar-15	Mar-15	Jul-15	Dec-15	Apr-16	Aug-16	
Bond Structure:	Traditional	Pass-Through	Pass-Through	Pass-Through	Pass-Through	Traditional	Pass-Through	
Financing Type:	New Money	Refunding	Refunding	Refunding	Refunding	New / Refund	Refunding	
Bond Proceeds (par):	\$35.0MM	\$7.2MM	\$25.7MM	\$13.8MM	\$21.2MM	\$62.8MM	\$24.6MM	\$190.4MM
First Year Revenue Stream:	\$ 87,500	\$ 195,000	\$ 143,500	\$ 325,000	\$ 512,000	\$ 157,000	\$ 103,300	\$ 1,523,300

MFA Has Generated a Mix of Revenue Streams

MFA has generated both immediate revenue from TBA...

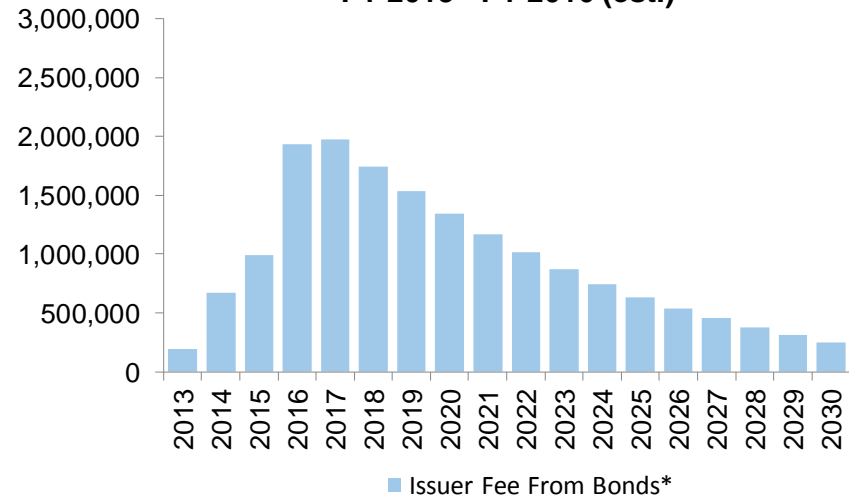
**Single Family TBA Revenue:
Production FY 2013 - FY 2016 (YTD)**



* Based on year-to-date loan production through June 30, 2016.

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

**Single Family Forecasted Bond Revenue:
New Production and Refundings during
FY 2013 - FY 2016 (est.)**



* Issuer fee run at 150% PSA

MFA as viewed by Rating Agencies

11

MFA's Issuer Credit Rating was affirmed by Standard & Poor's ("S&P") in September 2016 with a "AA-" / Stable rating

Strengths noted by S&P included:

- High quality of MFA's asset portfolio
- Low risk debt profile (99% fixed rate bonds)
- No general obligation debt outstanding
- High level of legislative and gubernatorial support of MFA
- Stable and effective management

Offset by the following weaknesses:

- Declining total assets
- Fluctuating net income
- 5-year profitability and leverage ratios that underperform compared to other 'AA-' rated HFAs

MFA Current Ratings

	S&P	Moody's
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	+/-	+/-

Financing Opportunities / Conclusion

12

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. Multifamily opportunities
 - Provide long-term funding as permanent lender on 9% tax credit projects
 - refinance opportunities on existing bonds / projects
 - multifamily pass-through bonds are attractive funding sources as well