NEW MEXICO MORTGAGE FINANCE AUTHORITY

FINANCING TRENDS AMONG HFAS: IMPLICATIONS FOR MFA

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Market Conditions

1) Since Jan 2014, 10 yr Treasury rate declined from 3.00% to approx 2.40%
   - Despite Fed tapering, and almost all forecasts to the contrary
   - Improving but slow recovery, quality of new job creation, global growth slowdown, and geopolitical forces have all contribute to lower rates

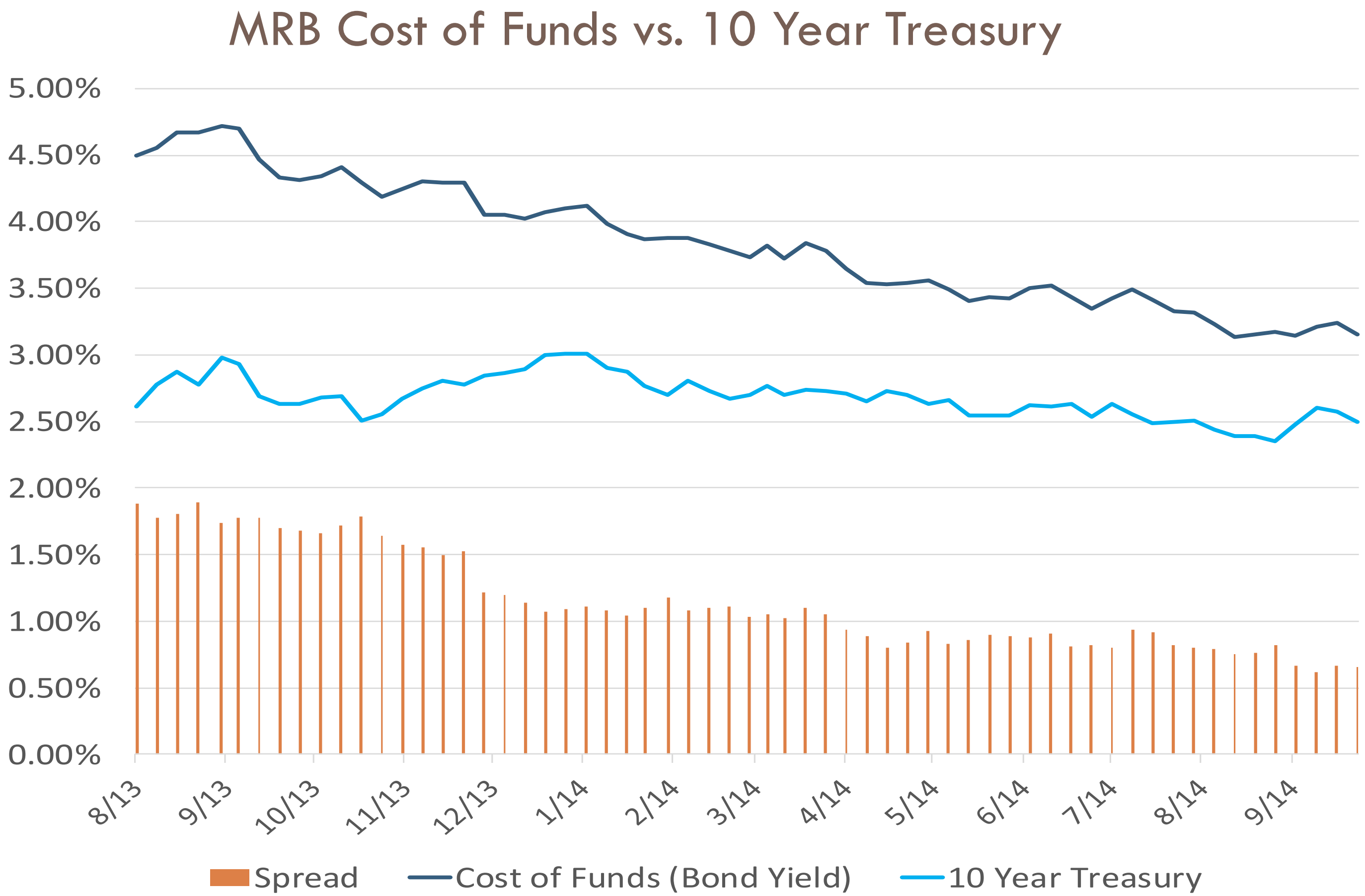
2) Short-term interest rates forecasted to increase beginning 2Q 2015

3) Municipal market has outperformed taxable rates
   - Positive fund flows, coupled with limited supply and strong treasury market
   - Overall municipal issuance is down 15% year-to-date

Municipal Bonds have Improved Significantly, though not yet back to Normal Relationships

Year over year, MRB bond yield fell from 4.72% (Sept 2013) to 3.16% (current) while the 10 Year Treasury remained flat.

- The spread compressed from 1.89% (Aug 2013) to the current 0.75%



Actively Monitoring Interest Rates is Crucial

		2014A	7/15/2014	7/22/2014	7/29/2014	8/5/2014	8/12/2014	8/19/2014	8/26/2014	9/2/2014	9/9/2014	9/16/2014	9/23/2014	9/30/2014
Mortgage Rate Information														
NMMFA Regular $aver (1+1)		*4.00%*	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%	3.75%
Fannie Mae 60-day Commitment Rate (net yield)		*4.14%*	3.83%	3.81%	3.81%	3.83%	3.81%	3.77%	3.76%	3.76%	3.78%	3.89%	3.87%	3.82%
Fannie Mae 90-day Commitment Rate (net yield)		*4.19%*	3.86%	3.84%	3.85%	3.87%	3.85%	3.81%	3.80%	3.80%	3.83%	3.93%	3.91%	3.86%
Freddie Mac National Weekly Survey - Avg Rate[2]		*4.46%*	4.15%	4.13%	4.13%	4.12%	4.14%	4.12%	4.10%	4.10%	4.10%	4.12%	4.23%	4.20%
Freddie Mac National Weekly Survey - Avg Pts[2]		*0.50%*	0.70%	0.60%	0.60%	0.60%	0.70%	0.60%	0.50%	0.50%	0.50%	0.50%	0.50%	0.50%
Freddie Mac Southwest Weekly Survey - Avg Rate[2]		*4.48%*	4.19%	4.17%	4.15%	4.15%	4.18%	4.14%	4.10%	4.13%	4.12%	4.16%	4.25%	4.23%
Freddie Mac Southwest Weekly Survey - Avg Pts[2]		*0.50%*	0.60%	0.50%	0.60%	0.60%	0.60%	0.60%	0.50%	0.50%	0.40%	0.40%	0.50%	0.40%
Market Indices														
10 Year Treasury		*2.84%*	2.55%	2.49%	2.50%	2.51%	2.44%	2.39%	2.39%	2.35%	2.48%	2.60%	2.57%	2.50%
30 Year Treasury		*3.90%*	3.36%	3.26%	3.26%	3.30%	3.24%	3.20%	3.13%	3.09%	3.23%	3.34%	3.28%	3.18%
Bond Financing Information														
30 Year MMD		*4.19%*	3.39%	3.29%	3.24%	3.29%	3.21%	3.13%	3.12%	3.03%	3.11%	3.20%	3.16%	3.09%
30 Year NAMT Bond		*5.00%*	4.25%	4.15%	4.05%	4.05%	3.95%	3.85%	3.85%	3.85%	3.85%	3.95%	3.95%	3.85%
Spread to 30 Year MMD		*0.81%*	0.86%	0.86%	0.81%	0.76%	0.74%	0.72%	0.73%	0.82%	0.74%	0.75%	0.79%	0.76%
Premium PAC Yield (5 yr avg life)		*2.40%*	2.17%	2.12%	2.03%	1.99%	1.93%	1.87%	1.86%	1.95%	1.87%	1.92%	1.93%	1.92%
Spread to 5 Year MMD		*1.20%*	0.87%	0.87%	0.82%	0.75%	0.75%	0.75%	0.75%	0.87%	0.75%	0.75%	0.75%	0.75%
100% Market: Fixed Rate 30yr Level Debt with Prem PAC[3][4]														
Cost of Funds (Bond Yield)		*4.05%*	3.49%	3.41%	3.32%	3.31%	3.23%	3.14%	3.15%	3.17%	3.15%	3.21%	3.24%	3.16%
FSMR- *GNMA Regular $aver (1+1)*		*4.88%*	4.30%	4.22%	4.13%	4.12%	4.03%	4.03%	4.04%	4.07%	4.08%	4.02%	4.04%	3.96%
FSMR - *GNMA $aver Zero*		*5.38%*	4.80%	4.72%	4.63%	4.62%	4.53%	4.28%	4.29%	4.32%	4.21%	4.52%	4.54%	4.46%
FSMR - *GNMA $aver Plus*		*5.88%*	5.30%	5.22%	5.13%	5.12%	5.03%	5.03%	5.04%	5.07%	5.08%	5.02%	5.04%	4.96%
FSMR- 100% *GNMA Regular $aver (1+1)*		*5.03%*	4.46%	4.39%	4.30%	4.29%	4.20%	4.11%	4.13%	4.15%	4.12%	4.19%	4.22%	4.13%
Zero Needed for New Issuance[8]		*$5.2m*	$3.1m	$2.7m	$2.2m	$2.1m	$1.6m	$1.6m	$1.7m	$1.8m	$1.9m	$1.5m	$1.6m	$1.2m
Issuance Size		*$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%	*101.11%*	103.44%	103.63%	103.53%	103.27%	103.59%	103.98%	103.86%	103.77%	103.73%	103.30%	103.20%	103.42%
TBA Pricing Pass-through (GNMA II)	4.00%	*104.48%*	106.47%	106.47%	106.33%	106.17%	106.34%	106.55%	106.50%	106.36%	106.42%	106.02%	105.80%	106.09%
	4.50%	*107.36%*	108.91%	108.86%	108.78%	108.77%	108.56%	108.61%	108.67%	108.61%	108.78%	108.45%	108.27%	108.47%
TBA Yield Pass-through (GNMA @3.00%) @ 100% PSA		*3.46%*	3.02%	2.97%	2.95%	2.99%	2.94%	2.89%	2.90%	2.90%	2.94%	2.98%	2.98%	2.94%
TBA Yield Pass-through (GNMA @3.00%) @ Dealer PSA		*3.62%*	3.02%	2.96%	2.93%	2.98%	2.91%	2.85%	2.85%	2.86%	2.91%	2.97%	2.97%	2.91%
Dealer Forecasted PSA		*194*	194	194	194	194	194	194	194	194	194	194	194	194
Current Reservation Rates	$aver	*4.00%*	3.750%	3.750%	3.750%	3.750%	3.750%	3.750%	3.750%	3.750%	3.750%	3.750%	3.750%	3.750%
	Zero	*4.50%*	4.250%	4.250%	4.250%	4.250%	4.250%	4.000%	4.000%	4.000%	3.875%	4.250%	4.250%	4.250%
	Plus	*5.00%*	4.750%	4.750%	4.750%	4.750%	4.750%	4.750%	4.750%	4.750%	4.750%	4.750%	4.750%	4.750%
Net Profit of Current Rates (if Sold)[7]	$aver	*0.55%*	1.81%	2.36%	2.33%	2.04%	2.04%	2.44%	2.51%	2.71%	2.31%	2.01%	2.21%	2.32%
	Zero	*1.82%*	2.84%	3.14%	3.06%	2.90%	2.69%	1.63%	1.70%	1.90%	0.98%	2.75%	2.84%	2.98%
	Plus	*1.06%*	1.86%	2.06%	2.01%	2.01%	1.54%	1.72%	1.94%	2.14%	2.08%	1.79%	1.83%	1.96%

Outlook for HFAs

2014 Outlook for US State HFAs revised from Negative in 2013 to Stable in 2014*

1) Diversified business models to stay competitive
   - Loan sales provide less reliance on bond market
2) Asset positions and profitability remain solid and have trended upward
   - Despite continued low interest rates
3) Counterparty credit quality has stabilized
4) Home prices in general have increased from lows, reducing losses for whole loan HFAs
   - *Less applicable to MFA given single family loans pooled into insured MBS*
5) Delinquencies expected to remain high
   - *Also less applicable to MFA given little whole loan exposure*

** Source: Moody's 2014 Outlook – US State Housing Finance Agencies*

HFA Trends – Single Family Financing

1. **Increased use of Securitization**
   - Great majority of HFAs have transitioned from whole loans to mortgage-backed securities (“MBS”)
   - *MFA has done this for many years, removing loan loss risk on first mortgage production*

2. **Increased use MBS sales with or without TBA hedges as opposed to financing with long-term bonds**
   - MBS sales via TBA (“To be Announced”) market has become standard execution for almost all 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 since 2013*

3. **Various Approaches to TBA, and hedging interest rate risk**
   - Direct MBS Sales w/o TBA hedge – Excess spread & balance sheet serves as hedge
   - HFA Manages TBA trades - Hedge via TBA (“to be announced”) trades
   - Pipeline Risk Manager (MFA’s approach) - First Southwest, Raymond James, Baum, etc
     - Mitigates fall-out risk and execution risk offset by a fee

HFA Trends – Single Family Financing (cont.)

4. **Use of Bonds**
   - **Selective issuance for new production**
   - **Most bonds issued as economic refundings**
     - Many bonds sold as taxable so that HFA can retain savings
   - **Traditional bond structures (serials, term, PAC bonds)**
     - Improving rates compared to treasuries, but still not attractive without some form of subsidy
   - **Varying techniques to make bond issue effective, including:**
     - Overcollateralization and front-loading of maturity schedule
       - *Opportunity for MFA to fund new production*
     - Excess interest spread from prior issue
     - High net worth indentures
     - Monthly pass-through bonds

HFA Trends – Single Family Financing (cont.)

4. Use of Bonds (cont.)

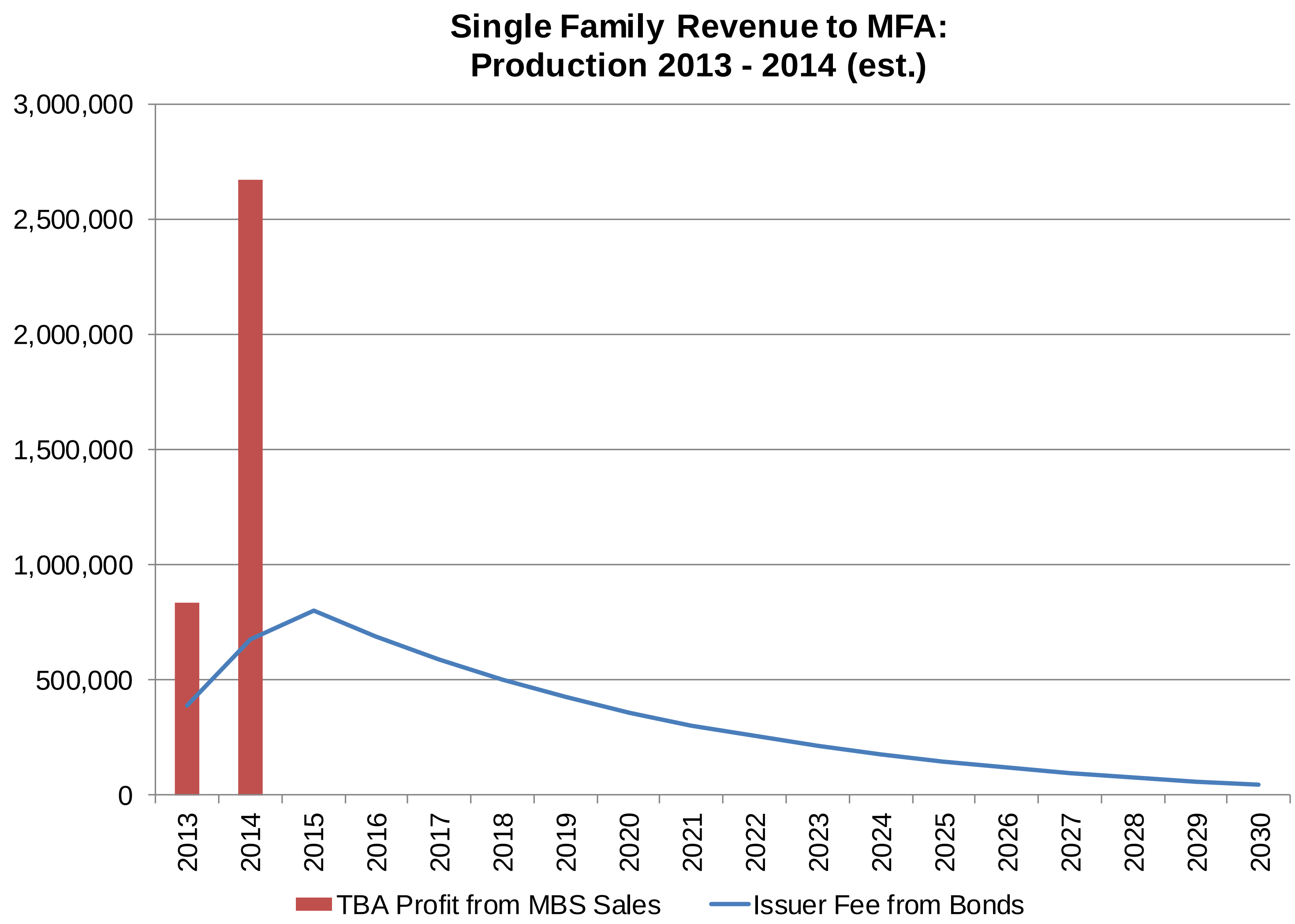
- Monthly Pass-Through Bonds
  - ***MFA has been a front-runner among HFAs in pass-through bond market***
    - *5 sub-series issued totaling $104mm since January 2013*
  - **Economic refundings can generate significant savings**
    - *MFA refunded existing bonds with 2013B and 2014B, generating over $2.5mm in present value savings*
  - **Benefits:**
    - Lower rates than traditional bonds (25-40 bps savings)
    - No negative reinvestment of funds / no negative arbitrage
  - **Risks to be mitigated:**
    - MBS must be delivered at closing, requiring the issuer take interest rate risk by reserving loans prior to pricing bonds
    - Rates are perhaps more volatile given smaller universe of investors
- ***Recent Financing Approach:***
  - ***TBA hedges can be combined with Bonds, to mitigate interest rate risk prior to pricing bonds***

Recent Bond Activity: MFA

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	$118.7 mm
First Year Revenue Stream	**$ 95,000**	**$ 441,000**	**$ 63,000**	**$ 37,500**	**$ 351,000**	**$ 987,500**

MFA TBA and Bond Revenue



MFA Single Family Financing Opportunities

1. Continue to evaluate selling MBS via TBA compared to financing with bonds, including impact on:
   - Managing pipeline interest rate risk,
   - Current profitability,
   - Generation of ongoing future revenue streams, and
   - Rebuilding assets and balance sheet.
2. Finance new production by overcollateralizing a traditional bond issue to lower the bond rates
   - *Examples:*
     - *MFA's use of General Fund and Indenture assets to redeem 2004 bonds created $8.7mm in excess MBS*
     - *MFA's use of zero participations loans to subsidize bond issues*
3. Evaluate ability to hedge a pipeline via TBA then delivering such MBS to bond issue, including termination cost in bond yield
   - Could significantly reduce the interest rate risk to MFA of accumulation MBS for a future bond issue

MFA Single Family Financing Opportunities

4. Refundings of bonds issued in 2005 to generate additional future ongoing revenue
   - Could combine with new money portion as well
   - Could apply excess General Funds / Indenture funds to optionally redeem bonds

HFA Trends – Single Family Products

Trend: Greater range of products to borrowers

1) Point options
   - *MFA has been doing this for many years*

2) More production via down payment assistance

3) Increased conventional lending in response to increased FHA mortgage insurance premiums

4) Expanding to non-first time homebuyers and refinance loans
   - *MFA has deemed that continue to provide new production loans for affordable housing is consistent with its charter*

HFA Trends – Single Family Products (cont.)

Greater range of products to borrowers (cont.)

5) Offering mortgage credit certificates (MCCs)
   - Can be combined with production via TBA, not with tax-exempt bonds
   - Can be used to further enhance the attractiveness of an HFAs single family program
     - *MFA could evaluate, but would likely require separate pipeline tracking mechanism of loans with MCCs that cannot be financed with bonds*

HFA Trends – Single Family

1) Production volumes
   - Have generally been stable or slightly downward
     - *MFA: 11% increase in 2013*
       1% increase in 2014 (forecast)
2) Lender compensation
   - Key for HFAs to be competitive
   - Some HFAs have had to increase compensation
3) Loan servicing
   - Concern about reliance on U.S. Bank has led to seeking options
   - Some individual HFAs servicing nationally (Idaho, Alabama)
     - *MFA was an early adopter to use fellow HFA (Idaho) as servicer, reducing reliance on US Bank*
   - Some HFAs discussing regional or joint servicing ventures
   - Some HFAs have found servicing unprofitable and exited the business

Multi Family: Challenges & Opportunities

Challenge #1:

Seasoned loans are prepaying and refinancing after lock-out period

- Reduces ongoing income to the HFA
- Especially difficult to compete with 223(f) GNMA refinancing

Opportunity:

FHA Risk-Share pass-through bonds

- Allows HFAs to refund bonds to lower yields; currently in the mid-3.00 range
- HFAs to have executed include: CO, Mass, MO, DC, NYC HDC
- Implications to MFA:

1. Could provide cash for Housing Opportunity Fund to fund new loans
2. Increased spread on non-Fannie owned bond loans

Multi Family: Challenges & Opportunities (cont.)

Challenge #2:

New lending for 4% tax credit projects

- Difficult for risk-share bond issues to compete with conduit bank loans or short term bond issue taken out by taxable GNMAs

Opportunity:

New Treasury Initiative to fund Risk-Share loans

- CSG has worked with Treasury on providing input on terms for risk-share program to ensure usefulness with HFAs and developers

- Could prove very useful if it provides a reasonable forward rate approach for permanent risk-share loans

Multi Family: Challenges & Opportunities (cont.)

Challenge #3:

New lending for 9% tax credit projects

- Financing has been dominated by bank loans, typically with 17 year balloons
- An HFA issuing long-term taxable debt with 30-35 year maturity schedule cannot compete on rate for risk-share loans

Opportunity:

Partner with banks such that:

1. ***bank provides construction financing and tax credit bridge loan, and***
2. ***HFA provides risk-share take-out permanent financing with HFA's own funds***

- Banks don't want to finance the permanent debt
- MFA could provide a guaranteed forward rate for a forward rate-lock fee
- Treasury risk-share initiative could be useful here as well

Conclusions

1. Continue the current course of evaluating best execution for single family new production
   - TBA loan sales vs. bonds
   - Maintaining flexibility to shift to either execution is crucial
2. Take advantage of current low interest rates:
   - Economic refundings to generate ongoing future revenues
   - Reasonable General Fund investments with excess funds
3. Continue to evaluate multi-family financing opportunities
4. Cumulative impacts of any approach is critical to evaluate
5. MFA must remain nimble in responding to opportunities
   - *Makes comprehensive balance sheet management more, not less, important*