



SINGLE-FAMILY FINANCING ESSENTIALS: SECURITIZATION
ACHIEVING TBA BEST EXECUTION

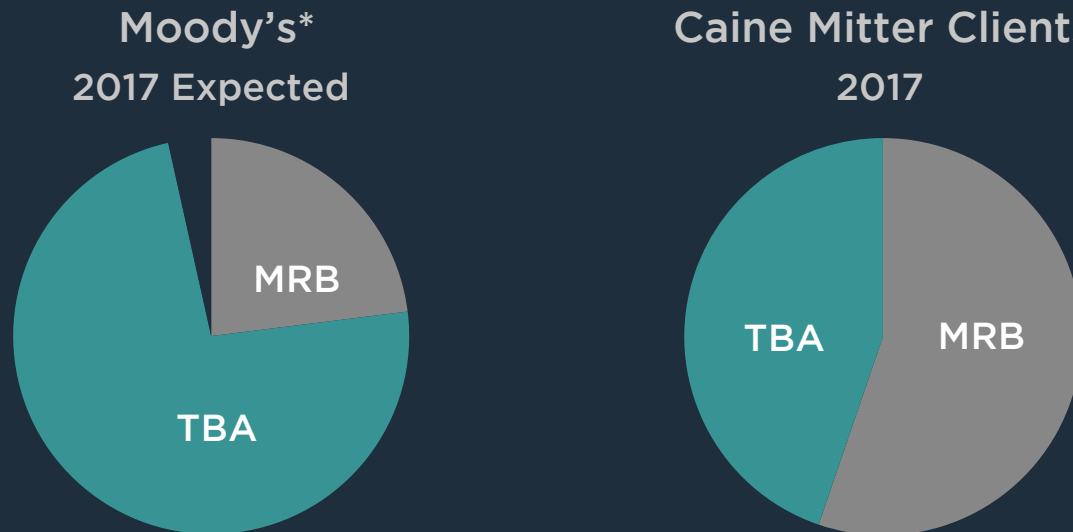
10 January 2018

01 / TBA IS **GOOD EXECUTION**

- a simple and important financing tool for HFAs
- an effective hedge against changing MBS prices

TBA IS AN **IMPORTANT FINANCING TOOL** FOR HFAS

Most new HFA loans are financed with TBA



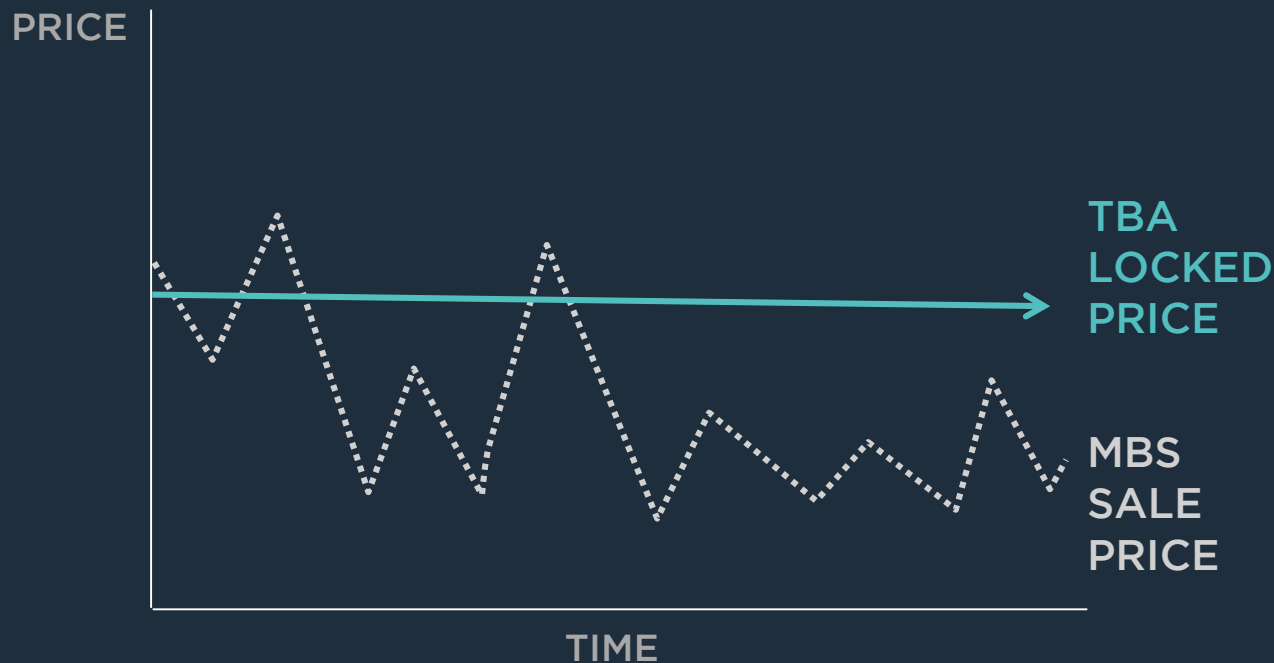
TBA delivery offers **better execution** than MRB in most cases
TBA is a **simple, flexible means of hedging** mortgage pipelines

* “2018 outlook changed to stable as margins moderate”, Moody’s Investors Service, November 28, 2017

TBA IS AN **EFFECTIVE HEDGE** AGAINST CHANGING MBS PRICES

TBA hedges interest rate risk

TBA allows HFAs to **lock in MBS price** on new loan reservations, hedging the change in price due to rising interest rates



GOOD VS. **BEST EXECUTION**

TBA is not always best execution

After hedging in the TBA market, HFA does not have to deliver loans against TBA commitments

TBA market is liquid and flexible

HFAs can easily “pair off” TBA trade to achieve best execution

HFAs can aggregate loans without interest rate risk while determining how to permanently finance loans

02 / **BEST EXECUTION** USING TBA

- specified pool sale
- MRB (mortgage revenue bond) issuance

TBA BEST EX: **SPECIFIED POOL SALE**

Unlocks additional value of HFA loans

TBA pricing is generic

Generic pricing assumes that loans delivered will meet the minimum requirements of TBA sale

Many HFA loans have **slower prepayment speeds** than private sector loans; **investors will pay more**

TBA BEST EX: **SPECIFIED POOL SALE**

Unlocks additional value of HFA loans

Addition (pay up) to TBA for:

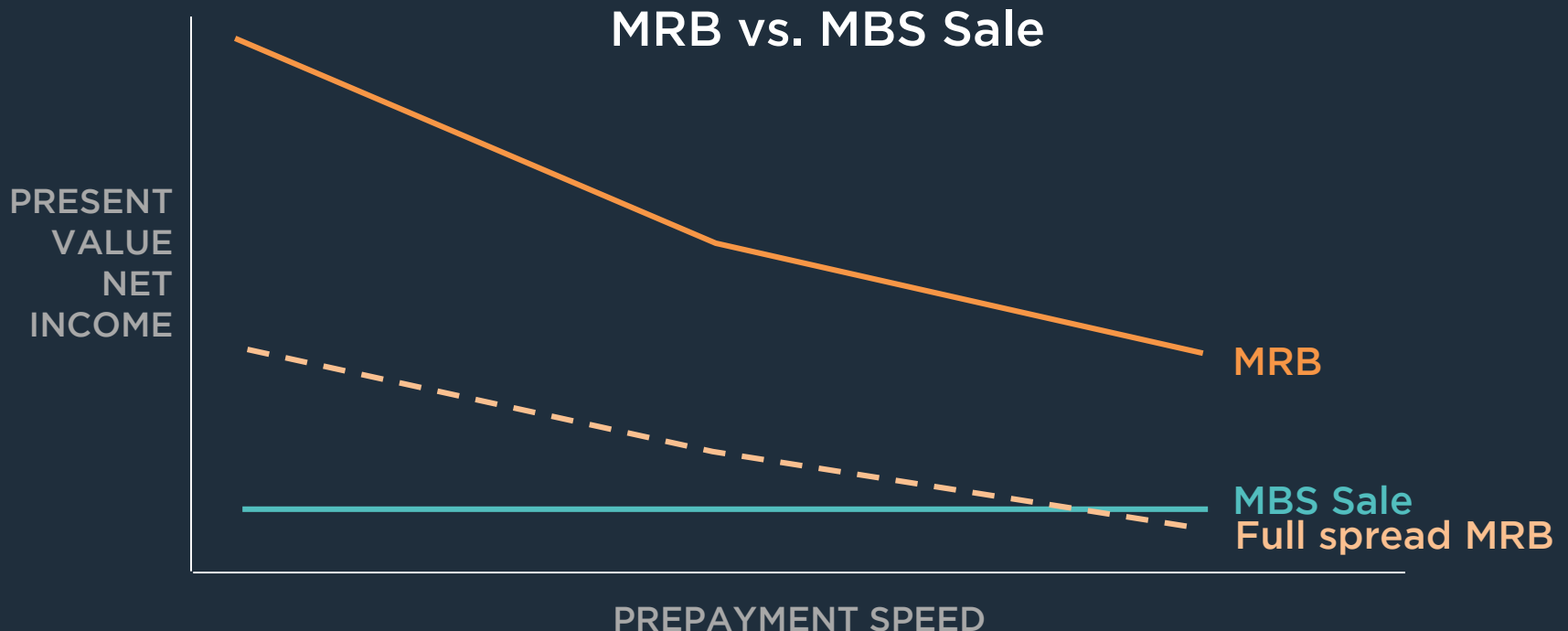
HFA DPA loan	up to 0.75%
Smaller loan sizes	up to 1.81% or more
CRA credit	0.38% or more, depending on demand
New issue GNMA II multi-issuer pools	up to 0.72% or more (was >1.00% in 2015)

TBA BEST EX: MRB ISSUANCE

Tax exempt MRBs provide better execution

Full spread can be better execution than generic TBA trade

MRBs are above full spread; can lower rate by nearly **0.500%**!



03 / ACHIEVING **TBA BEST EXECUTION**

- TBA → specified pool sale
- TBA → MRB issue

BEST EX MECHANICS: **TBA** → **SPECIFIED POOL**

Execution is similar to TBA

Specified pool is delivered against trade on standard settle date

HFA avoids interest rate risk

HFA has already hedged against interest rate risk via TBA

HFA can extract additional income from loans

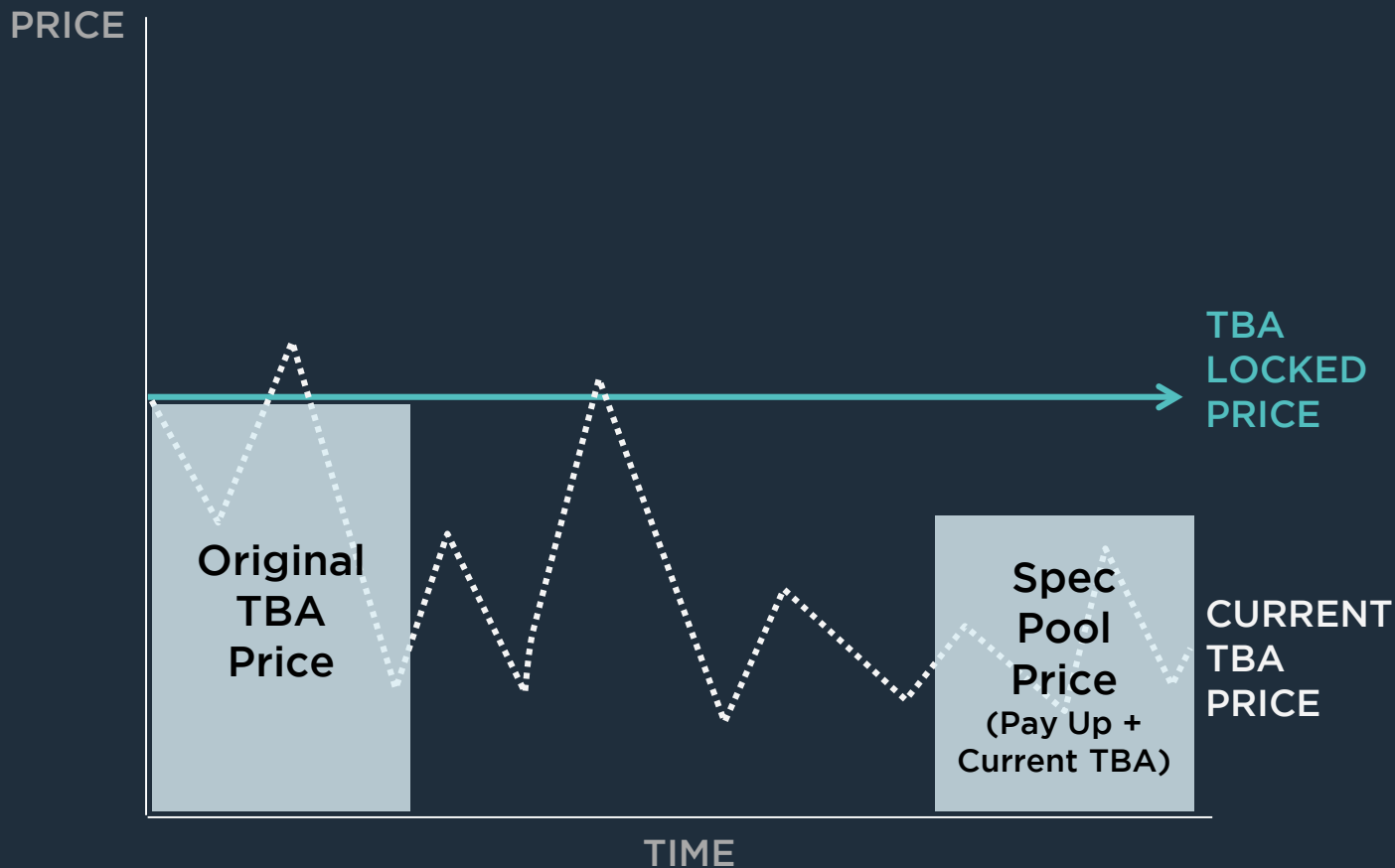
Specified pool CUSIP and Pool # provided to potential investors

Potential investors determine value over TBA

Competitive sale enhances results

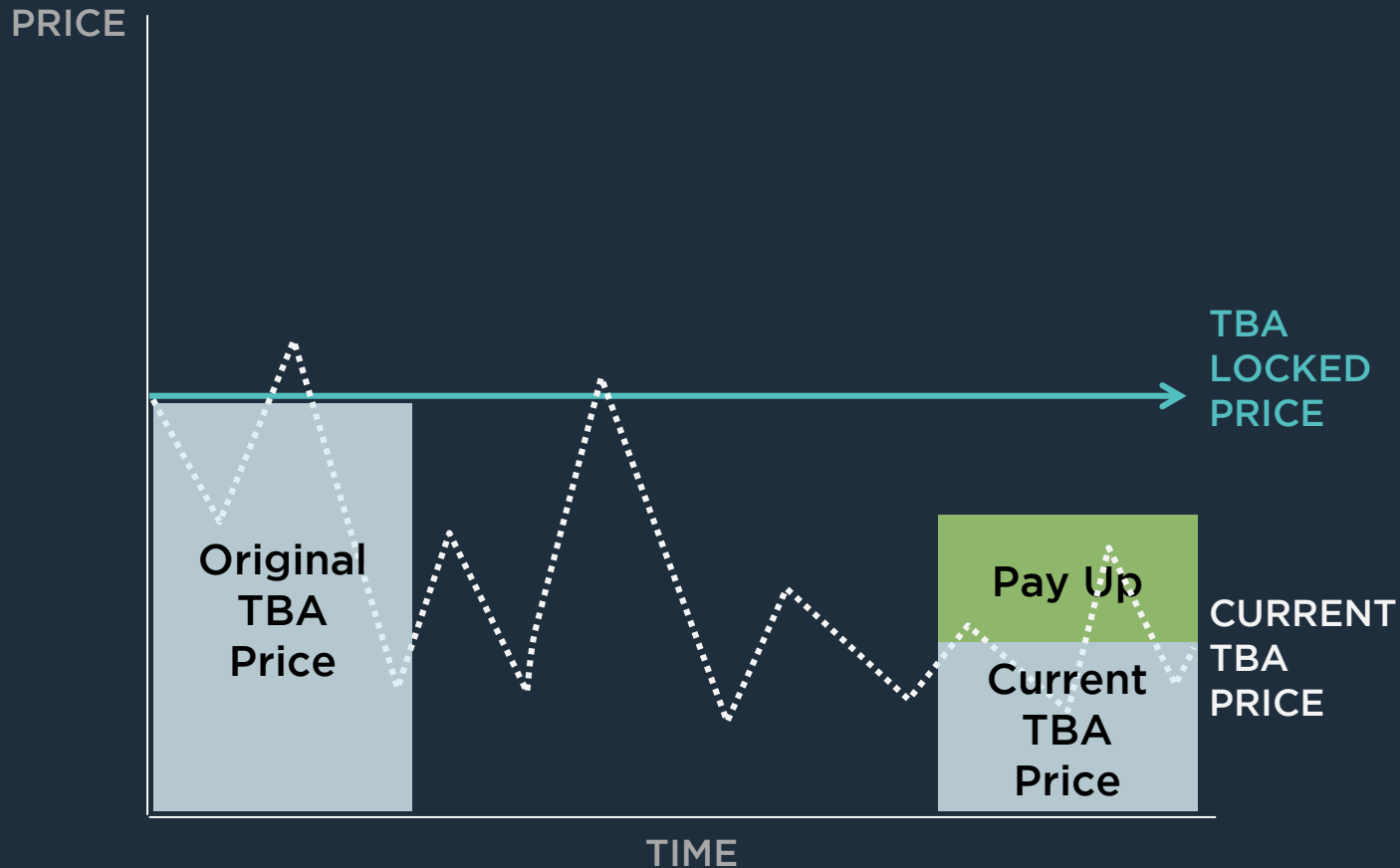
BEST EX MECHANICS: TBA → SPECIFIED POOL

Pay ups are not affected by TBA price movement



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BEST EX MECHANICS: TBA → SPECIFIED POOL

Pay ups are not affected by TBA price movement

Original TBA trade



Specified Pool Sale



BEST EX MECHANICS: TBA → SPECIFIED POOL

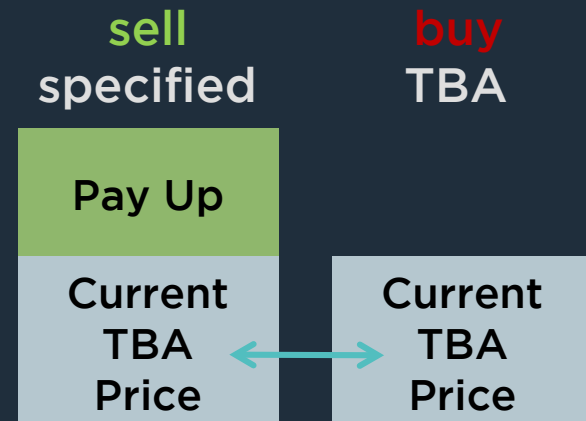
Pay ups are not affected by TBA price movement

Buy TBA to cancel out original hedge position
Sell specified pool

Original TBA trade



Specified Pool Sale on swap



BEST EX MECHANICS: **TBA** → **SPECIFIED POOL**

Pay ups are not affected by TBA price movement

Current TBA pricing does not change net income

Specified Pool Sale on swap

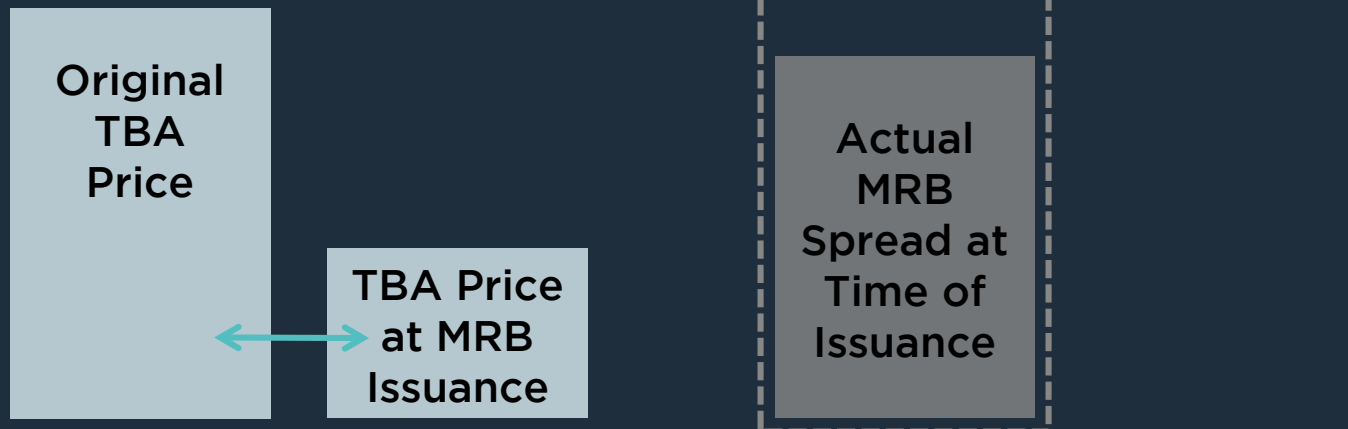


BEST EX MECHANICS: TBA → MRB

TBA can effectively hedge against rising MRB yields

Rising interest rates cause TBA prices to decline and MRB issue to be **below full spread**

Pair off income =
Original TBA price -
TBA Price at MRB issuance



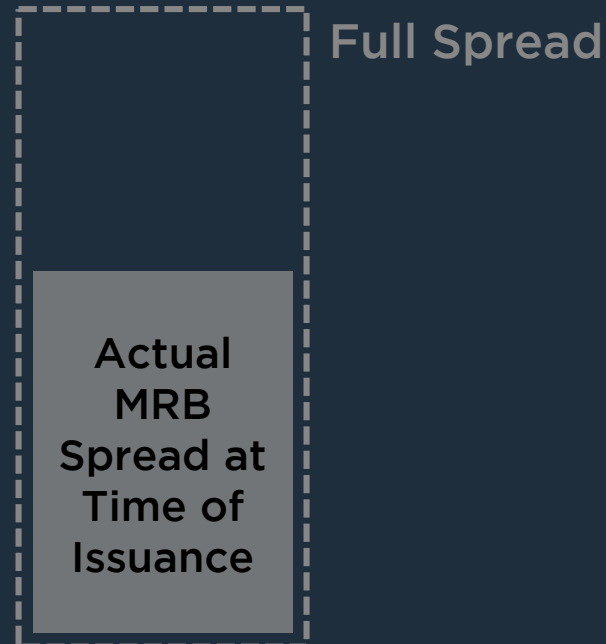
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Pair
Off
Income

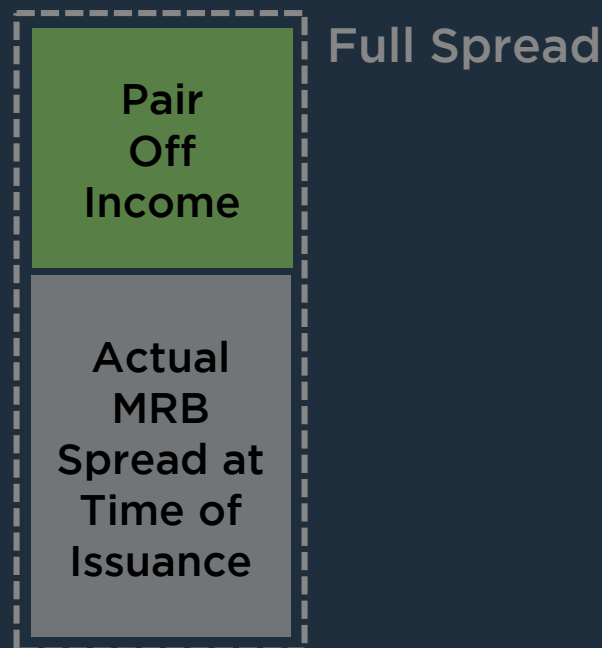


BEST EX MECHANICS: **TBA** → **MRB**

TBA can effectively hedge against rising MRB yields

Pair off income + MRB spread = full spread

Requires Qualified Hedge ID to be included in tax law spread analysis

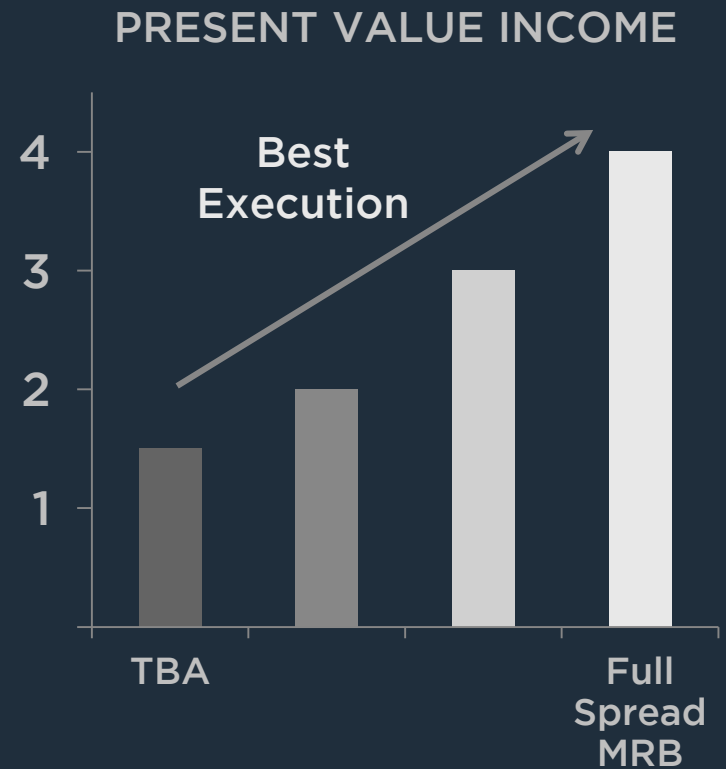


KEY TAKEAWAYS

TBA is an effective hedge
and good execution

Best execution requires
more than TBA alone

More profit \neq more work



THANK YOU

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