













MBA's Government Housing and Loan Production Conference 2008

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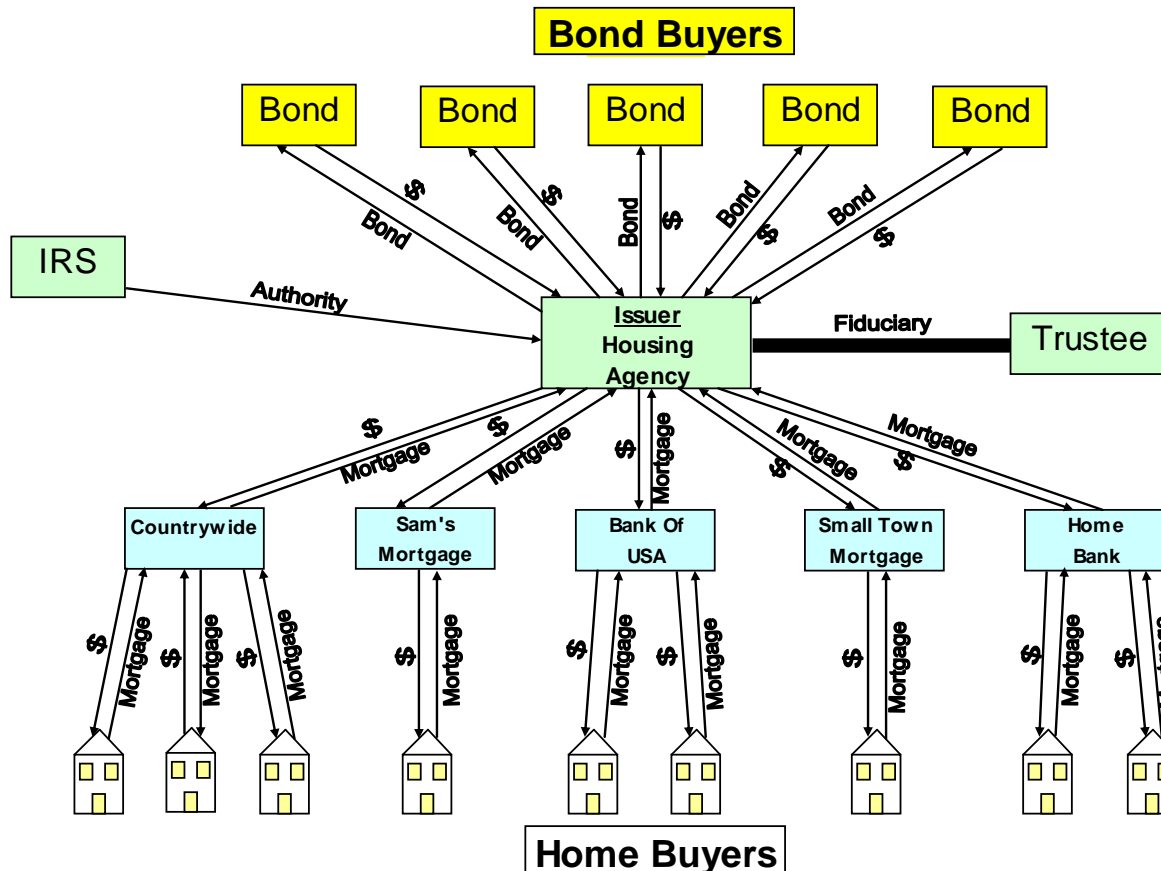
Why should lenders originate bond loans?

- **Below market rate benefit to the borrower.**
- **Down payment assistance benefit to the borrower.**
- **High percentage of low and moderate income borrowers in the bond portfolio.**
- **All first time homebuyers.**
- **High percentage reach into CRA and multicultural markets.**
- **All incremental purchase money business.**
- **Counter cyclical to refi booms.**
- **May have more flexible product parameters and underwriting criteria.**
- **There is forward take out with no hedging required.**

How does bond funding flow to lenders and consumers?

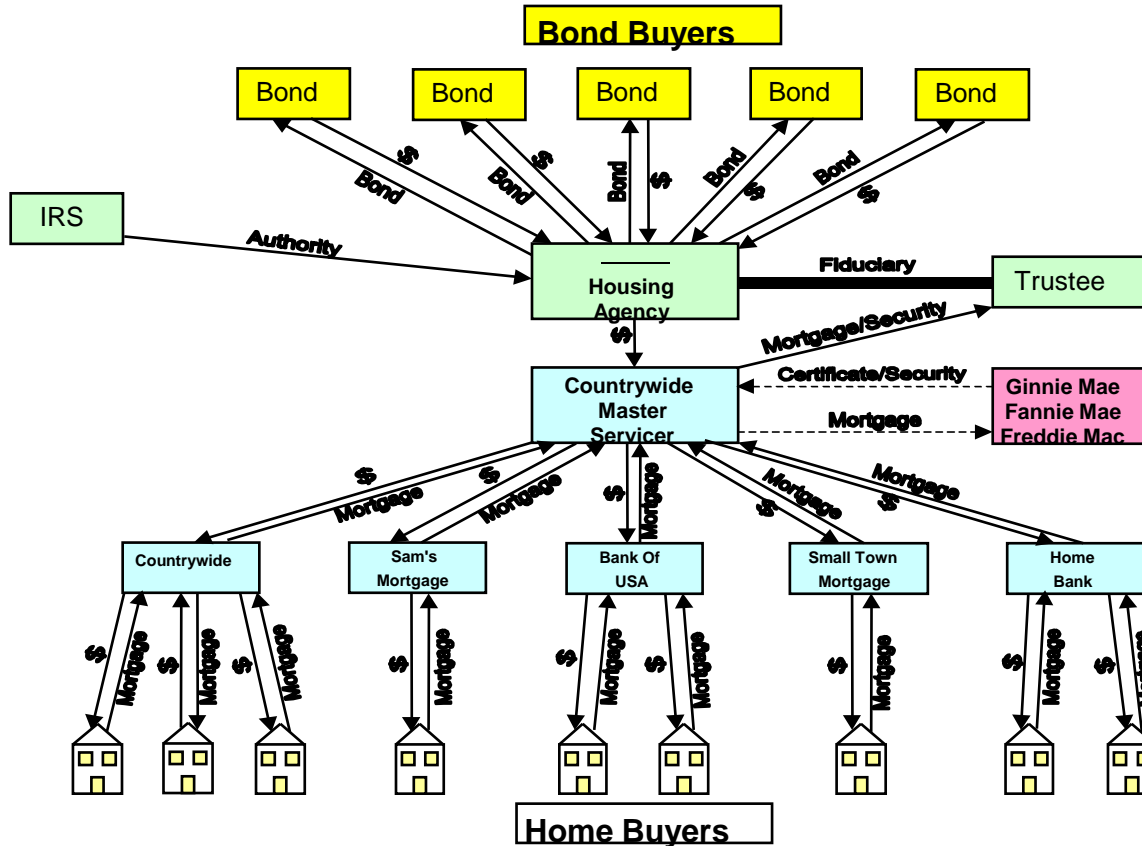
- 1. Housing agencies sell tax exempt bonds.**
- 2. The agency sets the interest rate when the bonds are sold.**
- 3. The lender originates a loan with a low rate and sells to the housing agency or the agency's servicer.**
- 4. The housing agencies use the bond funds to buy below market rate mortgage loans at par from the participating lenders or mortgage backed securities at par from the master servicer.**
- 5. Depending on the program, the lender may keep the servicing or may be required to release the servicing.**

Whole loan sale to agency



Lender originates the bond loans and sells it directly to the housing agency. Lender may retain the servicing or release the servicing. In this flow, the agency holds a portfolio of whole loans as collateral for the bonds.

Master Servicer



The lenders originates bond loans and sells to the Master Servicer, releasing the servicing and receiving a service released premium. The Master Servicer pools the loans with other loans from the program, swaps the loans for a security and then sells the security to the Trustee on behalf of the Agency. Master Servicer owns the servicing, Fannie/Freddie or Ginnie own the loan. The housing agency owns mortgage backed securities as collateral for the bonds.

Mortgage products that can be used with bond loan funding

- **Credit underwriting is generally based on customary conventional and government standards.**
- **Fannie Mae's MyCommunity**
- **Freddie Mac's Home Possible**
- **FHA**
- **VA**
- **Rural Housing (can be originated on conventional or government docs)**
- **Agency proprietary products**

Mortgage Servicing Ownership – a Different Definition

- **The agency is presumed to own the servicing.**
- **The agency determines who will actually service the loans.**
- **The agency determines how the SRP will be paid and to whom.**
- **Service released premium plus origination fee are the revenue sources for a servicing released program.**
- **Servicing value plus origination fee are the revenue sources for a service retained program.**
- **Servicing value minus service release premium paid to originating lender is the loan revenue for a master servicer.**

Lender revenue comparison of non-bond and bond loan

Servicing Retained Standard Non-bond Loan	
Points 1.5%	\$1,950
Fees	\$450
Servicing Value	\$1,625
Total Revenue \$	\$4,025
Total Revenue %	3.10%

Servicing Released Bond Loan	
Points 1%	\$1,300
Fees	\$200
SRP Paid 90 bp*	\$1,170
Total Revenue \$	\$2,670
Total Revenue %	2.05%

Servicing Retained Bond Loan	
Points 1%	\$1,300
Fees	\$200
Servicing Value	\$1,787
Total Revenue \$	\$3,287
Total Revenue %	2.52%

Master Servicing Bond Loan	
Points 0%	\$0
Funding Fee	\$150
Servicing Value	\$1,787
Gross Revenue \$	\$1,937
SRP Paid 1.10%	-\$1,430
Total Revenue \$	\$507
Total Revenue %	0.39%

Notes:

- ∟ Assumes \$130,000 loan amount.
- ∟ Assumes points and fees on bond program loans are limited to 1 point and \$200 in fees.
- ∟ Example is for a conventional loan with the bond loan interest rate at ½ percent below market rate.
- ∟ Example uses a 25 bp servicing fee, a 5 multiple for the standard loan and a 5.5 multiple for the lower rate bond loan.
- ∟ Example is a representation only and does not reflect actual points, fees and value for a specific bond program.

* SRP is the service released premium paid to the originating lender when the loan is sold servicing released to the master servicer or housing agency.

The revenue of a bond loan is demonstrated here. A comparison of expenses to support the production of standard product versus bond product is not demonstrated.

What support staff and infrastructure is required

- **Today, there are more than 150 different programs available with over 90 agencies across the country.**
- **Each program has specific income limits, sales price limits, eligible geographic areas, bond documents, special packaging, shipping and servicing requirements.**
- **Many agencies provide subordinate mortgage programs, 2nds, 3rds, etc. All must meet another set of specific guidelines, packaging, forms, delivery, etc.**
- **Loans must be tracked separately to ensure trailing documents are received and to meet delivery time requirements.**
- **The lender is generally responsible for ensuring compliance with IRS regulated first time homebuyer requirements and sales price/income limitations.**
- **Product guidelines and documentation require mortgage companies to hire bond specific support team.**
- **Some revenue opportunities are diminished or eliminated in some programs.**

Top Bond Programs, by units

1. California Housing Finance Agency
2. Delaware State Housing Authority
3. Texas Dept. of Housing and Community Affairs
4. Veteran Land Board of the State of Texas
5. Missouri Housing Development Commission
6. Iowa Finance Authority
7. Nevada Housing Division
8. New Mexico Mortgage Finance Authority
9. Washington State Housing Finance Commission
10. Texas State Affordable Housing Corporation

Comparison of standard and bond loan monthly payment

Standard market rate loan

\$180,000

- 5,400 3% down payment

\$174,600 @ 6.5% fixed over 30 years

P& I payment of

\$1,097.65

Bond program loan

\$180,000

- 5,400 3% down payment

\$174,600 @ 5.99% fixed over 30 years

P& I payment of

\$ 1,040.50

Comparison of standard and bond loan for cash required to close

Standard market rate loan

\$180,000
 - 5,400 3% down payment
 \$174,600 @ 6.5% fixed over 30 years

P& I payment of \$1,097.65

Cash to close

\$ 5,400.00 cash down payment
\$ 5,400.00 closing costs
\$10,800.00

Bond program loan

\$180,000
 - 5,400 3% down payment
 \$174,600 @ 5.99% fixed over 30 years

P& I payment of \$ 1,040.50

2nd mortgage payment \$ 71.44 6% of sales price @7% rate over 30 years

Total mortgage payment \$ 1,111.94 resulting payment is \$14.29 more

Cash to close

\$ 0.00 down payment (pd by 2nd mtg)
\$ 0.00 closing costs (pd by 2nd mtg)
\$ 0.00

Pros and Cons

Pros

- Bond loans are good purchase money counter-cyclical business.
- Bond loans are an excellent product to leverage multicultural outreach and marketing strategies.
- The revenue is enhanced and market risk is reduced by the elimination of interest rate hedge.

Cons

- The risk of repurchase and a haircut on loan sale is increased as a result of the below market interest rate and nonstandard documentation.
- The revenue is less than a standard loan and the cost to support origination is more, due to nonstandard documentation requirements and nonstandard product features.

Overall

- Participation in bond programs must be supported at many levels of the company and participation can be beneficial at many levels of the company.

Contact information

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