

# HFAs Get Aid From Treasury

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State and local housing finance agency officials generally applauded the allocations they received from the Treasury Department for the new-issue bond purchase and temporary credit and liquidity programs, saying they were close to what they requested and should boost ailing housing programs.

Treasury officials sent allocations to the HFAs Friday, saying they wanted to be given the chance to address any complaints raised by HFA officials. Treasury officials are expected to release the allocations later this week.

“By and large, I think everybody’s pleased and they’re going to be looking at how to make it work,” said Susan Dewey, president of the National Council of State Housing Agencies and executive director of the Virginia Housing Development Authority. “There are some loopholes, needless to say, that we have to jump through ... [but] I haven’t heard that there’s anything insurmountable.”

Housing groups began pushing for federal assistance as the financial crisis led to a decline in investor income, financial institution deleveraging, and growing uncertainty about the economy and real estate, significantly diminishing investor demand for housing bonds and credits.

In addition, HFAs had trouble remarketing their variable-rate demand debt, as the financial institutions that they had traditionally relied upon to remarket them and serve as buyers of last resort, either withdrew from the market, were downgraded by credit rating agencies, or began charging excessive fees and imposing unfavorable terms for providing liquidity.

The new-issue bond purchase, or NIBP program, was designed to provide a temporary market for new single- and multifamily housing bonds that the HFAs issue to finance new mortgages. Treasury officials estimate the program — which will only be available through Dec. 31 — will support up to several hundred thousand new mortgages and tens of thousands of new rental housing units for working families during the coming year.

Under the program, the Treasury will purchase Fannie Mae and Freddie Mac securities backed by new HFA bonds. The HFAs are to pay the government-sponsored enterprises and the Treasury fees intended to cover the cost of financing the new bonds as well as the risk posed by the individual HFA, based on its rating.

Generally speaking, the interest rate on the new bonds will be equal to a short-term Treasury interest rate for the period during which the proceeds are held in reserve before being drawn down by the HFAs to originate mortgages.

Because of the short timeframe of the program, the Treasury will allow HFAs to issue short-term bonds that can be converted into long-term issues after the end of the year.

The NIBP was announced alongside the temporary credit and liquidity program, or TCLP, which will be administered by Fannie and Freddie and will provide replacement credit and liquidity facilities to HFAs for existing single-family and multifamily bonds.

The Treasury will backstop the replacement facilities by purchasing a participating interest in the GSE temporary credit and liquidity facilities.

Although Treasury officials had said the programs would be sized to “meet demand” when they were unveiled in October, they cautioned state and local HFAs earlier this month that the bond purchase program was oversubscribed and that allocations would likely be lower than what was requested.

But Dewey said the Treasury agreed to purchase \$482 million of single-family housing bonds from the Virginia housing authority, only slightly less than the agency requested.

John Murphy, executive director of the National Association of Local Housing Finance Agencies, said he has heard from members that “local HFAs were treated very fairly,” similarly receiving NIBP allocations totaling slightly less than requests.

The California Housing Finance Agency, which requested a \$1.123 billion allocation for single-family debt under NIBP, received \$1 billion, according to CalHFA officials. On the multifamily side, it requested \$613 million in federal aid, and received a NIBP allocation of \$585 million. Its liquidity requests — \$943 million for multifamily bonds and \$2.9 billion for single family — also were fully funded, the officials said.

The programs will be a major aid to the CalHFA, the biggest in the nation. The agency has about \$3.6 billion in variable-rate demand obligations outstanding in a debt portfolio of over \$8 billion.

The agency’s variable-rate debt started to trade poorly as the financial crisis eroded confidence in its liquidity banks — particularly Dexia Credit Local or Depfa Bank NA — and its bond insurers.

At its worst moments last fall, investors put about \$1 billion in VRDOs to CalHFA’s standby bond-purchase agreement banks, forcing the agency to pay penalty rates and to plan for the possibility of accelerated repayment. The variable-rate market has improved since then, but the agency continued to pay more than the SIFMA

Municipal Swap Index rate for a portion of its VRDO portfolio as well as large premiums to renew liquidity facilities.

The TCLP should resolve the problems in the variable-rate portfolio for three years, according to Tim Hsu, CalHFA’s deputy director of financing.

“We now have a program in which we can use as much of this liquidity as we want to replace all the liquidity facilities that we have,” Hsu said. “That takes away the extension and renewal risk, and since its going to be backed by the GSEs and the federal government, it will have extremely strong credit.”

The agency plans to issue mandatory tenders for all of its variable-rate debt next month, cancel its existing liquidity facilities and remarket with the GSE guarantees in January.

The Florida HFA also received slightly less than what it requested for the NIBP — \$424 million for single-family and \$250 million for multifamily — and was allocated its full request of \$156 million under the TCLP, which it plans to use exclusively for existing multifamily bonds, according to a spokesman for the agency. The Colorado HFA received a \$225 million allocation for single-family bonds under the NIBP, just \$25 million short of its \$250 million request, and all of its \$950 million request under the TCLP.