

Public Finance

Single Family Housing



CASE STUDY

Piper Sandler has served as financial advisor to the Vermont Housing Finance Agency since 2001. In 2007, the Vermont Housing Finance Agency created its Multiple Purpose indenture. In this indenture, both single family and multi-family loans can be originated, which has created a lot of flexibility for VHFA. Over the past several years, the Agency has utilized the strategy of refunding a multi-family issue and utilizing refunding savings to provide single family mortgages at or below market rates multiple times. The Agency also has the ability to take a higher spread of 1.50% on the entire issue as long as the single family portion is not above its allowable spread of 1.125%. One example of this structure is demonstrated below.

In October 2018, Piper Sandler advised Vermont Housing Finance Agency on the sale of \$41,100,000 of Multiple Purpose Bonds, 2018 Series BCDEFG. The 2018 Series comprised AMT single family bonds (Series B), non-AMT single family bonds (Series C), AMT multi-family bonds (Series D), non-AMT multi-family bonds (Series E) and taxable multi-family bonds (Series F and G). The Bonds together were issued to fund approximately \$30 million in new mortgage backed securities, to fund four multi-family loans totaling \$1.31 million, and to refund eight bond issues including Single Family Housing Series 19, Multi-Family Mortgage Bonds Series 2003A and all six series of the Multi-Family Variable Rate Demand Revenue Bond indenture. In addition, all associated swap agreements were terminated at their market valuation with funds on hand in the series to be refunded. The termination cost will be recaptured over time through inclusion in the bond yield.

In the financing, the Agency sold the Series G Bonds directly to the Federal Home Loan Bank of Boston as 0% interest rate bonds through its Helping to House New England program. Of note, Piper Sandler convinced the FHLB to allow the Agency to utilize multiple maturities of three, four and five years versus the required single maturity to minimize the impact on the bond structure and maximize the benefit passed on to the multifamily borrowers. The bond structure was optimized with AMT bonds maturing in the first two years and again beginning in six years, followed by the non-AMT bonds. A single taxable bullet of \$250,000 maturing in 30 years was structured as well to match the term of taxable multi-family loans and maintain compliance with tax rules.

The Agency funded single family and multi-family loans in one bond issue and under the same indenture in order to reduce overall costs of issuance, minimize ongoing rating agency fees and allow the Agency to simplify its bond program by eliminating two bond indentures and corresponding swap agreements. The Agency will earn an aggregate spread of approximately 1.21% between the loan rate and bond rate on the aggregate issue. The six series of the Multi-Family Variable Rate Demand Revenue Bond indenture were part of open tax plans but earning a spread of only 1% and are being closed out through this issue.

The interest rates on twelve multi-family projects that had tight cash flows were lowered by an average of a percentage point with extended terms. The single family loans were originated at rates at least 0.125% below the market. Interest subsidy was provided from a prior bond issue through loan participations, with the same amount participated on to the next issue, at a time when refunding opportunities were not expected for four more years. The thoughtful and complex financing approach produced the most profitable outcome for the Agency and saved countless future hours of administration by simplifying their existing bond program.

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