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# Housing Finance Agencies strengthened by strong demand

By

Brian Tumulty

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Bond issuance by Housing Finance Agencies last year reached the highest level since the Great Recession, driven by an uptick in mortgage revenue bonds for single-family homes.

Stockton Williams, executive director of the National Council of State Housing Agencies, said the state HFAs are continuing to receive the majority of each state's volume cap allocation for issuing tax-exempt private activity bonds but that hasn't been enough.

That trend is continuing in 2019 with issuance already up 2.6% for multifamily and single-family financing with more than two months remaining in the calendar year, according to data provided by Refinitiv.

Through Oct. 24, single-family issuance totaled $11.55 billion, up from $10.9 billion in calendar 2018, while multifamily issuances came to $6.36 billion, below the 2018 total of $6.8 billion, the Refinitiv data showed.

Of those totals, $5.7 billion of the multifamily issuances have been new money and $9.85 billion of the single-family issuances are new money.

This trend has helped strengthen the balance sheets of state HFAs, according to recent reports issued by S&P Global and Moody's Investors Service.

S&P Global reports that the state HFAs it follows are maintaining high ratings this year, "buoyed by demand for affordable housing and mortgages, low interest rates, relatively low unemployment, increasing wages, and the overall strong domestic economy."

“Rising interest rates have benefited HFAs by creating a more favorable environment for issuing mortgage revenue bonds and by giving them better returns on investments,” Moody’s said earlier this month. “Median margins rose to 15% in 2018, up two percentage points from last year despite reduced net operating revenue.”

The driver for this positive trend is the nation’s affordable housing crisis and the inability of the HFAs to fully meet the demand for new single-family homes and rental apartments.

Median home prices have risen more than 50% since 2008 with annual price appreciation in the 5% to 6% range, according to Fitch Ratings. That’s double the rate of increase in wages.

Meanwhile, median rents increased 11% between 2001 and 2011 while renter household income fell 1% over the same period, according to the Center on Budget and Policy Priorities.

“Low mortgage rates over the past decade spurred housing demand, but the overall cost of construction that limited supply led to housing price increases,” Fitch Ratings said. “This contrasts with the pre-2008 mortgage rate environment, when higher mortgage rates led to lower housing demand.”

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So the HFAs have been supplementing that with “other capital sources in the secondary markets through the sale of mortgage backed securities and other means,” Williams said.

“Because we know housing needs have gone up, the states have had to find new ways to create value added financing in their markets,” Williams said. “So the use of mortgaged backed securities, often combined with down payment assistance has been a huge part of how they have grown their financing over the last five years.”