

# HOUSING BOND REPORT

A MONTHLY PUBLICATION ON THE LOW-INCOME HOUSING TAX-EXEMPT BOND INDUSTRY

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## Housing Finance Agency-Issued TEBs Continue to See Strong Demand

By Anne Townsend, Staff Writer, Novogradac & Company LLP

The tax-exempt housing bond market, which is experiencing strong demand for bonds issued by housing finance agencies, is likely to drop somewhat but remain solid the rest of 2007, experts say.

Florence Zeman, senior vice president at Moody's Investors Service spoke to the apparent volume demand. "We're seeing heavy demand on the single-family side, even though conventional rates have come down a little," she said. "The multifamily market, which was down last year, hasn't really increased. There's not a lot of volume on the multifamily side."

"We've been experiencing an increase in the last six months to a year. Inquiries have picked up," said Richard Gerwitz, a director with Citigroup. "We've received more inquiries of new transactions."

Zeman has seen ratings both stabilize and downgrade, depending on the issuer. "On the state housing finance agency side, it's been very stable. The ratings are fairly high — in the AA or AAA — and we see that as very stable," she said. "Affordable housing uninsured bonds have seen a lot of downgrades and we've adjusted our rating approach to reflect the volatilities. We've seen a lot of downgrades in that sector."

Stephen Spitz, a partner at Orrick Herrington & Sutcliffe LLP, has seen an increased number of bank private placements. "We're also seeing interest in total return swap transactions for larger projects," he said. "I think the bank private placements are supply side driven: more banks are expanding the scope of what they'll do. The total return swap is a developing product. The product is being better developed by the investment bankers."

"The market has seen more mixed income or

exclusionary projects — the [large] 80/20 projects," Gerwitz said when asked if there has been a demand for certain types of transactions. "We're seeing quite a few in California and in New York, but more in California. New York has a different allocation regimen."

One factor affecting the market has been the high homeownership level as seen in the first part of the decade, which has drawn a lot of buyers away from the multifamily housing bond market, Zeman explained. "It just became easier for people to get single-family loans," she said. "This reduced the pool of people available to live in the multifamily developments."

Gerwitz also noted the cost of land as a factor affecting the affordable housing and tax-exempt housing bond market. "Either construction costs have flattened or slightly decreased, and sellers of land and existing properties for acquisition rehab have become more realistic in their asking prices," he said.

While the experts have seen these factors affect the market, they are not convinced that reform of government sponsored entities (GSE) such as Freddie Mac and Fannie Mae will directly affect the market.

On March 29, the House Financial Services Committee passed H.R. 1427, the Federal Housing Finance Reform Act of 2007, which seeks to overhaul the regulatory oversight of Freddie Mac, Fannie Mae, and create a new, independent regulator with broad powers analogous to current banking regulators. The bill, which still needs approval from the Senate, also creates an off-budget and non-taxpayer financed affordable housing fund that will dedicate hundreds of millions of dollars for the construction, maintenance and preservation of affordable housing with the first year of the fund to be dedicated to the Gulf

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# Strong Demand

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Opportunity (GO) Zone, and billions of dollars over the next five years for affordable housing nationwide. (For more information on GSE reform, please see the Washington Wire on page 16.)

"I think that, in general, a Fannie Mae and a Freddie Mac that are healthy and active participants is good for the market," said Spitz. "If GSE reform will make them healthier and more active and better able to participate, that is a very good thing."

Zeman is waiting to see how it plays out in the market. "For a while Fannie Mae wasn't buying bonds, but I think they're now coming back into the market," she said. "For a little while the market had to adjust to new buyers and from what we've heard they've found buyers. We don't know enough about the pricing of the bonds to say whether it increased or decreased prices. They announced recently that they're going back to buying bonds soon, but nothing we've seen is directly impacting it. There is a lot of talk about further reform and it's hard to tell how that will work its way into the bond market." ♦

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