

# Conforming Secondary Market Models, Examples

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## State Housing Finance Agency (not actual)

- State HFA issues the (bond) security
- HFA and the funds from the security issuance pay the issuance costs
- HFA uses own and borrowed funds as Warehouse LOC

## Loan Collateral

- Bank loans to eligible borrowers @ 95% Loan to Value of Home
- Mortgage Insurance on top 35% of each loan (paid by borrower)
- Conservative loan underwriting

## Security Structure

- A \$100 million security (bond) is made up of:
  - \$95 million in above loans
  - \$5 million in cash from HFA

## Additional Collateral for HFA Security

- Full faith and credit of HFA
- Security (bond) is rated by Rating Agency with council review letter(s)
- State HFA is independently rated by Rating Agency
- Master Servicer handles receipt of loan payments from sub-servicers (banks issuing loans)
- Investor gets interest and principal @ a tax exempt rate over life of security (30 years)

# EPC/NASEO/DOE EE Loan Security

- Investment Bank issues
- States share the issuance costs based upon their projected sale of lender loans into security
- Foundations support issuance costs
- Foundations & States support Warehouse LOC into security

## Loan Collateral

- Unsecured loans up to \$25,000
- Could include secured up to \$50,000
- Average loan size \$8,500
- Moderate underwriting (FICO & Income Ratios/Utility Payment based)
- Consumer protections/warranties/contractor oversight

## Security Structure

- 80% is loans (senior tranche)
- 20% is cash (state) (subordinate tranche)

## Additional Collateral for EE Security

- Unrated security, private placement
- State loan loss reserve @ 10% of security
- Additional (up to) 10% of security amount from state funds
- Master Servicer handles receipt of loan payments can use sub-servicers (banks issuing loans & utility (“on bill”))
- Senior tranche gets all loan payments less 1% for accelerated retirement of investment (4-5 years of 10 year security)
- Subordinate tranche, after loan losses, gets full payments after retirement of senior tranche OR roles over into new security