

MAINE STATE LEGISLATURE

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**Analysis of Savings from and Benefits
of
Tax-Exempt Financing**

Pursuant to 10 MRSA Sec. 363

March 2008



MaineHousing
Maine State Housing Authority

March 12, 2008

The Honorable Lynn Bromley, Chair
The Honorable Nancy E. Smith, Chair
Members, Joint Standing Committee on Business,
Research and Economic Development
100 State House Station
Augusta, ME 04333-0100

Subject: Analysis of Savings from and Benefits of Tax-Exempt Financing

Dear Committee Members:

Pursuant to 10 MRSA Sec. 363, please find under this cover the above referenced report along with the Independent Accountants Report on Applying Agreed Upon Procedures.

Sincerely,

Dale McCormick
Director

DM/pme
Enclosure

MAINE STATE HOUSING AUTHORITY

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**INDEPENDENT ACCOUNTANTS' REPORT ON
APPLYING AGREED UPON PROCEDURES**

The Board of Commissioners
Maine State Housing Authority
Governor of the State of Maine
The Joint Standing Committee for Business, Research and Economic Development

We have performed the procedures in Appendix A, which were agreed to by the Maine State Housing Authority, and the Joint Standing Committee for Business, Research and Economic Development (the Committee), solely to assist you with respect to the requirements of the State of Maine 10 MRSA Sec. 363, subsection 11. The Maine State Housing Authority is responsible for the preparation of the "Benefit of 2007 Single Family Issues" (Schedule 1). This engagement to apply agreed-upon procedures was conducted in accordance with attestation standards established by the American Institute of Certified Public Accountants. The sufficiency of the procedures is solely the responsibility of those parties specified in the report. Consequently, we make no representation regarding the sufficiency of the procedures either for the purpose for which this report has been requested or for any other purpose.

The procedures we performed and our findings are summarized in Appendix A.

We were not engaged to, and did not, perform an examination, the objective of which would be the expression of an opinion on the Schedules. Accordingly, we do not express such an opinion. Had we performed additional procedures, other matters might have come to our attention that would have been reported to you.

This report is intended solely for the information and use of Maine State Housing Authority, the Governor of the State of Maine and the Committee and is not intended to be and should not be used by anyone other than these specified parties.

Portland, Maine
March 12, 2008

Baker Newman & Noyes
Limited Liability Company

INDEPENDENT ACCOUNTANTS' PROCEDURES PURSUANT TO 10 MRSA SEC. 363

We obtained the "Benefit of 2007 Single Family Issues" Schedule ("Schedule 1") prepared by the Maine State Housing Authority (MaineHousing) which lists the tax-exempt bonds issued in 2007 and performed the following:

Schedule 1

1. We agreed the Lendable Proceeds for the 2007 Series A, 2007 Series C and 2007 Series E bonds to the estimated uses of funds schedule contained in the Official Statement for the corresponding bonds.
2. We calculated the weighted average rate of the lendable Single Family proceeds produced in 2007 by MaineHousing, as shown, of 5.21%.
3. We agreed the Fannie Mae 2007 average 60-day commitment rate of 6.51% to a schedule provided by Bear Stearns.
4. We recalculated the Savings of 1.30% on the interest rate, \$106 on the monthly payment and \$1,272 on the annual payments, based upon the MaineHousing assumption of \$127,000, 30 year mortgage. We did not recalculate the \$127,000 or the 30 years.

ANALYSIS OF SAVINGS FROM AND BENEFITS OF TAX-EXEMPT FINANCING

In 2007, the Maine State Housing Authority (MaineHousing) issued tax exempt bonds in the aggregate principal amount of \$381,637,000. The proceeds of the issues were used to fund required debt service reserves, pay the cost of issuance, pay the underwriters fees, refund prior bonds, and to make or purchase new mortgage loans. The issues, which were for single-family mortgages, generated \$68 million of lendable proceeds for MaineHousing's programs.

In 2007, MaineHousing purchased \$145 million in mortgage loans; substantially all of which qualified for tax-exempt financing. About \$81 million of the bond proceeds used in these purchases were generated in bond sales from prior years, surplus monies, or taxable bonds. At year-end \$4 million of lendable proceeds remained from 2007 bond sales.

BOND ISSUANCE AND BOND CAP USAGE

In 2007, MaineHousing issued \$381,637,000 of tax exempt bonds but only expended \$79,319,000 in Private Activity Bond cap. That means that over \$302 million of MaineHousing's issues in 2007 did not require an allocation of bond cap. The three mechanisms used by MaineHousing to issue private activity bonds without utilizing bond cap are explained below:

1. **Refunding:** When the proceeds of a tax-exempt bond sale are used to redeem the outstanding bonds of a prior issue, private purpose bond cap is not required. In 2007, MaineHousing used approximately \$0 million for such purposes.
2. **501(c)(3) Multifamily Bonds:** Bonds sold to fund a qualified low-income project, which is owned by a 501(c)(3) entity, do not require private activity bond cap. In 2007, MaineHousing sold \$0 million of the 501(c)(3) bonds.
3. **Replacement Refundings:** The tax code allows that if, within 90 days the issuance of new bonds, bonds of similar tax status are retired, that the new bonds in an amount equal to the redeemed bonds may be deemed to be replacing the prior bonds and do not require a bond cap allocation. In 2007, MaineHousing saved over \$302 million in new bond cap in this manner. By using \$302 million of mortgage prepayments or surplus earnings to redeem prior, higher rate bonds, MaineHousing was, in effect, able to recycle bond cap allocation from prior years into tax-exempt program money in 2007.

MULTIFAMILY BOND AND THE LOW INCOME HOUSING TAX CREDIT (LIHTC)

Multifamily bonds issued from an allocation of the private activity bond cap produce an additional allocation of the LIHTC equal to 10 years of an annual tax credit equal to 4% of the cost of the low income units in a project. This tax credit is then sold to investors to produce equity capital for the project, thereby reducing the amount of debt required.

Example: A 20-unit project is being built for low-income tenants. The cost is \$50,000/unit or \$1,000,000. The project, if financed with private activity bonds, would be eligible for \$40,000 of annual tax credits for 10 years or a total of \$400,000. Investors are currently paying approximately 95 cents on the dollar, which in this example would generate \$380,000 of equity for the project. The required financing would be thereby reduced from \$1 million to \$620,000. If the interest rate on the \$620,000 mortgage is 6.5%, the rate on a \$1 million mortgage would have to be under 3% to produce the same payment. The LIHTC, therefore, supplements the impact of the lower rate by replacing debt with equity.

INCOME TARGETING: SINGLE FAMILY

The single-family program is restricted to first time homebuyers who are Maine residents buying a principal residence. The income of the borrowers may not exceed 115% of the area median and the purchase price of the residence may not exceed 110% of the area median. In 2007, the average loan size was about \$127,000. The average family income was \$45,000.

INCOME TARGETING: MULTIFAMILY

In multifamily projects financed with the proceeds of tax-exempt bonds, the benefits of the tax-exempt mortgage rates are passed along to tenants in the form of below market rents. The tax code requires either 20% of the units must be affordable for families at 50% of the area median income or 40% of the units for families at 60% of the area median income. The computation assumes that 30% of gross monthly income is available for rent.

In almost every program, MaineHousing requires even greater affordability than the tax code.

In multifamily projects the benefits of tax exempt financing should be measured by the rent differential between market rents and rents in the low-income units.

2007 Mortgage Purchase Program (MPP) Bond Issues - Sources and Uses of Funds

Type of Issue	2007A Single Family	2007B Single Family	2007C Single Family	2007D Single Family	2007E Single Family	2007F Single Family	TOTAL MPP BOND ISSUES
SOURCES:							
Principal of Bonds	25,000,000	45,000,000	25,000,000	75,000,000	25,000,000	35,000,000	230,000,000
MaineHousing Contribution	-	50,839	-	87,000	-	39,299	177,138
TOTAL SOURCES	25,000,000	45,050,839	25,000,000	75,087,000	25,000,000	35,039,299	230,177,138
USES:							
Purchase of Non-Mortgage Investments	-	45,000,000	-	75,000,000	-	35,000,000	155,000,000
Purchase of Mortgages	22,631,522	-	22,874,000	-	22,992,642	-	68,498,164
Refunding of Prior Bonds	-	-	-	-	-	-	-
Premium of Prior Bonds	-	-	-	-	-	-	-
Debt Service Reserve	2,000,000	-	1,750,000	-	1,680,000	-	5,430,000
Cost of Issuance	150,000	-	150,000	-	150,000	-	450,000
Underwriters Fee/Discount	218,478	50,839	226,000	87,000	177,358	39,299	798,974
TOTAL SOURCES	25,000,000	45,050,839	25,000,000	75,087,000	25,000,000	35,039,299	230,177,138
BOND CAP USED	25,000,000	-	25,000,000	-	25,000,000	-	75,000,000

2007 Draw Down Bonds - Sources and Uses of Funds

Type of Issue	2005A/B Single Family	TOTAL DRAW DOWN	GRAND TOTAL MPP AND DRAW DOWN
SOURCES:			
Principal of Bonds	151,637,000	151,637,000	381,637,000
MSHA Contribution	-	-	177,138
TOTAL SOURCES	151,637,000	151,637,000	\$ 381,814,138
USES:			
Purchase of Non-Mortgage Investments	151,637,000	151,637,000	306,637,000
Purchase of Mortgages	-	-	68,498,164
Refunding of Prior Bonds	-	-	-
Premium of Prior Bonds	-	-	-
Debt Service Reserve	-	-	5,430,000
Cost of Issuance	-	-	450,000
Underwriters Fee	-	-	798,974
TOTAL SOURCES	151,637,000	151,637,000	\$ 381,814,138
 BOND CAP USED	 4,319,000	 4,319,000	 \$ 79,319,000

I. BOND CAP AVAILABLE IN 2007

Carryforward from prior years	311,798,740
Initial Allocation in 2007	40,000,000
Re-allocation during 2007	<u>50,584,000</u>
Total Available	402,382,740
BOND CAP USED IN 2007	79,319,000
CARRYFORWARD TO 2008	323,063,740

BENEFIT OF 2007 SINGLE FAMILY ISSUES

Issue	Lendable Proceeds	Average Mortgage Rate
2007 Series A	\$22,631,522	5.20%
2007 Series C	\$22,874,000	5.30%
2007 Series E	\$22,992,642	5.125%

The benefit of the tax exempt financing to first time homebuyers qualifying for MaineHousing’s program could be measured as the difference between the monthly mortgage payments on the below market rates versus what the payments would be at market rates. Without tax exempt bonds, over the long run, MaineHousing would not be able to produce a mortgage that was consistently better than those produced by Fannie Mae and Freddie Mac for market lenders.

The weighted average rate of the lendable single family proceeds produced in 2007 by MaineHousing as shown above is about 5.21%. MaineHousing’s mortgages were all substantially level payment, 30 year term mortgages.

A good proxy for market rates is the Fannie Mae 60 day Commitment Rate. In 2007, the average of this market indicator, taken in each of the 52 weeks, was 6.51%.

	Market	MaineHousing	Savings
Interest Rate	6.51%	5.21%	1.30%
Payments on a \$127,000 30 year mortgage	Monthly \$804 Annual \$9,648	Monthly \$698 Annual \$8,376	Monthly \$106 Annual \$1,272