MaineHousing
Maine State Housing Authority

Analysis of Savings from and Benefits of Tax-Exempt Financing

Pursuant to 10 MRSA Sec. 363

March 2014

MaineHousing
Maine State Housing Authority

March 12, 2014

The Honorable John L. Patrick, Chair
The Honorable Erin D. Herbig, Chair
Members, Joint Standing Committee on Labor,
Commerce, 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.

If you have any questions, please contact me or Peter Merrill at 626-4608.

Sincerely,

John G. Gallagher
Director

JGG/pme
Enclosure

MAINE STATE HOUSING AUTHORITY

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The Board of Commissioners of the
Maine State Housing Authority
Governor of the State of Maine
The Joint Standing Committee on Labor, Commerce,
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 on Labor, Commerce, 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 "Analysis of Savings from and Benefits of Tax-Exempt Financing" (the Analysis). This agreed-upon procedures engagement was performed 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 described below 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, conduct an examination, the objective of which would be the expression of an opinion on the Analysis. 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 the Maine State Housing Authority, the Committee and the Governor of the State of Maine, and is not intended to be and should not be used by anyone other than those specified parties.

Baker Newman & Noyes
Limited Liability Company

Portland, Maine
March 10, 2014

MAINE STATE HOUSING AUTHORITY

INDEPENDENT ACCOUNTANTS' PROCEDURES PURSUANT TO 10 MRSA Sec. 363

We obtained the "Analysis of Savings from and Benefits of Tax-Exempt Financing" prepared by the Maine State Housing Authority (MaineHousing) which details the tax-exempt bonds issued in 2013 and performed the following:

1. We agreed the Lendable Proceeds on page 5 for the bond issues in the Analysis, which were 2013 Series B, 2013 Series D, and 2013 Series E, to the estimated uses of funds schedule contained in the Official Statement for each corresponding bond series.

2. We recalculated the weighted-average mortgage rate of the lendable single family proceeds produced in 2013 by MaineHousing of 3.47% on page 5 based on the lendable proceeds and average rate in the Official Statement for each corresponding bond.

3. We agreed the Fannie Mae 60 Day Commitment Rate shown on page 5 of 3.89% for 2013 to the average of the Fannie Mae 60 Day Forward Commitment Rate obtained from JP Morgan, as provided by MaineHousing, plus 25 basis points for servicing. We agreed the Fannie Mae 60 Day Commitment Rate shown on page 5 of 4.15% from May 1, 2013 until December 31, 2013 to the average of the Fannie Mae 60 Day Forward Commitment Rate obtained from JP Morgan, as provided by MaineHousing, plus 25 basis points for servicing.

4. We recalculated the rate advantage of 68 basis points and recalculated the monthly payment savings of $46 based on a $119,000, 30 year mortgage, provided by this basis difference, as shown on page 5.

ANALYSIS OF SAVINGS FROM AND BENEFITS OF TAX-EXEMPT FINANCING

In 2013, the Maine State Housing Authority (MaineHousing) issued or converted tax exempt private activity bonds in the aggregate principal amount of $176,000,000 in its Mortgage Purchase Program (MPP) Bond Resolution. The proceeds of the issues were used to fund required debt service reserves, pay the cost of issuance, pay the underwriters fees, refund outstanding bonds, and to make or purchase new single family mortgage loans. MaineHousing did not sell tax-exempt bonds to fund the purchase of multi-family loans in 2013. The issues generated approximately $67.2 million of lendable proceeds for MaineHousing's single family program.

In 2013, MaineHousing purchased $111.4 million in mortgage loans; substantially all of which qualified for tax-exempt financing. About $53 million of the bond proceeds used in these purchases were generated in bond sales from prior years or surplus monies. At year-end $9 million of lendable proceeds remained unexpended from 2013 bond sales.

BOND ISSUANCE AND BOND CAP USAGE

In 2013, MaineHousing issued or converted $176,000,000 par amount of tax-exempt housing bonds, which generated tax-exempt proceeds of $178.5 million, but only expended $72,135,881 in Private Activity Bond cap. That means that approximately $106 million of MaineHousing's proceeds in 2013 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 and the refunding bonds have an average life that does not exceed that of the bonds being refunded, private purpose bond cap is not required. MaineHousing sold $106 million of such bond refundings in 2013. Approximately $2 million of the bond proceeds used for refunding required bond cap.
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. MaineHousing did not sell any 501(c)(3) bonds in 2013.
3. **Replacement Refundings:** The tax code allows that if, within 90 days of 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. MaineHousing did not sell any replacement refunding bonds in 2013.

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 $100,000 / unit or $2,000,000. The project, if financed with private activity bonds, would be eligible for $80,000 of annual tax credits for 10 years or a total of $800,000. Investors are currently paying approximately 80 cents on the dollar, which in this example would generate $640,000 of equity for the project. The required financing would be thereby reduced from $2 million to $1,360,000. If the interest rate on the $1,360,000 mortgage is 6.5%, the rate on a $2 million mortgage would have to be 3.125% to produce the same monthly payments. 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 2013, the average loan size was about $119,000. The average family income was $51,000.

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 or rewards even greater affordability than the tax code.

In multifamily projects the benefits of tax exempt financing should be measured by the rent differential, in units of similar quality and desirability, between market rents and rents in the low-income units in the same locale. In addition, it is important to ascertain the benefits of the economic activity generated by the construction or rehabilitation of the units.

2013 Mortgage Purchase Program (MPP) Bond Issues
Sources and Uses of Funds

Type of Issue	2013B Single Family	2013D Single Family	2013E Single Family	**TOTAL MPP BOND ISSUES**
SOURCES:				
Principal of Bonds	106,000,000	40,000,000	30,000,000	176,000,000
Original Issue Premium	2,547,450	–	–	2,547,450
MaineHousing Contribution	–	464,041	–	464,041
TOTAL SOURCES	**108,547,450**	**40,464,041**	**30,000,000**	**179,011,491**
USES:				
Purchase of Mortgages	34,605,616	5,000,000	27,628,402	67,234,018
Refunding of Prior Bonds	72,950,000	35,000,000	–	107,950,000
Debt Service Reserve	–	–	2,000,000	2,000,000
Cost of Issuance	140,000	150,000	150,000	440,000
Underwriters Fee/Discount	851,834	314,041	221,598	1,387,473
TOTAL USES	**108,547,450**	**40,464,041**	**30,000,000**	**179,011,491**
BOND CAP USED	**37,135,881**	**5,000,000**	**30,000,000**	**72,135,881**

I. BOND CAP AVAILABLE IN 2013

Carryforward from prior years	$734,155,000
Initial Allocation in 2013	50,000,000
Re-allocation during 2013	214,375,000
Total Available	$998,530,000

BOND CAP USED IN 2013	$72,135,881
BOND CAP EXPIRING ON 12/31/13	$154,639,119
CARRYFORWARD TO 2014	$771,755,000

SCHEDULE 1

BENEFIT OF 2013 SINGLE FAMILY ISSUES

Issues	Lendable Proceeds	Average Mortgage Rate
2013 Series B/D/E	$67,234,018	3.47%

The weighted average rate of the lendable single family proceeds produced in 2013 by MaineHousing as shown above was 3.47%. MaineHousing's mortgages were substantially all level payment, 30 year term mortgages. We estimate that closing cost grants made in connection with the mortgages funded with the proceeds of the 2013 bonds will average about 1% of the mortgage amount.

A good proxy for market rates is the Fannie Mae 60 Day Commitment Rate plus a servicing fee, which is included in the mortgage rate and averages 25 basis points. In 2013, the average of this market indicator, taken on each business day, was about 3.89% for the entire year.

Summary of 2013 Benefits

The differential between the MaineHousing rate and available market mortgage rates varied throughout 2013. For the first four months market rates were in the 3.00% to 3.25% range. Maine Housing rates were at or above the market for most of this period and our downpayment assistance was the only competitive advantage of the MaineHousing programs. The vast majority of our lendable proceeds were applied for in the last 8 months of 2013. MaineHousing lowered its rate to 2.99% in the late spring at the same time market rates spiked upwards.

From May 1 through year end, using the Fannie Mae 60 Day Commitment Rate plus a 25 basis point servicing fee as a proxy, market rates averaged 4.15%. During this period the 3.47% average rate of our proceeds had a rate advantage of 68 basis points on the average $119,000, 30 year mortgage. This differential would generate a monthly payment savings of approximately $46.