Interpreting HFA/MBOH Financials

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John J. Wagner, Partner

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Basic SF Bond Structure

Part 1 – Mortgage Supported Bonds

- Annual bond principal payments = annual mortgage scheduled payments
- Annual mortgage scheduled payments pay annual bond interest payments; excess mortgage interest pays HFA program costs (maximum permitted excess/spread is 1.125%);
- Mortgage prepayments used to redeem a like amount of bonds (can also be used to make new loans in first 10 years)

Basic SF Bond Structure

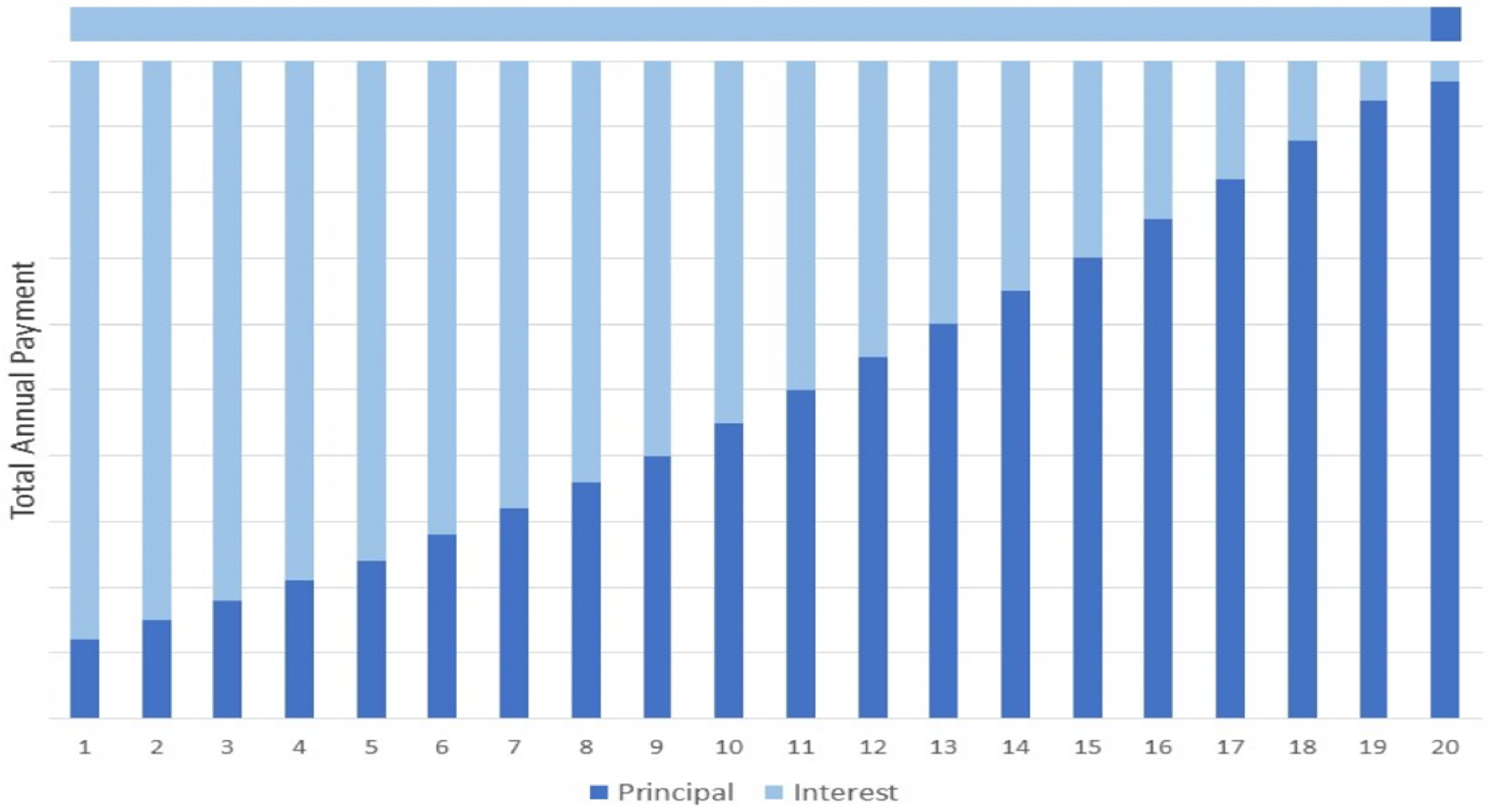
Part 2 – Reserve Fund Bonds

- Bonds which fund reserve fund = 30-year term bonds; usually interest only until maturity
- Reserve fund moneys invested in 30-year Treasury; interest on Treasury pays bond interest and at maturity pays bond principal (Treasury interest in excess of mortgage revenue bonds yield must be paid/“rebated” to U.S. Treasury

Basic SF Bond Structure

Bottom Line –

- Single Family Bonds are effectively pass-throughs of the underlying mortgage loan payments and reserve fund investment payments.
- The mortgage loans and reserve fund investments are held to maturity; not sold or traded.


Total Annual Payment
1
2
3
4
5
6
7
8
9
10
11
12
13
14
15
16
17
18
19
20
Principal
Interest

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MBOH Audited Financials

- Snapshot – not a forecast
- Artificial reporting methodology (GASB dictates)
- Some terms not intuitive
- Financials include:
  - Management's Discussion and Analysis
  - Auditor's Report
  - Balance Sheets and Income Statements
  - Footnotes
  - Supplementary Information – Indenture specific

Definitions – Balance Sheet/Income Statement

- "Current" – generally due/payable within the next year
- "Noncurrent" – anything not "current"; aka "non-operational"
- "Restricted" – restricted as to use by financial covenants (legal or otherwise)
- "Investments" – marketable securities (e.g., Treasuries, GNMAs); not loans
- "Deferred Costs" – prepaid costs
- "Deferred Outflow of Resources" – assets to be "used" in future periods (e.g., prepaid items)
- "Deferred Inflow of Resources" – assets of a future period received early (e.g., advance collections or deferred revenue)

Particular GAAP Rules

Balance Sheet (Net Position)

- Mortgage Loans – valued at outstanding principal, regardless of interest rate or maturity
  - DPA Loans, RAM loans
- Investments – valued at “market/fair value”
  - GNMA mortgage loans treated as investments
  - Even if investments held to maturity
- Operating Revenues/Expenses
  - Investment market/fair value changes flow through “operating revenue”
- Rules that don’t affect MBOH –
  - Program grants treated as “Revenue”
  - Interest rate hedges/swaps also subject to “fair value” marked-to-market rules

Balance Sheet/NET Position

STATEMENT OF NET POSITION
FOR THE YEAR ENDED JUNE 30, 2023

ASSETS	
Current Assets	
Cash and Cash Equivalents	$ 90,110,845
Investments	7,437,845
Mortgage Loans Receivable, Net	16,917,914
Servicing Related Advances	976,510
Accounts Receivable	7,517
Interest Receivable	4,164,078
Prepaid Expense	230,471
Total Current Assets	119,845,180
Non-current Assets	
Investments	20,629,880
Mortgage Loans Receivable, Net	492,316,650
Mortgage Backed Securities	232,694
Purchase of Mortgage Servicing Rights	2,253,089
Intangible Right-To-Use Asset, Net	2,347,663
Total Non-current Assets	517,779,976
TOTAL ASSETS	637,625,156
DEFERRED OUTFLOW OF RESOURCES	
Deferred Refunding Costs	55,570
Deferred OPEB Outflows	267,185
Deferred Pension Outflow	415,293
TOTAL DEFERRED OUTFLOWS	738,048
LIABILITIES	
Current Liabilities	
Accounts Payable	1,648,548
Funds Held For Others	6,341,541
Accrued Interest - Bonds Payable	1,241,065
Bonds Payable, Net	16,725,000
Arbitrage Rebate Payable to U.S. Treasury Department	46,664
Accrued Compensated Absences	165,364
Lease Payable - Current	105,368
Total Current Liabilities	26,273,550
Non-current Liabilities	
Bonds Payable, Net	442,184,811
Arbitrage Rebate Payable to U.S. Treasury Department	942,807
Accrued Compensated Absences	205,703
Net Pension Liability	2,113,757
Other Postemployment Benefits	82,204
Leases payable - non current	2,319,090
Total Non-current Liabilities	447,848,372
TOTAL LIABILITIES	474,121,922
DEFERRED INFLOW OF RESOURCES	
Deferred OPEB Inflow	340,910
Deferred Pension Inflow	154,746
TOTAL DEFERRED INFLOWS	495,656
NET POSITION	
Net Investment in Capital Assets	(76,795)
Restricted for Bondholders:	
Single Family Programs	133,155,322
Various Recycled Mortgage Setaside Programs	3,323,620
Multifamily Programs	14,955,099
Reverse Annuity Program	8,741,009
Restricted for Affordable Revolving Loan Program	3,647,371
TOTAL NET POSITION	$ 163,745,626

Statement of Revenues, Expenses and Changes in Net Position

STATEMENT OF REVENUES, EXPENSES, AND CHANGES IN NET POSITION
FOR THE YEAR ENDED JUNE 30, 2023

OPERATING REVENUES	
Interest Income - Mortgage Loans	$ 17,774,967
Interest Income - Investments	5,188,332
Net Increase (Decrease) in Fair Value of Investments	(1,419,206)
Fee Income	2,682,881
Other Income	12,894
Total Operating Revenues	24,239,868
OPERATING EXPENSES	
Interest on Bonds	13,490,152
Servicer Fees	658,484
Contracted Services	778,538
Amortization of Refunding Costs	44,281
Bond Issuance Costs	525,041
General and Administrative	4,318,154
Arbitrage Rebate Expense	501,202
Pension Expense	362,291
Other Post-Employment Benefits	23,010
Total Operating Expenses	20,701,153
Operating Income (Loss)	3,538,715
NONOPERATING REVENUES (EXPENSES)	
Pensions - Nonemployer Contribution	62,954
Nonoperating Income (Loss)	62,954
Income (Loss) Before Transfers	3,601,669
Increase (Decrease) in Net Position	3,601,669
Net Position, July 1 - as previously reported	160,132,629
Adjustments to Beginning Net Position (Note 19)	11,328
Net Position, July 1 as restated	160,143,957
Net Position, End of Year	$ 163,745,626

The accompanying notes to the financial statements are an integral part of this statement.

Year	FV Increase/Decrease	Real Net Operating Revenue	Reported Net Operating Revenue
2022	$ (3,104,219)	$ 2,727,495	$ (376,724)
2021	(1,708,027)	1,280,324	(427,703)
2020	1,593,106	804,624	2,397,738

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MBOH Single Family Program – Bottom Line

1. Cash Flow is key – especially for bond issues and ratings
2. Fair value/market value of Investments is not particularly important
3. Some mortgage loans are ignored for cash flow purposes
4. GNMA'd mortgages will further distort future MBOH balance sheets and income statements due to fair value/market value rule