PIPER | SANDLER

Public Finance

Single Family Housing

CASE STUDY

Piper Sandler has served as financial advisor for the West Virginia Housing Development Fund since 2001 and structures all bond issues for the West Virginia Housing Development Fund. One innovative example of a refunding with the West Virginia Housing Development Fund involved their $51,850,000 issue in the New Issue Bond Program Indenture in 2011.

The fund was granted special permission to use the market bond portion of the issue for a refunding. By combining the refunding with low rates on the privately placed portion of their bonds, the fund was able to offer incredibly low loan rates of 2.99%. This loan rate was far lower than rates offered nationwide at the time and helped to increase the fund's loan volume. In addition, it was a very profitable transaction for the fund. As the refunding was on a pre-1986 tax plan, the fund could earn a spread as wide as 1.50%, but settled on a spread of 1.23% in order to achieve their primary goal of issuing loans at rates below 3.00%. The present value of the transaction based on prepayments at 100% FHA and a discount rate equal to the bond yield was well above 5%.

Also in 2011, Piper Sandler conducted an analysis of the full range of refunding options for a soon to be currently callable, $50 million West Virginia Housing Development Fund AMT issue. Due to the relatively poor pricing at the time of AMT housing bonds, we also investigated a range of taxable refunding options. Because of their strong financial position, the fund was able to consider bond structures of shorter duration than the underlying mortgages and with less or no prepayment optionality. Ultimately, the fund decided to issue fully amortizing, ten year taxable refunding bonds and absorb via their indenture wealth the attendant cash flow mismatch between the bonds and mortgages. The result on a present value basis though was a huge level of unrestricted savings for the fund – on the order of 15% net PV savings depending on prepayment speed assumptions.

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