Bond Case Briefs

Municipal Finance Law Since 1971

S&P Methodology For Rating U.S. Public Finance Mortgage Revenue Bond Programs.

OVERVIEW AND SCOPE

1. U.S. mortgage revenue bond (MRB) programs are backed by pools of mortgage loans on residential property. They are typically established and overseen by a state or local housing finance agency (HFA) for the purpose of improving housing affordability by financing mortgage lending to low- and moderate-income households or borrowers developing or preserving affordable rental housing.

2. MRBs are typically backed by pools of:

- Single-family first and second mortgage whole loans;
- Mortgage loans secured by rental housing that meet the qualifications of residential rental property as set forth in IRS Code Section 142(d);
- Single-family and multifamily mortgage loans or MBS where the loans or MBS benefit from full credit enhancement via a guarantee, insurance, or credit enhancement instrument from U.S. federal agencies; and
- Hybrid programs composed of a mix of the above.

3. We refer throughout this article to MRB programs issued by HFAs, but the criteria could be applied to MRB programs issued by other U.S. financing organizations, if the public policy mission, the legal structure, the degree of program management, and the underlying asset types are similar.

4. The criteria apply only to managed MRB programs where the issuing HFA (or other financing organization) has an active role in the general oversight of the program, as well as in the ongoing management of specific risks, such as asset-liability matching, debt profile and investment management, or liquidity and counterparty risks (see the Program Management And Operational Risk Analysis section for more details). The degree of such management (including both support and risks brought about by such involvement) is addressed directly in these criteria. MRB programs in scope of these criteria are generally active issuance vehicles used by the issuing HFA to fund its ongoing lending (although an MRB program would remain in scope if the HFA decides to amortize it down, for example, and fund its lending under a different program).

5. Conversely, the criteria don't apply to transactions that don't possess such program risk management characteristics (although the issuing organization may be involved in the servicing of securitized assets and the administrative operation of the transaction). In particular, non-managed transactions backed by static mortgage pools are generally rated under "U.S. Federally Enhanced Housing Bonds Rating Methodology," or "Methodology For Rating U.S. Public Finance Rental Housing Bonds," as applicable.

6. We also apply the "Credit Quality Of The Asset Pool" section of these criteria to determine loss assumptions used in our capital adequacy analysis under our criteria for rating HFAs ("Methodology And Assumptions: Housing Finance Agencies And Social Enterprise Lending Organizations").

Continue reading. [Free Registration Required.]

10 Oct, 2022