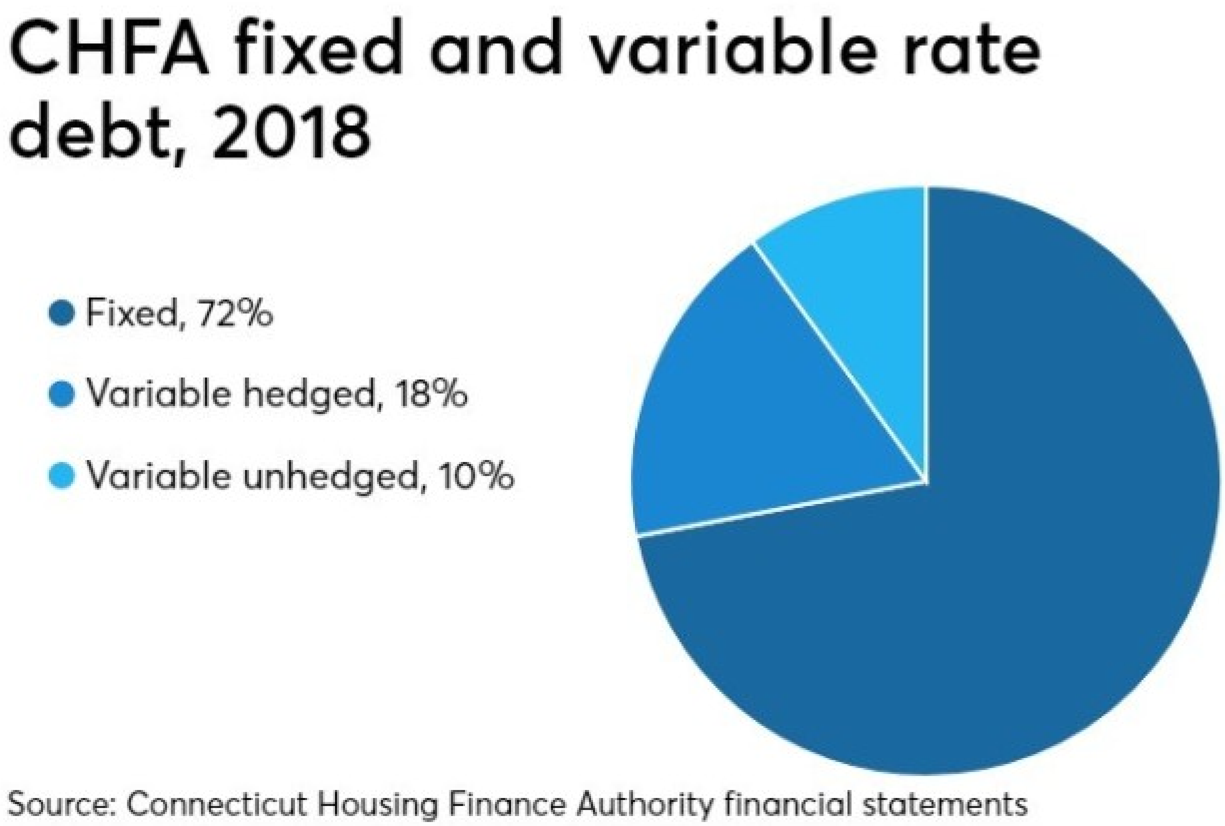
Connecticut SOFR deal sets housing agency precedent

By **Paul Burton**
Published **May 20 2019, 10:45am EDT**

More in **SOFR, Primary bond market, Sell side, Connecticut Housing Finance Authority, TD Securities , Connecticut**

The Connecticut Housing Finance Authority became the first housing entity to use the Secured Overnight Financing Rate, or SOFR, when it issued $100 million of Series C variable-rate bonds.

TD Securities, in a deal that closed Thursday, directly purchased the taxable floating rate security, which converted a callable London Interbank Offered Rate-indexed floating rate note.



The deal helped reduce the authority's LIBOR exposure in advance of a January 2023 deadline when dealers are no longer required to report LIBOR.

According to a TD Securities press officer, final maturity of the security is May 2049 with a three-year initial soft put, priced at an applicable spread of 65 basis points over the SOFR

Index.

As financial markets are transitioning to SOFR head of the phaseout, the Government Finance Officers Association has published best-practices recommendations for its members that are considering using SOFR.

This transaction was significant, said the TD Securities press officer, due to the competitive relative value pricing it provided the authority and its alternative to LIBOR.

"Some of the risks associated with LIBOR exposure include the increased likelihood that LIBOR reset rates could become more volatile as the January 2023 deadline approaches," the bank said in a statement. "Additionally, the failure to transition away from LIBOR prior to this deadline will expose issuers of LIBOR based debt to the so called 'zombie LIBOR," which can be expected to be calculated on a survey of fewer dealers since dealers will no longer be compelled to participate in the survey after this deadline."

New York's Metropolitan Transportation Authority last September issued the municipal market's first tax-exempt transaction linked to SOFR: its remarketing of $107.3 million of Series 2001B Triborough Bridge and Tunnel Authority general revenue variable rate bonds in term-rate mode.

Speaking last month before the Financial Stability Board, Tom Wipf, vice chairman of institutional securities for Morgan Stanley, called 2019 "a mission critical year for this work."

The Series C bonds will finance the development of affordable multifamily housing in addition to first-time homebuyer mortgages, according to CHFA executive director Karl Kilduff.

"In a state like Connecticut, finding an affordable home can be a challenge," Kilduff said. "CHFA's below-market interest rate mortgages give borrowers greater buying power, which can be the difference between buying and not buying a home, or enable a first-time buyer to purchase a larger home than they could afford with higher interest rates."

Moody's Investors Service, which rated the transaction triple-A as did S&P Global Ratings, cited high overcollateralization of assets to liabilities, "very strong" program cash flows, a high percentage of government-insured loans and support from the state through the Housing Mortgage Capital Reserve Fund.

Self-funded, quasi-public CHFA, of Rocky Hill, lends $1 billion annually for affordable housing to Connecticut's 169 cities and towns.

CHFA's current home mortgage interest rates range from 3.625% to 3.825% for the 1-point option, well below the current average conventional rate.

According to Freddie Mac, the average conventional rate was 4.17% as of April 18. With a $200,000 mortgage, every 0.1% interest rate drop increases the purchasing power of a borrower by $2,413, Kilduff said.

Hawkins Delafield & Wood LLP and Lewis & Munday PC were co-bond counsel for the transaction.

Paul Burton