

# Investments 101B: Introduction to Other Investment Vehicles

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## What are Targeted Mortgage Backed Securities?

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- Targeted MBS are agency pools (Fannie Mae, Freddie Mac, Ginnie Mae) backed by single-family loans made to CRA-eligible borrowers. Most are 100% income qualified borrowers (at or below 80% of area median income), but pools may be made up partly or fully with CRA tract-designated loans.
- Pools consist of loans made within an institution's designated assessment areas (or other geographic areas that the institution desires) and are custom tailored to each institution buying them.

## How Would a Sample Transaction look involving Targeted Mortgage Backed Securities?

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- Once an institution's assessment area (AA) is established, a potential pool made up of loans in that AA is shown with an offering price.
- This price will vary depending on many factors including scarcity of product/geography, amount needed, underlying security price, and availability of competing executions.
- If the institution decides they want to purchase the pool, a final price is agreed upon along with a settlement date of the trade and the loans are packaged into an agency MBS and sold to the institution.

## What are the Potential Benefits of Investing in Targeted MBS?

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- CRA investment test credit for the amount of the pool
- Reduction in credit risk (via an Agency credit guarantee)
- Attractive yields relative to other investment vehicles
- Capital management benefits (low or no risk-based capital charges)
- Increased liquidity in the event that the institution wants to sell the MBS
- Helps increase supply of financing for affordable single-family housing

## Targeted Multifamily CRA Securities

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- In addition to purchasing targeted single-family MBS, institutions can also receive CRA investment test credit by purchasing targeted multifamily securities (for example, GNMA project loans and Fannie Mae DUS loans)
- These securities can include a variety of project types, including Section 8 and other affordable rental housing, affordable healthcare facilities, or nursing homes.
- The securities are targeted to specific CRA-eligible census tracts and/or assist residents with income at or below 80% of the area median income.
- Multifamily securities are generally single issue, with income and prepayment characteristics that are different from single-family MBS. They generally offer prepayment protection.