

Understanding MBS, MRB, and TBA

This guide breaks down each in plain language and helps you understand how they compare.

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A Comprehensive Guide by The Housing Assistant



Understanding MBS, MRB, and TBA: A Simplified Guide

In the world of mortgage finance, there are several key terms that frequently appear: MBS (Mortgage-Backed Securities), MRB (Mortgage Revenue Bonds), and TBA (To-Be-Announced trades). While they all relate to mortgage funding and investment, they serve very different purposes. This guide breaks down each in plain language and helps you understand how they compare.

Mortgage-Backed Securities (MBS)

MBS are investment products made up of bundled home loans. Banks or mortgage lenders sell home loans to investors. Those investors receive monthly payments as borrowers make their mortgage payments. These securities are often backed by government-sponsored enterprises like Fannie Mae, Freddie Mac, or Ginnie Mae.

Key Characteristics of MBS:

- Allows lenders to free up cash to issue more loans
- Investors earn returns from mortgage payments
- Common in secondary mortgage markets

Mortgage Revenue Bonds (MRB)

MRBs are issued by state or local housing finance agencies (HFAs) to help low- and moderate-income homebuyers. They are a type of bond that finances affordable housing by offering below-market interest rates. Borrowers typically must meet income and home price limits.

There are two main types of MRBs:

1. Tax-Exempt MRBs

Tax-exempt MRBs offer interest income that is exempt from federal income tax. These are most commonly used to fund affordable housing for first-time homebuyers. They lower the interest cost to the borrower, making homeownership more accessible.

Key Features of Tax-Exempt MRBs:

- Interest earned is exempt from federal taxes
- Strict eligibility and income guidelines
- Used for public-purpose affordable housing

2. Taxable MRBs

Taxable MRBs are used when a bond does not qualify for tax exemption under federal law. These may be used for a broader range of housing initiatives, including multifamily or mixed-income housing.

Key Features of Taxable MRBs:

- Interest is subject to federal income tax
- Offers more flexibility in project types
- Can be used for market-rate or mixed-income housing

To-Be-Announced (TBA) Market

TBA is a forward market where MBS are bought and sold before the actual loans are finalized. It allows lenders to hedge and manage risk before mortgages are officially pooled into securities. The term 'to-be-announced' refers to the fact that the details (like which exact loans) aren't settled at the time of trade.

Key Characteristics of TBA:

- Forward market for MBS trades
- Provides liquidity and price discovery
- Common for conventional loans (Fannie Mae, Freddie Mac)

Comparison Table

Feature	MBS	MRB	TBA
Purpose	Investment product	Affordable housing funding (taxable or tax-exempt)	Forward trading of MBS
Backed By	GSEs (Fannie, Freddie, Ginnie)	State/Local HFA	Future MBS pools
Investor Type	Institutional investors	Public interest, HFAs	Secondary market traders
Benefit	Creates liquidity	Low rates or housing development	Price management for lenders

Summary

While MBS, MRB, and TBA may sound similar, they operate in different parts of the mortgage ecosystem. MBS help investors fund mortgages. MRBs help eligible borrowers or housing developers access low-cost financing. TBAs help lenders manage interest rate risk and provide liquidity before MBS are finalized. Together, they make the mortgage industry work more efficiently and serve different housing and investment goals.