

BEFORE THE
TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
MEETING OF THE
FINANCE COMMITTEE

Waller Creek Office Building
Room 437
507 Sabine Street
Austin, Texas

9:10 a.m.
Friday,
May 19, 2000

COMMITTEE MEMBERS PRESENT:

DONALD R. BETHEL, Chair
MIKE JONES
MARGIE BINGHAM

STAFF:

DAISY STINER, Executive Director

I N D E X

<u>AGENDA ITEM</u>	<u>PAGE :</u>
CALL TO ORDER, ROLL CALL CERTIFICATION OF QUORUM	3
PUBLIC COMMENT	none
Item 1 - Presentation, Discussion and Possible Approval of Minutes of Finance Committee Meeting of April 14, 2000	4
Item 2 - Presentation, Discussion and Possible Approval of Resolution Approving the Sale of a Collateralized Home Mortgage Revenue Bonds Series 1990A and Series 1990B GMNA/ FMNA Mortgage Certificates and Approving the Redemption and Refunding of Collateralized Home Mortgage Revenue Bonds Series 1990A and Series 1990B and Other Related Matters	4
Item 3 - Presentation, Discussion and Possible Approval of Resolution Approving the Residential Mortgage Revenue Bond Series 2000B, Series 2000C, Series 2000D, and Series 2000E and Other Related Matters	11
Item 4 - Presentation, Discussion and Possible Approval of Underwriting Team for the Sale of Collateralized Home Mortgage Revenue Bonds Series 1990A and Series 1990B GNMA/FNMA Mortgage Certificates and the Redemption and Refunding of Collateralized Home Mortgage Revenue Bonds, Series 1990A and Series 1990B and the Sale of Residential Mortgage Revenue Bonds Series 2000B, Series 2000C, Series 2000D, and Series 2000E (Program 56)	13
REPORT ITEMS	none
ADJOURN	21

P R O C E E D I N G S

1
2 MR. BETHEL: We're going to call this meeting
3 to order. This is the meeting of the Finance Committee of
4 the Texas Department of Housing and Community Affairs
5 meeting May 19 in the year 2000. It's approximately ten
6 minutes after nine o'clock in the morning.

7 We'll call the role. Don Bethel is here.
8 Margie Bingham?

9 MS. BINGHAM: Here.

10 MR. BETHEL: Michael Jones?

11 MR. JONES: Here.

12 MR. BETHEL: All the members are present. We
13 have certified the quorum. We would ask that if you would
14 like to speak we have witness affirmation forms, and if
15 you would come before us up here and fill it out and hand
16 it to Penny, well, she'll give it to us and you'll be
17 recognized.

18 The public comment's the first item on the
19 agenda. Let me encourage you if you want to speak on any
20 particular item, you're welcome to speak. The time limit
21 is four hours.

22 (Laughter.)

23 MR. BETHEL: It's a recommendation from Sunset.

24 Is there any public comment? (Pause.) All
25 right. Do we have any public comment? Anyone wishing to

1 speak at this time or -- all right.

2 If you would like to speak on one of the other
3 agenda items, if you would be recognized and we'll call on
4 you to come forward and speak on that.

5 The first item on the agenda is approval of the
6 minutes of the Finance Committee meeting of April 14.

7 MR. JONES: Mr. Chairman, I move that the
8 minutes of the meeting of April 14, 2000, be approved as
9 presented.

10 MS. BINGHAM: I second.

11 MR. BETHEL: All right. We have a motion by
12 Mr. Jones, seconded by Ms. Bingham, that we approve the
13 minutes as printed. All in favor say aye.

14 (A chorus of ayes.)

15 MR. BETHEL: It is unanimous that we approve.
16 The second item on the agenda is the possible approval of
17 a resolution approving the sale of Collateralized Home
18 Mortgage Revenue Bonds Series 1990A and 1990B GNMA/FMNA
19 Mortgage Certificates and approving the redemption and
20 refunding of Collateralized Home Mortgage Revenue Bonds
21 Series 1990A and Series 1990B and any other related
22 matters. Ms. Stiner?

23 MS. STINER: Thank you, Mr. Chair. I'm going
24 to ask Byron Johnson, director of our Bond Finance to come
25 forward and make a presentation to the committee for your

1 consideration.

2 MR. JOHNSON: Good morning, Mr. Chairman,
3 members, staff, Ms. Stiner.

4 MS. STINER: Good morning.

5 MS. BINGHAM: Now that you have that out of the
6 way.

7 (Laughter.)

8 MR. JOHNSON: Pardon? I have a question for
9 Mr. Jones. What is he doing here? I thought he was like
10 obsolete or something.

11 MR. JONES: We need him so bad.

12 MR. JOHNSON: Okay.

13 MR. JONES: Can't live without him.

14 MR. JOHNSON: I thought he was out. Well, I'm
15 here today to talk about a possible refunding. It's kind
16 of a different type of refunding from what we've done
17 before. What we're trying to do is extend our volume cap
18 or extend the volume of loans we can make without using
19 our annual allocation.

20 We have a series of bonds outstanding -- CHMRB
21 Series 1990B and D. These bonds were issued approximately
22 ten years ago, and the IRS Code allows you to take and
23 recycle -- or take and use prepayments and use those
24 prepayments to either call bonds or to make new mortgages.
25 Now, after that ten-year window, you can only call bonds.

1 So what we're proposing to do is to sell the
2 collateral -- the certificates that support the bonds and
3 take those prepayments and use those to eventually make
4 new mortgage loans.

5 But the sequence of events would be to sell the
6 mortgage loans, refund the old bonds with commercial
7 paper, and then eventually, later in the year, refund the
8 commercial paper with a bond issue.

9 We can only sell the certificates -- the
10 mortgage loan certificates at a price of 100 or better --
11 or a price of par or better. This -- the market has moved
12 against us, and we may have to negotiate the sale of the
13 certificates with an investment firm or investment bank.

14 But if we can, we think it's a good idea and we
15 would obtain -- and here it says 20 million. It would be
16 about 18 to 20 million in additional volume in below-
17 market rate loans. I would entertain any questions you
18 may have.

19 MR. BETHEL: So the rate that went up yesterday
20 in the 30-year bond -- is that -- that's working against
21 us. Right?

22 MR. JOHNSON: Right. The taxable market and
23 the -- it's mostly geared towards the ten-year and the 30-
24 year treasury bonds. Those markets, as you know, have
25 been very volatile, and rates have increased somewhat

1 since the beginning of the year.

2 So we are looking at a price presently, just
3 based on the collateral itself without any premium for
4 other intrinsic value -- or additional value -- we're
5 looking at a price in the neighborhood of about 98 to 99
6 right now.

7 These certificates are backed by mortgages that
8 were made to people at 80 percent or below of AMFI or in
9 certain targeted areas of certain census tracts. So these
10 certificates somewhat have a -- what's called a CRA
11 component or desirability.

12 And banks may be willing to pay a premium above
13 the actual market value in order to acquire these. So
14 we're hoping that at the time we go out to sell these that
15 some banks may be interested -- some Texas banks may be
16 interested and may be willing to pay -- if the price --
17 market price is 99, then you may be willing to pay an
18 extra point just to get that CRA credit.

19 MR. BETHEL: And we've been in contact -- or
20 someone's been in contact with some banks that expressed
21 maybe some interest but not a commitment.

22 MR. JOHNSON: Informally.

23 MR. BETHEL: Okay.

24 MR. JONES: Has this been reviewed by our
25 financial advisor?

1 MR. JOHNSON: Yes, and I'll ask him to come up.

2 MR. JONES: I think that would be wonderful.

3 Mr. Machak?

4 MR. MACHAK: Good morning.

5 MR. JONES: It sounds like a good idea. It
6 sounds like Mr. Johnson is leading us in the right way.
7 Would -- can you give us your thoughts?

8 MR. MACHAK: I've discussed this with Byron
9 for -- we've discussed this for a long time -- since the
10 beginning of the year. And we've looked at it recently.

11 I think a replacement refunding -- being able
12 to effect a replacement refunding would give you an extra
13 20 million. As you know, in last year's cap allocation,
14 you were cut back because some of it was given to locals
15 and multi-family. So this would be a good supplement.

16 MS. BINGHAM: It wouldn't be cost effective to
17 separate it from a refunding -- I mean, from a new money
18 deal anyway, would it?

19 MR. MACHAK: And that's a great point, Ms.
20 Bingham. Right now there's really not an economic
21 advantage to doing a -- what we call economic refunding
22 rather than a replacement refunding.

23 A lot of the economics would come from
24 generating new loans from this and getting the ongoing
25 fees that the Department receives from those loans and

1 also just making homes to -- making loans to all the
2 first-time home buyers.

3 So it's something we've discussed. We've
4 explored, you know other alternatives. As we get -- if we
5 do get the approval, well, we'll be working with the team
6 members to see if we can pull it off and get the price
7 that's needed or maybe some -- maybe so. It's not on?
8 There we go.

9 Or maybe some different interpretations with
10 regards to the sale. But that's the direction we, you
11 know, would like to take as far as a replacement refunding
12 rather than an economic.

13 One thing to keep in mind, if we can't pull
14 this off because we can't get the price for the GNMA's, our
15 option to do an economic refunding in the future does not
16 dissipate. We still have that option available to us. If
17 rates come down, we would be able to do an economic
18 refunding and be able to create zero coupon mortgage loans
19 or --

20 MS. BINGHAM: We would just be approving the
21 concept and not telling you when to price.

22 MR. MACHAK: I'm sorry, ma'am?

23 MS. BINGHAM: We would just be approving the
24 program and not telling you when to go into the market.

25 MR. MACHAK: That's correct.

1 MS. BINGHAM: Okay.

2 MR. MACHAK: In fact, we have a window we'd
3 have to meet.

4 MR. JONES: And that's something that we would
5 do at the most optimum time.

6 MR. JOHNSON: Yes, within that window. We have
7 about a two-week window, which is -- some ideas came up,
8 but right now we have a two-week window starting Monday
9 through like June 6.

10 MR. MACHAK: And Byron and I discussed this,
11 and I felt that the most -- I've discussed this recently
12 with [indiscernible] and other staff members and felt the
13 most -- our best chances of being able to get that price
14 for the GNMA's would be to negotiate with investment
15 dealers rather than to try and go out and get bids from
16 them.

17 If we get bids and we can't meet our price and
18 we try to go back out, you know, investors won't be as
19 likely to bid again. So it's best for us -- in our window
20 of opportunity, I think we can take advantage of that by
21 trying to negotiate. So that's what we'll be doing.

22 We'll be making sure, along with bond counsel,
23 that we get fair market pricing if we're able to go ahead
24 and consummate that sale.

25 MR. JOHNSON: And within that two-week time

1 frame if we can't get the price then we'll just move on
2 and do a new money deal.

3 MR. JONES: Thank you. I appreciate it.

4 MR. BETHEL: Okay. Are there any other
5 questions?

6 MS. BINGHAM: Mr. Chairman, I would recommend
7 approval of the concept or initiative.

8 MR. BETHEL: I think it's Resolution, Ms.
9 Bingham, 00-17. We believe in resolutions.

10 MS. BINGHAM: Oh, okay. Well, I would add to
11 my motion Resolution Number 0017 -- dash 1-7.

12 MR. JONES: Mr. Chairman, I would second Ms.
13 Bingham's motion.

14 MR. BETHEL: Okay. We have a motion by Ms.
15 Bingham, seconded by Mr. Jones, that we approve Resolution
16 00-17 approving the sale of Collateralized Home Mortgage
17 Revenue Bonds Series 1990A and 1990B as discussed.

18 Is there any more discussion? (Pause.) All
19 those in favor say aye.

20 (A chorus of ayes.)

21 MR. BETHEL: Opposed?

22 (No response.)

23 MR. BETHEL: Motion carried and approved.
24 Okay. I guess you want Byron to go to agenda item number
25 3.

1 MS. STINER: Yes, sir. Mr. Johnson, would you
2 continue please?

3 MR. JOHNSON: As part of the sale of the GNMA
4 certificates, I wanted you to see the other side of the
5 transaction. The sale is, shall we say, Phase I. This is
6 Phase II. And this is like the complete picture.

7 What we would do is take and combine those
8 proceeds with our volume count for year 2000. We would do
9 a replacement refunding of about 20 -- 18 to 20 million
10 to -- you know, I guess recycle those sold certificates.
11 We would refund some other commercial paper, and we might
12 add some taxable bonds in order to further increase the
13 amount of loans we can make.

14 This is more information or -- and I'll leave
15 it up to you as to whether or not you really want to
16 approve the resolution. But we did draw up a resolution
17 for you. And I just wanted you to see what the deal would
18 look like. We'll probably price in August and close --
19 we'll price in August or September and close in October.

20 MS. STINER: Just go through, for the record,
21 please, Mr. Johnson, what those series -- the
22 corresponding amount and purpose --

23 MR. JOHNSON: Okay.

24 MS. STINER: -- just for the record please.

25 MR. JOHNSON: Series 2000B would be

1 \$83,515,000. That would consist of tax-exempt new money.

2 Series 2000C would consist of up to \$15 million and would
3 be a general commercial paper refunding, just like we've
4 done in the past.

5 Series 2000D would be up to \$20 million --
6 would be a Collateralized Home Revenue Mortgage Bond
7 commercial paper refunding. We would be refunding the
8 commercial paper that took out those 90 bonds.

9 The Series 2000E would possibly be taxable new
10 money -- just that segment or that portion would be
11 contingent upon market rates at the time of pricing.

12 MS. STINER: Thank you.

13 MS. BINGHAM: Move for approval.

14 MR. JONES: Second the motion.

15 MR. BETHEL: Okay. We have a motion by Ms.
16 Bingham, seconded by Mr. Jones, that we approve Resolution
17 Number 00-18.

18 MS. BINGHAM: That's correct -- 00-18.

19 MR. BETHEL: All in favor say aye.

20 (A chorus of ayes.)

21 MR. BETHEL: Opposed, nay?

22 (No response.)

23 MR. BETHEL: That carried unanimously. The
24 very last item on the agenda is the discussion and
25 possible approval of Underwriting Team.

1 MS. STINER: I've asked Mr. Johnson to make the
2 presentation on behalf of staff, please.

3 MR. JOHNSON: Okay. In conjunction with the
4 sale of the Collateralized Home Mortgage Revenue Bonds,
5 and in conjunction with the issuance of the new money
6 portion that we just talked about, we're going to need an
7 underwriting team.

8 So staff got together and came up with a
9 recommended list. The attached sheet lists the investment
10 banks recommended by the Department to manage the
11 transactions.

12 We would recommend that senior manager, George
13 K. Baum and Company, as co-senior Bear Stearns and
14 Company. Then the remaining five firms would be
15 co-managers. Those five firms are First Southwest
16 Company, M. R. Beal and Company, Morgan Keegan and
17 Company, Salomon Smith Barney, and Siebert Brandford
18 Shank. All together it would be seven firms.

19 MR. BETHEL: Okay. Are the fees the same --
20 exact same as they were last year?

21 MR. JOHNSON: No, they're not. We kept the
22 senior manager at 45 percent, but we reduced the co-senior
23 from 25 percent to 20 percent -- in terms of liability.
24 I'm talking liability now. And then the co-managers we
25 reduced from seven-and-a-half percent to seven so we could

1 add another co-manager.

2 The reason why we went from six firms to seven
3 firms is that we do have approval of -- I think 14 firms
4 approved to do business with us. But these seven firms
5 consistently and incessantly provide details, ideas,
6 invitations -- well, we all say invitations, but it's just
7 ideas and structure and information, research -- and
8 they're always here at the Department, you know,
9 expressing an interest in doing business with us.

10 MS. BINGHAM: And I would assume that you've
11 got a range of institutional and retail -- a combination
12 of firms that can --

13 MR. JOHNSON: Yes.

14 MS. BINGHAM: -- that can do --

15 MR. JOHNSON: Yes.

16 MS. BINGHAM: -- that can make sure that you --
17 when you go out in the market that you have success.

18 MR. JOHNSON: Yes.

19 MS. BINGHAM: And the compensation would be
20 also directly tied to the liability.

21 MR. JOHNSON: Yes.

22 MS. BINGHAM: Thank you.

23 MR. JOHNSON: We're talking a spread of about
24 850.

25 MR. JONES: And, Mr. Johnson, I know I

1 understand you, but I want to make sure --

2 MR. JOHNSON: Okay.

3 MR. JONES: -- we're talking the same language
4 here. When you say they're here constantly and providing
5 ideas and expressing interest in us, what you're saying is
6 they're helping us; they're giving us advice --

7 MR. JOHNSON: Yes.

8 MR. JONES: -- and suggesting new and better
9 ways for us to do things.

10 MR. JOHNSON: Yes.

11 MR. JONES: And without that help from the
12 private sector, we would be far the worse for it.
13 Correct? Well, not far the worst, but we would -- we like
14 having ideas.

15 MR. JOHNSON: Okay. Yes.

16 MR. JONES: Okay. Excuse me. I didn't mean to
17 go too far. I understand what you're saying. But that's
18 my point. That's what you were trying to make, that they
19 are helpful to us.

20 MR. JOHNSON: They provide advice. Right.

21 MR. JONES: You know, okay. Thank you.

22 MS. STINER: Mr. Chair, if I just might add
23 that you're exactly correct. They provide a wealth of
24 information for the Department, the expertise of the
25 underwriters, along with staff, of course -- gives us a

1 fuller picture of what's happening. So that is what we
2 mean when we say that they're providing us with ideas.

3 I've heard a lot of innovative ideas from the
4 underwriters. As you know from our presentation before
5 the Sunset Commission, we've been challenged to come up
6 with some innovative ways on how to penetrate markets that
7 we haven't penetrated before.

8 I've seen some very innovative proposals from
9 the firms you see in the audience. They have been here to
10 try to assist us when we have been challenged to take the
11 Department in new directions or to markets that we
12 traditionally haven't been able to penetrate and serve.

13 MR. JONES: And that's what I was exactly
14 understanding Mr. Johnson to say, but I just wanted to
15 make sure it was clear. Thank you.

16 MS. BINGHAM: Mr. Chairman, I move for approval
17 of our Underwriting Team.

18 MR. BETHEL: We have a motion by Ms. Bingham.

19 MR. JONES: I would second it.

20 MR. BETHEL: Seconded by Mr. Jones. Let me ask
21 one question before we do this. That on the spread -- is
22 the spread the exact -- components exact same as it was
23 the last one or has it changed up some?

24 MR. JOHNSON: I believe last --

25 MR. BETHEL: I think the bottom line may be the

1 same, but where did it change?

2 MR. JOHNSON: I believe last year it was about
3 825 or 827 -- something like that. And if there's any
4 change, it would be under Underwriters' counsel because we
5 use Underwriters' counsel -- underwriters' co-counsel. So
6 I believe that's the component that changed. But,
7 otherwise, it's exactly the same.

8 MS. STINER: Mr. Johnson, will you pulled last
9 year's spread and bring it back with you when you come
10 back to the full board meeting?

11 MR. JOHNSON: Sure.

12 MS. STINER: Okay.

13 MR. JONES: Before we vote, Mr. Chairman, could
14 our financial advisor comment on this too? I'd be
15 interested in his comments.

16 MR. BETHEL: Okay.

17 MR. JONES: Thank you.

18 MR. MACHAK: One thing I want to make sure that
19 you all understand -- I appreciate being recognized. This
20 spread is right now an estimate, and it's a -- probably a
21 high estimate. We're going to negotiate with the
22 underwriters as we get closer to the marketing of these --
23 all the components, be it their counsel, their cost of
24 marketing the bonds, and then also any other types of
25 fees -- production fees.

1 One thing to keep in mind, too, our last --
2 deal last year included a short-term component. And so
3 the amount that's compensated to the institutional
4 salesmen that sell that is a lot less than the loan bonds
5 that we have in here.

6 In this we don't have -- it's all going to be
7 long-term bonds. We won't have the short component, so
8 that's one of the factors that dropped down the spread on
9 the complete transaction last year.

10 MR. JONES: And could you just give us your
11 comment on the recommendation as our financial advisor?

12 MR. MACHAK: I support the recommendation. As
13 the staff and Byron received calls and visits, I also
14 received the same thing. And I concur that they have been
15 on top of their game in giving the Department good advice
16 and new ideas --

17 MR. JONES: Thank you, sir.

18 MR. MACHAK: -- even though their job isn't,
19 you know, investment banking.

20 MR. BETHEL: And then this continues the last
21 four or five years of rotating --

22 MR. MACHAK: Yes, sir.

23 MR. BETHEL: -- underwriters.

24 MS. BINGHAM: No, I don't think it concludes
25 our last --

1 MR. BETHEL: No, that it continues.

2 MS. BINGHAM: It continues.

3 MR. BETHEL: That's what I --

4 MS. BINGHAM: I thought --

5 MR. BETHEL: -- said. Continues.

6 MS. BINGHAM: -- you said concluded. I was

7 about to say, It's not concluded. I think we're --

8 (Laughter.)

9 MR. BETHEL: We're continuing in the --

10 MS. BINGHAM: I see. I wrote these. I think

11 that some bankers would challenge you if you say we

12 were --

13 MR. BETHEL: Concluded.

14 MS. BINGHAM: -- concluded.

15 MR. BETHEL: Okay. We have -- do have a motion

16 and a second. Is there any other discussion? (No

17 response.) All those in favor say aye.

18 (A chorus of ayes.)

19 MR. BETHEL: All opposed say nay.

20 (No response.)

21 MR. BETHEL: Okay. Motion carried.

22 MS. BINGHAM: Mr. Chairman, I would just like

23 to congratulate George K. Baum. I know that they have

24 been around consistently and constantly, and they do bring

25 good ideas. And I'm happy to see that in the continuing

1 rotation process that they have gotten an opportunity to
2 serve as our senior manager.

3 MR. BETHEL: Okay.

4 MS. BINGHAM: That's all -- by the committee
5 anyway.

6 MR. BETHEL: Yes.

7 MS. BINGHAM: The board has not --

8 MR. BETHEL: I was fixing to say, Daisy, these
9 recommendations will be presented to the full board at
10 1:30. So I don't know if you should kick your heels yet.

11 VOICE: You want to do the resolution?

12 MS. BINGHAM: That's right.

13 VOICE: Should we do the resolution?

14 MR. BETHEL: I don't have a resolution on that.

15 (All talking at once.)

16 MR. BETHEL: I don't -- are there any report
17 items?

18 MS. STINER: No, Mr. --

19 MR. BETHEL: We do that at board meeting.

20 MS. STINER: Yes, sir.

21 MR. BETHEL: All right. I don't have anything
22 else. Does anyone have anything?

23 (No response.)

24 MR. BETHEL: Then we'll stand adjourned.

25 (Whereupon, the meeting concluded.)

C E R T I F I C A T E

1
2
3
4
5
6
7
8
9
10

MEETING OF: FINANCE COMMITTEE
LOCATION: Austin, Texas
DATE: May 19, 2000

I do hereby certify that the foregoing pages,
numbers 1 through 22, inclusive, are the true, accurate,
and complete transcript prepared from the verbal recording
made by electronic recording by Penny Bynum before the
Texas Department of Housing and Community Affairs.

(Transcriber) 05/30/00
(Date)

On the Record Reporting, Inc.
3307 Northland, Suite 315
Austin, Texas 78731