TExAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

FINANCE COMMITTEE

Waller Creek Office Building
Room 437
507 Sabine
Austin, Texas

9:40 a.m.
Friday,
January 21, 2000

COMMITTEE MEMBERS:

DONALD R. BETHEL, CHAIRMAN
MICHAEL JONES
MARGIE BINGHAM

STAFF:

DAISY STINER, EXECUTIVE DIRECTOR
DELORES GRONECK, ADMINISTRATIVE ASSISTANT
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MR. BETHEL: Good morning. We're going to start this meeting. This is a meeting of the Finance Committee of the Texas Department of Housing and Community Affairs.

The first item of business -- we'll call the roll of the committee. Don Bethel, here.

Margie Bingham? Margie's here?

MS. BINGHAM: Here.

MR. BETHEL: Michael Jones.

MR. JONES: Here.

MR. BETHEL: All the members of the committee are present. We have -- this is an open meeting and we have an item for public comment, and we would ask that if any of you would like to speak to the committee that you'd come forward and fill out a witness affirmation form, as all proceedings of this meeting are recorded and that when you -- if you'll fill it out and turn it in to Penny and then we'll call on you, and if you'll come to the podium and state your name.

Is there any public comment?

(No response.)

MR. BETHEL: There being none, we'll close the public comment period and go to Agenda Item Number 1, which is the discussion and approval of the previous
minutes of the Finance Committee.

Are there any --

MR. JONES: I move they be approved.

MR. BETHEL: Okay.

MS. BINGHAM: Second.

MR. BETHEL: We have a motion by Mr. Jones

seconded by Ms. Bingham that they be approved as printed.

All those in favor, say aye.

(A chorus of ayes.)

MR. BETHEL: All opposed, nay.

(No response.)

MR. BETHEL: Motion carried.

Agenda Item Number 2 is the presentation,

discussion, and possible approval of an inducement

resolution for proposed issuance of qualified 501(c)(3)
multihousing mortgage revenue bonds for Green Bridge

Development Corporation.

Ms. Stiner?

MS. STINER: Thank you, Mr. Chair. We have a

presentation this morning that's been prepared by Brent

Stewart.

Brent, will you come forward, please, and make

a presentation for this particular agenda item?

MR. STEWART: Good morning. For the record, my

name is Brent Stewart, director of multifamily finance.
We have two requests this morning actually for inducement resolutions on two separate 501(c)(3) bond transactions. I'll be presenting the first one, which is found under Tab 2, and Robert Onion will be talking with you about the one behind Tab Number 3.

Before we discuss the specifics on these two, I thought it might be a good idea to provide a little history -- or a reminder of a history about our (c)(3) program; kind of where we are today, how we got here, and how that plays into the recommendations that are before you today.

Generally, the department has not been an active issuer of 501(c)(3) bonds. In fact, we haven't issued any 501(c)(3) bonds since late 1996. You might recall those transactions were acquisition transactions on pools of property that were issued under S&P's Affordable Housing Program, which is a bond rating program for uninsured, unenhanced bonds.

In April of last year, this board induced bonds for an elderly transaction to be located in Huffman, Texas. The transaction is still working through the FHA approval process and we anticipate bringing you a request to approve the final structure of the bonds sometime in late spring. You might also recall that this transaction has an outstanding commitment from the Housing Trust Fund.
We had originally anticipated a final structure and approval request some time last fall. However, we're still waiting on FHA. The developer has experienced some difficulties with some contractor issues and some cost issues.

Through the Bond Review Board approval process on the three 1996 transactions, the Bond Review Board asked the department to talk with the legislature about its intent for the department to be issuing (c)(3) bonds and the significance of the public purpose for these types of transactions. As a result, Section 2306.358 was incorporated into our enabling legislation.

This section stipulates, among other things, that the department enter into a memorandum of understanding with the Bond Review Board to determine the maximum amount of (c)(3) bonds the department could issue in any one year, which ended up being 250 million per fiscal year, and requires that at least 50 percent of that amount be reserved for new construction transactions.

The public purpose issue associated with the acquisition transaction centered around the fact that in most cases the resulting tenant population would be the same population that's already in the property, and also in most cases, the rents would not be changing on the
Because of the legislative intent that 50 percent of the annual $250 million amount be reserved for new construction transactions, staff has not entertained many requests for inducement resolutions on acquisition transactions. We felt that without a clear ability to deliver an equal number of new construction transactions, it would not be prudent to place a number of acquisition transactions into the pipeline.

As you know --

MS. BINGHAM: I'm sorry. Could you repeat that?

MR. STEWART: The legislative intent in Chapter 2306 is that 50 percent of our annual issuance of (c)(3) bonds be for new construction transactions.

MS. BINGHAM: Oh, okay.

MR. STEWART: So we basically felt it wouldn't be prudent to entertain a number of acquisition transactions full well knowing that because of the difficulties of doing new construction with 501(c)(3) bonds, that we wouldn't be able to deliver the other 50 percent --

MS. BINGHAM: So the acquisitions were held hostage? Well, the most feasible transactions were held hostage if you had to have 50 percent? If you go run off
and do new construction, you can't find a -- or vice versa, then you haven't met your requirements?

MR. JONES: Yes, because what you're saying is it's harder to do the new acquisition so if you've got to do 50 percent new acquisition it's going to limit your ability -- 50 percent new construction is going to limit your ability to do the acquisitions --

MS. BINGHAM: Right.

MR. JONES: -- because they're more economically feasible.

MS. BINGHAM: Right.

MR. JONES: Yes.

MR. BETHEL: So we're not just talking about doing 125 and 125? You're saying if we just did --

MR. STEWART: It would be --

MR. BETHEL: -- if we just did 20 million, well then 10 million of that should be --

MS. BINGHAM: No. If you do 20 million, you're going to have to find 20 million of acquisition --

MR. STEWART: The intent was clear --

MR. JONES: I understand the intent, but is it an at least intent, or is it --

MR. STEWART: It's an at least.

MR. JONES: So it doesn't have to be 50-50, but they want new to be 50 percent or more, is the legislative
intent?

MR. STEWART: Right.

MR. JONES: Excuse me. Thank you.

MR. STEWART: As you know, (c)(3) bonds are a debt program, not an equity program. They do not have the 4 percent tax credit like the private activity bonds do. The general lack of equity on the part of most non-profits, as well as the general lack of other subsidy dollars available to non-profits to use as equity makes new construction using (c)(3) bonds difficult, if not impossible.

The Huffman transaction, which we have the outstanding inducement on, works because of the quote unquote equity component that's provided by the Housing Trust Fund.

The proposed Richardson transaction, which is behind Tab 2, underwrites for basically three reasons. First of all, the developer has agreed to take back bonds instead of a cash development fee. While this is still debt and does require set principal and interest payments on that debt, this aspect of the transaction eliminates having to find a third party buyer of those bonds that's willing to take on that level of risk.

The second reason is in the underwriting we're assuming that there are no property taxes on the property
as a result of the non-profit being designated as a CHDO and receiving a local tax exemption from the local tax assessor. And the third reason, which is a very big reason, is the absence of a very low income set-aside.

It is this third component that requires your special consideration with regards to public purpose. It is an aspect that staff has considered heavily and one that the Bond Review Board will likely focus on.

Staff is making the recommendation to approve the transaction without the very low income set-aside because we feel it is better to have 180 units of low income elderly than none at all, particularly given that the issuance of the bonds does in no way consume any of the department's other funds or housing resources.

The transaction as proposed is a 240 unit, four story, elderly transaction of which 180 of those units will be set aside at 80 percent area median income. Those units will also be rent restricted with rent caps based on that 80 percent area median income. Our typical 501(c)(3) program also requires either a 20 at 50 set-aside or a 40 at 60 set-aside, and so by approving this transaction, you would be approving a transaction that was outside of our program guidelines.

The total debt amount is anticipated to be somewhere around $20 million, of which up to probably 1.5
million may be taxable bonds to cover cost issuance. The senior bonds will be rated. They will be issued under a Fannie Mae credit enhancement. It's a variable rate structure. There will be a 200 basis point interest rate cap at all times on the bonds.

The non-profit is Green Bridge Development Corporation. Ginger Brown McGuire, the president, is here in the audience today. The developer is Marvin Myers Development. Marvin Myers -- Mr. Myers is also in the audience, if you have any questions for either of those two.

McDonald Investments is the bond underwriter. Key Bank [phonetic] is the desk lender and most likely the letter of credit provider during the construction, at least that phase.

MS. BINGHAM: I'd like to go over a couple of items.

This first transaction with the Green Bridge Development Corporation will not include the -- all of the units will be set aside for elderly housing. Seventy-five percent of the units will be set aside for individuals and families that earn no more than 80 percent. Okay. So we are basically -- this is in Dallas. Right?

MR. STEWART: Richardson. Yes, ma'am.

MS. BINGHAM: Which is in Dallas, Texas, which
has got the highest -- probably the highest median income in the state. Right? Higher than Houston -- it's probably the highest in the state.

Where did we get the -- was the 20 at 50 and the 40 at 60, was that legislatively mandated or is that our policy? What -- how was that --

MR. STEWART: It originally started out as our policy under our program guidelines. Section 2306.358 also --

MS. BINGHAM: Was that as a result of some questions we got at the Bond Review Board?

MR. STEWART: Yes, ma'am.

MS. BINGHAM: So it was questions on the Bond Review Board -- the reason we changed our policy because they said you're not meeting appropriate public policy and you don't have a 20 at 50 percent set-aside or a 40 at 60?

MR. STEWART: That's correct. Section 358 has a provision in it that allows us to conform to a determination letter issued by the IRS --

MS. BINGHAM: Well, the IRS will give you a determination letter based on the Safe Harbor Rules. Right?

MR. STEWART: Many determination letters are silent on set-aside issues.

MS. BINGHAM: Well, that's -- okay --
MR. STEWART: So if they're silent, then we would be restricted to what our legislation says with regards to the very low income set-aside. This particular designation letter specifically states Safe Harbor, and therefore bond council feels that we would be able to meet the requirements of --

MS. BINGHAM: So all we have to do is get the determination letter from the IRS?

MR. STEWART: That's correct. And I've provided a copy of the determination letter as well as the relevant pages to the non-profit's application in your package.

MS. BINGHAM: I got that. Okay. So we've got to build new construction in the highest median income part of the state; the very highest, higher than Houston. Nowhere else is higher. And we can't do a new construction without ignoring our policy?

MR. STEWART: That's correct.

MS. BINGHAM: If that's the case, why do we have the policy? If you can't do it in Dallas, you certainly can't do it in La Mesa. You can't do it in Tyler. So have we dealt with this issue?

MS. STINER: Mr. Chair, may I speak --

MR. BETHEL: Yes.

MS. STINER: -- jump in at this point in time?
MR. BETHEL: Yes, ma'am.

MS. STINER: Not to answer for Brent, but this is a development -- a case that has forced us over the past few weeks to revisit that policy. It is certainly something we would want to look at again during the upcoming session, so it is -- it does create a barrier in terms of working under the 501(c)(3) program, and it's one of those issues that now that you have all these demands on the department to come up with other ways to respond to our affordable housing issues and problems that continue to grow, it is certainly a tool that we'd like to continue to use but we need to work on removing those barriers, and the only way to do that is go back and get a legislative change, because it is in our legislation.

MS. BINGHAM: Okay, Ms. Stiner. If 50 percent of your projects got to be in new construction and you can't do new construction in your highest median income area in the state, where else can you do it? So you can't do it.

MS. STINER: That effectively -- correct.

MS. BINGHAM: That's what's going on?

MS. STINER: That's effectively.

MR. STEWART: That's basically why --

MS. BINGHAM: If Ms. McGuire and them got a non-profit that's going to eliminate property taxes with
the CHDO legislation, they still can't do it in the
highest median income part of the state; the whole state
of Texas, and they still can't do it, who else can do it?
We got a problem.

So I don't have a problem with approving this
project, but I think the board needs to understand that
the rest of the world did not know that they could come up
here and probably get us to admit that we can't ever
achieve the 501(c)(3) program unless we waive some of the
income requirements. I know Mr. Myers, who is the
construction contract on the project -- I've been to some
of his properties. He's got some of the probably best
property in the state, and I've looked at his development
costs and they're pretty reasonable.

So if he can't do it in a non-profit with this
property tax relief, who can do it? So I don't have a
problem with ignoring our restrictions on this, but it
poses a serious issue for me if the restrictions even make
any sense. And I know we did it because of the questions
that Larry Palmander [phonetic] received at the Bond
Review Board and some of the criticism he took, but we
just shot ourselves in the foot as far as I'm concerned.

MR. JONES: Can I just make sure I follow here?
The thing that's driving this is the fact that you can
just do these projects much more economically when they're
acquisitions as opposed to new construction. I mean, that's what's driving --

MS. BINGHAM: New construction is just higher --

MR. JONES: Yes. And I understand the policy there, that when you look at affordable housing the idea is if it's new construction we're putting more units out there, and --

MS. BINGHAM: Right, because a lot of the -- as the population increases, you've absorbed all the existing property.

MR. JONES: Exactly. But it seems to me like the real issue policy wise -- and again, I'm going off on Ms. Bingham's comments where I think we're talking policy now. We're really not talking about this particular project -- the real tension there is that if we want to deal with the lower income situation, the way to do that is most likely to be --

MS. BINGHAM: Tax Credits.

MR. JONES: -- acquisitions since it's going to be nearly impossible to underwrite a new construction. And this is just another example of that, because when you look at this -- we're going to be putting 240 units out to the elderly in the area. 160 of those -- 70 percent of those are going to be to 80 percent of median, but you're
telling me there's no way this project underwrites if we try to make it lower than that.

Am I hearing the issue there?

MR. STEWART: We've tried --

MR. JONES: I'm not suggesting you -- I think your report, Brent, is wonderful. I commend Daisy and Brent because it's very insightful and very well done. I'm not arguing with your report at all.

MS. BINGHAM: I can only write one that the City of Houston likes, and the City of Houston's median income is probably next highest to Dallas. So I understand his underwriting problem; he can't do it. So the policy -- there's something wrong with the policy.

MR. JONES: And what you're also telling us if that if we don't do this, you can't get us a better deal to put projects -- put units -- available units on the market?

MR. STEWART: Right. The (c)(3) bond -- the best use of the (c)(3) bond is for a non-profit who's acquiring units that have an average unit cost in the 21- to $25,000 per unit range, whereas you know new construction can sometimes be double that.

In an environment where there is a lack of overall resources for housing, there's always an attempt or pressure to try and take a tool and make it do
something that it really was never intended to do. And
the situation that we found ourselves in is that in trying
to make (c)(3) bonds really do new construction without
the added component of a missing equity piece -- you can
use (c)(3) bonds for new construction if you have that
equity piece, whether that be some other subsidy source.

But without that other subsidy source, it
doesn't work, and --

MR. JONES: Well, the dilemma that I think -- I
think you very succinctly put it, and Daisy has too -- the
dilemma I see that we're in is that if we approve this
project, to put it specifically here, if we approve this
project we deviate from our own guidelines.

And I'm very aware of the comments Ms. Bingham
makes that we do so at a bit of peril, because somebody
else may feel like, Well, if I had known this, we would
have looked differently. I think she makes a good point
on that. But in doing so, we're really adhering to the
legislative intent as stated by what they've directed us
to do with regard to the -- that you so aptly refer to.

So I see it as being on a bit of the horns of a
dilemma, but I think in order to get the units available,
you're better off following the legislative intent and
deviating from our guidelines, which I think is staff's
suggestion --
MS. BINGHAM: Well, our guidelines -- is any reference to these guidelines in the legislation as well?

MR. STEWART: The legislation outlines the very low income pieces; the 20-50, 40-60 --

MS. BINGHAM: However, they give you the out if you can get the IRS determination letter?

MR. STEWART: That's correct.

MS. BINGHAM: So we need to revisit our guidelines to let other non-profit 501(c)(3) know that we are not going to necessarily hold to the -- our guidelines on the very low income restrictions, so I would imagine that you would have a -- there are a number of CHDOs out there who are all exempt from the property tax restrictions that probably could make one of these deals work, under the scenario that's laid out here. But if they don't know it -- if they're reading our guidelines, then they're not going to be aware that you would even bring one to the board.

MR. STEWART: Well, yes, ma'am, that's true. However, the number of inquiries for new construction on a (c)(3) transaction is typically -- code does not require any of these restrictions.

MS. BINGHAM: I understand that. We do 501(c)(3) in Houston. The code does not require this. This is something that came up here and at the Bond Review
Board.

MR. STEWART: Most of the inquiries we get are, Will you do a 501(c)(3) transaction without restrictions at all --

MS. BINGHAM: Right.

MR. STEWART: -- and that answer is no.

MR. BETHEL: So --

MS. BINGHAM: Mr. Chairman, I make a motion --

MR. BETHEL: -- when would we change our rules?

MS. BINGHAM: Well, we would --

MR. BETHEL: When we do our low-income housing plan?

MS. STINER: Oh, no. Our guidelines that Brent referred to are the guidelines for the 501(c)(3) program, and along with program advice by general counsel -- they'll have to tell me what that amendment process is, but it's not --

MS. BINGHAM: Those guidelines, Mr. Bethel, were written in response to the criticism --

MR. BETHEL: Uh-huh.

MS. BINGHAM: -- that the agency was not looking out for the very low -- 30 percent and all that.

MR. BETHEL: Right.

MS. BINGHAM: Do you remember that whole discussion?
MR. BETHEL: Yes.

MS. BINGHAM: So I think that's where -- for the department, since the board approved that, the staff would -- this is a good discussion to be having, because you see the dilemma that the staff is in in terms of trying to get a deal done. They just can't do it. They can't even meet the legislative requirements.

So it's a good opportunity to see a real live deal with all the components of CHDO having no taxes to pay and still can't make it work. So this is a good example of why the policy needs to be changed.

But I would make a motion that we approve the project.

MR. JONES: I'll second the motion.

Before we vote, there's one thing about this that's obviously just the way you worded it, but the issuance of the proposed bonds is subject to favorable completion of department's underwriting of property feasibility, but obviously already a lot of thought and concern has gone into that. That's what we've talked about today. This has been through our underwriting process. Correct?

MR. STEWART: No, sir. It's been my staff's areas underwriting process -- pre-underwriting process.

We look at the development budget and the borrower's pro
forma, and we look at some market information that's provided. We do not have a full application that has a full, complete market study, an appraisal, and full-blown budget with development plans. That is the process that will start on inducement, and we'll go through the normal credit underwriting process and we'll receive all of the approvals from the third party, the credit enhancer and the letter of credit provider, and those types of things.

Once all that's in place and the bond documents are done, the preliminary offering statement is done, that transaction will come back to you to receive final approval, and then we'll move to price and close the bonds after that.

MR. JONES: Thank you.

MS. BINGHAM: Oh, I see.

MR. BETHEL: Okay. So the motion was --

MS. BINGHAM: To approve Resolution Number 00-02.

MR. JONES: I'll second.

MR. BETHEL: Is there any further discussion?

(No response.)

MR. BETHEL: All those in favor of passing Resolution 00-02, say aye.

(A chorus of ayes.)

MR. BETHEL: Opposed, say nay.
(No response.)

MR. BETHEL:  It is unanimous. Thank you.

MR. STEWART:  Thank you.

MR. BETHEL:  Okay. Agenda Item Number 3 is another 501(c)(3) multifamily bond program of San Antonio Apartment Pool [phonetic].

MS. STINER:  Yes, sir. Mr. Onion is going to come and make this presentation, which is an acquisition we have from a financing deal, so we get to see two types this morning.

Robert.

MR. ONION:  Good morning. For the record, my name is Robert Onion, multifamily loan officer, Housing Finance Division.

The proposal in front of you today is a 501(c)(3) acquisition deal. The applicant is Hope Action Care, which was formerly known as the Hispanic AIDS Committee, Incorporated. They've been in existence since 1987. They are a state-certified CHDO. They have also participated in our Texas Youth Works job training program. As indicated within the write-up, their mission statement is to provide service to people in distress, wherever they might find them; underneath bridges, streets, in participating in church programs, et cetera.

And they've been doing this for over ten years
and now they are looking at completing a loop by providing affordable housing, not only to the people they work with but the people at large.

There are three properties in San Antonio. They total 254 units. They are 1970s construction. The acquisition cost is approximately 22,500 on average per unit. The reason why this particular arrangement -- the numbers work on a preliminary basis is because they are counting on their CHDO status in order to get their tax abatement.

Here is an indication of how an acquisition 501(c)(3) does work. It does have to be an older property. It does have to be in that 20- to 25,000 range, and has to have that CHDO status or the numbers simply don't work. And based upon the mission statement of this 501(c)(3) and what they provide to the community, I am recommending that this resolution be approved.

If there are any question about the transaction or the 501(c)(3) --

MS. BINGHAM: What's the resolution --

MR. BETHEL: 00-03.

MS. BINGHAM: Move for approval of Resolution Number 00-03.

MR. JONES: I second the motion.

MR. BETHEL: We have a motion to approve
Resolution 00-03. All those in favor, say aye.
(A chorus of ayes.)

MR. BETHEL: Opposed, nay.
(No response.)

MR. BETHEL: Motion carried. Thank you.

MR. ONION: Thank you.

MR. BETHEL: The next item on the agenda is the possible approval of $500,000 of multifamily bond origination fees to the Housing Trust Fund.

MS. STINER: Brent, you're doing that one?

MS. BINGHAM: Well, that's pretty self-explanatory.

MR. BETHEL: Yes.

MS. BINGHAM: I don't think we need -- in other words, you've done enough of -- well, you have another 501(c)(3) deal, but you've done enough deals that you have $500,000 over what you need for operating costs, and you're going to give it away to the Housing Trust Fund?

MR. STEWART: Right.

MS. BINGHAM: I move for approval.

MR. BETHEL: Okay.

MR. JONES: Second.

MR. BETHEL: I have a motion by Ms. Stiner, seconded by Mr. Jones, that we approve --

MS. STINER: By Ms. Bingham.
MR. BETHEL: I mean Ms. -- I'm sorry. Okay. A motion by Ms. Bingham seconded by Mr. Jones that we approve the transfer of $500,000 to the Housing Trust Fund, and we did a million dollars, what a year and a half ago or something like that, so this is 1.5 million that will be going to -- all those in favor, say aye.

(A chorus of ayes.)

MR. BETHEL: Opposed, nay?

(No response.)

MR. BETHEL: It was unanimous.

The last item on the agenda is the approval of the first quarter investment report, and Mr. Dally is --

MS. STINER: Yes. Mr. Dally --

MR. BETHEL: Okay.

MS. STINER: -- will make that presentation.

MR. DALLY: Good morning, Mr. Chair and committee members. My name is Bill Dally. I'm the department's chief financial officer and investment officer.

Behind Tab 5 you'll find the first quarter report for the quarter ending November 30, 1999. On that first page you'll find a summary of all the various bond indentures and funds and a walk-through of the carrying values and market values at the beginning are at the end of last quarter 8/31 brought forward to 9/30.
In summary, the biggest changes were the overall portfolio shrank by about $30 million. That is due to the large debt service and bond surplus calls that were made in the single-family indenture at September 1, so the whole thing is shrinking by that amount.

You'll also note that the market value for the quarter was reduced by $12 million. That's also a factor of the fact that interest rates have continued to move up this quarter as they have the last two or three quarters, and since we issue a below-market mortgage-backed security, that value is going to fall each time the interest rates go up, and so until those interest rates begin to come back down, we'll continue to see a deterioration in the market value.

What I'd like to do though -- at this time I went ahead and included more detail. There's about a 25-page detail that shows you each and every security. It shows you the type of security. It shows you the interest rate on that security. It also shows you the purchase and maturity dates and then walks through the changes in value.

And if I can, if you'll indulge me just a few minutes, I want to walk you through a quarter's transaction in the [indiscernible] indenture, which is our active one that has our new bond money and just kind of
walk you through what happens in a typical quarter.

If you'll turn to page 10, looking under that beginning carrying value, as you scan down you'll see there's about $75 million listed there as the carrying value at 8/31. That is in the GIC. That was our beginning balance at the beginning of the quarter from the new bond proceeds from that [inaudible] indenture. You'll then see, as you go to the sale column, you'll see that we liquidated about $20 million of those funds.

Those were used -- as you look in the purchases just above there, you'll see we made purchases in August, September, October, and November of about $20 million in mortgage-backed securities. Those are our pools. If you'll look at that interest rate, you'll see that those are at 5.35. That's the pass-through rate to us as the investor. You add 50 basis points to that and the borrower actually got a mortgage at 5.85, so that's a very favorable rate in this market and consequently, you see a lot of funds going out in that one quarter.

You also notice in that same column that there's been a transfer of about $4.5 million. That transfer -- it nets to zero. What's happened there is we've done a reclass because this indenture has some whole loans in the 87(a). When those bonds were called or refunded, that reduced the -- risked the exposure of whole
loans and since everything else now going forward will be mortgage-backed securities, we can reclassify some of those monies that we held in the mortgage fund and debt servicer fund back down to the loan fund, and so those will be available to make new loans.

If you look just below that, you'll see one of our older pieces in this indenture. These were originated back in '89 and '90, and you'll note that the interest rates then were about 7.5 or 8-3/4. Typically since there's no new activity in there, all you'll see are the maturities. This are the principal pay-downs that come in each month from these mortgages. They'll then be collected in our GIC funds and be held until -- we'll have a debt service on this particular fund March 1.

Also, if you'll note, the change in market value -- if you look at our very newest purchases, you'll see that the carrying values -- those are the par values -- are the face value of all those certificates and loans, but if you'll look over at the market value you'll see right from the time we purchased these things they're discounted. So from the get-go, because we're doing below market mortgage-backed securities, they're going to be below a typical market value.

At the same time, if you look at our older issue, you'll see that we have premiums there because of
those older rates.

    So that's kind of -- and this is typical flow. This is what happens in these indentures is we'll sell our bonds. We'll put those proceeds into a GIC. As we originate loans, we'll create mortgage-backed securities, and then at times of debt service we'll pay those off. So I hope that's helpful.

    Any questions?

    MR. BETHEL: The 4 million transfer that you said --

    MR. DALLY: Yes?

    MR. BETHEL: Was that transferred to -- from --

    MR. DALLY: Well, it's a reclass. Really no money has changed -- it's just moved from -- instead of being designated in a debt service or mortgage reserve fund, because those requirements were eliminated with the fact that we refunded the whole loan bonds and the reserve departments were reduced in the indenture, they're just reclassed into the loan fund.

    MR. BETHEL: Okay.

    MR. DALLY: Any other questions?

    (No response.)

    MR. BETHEL: Okay. Is there any questions?

    (No response.)

    MR. BETHEL: Then I guess we need a motion to
approve the first quarter investment report.

MS. BINGHAM: Do we accept it or approve it or --

MR. JONES: I don't know if we accept it or --

I just think it's a report item.

MR. BETHEL: Okay.

MR. JONES: I don't know that we have to act on it.

MS. STINER: In the required approval -- the way the agenda item is captioned, but it's not required that it be approved. It's just a report item.

MR. DALLY: It's just a report item.

MS. STINER: Okay.

MR. BETHEL: Okay. Thank you.

Is there any other -- do you have any reports?

MS. STINER: No, Mr. Chair. I don't have any reports for the committee this morning.

MR. BETHEL: Is there anything else?

MR. JONES: I move we adjourn.

MR. BETHEL: Okay. I have a motion to adjourn, seconded. All in favor, aye. Thank you very much.

MS. STINER: Thank you, sir.

(Whereupon, at 10:20 a.m., the meeting was concluded.)
CERTIFICATE

MEETING OF: Texas Department of Housing and Community Affairs Finance Committee

LOCATION: Austin, Texas

DATE: January 21, 2000

I do hereby certify that the foregoing pages, numbers 1 through 32, 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.

01/28/00

(Transcriber) (Date)

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