TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

FINANCE COMMITTEE MEETING

9:35 a.m.
Wednesday,
December 12, 2001

Capitol Extension
Room E1.012
1400 Congress
Austin, Texas

COMMITTEE MEMBERS:

C. KENT CONINE, Chairman
VIDAL GONZALEZ

STAFF PRESENT:

RUTH CEDILLO, Acting Executive Director
AGENDA

ITEM

CALL TO ORDER, ROLL CALL
CERTIFICATION OF QUORUM

Item 1 Presentation, Discussion and Possible Approval of Minutes of Finance Committee Meeting of August 21, 2001

Item 2 Presentation, Discussion and Possible Approval of the Sale of Collateralized Home Mortgage Revenue Bonds, Series 1991A GNMA Mortgage Certificates and Other Related Matters

Item 3 Presentation, Discussion and Possible Approval of Additional Funding for the Single Family Down Payment Assistance Program and Other Related Matters

Item 4 Presentation, Discussion and Possible Approval of Recommendations Relating to the Issuance of Taxable Junior Lien Single Family Mortgage Revenue Bonds, Series 2002A and Other Related Matters (Program 58)

Item 5 Presentation, Discussion and Possible Approval of Proposed Issuance of Multifamily Mortgage Revenue Bonds for Fallbrook Apartments, Houston, Texas in an Amount not to Exceed $15,135,000 and Other Related Matters

Item 6 Presentation, Discussion and Possible Approval of Amendments to Board Resolution No. 01-50 Approving the Issuance of Multifamily Mortgage Revenue Bonds for the Hillside Apartments and Other Related Matters

Item 7 Presentation, Discussion and Possible Approval of Amendments to Board Resolution No. 01-51 Approving the Issuance of Multifamily Mortgage Revenue Bonds for the Oak Hollow Apartments

Item 8 Presentation, Discussion and Possible Approval to Extend Limit on Capital Budget Expenditures for Development of the Weatherization Assistance Program Evaluation Project and the Conversion of EASY Audit 11 to EASY Audit 111 Project

ADJOURN
MR. CONINE: Let's call the Finance Committee meeting to order, Texas Department of Housing and Community Affairs December 12, 2001, at 9:35. We'll call the roll right quick. Mike Jones.

MR. GONZALEZ: Absent.

MR. CONINE: Vidal Gonzalez?

MR. GONZALEZ: Here.

MR. CONINE: Kent Conine, Chair, is here. We got two. That'll work. I certify that we have a quorum.

Is there any public comment to come before the Finance Committee today? I don't have any sheets at this point in time. Any public comment?

(No response.)

MR. CONINE: If not, I'll close public comment.

Item number 1 is the Presentation, Discussion and Possible Approval of the Minutes. Let's see here.

MR. GONZALEZ: I can't make a motion because I was absent at that meeting.

MR. CONINE: You were absent?

MR. GONZALEZ: So that'll make it interesting.

MR. CONINE: We'll probably have to --

MR. GONZALEZ: Table this?

MR. CONINE: Table the minute approval until we get --

ON THE RECORD REPORTING
(512) 450-0342
MS. CEDILLO: Actually, Legal had said that you can go ahead.

MR. CONINE: Okay. I'll make a motion that we approve the minutes.

MR. GONZALEZ: Second it.

MR. CONINE: All those in favor, say aye.

MR. GONZALEZ: Aye.

MR. CONINE: Okay. Item 2. Ruth?

MS. CEDILLO: We have Byron Johnson, who's going to make a presentation on Item number 2, Item number 3, and Item number 4.

MR. CONINE: Good morning, Mr. Johnson.

MR. JOHNSON: Good morning. Item number 2, Presentation, Discussion and Possible Approval of the Sale of Collateralized Ginnie Maes and other related matters.

We -- the department issued bonds ten years ago, 1991, and those bonds will be redeemable starting January 1, 2002. Associated with those bonds are Ginnie Mae securities backing -- I guess comprised of mortgages which were made back in '91. Those Ginnie Mae securities have a mortgage pass-through rate of seven percent.

As you know, recently we've had a decline in rates and Mr. Greenspan has been very active in moving our rates, and rates went down. And in November, we took a look at this transaction and determined that if we sold
that collateral -- those Ginnie Maes -- there was sufficient premium associated with the Ginnie Maes that we could use those funds and the other funds in that particular series indenture and redeem the bonds -- sell the Ginnie Maes, redeem the bonds, and possibly have some cash left over.

That was in November. In December, rates went up, but yesterday it looks like rates may go down a little bit more. So what we're coming to you to ask is that you authorize the Department to take a look at this, ensure that it's in the best interest of the Department, and that it's a financially feasible transaction, and with that in mind, set the transaction up. And just in case rates go down to -- or continue to fall, execute the sale.

Right now, based on our preliminary calculations, we could probably generate about $400,000 in excess surplus revenues.

Another consideration is that we have a stipulation on a rider kind of confronting the Department that anytime we refinance bonds, we use the first $3 million in savings annually to fund the Bootstrap program. Well, technically this is not a refunding, this is not a refinancing. It's more of a restructuring. But in the good spirit of complying or meeting the intent of the rider, we would recommend that any surplus be, I guess,
committed to the Bootstrap program.

MR. CONINE: Any questions?

MR. GONZALEZ: When you're saying surplus, is that the premium that they would pay on --

MR. JOHNSON: It's a combination of the premium and/or funds that are already in that indenture that we can't tap or pull out unless we do a refunding or a restructuring or a refinance.

MR. CONINE: Okay. You want to -- I move that we make a motion to recommend to the Board that we allow staff to proceed toward the possible sale and consolidation of those funds, and it looks like Mortgage Revenue Bonds Indenture Series 1991 A?

MR. JOHNSON: Yes.

MR. CONINE: And that would be Resolution Number 01-55 as a motion?

MR. JOHNSON: Yes.

MR. GONZALEZ: Second.

MR. CONINE: Any other discussion? All those in favor say aye.

MR. GONZALEZ: Aye.

MR. CONINE: All opposed?

(No response.)

MR. CONINE: Passes. Item 3.

MR. JOHNSON: Presentation, Discussion and
Possible Approval of Additional Funding for the Single Family Down Payment Assistance Program and Other Related Matters.

We refer to the Single Family Down Payment Assistance Program as DPAP, so I'll be using that acronym -- DPAP. That is the program that was established in-house that provides $5,000, $7,500, or $10,000 to first-time home buyers in certain counties throughout the state, mostly rural and border counties. We've been using funds rather extensively for this program, and through different but separate reconciliation of funds from 1994 B -- a transaction we did in 1994 -- we discovered that we had awarded monies, and those awards were not completely used.

So given the need for down payment assistance, particularly at these levels, we're coming to you to recommend that we use these funds for down payment assistance.

MR. CONINE: Were they in there originally in a down -- where were they originally?

MR. JOHNSON: It was awarded to several entities throughout the border counties and the rural counties, and those awards were made back in, I guess, '94 and '95, '96. And most of those awards expired in 2000 and the beginning of this year.
MR. CONINE: Okay. Any questions? Motion to authorize the transfer of the remaining 1994 B monies to the Single Family Down Payment Assistance Program.

MR. GONZALEZ: Second.

MR. CONINE: There's a second. Any other discussion? All those in favor say aye.

MR. GONZALEZ: Aye.

MR. CONINE: All opposed?

(No response.)

MR. CONINE: It passes. Item 4.

MR. JOHNSON: Okay. This is the juicy one.

MR. CONINE: Good. That's what we need.

MR. JOHNSON: Back in August, the Board authorized staff to determine the feasibility of issuing taxable bonds under the single family indenture to access wealth in that indenture. There are certain stipulations regarding removing funds and monies from indentures and you just can't go in and take it out. So you have to come up with the means of taking it out, particularly if you want to take out or remove a large amount of money.

We determined since that time that the transaction is feasible. And back in 1994 -- once again, it was the 1994 B issue -- we would be emulating that transaction and issuing a taxable junior lien bond. In other words, this would be like issuing bonds in a second
lien position, kind of like a second mortgage on the indenture. And the purpose would be to tap equity that's built up over time in the indenture.

I want to point out that the bond proceeds will be about 9- $10 million. We're looking at 20-to-30 year maturities on the bonds. We're looking at pricing in January and closing in February. John Connor of M.R. Beal [phonetic] has been working on the transaction, and we're now submitting cash flows to the rating agencies and getting their comments, and we really don't expect any material adverse comments on them.

I want to point out also for everyone that this is a unique financing opportunity, and it's not something you can do every month, every year. It takes time, just like if you have a house, to build up equity in the indenture.

MR. CONINE: And rates falling, I presume, has created a --

MR. JOHNSON: Rates falling helps us out a lot. We're issuing taxable bonds and taxable rates are -- Treasury rates are very low right now.

MR. CONINE: Are you going to match up the maturity with the '94 series that you're gaining the equity from? Can you do that? Are you required to do that?
MR. JOHNSON: The taxable bonds from the '94 transaction have been paid off or redeemed.

MR. CONINE: Okay. So you can go -- so you're open-ended.

MR. JOHNSON: Pretty much. There are some -- I believe some tax-exempt bonds. There are some bonds outstanding under that indenture, but the taxables have been paid off. And, yes, we are matching maturities with that indenture correctly. John and I had that discussion.

MR. CONINE: And because this is kind of a unique animal -- juicy, as you call it -- the allocation of what we do with the proceeds would come back in just as the normal public comment process and come back before the Board? Is that --

MR. JOHNSON: What we're recommending is that -- well, we have some recommendations in here, I guess the next page. And I want to point out these are just recommendations. This is based on the whole $10 million par amount. It may be a little bit less than that, because we may have to fund a debt service reserve and the cost of issuance out of the bond proceeds.

MR. CONINE: Right.

MR. JOHNSON: But we're recommending that some of the proceeds be used for down payment assistance. And, you know, it's really up to public comment and department
policies as to what we ultimately do with the proceeds, but we're also recommending maybe transferring to housing trust and to the Bootstrap program. And we see this as a means of funding -- I think Bootstrap is required to have $3 million a year in originations or something like that, and I think they're running short this year. So we figure $1-1/2 million -- to 3 million to them.

Once again, these are recommendations. It's more of an illustration of what we could do with the money. There will be restrictions, but the restrictions will not be as limiting as they would be if these were tax-exempt bonds.

I also want to point out that my idea was to issue bonds and let the department decide what they want to do with it, but as I understand it, I have to be involved, or bond finance has to be involved in terms of setting up procedures for the allocation of the monies. So we will, once we decide which programs will receive the monies, we will set up procedures and internal controls to ensure that it's accounted for properly.

MR. CONINE: Ms. Cedillo, you on board with this approach as presented here?

MS. CEDILLO: Yes, sir. And I also agree that we -- once a program is crafted, that we would bring it back to the Board for approval.
MR. CONINE: Any other questions?

MR. JOHNSON: Also associated with this is the approval of the underwriting fees. Back in August, we just named the underwriters, but I just wanted to make sure you were okay with the fees that we will be paying them for doing the transaction.

MR. CONINE: Yes, this is what we did based on that last RFP -- the group that we put together based on the last RFP. Is that correct?

MR. JOHNSON: Correct. We selected firms from two new pools of senior managers and core managers, then we selected firms from that pool.

MR. CONINE: Any other discussion? Would you like to make a motion, Mr. Gonzalez?

MR. GONZALEZ: I'll let you make it. I think you understand it better than I do.

MR. CONINE: All right. We will recommend to the Board that they approve staff's recommendations to structure a taxable junior lien Single Family Mortgage Revenue Bond Series 2002 A and the investment bankers and their related fees to the Board for their approval.

MR. GONZALEZ: Second.

MR. CONINE: Motion is seconded. Any other discussion? All those in favor, say aye.

MR. GONZALEZ: Aye.
MR. CONINE: All opposed? Passes.

Item 5.

MR. JOHNSON: May I add that this is a preliminary approval. We will be coming back for the final approval in January.

MR. CONINE: Okay. Good job on structuring something unique that we can stick up 9- or 10 million bucks for.

MR. JOHNSON: Thank you.

MR. CONINE: Ms. Cedillo, Item 5.

MS. CEDILLO: Robert Onion from our Multifamily program is going to handle that item.

MR. CONINE: Good morning, Mr. Onion.

MR. ONION: Good morning. My name is Robert Onion, director of Multifamily Finance. The project before you today is Fallbrook Apartments. It's a 280-unit apartment complex proposed in northwest Houston. The bond transaction is a private placement with Bank of America, with Sun America as the equity provider. The bond amount for the tax-exempt portion would be a total of $13.5 million. The taxable will be 1,200,000. The interest rate on the bonds from the tax-exempt will be 6.06 percent. On the taxable it will be 6.78 percent.

We request your favorable consideration of this transaction. The only revision to the resolution is
authorization that the vice chairman sign the resolution, and that's the only correction to the resolution.

MR. CONINE: You're about to put me on the hook, are you?

MR. ONION: If you have any questions concerning the transaction, I'd be happy to answer them.

MR. CONINE: I have no questions. You have any other questions? Move for approval of Item 5, the Fallbrook Apartments, in the amount not to exceed $15,135,000.

MR. GONZALEZ: Second.

MR. CONINE: All those in favor, say aye.

MR. GONZALEZ: Aye.

MR. CONINE: All opposed?

(No response.)

MR. CONINE: Passes.

Item 6. Ms. Cedillo?

MS. CEDILLO: Robert Onion has Item number 6 and Item number 7 also.

MR. CONINE: Okay.

MR. ONION: This transaction was approved by the Board last month. The change that comes before you today is that the interest rate on the bonds has changed from 7.2 percent to 7 percent, and that's stated in the -- reinstated in amended resolution. The only other change
is that the maturity of the taxable bonds will change from December 1 of 2009 to October 1 of 2009. Request your favorable consideration.

MR. CONINE: Move for approval to the Board, or recommend to the Board to approve.

MR. GONZALEZ: I'll second it.

MR. CONINE: Any other discussion? All those in favor, say aye.

MR. GONZALEZ: Aye.

MR. CONINE: Opposed?

(No response.)

MR. CONINE: Passes.

Item 7.

MR. ONION: Is the Oak Hollow Apartments. This also was approved by the Board last month. Same change, with the interest rate being changed from 7.2 percent to 7 percent. There are no taxable bonds on this particular project; therefore, there was not a change in the maturity date.

MR. CONINE: Move for approval.

MR. GONZALEZ: Second.

MR. CONINE: Any other discussion? All those in favor, say aye.

MR. GONZALEZ: Aye.

MR. CONINE: All opposed?
(No response.)

MR. CONINE: It passes.

MR. ONION: Thank you.

MR. CONINE: Thank you. And Item 8 has been withdrawn. Is that correct?

MS. CEDILLO: Yes, sir.

MR. CONINE: Item 8 has been withdrawn. That takes care of the agenda. Do I hear a motion to adjourn?

MR. GONZALEZ: So moved.

MR. CONINE: All those in favor, say aye.

MR. GONZALEZ: Aye.

MR. CONINE: We'll start the Board meeting in about five minutes.

(Whereupon, at 9:50 a.m., the meeting was concluded.)
CERTIFICATE

MEETING OF: Finance Committee
LOCATION: Austin, Texas
DATE: December 12, 2001

I do hereby certify that the foregoing pages, numbers 1 through 17, 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.

12/27/01
(Transcriber) (Date)

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