TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

BOARD OF DIRECTORS MEETING

Ric Williamson Hearing Room
Dewitt C. Greer Building
125 East 11th Street
Austin, Texas

Thursday,
April 16, 2015
9:10 a.m.

MEMBERS:

J. PAUL OXER, Chair
JUAN MUÑOZ, Vice Chair (not present)
LESLIE BINGHAM ESCAREÑO, Member
TOLBERT CHISUM, Member
TOM GANN, Member
ROBERT THOMAS, Member

STAFF:

TIMOTHY K. IRVINE, Executive Director

ON THE RECORD REPORTING
(512) 450-0342
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Tax Credit Properties After the Compliance Period and proposal of new amendments to 10 TAC Chapter 10, Subchapter F, '10.607(d) concerning Reporting Requirements; '10.622 concerning Special Rules Regarding Rents and Rent Limit Violations; and '10.623 concerning Monitoring Procedures for Housing Tax Credit Properties After the Compliance Period and directing their publication for public comment in the Texas Register

MULTIFAMILY FINANCE

g) Presentation, Discussion, and Possible Action on Determination Notices for Housing Tax Credits with another Issuer

h) Presentation, Discussion, and Possible Action on Inducement Resolution No. 15-013 for Multifamily Housing Revenue Bonds and an Authorization for Filing Applications for Private Activity Bond Authority

COMMUNITY AFFAIRS

I) Presentation, Discussion, and Possible Action on Approval of the PY 2015 Department of Energy (ADOE@) Weatherization Assistance Program (AWAP@) State Plan and Awards

j) Presentation, Discussion and Possible Action Regarding the Possible Absorption of the Alamo Area Council of Government=s Section 8 Housing Choice Voucher Program

k) Presentation, Discussion and Possible Action Authorizing the Publication of a Request for Proposal (ARFP@) for a Provider of Weatherization Training and Technical Assistance

CONSENT AGENDA REPORT ITEMS

ITEM 2: THE BOARD ACCEPTS THE FOLLOWING REPORTS:

a) TDHCA Outreach Activities, March 2015

b) Report on Single Family HOME Program Activities

c) Report on previously approved HOME award to Majors Place, Greenville

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d) Compliance Division Update

ACTION ITEMS

ITEM 3: INTERNAL AUDIT

a) Report on the Meeting of the Audit Committee

b) Internal Audit Report #15-004 AReview of TDHCA=s Payroll Processes@

c) Internal Audit Report #15-005 AReview of TDHCA=s Records Retention Process@

ITEM 4: BOND FINANCE

a) Presentation, Discussion, and Possible Action regarding Resolution No. 15-016 authorizing programmatic changes to the To Be Announced (ATBA@) Single Family Taxable Mortgage Program (ATMP-79@)

b) Presentation, Discussion, and Possible Action on Resolution 15-014 regarding the annual approval of the Department=s Investment Policy

c) Presentation, Discussion, and Possible Action on Resolution 15-015 regarding the annual approval of the Department=s Interest Rate Swap Policy

ITEM 5: MULTIFAMILY FINANCE

Presentation, Discussion, and Possible Action on Timely Filed Appeals and Waivers under any of the Department=s Program Rules pulled

ITEM 6: RULES

Presentation, Discussion and Possible Action on proposed new 10 TAC, Chapter 1, Subchapter C, Previous Participation, and proposed repeal of 10 TAC, Chapter 1, Subchapter A, '1.5 Previous Participation

PUBLIC COMMENT ON MATTERS OTHER THAN ITEMS FOR WHICH THERE WERE POSTED AGENDA ITEMS

none

EXECUTIVE SESSION

none

ADJOURN

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MR. OXER: Hi. Good morning everyone. I would like to welcome everybody to the April 16th Board meeting of the Texas Department of Housing and Community Affairs.

We’ll begin with the roll call. Ms. Bingham?

MS. BINGHAM ESCAREÑO: Here.

MR. OXER: Mr. Chisum.

MR. CHISUM: Present.

MR. OXER: Mr. Gann.

MR. GANN: Here.

MR. OXER: Mr. Goodwin?

MR. GOODWIN: Here.

MR. OXER: Dr. Munoz is not with us today. And I am here. So we have got five. That is a quorum. We are in business. Tim, lead us in the flag salute.

(Whereupon, the Pledge of Allegiance was recited.)

(Whereupon, a Pledge to the Texas Flag was recited.)

MR. OXER: Okay. Tim, I understand we have a resolution?

MR. IRVINE: We do, sir. It is Fair Housing Month. And Michael Lyttle will read a special resolution.

MR. LYTTLE: Okay. It reads as follows.

Whereas 20, April 2015 is the Fair Housing month, and it
marks the 47th Anniversary of the passage of the Federal Fair Housing Act, signed by U.S. President Lyndon Baines Johnson on April 11, 1968.

And whereas; the Fair Housing Act provides that no person shall be subjected to discrimination because of race, color, national origin, religion, sex, disability or familial status in the sale, rental, financing or advertising of housing, and charges the Secretary of the United States Department of Housing and Urban Development with administering HUD programs in a manner that meets the requirements of the law and affirmatively furthers the purposes and policies of the Fair Housing Act. And whereas; the Texas Department of Housing and Community Affairs administers HUD and other housing programs that promote the development and supply of safe, decent, affordable housing for qualifying Texans.

And whereas; it is the policy of the Texas Department of Housing and Community Affairs to support equal housing opportunity in the administration of all of its programs and services, including encouraging equitable lending practices for its homebuyer programs and ensuring compliance with Fair Housing rules and guidelines for its multifamily developments. And whereas; the Texas Department of Housing and Community Affairs, through its programs, workshops, trainings and materials seeks

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continually to educate architects, property managers, consultants, program administrators, contractors, developers, engineers, lenders, real estate professionals and others about the importance of their commitment and adherence to the requirements of the Fair Housing Act. And whereas; the Texas Department of Housing and Community Affairs encourages the development of educational Fair Housing programs in local communities throughout the state, and is seeking to build new opportunities for Fair Housing education and training. And whereas; the Texas Department of Housing and Community Affairs and the State of Texas support equal housing opportunity in accordance with the Fair Housing Act not only during Fair Housing month in April, but throughout the entire year.

Now therefore; be it resolved that in the pursuit of the goal and the responsibility of providing equal housing opportunities for all, the Governing Board of the Texas Department of Housing and Community Affairs does hereby celebrate April 2015 as Fair Housing Month in Texas, and encourages all Texas individuals and organizations, public and private to join in and work together in this observance for free and equal housing treatment and opportunity for all. Signed, this 16th day of April, 2015.

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MR. OXER: Good.

MR. IRVINE: We recommend that the Board adopt this by acclaim.

MR. GOODWIN: I will so move.

MR. OXER: Motion by Mr. Goodwin.

MR. CHISUM: Second.

MR. OXER: Second by Mr. Chisum. All in favor?

(A chorus of ayes.)

MR. OXER: Opposed?

(No response.)

MR. OXER: There are none. We hereby adopt the resolution.

MR. IRVINE: And I want everybody to know that Fair Housing Month is more than just a commemoration at a Board meeting. It is a commitment that extends to every day of the year and every corner of the great State of Texas.

And we have a lot of special activities going on this month, some webinars and educational activities regarding Fair Housing. And we also thank our partner in these efforts, the Texas Workforce Commission Civil Rights Division. So good things for good people.

MR. OXER: Great. Okay. The consent agenda is next on the agenda.

MR. IRVINE: Mr. Chairman, we have one item we
would like to pull from the consent agenda.

MR. OXER:  Item 2(d), as I understand.

MR. IRVINE:  Item 2 Delta.

MR. OXER:  We will pull that one for comments here, as soon as we are through. Any requests for items to be pulled from the consent agenda by members of the Board?

(No response.)

MR. OXER:  Okay. Motion to consider?

MS. BINGHAM ESCAREÑO:  Move to approve the consent agenda with the exception of Item 2(d).

MR. OXER:  Okay. Motion by Ms. Bingham to approve consent agenda as defined.

MR. GANN:  Second.

MR. OXER:  Second by Mr. Gann. Is there any other public comment on the consent agenda? Peggy? You have something to read in?

MS. HENDERSON:  Peggy Henderson, TDHCA, representing Fred Fuchs, who is representing home owner Pamela Franklin in support of staff recommendation for Agenda Item 1(e).

MR. OXER:  Always glad to have comments that support what we are trying to do. So any other comments?

(No response.)

MR. OXER:  There appear to be none. All right.

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Motion by Ms. Bingham. Second by Mr. Gann to approve consent agenda with Item 2(d) pulled. Those in favor, aye.

(A chorus of ayes.)

MR. OXER: Those opposed?

(No response.)

MR. OXER: There are none. It is unanimous.

Okay. On Item 2(d). Patricia, you'll make the presentation, I understand?

MS. MURPHY: Sure.

MR. OXER: Good morning.

MS. MURPHY: Good morning. Patricia Murphy, Chief of Compliance. Item 2(d) is a report item for you, that provides an update about the activities in the Compliance Division.

We started providing this report to the Board in February of 2014, on a quarterly basis, just to kind of let you know what is going on. So this month's report is organized by area of the Compliance Division.

The community affairs monitoring section, some significant updates that we wanted to provide for you as a follow-up on last month's discussion about Cameron and Willacy Communities Project, Inc. As agreed upon, Wipfli has gone down and has done some work at the agency.

They were there the week of March 25th. Their
work is ongoing. And we are expecting a report from them within the next four to six weeks.

In addition, this report item does comment on the continued need for improvement between communication between the subrecipient network and the Department. And we are continuing to look at ways to improve that communication.

We started providing a customer service survey after our monitoring visits. And the response rate to that is rather low. I am considering alternative ways to get some feedback on the issues.

I was raised with lots of sayings. I am from Rhode Island. And my mom always said, if you are not part of the solution, you are part of the problem. So I am still looking for ways to --

MR. OXER: It sounds like you were from upstate Maine actually.

MS. MURPHY: I am still looking for ways to be part of the solution for improving the communication between the Department and the network. The Urban League of Greater Dallas is also in your report. That is another community action agency that is one of our CSBG eligible entities.

We had an issue with a delayed receipt of their required A-133 single audit. That single audit has come
in, and is under review. And we are working with that agency. And we'll have a funding recommendation for you, for a contract recommendation for you at an upcoming Board meeting.

Contract monitoring, things are going relatively smoothly. We have had resolution of some outstanding findings through the enforcement rules that you adopted for us last year. We got some things resolved through that process. So that has been great.

Multifamily monitoring, first of all, I would like to give a shoutout to the multifamily staff. I know I have told you before, there has been a tremendous amount of turnover in that area which has left you know, a really big backlog of work that needed to be slogged through. And the staff has really done a great job in getting a big backlog of work done on top of their additional regular duties.

In addition, there is an update for you about an issue regarding UPCS, the Uniform Physical Condition Standards and local codes. There has been some inconsistent guidance that has been provided to our multifamily owners that we have clarified.

It is, you know, in this report item for the public. A listserv went out. And the individual properties that were affected have been notified. So that
is my update for you.

We are working hard at getting everything done to the best we can, in the best manner possible. And you know, continually seeking feedback on ways for improvement.

So if anybody has any questions, I would be happy to answer them. Otherwise, I think we have some people who would like to make some comment.

MR. OXER: Any questions from the Board?

MR. GOODWIN: Patricia, you made reference to reaching out to the network and not getting much of a response. My experience is those comments have a lot of story behind them. Would you mind kind of being a little more specific about what that means?

MS. MURPHY: Well, let's see. How to say this. There has been an issue raised by the monitoring network in particular that I am very concerned about that there is inconsistencies between the program area, the community affairs program area and training and technical assistance staff and the monitoring staff. And I am very concerned about that.

And I don't want there to be inconsistencies. However, I can't solve this problem unless I know what. Where are we inconsistent? What is the issue.

You know, if there is really specific areas
that we are inconsistent in, we can work together to get on the same page. So one of -- you know, in hopes of eliciting, where is the problem here.

You know, we send these surveys out, you know, that ask that kind of a question. They ask you know, was the monitor professional? Did they explain findings to you? Did you understand the exit conference? Do you have any suggestions for improvement, of how we could do this better?

So we are trying to get some feedback. And since the last meeting, only one subrecipient has filled out the survey and responded. So this is obviously not a very effective way to get to what is the problem. You know, where are the problems. And what ideas are out there for how we can improve this.

So I think I am going to start following up with a phone call instead, to see if people would be more willing to talk to me. And if people are not willing to talk with me, I am also considering some kind of a third party to -- that is a very preliminary idea.

I have not really talked about that with Tim. But having some kind of a third party to really get to the heart of what is the issue here. Because you know, I really would like the Department and the community action network to work on improving communication here.
MR. CHISUM:  Thank you.

MS. MURPHY:  You bet.

MR. OXER:  Any other questions?

(No response.)

MR. OXER:  Tim, would it be -- and I assume it would be okay for the Board to have a copy of whatever request you put out?

MS. MURPHY:  Sure.

MR. IRVINE:  Sure.

VOICE:  Yes.

MR. OXER:  Send it to each of us. Because we would like to help make sure it works also.

MS. MURPHY:  Right. Yes. The first time I did this, I said, you know, does this look like the right questions to ask. Does anyone have any suggestions.

MR. OXER:  Right.

MS. MURPHY:  But I can bring that back.

MR. OXER:  Yes. Okay. All right. All right. We apparently have those who wish to speak on this. I will remind everybody for a housekeeping item, the first three chairs up here on my left, on the room=s right is for those who wish to speak.

If you are going to speak on an item, when we are considering it, make your way up here, and be prepared. Do you have a question, or would like to speak?
MS. BENAVIDES: Yes.

MR. OXER: Okay. We will give you three minutes.

MS. BENAVIDES: Good morning, Mr. Chairman and members of this Committee. I am here. My name is Sophia Benavides. And I am the County Commissioner for Cameron County in Precinct 1.

I also served as a member and most recently, I am the newly elected Chairman of the Board for the Cameron Willacy County Community Projects, Inc. Obviously, we have been having some problems with the state agency and with our agency. And I am here to assure this Commission that as head of the Board, we are willing and are willing to ensure that all communications are open.

And I want to also thank the Department as well as this Commission for allowing our request to come through, and sending in an outside auditor. I have always believed in our community action program. It serves and has served for many, many years. And so I have appealed to our State legislators to step in for us.

As Mr. Irvine told us, we have a lot of advocates in our favor. Those that serve us know the importance of those South Texans that need this continued assistance for our communities. And so I just wanted to come and present myself, and make myself available to
yourselves or to any of the staff members here to ensure that we get everything straightened out.

And if there is any doubt that everything be put out on the table, because I am very interested in ensuring that this community action program that has existed for so many years continues in the same direction.

There is always room for improvement. And if that is the case, then we will improve whatever it is, or whatever areas need to be improved.

But my concern is that I understand there is only one area that is being served. The only location open is in Harlingen. From the Willacy County area that is 35 miles. From my area, it is 25 miles. From Port Isabel it is 30 miles.

So my concern is that if they are going to be mailing out applications, who is going to fill it out for them? A lot of my people do not, cannot fill these out for themselves. And they need assistance. But it is not feasible for them to go all of the way to Harlingen.

And so I ask you all to please help me out, so that we can get those areas and those locations that we have had to close opened up, and soon. Thank you so very much.

MR. OXER: Thank you for your comments, Ms. Benavides. Does anybody else wish to speak on this item?
This is a report item only, as I understand it. Is that correct, Tim? So no Board action is required, except for that we accept it on the consent agenda as presented.

MR. IRVINE: Correct.

MR. OXER: Okay. All right. We'll move to the action items? Mark? And before we start, I would ask, and -- this will be a report on the meeting of the Audit Committee with Ms. Bingham as the Chair of the Audit Committee. Have any comments to make?

MS. BINGHAM ESCAREÑO: Thank you, Mr. Chair. We had a very productive Audit Committee meeting this morning. Mark is going to review very briefly for you the outcome of the two scheduled audits that were completed since the last meeting.

And then we will give you an update about some other items that are pending. So at the Chair=s discretion, how much detail you would like. He will give a brief summary. And then if you or any of the Board members have additional questions, we are available for those.

MR. OXER: Great. All right. Let's hear it, Mark, and then we will see what else we need.

MR. SCOTT: Good morning. I am Mark Scott, Director of Internal Audit. The Audit Committee met
earlier this morning to discuss a payroll audit and the audit of records management processes.

The results of both audits were very favorable. And we also went over the new audit report format as well as we discussed the ongoing consultation that Internal Audit is conducting on subrecipient monitoring. And as Ms. Bingham indicated, I will be more than happy to answer any questions, go into detail on the subrecipient monitoring or the audits to whatever extent the Board would like.

MR. OXER: Okay. Would you like to continue, then? Or either one of them. Or I guess I will ask, are there any questions of the Board on either audit?

(No response.)

MR. OXER: Okay. With respect to the subrecipient monitoring, I think it is becoming apparent that we need to make sure that all of their auditors need to be well versed in A-133 audit process.

MR. SCOTT: Yes, sir. That is one of the things we are doing. I have set up a process where if we get -- if we continually get audits from CPA firms, audit firms that we think are substandard, we will refer them to the State Board of Public Accountancy.

And I have ways to kind of broadcast those. And so hopefully this will encourage the audit firms to do
a better job, so we will get better product.

Because the A-133 audits are a very important control point in the subrecipient monitoring process. And I have been working with Patricia Murphy on --

MR. OXER: Mark, hold on just for a second.

Penny, can you hear him? Okay.

MR. SCOTT: Do I need to talk louder.

MR. OXER: Either closer to the mic, or turn the volume up on the mic.

MR. SCOTT: Okay. I will just get closer. Can you hear me all right?

VOICE: Yes.

MR. SCOTT: Okay. Sorry.

MR. OXER: I can hear you. I didn’t know if those in the back can hear you.

MR. SCOTT: Okay. So yes. The A-133 audits are a very important control point in the subrecipient monitoring process. And the Agency has been relying on those for a long time. And what is coming to light recently is that perhaps the auditors aren’t doing a thorough job.

So I have been working with Patricia Murphy on reading the A-133 audits and really deciphering what they mean, as Mr. Irvine talked about earlier today. They are written in auditease, which is kind of like legalese.
MR. OXER: I know that is a language like engineers speak and techs speak. So it is all right.

MR. SCOTT: Yes. So we have been working on that. So that is a very important project we are working on. And as far as the rest of the Audit Plan, I talked about that this morning. We are on schedule to finish it well in time.

MR. OXER: Great. So we are in pretty good shape.

MR. SCOTT: Yes, sir.

MR. OXER: Generally.

MR. SCOTT: And actually, I think this was a report item. But I guess, if the Board wants to formally accept the report out of the Audit Committee, I am not sure how that works.

MR. OXER: It is a report item. But I would like to have some indication that the Board finds favorable the fact that you are reporting.

MS. BINGHAM ESCAREÑO: Mr. Chair, I am prepared to do that. I just thought I would add just a little bit more in non-auditese or legalese or engineeringese.

MR. OXER: No more nerd speak over here.

MS. BINGHAM ESCAREÑO: Yes. Just regular lay terms. So what I think the Committee heard from Mark and the team and from Patricia this morning in the Committee
meeting is, we will be looking at the A-133s more rigorously.

So it is kind of a -- it is a great thing. But in the introduction of it, it might be a little uncomfortable, right. Because our process won't necessarily change, but will become more rigorous.

I think what the subrecipient community will experience from the staff is the same great feedback that we always get about staff, right. Which is that we are collaborative. That we communicate. That we help resolve problems.

But the bottom line is, it is our responsibility as an organization to hold subrecipients accountable for the quality of those A-133s. And even though we are not in any way saying there is intentionality behind those being, Mark used the word substandard. Not to misunderstand that we think they are intentionally substandard.

But some of these subrecipients may be using CPA or audit firms that may not understand the full scope of what is required to complete and submit an accurate and thorough A-133. Right. So they may have kind of more narrow view of that from maybe a financial accounting standpoint.

So I just say that to make sure it is on the
record that it may be uncomfortable. It may be that some subrecipients say hey, you never asked me for this before. Or I never understood this.

But in the end, I think it will end up being a very productive relationship. And it will be one more thing that subrecipients know that there is some knowledge and support behind, you know, through our departments.

MR. OXER: Thank you, Ms. Bingham. And I would add to that, that it has -- there is absolutely nothing that we are looking for apart from raising the standard of play within that community.

Those of you who know the background and analogies that Tim and I used in the Navy. If you have got a ship, if it is going to turn or speed up, there is always going to be some thrashing around and turbulence in the back end of it.

And what you are getting ready to see is that turbulence until everybody figures out what we are looking for. So the faster we all learn that -- make sure it is clear whether it is going to be required, and the faster everybody learns that, the less painful it is going to be for all of us. So any other questions from the Board?

MR. GOODWIN: Mark, how many subrecipients are there? Is it a hundred? Or are there 15?

MR. SCOTT: I think it would be closer in the

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hundreds. I don’t know the number off the top of my head.

MR. GOODWIN: Okay.

MR. OXER: Tim, have you got a thought on that?

MR. IRVINE: Well, I mean, there are a number of different subrecipient networks. There is our Community Affairs network, our LIHEAP network, our Weatherization Assistance Program network. And those generally range between a couple of dozen and about 40.

But then we also have other types of subrecipients in our other program areas, like our ESG program and our HOME program, and so forth. And in some of these situations, A-133 is a requirement and some of them, it is not. So it is not something we have compiled. But we will try to get you an accurate count for next meeting.

MR. GOODWIN: No. It was just a point of curiosity.

MS. MURPHY: Patricia Murphy, Chief of Compliance. I believe it is about 140. We report on this in our performance measures. And I believe we do about 140 single audit reviews a year.

MR. OXER: That is 140 A-133 single audit, right?

MS. MURPHY: Yes.

MR. OXER: Okay. Thanks, Patricia.
MR. IRVINE: Thank you.

MR. OXER: Okay. Any other questions?

MS. BINGHAM ESCAREÑO: Mr. Chair, I think the Committee would recommend acceptance of the report from the Audit.

MR. OXER: Okay. I will take that a motion on your behalf.

MR. CHISUM: Second.

MR. OXER: Second by Mr. Chisum. No other comment. No public comment?

(No response.)

MR. OXER: All in favor, aye.

(A chorus of ayes.)

MR. OXER: Opposed?

(No response.)

MR. OXER: There are none. It is unanimous.

Thanks, Mark.

MR. SCOTT: Thank you very much.

MR. OXER: Okay. Monica. Good morning.

MS. GALUSKI: Good morning. Good morning, Mr. Chairman, members of the Board. I am Monica Galuski, your Director of Bond Finance.

This is Item 4(a), which is presentation, discussion and possible action regarding Resolution 15-016, authorizing programmatic changes to the to be...
announced single family taxable mortgage program. For several years now, as we all know, tax exempt bonds have not been an effective method of financing for single family home ownership program.

The Department explored alternative financing methods in order to continue to provide home ownership opportunities for low and moderate income home buyers in Texas. And in October of 2012, we implemented a taxable down payment and closing cost assistance program based on a private sector mortgage banking model.

This program, which I call TMP-79 has assisted over 3,600 Texas households with the purchase of their first home, providing over $25 million in down payment and closing cost assistance to eligible borrowers. This assistance is provided in the form of a 30 year zero percent interest non-amortizing second mortgage.

Programmatically, TMP-79 has evolved over time. It began with one assistance option, which was for Government loans, FHA, VA and USDA-RD. It provided five points of assistance and netted three to the borrower after taking into account origination and discount points.

In May of 2014, the Department added conventional loans through the addition of the Fannie Mae HFA Preferred Option.

In October of 2015, we added the five points of

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assistance, netting five points to the borrower by eliminating the origination and discount points. Now, that is an additional option. They can still take three points net or five points net. Just depending on what mortgage rate, you know, how much assistance they need in the mortgage rate adjusts accordingly.

And in January of this year, we added another option which is the up to $8,000 flat amount of assistance option. The purpose, this item proposes further evolution through the addition of a refinance option for TMP-79.

Sorry.

MR. OXER: Okay. Take your time.

MS. GALUSKI: This was kind of spurred by HUD=s announcement that they were going to reduce the mortgage insurance premium on existing FHA loans by 50 basis points which is a significant reduction. And that is for loans originated between, I think it is June of 2009 and January 25th of this year.

MR. OXER: That was 50 points off of what to begin with?

MS. GALUSKI: Fifty basis points off their ongoing fee for -- their ongoing fee for mortgage insurance through FHA.

MR. OXER: I know. But how much had that been?

Fifty points off of -- how many had it been?
MS. GALUSKI: Fifty basis points off of --

MR. OXER: Fifty out of 150 is significant.

Fifty out of 1,500 is different.

MS. GALUSKI: No. It is 50 basis points off 175, right -- no, off 185.

MR. OXER: That is significant.

MS. GALUSKI: It is significant. Yes, 135.

Yes. Yes. It has been reduced down to 85 basis points.

So when they came out with this, it sort of excited the market. And it makes refinances a lot more attractive for most borrowers.

That is a 50 basis point savings right there.

However, in TMP-79, with us using the second mortgage to secure the down payment and closing cost assistance, the way those documents are drafted and basically a borrower, if they want to refinance, prepay or repay their first needs to repay their second mortgage loan back to the Department.

Now, with TMP-79, these are all loans that have been originated since late 2012. That is going to be prohibitive for most borrowers.

They are not going to have the cash to come in and repay the second. So we are proposing that we add a refinance option to provide the opportunity for those borrowers to realize the savings associated with the MIP
reduction, and potentially for a lot of them, additional savings through an even lower first mortgage rate in the refinancing process.

As part of this process though, the Department would modify the maturity date on the current second lien note to match the maturity date of the new -- you know, the refinanced loan, so that we don’t have the second coming due before their first mortgage. And we would resubordinate then the second mortgage.

This proposed refinance option would be subject to the following terms, and these are just abbreviated. Eligible loans would consist of loans originally financed through TMP-79.

So only borrowers who have come in through the last couple of years through this specific program. And those loans would have closed before January 26th. Because everything that closed after that already has the reduced MI insurance. And this is being implemented with the 30 year fixed rate FHA streamlined refinance loans.

The Department will reimburse borrower refinancing costs with funds generated by the structure, which would be through the servicing release premium that we receive as well as premiums generated in mortgage loans that are being sold into the forward delivery market. So there would be very little out of pocket expense on the
borrower side.

We do have maximums built in for the amounts that we would reimburse. And they are different than what is in your Board item. So I will just point those out. The changes to the maximum would be $1,900 for loan amounts up to $85,000, $2,000 for loan amounts between $85,000 and $120,000, $2,100 for loan amounts of 120,000 to 150,000. And $2,200 for any loan above 150,000.

That is not an actual change. It is just a -- it reflects the fact that certain of the costs that would have been charged by the borrower would be paid directly by TDHCA. So we won=t incorporate them in those maximums because they wouldn=t be reimbursable back to the lender.

There would be no origination or discount points charged to the borrower. The borrower would receive no cash back except for minor adjustments at closing as permitted by FHA. Minimum FICO requirement is 660.

And then the borrower will have to meet all of FHA=s streamlined refinance requirements. Since inception in late 2012, TMP-79 mortgage rates have ranged from 3.25 percent to 5.25 percent with the weighted average rate of approximately 4.41 percent. Based on mortgage rate combined with other program requirements, we anticipate
that approximately 52 percent of the current TMP-79 borrowers would be eligible to come back in and refinance, which is about 2,000 loans.

I am not expecting that 2,000 loans will come in. But we think that is about the amount that would be eligible. Right now, if we were to go out with this program today, it would have a 3.75 percent mortgage rate on a refinancing with almost no cost out of pocket to the borrower.

Staff is seeking authority for these programmatic changes and recommends approval of Resolution 15-016. And I would be happy to answer any questions.

MR. OXER: Good. Any questions? Mr. Gann?

MR. GANN: No. I don=t have a question. I kind of wanted to make a statement on some of that. This whole 79 program has been around for a good while, okay.

It is the bond program for first time home buyers basically, okay. But the importance to me, is what it does to the local communities that take advantage of these particular funds.

Because it is not -- it is big enough and more important -- I mean, it affects more people than just the young couple -- it doesn=t have to be a young couple. But usually a first time homebuyer. It also affects every person that touches a home in a home sale. J.B., you
understand what I am talking about there.

Because what happens is, you affect the local community economics wise okay. And you get new carpet in there. You get mom and pops that start contributing. And so many things that go in.

MR. OXER: It is the first domino in a cascade.

MR. GANN: That is exactly right. And all of this is going into the State of Texas. I have always been proud of that. As a realtor, JB, and you can appreciate some of that, too.

MR. OXER: Any other questions? Comments, JB?

MR. GOODWIN: No.

MR. CHISUM: I have a comment, sir.

MR. OXER: Mr. Chisum has a comment.

MR. CHISUM: So with the average rate, that you mentioned was something a little over 4 percent.

MS. GALUSKI: 440.

MR. CHISUM: And so that means then you mentioned, I think, a rate today. Did you say 3.75?

MS. GALUSKI: Yes, I did.

MR. CHISUM: Then there is opportunities for refinance, refinancing. And that being the case, thank you. The refinancing piece, what -- is there something that we do for outreach to those individuals that have the opportunity to refinance?
MS. GALUSKI: We do plan to reach out to the existing borrowers and make them aware of the program. And we also plan probably more importantly to -- some of the lenders have already been calling us and asking us, you know, will we ever be able to refine any of these loans. Our mortgagers want to refine and they can't.

So I think the key to the marketing effort is going to be getting back out to the lenders. Because we will still be using all of our participating lenders. And they will reach out to their customers as well.

MR. CHISUM: Okay. And who sets the rate?

MS. GALUSKI: We set the rate.

MR. CHISUM: Thank you.

MR. OXER: So essentially, it sounds like you are harmonizing the program, making it easier, more cost efficient for a first time homebuyer to get in. We are doing, we are meeting our assignment from the circus over on the hill to get this done.

MS. GALUSKI: Absolutely.

MR. OXER: You have got about 2,000 that are out there now. Apart from talking to the lenders, is there any way to make this more known to each of those 2,000 that are out there. And out of that 2,000, you said you didn't expect all of them, but probably a good percentage of them.

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MS. GALUSKI: Right. We are expecting --

MR. OXER: This could be significant money for a new family or a new homeowner who is out there. Make a lot of difference for some folks out there. And I think that is laudable that we are trying to do that.

MS. GALUSKI: Yes. And we have discussed internally. And I think one of the options is that we go out and we actually send a letter to every borrower in the program and say, this is a refinancing option available to you. You know, contact a participating lender. Because they don’t have to go through their original lender. They can go through any of our participating lenders. And you know, break out.

MR. OXER: So if their original lender doesn’t want to participate, they have got the option to go to somebody who does?

MS. GALUSKI: Yes.

MR. OXER: Your average score or minimum score, FICO score is 660, what is the average score for those who came into the program to begin with?

MS. GALUSKI: The average score for those who came in the program to begin with --

MR. OXER: Come on. We are all data nerds up here.

MS. GALUSKI: I knew you were going to ask
that. The weighted average is 674.

MR. OXER: Good. Okay. All right. Any other questions?

(No response.)

MR. OXER: Okay. With respect to this item --

MR. GANN: I move for approval.

MR. OXER: Okay.

MR. GOODWIN: Second.

MR. OXER: Okay. Motion to approve staff recommendation on Item 4(a) by Mr. Gann, second by Mr. Goodwin. Is there any public comment?

(No response.)

MR. OXER: There appears to be none. Those in favor, aye.

(A chorus of ayes.)

MR. OXER: And opposed?

(No response.)

MR. OXER: There are none. It is unanimous.

Thanks, Monica.

MS. GALUSKI: Item 4(b).

MR. OXER: Yes. Okay.

MS. GALUSKI: This is presentation, discussion and possible action on Resolution 15-014 regarding the annual approval of the Department=s investment policy.

Texas Government Code 2256.005 requires the Department to
adopt a written investment policy and investment
strategies and to review that policy annually.

You should each have a copy of the proposed
policy. And you should have a clean version, as well as a
black line version, which hopefully makes it easier to see
the changes.

Over the years, this policy has evolved to
reflect changes in statute, changes in the investment
market and internal policies of the Department. As such,
this years proposed changes are minor in nature and
consist primarily of modifications to add clarity and
detail plus a bit of clean up.

You have probably noticed the removal of
language in Section 7 under ethics and conflicts of
interest. We did remove language that was not investment
policy specific, but it is rather more a general ethics
consideration that are specifically covered in the
Department=s ethics policy.

So we were trying to sort of narrow the focus
to investment policy related items. Other than that, the
changes are not substantive.

The Department=s Investment Officers are David
Cervantes, the Chief Financial Officer and myself. In
consultation with legal counsel and the Department=s
financial advisor, George K. Baum, we have reviewed the
investment policy in its proposed form and have determined that it is compliant with the Public Funds Investment Act and is appropriate for the Department=s investment interests and requirements.

Staff recommends approval of Resolution 15-014. And I would be happy to answer any questions. And if I can=t, we do have our financial advisor and bond counsel here with us.

MR. OXER: Okay. Are there any questions from members of the Board?

(No response.)

MR. OXER: Just so everybody knows, I am sure they -- here, Barton, stand up. Show everybody who you are. Since you came casual today, with no jacket. David, you are good with this, right?

MR. CERVANTES: [inaudible]

MR. OXER: Yes. He says yes.

MS. BINGHAM ESCAREÑO: Mr. Chair, I will move to approve the policy.

MR. OXER: Okay. Motion by Ms. Bingham to approve Item 4(b).

MR. CHISUM: Second.

MR. OXER: Second by Mr. Chisum. Is there any public comment?

(No response.)
MR. OXER: There appears to be none. So we are doing basically okay. Is that what you are saying?

MS. GALUSKI: We are doing basically okay.

MR. OXER: Okay. That is always a good thing.

So all right. Those in favor, aye.

(A chorus of ayes.)

MR. OXER: Opposed?

(No response.)

MR. OXER: There are none. It is unanimous.

Okay, 4(c).

MS. GALUSKI: presentation, discussion and possible action on Resolution 15-015 regarding the annual approval of the Department=s interest rate swap policy.

Similar to what we just went over on the investment policy.

You should each have copies of clean and black line. In 2004, the Department adopted an interest rate swap policy to establish policies and requirements related to the use and management of interest rate management agree notes. That policy requires an annual review of the policy by the Chief Financial Officer and the Director of Bond Finance.

David Cervantes and I have reviewed the proposed policy as presented to the Board for approval.

This review was performed in consultation with our swap
advisor, George K. Baum. In 2009, the swap policy was substantially changed to reflect changes in the regulatory environment, and in swap and investment markets.

Since then the policy has only needed minor edits, which is the case today, with what I would consider one noteworthy modification. We have added the language to provide for, with the Executive Director’s approval, execution of optional par termination rights with respect to the Department swaps.

It is the same authority that you granted us in February for the 2004 (b) and (d) swaps. And I thought if we memorialized it in our swap policy, and had it apply to all of our swaps, we wouldn’t have to keep coming back to you.

MR. OXER: I think that is a good idea. In fact, and to remind, to restate for the record, the purpose for doing that was to be able to take advantage of short term availability that might not occur until after the Board meeting.

MS. GALUSKI: Absolutely.

MR. OXER: All right. Okay.

MS. GALUSKI: So the staff recommends approval of Resolution 15-015. And I would be happy to answer any questions.

MR. OXER: Okay. Any questions from the Board?
MR. OXER: I am frankly happy to see us getting to where we have got this variable rate debt sort of out of the way.

MS. GALUSKI: Yes. Just so you know, on our swaps, the original notional of the swaps we still have outstanding, which we have five single family swaps outstanding right now. The original notional was 367 million and we are now currently down to 189 million.

MR. OXER: That is the right direction and the right speed. So okay. Any questions from the Board?

(No response.)

MR. OXER: Any public comment?

(No response.)

MR. OXER: There appear to be none. Okay.

With respect to Item 4(c), motion to consider?

MS. BINGHAM ESCAREÑO: Move to approve.

MR. OXER: Motion by Ms. Bingham to approve Item 4(c).

MR. GOODWIN: Second.

MR. OXER: And a second by Mr. Goodwin. No public comment?

(No response.)

MR. OXER: All in favor, aye.

(A chorus of ayes.)
MR. OXER: Opposed?

(No response.)

MR. OXER: There are none. It is unanimous.

Thanks, Monica. Well, Patricia, it looks like you are back. I understand Item 5 was an appeal, and it has been pulled. Is that correct? It's still correct?

MR. IRVINE: Correct.

MR. OXER: Okay. Thanks, Jean. Okay.

Patricia.

MS. MURPHY: Patricia Murphy, Chief of Compliance. Item 6 is requesting approval to repeal the current previous participation rule and propose a new one. Previous participation reviews are the process used to evaluate an entity's compliance status before awarding new funds or entering into contracts.

These reviews are required by the Department's enabling legislation and other federal requirements. And they are important to ensure that organizations that we are doing business with are willing and able to comply.

The rule is being proposed as a new subchapter in the Texas Administrative Code with four subchapters. Subchapter (a) pertains to multifamily awards and ownership transfers. Subchapter (b) is about awards and contracts entered into under the Department's formula funded Community Affairs programs.
Subchapter (c) is the process that will be used for everything else. So example, our home tenant based rental assistance program, our Emergency Solutions Grant, our single family stuff. And lastly, Subchapter (d) lays out a process for appeals.

Before going into an overview of the rule, I want to give you just a little bit of background about where we have been, and where we are proposing to go. For about ten years, the Department used a system called the material noncompliance status system.

It assigned points to different events of noncompliance. The more serious the event, the more points. If you owned a property with too many points, you were considered to be in material noncompliance. And in order to get any funding, it required special Board action.

In January of 2014, the Department adopted new rules eliminating this scoring system. The changes were made in part because of legislative changes, and in part because the system just didn’t work anymore. Things got too complicated, and resulted in some properties unjustifiably being found in material noncompliance and other properties with some pretty serious issues that fell below the threshold.

So in January of 2014, we moved in a different
direction. And we started having the Executive Award Review Advisory Committee better known as EARAC review the compliance history of applicants.

This process has its pros and cons. It seems like this new process has really helped to get the attention of some owners and provided a process for the Department to work with owners on internal controls and communication in order to prevent and timely correct noncompliance.

But a pretty big downside of this process is that applicants don’t really know where they stand. Under the old system, justified or not, you knew what your score was, and you were in or you were out.

Under this new system, applicants have felt uncertain about how EARAC would view their compliance history. So today staff is proposing sort of a hybrid approach that provides some type of scoring structure but still has the EARAC review. The proposed rule introduces a new concept of categorizing applications.

At the time the review is being conducted, applications will be categorized as one, two, three or four. Category one and two applications are presumed to have an acceptable compliance history. Category three and four applications are those with past compliance issues that will be reviewed by EARAC prior to making
recommendation to the Department=s Board.

The rule also takes into consideration the number of rental developments affiliated with applications being considered. The more properties, the more tolerance for past issues of non-compliance.

The rule provides a notice to applicants that their compliance history is going to be discussed by EARAC if they are a Category Three or Four. And gives applicants a change to comment on, or explain mitigating circumstances related to noncompliance events. In addition, it gives applicants the ability to suggests terms and conditions to be placed on their awards related to their compliance history.

Subchapter (b) is about the Department=s formula funded Community Affairs program. It pretty closely mirrors the process required by the new OMB Supercircular and it evaluates a subrecipients single audit and past monitoring findings as well as taking into consideration capacity issues at the subrecipient by looking at the tenure of key personnel and what type of accounting and client tracking software they will be using.

Subchapter (c) is very similar to Subchapter (b) with just a few variances related to the timing of the review. Both Subchapters (b) and Subchapter (c) have

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provisions for notice to applicants before EARAC consideration. And a process available for an appeal of an adverse recommendation by EARAC.

Lastly, Subchapter (d). EARAC does not actually make awards. That is something all of you do. So what an applicant can appeal is an EARAC recommendation. And that is what Subchapter (d) is about.

The proposed rule provides applicants an opportunity for a face to face meeting with the members of EARAC before a final recommendation is presented to the Board. However, if an applicant and EARAC cannot see eye to eye on an award or terms to be placed on an award, that issue will come before the Board for consideration.

Staff has had a robust dialogue with our stakeholders about this rule through roundtables, conference calls, and online forum discussions. We have solicited feedback and questions. We have incorporated ideas we have received.

And we feel pretty good about this new rule. We think it sends the right message about how seriously we take compliance. But it also allows for flexibility for consideration of extenuating circumstances.

It is an 11 page rule. There is four subchapters. And this was actually a pretty high level overview. And of course, the devil is in the details.
So if you have any questions, I would be happy to answer them. Otherwise, staff recommends approval of the proposed rule and proposed repeal as presented in your Board book.

MR. OXER: Questions from the Board?

MS. DEANE: Let me just make a clarification.

MR. OXER: All right.

MS. DEANE: You have discussed the other subchapters. But today is just Subchapter C right. Today we are just doing Subchapter C?

MS. MURPHY: Chapter C with subchapters (a), (b), (c), and (d).

MS. DEANE: With rule -- well, we are not doing more than one subchapter today. We are just doing subchapter (c) today. And there are what, four rules within subchapter C, correct? Subchapter C is the only thing that is posted today.

MS. MURPHY: Oh dear. Subchapter C. Yes. Thank you, Barbara. Yes. It is a subchapter --

MS. DEANE: Subchapter --

MS. MURPHY: I know. I am sorry.

MS. DEANE: Subchapters, paragraph.

MS. MURPHY: Yes. It is confusing.

MS. DEANE: The way the Texas Register looks at things, it can be very confusing.
MS. MURPHY: Yes. It is a subchapter of the general part of the Texas Administrative Code. And like I said, there is four different sections to it.

One is about multifamily and ownership transfers. One is about formula funded Community Affairs. One is about all of our other programs. And one is appeal.

But they are not labeled subchapters. I messed that part up. Sorry.

MR. IRVINE: Sections.
MR. OXER: Sections.
MS. DEANE: Right.
MS. MURPHY: Sections.
MR. OXER: Okay.

MS. MURPHY: Sorry. And I got all ready with my notes, and I still messed it up.

MS. BINGHAM ESCAREÑO: Patricia, I have a question. So you mentioned at the beginning that there was an opportunity for the community to provide some feedback on an online forum.

And you didn’t really have any official takers.

But staff did receive a couple of emails. That is where kind of the big portfolio recommendation --

MS. MURPHY: Extra large.

MS. BINGHAM ESCAREÑO: Extra large. There you
go. So no other real feedback? I guess I am just kind of
surprised that there wasn’t more feedback.

MR. OXER: Yes. Let me add -- let me amplify
onto that question. Because you said it before. We had
put out a request for feedback for the community action
network, didn’t get much.

You know, you put things out to this network
about this problem. You know, you got -- did you get
enough that you felt like it made a representative sample
of what the general sense was out there, the --

MS. MURPHY: Okay. A couple of different
things. So we put that online forum out. And we reached
out to some key stakeholders that often have comment about
the multifamily portion.

And my general sense, there is no public
comment. But my general sense was that it is actually
fairly well received, which made me read it again.

MR. OXER: Cameron, what have you got?

MR. DORSEY: I just would mention that --

MR. OXER: And you are --

MR. DORSEY: Cameron Dorsey, Chief of Staff.

One thing that occurred was, we did a lot of work prior to
putting out the staff draft.

And so there was a round table with a lot of
feedback prior to that, that helped shape what was in the
staff draft. And I think the fact that there wasn't significant comment subsequent to the staff draft simply, hopefully means that we listened and kind of got it right.

MR. OXER: So this wasn't the only opportunity they had. This was just their most recent opportunity. And they had availed themselves of that beforehand.

MR. DORSEY: That is right. That is right. And you know, we spent time on the phone with folks, and I mean, there was a lot of groundwork prior to that staff draft.

MR. OXER: Good.

MS. MURPHY: [inaudible]

MR. OXER: Is that good, Leslie?

MS. BINGHAM ESCAREÑO: Yes, sir.

MR. OXER: Okay.

MS. MURPHY: And the community affairs network in that compliance update that I did, we did have a round table about this. I received a few very small suggestions about the rule itself. And then the roundtable kind of got off topic and onto some different issues.

MR. OXER: Okay. Any other questions from the Board?

(No response.)

MR. OXER: Okay. This is for the proposal for the rules.
MS. MURPHY: For public comment.

MR. OXER: Describe the sequence from here on out. These have been announced, these are -- so we are getting ready to implement these rules?

MS. MURPHY: We are sending them out for public comment.

MR. OXER: All right.

MS. MURPHY: So they will be available for public comment through June 1st. And then we will do a recent response to any comment we receive. And we will bring them back for final adoption.

MR. OXER: Okay. So we are essentially putting them in the Texas Register as we have developed them for now. This will not be the final rule.

This is only the most recent edition for public comment. And we will have another opportunity to make amendments and additions to it?

MS. MURPHY: That is correct.

MR. OXER: We get to live with them after July, more or less. More or less.

MS. MURPHY: Sounds about right.

MR. OXER: Yes. Okay. All right.

MR. GANN: I will move for staff=s recommendation.

MR. OXER: Okay. Motion by Mr. Gann to approve
staff recommendation? Do I hear a second?

   MS. BINGHAM ESCAREÑO: I will second.

   MR. OXER: And a second by Ms. Bingham. There appears to be no public comment?

   (No response.)

   MR. OXER: Is there any other questions from the Board?

   (No response.)

   MR. OXER: Okay. Motion by Mr. Gann, second by Ms. Bingham. Did I get that right?

   MS. BINGHAM ESCAREÑO: Uh-huh.

   MR. GANN: Yes.

   MR. OXER: Okay. Okay. On Item 6, those in favor, aye.

   (A chorus of ayes.)

   MR. OXER: And opposed?

   (No response.)

   MR. OXER: There are none. It is unanimous. Interestingly, we are moving along briskly on the agenda.

   We are now at the point where we will accept public comment for items other than those which were posted on the agenda.

   I would remind all of those present that wish to speak that we can only receive your information and take it down as an item to be attended to in the next

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agenda. We won’t be able to respond. Is there anyone who wishes to say anything? Add anything to the agenda?

(No response.)

MR. OXER: Okay. Is there any other public comment from the staff?

(No response.)

MR. OXER: Any other comment from those on the dais?

(No response.)

MR. OXER: Any other comment from members of the Board?

(No response.)

MR. OXER: Mr. ED, are we good?

MR. IRVINE: Great.

MR. OXER: Okay. I get the last word. We are getting really efficient at doing this, folks. And I appreciate that. I appreciate the effort that everybody puts in onto this. With that, I will accept a motion to adjourn.

MS. BINGHAM ESCAREÑO: So moved.

MR. OXER: Motion by Ms. Bingham to adjourn.

MR. CHISUM: Second.

MR. OXER: Second by Mr. Chisum. No public comment required. Those in favor, aye.

(A chorus of ayes.)
MR. OXER: And opposed?

(No response.)

MR. OXER: Oddly, there are none. Okay, folks.

See you in three weeks.

(Whereupon, at 10:25 a.m., the meeting was concluded.)
CERTIFICATE

MEETING OF:     TDHCA Board of Trustees
LOCATION:      Austin, Texas
DATE:      April 16, 2015

I do hereby certify that the foregoing pages, numbers 1 through 54, 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.

04/22/2015
(Transcriber) (Date)

On the Record Reporting
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