BOARD TRAINING OF MARCH 12, 2008

C. Kent Conine, Chair

TEXAS
DEPARTMENT OF HOUSING
AND COMMUNITY AFFAIRS

Leslie Bingham Escareño, Member
Tomas Cardenas, Member
Sonny Flores, Member
Juan Muñoz, Member
Gloria Ray, Member

MISSION

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

TO HELP TEXANS ACHIEVE AN IMPROVED QUALITY OF LIFE THROUGH THE DEVELOPMENT OF BETTER COMMUNITIES

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

BOARD TRAINING
March 12, 2008

ROLL CALL

	Present	Absent
Bingham Escareño, Leslie, Member	___________	___________
Cardenas, Tomas, Member	___________	___________
Conine, C. Kent, Chair	___________	___________
Muñoz, Juan, Member	___________	___________
Ray, Gloria, Member	___________	___________
Flores, Sonny, Member	___________	___________
Number Present	___________	
Number Absent		___________

_______________________, Presiding Officer

Texas Department of Housing and Community Affairs

Board Workshop
221 East 11th Street, Room 116

March 12, 2008
4:00 pm

Agenda

CALL TO ORDER, ROLL CALL Kent Conine, Chair

CERTIFICATION OF QUORUM

PUBLIC COMMENT
The Governing Board of the Texas Department of Housing and Community Affairs (TDHCA) will solicit Public Comment at the beginning of the meeting.

No motions or votes on any agenda item will occur

The Governing Board of the Texas Department of Housing and Community Affairs will meet to discuss the following:

Item 1: Presentation and Discussion of issues related to Weatherization (WAP), Low Income Home Energy Assistance Program (LIHEAP) and Community Service Block Grant (CSBG) awards, appeals and amendments.

Item 2: The Board of the Texas Department of Housing and Community Affairs will meet to hear presentations from Bond Counsels, Financial Advisor and Staff relating to legal aspects of TDHCA's mortgage revenue bonds, housing and bond finance process and credit rating matters.

ADJOURN

To access this agenda & details on each agenda item in the board book, please visit our website at www.tdhca.state.tx.us or contact Nidia Hiroms, 512-475-3934; TDHCA, 221 East 11th Street, Austin, Texas 78701, and request the information. Individuals who require auxiliary aids, services or sign language interpreters for this meeting should contact Gina Esteves, ADA Responsible Employee, at 512-475-3943 or Relay Texas at 1-800-735-2989 at least two days before the meeting so that appropriate arrangements can be made. Non-English speaking individuals who require interpreters for this meeting should contact Nidia Hiroms, 512-475-3934 at least three days before the meeting so that appropriate arrangements can be made. Personas que hablan español y requieren un intérprete, favor de llamar a Jorge Reyes al siguiente número (512) 475-4577 por lo menos tres días antes de la junta para hacer los preparativos apropiados.

ITEM 1:

Presentation and Discussion of issues related to Weatherization (WAP), Low Income Home Energy Assistance Program (LIHEAP) and Community Service Block Grant (CSBG) awards, appeals and amendments

Community Affairs Division

Contact Information

Amy Oehler

Acting Director

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amy.oehler@tdhca.state.tx.us

Community Affairs Division

- **Comprehensive Energy Assistance Program (CEAP)**
- **Weatherization Assistance Program (WAP)**
- **Community Services Block Grant (CSBG)**

- **Staffing:**
  - 31 FTE's
    - 13 Fiscal and Planning
    - 16 Monitoring and Training
    - 2 Managers

Energy Assistance

<u>Comprehensive Energy Assistance Program</u> (CEAP)

Purpose: To address the energy needs of low income households by providing utility assistance; repair, replacement and retrofitting of inefficient appliances; and client education.

- Funded by U.S. Dept. of Health and Human Services for **$36 Million**

<u>Weatherization Assistance Program</u> (WAP)

Purpose: To increase the energy efficiency of dwellings owned or occupied by low-income persons, reduce their total residential expenditures, and improve their health and safety.

Funded by US Dept. of Health and Human Services	\$7.0 Million
Funded by Department of Energy	\$5.5 Million
Funded by Investor Owned Utility companies (Swepco, El Paso Electric, and Southwest Public Services)	\$1.2 Million
TOTAL WAP	**\$13.7 Million**

Energy Assistance

- **U.S. Dept. of Health and Human Services (USDHHS)**

  Low Income Home Energy Assistance Program (LIHEAP)
  Approximately $45 Million per year
  Board Review and approval of draft plan in June prior to web posting and public hearing
  Final approval from Board in July
  Plan submitted to USDHHS by September 1

- **Department of Energy (DOE)**

  Weatherization Assistance Program (WAP)
  Approximately $5.5 Million per year
  Executive Team review of draft plan prior to web posting and public hearing
  Final approval from Board in February or March
  Plan submitted to DOE by March 1

- **Investor Owned Utility (IOU) Companies**

  SWEPCO, El Paso Electric, & Southwest Public Services
  Approximately $1.2 Million per year for WAP
  Review and approval of allocation by Board in November or December

Energy Assistance

- Public Comment is solicited each year for the LIHEAP State Plan and DOE State Plan.
- The Department's existing formula allocates funds based on the number of low-income households in a service area and the special needs of individual service areas. This formula is at the Boards discretion.
- The elderly poor and non elderly poor populations are given priority by sharing 80% of the weight of the formula. A weather factor based on heating and cooling degree days is given 10% of the weight of the formula. The extra expense in delivering services in sparsely populated areas is assigned 5% and poorer counties (as determined by the county median income factor) receive 5%.

Energy Assistance

<u>Eligibility for Energy Assistance Programs:</u> The Board has established household income at or below 125% of federal poverty guidelines for participation. States are permitted to provide services up to 150% of federal poverty guidelines.

<u>Priority Populations:</u> Are established in the LIHEAP Statute and the DOE Final Rule and are not subject to local change. The priority populations are residences with elderly, disabled, children, high energy users, or residences with high energy burden.

<u>Board Actions include:</u> Plans for LIHEAP and DOE, Contract awards for CEAP, WAP (DOE and LIHEAP) and IOU contracts.

Energy Assistance

Weatherization Policy Advisory Council

- Mandated by DOE in 10 CFR Part 440.
- Historically, TDHCA staff recommends appointees who serve at the discretion of the Executive Director who appoints the 9 members which represent 3 groups:

  weatherization providers,

  energy conservation interests, and

  consumer related interests.
- The Board could approve these appointments if desired.

Energy Assistance

Subrecipients:

- Currently 49 **CEAP** Subrecipients serve all 254 Texas counties
- Currently 33 **WAP** Subrecipients serve all 254 Texas counties

Performance:

- 51,500 households per year receive CEAP services
- 2,960 units are weatherized per year

Community Services Block Grant

Purpose: To provide administrative support in the effort to reduce poverty, empower low-income individuals to become self-sufficient, and effectively coordinate with other like programs.

U.S. Department of Health and Human Services

- Through the Office of Community Services (OCS).
- CSBG State Plan due on Sept. 1, 2009 for 2010 and 2011 after Public Hearings and Board review and approval.
- $30 million per year received on a quarterly basis.
- 90% of the funds must be provided to CSBG eligible entities according to Federal law. Most entities received their eligible entity status in the original Economic Opportunity Act of 1964 and new eligible entities must be designated by the Governor.
- CSBG Annual Report submitted on March 31st

Community Services Block Grant

The formula is detailed each year in the CSBG state plan which is available for Public Comment and submitted to the Board for review and approval.

- Currently, no subrecipient receives less than $150,000 (5 subrecipients receive this minimum). The remaining subrecipients receive a $50,000 base and the remaining funding is allocated by the formula.
- The current formula is primarily based on poverty population (98%) and provides a factor (2%) to address the extra expense in delivering services in sparsely populated areas.
- Eligibility - Currently, the Department uses household income at or below 125% of federal poverty guidelines. The program allows the states to provide services up to 150% of federal poverty guidelines.
- Board Actions include CSBG Annual Plan, and the Contract Awards.

Community Services Block Grant

Subrecipients:

- 46 “eligible entities” serve all 254 Texas counties.
- 90% of CSBG funds (by formula) are awarded to those subrecipients
- <u>5% **Discretionary**</u>
  - Beginning in 2009, the discretionary funds will be allocated through a competitive Request for Application (RFA). Current projects eligible for discretionary awards include:
    - Disaster Assistance
    - Migrant Seasonal Farm Workers
    - Innovative, Statewide and Special Demonstration Projects
- However, the Board may through policy provide additional discretionary activities or delete any of these activities.

PY 2006 Performance:

- 481,598 persons per year receive services
- 3,087 persons transitioned out of poverty each year

Community Services Block Grant

CSBG funds are used as Administrative Funding in support of:

Case Management
Information and Referral Services
Self-Sufficiency Programs
Education Programs (such as ABE, GED, Head Start, ESL)
Nutrition (senior nutrition programs such as Meals-on-Wheels)
Disaster Assistance
Transportation (multi-purpose, rural, and medical)
Emergency services (food, utility, rent, medical, clothing, etc.)
Utility Assistance
Weatherization
Health Services (family planning, rural health clinics, health screening)
Housing Services
Budgeting Classes
Youth Projects
Employment Programs and Services (such as WIA, job search, job skills)

Community Affairs Division
Additional Information

Funding Formula:

Energy Assistance Programs

The Texas Department of Housing and Community Affairs (the Department) uses formula to allocate Energy Assistance funds to a network of subrecipients. The subrecipient network consists of Community Action Agencies, nonprofit entities, and units of local government. The funding formula accounts for several factors in a subrecipient's service territory. A subrecipient's service territory may include one or more counties. The funding formula applied to a subrecipient's service territory assigns weight to the number of low-income households, weather, as it relates to heating and cooling degree days, the median income, the number of elderly households, and the expense of delivering services in rural areas. The Department uses the 2000 U.S. Census data to determine calculations for demographic factors and Southern Regional Climate Center, Louisiana State University, to determine the weather factor. The formula yields a county allocation percentage, which when aggregated with the other counties in the subrecipient service territory, results in a subrecipient allocation percentage. The subrecipient allocation percentage is multiplied by the available funds yielding the subrecipient allocation. The Department's Governing Board reviews and approves all subrecipient allocations prior to the distribution of funds.

Community Affairs Division
Additional Information

The five factors used in the formula are calculated as follows:

Factors	**Percent**
Households in poverty with at least one member 64 years of age or younger.	40
Households in poverty with a least one member 65 years of age or older.	40
Household density as an inverse ratio.	5
Median Income of the county.	5
Weather factor based on heating degree days and cooling degree days.	10

It is within the purview of the Board to modify the formula.

Community Affairs Division
Additional Information

Weatherization Policy Advisory Council (PAC)

- The Weatherization PAC is broadly representative of organizations and subrecipients and provides balance, background, and sensitivity with respect to solving the problems of low-income persons, including the weatherization and energy conservation problems. The Council has the responsibility of advising the Department.
- In 10 CFR Part 440 (Final Rule) the Department of Energy states:
- Prior to the expenditure of any grant funds, the Department shall establish a policy advisory council which:

1. Has special qualifications and sensitivity with respect to solving the problems of low-income persons, including the weatherization and energy conservation problems of these persons;
2. Is broadly representative of organizations and agencies, including consumer groups that represent low-income persons, particularly elderly and disabled low-income persons and low-income Native Americans, in the State or geographical area in question; and
3. Has responsibility for advising the appropriate official or agency administering the allocation of financial assistance in the State or area with respect to the development and implementation of a weatherization assistance program.

Community Affairs Division
Additional Information

Current Members of the Policy Advisory Council :

Weatherization Providers	Energy Group	Consumer & Related Group
Johnette Hicks, Executive Director, Chair Economic Opportunities Advancement Corporation – Planning Region XI	**Heather Ball**, Director Marketing & Public Education Railroad Commission of Texas Alternative Fuels Research and Education Division	**Doug Garrett**, CEM, CDSM Building Performance and Comfort Heating, Ventilation & Air Conditioning
Karen Swenson, Executive Director Greater East Texas Community Action Program	Vacant	**Michael P. Wilson, PhD.** Texas Department of Aging and Disability Services
Francis Pelley, Executive Director Texoma Council of Governments	Vacant	Vacant

Community Affairs Division
Additional Information

- The Policy Advisory Council (PAC) is currently in place; however, membership changes are expected to occur. At the present time, the PAC consists of six members. The PAC meets annually. The Department seeks the PAC guidance and approval on WAP Plans each year.

- Staff will prepare a list of proposed appointees to fill the vacant seats on the PAC.

Community Affairs Division
Additional Information

Funding Formula:

Community Services Block Grant

- The Department uses the following formula to distribute 90% of the CSBG funds: 98% of the allocation is based on 2000 Census data poverty figures and 2% of the allocation is based on the inverse density ratio for the geographic area. The Department has a base allocation of $50,000 and a floor of $150,000 (minimum allocation).

- The use of these factors ensures equity among all CSBG eligible entities, including the minimum operational funds driven by the floor factor and additional funds for sparsely populated areas. The floor ensures that small organizations are provided a reasonable amount of operational funds sufficient to administer the Community Services Block Grant and any other grants designed to serve the area's low-income population. The population density factor ensures that additional funds are provided to those organizations with sparsely populated service areas.

- The formula is applied as follows: each CSBG eligible entity receives a base award; then, the weighted factors of poverty population and population density are considered. If the application of the base and factors does not yield sufficient funds for the minimum floor, then the minimum floor amount is reserved for those CSBG eligible entities and the formula is re-applied to the balance of the funds for the remaining CSBG eligible entities.

Community Affairs Division
Additional Information

Allowable Use of CSBG Discretionary Funds (5%)

As per the CSBG Statute, the State shall use the remainder of the grant or allotment (other than the 90% for CSBG eligible entities) for activities that may include:

a) providing training and technical assistance to those entities in need of such training and assistance;

b) coordinating State-operated programs and services, and at the option of the State, locally-operated programs and services, targeted to low-income children and families with services provided by eligible entities and other organizations funded under this chapter, including detailing appropriate employees of State or local agencies to entities funded under this chapter, to ensure increased access to services provided by such State or local agencies;

c) supporting statewide coordination and communication among eligible entities;

Community Affairs Division
Additional Information

Allowable Use of CSBG Discretionary Funds (5%) (Continued)

d) analyzing the distribution of funds made available under this chapter within the State to determine if such funds have been targeted to the areas of greatest need;

e) supporting asset-building programs for low-income individuals, such as programs supporting individual development accounts;

f) supporting innovative programs and activities . . . to eliminate poverty, promote self-sufficiency, and promote community revitalization;

g) supporting State charity tax credits as described in subsection (c) of this section; and,

h) supporting activities, consistent with the purposes of this chapter.

ITEM 2:

The Board of the Texas Department of Housing and Community Affairs will meet to hear presentations from Bond Counsels, Financial Advisor and Staff relating to legal aspects of TDHCA's mortgage revenue bonds, housing and bond finance process and credit rating matters.

Presentation to

Texas Department of Housing and Community Affairs

"Overview of Tax-Exempt and Mortgage Revenue Bonds"

Presented by

RBC Capital Markets

March 12, 2008

RBC Capital Markets

Presentation Overview

Objectives

- *Legal Issues Associated with Housing Bonds / Bond Review Board*
- *Overview of Market*
- *Overview of Sales Financing Team*
- *Understanding the Bond Issuance Process*
- *Understanding the Basics of Swaps*
- *Housing Cash Flows*
- *Familiarity with Housing Terms and Concepts*

RBC Capital Markets

Section 1

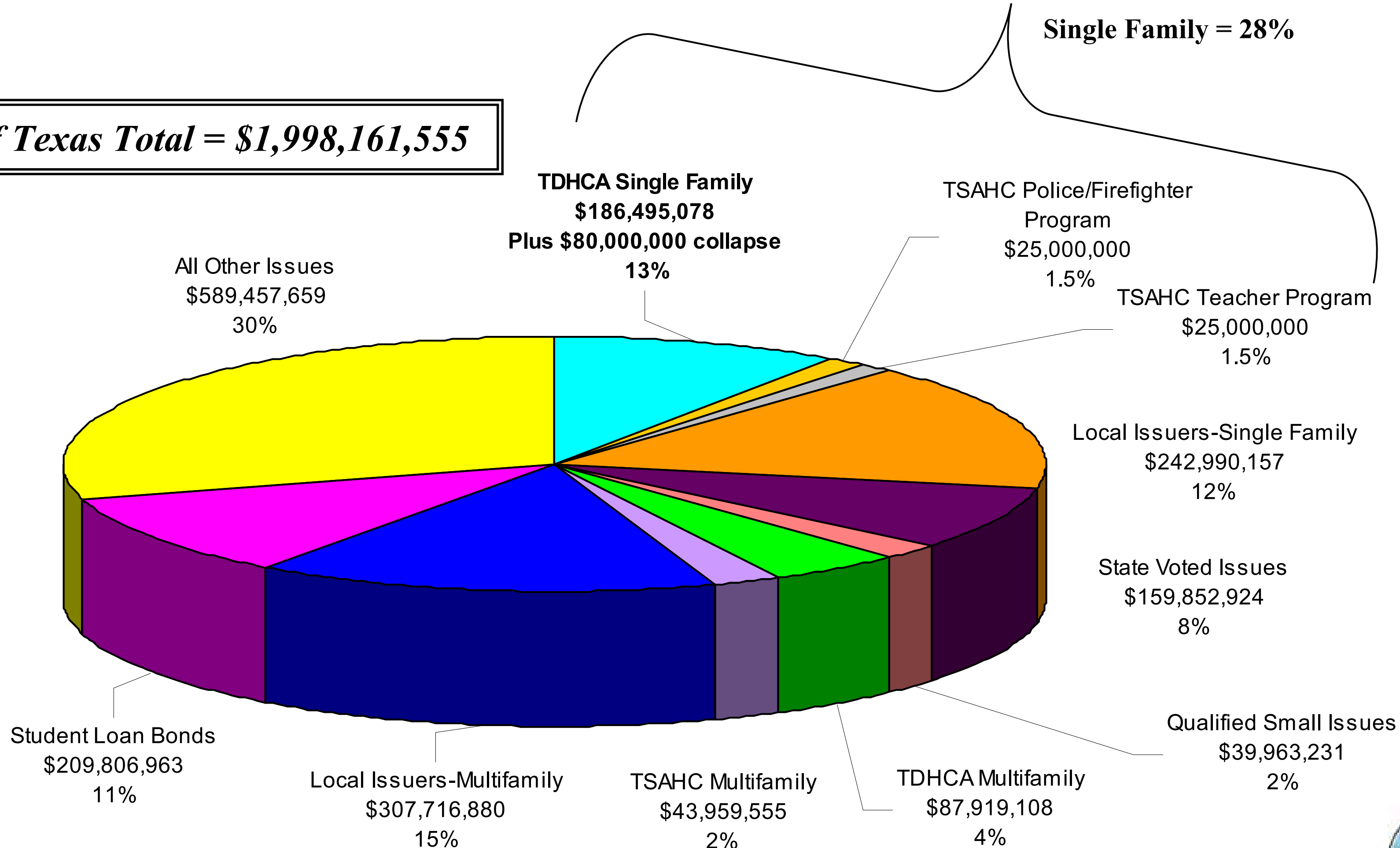
TDHCA: Legal Context

State Law Issues

- Revenue Bonds (not general obligation)
- Board must make certain determinations
- Public Notice Requirements
- Sovereign Immunity
- Bond Review Board Approval
- Attorney General Approval
- Limits on Mortgages

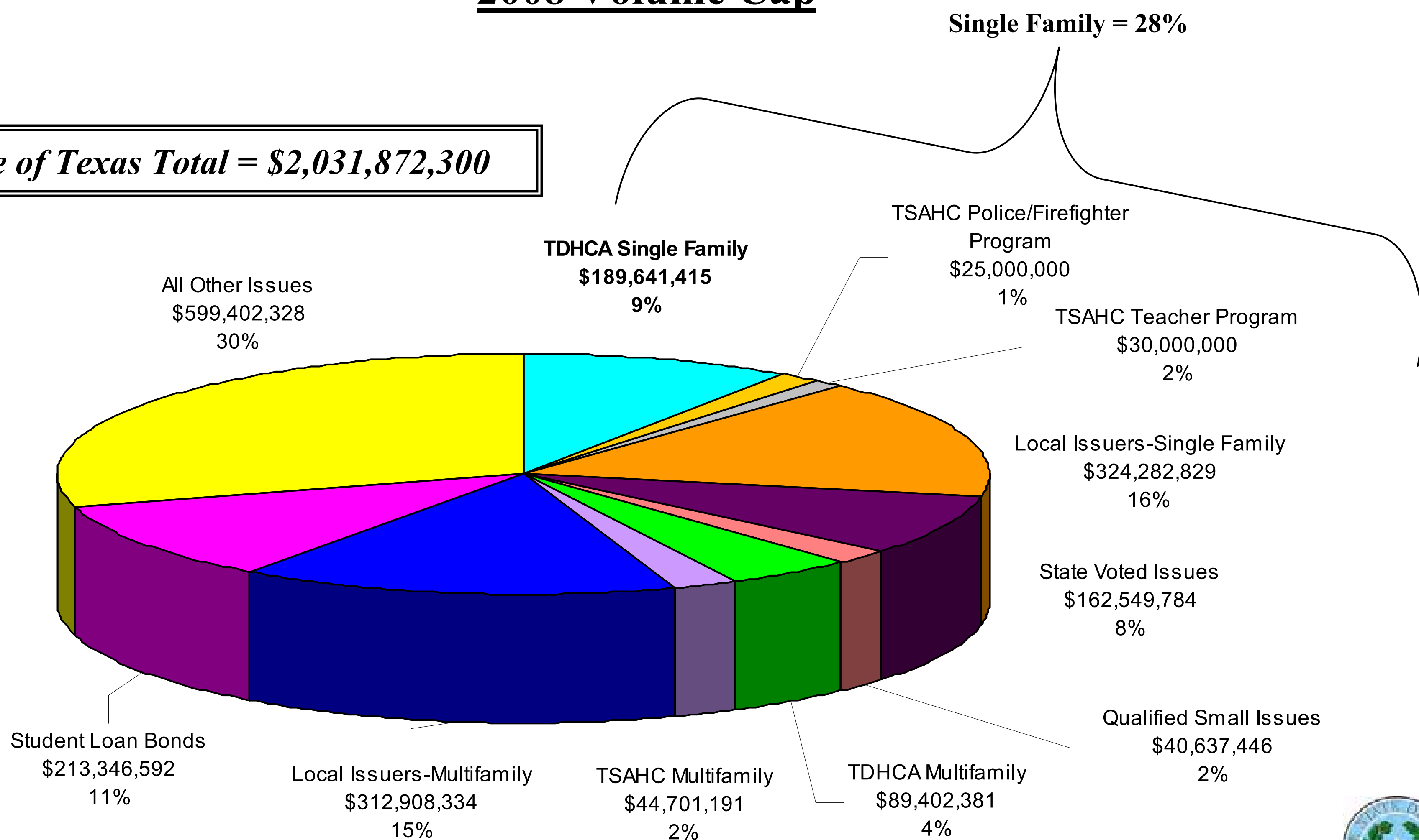
Actual 2007 Volume Cap

State of Texas Total = $1,998,161,555



2008 Volume Cap

State of Texas Total = $2,031,872,300



Texas Dept of Housing & Community Affairs

Background:

- ➢ The Tax Law Fundamentals
  - Limits Earnings - The 1.125 percentage point limitation
  - Qualifying mortgages
  - The targeted area set-aside
  - Market price rule
  - The 32-year rule
  - Sizing (overburdening) – organization experience
  - Recapture
  - Rebate
- ➢ The Tax Certificate
  - Reasonable expectations vs. deliberate acts
  - Reliance on representations by other deal participants
  - Due diligence
  - Post-issuance considerations

Texas Dept of Housing & Community Affairs

Swaps:

- Integration vs. Super-Integration
- Basis Considerations
- Reliance on Representations

Economic Refundings:

- Distinguish from “Recycling”
- Limitations on Use of Savings
  - Issuance costs not recoverable
  - The subsidy benefit
- Prepayment Risk
- 32-Year Rule

Texas Dept of Housing & Community Affairs

IRS Enforcement:

- Single Family Audit Activity
  - Department’s experience
  - Current information
- Rebate Correspondence Audits
- Guaranteed Investment Contracts (bid rigging investigation)
  - Current events
  - Department’s circumstances
- Derivatives
  - Pricing risks
  - Distinguishing from yield burning

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Bond Review Board Process

Texas Dept of Housing & Community Affairs

- A state agency may not issue bonds without the approval of the Texas Bond Review Board (BRB) but the BRB may exempt certain bonds and delegate authority to its director of bond finance to approve certain bonds.
- TDHCA multifamily conduit bonds are exempt unless seeking ad valorem tax reduction or exemption.
- BRB Executive Director is authorized to approve refunding or refinancing bonds with a net present value savings of at least 3% and to approve self supporting revenue bonds that have no general revenue impact to the state such as TDHCA single family bonds.

<u>Limitations on exemption</u>

1. TDHCA is required to follow the formal approval process regardless of the exemption if requested to do so by one or more of the members of the BRB.
2. BRB has authority to waive the state law requirement that TDHCA allocate 40% of its single family loan volume to underserved economic and geographic submarkets of the state. The Attorney General's office has determined that only the full board of BRB may make that determination.

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Section 2

Overview of Tax Exempt and Mortgage Revenue Bonds

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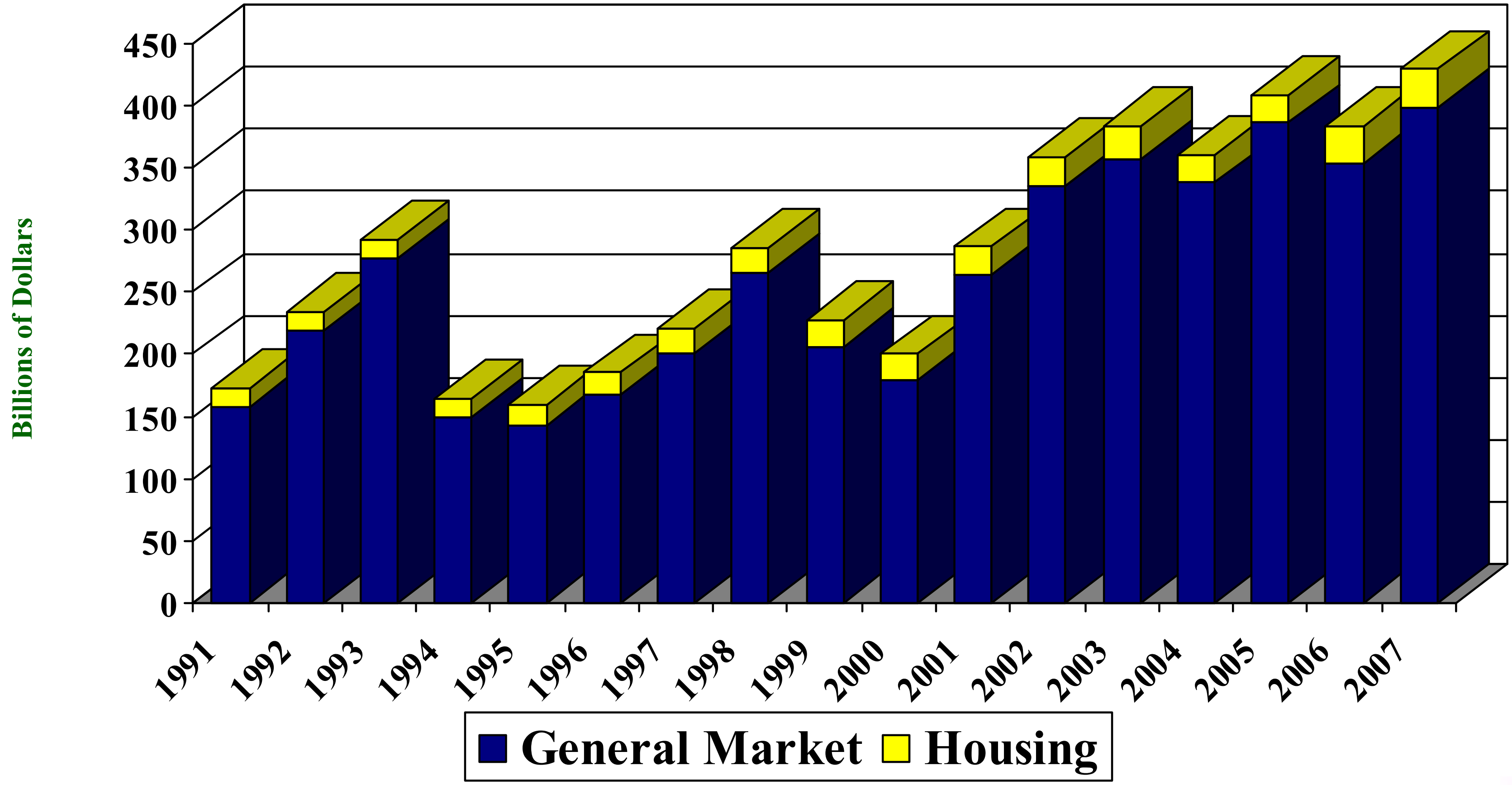
Long-Term Municipal Bond Volume: 1991-2007
(vs. Housing)



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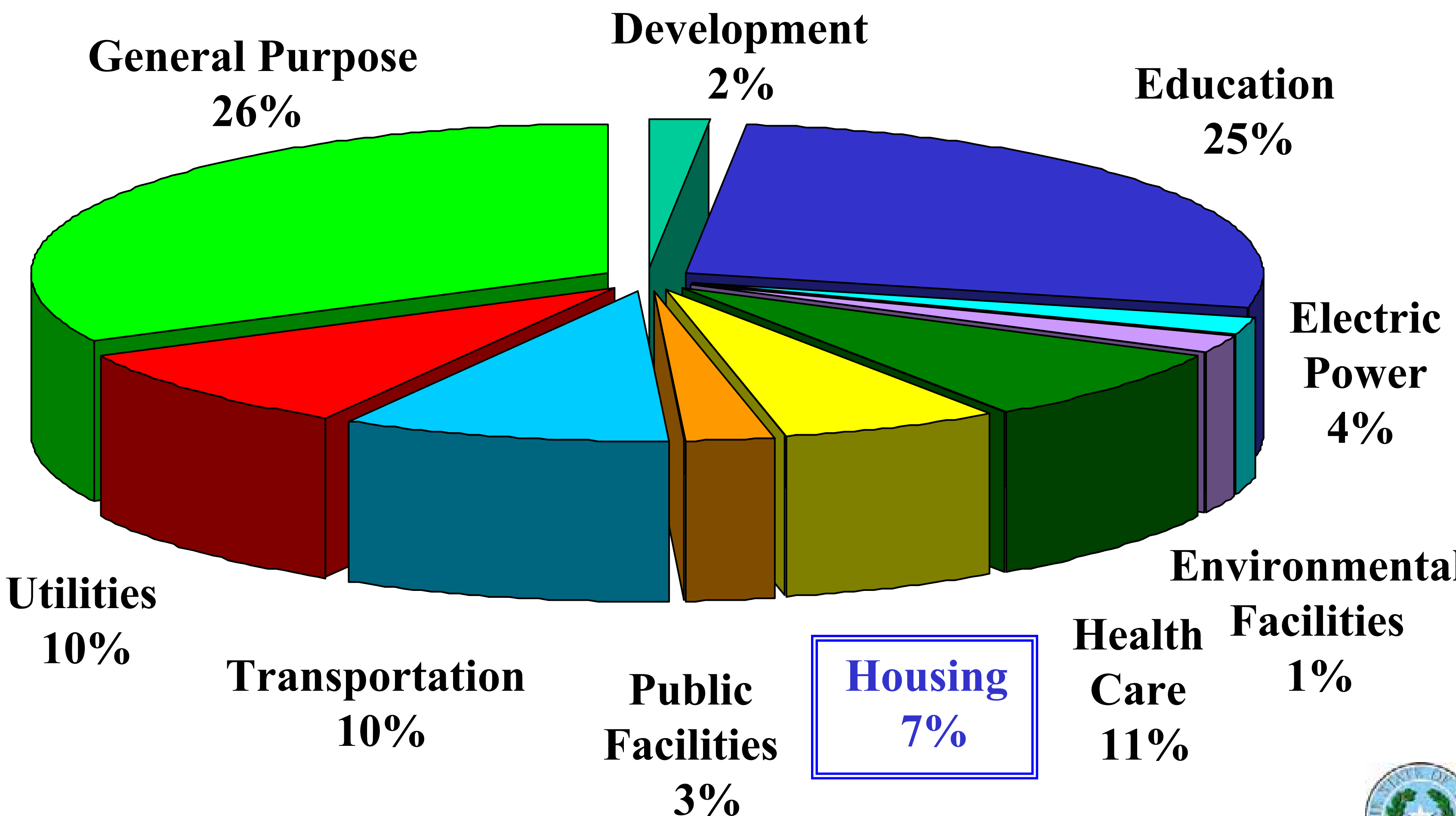
Source: The Bond Buyer

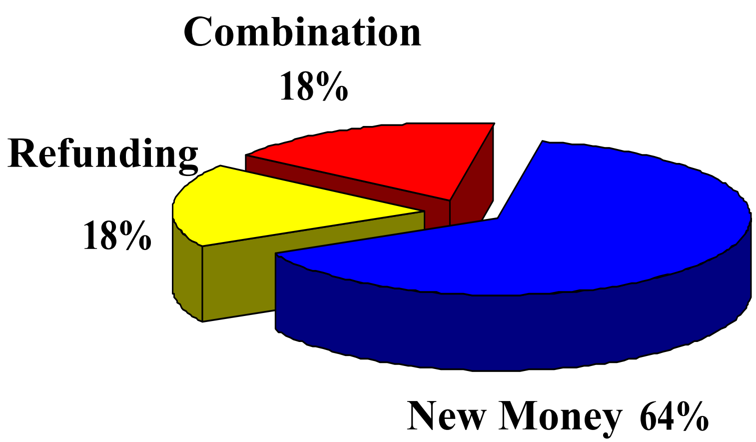
Texas Dept of Housing & Community Affairs

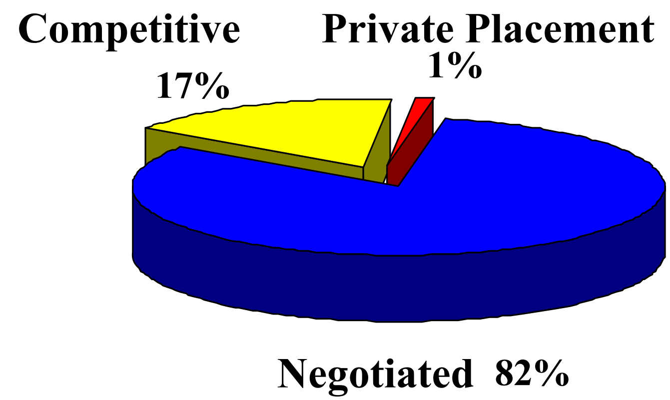
Purpose of General Financings - 2007 Bonds

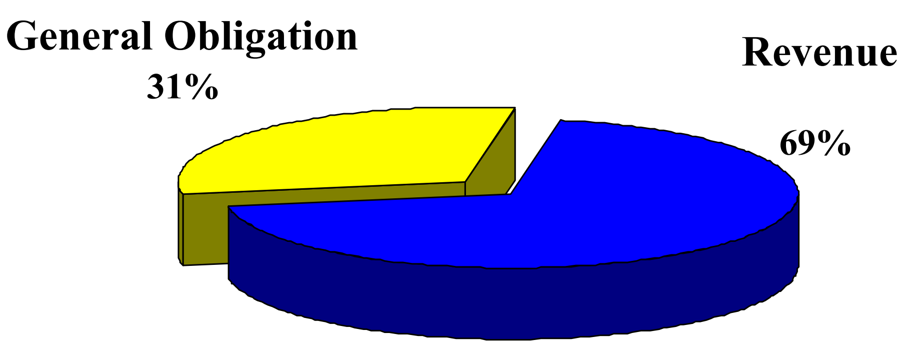


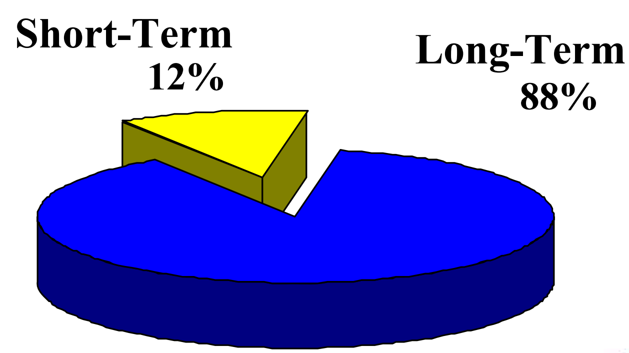
Source: The Bond Buyer

2007 Municipal Finance Detail









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Source: Securities Data Company

Methods of Bond Sale

- **Negotiated Sale** - An issuer selects investment banker(s) to purchase and resell its bonds. Interest rates, redemption features and other terms (including fees) are established via negotiation between the underwriter(s) and the issuer. Investment banker(s) are usually selected based on:
  - Experience underwriting and selling MRB issues
  - Expertise and computer/analytical skills of staff to be assigned
  - Proposed strategy to meet the issuer's program objectives
  - Sales and distribution capacity to sell the issuer's bonds
  - Underwriting fees
  - Large issues
  - Unusual credits
  - Control fees
  - Pre-marketing
  - Market timing
  - Unusual call features

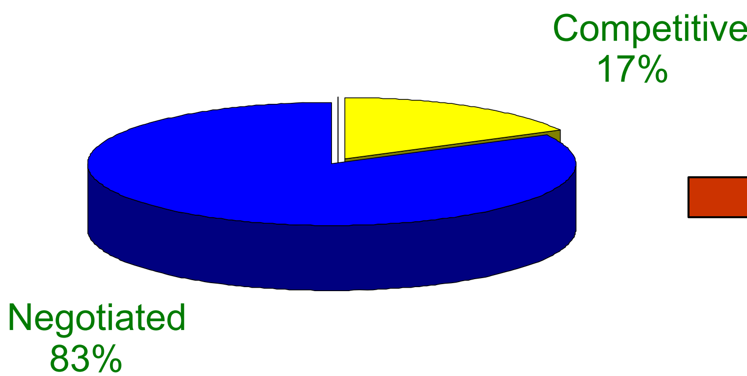
- **Competitive Sale** - An issuer, assisted by its financial advisor, structures the bonds for sale through a published "Notice of Sale" inviting competing firms or "bidding syndicates" to submit sealed bids on a specified date and time. The bonds are awarded to that firm or syndicate offering to purchase the bonds with the lowest true interest cost (TIC).

- **Private Placement** - An issuer, usually assisted by its financial advisor or by a "placement agent", sells its bonds directly to the investor without using an underwriting syndicate as an intermediary.

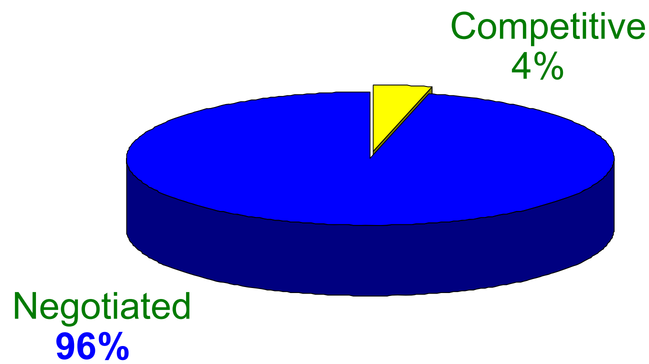
Texas Dept of Housing & Community Affairs

Housing Bonds are Overwhelmingly *Negotiated*

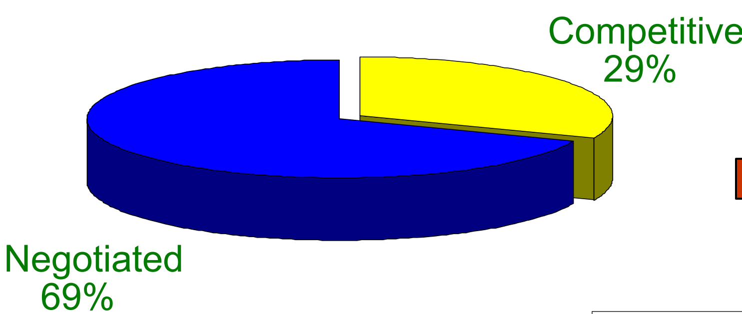
All Bond Issues by $



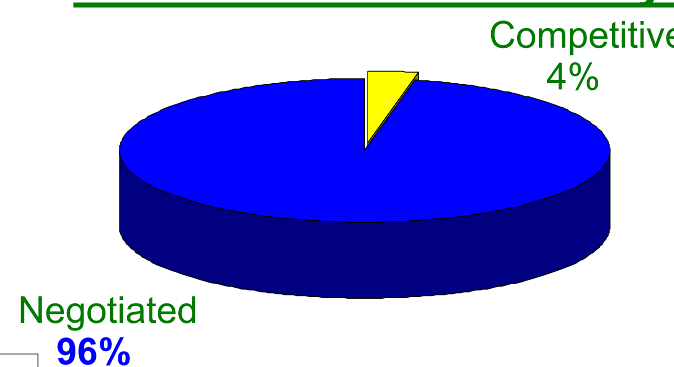
HOUSING Bond Issues by $



All Bond Issues by



HOUSING Bond Issues by



Bonds Issued in 2007

The Municipal Bond Market

Market Segments

- **Institutional investor market**
  - National - Bond funds, GSE's (FNMA, Freddie MAC), fire & casualty insurance companies, arbitrage funds, money market-VRDN
  - Regional - Second tier insurance companies, smaller investment advisors, large bank trust dept (non-AMT)
  - State - Community banks and S&Ls, local bank trust dept, single state bond funds
- **Retail investor market** – high net worth accounts

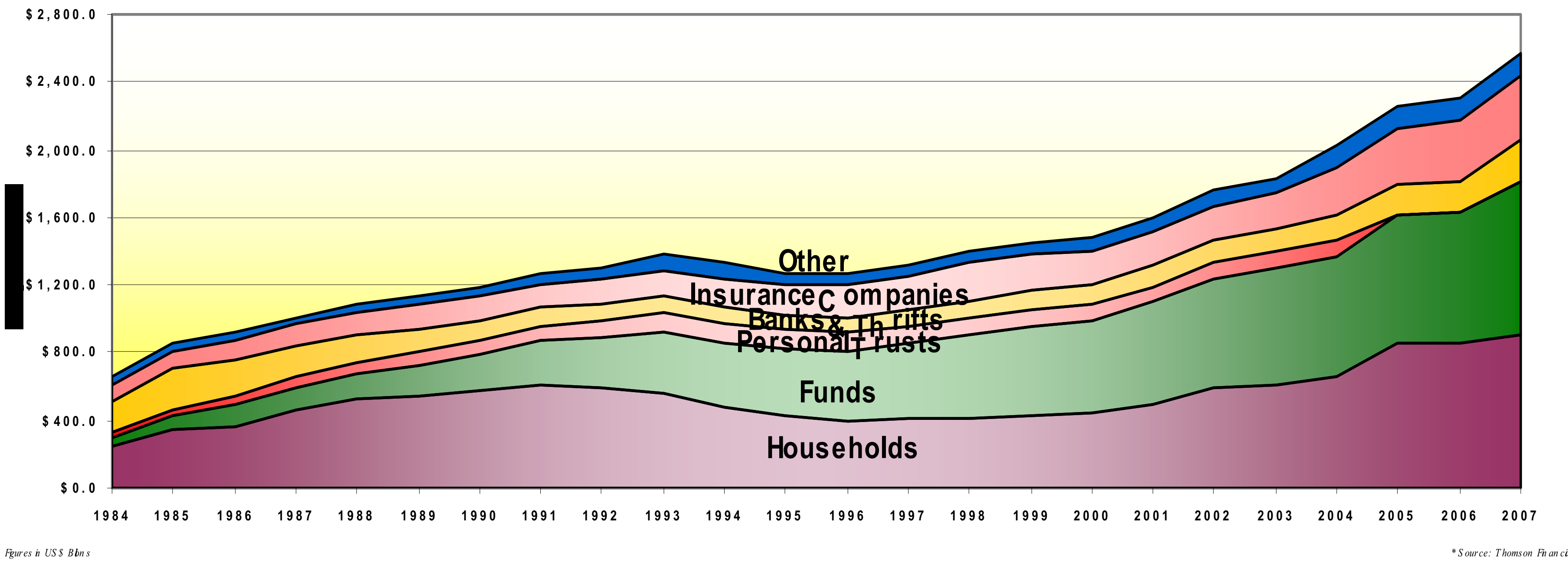
Investor Appetite for Components of MRBs

Type of Bond		Institutional	Retail
Variable Rate Demand Notes (7-day floater Money Market)			
Serial bonds (annual maturities out 10-12 years)		X	X
	X		
Intermediate term bonds (15-20 years)		X	X
PAC bonds (4-7 year average life)		X	
Long-term bonds (25-40 year maturities)		X	
Long-term premium bonds (25-30 year maturities)		X	
Monthly pass-through bonds		X	
Step Coupon & T/E – Taxable "Flipper" Bonds		X	

RBC Capital Markets

Texas Dept of Housing & Community Affairs

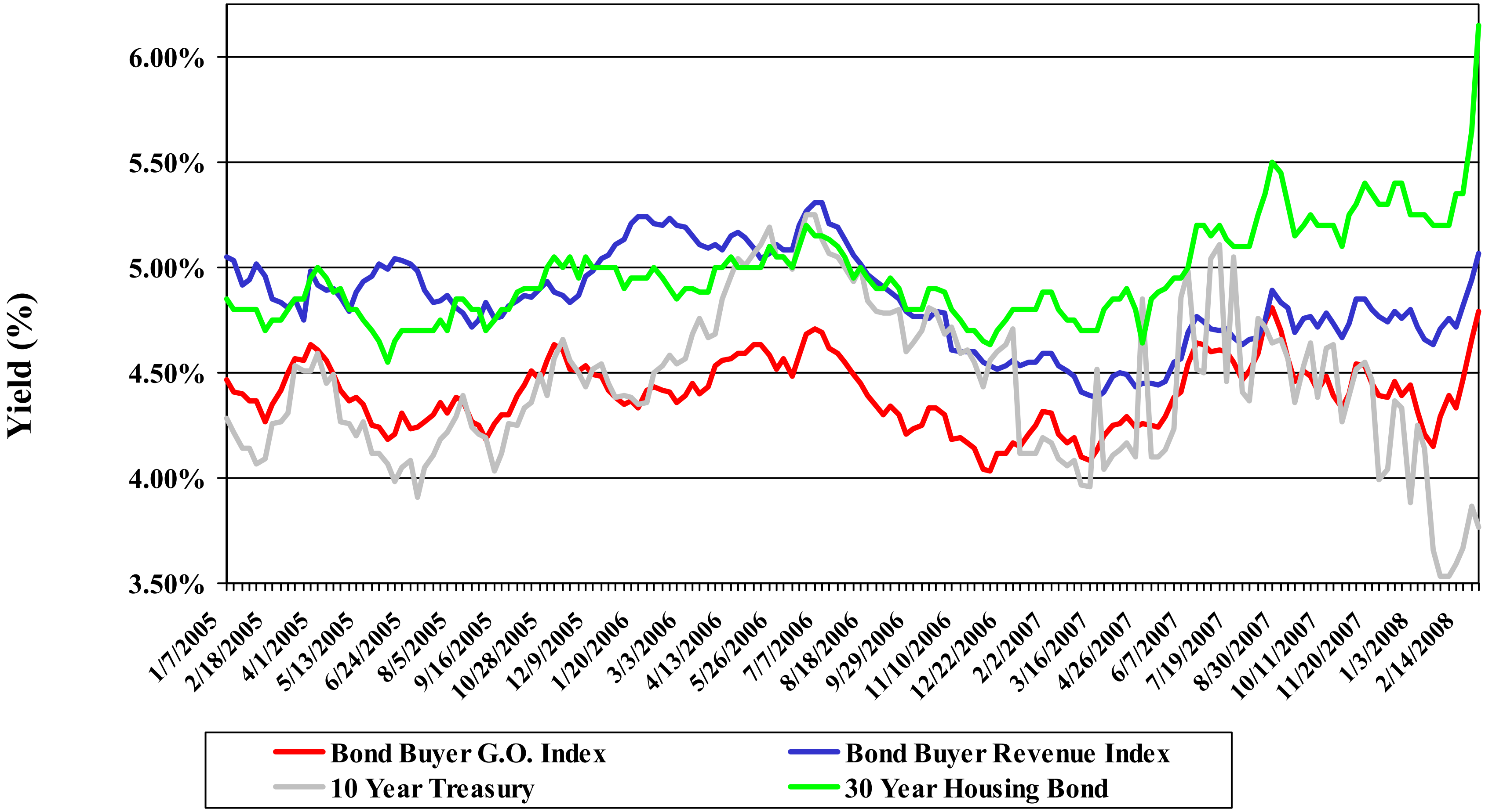
Holders of Municipal Debt: 1990-2007



Source: The Bond Buyer

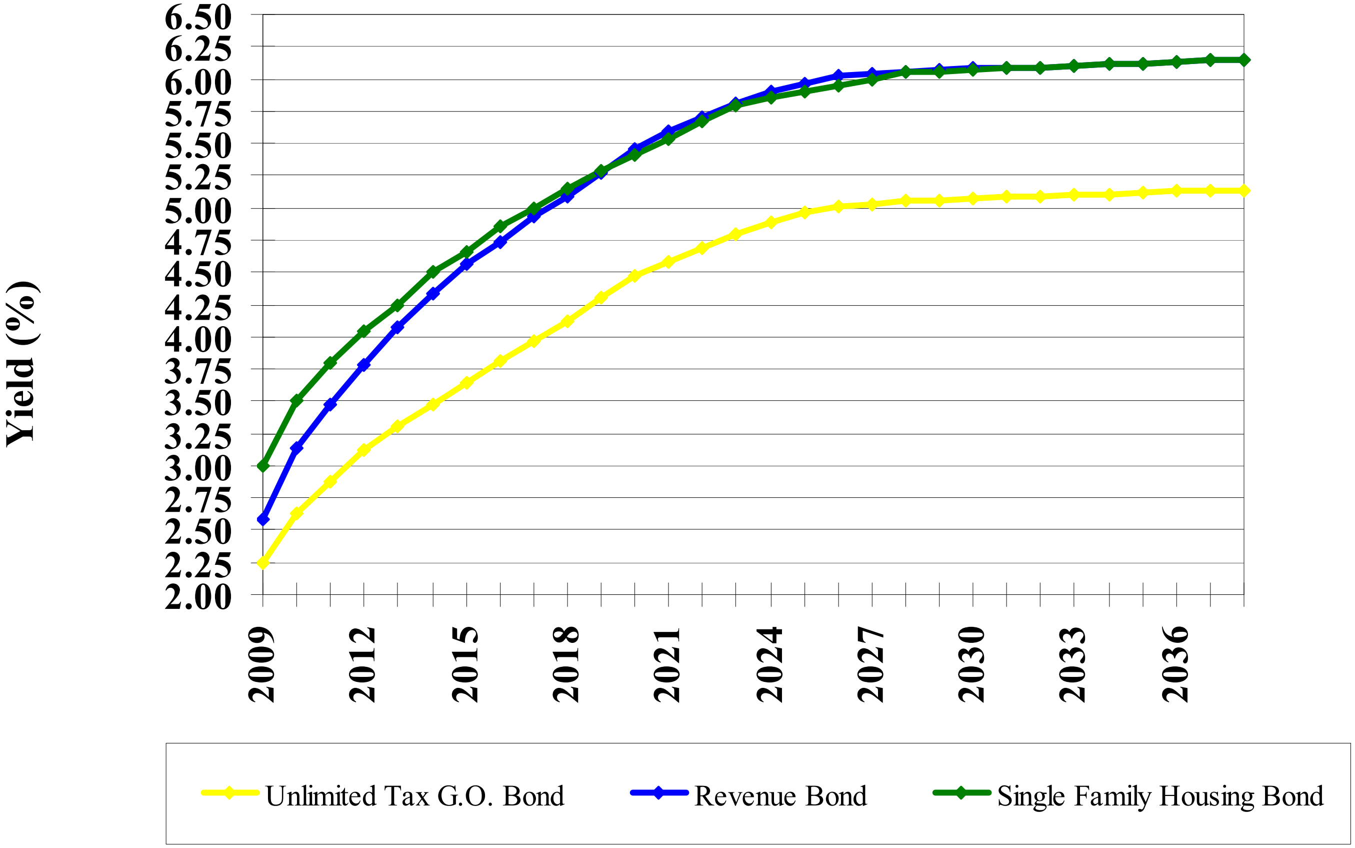
Texas Dept of Housing & Community Affairs

Bond Buyer versus Treasury Bond Indices



Source: Bloomberg

"AAA" Rated Yield Curve Analysis (3/03/2008)



Source: Municipal Market Data

Tax-Free Rates / Tax Equivalent Yields

	Tax Free Rate						
	2%	3%	4%	5%	6%	7%	8%
Tax Bracket	Tax Equivalent Yield						
10%	2.2	3.3	4.4	5.6	6.7	7.8	8.9
15%	2.4	3.5	4.7	5.9	7.1	8.2	9.4
25%	2.7	4.0	5.3	6.7	8.0	9.3	10.7
28%	2.8	4.2	5.6	6.9	8.3	9.7	11.1
33%	3.0	4.5	6.0	7.5	9.0	10.4	11.9
35%	3.1	4.6	6.2	7.7	9.2	10.8	12.3

Investment Grade Rating Designations of the Major Rating Agencies

Moody's Investors Service, Inc.	Standard & Poor's Corporation	Fitch Investors Service, Inc.	Definition
Aaa	**AAA**	**AAA**	**Highest rating assigned. Very strong security.**
Aa	**AA**	**AA**	**Very strong security. Only slightly below best rating.**
A	**A**	**A**	**Average security but more subject to adverse financial and economic developments.**
Baa	**BBB**	**BBB**	**Adequate capacity to secure debt. Adverse developments may affect ability to meet debt service requirements.**

Note: Moody's uses the designation "1", "2", or "3" to indicate greater strength within the "Baa," "A," and "Aa" categories with "1" being strongest. Standard & Poor's and Fitch use "+" and "-" to indicate relative strength or weakness in the "BBB", "A," and "AA" categories.

The Negotiated Sale Financing Team

Key Participant		Participant's Representatives	
Issuer	TDHCA	Bond Counsel	Vinson & Elkins
		Issuer Counsel	Kevin Hamby, Esq.
		Financial Advisor	RBC Capital Markets
		Disclosure Counsel	McCall, Parkhurst & Horton
		Swap Advisor	RBC Capital Markets
Bond Trustee	Bank of New York	Trustee Counsel	Andrew Kurth
Underwriter(s)	Rotating Team	Underwriter's Counsel	Locke Liddell & Sapp
Credit Enhancer	Various	Cr. Enhancer's Counsel	Various
GIC Providers	Various *(bid winner)*	GIC Provider Counsel	Various
GIC Broker	- CDR Financial Products - Grant Street Group - Packerkiss Securities	n/a	n/a
Swap Monitor	Swap Financial Group	n/a	n/a
Master Servicer	Countrywide Home Loans	n/a	n/a
Loan Originators	Various	Lenders' Counsel	Various
Rating Agencies	Moody's Standard & Poors	n/a	n/a
Auditor	Deloitte & Touche	n/a	n/a
Other	- Depository Trust Co. - Texas Treasury Safekeeping	n/a	n/a

Texas Department of Housing and Community Affairs
List of Investment Banking Pool

Senior Managers		
Bear Stearns	Citigroup Global Markets	UBS Financial Services
Co-Senior Managers		
George K. Baum	Goldman, Sachs & Co.	Lehman Brothers
Co-Managers		
M.R. Beal & Company	A.G. Edwards & Sons, Inc.	Loop Capital Markets, LLC
Piper Jaffray	Bank of America Securities LLC	Merrill Lynch & Co.
Samuel A. Ramirez & Co.	Estrada Hinojosa & Company, Inc.	Morgan Keegan & Company, Inc.
Siebert Brandford Shank	First Southwest Company	Morgan Stanley

Key Bond Financing Documents

- Trust Indenture
  - Contractual agreement between the issuer and the Bond Trustee for the benefit of the bond holders.
  - Key provisions:
    - **Definitions of terms** used in the trust indenture.
    - **Definition of the trust estate** (assets, revenue, credit enhancements, etc.) which provide the security for the bonds.
    - **Characteristics of the bonds** (maturity amounts & dates, interest rates, redemption provisions).
    - **Restrictions imposed on the use of trust estate assets/revenues**.
    - **Procedures for paying debt service from pledged assets/revenues**.
    - **Issuer covenants**.
    - **Trustee duties and responsibilities**.
    - **Defeasance and default provisions**.

Texas Dept of Housing & Community Affairs

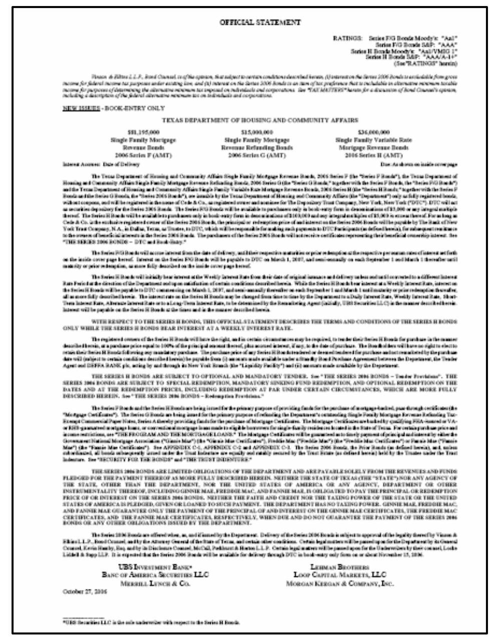
Key Bond Financing Documents

➢Origination, Sales and Servicing Agreement ("OSSA")

- Identifies all of the loan originators and master servicer.
- Describes lending and eligibility criteria such as targeted and non-targeted areas, income and purchase price limitations, down payment assistance, underwriting credit standards, mortgage loan terms, and fees & charges.
- Describes duties of the master servicer
- Provides sample documentation and forms for lenders to collect and verify when submitting a loan

➢ Official Statement ("OS")

- Primary offering document of the Board used for marketing bonds to prospective buyers. Content of the OS is primarily the responsibility of the Board.
- Summarizes key terms of the bonds and bond indenture and discloses other material information regarding the Department and its programs.
- The base documents, like the trust indenture, supersede the document descriptions in the OS.
- The accuracy and completeness of the document is primarily the responsibility of the Department and the Board under the federal securities laws.
- Subject to the antifraud provisions of the Securities Exchange Act of 1934.



RBC Capital Markets

Key Bond Financing Documents

Bond Purchase Agreement ("BPA")

- Describes the bonds and purpose of the offering; sets forth the purchase terms, delivery instructions and payment instructions.
- Lists all representations, warranties and agreements of the parties.
- States conditions for release of underwriters from obligation to purchase the bonds.

Agreement Among Underwriters ("AAU")

- Identifies all of the managing underwriters.
- Identifies and designates the Senior Manager as the representative for all underwriters.
- Establishes the relative priority for filling each type of order for bonds.
- Provides basis for determining each firm's percentage share of management fees, selling commission (takedown) and underwriting (risk) fees.
- States how/when bonds will be delivered at closing and how payment for the bonds will be made.
- Governs expense recovery among the underwriters and confirms compliance with applicable securities laws/regulations and MSRB Rules.

Section 3

The Bond Issuance Process

Pre Bond Sale

Formulating the Financing Plan

- Assessment of market demand: includes previous issues
- Projection of target mortgage rate: assisted, unassisted, % targeted, etc.
- Collect financial information: including Sources and Uses of Funds, proposed Debt Service Schedules, and Cash Flows
- Review Financing Documents: Bond Resolution, Trust Indenture, Loan Agreement, Regulatory Agreement
- Review Underwriting Documents: Bond Purchase Agreement, Continuing Disclosure Agreement
- Offering Documents: Preliminary Official Statement, Limited Offering Memorandum
- Attend meetings and answer questions for the Texas Bond Review Board and TDHCA

RBC Capital Markets

Bond Sale

Financing Considerations

- Schedule of maturity dates and redemption dates
- Fixed rate bonds vs. variable rate bonds
- Hedging variable rate bonds with a cap or swap
- Taxable bonds
- Subordinate lien bonds
- Soft Financing (used in multifamily financing; outside the indenture)

Methods of Bond Sale

- Public Offering: negotiated sale vs. competitive sale
- Private Placement
- Official Statement vs. Limited Offering Memorandum

Bond Sale (cont)

Credit Considerations

- Ratings
  - Investment Grade
  - Below Investment Grade
  - Non-Rated

- Credit Enhancement
  - Bond Insurance
  - Letter of Credit
  - Fannie Mae, Freddie Mac, GNMA

Closing and Beyond

Closing

- Review closing memorandum, investment of proceeds, flow of funds, verification reports, escrows
- Wiring of funds, recording of the deed, securing the mortgage and any credit enhancement
- Representations for federal tax purposes: yield calculations, No Arbitrage Certificate, Borrower's Tax Certificate, IRS Form 8038

Post Closing

- Texas Bond Review Board final report
- Workouts, downgrades, credit substitutions, refundings, defeasances, failure to convert

Single Family Program Design Concepts

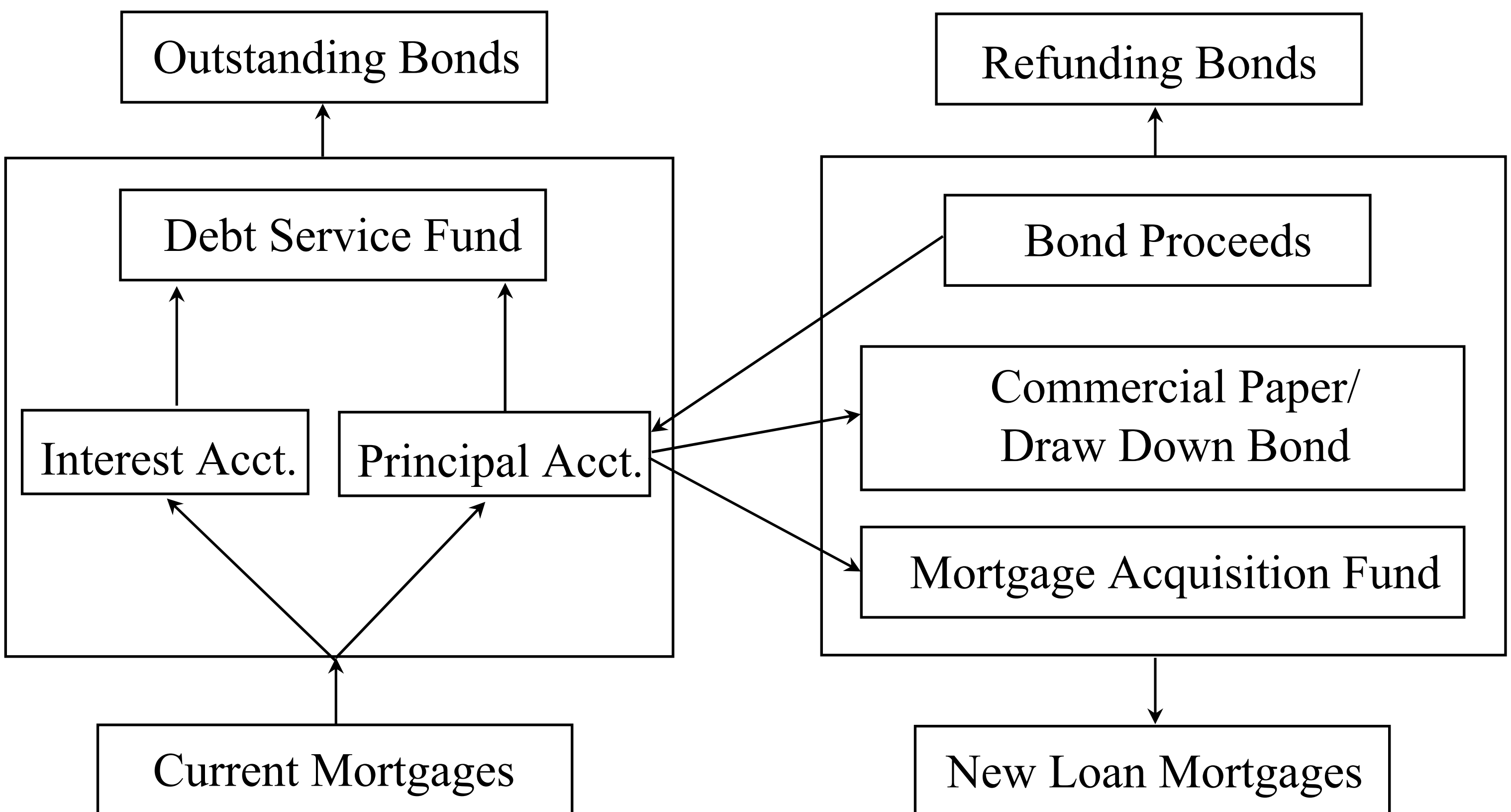
- **Assistance Payments** for borrowers' down payments and closing costs may be provided to enhance loan affordability. Can be funded with Issuer funds, HOME or other available grant funds, or bond premium.
- **Taxable Bonds** may be issued in conjunction with tax-exempt bonds to increase the amount of mortgages made available to homebuyers or to meet specific program objectives of the issuer not achievable with tax-exempt bonds.
- **Blending a Refunding with a New Money Issue** may create a cost effective opportunity to refund older issues of bonds to produce economic benefits to the issuer, borrowers, or both. Cash flow from existing mortgages may help lower the interest rate on new loans.

Single Family Program Design Concepts

- **Junior Lien Bonds** are subordinate to senior lien bonds and provide additional funds without affecting the senior lien bond holders. Junior lien bonds are often issued as taxable bonds.
- **Financial Products** such as interest rate swaps and caps may be combined with floating rate bonds and can significantly reduce financing costs. Issuers should understand and manage certain additional risks such as prepayment mismatching, basis, tax rate and counterparty risks.
- **Recycling** mortgage principal repayments and prepayments from prior programs into new loans
  - Allows issuer to fund new mortgage loans without a new PAB Cap Allocation
  - Recycle loan repayments within the same bond trust estate by making new loan at the same interest rate: or
  - Recycle at a new lower interest rate through a "current refunding" of the prior bonds being redeemed from loan repayments.
  - Subject to 10-year and 32-year rule requirements

Recycling and Refunding Techniques

Issuers may "recycle" mortgage principal payments from prior bond program into a new lending program through a "current refunding". The transferred loan prepayment are used to fund new mortgage loans without a new Cap Allocation:



Texas Dept of Housing & Community Affairs

Texas Department of Housing and Community Affairs
Commercial Paper Program
Pipeline Report as of December 21, 2007

Outstanding Commercial Paper Notes

Indenture	Original Issue Date	Latest Issue Date	Maturity Date	AMT Amount	NON-AMT Amount	Total
RMRB	December 7, 2006	December 21, 2007	February 20, 2008	$ 5,000,000		$ 5,000,000
RMRB	December 7, 2006	December 21, 2007	February 20, 2008	$ 4,480,000		$ 4,480,000
Single Family	August 17, 2006	December 21, 2007	February 20, 2008	$ 198,000		$ 198,000
Single Family	February 22, 2007	December 21, 2007	February 20, 2008	$ 261,000		$ 261,000
Single Family	February 22, 2007	December 21, 2007	February 20, 2008	$ 5,100,000		$ 5,100,000
RMRB	June 14, 2007	December 21, 2007	February 20, 2008	$ 9,735,000		$ 9,735,000
Single Family	August 16, 2007	December 21, 2007	February 20, 2008	$ 8,095,000		$ 8,095,000
RMRB	December 13, 2007	December 21, 2007	February 20, 2008	$ 9,776,000		$ 9,776,000
TOTAL						**$ 42,645,000**

By Indenture	AMT Amount	NON-AMT Amount	Total
TOTAL Single Family CP Notes Outstanding	$ 13,654,000		$ 13,654,000
TOTAL RMRB CP Notes Outstanding	$ 28,991,000		$ 28,991,000
TOTAL CP Notes Outstanding	$ 42,645,000	$ -	**$ 42,645,000**

Summary of CP Refunding Bond Issuances as of 1/1/08

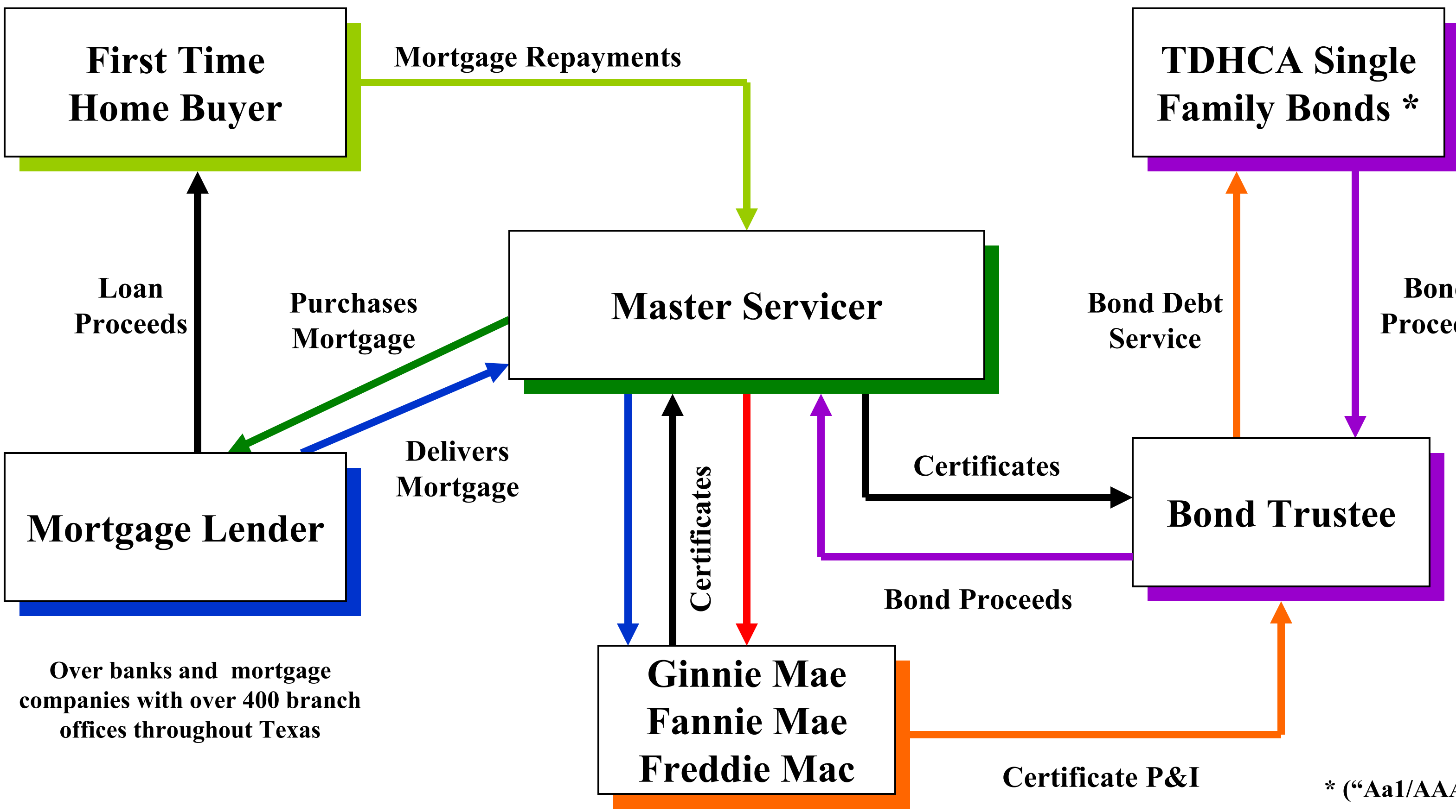
Indenture		Bond Series	Issue Date	Type	Original Amount	Outstanding Amount
SF-CHMRB		1995A	February 22, 1995	NON-AMT	$ 5,825,000	$ -
SF-CHMRB		1995B	April 26, 1995	NON-AMT	$ 2,030,000	$ -
Single Family		1995B-1	November 16, 1995	NON-AMT	$ 9,605,000	$ -
Single Family		1996E	November 14, 1996	NON-AMT	$ 14,685,000	$ -
Single Family		1997B	September 17, 1997	NON-AMT	$ 9,510,000	$ -
RMRB		1998B	December 3, 1998	NON-AMT	$ 14,300,000	$ 6,725,000.00
RMRB		1999C	December 2, 1999	NON-AMT	$ 12,150,000	$ 3,485,000.00
RMRB		2000C	October 26, 2000	AMT	$ 13,675,000	$ 8,530,000.00
RMRB		2000D	October 26, 2000	AMT	$ 18,265,000	$ 6,425,000.00
RMRB		2001B	October 30, 2001	AMT	$ 15,585,000	$ 12,180,000.00
Single Family		2002C	June 26, 2002	AMT	$ 12,950,000	$ 10,575,000.00
Single Family		2004A/B	April 28, 2004	AMT	$ 179,104,000	$ 162,380,000.00
Single Family		2005A	April 20, 2005	AMT	$ 12,000,000	$ 11,695,200.00
Single Family		2006A/B	June 28, 2006	AMT	$ 135,450,000	$ 128,245,000.00
Single Family		2006G	November 15, 2006	AMT	$ 15,000,000	$ 14,880,000.00
TOTAL					$ 470,134,000	**$ 365,120,200**

TOTAL CP Notes and Refunding Bonds Outstanding	**$ 407,765,200**

RBC Capital Markets

Mechanics of TDHCA Single Family Bond Programs

Bond Issuance and Mortgage Origination



Over banks and mortgage companies with over 400 branch offices throughout Texas

* ("Aa1/AAA" rated)

Section 4

TDHCA Applications

RBC Capital Markets

Health of Indentures

Texas Dept of Housing & Community Affairs

Texas Department of Housing and Community Affairs
Bond Finance Division
Health of Indentures
As of November 30, 2007

	Single Family Indenture Funds	Residential Mortgage Revenue Bond Indenture Funds	Collateralized Home Mortgage Revenue Bond Indenture Funds	Multi-Family Indenture Funds	Combined Totals
PARITY COMPARISON:					
PARITY ASSETS					
Cash and Cash Equivalents	$ 190,862	$ -	$ -	$ 661,416	$ 852,278
Investments	$ 310,053,616	$ 31,386,427	$ 1,817,067	$ 160,549,108	$ 503,806,218
Mortgage Backed Securities	$ 859,469,563	$ 292,917,978	$ 12,128,508		$ 1,164,516,050
Loans Receivable	$ 40,898,328	$ 1,115,298	$ -	$ 1,199,338,164	$ 1,241,351,790
Accrued Interest Receivable	$ 7,156,039	$ 2,207,782	$ 83,074	$ 14,197,161	$ 23,644,056
TOTAL PARITY ASSETS	$ 1,217,768,408	$ 327,627,485	$ 14,028,649	$ 1,374,745,849	$ 2,934,170,392
PARITY LIABILITIES					
Bonds Payable	$ 1,171,030,000	$ 310,690,000	$ 12,400,000	$ 1,200,105,066	$ 2,694,225,066
Accrued Interest Payable	$ 13,523,094	$ 7,006,182	$ 70,315	$ 14,409,944	$ 35,009,535
TOTAL PARITY LIABILITIES	$ 1,184,553,094	$ 317,696,182	$ 12,470,315	$ 1,214,515,010	$ 2,729,234,601
PARITY DIFFERENCE	$ 33,215,314	$ 9,931,303	$ 1,558,334	$ 160,230,839	$ 204,935,791
PARITY	**102.80%**	**103.13%**	**112.50%**	**113.19%**	**107.51%**
CREDIT RATINGS:					
Standard and Poor's	AAA *	AAA	AAA	Various	
Moody's	Aa1	Aaa	Not Rated	Various	

*Standard and Poor's updated the rating of the Single Family Indenture in May 2006 from A+ to AAA.

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Texas Dept of Housing & Community Affairs

S&P AAA Rating

STANDARD & POOR'S

PUBLIC FINANCE

Texas Department Of Housing And Community Affairs

Credit Profile

[illegible]

AFFIRMED

[illegible]

OUTLOOK STABLE

Rationale

Standard & Poor's Ratings Services assigned its 'AAA' rating to Texas Department of Housing and Community Affairs' (TDHCA) $105.8 million single-family mortgage revenue bonds series 2006F and 2006G. In addition, Standard & Poor's assigned its 'AAA/A-1+' rating to the department's $26.25 million series 2006H variable rate mortgage revenue bonds.

At the same time, Standard & Poor's affirmed its 'AAA' rating on the indenture's bonds that are currently outstanding.

The 'AAA' rating reflects:

- Extremely strong collateral in the form of Fannie Mae, Ginnie Mae, or Freddie Mac MBS, which currently represent 94% of the total mortgage collateral securing the indenture;

RatingsDirect Publication Date
October 18, 2006

Moody's Aa1 Rating

Moody's Investors Service

Global Credit Research
New Issue
24 OCT 2006

New Issue: Texas DHCA Affairs.-Single Fam. Mtge. Rev. Bd

MOODY'S ASSIGNS Aa1 TO TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS SINGLE FAMILY MORTGAGE BONDS 2006 SERIES F AND H AND TO SINGLE FAMILY MORTGAGE REVENUE REFUNDING BONDS 2006 SERIES G

Texas Dept. of Housing & Community Affairs
Housing
TX

Moody's Rating

ISSUE		RATING
Single Family Mortgage Revenue Bonds 2006 Series F		Aa1
Sale Amount	$90,800,000	
Expected Sale Date	10/31/06	
Rating Description	GNMA/FNMA/FHLMC	
Single Family Mortgage Refunding Bonds Series G		Aa1
Sale Amount	$15,000,000	
Expected Sale Date	10/31/06	
Rating Description	GNMA/FNMA/FHLMC	
Single Family Variable Rate Mortgage Revenue Bonds 2006 Series H Aa1/VMIG 1		
Sale Amount	$26,250,000	
Expected Sale Date	10/31/06	
Rating Description	GNMA/FNMA/FHLMC	

Opinion

NEW YORK, Oct 24, 2006 -- Moody's Investors Service has assigned a Aa1 rating to the Texas Department of Housing and Community Affairs $90,800,000 Single Family Mortgage Revenue Bonds 2006 Series F and to $15,000,000 Single Family Mortgage Refunding Bonds Series G and a Aa1/VMIG 1 to $26,250,000 Single Family Variable Rate Mortgage Revenue Bonds 2006 Series H. Moody's also affirms the Aa1 rating on all outstanding senior lien Single Family Mortgage Revenue Bonds. The outlook on the bonds is positive.

The program's Aa1 rating reflects the large percentage of GNMA, Freddie Mac and FNMA MBS in its portfolio, and a program-asset-to-debt ratio (PADR) of 1.07 which is strong for this type of program.

USE OF PROCEEDS: Proceeds of 2006 Series F and H will be used to purchase mortgage certificates to finance the origination of qualifying mortgage loans made to eligible borrowers for single-family, owner-occupied housing in Texas. Proceeds for 2006 Series G will be used to refund existing debt.

LEGAL SECURITY: The bonds are special obligations of TDHCA and are secured by GNMA, Freddie Mac and FNMA mortgage-backed securities (MBS), mortgage loans and all reserves and other assets under the indenture. Payment is on parity with $647 million (as of 8/31/2005) in Single Family Mortgage Revenue Bonds.

INTEREST RATE DERIVATIVES: The senior lien of the Single Family Revenue Bond Indenture has $188 million (as of 8/31/2005) in variable rate bonds which equals 29.7% of bonds outstanding. $188 million is swapped to a fixed rate under three swap agreements, one each with Goldman Sachs Capital Markets L.P. (Aa3), UBS AG (Aa2) and Bear Stearns Financial Products (Aaa). The 2006 Series H bonds will be swapped to a fixed-rate under a swap with UBS AG (Aa2) that matures 3/1/2016.

STRENGTHS

RBC Capital Markets

Bond Finance Division

Bond Compliance and Disclosure

- Perform internal compliance and disclosure reviews for TDHCA's bond portfolios.

- Review single family and multifamily trust indentures, trustee statements and financial documents to ensure compliance with covenants. Compliance functions are performed daily on an as needed basis and a formal compliance audit is prepared annually.

- Ensure compliance with Securities and Exchange Commission Disclosure Amendments to Rule 15c2-12 regarding the dissemination of certain financial information including annual operating data, annual financial information and material event notices.

Bond Finance Division Compliance Website

Texas Department of Housing & Community Affairs

Consumer Assistance | Programs | PM & Compliance | Publications | Manufactured Housing | Search TDHCA | Site Map

Director of Bond Finance: Matt M. Pogor
Phone Number: (512) 475-3987

Bond Finance

Announcements

- Single Family Mortgage Revenue Bond Series 2008A Public Hearing (PDF)
- Bond Disclosure (revised as of August 31, 2007)
- Co-Senior Manager Selection and Criteria (PDF)
- Senior Manager Selection and Criteria (PDF)
- 2008 Investment Policy (PDF)
- 2008 Interest Rate Swap Policy (PDF)
- Investment Banking Pool (PDF)
- Revenue Bond Program (Audited) - FY07
- Bonds Outstanding Summary (PDF) (revised as of August 31, 2007)
- Credit Ratings - Single Family Indentures (PDF)
- Bond Finance Objectives (PDF)
- Commercial Paper Program Overview or Pipeline Report (PDF)
- Bond Finance press release (8/22/00)

RBC Capital Markets

Texas Dept of Housing & Community Affairs

First-Time Home Buyer

- May not have owned a home within previous three years
- Principal residence
- Targeted Area exception
- No refinancings

Purchase Price Limits

- 90% average area price
- Targeted Areas = 110%
- Program purchase prices:

New or Existing Home =
Non-Targeted Areas
$237,031
Targeted Areas
$289,704

Income Limits

- 115% median income (100% for 1-2 person families)
- Targeted Areas =140/120%

Federal requirements state that 20% of proceeds are reserved for Targeted Area loans for up to 12 months

State of Texas requires that 30% of proceeds are reserved for incomes below 60% of median income

State of Texas requires availability of down payment for incomes up to 80% of median income

GO zone areas are treated as targeted areas

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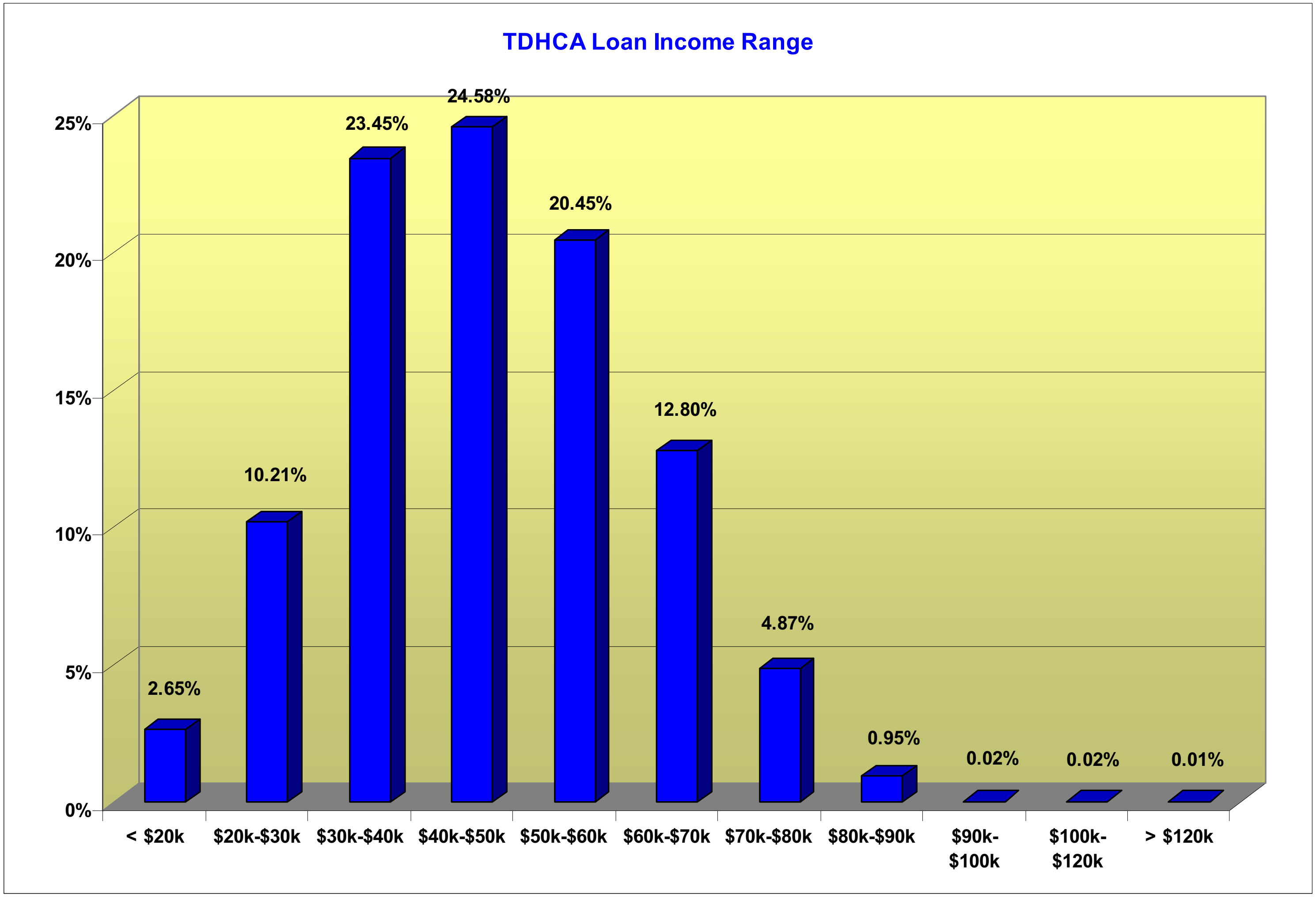
Loan Portfolio Demographics

Texas Dept of Housing & Community Affairs



Loan Originations 2004 - 2007

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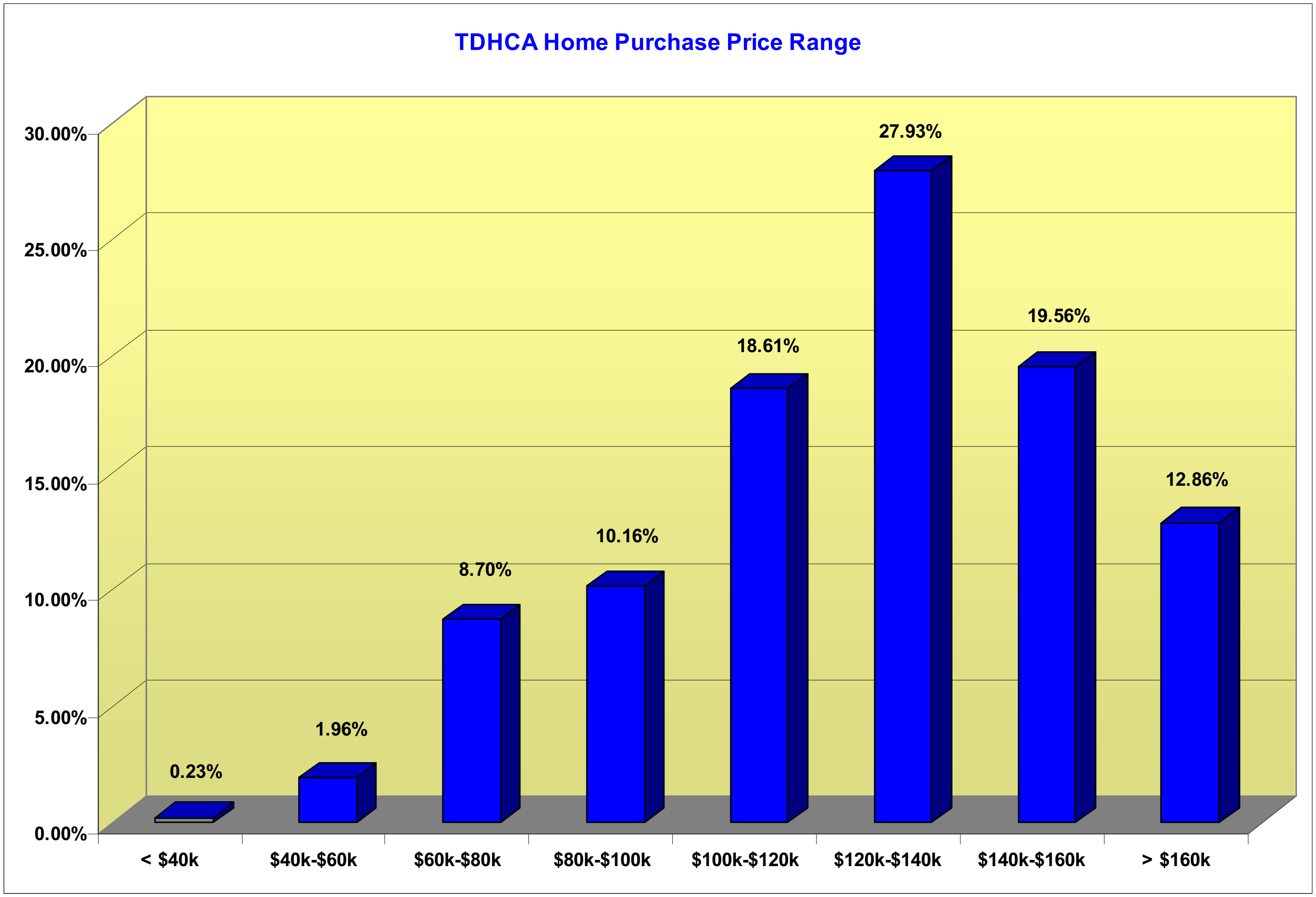
Loan Portfolio Demographics

Texas Dept of Housing & Community Affairs

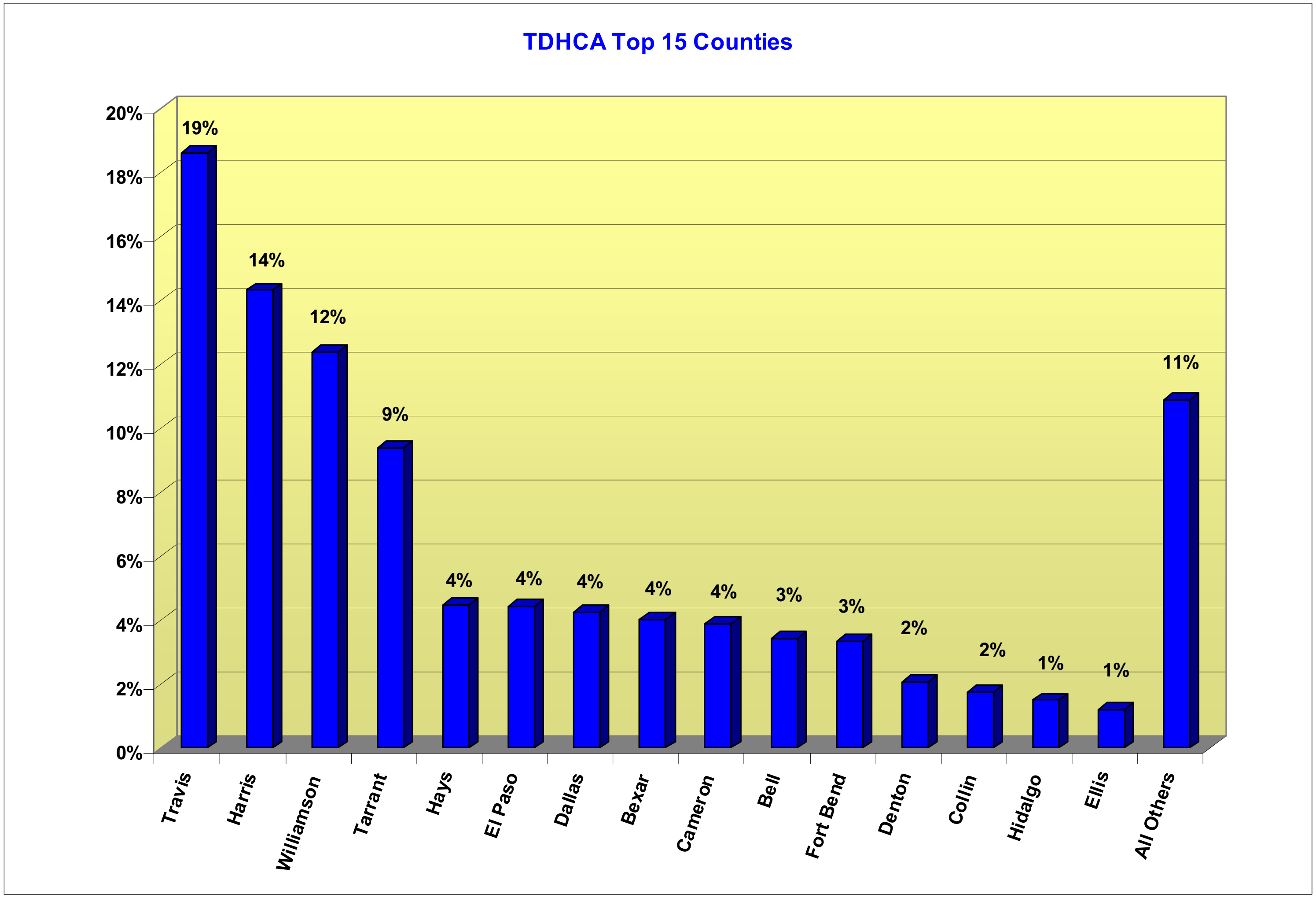


Loan Originations 2004 – 2007

RBC Capital Markets

Loan Portfolio Demographics

Texas Dept of Housing & Community Affairs

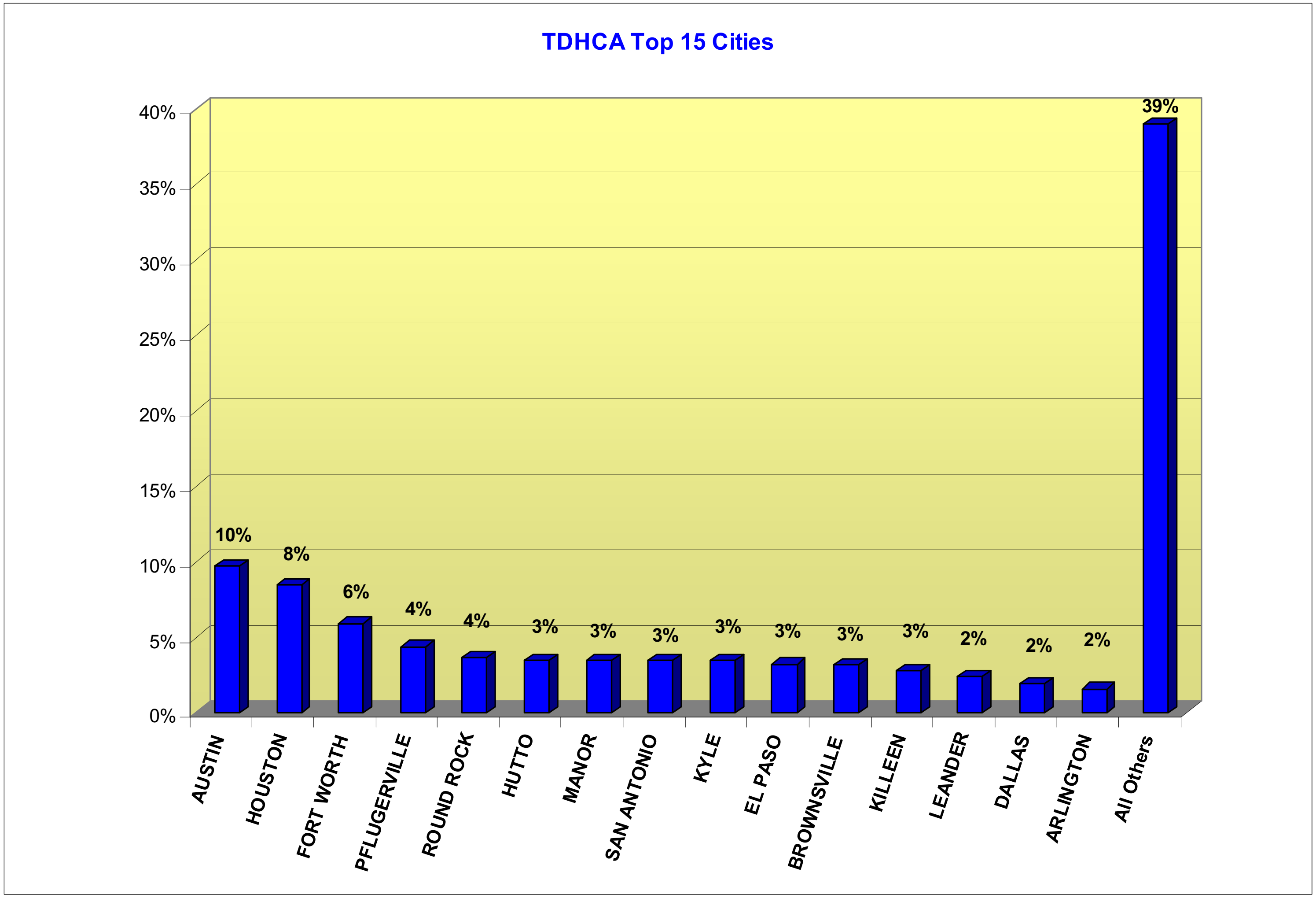


Loan Originations 2004 - 2007

RBC Capital Markets

Loan Portfolio Demographics

Texas Dept of Housing & Community Affairs

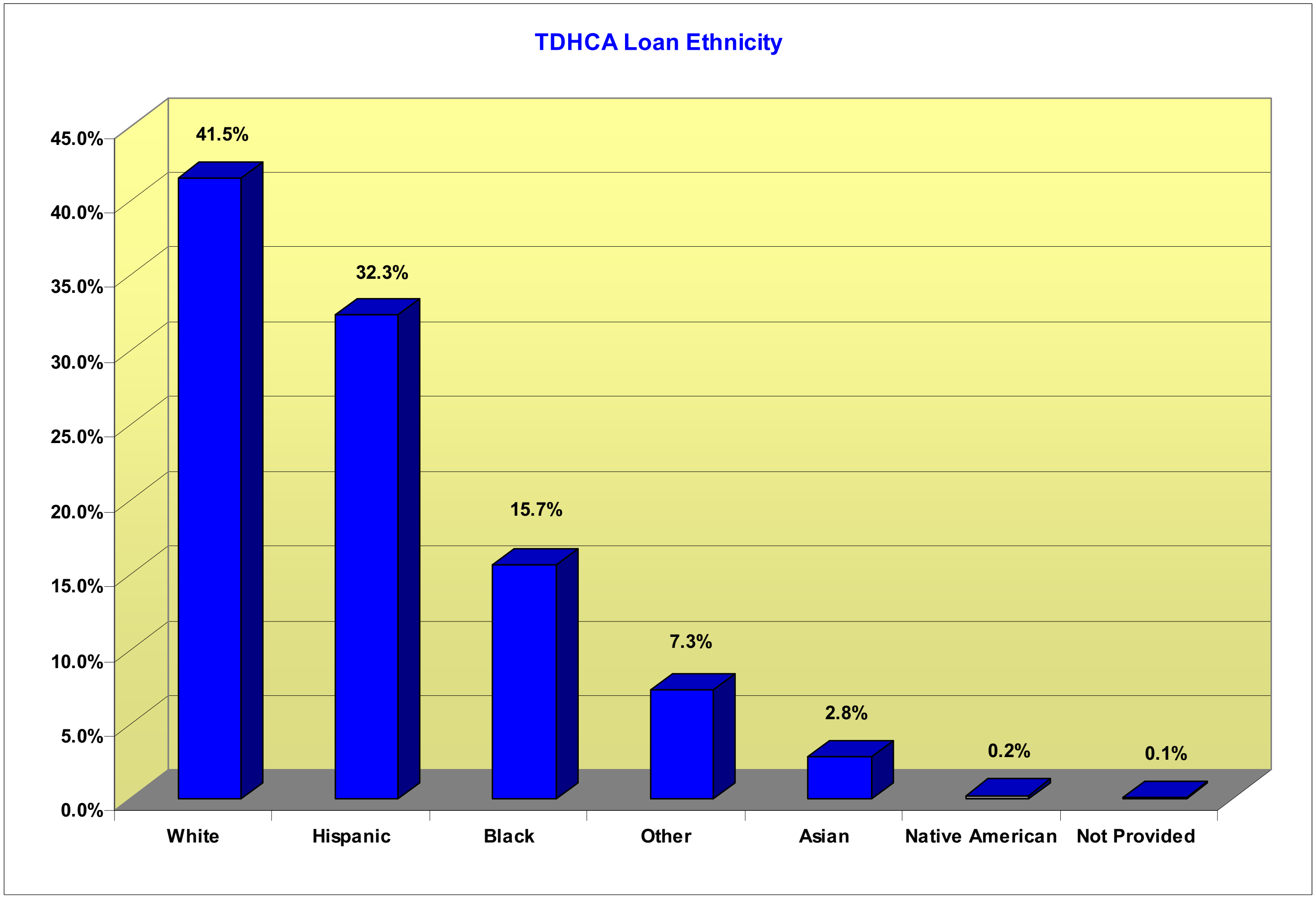


Loan Originations 2004 - 2007

RBC Capital Markets

Loan Portfolio Demographics

Texas Dept of Housing & Community Affairs



Loan Originations 2004 – 2007

RBC Capital Markets

Single Family Bond Programs

Texas Dept of Housing & Community Affairs

TDHCA Recent Transaction Summary:

Program Closing Date Underwriter	Series	Amount	Description	Bond Yield	Assisted / Rita GO Zone	Unassisted
Program 66*	2006A/B	$130,040,000	CP Refunding/Fixed Rate	4.655%	6.125% / 5.875%	5.625%
6/28/2006	2006C	$105,410,000	Volume Cap/Fixed Rate			
Citigroup	2006D/E	$46,980,000	Refunding/Fixed Rate			
		$282,430,000				
Program 68*	2006F	$81,195,000	$120 million add'l Volume Cap/Fixed Rate	4.417%	6.20% / 5.99%	5.65%
11/15/2006	2006G	$15,000,000	CP Refunding/Fixed Rate			
UBS	2006H	$36,000,000	Volume Cap/Variable Rate			
		$132,195,000				
Program 69 6/5/2007 Bear Stearns	2007A	**$143,005,000**	Volume Cap/Refunding/Variable Rate	4.082%	5.99% / 5.99%	5.25%
Program 70* 9/20/2007 Citigroup	2007B	**$157,060,000**	$80 million add'l Volume Cap/Fixed Rate	4.979%	6.50%	5.75%

* Premium Bond Proceeds were used for Down Payment Assistance & Cost of Issuance

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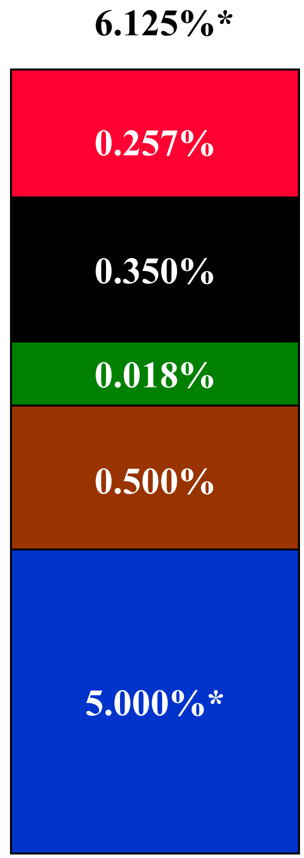
Texas Dept of Housing & Community Affairs

Components of MRB Mortgage Rate

Maximum Mortgage Rate Allowed by Tax Code
(5.000%* + 1.125%)



Residual to TDHCA **

TDHCA Administrative Overhead

Trustee Fees

Mortgage Servicing & Guaranty Fee

Bond Yield *

* *illustrative*
** *Contingent upon full repayment of bonds. May cover initial negative arbitrage during origination period*

RBC Capital Markets

Mortgage Credit Certificate (MCC) Program

The Mortgage Credit Certificate (MCC) Program was authorized by Congress in 1984 to provide financial assistance to first-time homebuyers for the purchase of single family homes. The MCC tax credit reduces the federal income taxes of qualified borrowers purchasing qualified homes. The size of the annual tax credit is a percentage of the annual interest paid on the mortgage loan (not to exceed $2,000 per year.)

MCC borrowers may consider adjusting their federal income tax withholding amount to reflect the reduced income tax liability. In this manner, a borrower may receive the benefit of the MCC on a monthly basis.

MCC Application Process

Borrowers are encouraged to go through the "normal home buying process" in which they would contact a real estate agent or broker to search for a home. The borrower then applies for a mortgage loan from a participating lender or broker who is trained to answer all of the borrower's questions about the MCC Program. The lender will determine if the borrower if eligible for an MCC, based on the preliminary indications of income, residence purchase price, prior home ownership, location of the residence to be purchased and potential tax liability. The prospective homebuyer's current income must not exceed, (i) families of three or more persons, 115% (140% in certain targeted areas) of the area median income, and (ii) for individuals and families of two persons, 100% (120% in certain targeted areas) of the area median income in which the borrower lives. If the borrower meets the MCC guidelines, the lender directs the borrower to sign the initial application documents, which the lender will forward to the program administrator to start the process.

TDHCA Recent MCC Transaction Summary:

MCC Program	Series	Amount	Certificate Credit Rate	Application Start Date	Application End Date
Program 60	2003	$60,000,000	40%	Mar-04	Apr-06
Program 63	2005	$60,000,000	40%	Mar-05	Jan-07
Program 64	2005A	$60,000,000	35%	Sep-05	Jun-07
Program 67	2006	$60,000,000	35%	Jun-06	

RBC Capital Markets

TDHCA Rules and Policies:

- Multifamily Housing Revenue Bonds are risky investments and extra care needs to be taken to protect the interests of the investors
- Requiring bonds to be amortized over the life of the financing ensures that the project is economically viable and can generate sufficient revenues to retire the debt completely
- A traveling investor letter and physical bonds for debt rated A or lower helps to ensure that speculative bonds do not wind up in the hands of inappropriate investors
- Limiting the sale of debt rated A or lower to institutional buyers through a private placement further allows TDHCA to control the distribution of its bonds

Not In My Back Yard:

Some of the issues that are raised are "NIMBY" perceptions such as lowering of neighboring property values or increased crime associated with the increase in the density of residents.

Legitimate Concerns:

Other concerns must be carefully considered to determine their merit, including:

- Need for the project
- Concentration issues
- Loss of tax revenue from not-for-profit owned projects
- Drainage and flooding issues
- Increased traffic
- Lack of public resources to serve the residents
- School overcrowding

Public Input:

It is important to involve the public in the approval process because these projects affect the lives of those who live in them as well as those who live near them.

There are several opportunities for the public to provide input in the process.

- "TEFRA" Hearings – Public hearings held near the proposed site location. Signs are posted on the property. Neighborhood associations and public officials are notified.
- TDHCA Board Meetings – Public input is solicited at each board meeting and carefully considered.
- Other – Letters and e-mail to TDHCA staff. Attend Bond Review Board meetings.

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Section 5

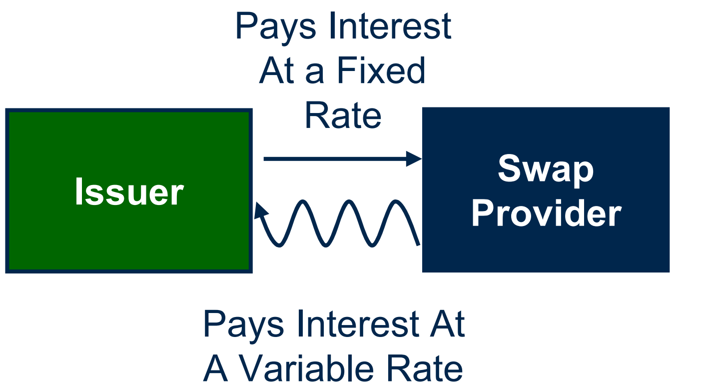
Interest Rate Swaps: The Basics

Introduction To Interest Rate Swaps

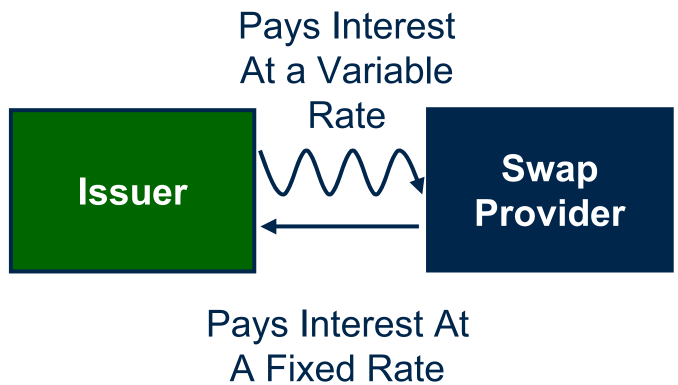
Interest Rate Swap Definition – An interest rate swap is a contractual agreement between two parties in which interest cash flows, based upon an established notional amount, are exchanged periodically over a predetermined length of time.

✓ Swap conventions define a counterparty as either the "Fixed Rate Payer/Variable Rate Receiver" or the "Variable Rate Payer/Fixed Rate Receiver."

Fixed Rate Payer/Variable Rate Receiver



Variable Rate Payer/Fixed Rate Receiver



✓ Cash flows are calculated based upon the contractual fixed rate and the stated variable rate index (i.e. BMA, LIBOR, etc.) pursuant to the established notional amount.

✓ Notional amount is used for calculation of interest payments, but is never exchanged.

✓ Interest rate swaps have a market value and can be terminated. Based upon prevailing market conditions at the time of termination, Issuer would either make a termination payment or receive a termination payment.

Primary Risks

- **Prepayment Mismatch Risk** – Occurs when swap notional amount differs from the floating rate bond balance. Mismatch happens when actual mortgage loan prepayments differ from prepayments assumed in the swap structure. This could require the Issuer to make significant additional payments on the swap or bonds.

  Note: *Generally, swaps may be terminated at any time subject to market pricing. Unless there is a par termination option, Issuer may be required to pay a termination fee if rates are lower at the time of termination.*

- **Basis Risk** – Occurs when swap variable rate index is less than bond rate. This may be due to 1) increased tax-exempt/LIBOR ratio or 2) increased bond trading levels due to *a)* poor housing sector market, *b)* Issuer financial performance problems, *c)* failed auction, or *d*) reductions in marginal income tax rates.

- **Tax Rate Risk** – A specialized form of basis risk that adversely affects tax-exempt yields relative to taxable yields; caused by reductions in marginal income tax rates.

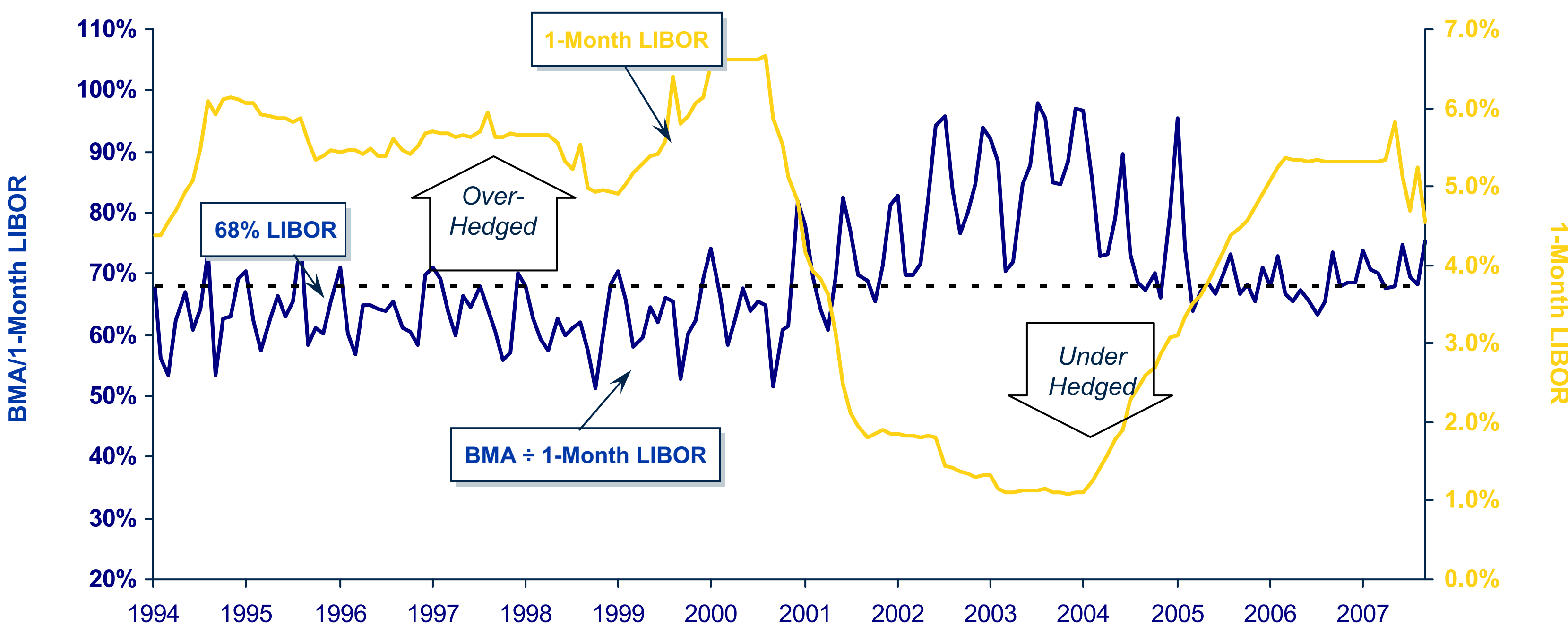
- **Counterparty Risk** – Risk that the counterparty cannot make future payments or cannot make termination payment due to Issuer. Risk is reduced by selecting highly rated counterparty and by ISDA contract terms addressing collateral limits and credit rating.

Fixed Rate vs. Swapped vs. Unhedged Floating

	Traditional Fixed Rate	Floating-to-Fixed Swap	Unhedged Floating Rate
PROs	➢ Simplicity ➢ Speed and ease of execution ➢ No interest rate risk	➢ Significantly lower mortgage rate ➢ Reduced negative arbitrage ➢ Higher issuer fees ➢ Faster loan originations ➢ Flexibility *(e.g. market timing, forward start, upfront payments for DPA, etc)*	➢ Historically lower interest rates ➢ No prepayment mismatch risk ➢ Ability to balance duration of indenture assets and liabilities by matching floating rate debt with investments and indenture surplus
CONs	➢ Negative arbitrage ➢ Mortgage rate becomes less competitive with conventional market if rates fall ➢ Impact of Fannie Mae and Freddie Mac	➢ More complexity ➢ Non-origination of loans may require termination payment ➢ Assumptions of certain risks *(e.g. prepayment mismatching, basis risk, tax rate risk and counterparty risk*	➢ Assumption of all interest rate spread mismatch risk ➢ Significantly fewer unhedged notes can be issued within tolerable risk levels; i.e. less impact on loan rate vs. larger hedged transaction

Basic Hedging of LIBOR vs. BMA

Rate Compression: 68% of LIBOR tends to *overhedge* tax-exempt variable rates when LIBOR is above 4.25% and *underhedge* when LIBOR is below 4.25%. *



** Based on historical data and prevailing marginal tax rates*

Swap Rate Benefit vs. Swap Risks

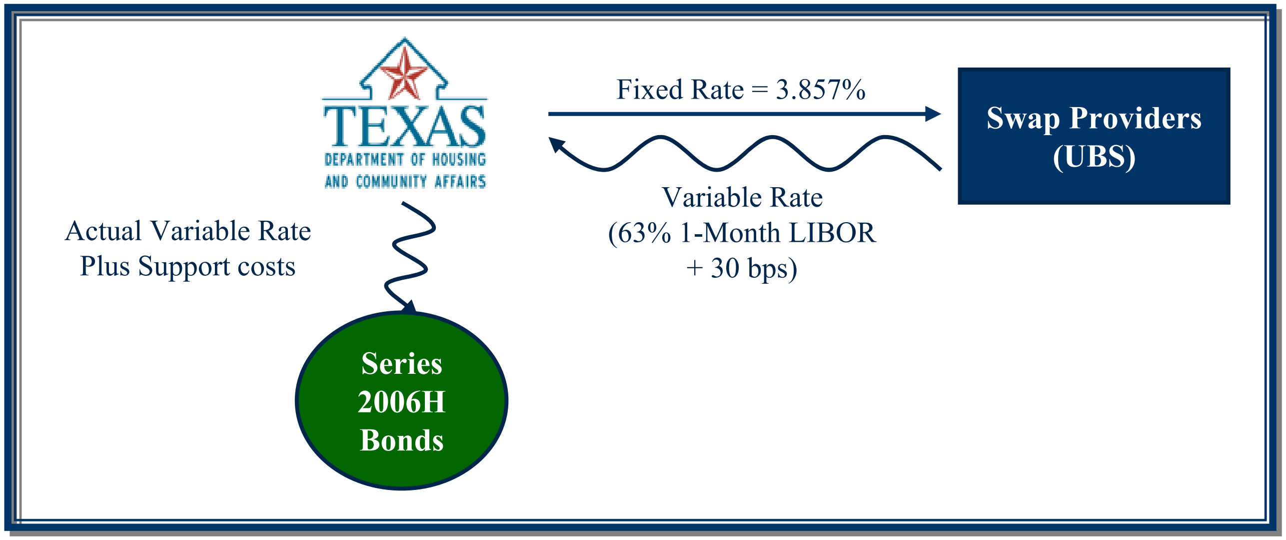
RBC Capital Markets

Cost of Funding		
5.00% *(+1.50%)*	**No Interest Rate Risk**	**Fixed Rate Bonds**
3.50% *(+.35%)*	**Amortization, Basis, Funding and Counterparty Risk** ***Basis Risk = Issuer specific***	**BMA Swap**
3.15% *(+.65%)*	**Tax, Amortization, Basis, Funding and Counterparty Risk** ***Basis Risk = Issuer specific, value of tax exemption***	**67% of LIBOR Swap**
2.50% *(base)*	**Market, Tax, Basis and Funding Risk** ***Basis Risk = Issuer specific, value of tax exemption***	**Unhedged Floating Rate Bonds** (assumes +5 bp for AMT)

Case Study: TDHCA's 2006H Bonds

Overview Of Fixed Pay Interest Rate Swaps

- ✓ Reduced interest cost by swapping $36,000,000 of VRDBs (27% of total Series 2006 FGH).
- ✓ Swap reduced net interest cost by 71 bps on the 2006H (vs. fixed rate) and by 19 bps overall.
- ✓ The Swap Agreement was structured as a fixed pay, 63% of 1-Month LIBOR + 30 bps interest rate swap with a final maturity of September 1, 2025.
- ✓ UBS serves as the swap counterparty.



Performance of TDHCA Swaps

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS
SUMMARY OF SWAP TRANSACTIONS
Through Quarter-Ending November 30, 2007

	PROGRAMS				
Bond Issue	61	62	62A	68	69
Counterparty	UBS	Goldman Sachs	Bear Stearns	UBS	Bear Stearns
Original Notional Amount	$ 53,000,000	$ 35,000,000	$ 100,000,000	$ 36,000,000	$ 143,005,000
Current Notional Amount	$ 53,000,000	$ 35,000,000	$ 97,460,000	$ 36,000,000	$ 143,005,000
Effective Date	9/1/2004	1/1/2005	8/1/2005	11/15/2006	6/5/2007
Variable Rate	63% of LIBOR + 30%	Lesser of (the greater of 65% of LIBOR and 56% of LIBOR +45%) and LIBOR	Lesser of (the greater of 65% of LIBOR and 56% of LIBOR +45%) and LIBOR	63% of LIBOR + 30%	Lesser of (the greater of 65% of LIBOR and 56% of LIBOR +45%) and LIBOR
Fixed Rate	3.8430%	3.6125%	3.990%	3.8570%	4.013%
Swap Termination Date	9/1/2034 (a)	3/1/2035 (b)	9/1/2036 (c)	9/1/2025 (d)	9/1/2038 (c)

(a) The swap agreement is subject to optional early termination, at par value, starting March 1, 2014 and semiannually thereafter. The maximum notional amount subject to early termination equals 60% of the current notional amount.
(b) The swap agreement is subject to optional early termination, at par value, starting on September 1, 2014 and semiannually thereafter. The maximum notional amount subject to early termination equals 60% of the applicable notional amount through September 1, 2033 and 100% of the applicable notional amount thereafter.
(c) The swap agreement is subject to optional early termination, at par value, from prepayments at any time with a ten business day notice. Additionallly, the Bear Stearns swap provides for matched amortization on outstanding bonds.
(d) The swap agreement is subject to optional early termination, at par value, starting March 1, 2016 and semiannually thereafter. The maximum notional amount subject to early termination equals 100% of the current notional amount.

Performance of TDHCA Swaps

RBC Capital Markets

PROGRAM 61

Period	Net Payment from/ (to Counterparty)	Fair Value	Hedge Effectiveness %	Hedge Effectiveness* ($)
9/1/04 - 2/28/05	$ (577,402)		98%	$ (6,973)
3/1/05 - 8/31/05	(404,597)	(3,012,987)	94%	(39,176)
9/1/05 - 2/28/06	(244,162)		100%	(1,251)
3/1/06 - 8/31/06	(79,371)	(341,966)	99%	(8,035)
9/1/06 - 2/28/07	(57,632)		100%	(338)
3/1/07 - 8/31/07	(22,894)	(378,758)	99%	(14,911)
9/1/07 - 2/29/08	(179,366)		97%	(29,437)

PROGRAM 62

Period	Net Payment from/ (to Counterparty)	Fair Value	Hedge Effectiveness %	Hedge Effectiveness* ($)
3/1/05 - 8/31/05	$ (239,750)	(1,581,601)	90%	$ (44,727)
9/1/05 - 2/28/06	(146,041)		95%	(24,528)
3/1/06 - 8/31/06	(46,105)	(58,177)	94%	(36,649)
9/1/06 - 2/28/07	(31,172)		95%	(31,324)
3/1/07 - 8/31/07	(19,852)	(96,416)	94%	(41,572)
9/1/07 - 2/29/08	(105,271)		92%	(48,458)

PROGRAM 62A

Period	Net Payment from/ (to Counterparty)	Fair Value	Hedge Effectiveness %	Hedge Effectiveness* ($)
8/1/05 - 8/31/05	$ (126,210)	(4,940,546)	98%	$ (4,093)
9/1/05 - 2/28/06	(620,992)		94%	(81,416)
3/1/06 - 8/31/06	(335,102)	(1,581,395)	93%	(116,113)
9/1/06 - 2/28/07	(277,457)		96%	(77,872)
3/1/07 - 8/31/07	(251,857)	(1,580,061)	93%	(122,625)
9/1/07 - 2/29/08	(427,239)		95%	(82,662)

PROGRAM 68

Period	Net Payment from/ (to Counterparty)	Fair Value	Hedge Effectiveness %	Hedge Effectiveness* ($)
11/15/06 - 2/28/07	$ (26,550)		99%	$ (4,062)
3/1/07 - 8/31/07	(29,225)	(554,019)	97%	(21,283)
9/1/07 - 2/29/08	(117,662)		98%	(10,806)

PROGRAM 69

Period	Net Payment from/ (to Counterparty)	Fair Value	Hedge Effectiveness %	Hedge Effectiveness* ($)
5/31/07 - 8/31/07	$ (185,865)	(3,223,482)	96%	$ (54,742)
9/1/07 - 2/29/08	$ (643,251)		95%	$ (121,292)

*Hedge Effectiveness is the difference between the floating rate paid by the Counterparty and the interest paid on the Variable Rate Demand Bonds.

VRDNs – Role of the Credit Support (Liquidity Facility) Provider

- VRDNs allow the holder to demand purchase
- An Issuer normally has some form of external credit support to meet that demand
- Most common forms of liquidity support are provided by highly-rated financial institutions
  - *Standby Bond Purchase Agreements (liquidity facility) or*
  - *Letters of Credit*
- If the Remarketing Agent can not find a new buyer for tendered VRDNs, the liquidity provider is obligated to meet the demand
- In the event the liquidity source is drawn upon, the bonds will become "bank bonds"
- "Bank bonds" bear interest at a "bank rate"
- Under a liquidity facility, there are conditions in which the bank will not be obliged to advance funds
- Under a letter of credit, there are typically no conditions in which the bank will not honor draws for liquidity or credit needs

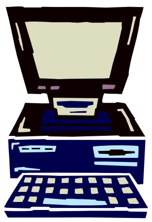
VRDNs – Recent Developments in the Liquidity Market

- **Recent developments in the financial markets place additional focus on the <u>access</u> to and <u>cost</u> of obtaining liquidity**
  - *Systemic issues related to the market for Auction Rate Securities ("ARS") which do not have the same put rights as VRDBs*
  - *Downgrades and ongoing credit concerns related to municipal bond insurers*
- **These issues have created <u>increased demand</u> for liquidity as issuers look to restructure insured ARS or VRDBs**
- **Widespread demand for liquidity has resulted in <u>increased costs</u> for a relatively scarce resource in the prevailing market**
  - ***In the past, TDHCA has been able to secure liquidity for approximately 9 to 12 basis points***
  - ***In its most recent solicitation, the cost of liquidity obtained was approximately 27 to 32 basis points***
    - **Pricing varied for insured or uninsured underlying bonds**
    - **Pricing also included various additional costs based on rating changes for TDHCA and Bond Insurer**

Section 6

Housing Cashflows: The Basics

What is a cashflow model?



A cashflow model is the quantitative "engine" used to design and demonstrate the veracity of a financial structure.

A housing cashflow model projects the flow of funds and account balances of a proposed Housing Program. It should accurately reflect the Indenture and support a wide range of assumptions and "what ifs".

RBC Capital Markets

When are cashflow runs necessary?

New Issue

Refunding

Extension

Release Cash

Restructure

RBC Capital Markets

What we look for … *… under various conditions*

Sufficiency
(Liquidity)

Parity
(Assets / Liabilities)

→

Originations

Prepayments

Receipt Lags

Defaults

Yield
(Tax Law)

→

Expected Case

Modeling Considerations

Structure	*Variables*
Indenture(s)	**Origination Dates**
Loans	**Non-Origination**
Bonds	**Partial Origination**
Swaps	**Prepayment Speeds**
Accounts	**Basis Spread**
Reserves	**Investment Rates**
Expenses	**Cash Infusion**
Flow of Funds	**Cash Withdrawals**
Redemptions	
Tax & Yield	

Rating Agencies look at cashflow projections to:

1) Cover debt service

2) Maintain assets that exceed outstanding bonds

3) Withstand various "stress" scenarios

Origination
- Full / Partial
- Non-origination
- Worst-case draw

Prepayments
- 0% to 1,000%+
- Supersinker
- Liquidity
- Differential Speeds

- Lags
- Float
- Defaults
- Fees
- Recycling
- Reserves
- Withdrawals

Open Indenture Consolidated Cashflow Modeling

Open Indentures require modeling of all prior bond issues simultaneously. Consolidated cashflows are valuable to Issuers:

- **Forecasting revenues, expenses, assets and liabilities**
- **Proactive planning, budgeting, and managing**
- **Identify opportunities for restructuring and investments**
- **Optimize bond call selection and timing**
- **Ability to target specific types of homebuyers**
- **Ability to demonstrate indenture strength to rating agencies**
- **Improved reporting to Board of Directors**

Timely and accurate consolidated cashflows can help reduce erroneous errors, lower homeowner loan rates and increase fees to the Issuer.

Section 7

Housing Bonds: Terms & Concepts

An Educational Guide : Laying the Foundation

The housing market consists of two types of bond financings:

Single Family:

Bonds issued by state and local housing agencies to provide loans to first time home buyers. These loans are available to certain qualified buyers and tend to offer rates that are below those available from conventional sources.

Multifamily:

Bonds issued on behalf of for-profit, not-for-profit and housing authority borrowers to finance the construction or acquisition and rehabilitation of multifamily rental housing projects. These projects require that 40% of the units are set aside for families at 60% or less of the area median income, or 20% of the units are set aside for families at 50% or less of the area median income.

Indenture: The indenture is the legal document that governs an Issuer's financings. Indentures are either open or closed.

Open: This type of indenture includes many or all of an issuer's financings or bond series. This type of indenture gives the issuer a great deal of flexibility in managing their various programs and outstanding bond issues. This flexibility creates a great deal of uncertainty among investors as monies and loans can shift to and from various series of bonds. Cross-calls, directed maturities, as well as lock-outs are commonly practiced.

Closed: This type of indenture usually has only one financing or series of bonds. As such, investors can better predict or model the cash flows of the bonds issued from this type of indenture. It is quite common for multifamily transactions to be issued out of closed indentures.

Annual New Issue Volume for the Housing Market:

Year	Volume (000's)	% of Muni Volume
2007	$ 31,528,800	6.4%
2006	$ 31,824,600	7.3%
2005	$ 22,257,700	5.4%
2004	$ 22,678,300	6.3%
2003	$ 26,642,200	7.0%
2002	$ 23,579,800	6.8%
2001	$ 21,615,000	7.8%
2000	$ 20,250,700	10.1%
1999	$ 20,833,700	9.2%

Most housing bonds are subject to the volume cap imposed on private activity bonds. This cap has largely restricted new issue volume of housing bonds. Since 1986, this cap has restricted the issuance of all private activity bonds (not just housing bonds) in any given state to the greater of $ 50 per capita or $ 150,000,000. In December of 2000, after years of intensive lobbying, Congress increased the private activity caps to the following:

Source: The Bond Buyer

Private Activity Cap:

1986-2000: greater of $ 50 per capita or $ 150,000,000/state

2001: $ 62.50 per capita with a minimum of $ 187,500,000/state

2002: $ 75.00 per capita with a minimum of $ 225,000,000/state

2004: $ 80.00 per capita with a minimum of $ 228,600,000/state

2007: $ 85.00 per capita with a minimum of $ 256,235,000/state

These increases usually translate into a similar increase in new issue housing bonds as housing agencies across the country try to meet their growing demand from first time home buyers. Equally important is the realization that this country is suffering a severe shortage of affordable housing rental units.

Note that not all housing bonds are subject to the private activity cap. Bonds issued for not-for-profit borrowers or housing authorities are not classified as private activity bonds. Also, taxable bonds are not counted against an issuer's volume cap.

Section 7a:

Single Family Housing: Terms & Concepts

First time home buyer: The target market for single family issuers. A first time home buyer is one who has not owned a home in the past three years.

Income Limitations:

This limitation restricts first time home buyers from receiving a loan from a single family issuer if their income exceeds certain levels. Generally, loans are not available to individuals who have incomes in excess of 115% of the median income level for the designated area. Some issuers (especially state agencies) set their income limits below the federal maximums.

Purchase Price Limitations:

First time home buyers are also subject to purchase price limitations to prevent the use of tax-exempt proceeds from financing expensive or lavish homes.

Repayments:

Scheduled pay-downs of mortgage loan principal.

Prepayments:

Accelerated payment of mortgage loan principal. Prepayments are triggered by additional principal pay-downs, loan refinancings, home sales or foreclosures.

Unexpended Bond Proceeds:

Bond proceeds that have not yet been used to originate loans. Bond calls associated with these monies are commonly referred to as unexpended bond proceeds calls or non-origination calls.

42 month rule:

Federal tax rule which requires issuers to redeem bonds from unexpended bond proceeds if loans are not originated within 42 months from the date of issuance.

Pro-rata bond call:

A method of calling bonds in which a proportionate share of each maturity is redeemed from unexpended proceeds, prepayments or excess revenues.

Pass-Through:

A bond structure where principal prepayments are immediately used to call bonds. These prepayments "pass-through" the indenture to bond holders.

Cross-calls:

A method of calling bonds in which the issuer will use prepayments from loans of one series to call the bonds of another series of bonds that are within the same indenture. The issuer will typically target high-coupon bonds when practicing this type of call feature (e.g., prepayments from low-rate 2003 loans may be used to call higher coupon 1998 bonds).

Directing Maturities:

A method of calling bonds in which the issuer will designate that a certain maturity or maturities will be targeted for early redemption from prepayments and/or excess revenues.

Lock-out:

A special provision that provides call protection to a certain maturity or maturities. Typically, a lock-out provision will give an investor protection from calls from prepayments for periods ranging from 5 to 10 years and issuer receives a lower cost of return.

Financial Products:

Hedging products such as interest rate swaps and caps can be combined with floating rate debt to reduce the effective borrowing cost to housing issuers. This benefit can be used to reduce the mortgage rate and/or increase fee to the issuer. Issuers assume additional risks vs. traditional fixed rate bonds.

Recycling:

The practice of using loan prepayments to originate new loans rather than calling the bonds associated with the loans that prepaid.

10 year rule:

IRS regulation which requires an issuer to call bonds with prepayments after an issue has been outstanding for ten years from the date of issuance of the original bonds. This rule limits an issuer's ability to recycle prepayments.

Recapture:

A tax imposed by the federal government on gains from the sale of a residence that received tax-exempt financing. The intent is to recapture a portion of the tax subsidy afforded by the below market financing. Generally, this tax phases out after about nine years.

PSA Prepayment Model:

Public Securities Association (PSA) mortgage prepayment benchmark that assumes that seasoned mortgages prepay at a constant rate of 6 %, the constant prepayment rate (CPR).The prepayment rate for the first 29 months of the loan is assumed to increase .2% per month until the 6 % constant is reached in month 30.

PSA Prepayment Table

0 % PSA =	0 % CPR	(6 % constant x 0.00)
25 % PSA =	1.5 % CPR	(6 % constant x 0.25)
50 % PSA =	3.0 % CPR	(6 % constant x 0.50)
100 % PSA =	6.0 % CPR	(6 % constant x 1.00)
150 % PSA =	9.0 % CPR	(6 % constant x 1.50)
200 % PSA =	12.0 % CPR	(6 % constant x 2.00)
300 % PSA =	18.0 % CPR	(6 % constant x 3.00)
400 % PSA =	24.0 % CPR	(6 % constant x 4.00)
500 % PSA =	30.0 % CPR	(6 % constant x 5.00)

Super-sinker:

A bond structured to receive prepayments from the underlying mortgages. Due to the uncertain nature of loan prepayments, super sinkers tend to have erratic pay-downs. Super-sinkers do provide a certain level of call protection for the other maturities as prepayments are directed to the super-sinker.

Planned Amortization Class (PAC):

A bond structured to receive a certain level of prepayments that results in a relatively stable average life over a wide range of prepayment speeds. PAC's are usually structured to receive all prepayments up to the lower end of the PAC band. Prepayments in excess of this lower end of the PAC band and less than the upper end of the PAC band are diverted to other maturities within the deal.

A prepayment speed within the PAC band results in a stable average life.

Investor typically pays issuer a premium for the bond with a more predictable average life.

PAC Band:

The range of prepayment speeds used to define the planned principal pay-down and the resulting average life. The lower end of the band sets the speed at which the amortization of the principal is planned to occur. There is no industry standard for PAC bands, as bands differ from deal to deal. A wider band typically provides for a more stable average life. Bands tend to range on the lower end from 50% to 100 % and from 350% to 500% on the upper end. Common bands on recent deals include: 75-250%, 100-300%, or 100-500%.

PAC Window:

The window is simply the range of time between the first pay-down of principal and the last pay-down of principal for a PAC bond given a PSA prepayment speed within the applicable band. The first pay-down "opens" the window and the last pay-down "closes" the window.

Taxable Housing Bonds:

On single family issues taxable bonds are sometimes utilized because taxable bonds are not counted against an issuer's volume cap. As such, a limited amount of taxable bonds can be effectively blended into an issue with a minimal impact on the interest cost of the financing while increasing an issuer's production without using volume cap. Due to higher rates associated with taxables, it is common for taxables to be structured with shorter maturities, particularly if the taxable market has a normal or up-sloping yield curve.

Step Coupons:

Bonds structured with coupons that adjust upward after a specified period of time. The initial lower rate usually lasts for about one year and the stepped up rate lasts until the bonds are retired. Step coupons are a common way for issuers to minimize or avoid negative arbitrage during the loan origination period.

Section 7b:

Multifamily Housing: Terms & Concepts

Texas Dept of Housing & Community Affairs

Multi-Family bonds are used to provide proceeds to construct or acquire and rehabilitate rental housing projects for lower income tenants. Owners of these projects can be for-profit, not-for-profit or public housing authorities.

For-profit Owners: Privately owned projects financed with tax exempt bonds issued under Section 142 of the Code. These bonds are private activity bonds and require a volume cap allocation and automatically create 4 % low income housing tax credits. These bonds are subject to the AMT tax.

Not-for-profit Owners: Projects financed with tax exempt bonds that are issued under Section 145 of the Code. These bonds are not subject to a volume cap allocation. These bonds are <u>not</u> subject to AMT tax.

Public Housing Authorities: Projects owned by public entities that are issued under Section 103 of the Code. Sometimes referred to as governmental bonds or essential purpose bonds. Not subject to volume cap or AMT tax.

Texas Dept of Housing & Community Affairs

Military Housing: Privately owned projects for housing military personnel and their families. Primarily secured by direct deposit of military Basic Housing Allowance payments with trustee. Section 144a requires sophisticated buyers. Most projects financed with taxable bonds.

Tax Credits:

Privately owned projects financed with tax exempt new money bonds are eligible to receive tax credits under the Code. These "4%" tax credits are typically sold to a tax credit investor who becomes a limited partner. Proceeds from the sale of the tax credits are an important source of equity that can amount to 15-25% of total project costs. (There are also "9%" tax credits, but these cannot be combined with tax-exempt bonds and therefore must use taxable debt financing).

Construction and Lease-Up Risk:

During the construction and lease-up phase of a project, it is common for the owner to secure a credit enhancement such as a letter of credit (LOC) because many long term credit enhancers will not assume construction and lease-up risk. After construction and stabilization, the long term credit enhancer will assume the default risk of the project and the LOC "burns off".

Alternative Structures:

Fixed-rate financings:

The rate on the bonds is fixed for the entire life of the issue. Mortgages underlying the bonds are level pay, generally 30 year amortizing notes.

Variable-rate financings:

The rate on the bonds varies periodically from issuance, or is fixed for a specified period of time and then can shift to any number of reset modes, such as daily, weekly, monthly, quarterly, or some other longer mode.

Mandatory put financings:

The rate on the bonds is typically set for a fixed number of years, after which the bonds are subject to a mandatory tender and a subsequent remarketing. For example, Fannie Mae (FNMA) requires the initial term to extend a minimum of 2 years beyond the Low Income Housing Tax Credit (LIHTC) compliance period of 15 years. This results in 18 year remarketings as the compliance period commences after the one year construction period.

Subordinate Bonds:

In order to secure additional sources of funding, subordinated bonds may be sold on either a tax exempt or taxable basis. As a subordinate class, these bonds carry a lower rating than the senior bonds or in many instances, these bonds will not carry a rating. Generally, they are "soft" notes with no right to accelerate the senior bonds upon an event of default. These notes can be held by the owner of the project.

Premium Bonds:

Another technique to raise additional sources of funding is through the sale of bonds at large initial offering premiums. These bonds are usually credit enhanced but the enhancement does not protect the investor from the loss of the premium in the event of an early redemption from a default or from an insurance payoff relating to catastrophic loss.

Taxable Bonds:

For multifamily issues, taxable bonds are sometimes utilized for the following reasons:

- to pay for costs of issuance that exceed 2% of the bond proceeds for private activity financings. Referred to as “taxable tails”.

- on refunding deals, taxables are structured when the principal amount of the refunding bonds exceeds the outstanding balance of the refunded bonds.

- financing needs in excess of the volume cap allocation could be sourced with proceeds from the sale of taxable bonds.

Section 8

Negotiated Sale Financing Team

The Negotiated Sale Financing Team

Key Participants	Participant's Representatives
▪ Issuer	▪ Issuer Counsel; Bond Counsel; Financial Advisor; Disclosure Counsel
▪ Bond Trustee	▪ Trustee's Counsel
▪ Underwriter(s)	▪ Underwriter(s) Counsel
▪ Credit Enhancer	▪ Credit Enhancer's Counsel
▪ GIC Provider	▪ GIC Provider Counsel
▪ GIC Broker	
▪ Loan Originators/Servicers	▪ Lenders' Counsel
▪ Rating Agencies	
▪ Auditor	
▪ Depository Trust Company (DTC)	

RBC Capital Markets

The Negotiated Sale Financing Team

- **Issuer** - The legal entity borrowing money by issuing bonds. Under federal laws, must be a state or political subdivision or a legal entity acting on behalf of a state or political subdivision.
- **Issuer's Counsel** - Legal representative of the issuer who customarily renders certain key opinions at closing, generally relating to accuracy and sufficiency of information in the bond disclosure document regarding (i) the issuer, and (ii) pending litigation, if any. Bond Counsel may perform Issuer's Counsel functions.
- **Bond Counsel** - A law firm recognized for its expertise in municipal bond law. Bond counsel has responsibility for drafting the trust indenture and other bond-related documents and rendering the opinion relating to the tax-exempt state of the bonds.
- **Financial Advisor** - A financial services firm recognized for its expertise in structuring housing programs/bond issues. Represents the issuer on matters relating to evaluation of proposed financing plans, selection of underwriters and other service providers, financial integrity of the bonds, control of transaction costs, timing of the bond sale and pricing of the bonds.

The Negotiated Sale Financing Team

- **Bond Trustee** - Usually a corporate trust department of a commercial bank serving in a fiduciary capacity for the bond holders. Performs duties and responsibilities assigned by the bond trust indenture. Normally serves as:
  - **Depository** for all pledged assets/revenues,
  - **Registrar** to record and transfer ownership of bonds,
  - **Paying Agent** to disburse principal and interest payments on bonds.
- **Bond Underwriter** - A licensed bank or investment banking firm experienced in the structuring, underwriting and marketing of municipal bonds. The role of the bond underwriter is to:
  - assist the issuer in structuring the bonds to achieve the issuer's objectives,
  - commit its capital to underwrite/purchase the bonds,
  - resell the bonds to third party investors,
  - make a "secondary market" in the bonds after issuance.

The Negotiated Sale Financing Team

- **Underwriter's Counsel -** A law firm recognized for its expertise in securities law. Represents the underwriter(s) on matters relating to compliance with federal/state securities laws and regulations. Customarily responsible for drafting the disclosure document, bond purchase agreement ("BPA") and agreement among underwriters ("AAU") and for providing an opinion regarding adequacy of disclosure.

- **Disclosure Counsel** - A law firm recognized for its expertise in securities law. Represents the issuer on matters relating to continuing disclosure requirements. Responsible for coordinating the collection of relevant financial information for drafting offering statements. Assists in preparation and filing of the annual continuing disclosure document with the required agencies and information repositories.

- **G.I.C. Provider** - (Guaranteed Investment Contract) Insurance companies, broker/dealers, commercial banks, and investment management companies that enter into uncollateralized agreements with issuers. The Issuer deposits funds with the Provider for a stated period of time. The Issuer receives a fixed rate or index-based floating rate for the life of the agreement.

The Negotiated Sale Financing Team

- **G.I.C. Broker** – Responsible for competitively bidding the Guaranteed Investment Contract to qualified G.I.C. Providers. Prepares the bid specifications and receives the bids from G.I.C. Providers. The broker's fee is customarily paid by the G.I.C. Provider and is limited by IRS regulations. The Issuer's Financial Advisor or another third party may serve as G.I.C. Broker.

- **Auditor** – An accounting firm whose primary responsibility is to review the financing statement of the Department and provide an audit report setting forth: a) the scope of the audit, b) explanatory comments regarding exceptions to GAAP, c) explanatory comments concerning verification procedures, and c) statistical tables, supplementary comments and recommendations. *Agreed Upon Procedures:* the auditor will also be requested, from time to time, to deliver a letter to the underwriters setting forth procedures undertaken with respect to review of specified financial information (e.g. interim financial statements) appearing in the OS and providing certain conclusions.

Operation of the Underwriting Team

- Roles and responsibilities of the Senior (“book-running”) Manager:
  - Serves as leader of the financing team.
  - Works with issuer and other members of the financing team to design a financing structure which meets issuer’s goals and objectives.
  - Participates in the preparation and review of all bond documents.
  - Coordinates with the rating agencies.
  - Sometimes prepares cash flow analyses and yield computations.
  - Provides market commentary, forward calendar of competing issues and input on market timing for offering bonds.
  - Sometimes arranges for investment agreements.

Operation of the Underwriting Team

- Orchestrates the marketing of a bond issue.
  - Communicates interest rate and final structuring suggestions with the co-managers and issuer's financial advisor to arrive at a consensus scale.
  - Prices the bonds.
  - Coordinates delivery of the bonds with payment of the purchase price.
- Maintains a "secondary market" in outstanding bonds (for liquidity and investor reception of future issues).
- Priorities for filling orders for bonds:
  - Group Net ("priority") Orders
  - Net Designated Orders – *e.g. no more than 50% and at least 3 firms designated*
  - Member Orders
  - Stock Orders
  - Retention of Bonds

Operation of the Underwriting Team

- Components of the Underwriter Discount:
  - Management Fee
  - Structuring Fee – Senior Manager
  - Takedown (Selling)
  - Expenses
  - Underwriting (Risk)

- Allocation of the Underwriter's Discount:
  - Governed by terms of the Agreement Among Underwriters ("AAU")

TEXAS
DEPARTMENT OF HOUSING
AND COMMUNITY AFFAIRS

RBC Capital Markets + Vinson&Elkins + McCall, Parkhurst & Horton L.L.P.