FINANCE COMMITTEE MEETING OF THE

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

Room E1.016
State Capitol Extension
1400 Congress Avenue
Austin, Texas

10:00 a.m.
Friday,
October 13, 2000

PRESENT:

DONALD R. BETHEL, Chairman
MICHAEL JONES
MARGIE BINGHAM (not present)

ALSO PRESENT:

DAISY STINER, Executive Director

BRENT STEWART, Director of Multifamily Finance
STEPHEN APPLE, Multifamily Finance
ROBERT ONION, Multifamily Loan Officer

I N D E X

P R O C E E D I N G S

MR. BETHEL: We're going to call this meeting to order. This is a meeting of the Finance Committee of the Texas Department of Housing and Community Affairs, meeting October 13, Friday, year 2000. There's a full moon also.

MR. JONES: May I also make a comment, Mr. Chairman, that I understand in a couple of weeks you have your 29th birthday. Is that correct?

MR. BETHEL: That is correct.

MR. JONES: And just wanted to congratulate you on that.

MR. BETHEL: Well, thank you. I'm holding up real well.

(General laughter.)

MR. BETHEL: Don Bethel is present. Margie Bingham -- Margie's plane wasn't going to be here until about 11:00, so she is not here. We're going to go ahead and do this and then she'll be here for the Board meeting.

Michael Jones?

MR. JONES: Here.

MR. BETHEL: We do have a quorum.

We would ask if you'd like to speak to this committee that you would come forward, and there are some witness affirmation forms that Delores has. And if you'll fill those out, we'll call on you and you can come up to the microphones and make your public comment. There is no time limit on the public comment; if you want to speak for however long, we'll let you speak. There not being anyone signing up, well, we'll close the public comment then.

We'll go to the first item on the agenda which is the approval of the minutes of the September 15 meeting. And I wasn't at the meeting, and I don't know that we could have a quorum -- Margie -- there would have to be two to approve them, so I think we'll pass on that till next Board meeting.

The second item on the agenda is a 501(c)(3) multifamily mortgage revenue bonds for Green Bridge, a Buckingham Limited Liability Corporation, Green Bridge Development Corporation. Ms. Stiner.

MS. STINER: Thank you, Mr. Chair. The staff will make the presentation on that, Brent Stewart, director of Multifamily Finance and Stephen Apple with the Program area. Mr. Stewart, Mr. Apple.

MR. STEWART: This is Brent Stewart, director of Multifamily Finance. Stephen is going to do the presentation; I just wanted to make sure to point out that this is a new construction 501(c)(3) bond transaction, and I've been working diligently for four years to figure out a way to get a new construction 501(c)(3) bond transaction to you for your consideration. This particular transaction we've been working on for right at about a year.

When you originally saw it for inducement, you induced the bonds without a very low income set-aside and it was contemplating a Fannie Mae type structure. It now has a very low income set-aside; it is a private placement transaction without subordinate bonds. Due to the willingness of the developer and the nonprofit to work this deal over the past year and have the resources to keep it going over the past year, keep the land tied up, we finally have a deal put together that is, we believe, worth of your consideration.

I'll let Stephen do the actual presentation.

MR. APPLE: Good morning. My name is Stephen Apple and I'm from the Multifamily Finance Division, and the request that's before the Board today is for the issuance of $19,735,000 in tax exempt bonds and $350,000 in taxable bonds under the Department's 501(c)(3) Multifamily Bond Program.

The proceeds of the bonds will be used to finance the construction of a 242-unit apartment project for the elderly in Richardson, Texas. The borrower on the project is the Green Bridge Development Corporation, which is a nonprofit entity who has contracted with M. Myers

Development, a for-profit developer and general contractor, who will construct the project.

Twenty percent of the units will be set aside for households earning 50 percent of area median income and 75 percent of the units will be set aside for households earning 80 percent of the area median income.

The bonds will be privately placed with Charlie Mac and a letter of credit will be provided during the construction period by First Union National Bank.

There's an important change on page 6 of the write-up under Tab 1. The section that discusses an earn-out account, the second sentence of that reads: "The provisions of the earn-out account allow the proceeds to be released within 60 months of construction completion." And a change has been made within the past couple of days, and that will now read: "The proceeds will be released within 60 months of the closing" rather than "construction completion." And that would affect some other sections described in the write-up, such as mandatory redemption and any other place throughout that write-up that discusses that earn-out account.

The earn-out account is basically where the developer's fee is deposited, and once the project meets certain thresholds, a portion of those funds would be released to the developer.

MR. BETHEL: So "closing" is a substitute for "completion date"?

MR. APPLE: Correct.

MR. BETHEL: And the closing, is that when the title is transferred and monies given? In my little real estate deal, you know, a closing is when you get the title and get the funds, and some of these there's closings -- I've noticed them -- we've got soft closings.

MR. STEWART: This is actually referring to the actual bond closing where title does change hands and bonds are sold; the money changes hands. It's five years total from that date. The reason for the change is a tax issue and it's just basically a shorter period of time, and that helps us with our taxable.

MR. APPLE: And somewhere in front of you there should be a color diagram of the elevation of the project that didn't make it into the Board books when we sent them out. Also, if you refer to the underwriting report, there are several conditions: president is being able to close the bonds, and mainly their getting up-to-date versions of the commitment letters from the lenders, and things like that.

If you have any questions?

MR. JONES: Mr. Chairman, I move that we recommend for approval to the Board Resolution Number 00-

30.

MR. BETHEL: We have a motion, and I'll second that. I guess we'll just recommend it by common consent then.

This says Richardson Retirement Community. Is that the Green Bridge?

MR. APPLE: That's the same project.

MR. BETHEL: We will recommend this to the full Board by common consent. Thank you.

The next item is a tax exempt multifamily housing mortgage revenue bonds and taxable mortgage revenue bonds for a property to be located in Houston, Texas. Brent?

MR. STEWART: I'm going to let Robert Onion do this.

MR. BETHEL: Okay.

MR. ONION: Robert Onion, Multifamily loan officer.

MR. BETHEL: Thank you.

MR. ONION: This particular project is being financed by a private placement with Bank of America. The write-up -- as presented to you, the numbers have changed. I'd like to make you aware of what those changes are.

The Series A bonds are for $10,400,000, carries an interest rate of 6.72; the Series B bonds are

$2,350,000, interest rate is 6.72; and a taxable Series C bonds, $750,000, has an interest rate of 7.76 percent. This project is located in southwest Houston; the borrower is TCR Bissonnet Limited Partnership; TCR stands for Trammell Crow Residential.

The compliance history indicates that one property has a score of 4, well below the noncompliance threshold of 30; another project, Mayfield Apartments, has recently been constructed and has not gone through the compliance review; and Highland Meadows which we just recently closed last month.

The maturity dates on the bonds for the Series A and B is November 1, 2033, and on the taxable Series C bonds, the maturity date is November 1, 2008.

If you have any questions, I'd be happy to answer them.

MR. JONES: Is your report, those scores -- I just want to make sure we all understand ourselves -- a material noncompliance score would be up to 30 points; if you're over that, you're in material noncompliance. Correct?

MR. ONION: Correct.

MR. JONES: Their score is 4 which is very low, very good.

MR. ONION: Correct.

MR. JONES: Thank you.

Mr. Chairman, I would move that we recommend for approval Resolution Number 00-32 to the Board.

MR. BETHEL: Okay. I accept that and I agree, and we'll do that by common consent. That's on agenda item number 3, 00-32 resolution.

Agenda item number 4 is the inducement resolutions.

MR. STEWART: Again, for the record, Brent Stewart, director of Multifamily Finance.

What we have in front of you this morning is requests for inducement resolutions to allow the Department to proceed with applications for these transactions to the Bond Review Board for participation in the upcoming lottery process for private activity bonds.

You should have in front of you the Board book that you received last week, along with this supplement package that was also sent out with the Board book. You should also have in front of you a handout from this morning which is a three-tabbed handout, and we'll talk about the three-tabbed handout in a second.

The Bond Review Board anticipates approximately $168 million for multifamily private activity transactions for the program year 2001, and the requests that we are recommending to you today total just over $864 million.

The Bond Review Board application window runs from October 10 through October 20, and the lottery is going to be held this year on October 27.

By the Department's application deadline of September 11, the Department received 79 applications for over 18,500 units. Four of these applications withdrew during the pre-qualification process for various reasons, leaving the 75 remaining applications that are in front of you this morning.

Of these 75, 40 were submitted for Priority 1 transactions, which is 17 more applications for Priority 1 than we received last year. Through the pre-qualification process, two Priority 1 applicants amended their applications to go to Priority 2. Of the remaining applications, we are recommending 36 Priority 1 applications for approval, subject to certain mutually exclusive conditions to be discussed in a moment.

In total, if these transactions are approved, we'll be submitting 20 more Priority 1 applications than we submitted last year. There are two Priority 1 applications that the Department received that we are recommending for a decline for the reasons listed on your report.

The balance of the applications are recommended for submission as Priority 2 transactions. There were 23 less in this priority this year compared to last year. There's one Priority 2 application that we're recommending for a decline. And we received, once again, no applications for Priority 3.

Certain recommendations are being presented subject to mutually exclusive conditions as outlined behind Tab 2 of the handout from this morning. Basically, we received multiple applications in the same sub-market, generally the same site from the same developer, and we're recommending that regardless of the outcome of the Bond Review Board lottery, that only one reservation of the listed mutually exclusive transactions under the, quote, contiguous site and common ownership, be accepted by the Department from the Bond Review Board.

In other words, if two or more of the listed mutually exclusive deals are successful in the lottery, the one with the lowest lot number will be the transaction that the Department accepts a reservation for. And that's the same process that we followed last year.

The report also shows concentrations of applications received in some market areas, and aside from these specific mutually exclusive issues, there is likely going to be some major absorption and market issues in these areas next year. At this point in time, we just don't have the market research to conclusively determine the number of units that could be supported in a given market area, and so we're recommending that we just let that be resolved through the underwriting process and through the market feasibility process.

Again, with respect to the Priority 1 transactions, it's important to note that these are extremely thin transactions; most of them have been analyzed using a 40-year amortization with high levels of deferred developer fees. We now have a year's experience with Priority 1 transactions and although the deals are thin, we didn't lose a deal this year at all due to the numbers not working. The transactions that failed to close this year failed to close because of public opposition issues and other issues.

Behind Tab 1 of the handout this morning, the first page is the staff recommendations for those transactions being declined. The only difference between this report and what was in your Board package is we have the results back from the compliance checks that we did on all these applications, and one transaction had a development team member that was associated with a project -- two projects that have scores of 49 and 207, respectively, so we're recommending that that transaction be declined. The other two that are on that list are the same that was in the Board package.

Behind Tab 2 of that handout from this morning is a chart that looks like this -- and I apologize for the small font. This is where we have taken an analysis of the maps that are behind Tab 3 and compared proximity from one application to another.

The first column under the mutually exclusive options represents the methodology we used last year, which is basically contiguous sites and common ownership; those are the transactions we are recommending for mutual exclusivity.

The other two columns just kind of show, based on proximity within a two-mile range, and over in the comments section we've actually indicated the actual miles between the sites, so you can get a sense of how close some of these transactions are.

So with that, I'll stop and entertain any questions that you have.

MS. STINER: Mr. Chair, do you all have questions? I just want to make a comment that may prove to be noteworthy in the future.

Brent talked about those results that we didn't anticipate in terms of developments that are within close proximity of each other. There's no good way now to determine, with the absence of market information, how many of those units the market will absorb. But we thought it was important, and I thought it was important enough, that we stress again that we may see some of these later in terms of comments from the public about the Department inducing developments that are within close proximity.

But we don't have a way right now to determine which ones, first of all, are going to come out of the lottery, and which ones, through their own market information, will exclude each other. So I'm thinking that the best approach we have at the current time is to move forward with the inducement of them and let the underwriting and the market studies guide the Board when it comes time to approve them. And again, a big part is which ones of them come out of the lottery.

So we don't have a good way right now to exclude any of them, so I think it's good information for the Board to have, good information for the public to have. I think that's more important that they know up front that these are the applications that we are considering. The staff has done a good job in working with all the developers, but this is an unanticipated result of the applications and how they came in and where they're feasible, especially when you're doing Priority 1 deals like we are.

MR. BETHEL: So then we can look forward to public comment, then, based on results.

MS. STINER: Unanticipated results.

MR. BETHEL: Unanticipated results.

MR. STEWART: Well, if I might just add to that. I think you've got the public comment issues, but you've also got the issue of, from a Department standpoint in issuing debt, certain of these markets already have a number of tax credit properties in those markets, some of which may just now be under lease up, some of them may just now be under construction.

So you have to balance how many units do you put into a sub-market at one time, and that's complicated by the fact that you're actually issuing debt on these. I mean, that's a debt obligation of this Agency, conduit debt obligation, but a debt obligation nonetheless.

MR. BETHEL: But we do all these inducements; we have no idea which one may be drawn out, too.

MR. STEWART: Which ones will be drawn and the timing of those drawings.

MR. BETHEL: Right. Is there a resolution on this?

MR. JONES: Well, there's not, there are multiple resolutions and they're all drafts and none of them refer to numbers. Am I missing something?

MR. STEWART: What's in the Board package that we put -- each one has a specific resolution and has a specific resolution number. And the amounts that are on this report reflect the bond amounts that we're recommending for inducement. We did not include all 75 resolutions in your package just because each resolution is the same except for the name and the amount that's reflected on your report.

MR. JONES: Let me say this -- and I appreciate Ms. Stiner's comments -- you know, that's not something, though, that we're not going to run into. I mean, it's a balance, as you've said. I mean, the concentration issue is there; our overriding issue is that there are Texans that need housing and we have these funds available, and we're going to have to move forward with them in a responsible way.

We have to balance the concentration issue and do the best we can on that issue, too. I think it's a concern; I think it's a very valid one, but having said that, it seems to me like we have to deal with these things as they come up and come up with the best policies that we can to accommodate both interests. But I don't think we can not move forward, and with that in mind, it would be my recommendation that we -- it would be my motion that we recommend these resolutions to the Board for approval.

MR. BETHEL: I agree. So will these be like resolutions 00 -- are we going to do 33 to 108?

MR. STEWART: Yes, sir.

MR. BETHEL: Is it going to be from the one we just passed?

MS. STINER: I don't know where we'll start; I don't know how many of my resolutions that B&E has done and where the numbering will stop, but it will start with the resolution through 75 consecutive numbers.

MR. STEWART: Thirty-three through 106.

MR. JONES: And I want to make sure, too, that I understand this situation. I mean, you know, we understand the possible problems; we understand the possible public comments, but staff is recommending these things to us and thinks that even with these considerations this is the best we can do. Correct?

MS. STINER: Oh, absolutely.

MR. JONES: And I want to make sure that everybody knows that we're sensitive to that issue but it still doesn't mean we can't move forward.

MS. STINER: Yes. We're sensitive, too, because we sometimes get accused of not making the Board aware of all issues, no matter how insignificant in certain people's opinions. But we know that these are the kinds of issues that tend to get discussed when you don't give the correct perception and priority to what we're trying to accomplish.

So it's just to share information with you so that if you hear discussions about this, you will know that it has to do with these issues as you've identified that are not unique to trying to develop affordable housing in certain markets, especially when those markets are the ones that best support the kinds of developments that we're trying to do a particular way and trying to reach the income level or tenants that we're trying to reach.

But absolutely, the staff recommends that we move forward with the applicants that's been presented to you this morning.

MR. BETHEL: Thank you, ma'am. So there are 75 of these?

MR. STEWART: There are 36 Priority 1 transactions, 36 Priority 2 transactions, for a total of 72 being recommended for approval; there are three that are being recommended for a decline, for a total of 75.

MR. BETHEL: So if we accept staff's recommendations, we're approving 72 resolutions.

MR. STEWART: Correct.

MR. BETHEL: So we would be through Resolution 104, then, I would guess. Right?

MS. STINER: I see nods on a number of heads.

MR. STEWART: I believe bond counsel has them.

MR. BETHEL: We'll recommend that to the Board; we'll let the chairman at the Board meeting decide that.

MR. JONES: I'll tell you what he'll do. He's kind of an idiot -- he probably won't worry about -- he'll just say we need to approve these resolutions that have been suggested by staff. That's probably what he'll do since he's the one that made the motion. He's not near the stickler that this particular chair is. But he certainly learned at your feet and he holds you in great esteem. I assure you of that.

(General laughter.)

MR. BETHEL: Thank you, sir. Agenda item 5 has been pulled -- Thank you, Mr. Onion, and Ms. Stewart -- and so we'll go to agenda item number 6 which is approval of lenders for the Single Family Bond Program 56.

MS. STINER: Thank you, Mr. Chair. Pam Morris, director of Single Family will make that presentation.

MS. MORRIS: Good morning. Pam Morris.

I wanted to give you our recommendations for lender approvals for Program 56. As you know, this particular bond program, we're doing something unique, in that we're doing the first come, first served based on a regional set-aside.

The lenders that submitted applications to us, or invitations, didn't have to submit the participation fee this time. So because of that, we received eleven new lender requests that we have not had in the past, which we thought was positive. The lenders have been approved by the Department as far as the review of the package that we request and require, but we are subject to Countrywide's approval.

We received the 54 packages; simultaneously, Countrywide received packages as well to try to keep the process moving quickly. However, they still have a few lenders that they have not completely cleared through their process. It's the new lenders that take longer because they have to go through their financials more carefully and make sure they have not had any repurchase issues in the past with any other lenders or participating programs that they've been aware of.

That is basically it in a nutshell. We expect to, once we have clearance from Countrywide, hopefully next week, on the remainder of the lenders, we will send program docs out to them. We need docs signed and back before we do our lender training, which will be the first week of November, so that all of our lenders are aware of our new process for the first come, first served before the funds are available November 15.

MR. BETHEL: So you're making this recommendation subject to Countrywide's approval of the -- what did you say, eleven new lenders?

MS. MORRIS: It's mainly the eleven new lenders. Right. Correct.

MR. BETHEL: Eleven new lenders?

MS. MORRIS: Correct.

MR. BETHEL: I would recommend that to the Board that we would approve this list, subject to Countrywide's approval.

MR. JONES: I so move.

MR. BETHEL: We'll do that by common consent.

MS. MORRIS: Thank you.

MR. BETHEL: Thank you, ma'am.

The last item on the agenda is the acceptance of the fourth quarter investment report.

MS. STINER: Mr. Dally.

MR. DALLY: Good morning, Chair, Committee members, Ms. Stiner. My name is Bill Dally, chief financial officer and investment officer for the Department.

You'll find under Tab 7 the Department's fourth quarter investment report for the period ending August 31, 2000 that would end our fiscal year. This report brings to you all the elements that are required under the Public

Funds Investment Act. You see a listing of each of our funds and the change in market values for each of those investments.

Overall, the portfolio was fairly static. It reduced slightly from about $1.05 billion to $1.04-. Its makeup is still significantly mortgage-backed securities under our bond programs; that makes up about 69 percent. The guaranteed investment contracts and investment agreements that are associated with the bond proceeds before they're made into mortgage-backed securities make up about 23 percent, and then you have a remaining 9 percent of various short-term securities that we hold in a short-term status until we make debt service payments.

Our activity for this quarter was we had about $36.6 million in new mortgage-backed securities and loans made out of our recent bond proceeds. Those are at a pass-through rate of 5.35 to 5.45. Overall, because of changes in the market, the interest rates for mortgages and stuff did drop at 8.31 as compared to May, and that improved the market value of the overall portfolio by $12.8 million.

Our investments are providing the appropriate cash flow to make our debt service payment on the bonds and cover our Department expenses which is their primary purpose. Behind the summary you'll find a 25-page detail and it lists all of the various investment types and their maturities.

We did have one significant sale that I'd bring to your attention. We sold $25.6 million in 1990 A and B Ginnie Maes. That was for the purpose of we will retire the associated bonds and we had a $1.9 million surplus which we can then use programmatically, and I think that's going to be maybe discussed later.

Are there any questions?

MR. JONES: I have no questions, Mr. Chairman.

MR. BETHEL: I don't have any questions. So by consent, we'll recommend this to the Board, or accept it.

MR. DALLY: You're just accepting it.

MR. JONES: We're just accepting the report.

MR. JONES: I think all we've got to do is hear it.

MR. BETHEL: Just hear it. Okay.

MR. DALLY: Thank you.

MR. BETHEL: Thank you, sir.

Ms. Stiner, do you have anything?

MS. STINER: No, sir, I don't have anything.

MR. BETHEL: Do you have anything?

MR. JONES: I move we adjourn.

MR. BETHEL: We're going to stand adjourned, and the full Board will be meeting in about 20 minutes at eleven o'clock. Thank you.

(Whereupon, at 10:45 a.m., the meeting was concluded.)

C E R T I F I C A T E

MEETING OF: Finance Committee

LOCATION: Austin, Texas

DATE: October 13, 2000

I do hereby certify that the foregoing pages, numbers 1 through 26, 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.

10/17/00
(Transcriber) (Date)

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