

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS  
FINANCE COMMITTEE MEETING

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

Capitol Extension  
Room E1.012  
1400 Congress  
Austin, Texas

COMMITTEE MEMBERS:

C. KENT CONINE, Chairman  
VIDAL GONZALEZ

STAFF PRESENT:

RUTH CEDILLO, Acting Executive Director

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P R O C E E D I N G S

1  
2 MR. CONINE: Let's call the Finance Committee  
3 meeting to order, Texas Department of Housing and  
4 Community Affairs December 12, 2001, at 9:35. We'll call  
5 the roll right quick. Mike Jones.

6 MR. GONZALEZ: Absent.

7 MR. CONINE: Vidal Gonzalez?

8 MR. GONZALEZ: Here.

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

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

14 (No response.)

15 MR. CONINE: If not, I'll close public comment.  
16 Item number 1 is the Presentation, Discussion  
17 and Possible Approval of the Minutes. Let's see here.

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

20 MR. CONINE: You were absent?

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

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

23 MR. GONZALEZ: Table this?

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

1 MS. CEDILLO: Actually, Legal had said that you  
2 can go ahead.

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

5 MR. GONZALEZ: Second it.

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

7 MR. GONZALEZ: Aye.

8 MR. CONINE: Okay. Item 2. Ruth?

9 MS. CEDILLO: We have Byron Johnson, who's  
10 going to make a presentation on Item number 2, Item number  
11 3, and Item number 4.

12 MR. CONINE: Good morning, Mr. Johnson.

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

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

22 As you know, recently we've had a decline in  
23 rates and Mr. Greenspan has been very active in moving our  
24 rates, and rates went down. And in November, we took a  
25 look at this transaction and determined that if we sold

1 that collateral -- those Ginnie Maes -- there was  
2 sufficient premium associated with the Ginnie Maes that we  
3 could use those funds and the other funds in that  
4 particular series indenture and redeem the bonds -- sell  
5 the Ginnie Maes, redeem the bonds, and possibly have some  
6 cash left over.

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

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

18 Another consideration is that we have a  
19 stipulation on a rider kind of confronting the Department  
20 that anytime we refinance bonds, we use the first \$3  
21 million in savings annually to fund the Bootstrap program.

22 Well, technically this is not a refunding, this is not a  
23 refinancing. It's more of a restructuring. But in the  
24 good spirit of complying or meeting the intent of the  
25 rider, we would recommend that any surplus be, I guess,

1 committed to the Bootstrap program.

2 MR. CONINE: Any questions?

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

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

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

14 MR. JOHNSON: Yes.

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

17 MR. JOHNSON: Yes.

18 MR. GONZALEZ: Second.

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

21 MR. GONZALEZ: Aye.

22 MR. CONINE: All opposed?

23 (No response.)

24 MR. CONINE: Passes. Item 3.

25 MR. JOHNSON: Presentation, Discussion and

1 Possible Approval of Additional Funding for the Single  
2 Family Down Payment Assistance Program and Other Related  
3 Matters.

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

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

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

21           MR. JOHNSON: It was awarded to several  
22 entities throughout the border counties and the rural  
23 counties, and those awards were made back in, I guess, '94  
24 and '95, '96. And most of those awards expired in 2000  
25 and the beginning of this year.

1 MR. CONINE: Okay. Any questions? Motion to  
2 authorize the transfer of the remaining 1994 B monies to  
3 the Single Family Down Payment Assistance Program.

4 MR. GONZALEZ: Second.

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

7 MR. GONZALEZ: Aye.

8 MR. CONINE: All opposed?

9 (No response.)

10 MR. CONINE: It passes. Item 4.

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

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

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

21 We determined since that time that the  
22 transaction is feasible. And back in 1994 -- once again,  
23 it was the 1994 B issue -- we would be emulating that  
24 transaction and issuing a taxable junior lien bond. In  
25 other words, this would be like issuing bonds in a second



1 lien position, kind of like a second mortgage on the  
2 indenture. And the purpose would be to tap equity that's  
3 built up over time in the indenture.

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

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

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

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

22 MR. CONINE: Are you going to match up the  
23 maturity with the '94 series that you're gaining the  
24 equity from? Can you do that? Are you required to do  
25 that?

1 MR. JOHNSON: The taxable bonds from the '94  
2 transaction have been paid off or redeemed.

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

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

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

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

22 MR. CONINE: Right.

23 MR. JOHNSON: But we're recommending that some  
24 of the proceeds be used for down payment assistance. And,  
25 you know, it's really up to public comment and department

1 policies as to what we ultimately do with the proceeds,  
2 but we're also recommending maybe transferring to housing  
3 trust and to the Bootstrap program. And we see this as a  
4 means of funding -- I think Bootstrap is required to have  
5 \$3 million a year in originations or something like that,  
6 and I think they're running short this year. So we figure  
7 \$1-1/2 million -- to 3 million to them.

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

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

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

23           MS. CEDILLO: Yes, sir. And I also agree that  
24 we -- once a program is crafted, that we would bring it  
25 back to the Board for approval.

1 MR. CONINE: Any other questions?

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

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

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

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

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

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

22 MR. GONZALEZ: Second.

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

25 MR. GONZALEZ: Aye.

1 MR. CONINE: All opposed? Passes.

2 Item 5.

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

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

9 MR. JOHNSON: Thank you.

10 MR. CONINE: Ms. Cedillo, Item 5.

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

13 MR. CONINE: Good morning, Mr. Onion.

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

24 We request your favorable consideration of this  
25 transaction. The only revision to the resolution is

1 authorization that the vice chairman sign the resolution,  
2 and that's the only correction to the resolution.

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

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

7 MR. CONINE: I have no questions. You have any  
8 other questions? Move for approval of Item 5, the  
9 Fallbrook Apartments, in the amount not to exceed  
10 \$15,135,000.

11 MR. GONZALEZ: Second.

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

13 MR. GONZALEZ: Aye.

14 MR. CONINE: All opposed?

15 (No response.)

16 MR. CONINE: Passes.

17 Item 6. Ms. Cedillo?

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

20 MR. CONINE: Okay.

21 MR. ONION: This transaction was approved by  
22 the Board last month. The change that comes before you  
23 today is that the interest rate on the bonds has changed  
24 from 7.2 percent to 7 percent, and that's stated in the --  
25 reinstated in amended resolution. The only other change

1 is that the maturity of the taxable bonds will change from  
2 December 1 of 2009 to October 1 of 2009. Request your  
3 favorable consideration.

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

6 MR. GONZALEZ: I'll second it.

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

9 MR. GONZALEZ: Aye.

10 MR. CONINE: Opposed?

11 (No response.)

12 MR. CONINE: Passes.

13 Item 7.

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

20 MR. CONINE: Move for approval.

21 MR. GONZALEZ: Second.

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

24 MR. GONZALEZ: Aye.

25 MR. CONINE: All opposed?

1 (No response.)

2 MR. CONINE: It passes.

3 MR. ONION: Thank you.

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

6 MS. CEDILLO: Yes, sir.

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

9 MR. GONZALEZ: So moved.

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

11 MR. GONZALEZ: Aye.

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

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



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

I do hereby certify that the foregoing pages, numbers 1 through 17, inclusive, are the true, accurate, and complete transcript prepared from the verbal recording made by electronic recording by Penny Bynum before the Texas Department of Housing and Community Affairs.

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(Transcriber) 12/27/01  
(Date)

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