TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

FINANCE COMMITTEE

Thursday, February 10, 2005
Waller Creek Office Building
507 Sabine Street, Room 437
Austin, Texas

COMMITTEE MEMBERS:

C. KENT CONINE
VIDAL GONZALEZ
SHADRICK BOGANY

STAFF:

EDWINA CARRINGTON

A G E N D A

P R O C E E D I N G S

MR. GONZALEZ: We'll call the Finance Committee meeting to order. We'll have our roll call. Kent Conine?

MR. CONINE: I am here.

MR. GONZALEZ: Shad Bogany?

MR. BOGANY: I am here.

MR. GONZALEZ: Okay. We have got all members present. All directors present. The first item of business is the Finance Committee will solicit public comment.

MR. CONINE: Do we have any?

MR. GONZALEZ: If there is not --

MR. CONINE: No. Here is one right here.

MR. GONZALEZ: Mr. Boul, would you like to speak now or at the agenda item?

MR. BOUL: At the agenda item.

MR. GONZALEZ: Okay. And we go to item number one?

MS. CARRINGTON: The first item on the agenda this morning for the Board's consideration is to consider the criterion and methodology that the Department uses for the selection of senior managers in conjunction with TDHCA Single-family Mortgage Revenue Bonds. The Board looked -- the last time the Board has looked at the selection criteria and made a decision on senior managers for the Department was in 2001.

And at that time, the Board selected twelve investment banking firms to provide single-family bond underwriting services for TDHCA. What we are presenting to the Board today for your consideration is the methodology for the evaluation of the performance of the underwriters. Since 2001, you all may remember that we had them on a rotation basis, and that we used a senior manager, and then we used several co-managers on each transaction.

And so what the Department has done is pull out that 2001 selection instrument and made a few revisions, made a few modifications to it. And what we are asking the Committee to do today, and then the Board later on this morning, is to review the criteria, review the scoring and give us feedback and make a determination on the instrument that we will use that we will then go and rate the performance and other factors of the twelve investment banking firms that we have used since 2001.

MR. CONINE: Come on. Stand up and present the thing. Go over it item by item. I am not going to let you all be.

MS. CARRINGTON: I would like to ask Mr.

Johnson to --

MR. CONINE: Come on, big boy. I would rather him just go give a generic 10,000 view foot level of all 20 different categories, and then maybe, Mr. Chairman we would get some public comment from those who want to.

MR. JOHNSON: Good morning. Byron Johnson, Director of Bond Finance, Texas Department of Housing. As you are aware, we have been working with a group of firms over the past four to five years, and I have had an opportunity to work with five or six of the firms in the senior manager pool. And we felt that we had reached a point where we need to go ahead and consolidate those six firms down to three. And we are recommending three firms; of course, that is finally up to the Board.

And what we did was put together a criteria, as Ms. Carrington stated, based on the previous RFQs that have gone out for both senior manager and co-manager in 2003. And we broke the criteria down into what we thought were quantitative criteria and what we thought were qualitative criteria. If you like, would you like to just through each one of the items?

MR. CONINE: Yes, I would.

MR. JOHNSON: Okay. Items 1, 2, 3, and 4 deal with the personnel. And they were included on the quantitative category and not scored. We, after thinking about it some more, staff may want to remove those from the quantitative category and put them in the qualitative category to score them. And that might be something the Board wishes to consider. Right now it is just kind of like for informational purposes. Okay.

Category number five deals with the total number of bankers specializing in single-family mortgage revenue bonds. What we are looking for is to see whether or not the firm has personnel that focuses on single-family bonds. As you know, structuring single-family housing bonds requires a lot of time. A lot of -- shall we say -- software technology and an acute understanding of how the Tax Code interfaces with the cash flows. So that is why we felt it was necessary to ask the firms what is your specialization.

We may want to consider further defining that. Some bankers may consider themselves a housing banker if they spend 20 percent of their time working on a housing deal. Well, that is not really what we are looking for. We are looking for a banker who spends maybe you know 90-95 percent of their time doing housing, single-family housing bonds.

MR. CONINE: You're talking about a banker within a firm?

MR. JOHNSON: Yes.

MR. CONINE: Okay.

MR. JOHNSON: Yes.

MR. CONINE: So whoever would be our representative or liaison or whatever you want to call it? Okay. All right.

MR. JOHNSON: Items 6 and 7 deal with the capital and equity of the firm. These are two industry standard calculations as required by the regulators that oversee the securities firms. And the calculation is based on SEC rules. The first calculation is referred to as net capital. That tells you, I guess it is another name for equity of the firm.

And then number seven gives you the equity of the firm after reserving for the riskiness of the individual firms' portfolios or inventories. Item number 8, we combined. It was actually broken out into three categories. Total retail sales people specializing in muni bonds and whatnot.

But we consolidated that down into one. The total number of retail sales people and total institutional municipal bond salespeople. Staff believes that having an adequate size distribution forces or having a considerable sized distribution force is necessary to distribute the bonds. And we think that the more of this personnel a firm has with retail and institutional clients, the more likely it is that they will be able to place the bonds with those clients.

Item number nine, TDHCA distribution results. Originally, we had this as a qualitative measure. I think there is a desire to have a quantitative measure. We probably will seek, I guess, input from visitors today as to what type of quantitative measure is adequate or suitable, but I am not quite certain how to move forward with that particular item. But what we are looking for is to see how firms actually performed on the deals they participated in here at TDHCA.

Number ten is the par amount of negotiated single-family bonds over a three year period. And then the average to kind of like smooth out the ups and downs during those three years. We are looking primarily at the average over the past three years, and the premise there is that well, should you be a CM manager if you haven't CM managed any single-family housing bonds. And we think that firms that have more volume there probably exhibit more experience and have seen a lot of different structures.

MR. CONINE: Can you tell me the difference between number ten and number five just so that I understand where you are headed with that?

MR. JOHNSON: Number ten is the volume that the firm had actually worked on.

MR. CONINE: Dollar-wise?

MR. JOHNSON: Dollar-wise. Number five is the individuals who are working on the transaction and coverage.

MR. CONINE: Both of them though, are volume and experience related questions. You are just coming at it from two different angles?

MR. JOHNSON: Yes, sir. And number five tells us whether or not if you have 20 clients and you have two bankers are we going to be able to get the attention we need to get our cash flows, to get our analysis done on time. To get our questions to the rating agencies, the cash flows to the rating agencies.

So we are looking to see what the breadth and depth of the coverage is with number five. And number ten, we are looking to determine the quantity of the experience.

MR. CONINE: I'm kind of getting off path, but where does the State of Texas rank nationally in the dollar volume of single-family bonds they do, related to other states?

MR. JOHNSON: One moment, please.

MR. CONINE: Certainly.

MR. JOHNSON: In terms of overall ranking, I don't have that. I will say we are one of the higher ranking agencies.

MR. CONINE: Maybe Mr. Machak might shed some light on the subject.

MR. JOHNSON: Over the past and this was provided by one of the investment firms over the past four or five years, TDHCA issued a $1 billion in single-family bonds. Illinois has done a billion. New Jersey, $828 million. New York, about $2.2 billion. California, $5.6 billion. Alaska $1.4 billion. Florida, about $700 million. Connecticut, about 2.4 and Maryland about 1.1.

MR. CONINE: Connecticut is 2.4 million or billion?

MR. JOHNSON: Billion.

MR. CONINE: They are a small state. That is unbelievable.

MR. JOHNSON: So I know we definitely rank in the top ten. I don't know where.

MR. CONINE: Okay. Thank you. That is

helpful. You are going to get that thing fired up again? Housing Trust Fund is getting ready to get rich.

MR. JOHNSON: So we were on item number ten.

MR. CONINE: Right.

MR. JOHNSON: Moving on to eleven if you have no further questions on ten?

MR. CONINE: No, go ahead.

MR. JOHNSON: Okay. Item number eleven is the current number of state housing finance agency clients. We want to see, and once again, this gets into the experience factor, the diversity of that experience. Are you dealing with other large issuers? Are you dealing with small issuers?

It is just kind of like a feel for whether it is a national firm we are dealing with or a regional firm. What is the quality of your client portfolio.

Number twelve and 13 deal with swaps. Number twelve, we feel that swaps are very complex instruments and the underlying instrument is a mortgage. And we are talking about structuring single-family bonds so we want to see, or we would like to see issuers, not issuers. We would like to see investment banks who have experience issuing single-family bonds and also structuring swaps that relate to single-family bonds.

We think that single-family bonds are unique in their character and in the way they are put together, they are very close to being structured finance instruments. So they are very technical, very complex. And we think that being the underlying instrument, that the investment bankers working on providing that type of derivative service should also be familiar with the underlying product. Number 13.

MR. BOGANY: Mr. Johnson, I have a quick question. Would you kind of explain to me what exactly is a swap?

MR. JOHNSON: A swap is a contract between two parties where they change cash flow payments based on an interest rate. One party -- it doesn't necessarily have to be an interest rate swap. It can be a commodity swap. There are different types of swaps.

But we deal with interest rate swaps. And it is where two parties agree to a change of some sort of cash flow. One is paying a fixed rate. One is paying, mostly likely, a variable rate. And it is done to either hedge or reduce the cost of financing.

MR. BOGANY: So what is the advantage to us to include this in here?

MR. JOHNSON: We are, because of the extremely low interest rates, and I guess the market, borrower markets we have been encountering, it has been very difficult to compete with the banking institutions and their products. Interest rates, tax-exempt rates and taxable rates both have fallen, but apparently taxable rates have fallen to levels that create a better product for the banks than what we can create with our tax-exempt rates.

So what this does is permits us to issue at a lower -- the variable rate and take advantage of that lower debt service. And what we do is we don't want to be totally exposed to the variable rates increasing, so we use the swap as a hedging instrument to minimize or mitigate our exposure to the possibility of interest rates increasing.

I do have something else here. This is a report from Moody's. It talks about the growth of variable rate debt continues in State HFA market. And one of the bullet points is each of exposure to swaps rose 39 percent over last year, although swaps as a percent of the variable debt outstanding remains steady. Decisions to use swaps remains up to the individual HFAs as they determine the level of risk or flexibility they are looking on to take while continuing to use government debt as an important tool in their financing plans.

And another bullet point, given the popularity of variable rate in swaps as well as the continuing challenges that face HFAs in trying to originate mortgage loans in this low interest rate environment we expect continued growth of the use of these instruments. And that is from Moody's, a special report they did in October of '04. Any questions from eleven or twelve?

MR. BOGANY: How does that rank? You have got 13 down here. How does that rank in importance? Some of these seem more important to me than that. But in a financial to keep this agency healthy, how does doing twelve and 13 rank with one and two or five or any of that.

MR. JOHNSON: Well, Bond Finance believes that all of the criteria here are equally important in that we want, we recommend that we include firms that have this capability, because it is something we are going to be looking to doing over the next two years, particularly if rates remain in the same trading range they have been in.

MR. BOGANY: Okay.

MR. JOHNSON: Number 13 relates to interest rate swaps also, and the use, particularly to the type of counterparties that we are entering into the contract with. Bond finance is recommending that we seek highly rated counterparties with the financial wherewithal and experience to be the counterparty.

And that is one of the things that the rating agencies take a look at, and it is referred to as counterparty risk. That is the risk that the entity that you are contracting with will be around to make payments as they agreed to in the contract. Any more questions about items number 1 through 13 on the quantitative grid?

Shall we move to the qualitative grid? What Bond Finance was attempting to do was provide more quantitative data from which to base the decision on. We limited ourselves to three qualitative or subjective matters. We felt that the quantitative measures were more objective but that we still should assess from a subjective perspective how we think the firm has done over the past four to five years. And that is why we are thinking maybe we should pull items one, two, three and four from the quantitative section and put it in the qualitative.

But we will move forward with what we have now under qualitative. The first item is underwriting and sales execution. I am just going to read straight from there. Stability and willingness to underwrite TDHCA's bonds under both favorable and unfavorable market conditions.

And the results we are looking for are accurate pricing of bonds without repricings. Able to accurately gauge the timing of pricing. Investor demand at economic events and willing to take bonds into inventory without raising coupon rates. Basically, we have had opportunity to attend several pricings on different days over the past five years.

It has been very interesting to see the different dynamics and the different firms and how they -- some firms have underwriters whose focus on solely single-family bonds. Some firms have underwriters who do a lot of single-family bonds. Some firms have underwriters who do everything. And I can't really quantify that, but I can say that we have noted differences in the ability and willingness of the firms to commit capital through this process.

The second item is innovativeness. Do the funds or have the funds brought to us ideas that added value to TDHCA's portfolio or are shall we say objectives. If a firm came in and told me we have got a refunding for you, well thank you very much. We probably know that already.

But if they are coming in with an idea that really produces a mortgage rate that is very attractive, minimizes our risks and I guess, overall achieves our objectives and somehow allows us to be profitable or to not incur a lot of losses, that is what we are looking for. A high level of feasible value-added structuring ideas that achieve desired financial and programmatic objectives.

The third item is responsiveness. We are looking to see whether the firms provided prompt and accurate responses to not just Bond Finance, but Bond counsel, disclosure counsel, the financial advisors and you know, knew what they were working with in terms of the different indentures.

Five years ago, six years ago, the Department had nine indentures. We have been working to reduce that number to increase our efficiencies. We are down to three. And you know, it has really been notable to note firms that come in and know the different dynamics of those indentures and what are the various nuances and idiosyncrasies of the cash flows associated with those different indentures.

Also, during the deal, some firms have been very proactive in providing ideas during and throughout the transaction process, providing schedules needed by the financial advisors, getting documents to bond counsel in a ready fashion. So we are trying to account for that type of quality. And that is it for the three qualitative.

MR. GONZALEZ: Thank you.

MR. CONINE: Can you go -- would you finish the scoring methodology right quick?

MR. JOHNSON: We were proposing that for the quantitative scoring we merely rank the firms in terms of how they fell out sequentially. If a firm had the most number of X, then they would be first, and they would get five points. The firm that had the next most number of X would get the second place ranking and would receive four points. And we would follow that process throughout.

On the qualitative scoring, it is more subjective, and we felt that three represented the average and would award points above average or below average with five being excellent and zero being not applicable or we just didn't have an opportunity to critique that firm or use that firm. Then we have combined those items, these twelve items total, I believe.

60 points maximum, and the firm that had the most number of points would be -- the firms with the most number of points would be ranked. And we would select the

firm that had the most number of points, one, two, three, four, five, six, seven. So item number 14, what we are trying to do is quantify.

MR. CONINE: There is no item 14, I don't think.

MR. JOHNSON: Oh, my bad. I apologize. Yes, item 13.

MR. CONINE: All right. I just want to make sure I was tracking you.

MR. JOHNSON: Yes. Item 13 deals with the counterparty risk. And what we were trying to do is quantify more bond for that so trying to quantify the counterparty risk based on the relative structure of the counterparty in which we are about to enter the long-term contract.

We felt that -- and this is absent of actual credit ratings, but dealing with a rated parent that was highly capitalized would probably be the more desirable counterparty and an unrelated subsidiary with an unaffiliated intermediary would probably not be the most desired of counterparty. So we rank them, I guess, in descending order and assign points accordingly.

MR. CONINE: But then that one line item number 13, still, the guy that comes in first gets five, the guy who comes in second gets four?

MR. JOHNSON: Item number 13.

MR. CONINE: It is included in the nine up above?

MR. JOHNSON: Yes.

MR. CONINE: Okay. Do you want to go over the -- I think you probably should expound a little on Mr. Bogany's questions about which ones are more important. You are saying that Bond counsel or Bond department staff, whatever has put equal weighting on all of these? Is that correct?

MR. JOHNSON: Whatever has put equal weighting on these items, yes. We have put equal weightings, staff, yes.

MR. CONINE: Staff. I think it is up to us to change them if we want to change them. Okay. Do we have some public comment? Why don't we do the public comment now, so we can hear from maybe some of the others out there.

MR. BOGANY: Okay.

MR. CONINE: Not that I don't want to heard from you. Anything else you would like to tell us before they get started?

MR. JOHNSON: No, sir.

MR. BOGANY: I have a question.

MR. CONINE: All right. One here.

MR. BOGANY: I have one question for you, Byron. How often do state agencies, I know I was on the Board when we did the -- back in 2001, but how often do we do, and if it is not broken, why are we trying to fix it? Or is it broken and we are trying to fix it? Or are we just trying to improve it and get better and stay ahead of the game.

MR. JOHNSON: Well, we're trying to improve it and get better. I will put it in that category. We originally did six back in 2001, because of certain matters taking place in the Department, and we had an Executive Director who had left, and whatnot, and we just weren't certain about -- there was a lot of uncertainty in the Department. So we decided to just go with six.

But that has turned out to be a large number of firms to work with. It motivates the investment bankers to work with us, but at the same time, if you are not going to be rotated through and receive an assignment on a transaction, you know, in three or four years, you really aren't as attentive. So we think that by going to the three firms that would enhance our ability to receive competitive ideas, innovation and it will enhance our continuity.

As I mentioned earlier, back in '99, the Department had nine indentures. And I kind of got the feeling it was kind of like a flavor of the month, or the Department, other indentures weren't solvent or they were low parity or whatever.

And what we are trying to do is provide continuity. So that these firms will become familiar with the Department's indentures, our objectives and then can respond to the Department's needs with products that serve -- when I say the Department, serve Texans.

MR. BOGANY: Okay. Before, I can remember us doing a single partnership and a junior partnership. Are you eliminating that?

MR. JOHNSON: We have, the six firms are paired up as senior managers and co-senior managers.

MR. BOGANY: Okay.

MR. JOHNSON: Okay. What we would do is recommend, if the Board pleases, three firms, as senior manager. And then the firms that were not recommended as senior manager would then become the co-senior managers.

MR. BOGANY: Well, are you doing this in the same new proposal?

MR. JOHNSON: Yes. We would propose or

recommend that we do this at the same time. And then we would buy, finance or recommend we use those teams for another three years, and then maybe go out with another RFG.

MR. BOGANY: Okay. One last question. In regards to the rankings, I was reading through this. Which one has the most to keep us profitable of those rankings? And I know they all consider profitability. But if I had to say one was 30 percent to keeping profitability, which one is the most important one to keep us ahead of the curve?

MR. JOHNSON: Bob?

MR. CONINE: They don't have one on there for the cheapest fees, do they?

MR. JOHNSON: Well, along those lines, Bond Finance would say that maybe item number twelve would be critical at this point, given the current market conditions. If we had to issue nothing but fixed rate bonds, and could not issue variable rate debt and hedge it with stocks, we would be looking at incurring great losses or infusing large sums of money to keep the cash flows solvent.

MR. BOGANY: So if I had to pin you down, you would rank number twelve as important to keep us ahead of the curve.

MR. JOHNSON: Well, I'd hate for you to pin me down, but twelve would be important in the current market.

MR. BOGANY: Okay. All right. Now, Fannie Mae wasn't buying any more forward carry. Does that have any effect on us at all?

MR. JOHNSON: We are not using that program and it has no effect on our issuance.

MR. BOGANY: All right.

MR. CONINE: What would be, if we picked three -- as a result of this process, we picked three senior managers, what would be the reason not to go ahead and reshuffle the rest of the whole deck at this time, as opposed to going through another cycle, if you will and then reshuffling the deck?

MR. JOHNSON: Whatever the Board wants to do. If you want to select senior managers and then select a new crew of co-managers, which we just did that last spring, I believe. We added some firms. If you just wanted to do that over again, you can.

MR. BOGANY: Is there any advantage to what Mr. Conine just said, or is it a disadvantage of doing it that way?

MR. JOHNSON: From Bond Finance's perspective, I don't think it is necessary at this time to change the co-manager rankings or listings or whatnot. We have a pool of co-managers.

MR. CONINE: How many?

MR. JOHNSON: Twelve. And those firms are probably the top housing firms in terms of selling housing bonds.

MR. CONINE: So we are going to add three more to that pool?

MR. JOHNSON: Well, we are not adding. We are working within the pools as they exist. We already have six firms as senior managers and the other twelve are a pool of co-managers. We are not addressing --

MR. CONINE: Why do we need co-seniors, I guess would be the right question.

MR. JOHNSON: Okay, with the co-seniors, they typically have served the role of kind of falling in should something happen to the senior. They are really kind of a highly esteemed co-manager.

MR. CONINE: If something happened to a senior, why wouldn't you go get one of the other two seniors instead of a co-seniors? I am a rookie at this, you know. I don't know anything about it.

MR. JOHNSON: That has just been the tradition in the marketplace. And it is kind of like rewarding a firm for maybe they are not at the level where they are able to provide senior level services, or they have brought in ideas. You are just trying to reward that firm for contributing to your program.

MR. CONINE: And I can appreciate that. If we are going to go through this elaborate process of picking a senior manager, then that tells me that there is something wrong with the other three that they did make it, or at least they didn't score that well. And I think I would tend to want to reevaluate that rather than just riding the same horses for another period of time. That is just my gut off the top of my head feeling.

MR. JOHNSON: Well, for instance, we have always stated to the co-managers, if you bring us an idea, we would happily entertain it, and if it is feasible, we think it is value added, we will take it to the board. And we have. We have brought various ideas to you.

Most recently Goldman Sachs brought us a swap idea with an enhanced floating rate structure, and we incorporated that into our last transaction. So if you are saying that we should take a look and say, well, has this co-senior really contributed over the past four years and brought in ideas, if yes, maybe they stay. But if not, no, then maybe we will look at somebody in the co-manager pool and bring them up.

MR. CONINE: I guess that is what I was suggesting.

MR. JOHNSON: Bond Finance would like to do that, if you are willing to do that.

MR. CONINE: Maybe we could take the twelve who will now become 15 because there is three of the seniors that would drop down into that new 15 pool that grew by three. And then we would maybe pick three at a second tier level or co-senior level out of that group of 15. Is that something that Bond Finance would like to take? I mean, there is no down side to doing that necessarily?

MR. JOHNSON: Bond Finance would welcome that opportunity.

MR. CONINE: Can we do that within the structure of the RFP that is going to go out at the same time we are doing this? You know, are we going to do this at the next meeting? Next month's meeting probably?

MS. CARRINGTON: That was our proposal, was that we would make the recommendations and that you all would make the decision at the March 4 meeting.

MR. CONINE: Can we take a look at I guess issuing the RFP with that included in there?

MR. JOHNSON: Yes, and would we want to issue an RFP or mail out the criteria to the firms already in the senior manager group and request that they respond in a certain period of time.

MR. CONINE: I'll let you figure that one out. Okay.

MR. JOHNSON: Okay. But you are okay with us taking that approach?

MR. CONINE: Yes. I think so.

MR. JOHNSON: Okay.

MR. CONINE: If we are going to kind of reshuffle the deck, I would rather reshuffle the whole deck and not just a piece of it.

MR. JOHNSON: Okay. And what we'll do is come up with maybe a couple of more criteria. It may be qualitative -- it might be -- we will come up with criteria and present it to you as to why we think this firm should be moved down, or this firm should be moved up, and presented when we present the rankings.

MR. CONINE: Okay. Can you name off the six firms, please, for me?

MR. JOHNSON: Okay. UBS, Piper Jaffray, Bear Stearns, George K. Baum, Seibert Bradford, and Citigroup.

MR. CONINE: Okay. How involved was our

financial advisor in establishing this matrix that we are looking at here?

MR. JOHNSON: He was heavily involved in the process. Extremely, over the top.

MR. CONINE: Heavily involved. You reckon he might have an opinion or two about some of these particular items we could ask him about?

MR. JOHNSON: Our financial advisor always has an opinion.

MR. CONINE: Maybe we'll hear some public testimony first and then we'll go get to the meat of the questions.

MR. JOHNSON: Okay.

MR. GONZALEZ: We've got two witness affirmation forms. Mr. Richard Boul, and Mr. Dale Lehman.

MR. BOUL: My name is Richard Boul. I represent the Wessex Group. We act as an investment agreement broker. Currently you have, I think, five. We are one of them. We have had a relationship with the Department, I think, since 1992. So we have been through quite a number of chances. We have a record of having an investment agent, the proceeds of the Department's bond issues over the years.

And this really is simply that we wanted to address the Committee about interest rate swaps. We understand that the last -- I think the Authority has entered into one interest rate swap. I think it was last year. And the intention is to enter into another one for the next bond issue. And both, I think, the last one was done on a negotiated basis, and I think the intention is to do the next one on a negotiated basis.

And our comment I think is, that in the future, at some point, while interest rate swaps for housing issues are very complex, much more so than just straight interest rate swaps, because there is a great deal of optionality about mortgages, and these will get to the point where they become a commodity. And we believe that there is a case to be made for brokering, if you like, these interest rates.

So that instead of working with one particular counterparty, the both can go out and solicit from interest rates and pricing from a number of providers, be it three or six or whatever. Providers who are fully familiar with housing authority issues.

So I think that was our point, that it may not happen immediately. But I think at some point in the future, it would be worth the Board's while to consider brokering interest rate swaps in order to be able to get a better price, basically.

MR. BOGANY: I have a question for you. So if we broker it out, and let's just say we could, and it gets to that point, is it going to cost this agency more money, because now we have got a middle person in the middle? And I am thinking of a mortgage loan.

You know, you can broker things out and go straight to the mortgage banker or whatever. Would it cost us more money if we get to a point where we are brokering it out.

MR. BOUL: I am sorry. The intention would be, the objective would be that it would save the Board money. It would save the Department money, even with the broker's commission, clearly. The brokers tend to require some compensation.

MR. BOGANY: So are you making the suggestion that we broker now, or are you making the suggestion that we in the future keep it on the mind. Keep the pot on the stove. That it may at some point, get to that point?

MR. BOUL: The last one, I think. Yes. The latter. Because there will be, I think there will be an increasing number of interest rate swap providers or counter parties who are sufficiently well rated who are going to be prepared to price interest rate swaps.

MR. BOGANY: And it should cost us as a Department, it should cost us less money if it gets to that point.

MR. BOUL: Yes, that would be the objective. If it is not going to, then frankly, the Board is better off to -- the Department is better off to keep negotiating. But I think the opportunity would be there.

MR. BOGANY: Okay. Thank you.

MR. CONINE: Mr. Boul, for the record, you and I haven't talked or met until today, have we.

MR. BOUL: Indeed.

MR. CONINE: I tend to agree with you, just philosophically. And I have been trying over the last week or so to peel the onion back a little bit and see what the pros and cons are relative to the competitive forces on swaps.

MR. BOUL: Right.

MR. CONINE: I am kind of a free market sort of guy, and I believe that once you get to the established criteria of wherever the financial advisor puts it, double A, triple A, whatever the rating is we want the counterparty risk to be, that the competitive forces would probably kick in and generate whether it is five, ten, 15 basis points difference, who knows?

MR. BOUL: Yes, that's right.

MR. CONINE: Do you do work in other states?

MR. BOUL: Yes, we do.

MR. CONINE: Other than just for us here in Texas.

MR. BOUL: Right.

MR. CONINE: Do you know of any other states, any other housing agencies, state housing finance agencies that are doing competitive swaps out in the marketplace, and what has been that experience?

MR. BOUL: I can't tell your for a certainty, but I am pretty certain that California would probably do that. I would need to check on that for you. The housing agencies that we deal with, in fact, so far have not entered into interest rate swaps. But I am quite certain that there are agencies that do.

MR. CONINE: So in translating, if you were us sitting up here and you were looking at an equal weighting on twelve different categories, it sounds like to me having the ability to do an in-house swap, because of the potential of a large market developing and currently, I guess, working itself to a full fruition, you might not consider that as an important an item as some of the others.

If you believe that a triple A is a triple A on the other side, no matter what it looks like. Would you rank it equivalent to everything else, or would it be less important to you?

MR. BOUL: I would say it would be important, yes. Simply in terms of price saving, yes.

MR. CONINE: Let me make sure you understand my question, just so I can get the right answer.

MR. BOUL: Okay.

MR. CONINE: Not the answer I want, but I want to make sure. What we are saying here is one of our criteria is the ability for that company, inside the company to do a negotiated swap.

MR. BOUL: Yes.

MR. CONINE: And they are saying that is as important as all of these other things. But yet, you come up and say competitive forces might save us some money.

MR. BOUL: Yes.

MR. CONINE: I would translate that to mean that it may not be, the ability to do internal swaps may not be as important if there is a competitive market developing out there.

MR. BOUL: Yes. I would say that the competitive market would be -- provided you are dealing with a counterparty that is already approved, if you like, by the Department.

MR. CONINE: Well, we would hope our financial advisors would be able to figure that out.

MR. BOUL: I am sure he would.

MR. CONINE: Okay. Thank you.

MR. BOUL: Very good. Thank you very much.

MR. GONZALEZ: Thank you. Yes.

MR. CONINE: Speaking of our financial advisor.

MR. MACHAK: Thank you, Board. Gary Machak with RBC Dain Rauscher, financial advisor. And I just want to point out one thing. I think it is great that you are getting public comment. But I also think it is important for you to know who you are getting public comment from.

And Richard and I go way back. Richard used to work for the same firm, and Richard is damn good at what he does. He is a damn good kick broker.

But my questions of Richard would be, has he ever brokered a housing swap? Has he ever brokered a swap. He is up here giving testimony to you, and I think it is important to know the depth of his experience compared to other people that you may be hearing from.

MR. CONINE: Well, we are not interviewing brokers for the swap right now. What we are doing is creating a ranking system for evaluating senior managers. And so I would not wish to pass judgment on whether or not he is a good broker or not.

I am just trying to, I guess, get as much input as I can from those in the industry on the competitive nature versus the internal nature of swaps and what are the pros and cons. Do you know of other states that are doing competitive swaps? State housing finance agencies doing competitive swaps. He mentioned California, I think.

MR. MACHAK: I know California just negotiated a swap with Bear Stearns. New Jersey just bid out competitively. From time to time, your sister agency, the Texas Veteran's Land Board has. But all of them have gone more to negotiated swaps, state agencies have.

So I would say, if for instance, if we look at single-family bond issues, and we look at bond issues itself, you would think eventually, single-family bond issues throughout the process of the markets would become a commodity. And those issues themselves could be competitively bid. That is not the case in the market. 90 to 95 percent of single-family bond issues are negotiated.

There are only a few states that sell that. It is very similar with swaps, too. Issuers have tried competitive, but for the most part, the vast majority of them are done on a negotiated basis, and it is because of the complications. It is not to say that Richard is wrong, that eventually we may get there.

But there is other aspects just besides brokering a swap. There is the market timing. There is the integration of the swap into the finance plan. And also making sure that you have got good documentation from the state and from the federal standpoint, too.

MR. CONINE: Don't leave. We have got plenty of other questions here. Go ahead, Mr. Bogany.

MR. BOGANY: No, you go ahead, Mr. Conine.

MR. CONINE: How many of our six firms can meet this criteria? The ability for us to do an internal negotiated swap with counterparty risk and all of the other risk available. Is this something that all six qualify for?

MR. MACHAK: Well, what usually happens is if they cannot principal it themselves or if -- they will usually team up with another firm to go and have the swap done with them.

MR. CONINE: But again, but they wouldn't be able to score on this criteria sheet, the way I am reading this.

MR. MACHAK: It depends. I think the scoring didn't have to do with whether they can perform it or not because I would say that a firm that has never done a swap before can bring in another firm to be a swap counterparty on a transaction. I think the way the scoring was ranked is the way that the counterparty was structured, whether you are dealing directly with the counterparty or whether you are dealing with a subsidiary or if you are dealing with an unrelated party.

MR. CONINE: So, I mean obviously the way, on the item 13 scoring criteria as a for instance.

MR. MACHAK: I'm sorry?

MR. CONINE: Item 13, the scoring criteria.

MR. MACHAK: That is right.

MR. CONINE: A rated parent is going to get the most points. Right?

MR. MACHAK: That is correct.

MR. CONINE: And then we provide, I guess, the ability for those that don't have rated parents to get scored, but they are not going to score. And I guess maybe I need to ask my question a little different way, but how many of the six have a rated parent? Let me just ask that. And I am sure the rating is the one that we want exposure to the counterparty risk to.

MR. MACHAK: I think that three of them have either rated parents or rated subs with separate capitalization. I would have to go back and take a look.

MR. CONINE: What is your opinion on the equal weighting done by the Bond department staff here? I know you probably see these sorts of scenarios in other states, other state housing finance agencies. Can you tell us kind of what your feelings are?

MR. MACHAK: Sure. Well, let me start by saying that I think that Bond Finance, financial advisor, Bond counsel, all the staff and the Board are on the same page. Ultimately, what we are trying to do in this process is to get for the citizens of Texas and the State of Texas the lowest mortgage rate, and the lowest cost of capital.

So we are all driving to the same objective. I think Byron in the process has done a great job with a complicated subject in deconstructing and pulling apart the pieces that are looked at on as objective a basis as possible. So when I have seen other agencies do this, most of it is much more simplified.

Byron has done a great job of identifying, as you can see from the number that he has pulled apart here of these attributes of these firms. As far as the weighting, typically, there is some slight weighting done by agencies on these. But I think in Byron's mind, and in the working group, all of these are very important.

If a firm is lacking in one of these areas, or in two of these areas, it can sidetrack a transaction very easily. Can they be very strong in one aspect but because they are lacking in another it could sidetrack the transaction. You could miss a market because of delay, or not be able to deliver the product you were intending to. So institutional sales, retail, swap capability, the experience of your bankers, the bankers' ability to bring the resources of their firm; they are all important.

MR. BOGANY: I have a question. So I am understanding that you feel that the swaps is important to have in this criteria. That is what I heard you say.

MR. MACHAK: Yes. If you had asked me that question five years ago, seven years ago, it would not have been a high item.

MR. BOGANY: Okay.

MR. MACHAK: More and more swaps are being integrated into state housing finance.

MR. BOGANY: A second question that I had, let us just say an agency had the -- a company has the ability to go against parent or go to a sub, somebody else to do the swap. Will it cost this agency more money in that process or will it be the same if someone was rated with the parent within the firm itself to do?

Because it doesn't really matter to me, as long as the agency gets the same benefit whether a sub-parent does it, or it is parented in. But will it cost us more money for them to go out and do it?

MR. MACHAK: That is a great question. And a lot of people would think there is an inherent extra cost there, because that firm is basically brokering a swap for another firm. Other firms will say that there is no differential in cost there. We are going to do it at what the market is.

So I think it is just a question on the day that you execute, and whether your are getting fair pricing. I think the question and I think the reason why the unaffiliated intermediary is such a question mark in the mind of issuers is because a swap just isn't a financial transaction, and you are done with. You are basically, for lack of a better word, you are entering in a partnership with this fund for the next 20, 30 years, depending on how long dated that swap is.

Just as, when we sell unrated bonds, we want to make sure we know who that partner is, because if something goes wrong with that property, and it is not cash flowing, we want to be able to work that out with that bond holder. We don't want to have to go to somebody that we don't have experience with in the past and try to work that out, that we have never dealt with before. They have a stake in our business, and to make sure that we are going to be satisfied with the results.

With an unrelated third party, we may never have had done anything, and they may choose to walk away. For instance, insurance companies. They are not broker dealers, but they have gotten into the swap business, and they have walked away from some swaps and I don't think the counterpart is the issuers that entered into those insurance companies may have been able to resolve some of those swaps to their best interest.

MR. CONINE: Were they triple A rated?

MR. MACHAK: They were triple A rated. Yes.

MR. CONINE: And he walked away from it?

MR. MACHAK: Well, there was a termination. And what happened was, when they terminate, you have to determine market value. And there may have been a differential in the difference on what the market value of that swap was.

And So I guess what I am saying is that you want somebody that has done business with you in your past? Do you want somebody that is going to look to do business with you in the future?

MR. BOGANY: And I guess my last final question, and this is the million dollar question here.

MR. MACHAK: Yes, sir.

MR. CONINE: Probably more than that.

MR. BOGANY: Your recommendation is to deal with someone who has got it all in-house if possible?

MR. MACHAK: I would say that when you look at the way we have scored this and all of the attributes that firms bring to the table, the firm that will have those attributes and will help to deliver the best product for the State of Texas.

MR. BOGANY: Okay. Thank you.

MR. MACHAK: Let me preface that. That is not to say that when you go through a selection process, and I am your financial advisor, and so I am looking at it from a financial standpoint, that there are other objectives that board members also give weight to, besides just the pure finance item.

MR. BOGANY: Right. And then that was the question I had. And we have been trying. We haven't been able to get this answer yet, and you all have been kind of dancing around it. But what is the weight of being able to do swaps versus the other 13 criteria?

You see, I would rather see ranking and then a cumulative of everything. But I would like to put some sort of how important that is. And it seems to me, listening to you and Byron, it is very important in the long run of this agency.

And it maybe get to a point listen to the other speaker, that it may be competitive. And it is new now, but it maybe at some point become so competitive that everybody is doing it, every firm has it in-house now because they have understood it. But right now, what I hear you guys saying, that for the future of this agency to be profitable, we need to be able to do that.

MR. MACHAK: Just for example, the savings on the last programs that we have used swaps with have ranged from making your mortgage product highly competitive versus one that would not be competitive in the market. And those savings have ranged from 35 to 50 basis points.

MR. BOGANY: Okay.

MR. CONINE: Gary, isn't it true that as short-term rates rise, as Greenspan is doing his thing, the whole advantage to doing a variable rate swap was you could transform a ten year variable note to a ten year fixed note as something less than you could actually sell a ten year fixed bond for. And so it created a savings or an ability for us to do that.

As short-term rates rise, that gap goes away, does it not over time? And so we would just be right back into the selling fixed rate bonds to begin with?

MR. MACHAK: It may trend back towards that. What we have been utilizing is a swap that the basis of it is in the taxable market, and so there is a spread there, because we are using LIBORG based swaps instead of BMA swaps. Which every housing agency that does the swap is using the LIBORG base.

So interest rates will have an impact. The other thing that would even probably have more of an impact would be what happens with tax rates with income tax rates. Thank you.

MR. CONINE: Thanks, Gary.

MR. BOGANY: I call on Mr. Dale Lehman.

MR. LEHMAN: Good morning.

MR. CONINE: Good morning.

MR. BOGANY: Good morning.

MR. LEHMAN: Mr. Chairman, members of the

Board, Edwina. First of all, I want to thank you for the opportunity to come up here and comment and make some suggestions. As both Byron and Gary just mentioned, we have been privileged to be part of your underwriting team.

And I had the opportunity to see these last Thursday, and took some time this week to make some general comments. I will say that if there is any of these comments that you feel are justified and would like some further detail or comments, I would be glad to do that.

First of all, and I have provided you with two separate letters with some backup recommendations and some suggestions. The first one I would like to talk about is the recommendations regarding the senior manager underwriter qualifications. In general terms, I want to compliment both Byron and the financial advisor and the team, because I think for the most part, they have identified the qualifications that mean something.

I think that if there was an addition that I would add I would add an addition on references. Because I think every firm that is involved in your pool at this point have had some experience with single-family housing agencies throughout the country and/or other state agencies. And that is my opinion and our opinion is a good source to determine performance, determine marketability, determine capital commitment and other things, experience of the bankers that you will want to judge when you are trying to decide on a senior manager.

But in general terms, there are a couple of the qualifications that concern us. And that is, if you look at just strictly size, then some of the larger firms are going to automatically be scored higher than some of the other firms. And we believe that if the Department would consider a system that sets minimum standards for their senior managers for these categories, so that there will be more opportunity for other firms.

And they just wouldn't be disqualified from that position maybe because they don't have as many bankers or maybe because they don't have as many sales people or haven't done as big a volume as some of the other firms do. And we feel that will add more competition. It would certainly entice these firms to bring innovative ideas, which I think is very key, and also to work very hard at whatever position they get assigned to on their performance, whether it is co-manager or co-senior.

I don't know whether you would like me to go through my suggestions and recommendations as far as the items. And I don't know. Time may be an issue here. Or you would just like to look at them at your leisure. As I said, I tried to take each one and make some constructive comments and suggestions for your consideration. And I am at your pleasure. Whatever you would like to do.

MR. GONZALEZ: I think we would like to go over them.

MR. LEHMAN: Okay.

MR. GONZALEZ: There are some questions we can ask now.

MR. LEHMAN: As was mentioned earlier, items one through four, I think that Byron mentioned, I do think there is some importance, and should be ranked maybe a little higher as to the type of senior professionals that call on the count. Primarily their experience in the business, and with single-family housing. So I think that that is something that should be looked at.

Number five, with regards to total number of bankers. Where I think that is important, and I don't believe that is the most important thing. I think that it is reasonable to believe that all firms have a certain number of bankers that will be committed to each account. And so it is important that those bankers that are committed to your account have the experience and have the knowledge and commitment to do the job.

So I broke it down. That I feel that for coverage and other purposes, there should be at least two senior bankers with at least ten years experience that demonstrate and have experience in structuring, analytic experience as well as marketing and understanding the different programs in single-family housing.

In addition to that, I feel that there has to be at least two analysts or associates that have the capability and the demonstrated capability of running as Byron and Gary pointed out, the extensive cash flow analyses required in this industry to get ratings and to go to the marketplace. I think if a firm meets those minimum requirements then there should be no extra points. They should be considered, at least have the opportunity to be considered as a senior manager.

Item six and seven, I think in some ways those could be put together because I think net capital and excess capital is extremely important. Again, I believe there should be a minimum set. I suggest that $100 million, if a firm has a $100 million of excess capital, it can underwrite up to $1.5 billion sole managed deal.

And not to say that you won't ever get to that level. Probably one manager would not be underwriting that. I do think what's perhaps more important is what the firm's policy is with regards to the capital that they are willing to commit when they are underwriting your bonds during a sale.

I think that in the case of most of your firms, there is a policy, or there is again, some performance that you could look at. For an example, this past fall and October, we had the privilege of being a senior manager for one of your sister agencies, Texas Public Finance Authority for $193 million. The market sold off, that they were in the market. And so we had to take down balances of over $60 million.

I believe that kind of references and that kind of performance is something that should be considered when you are looking at the senior managers. That demonstrates that they are willing to step up to the plate when markets do go the wrong way and put their money where their mouth are.

Item eight, again, we do feel that there should be a minimum number of retail and institutional sales people from each firm. There should be a benchmark set. And our recommendation is as least ten institutional sales people and/or 100 retail. And I say and/or because I think that you can do very well in this business and perform and be able to provide the necessary underwriting capabilities whether you have institutional or whether you have retail.

I do think that if a firm has both of those, then some additional credit could be considered. As you well know, single-family housing bonds are unique in a lot of ways. There is not a large market for these bonds.

You know Freddie Mac and Fannie Mae have been a lot -- one of the major buyers in this market. So I feel that having these minimum qualifications in the people and the firms that are involved in these will know these buyers, and if they can bring additional buyers, that is just an added plus that they should be rewarded for. But I think that would provide the criteria and the performance necessary to perform a good deal.

Item number nine, I would like to touch on, on the next letter, but I do think there should be some quantitative valuations for each manager, and it should be done on a regular basis. As far as the volume of the number of the single managed bond issues, I think once again, I think there could be a minimum standard.

I think if a firm has served as senior manager for at least one large transaction in each of the three years, and they are similar in structure and in complexity that what the Texas Department of Housing, then they should have the same kind of ranking as anybody who has done ten or twelve. I believe that again, once you have had the experience of doing this on a regular basis, you understand these kinds of markets and the buyers there.

As far as housing finance agency experience, again I believe there should be a minimum standard. I think that minimum should be five or six, because I do believe that if you are involved, either as a senior manager or a financial advisor in another state agency, then that gives you the opportunity and the knowledge to bring innovative ideas and also experiences to Texas Department of Housing which I think is extremely important.

As far as item number twelve, once again, and this has been discussed, I believe that swaps are a product that is very important in today's market. I don't think anybody can predict what will happen in the future. I do think that your senior managers should have the capabilities of doing swaps. I think there are discussions and there is things that have to be evaluated with regard to the platforms of each of the principals and counterparties that handle these swaps.

But I think if these platforms are approved by the rating agencies, the insurance companies and different lawyers, then I think those things should be considered. I think the bottom line, as Mr. Bogany said is, if you can go in and offer a swap and provide pricing that is as good as or better, and make sure the risk and the credit risk are no worse than what you do with anybody else, then I think you should be able to have the capability of doing a swap.

As far as 13, we also agree that I think it is very important, as I have said, to understand the platform and get comfortable with that platform, with everybody on the team. So again, I compliment. I think the criteria is fairly thorough. As I said, the only thing that I would add would be references, because I believe that can give you a lot of insight with regards to how other people in your industry and also in the state feel about the firm that you may be looking at.

With regards to the performance of the senior managers, we have found and my experience has been that most single-family agencies and some of your sister agencies here in Texas have a formal process by which on a deal-by-deal basis, they evaluate the performance of the senior manager and other members of the team. I think that is good for everybody involved, because I think it allows the Board and the staff, and financial advisors, for that matter, to be able to look at each individual deal based on the objectives and the goals that were set.

Determine how well each member of that particular team perform and what role they played, and whether that role was beneficial and added value to them. A number of agencies have a set policy. And they actually list a form and requirements that they expect after a sale that a senior manager reports to the board and staff. I recommend that that kind of procedure is set up.

I can certainly provide the Board with what some of your sister agencies do now. But I think it is very important that everybody understands number one, the goals ahead of time, but then afterwards, exactly what everybody, what the performance were, how it relates to the goals and again, obviously, input would be provided by staff and your financial advisor.

So and as far as commenting on the three items, again, I think we are in total agreement with regards to item one, with the exceptions being that I think being able to take down balances and having a demonstrated experience at doing that in tough markets is as important as capital. And I think that is where item one is heading to. So I think that is something that should be looked at and evaluated.

Item two, innovative ideas is the key to everything. Our job as bankers is to bring innovative ideas, so that you can get below the cost.

As far as item three, I do think that in order for you to be effective and have opportunities, you have to understand the indentures and what the programs are with regard to the agency. And that is certainly, you have to do your homework in the indentures. You attend meetings and you understand what your criteria and what your goals are.

But with regard to responsiveness, I feel that is important. But I think a lot of time, that could be due to mis-communication. And I think that is something that hopefully can resolve to make sure that doesn't become a major problem.

So if I have any comments or recommendations, I would replace item number three with once again, references. Because I feel very strongly that what other people feel you being able to do for them and what you have demonstrated in actual cases is just as important as any of these items. So once again, I thank you very much for the opportunity, and I will answer any question.

I will say that I also added that as you know, there will always be co-managers, co-seniors on your team. I do think it is also important to evaluate their performance. So I added a sheet at the back on our recommendations of how these players should be evaluated with regards to their marketing and sales capability, so that you can look at that.

MR. GONZALEZ: Thank you for your work. Question?

MR. CONINE: I don't think I have any questions of Mr. Lehman. I might have a followup now to Byron. Thank you. Byron, I mean, you probably are seeing these letters for the first time like we are here today. What is your reaction to some of these?

MR. JOHNSON: Well, I haven't seen the letter.

MR. CONINE: So hearing his testimony, I guess.

MR. JOHNSON: I'll start with the last comment first. I think the Board is looking for results as it relates to TDHCA. I don't believe going to TPFA to talk about how a firm did with them versus how we think they worked with us under this criteria is appropriate.

So I would recommend not taking out responsiveness, because it is an issue. We have noticed the difference in the way the firms respond and provide data, and we think that is important. And just as you know, you can always call up somebody and say hey, XYZ is going to call, will you give me a good reference? I just don't think that pertains really, to TDHCA as much as responsiveness.

In terms of setting minimums, I think Bond Finance is trying to focus on recommending to the Board firms that have experience and can bring value to TDHCA and Texans. And I think that by setting minimums, we are kind of like allowing maybe firms that don't necessarily specialize or have the housing resources to participate. And not trying to be funny, but Bond Finance doesn't really want to train other firms on how to do our deals.

We are expecting them to come to the table and bring something that produces a low mortgage rate. We are not here to just employ bankers because they are bankers. We want to recommend firms that have experience with the product we are trying to put together. So I kind of like don't agree with the minimum idea.

And I have heard comments before about you just need maybe one or two retail or institutional sales people because Fannie and Freddie will buy the bonds. Maybe that is the case today, but five years ago, four years ago, there were other institutional players out there buying bonds.

And we saw where one firm had institutional capability and was able to place bonds. Another firm, the institutional capability maybe wasn't there. So I think to limit the market to just Fannie and Freddie is not being short-sighted, but it is just not taking into consideration that the market evolves and is very dynamic.

In terms of limiting or setting a floor of $100 million in capital, there are some firms with capital of $20 million, $12 million, $15 million who have done $1 billion of business with state housing HFAs. And there are firms with 300, 200, $500 million in capital who have just barely hit the surface.

So I don't think setting a minimum there also is appropriate. It is just too dynamic a market to do that. And once again, I think that we would not be focusing on bringing in housing investment banks.

MR. CONINE: But the way you are scoring it, let's just focus on capital for just a minute.

MR. JOHNSON: Okay.

MR. CONINE: The way you are scoring it, the old David and Goliath story. And I have always been a Davey fan. But it sounds like to me Goliath is going to win the way you are scoring it, just simply because back here on the other page, the guy who has got the biggest capital is going to get five points, and that guy who has got the next biggest capital is going to get four, and so on.

MR. JOHNSON: Well, if Goliath has the experience and the resources to get the job done and produce a lower mortgage rate than Davey at this point in time, are we just going to give Davey an opportunity because we can, or because Davey is there? I mean, we are here to produce a product. And that is what Bond Finance is looking for; firms that can produce a product.

MR. CONINE: I don't think I have any further questions. I tend to agree that there are maybe some weighting factors that I guess some adjustments that just me as one of the board members would like to see, and I don't know whether it would be appropriate to do that now, or maybe to do it so we have the advantage of having the full Board involved. I think I will wait until our next meeting to do that.

I have gotten quite a bit of input here, and I am really appreciative of the work that you have done, and your staff has done, and Gary and Elizabeth and the whole crew. You guys have obviously been through a lot. So I guess I would move that we recommend this particular matrix to the full Board with the potential of adjustments or amendments at the full Board meeting as opposed to right now.

MR. BOGANY: Second.

MR. GONZALEZ: We have a motion and a second. All those in favor?

(Chorus of ayes.)

MR. GONZALEZ: All opposed?

(No response.)

MR. GONZALEZ: The motion carries.

MR. CONINE: Thank you.

MS. CARRINGTON: Mr. Chair, the Finance Committee, if I may? I would suggest or General Counsel has suggested that we can convene the board meeting and take up the rest of the items from the Finance Committee as we are going to need to do with the Audit Committee, just take those in the full Board meeting.

MR. CONINE: Move to adjourn.

MR. GONZALEZ: We have a motion to adjourn.

MR. BOGANY: Second.

MR. GONZALEZ: Seconded. All those in favor?

(Chorus of ayes.)

MR. GONZALEZ: Those opposed?

(No response.)

MR. GONZALEZ: The motion carries. The meeting is adjourned.

(Whereupon, at 11:55 a.m., the meeting was adjourned.)

C E R T I F I C A T E

IN RE: TDHCA Finance Committee

LOCATION: Austin, Texas

DATE: February 10, 2005

We do hereby certify that the foregoing pages, numbers 1 through 62, 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.

2/16/2005

Transcriber (Date)

On the Record Reporting, Inc.
3307 Northland, Suite 315
Austin, Texas 78731