TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

FINANCE COMMITTEE MEETING

Capitol Extension
Room E1.026
1100 Congress Avenue
Austin, Texas

9:00 a.m.
Monday,
March 20, 2006

COMMITTEE MEMBERS:

VIDAL GONZALEZ, Chairman
SHADRICK BOGANY, Member
C. KENT CONINE, Member (Not present)

STAFF:

BILL DALLY
BYRON JOHNSON, Director, Bond Finance
TOM GOURIS, Director, Real Estate Analysis

ALSO PRESENT:

AMY BARTOLETTI, CitiGroup
CRAIG FERGUSON, CitiMortgage

I N D E X

P R O C E E D I N G S

MR. GONZALEZ: We'll call the Finance Committee meeting to order. We'll start off with the roll call.

Shadrick Bogany?

MR. BOGANY: Here.

MR. GONZALEZ: Kent Conine is absent, and Vidal Gonzalez is present.

We'll start off with the Prospective Single Family Mortgage Revenue Bond Issues and Programs for 2006, and we need approval of Prospective Single Family Mortgage Revenue Bond Issues and Programs for 2006.

MR. DALLY: I'm going to call up Mr. Johnson to go ahead and walk the board through this prospective proposal.

MR. JOHNSON: Good morning. Byron Johnson, director of Bond Finance.

First on the agenda is approval of a plan for the issuance of bonds and tax credits for 2006. This was put together primarily to give you an overview of Bond Finance's recommendations for the coming year in terms of timing and amounts. The amounts may change, but once again, this is just a planning tool, and we wanted to show you in advance what we were thinking about, and particularly for the rotation of the senior managers and the co-managers. As you know, we've always rotated those groups throughout the process.

I had planned for CitiGroup Investment Banking to give you an overview of economic conditions and bond market conditions, and they should be here shortly, but we can move forward without that.

As you can see, we've had a lot of success with our recent programs with the unassisted funds. Program 61, we reserved about $81 million in a little over two months. All of those funds have been reserved. 2004-C and D, we reserved $56 million in about three months, and 2005-A was, again, $80 million in a little over four months. So right now we do not have any funds available for lending, and we're in the process of putting together a transaction.

And what I'd like to do, at your pleasure, is ask Amy Bartoletti from CitiGroup Global Markets to come up and give you an overview of current conditions and whatnot in the bond markets.

MR. GONZALEZ: Great.

MS. BARTOLETTI: Good morning. How are you?

MR. GONZALEZ: Good morning. Fine.

MS. BARTOLETTI: What I'd like to do is just take a few minutes to give you an update on the current market and the state of the market, especially as it relates to single family housing.

So if you turn to the first page, something we had talked about over the last couple of years in the state HFA arena is what we call the perfect storm. What that means is the confluence of market events that really meant very high rates of prepayment over the last few years which meant very high negative arbitrage so it was difficult to do a bond issue and get those funds originated without experiencing what we call negative arb which means very low rates of investment on that money which meant some difficult times for the HFA and then also a very narrow spread between conventional mortgage rates and the rate you could product by doing an all fixed rate financing.

The good news is some of those conditions have changed significantly over the last year, and I'd like to talk to you a little bit about that and how it relates specifically to TDHCA's program.

The one negative, however, in this market is the mortgage market is a little more competitive than it has been in the past. You're seeing much more in terms of interest-only loans and hybrid loans from competitors, and that's making it a little more difficult for HFAs across the country to compete. One great thing that Texas has done in particular -- we heard from Byron just at a conference recently -- one of the commercials that was played over the radio and he played it for folks at the conference, and things like that to really reach out and reach buyers across the state I think is wonderful and that will really help get the word out there about the program in the face of the competitiveness in the market.

Turning to page 2, what you've seen over the last year, since about May of '04, is that the Fed has raised rates consecutively 14 times. We're expecting one more rate increase, and then we just learned last week we're expecting possibly one more to 5 percent but we think that's going to wait until about the third quarter this year, and that's because economic numbers that have come in have been a little different than expected and the bond market rallied last week. So we'll see it go to 4.75 in the next few weeks, but then after that I think it's going to be a little longer possibly before it hits 5 percent.

Now, with that you've seen taxable short term rates pretty much rise along the same line. The red line is the Fed funds rate on this chart, the blue line is one month LIBOR which is the taxable rate, and as you can see, they've gone on up pretty much on part with each other. The green line, however, is BMA, and that's a tax exempt index, tax exempt short term index. What you know here is that that tax exempt index has gone up but not nearly as much as the taxable index, and that is good news for our market, and I'll talk about the implications of that in a little bit.

If you turn the page, you'll see that on the long end of the curve, ten year treasuries are still at historic lows; they're as low as they've been in about 40 years. Now, it's a little difficult to tell, but they have come up slightly recently with the increase in short term rates, but the increase hasn't been nearly as much as it has been on the short side. So that has some implications for our market.

On the next page what I'm going to show you is a taxable treasury yield curve, and this really graphs rates from the very short end to the very long end, and this is on the taxable side. It's very interesting to note the red line, how flat that curve is. I mean, it's pretty much unbelievable, and actually, the rate on the one-year treasury is higher than the rate on the 30-year treasury. So that yield curve is actually slightly inverted. If you compare that where we were to the end of

'04 which is the green line, you'll see that that curve has flattened very considerably.

On the tax exempt side, however, on the next page, page 5, the tax exempt market has flattened more slowly, and that's good news for our market. It means there's still some advantage to doing serial bonds, to doing things like PAC bonds that you've done in the past in your program, and it means you're still going to get some benefit from the shorter bonds on that side. Again, you'll see the red line is the curve from recently, it's very current, and the curve from end of '04 is the green line. Now, you'll see the curve has flattened but not nearly as much as it had on the taxable side.

So what does this mean for HFAs, for you in particular and for TDHCA's program? The first thing I mentioned before was negative arbitrage. Negative arbitrage in this market is virtually eliminated, and you can see that in the graph on page 6. The red line is the six-month treasury rate, and that's a good proxy for if you took a bond deal today and took those monies and invested them in a short term rate until you were able to get the mortgages out to individuals, that's a pretty good proxy for what that would be.

The blue line is an estimated all fixed rate housing bond deals, and you'll see today they're about the same place which means no negative arbitrage. That's great for this market. It means you can do a bond deal and not worry about having to lose funds over the initial time period of that program.

Another very positive thing today is that the spread between conventional mortgage rates that banks are doing and the mortgage rates funded by a fixed rate tax exempt program have increased. You'll see back in '03 we were actually at a negative spread. So if you did an all fixed rate bond deal back in 2003, chances are that you were not able to get a rate that was below what banks were offering the state. That's a part of the reason you had to look at doing interest rates swaps, things like that, to make the program more competitive.

Today we've seen the trend come back a little bit; with the increase in long term rates and short term rates, you finally see that trended back a little bit and we're finally getting some spread with the fixed rate deal. There still will be some advantages to doing swaps and helping lower that more, but it is definitely a positive trend and the way we want to see things going.

Another interesting thing for single family housing is that because the L-curve is so flat today, doing forward swaps is much more attractive, and that's what this curve on page 8 shows. And this just graphs premiums on forward swaps, and what I mean by a forward swap is a swap you would enter into today but it's not affected until say a year from now. That could be good for a program if you think it's going to take six months for you to originate your mortgages. Maybe you don't want the swap to start immediately, maybe you want to give it a little time before it starts. And the good thing today is if you do a year forward swap, it's only going to cost a basis point, whereas, it's been as high as 25 basis points just in the last few years. So this is a trend that I think you'll see more forward swaps in HFA programs going forward.

Finally, some additional implications, particularly relating to bond issues. PACs -- and this is really for issuers who cross-call -- aren't quite as efficient, however, I don't think that's going to be the case for the Texas program. We typically do premium PACs and we do those to raise funds for down payment assistance, and actually, premium PACs have become very competitive.

We priced one just a few weeks ago and it was spread at 65 basis points to a comparable average life on the traditional municipal curve that we look at. Just a year ago, year and a half ago, it was spread at 100 basis points. So the market for that bond is looking very good and it's becoming very competitive, and I think you'll see HFAs using those quite a bit, and it's a great way to raise money for down payment assistance throughout the state.

Another thing we've seen is increased participation by insurance companies. That's also great. You know, Freddie Mac has been driving the long end of the market for a while with the absence of Fannie Mae, and to the extent we can bring in more buyers, it's only a positive and it's going to have a very good effect on the price of housing bonds going forward.

Just on a deal we did, we had three insurance companies participate and it really helped lower our cost of funds. In fact, we were able to bring Met Life in on the long term bond. Even though we had Freddie there, Met Life came and said, We're going to 5 basis points through Freddie. And that's going to be a great trend going forward if that continues.

Finally, this isn't something, I don't think, so relevant to the agency's program, but some agencies can realize value by terminating some existing swaps because some of the earlier maturities, with the increase in short term rates, now do have inherent value. This is something that Cal HFA did to bring their program more in line because they've had very high prepayments over the last few years. I think that's something that's not necessarily going to affect the agency's program because all of the swaps that the agency has effected had options to cancel those swaps which I think was very good and you received very good advice on that. Some of Cal's older swaps did not have those options, so they have been experiencing a little bit of a mismatch in their amortization, whereas I don't think the agency has that issue.

That's really it. Are there any questions?

MR. GONZALEZ: Any questions?

MR. BOGANY: No.

MR. GONZALEZ: Very good presentation. We appreciate all your work.

MS. BARTOLETTI: Thank you.

MR. JOHNSON: So with that being said, I would like to take a moment to go over this page with you. This is just, once again, a planning schedule, subject to change contingent upon the amounts we issue, the market conditions. We're right now working on the next transaction, we hope to close that in June of '06, that will be approximately $120-, $130 million in size in terms of lendable proceeds. We may also attach, as you'll see later in the program, a refunding.

We're also working on a mortgage credit certificate program, the 2006 MCC program.

MR. BOGANY: Is that over?

MR. JOHNSON: We have one that's in progress but we anticipate that the authority will be used up by July or August, so that's why we're going to try to release this one in July to maintain a continuous supply of those certificates.

And then, depending upon the type of structure we select and the interest rates and the market and how fast we use our bond proceeds, we may come back to you also in July or August and recommend moving forward with another bond transaction this year. The idea is to always keep funds available for the marketplace.

And then after that we'll move into 2007, and right now all we know is really that Bear Stearns will be up in the rotation to do the transaction but we don't have amounts or the co-manager's team to recommend at this time.

And I'll be happy to answer any questions you may have about this item.

MR. BOGANY: Series A, have we already used that, Series A 2006? Is that and B the same?

MR. JOHNSON: No. Once again, these are just estimates and the funds will not be available until June of '06. Right now we do not have any lendable proceeds available, we've used all of our lendable proceeds. At the end of last year we had, if you recall, $75 million in assisted funds, or 550 with four points of assistance, beginning of September, and we are anticipating coming to you in December to request a buy-down of those funds to 499. However, the market rates increased from about -- we're talking taxable rates -- increased from about 4 percent in September to 4.60/4.62 in November, and that 60 basis point move helped originate those funds in a little over three months. So we kind of got, for lack of a better word, sideswiped by the market, and all of those funds, $75 million, were fully reserved by the end of January, so that's why we're coming to market with this next deal, or proposing to come to market with the next deal which you'll see later in the package.

MR. BOGANY: So at this point in time right here, we have no funds to lend.

MR. JOHNSON: Just whatever we get from fallout where the borrower will come in and make a reservation and for whatever reason cancel the loan. We have some of that occurring, but that's a very nominal amount.

MR. GONZALEZ: Any other questions?

MR. BOGANY: No.

MR. GONZALEZ: Shad, do we want to entertain a motion?

MR. BOGANY: To approve the investment policy?

MR. GONZALEZ: To approve the single family.

MR. JOHNSON: Prospective Single Family Mortgage Revenue Bond Issues.

MR. BOGANY: So moved.

MR. GONZALEZ: I'll second it. All those in favor?

(A chorus of ayes.)

MR. GONZALEZ: All opposed?

(No response.)

MR. GONZALEZ: Motion carries.

MR. JOHNSON: Item B is Preliminary Approval of Single Family Mortgage Revenue Bonds, 2006 Series A and 2006 Series B.

This is the next deal we're actually working on. It's not the B you saw in the previous example but it represents just a different component of the first transaction.

As you know, in the past we've come to you and the past three or four programs we've used portions of the deals structured using interest rate swaps. We may come to you in a month or so -- I'm thinking May -- to request approval of the next transaction.

On page 2 of this item you'll see three different scenarios presented. The first is 100 percent fixed rate bonds. This represents the traditional structure that has been used by the department when the bond market was receptive or conducive to that type of structure.

Scenario number 2 is 100 percent fixed rate bonds and refunding bonds. In this structure we have 100 percent fixed rate long term bonds, and also we're refunding an old issue.

The third scenario presents 60 percent fixed and 40 percent variable rate bonds combined with the refunding. What the refunding does is give you about a 20 basis point pickup in terms of lowering the mortgage rate, and then by adding a swap on top of that, you will pick up about 50 basis points in terms of the mortgage rate on the unassisted rate. So we're looking at 5.58 versus a 5.07. For reference purposes, current market rates FHA with two points is about 5.75.

So as I was stating earlier, we have used on our first transaction in 2004, fixed rate bonds and 30 percent variable rate bonds with a swap, our second transaction was 40 percent variable rate bonds with a swap, and as you may recall, our last transaction included 100 percent variable rate bonds and a swap.

We didn't reflect that structure, the 100 percent variable rate bonds at this time because the market rates have moved up and the swap or the hedge used to minimize interest rate risk is not producing the same savings that it did a year ago. So at this time, we have not presented this scenario.

Of course, over the course of the next two months, as you know, the market can move up, the market can move down. If we see that it does produce a benefit, we will bring it back to you as another option. But given current market conditions, as illustrated and explained by CitiGroup, we deviated from our normal course of business in terms of bringing just one recommendation and we want to show you what the impact would be amongst a spectrum of choices.

So at this time, Bond Finance would probably pursue structure scenario number 3 because we feel we want to produce the lowest overall rate. While we understand there are risks associated with variable rate bonds and the swaps, but we also feel that we understand those risks and we're building systems and controls to manage those risks. But it's really your decision as to what level of interest rates you think are appropriate that we should be achieving with the next bond transaction.

MR. BOGANY: Staff is recommending number 3?

MR. JOHNSON: Number 3.

MR. BOGANY: So move.

MR. GONZALEZ: We have a motion to approve staff's recommendation for the number 3 scenario. All those in favor?

(A chorus of ayes.)

MR. GONZALEZ: Opposed?

(No response.)

MR. GONZALEZ: Motion carries.

MR. JOHNSON: And if market conditions change drastically, we'll come back with yet another recommendation that would be more beneficial for the department. Or if we see scenario number 3 is not appropriate, we'll come back with a different recommendation.

Item C is Approval of Resolution Amendment for

Single Family Mortgage Revenue Bonds 2004 Series A and 2004 Series B. Last year we came to you and obtained approval to offer zero point mortgages under our 2004 program. What we realized was that we did not clarify in that resolution that the trustee could also purchase assisted loans and unassisted loans in addition to the zero point loans.

So what we've done here is presented you with a resolution that amends last year's resolution just to clarify that point, and all we're saying is that the trustee has authority to purchase three different types of loans: unassisted loans, assisted loans, and zero point loans. And the program is fully originated and this is more of a technical point issue.

MR. BOGANY: So moved.

MR. GONZALEZ: We have a motion to approve the recommendation. This is Approval of Resolution Amendment for Single Family Mortgage Revenue Bonds 2004 Series A and 2004 Series B, Program 61. All those in favor?

(A chorus of ayes.)

MR. GONZALEZ: All opposed?

(No response.)

MR. GONZALEZ: Motion carries.

MR. JOHNSON: Item D is the Approval of the

Investment Policy.

MR. GONZALEZ: That's what Shad was waiting for.

MR. BOGANY: I was much ahead of time.

(General laughter.)

MR. JOHNSON: As you know, the department is required by the Public Funds Investment Act of the Texas Code to maintain an investment policy, and besides the requirement to do it, it also is just a good policy to do so and it's a good internal control measure. Every year we bring the investment policy to you for your review and authorization, and that's what we're presenting to you today.

Attached to your package you have a copy of the investment agreement, a black-line version, and the only significant changes since the last version of the investment policy has been to provide for the purchase of certificates of deposit as an authorized investment, whether or not the institution is based on Texas. And that's the only change that was made to the Code itself through legislation, so we're adopting that language in our policy.

We also made a change in terms of the definition of the investment officer. Previously it was the chief of Agency Administration and the director of Bond Finance. Currently we're proposing, we've included, we've revised it to say the director of Bond Finance and the director of Financial Administration.

So those are really the only two changes other than dates and whatnot.

MR. BOGANY: We move that we adopt the investment policy.

MR. GONZALEZ: Second the motion. All those in favor?

(A chorus of ayes.)

MR. GONZALEZ: All opposed?

(No response.)

MR. GONZALEZ: Motion carries.

MR. JOHNSON: The next item, Item E, is Approval of Loan Star Mortgage Program Interest Rate Reset.

As you know, starting last September we offered a new product called the Texas Loan Star Mortgage Program. This program offers up to 8 percent of assistance and it uses conventional loans provided by Fannie Mae. We have experienced a low volume in terms of origination of these loans, and Eric's group has conducted numerous marketing exercises in conjunction with CitiMortgage, and just talking with some participants in the market and whatnot, we believe that our rate may be a little bit high.

So what we're proposing to do is cut our fee from a full basis point per loan to 40 basis points per loan and CitiMortgage has offered to eliminate their 20 basis points in terms of their administration fee. They still receive revenue from servicing the loan just as any other servicer or loan administrator would do, but this is pretty much they've cut out all of their incremental income in terms of the program, and we've cut out 60 percent of our revenue.

We're hoping that this reduction in our fees -- which would reduce the program rate by about 25 basis points -- would make the program a little bit more attractive.

MR. BOGANY: So what would the rate be? It would be 6.375?

MR. JOHNSON: It fluctuates daily but it should be in that range, about six and three-eighths.

MR. BOGANY: What is it now?

MR. JOHNSON: Six fifty to six seventy-five. So whatever the rate is now, it should come down by about 25 basis points.

MR. BOGANY: Well, I personally believe that the reason this program has not taken off is not the interest rate. You know, you go to a closing and you have ten of them, I'm almost guaranteeing you most of the people are around 6-1/2, in that rate, at least the closings I go to.

I would venture to say it's still going to be marketing, and even if you lowered the rate, it's still not going to make it unless you get out there and market it. Almost every contract that I see from a first time homebuyer, the buyer is asking for 6 percent and closing costs. Now, in Houston we're not seeing sellers willing to pay that because our market is so balanced.

But I truly believe the reason that this program is not off the ground is because of lack of marketing, it's lack of people knowing it's even out there. Because everybody is asking for closing costs, so that tells me it's a need for the product, it's just getting it out to the right people. And I just think with the money that CitiBank has invested in this, that they need to really wrench it up on the marketing side of it because nobody knows about it.

I'm going to be teaching a class Wednesday with the Realtors down in Houston about different programs, and I'm going to mention it, but I'm just telling you if you ask the lenders that I deal with, most of them never even mention it. Some of them are on this program, signed up, I go to them with clients, Oh, didn't even think about that. I'm telling you it is a lender lack of knowledge program.

You could lower it to 5.99 and I'm just saying if you don't market it, nobody is going to know. And I applaud you and Citi for trying to make some adjustments to get it out, but it's like you come out with this great mousetrap and all of a sudden nobody is using it, so you switch to cheese without looking back, well, what can we do more to market this program.

MR. JOHNSON: To respond to the marketing aspect of this program, I asked Craig Ferguson from CitiMortgage to be here, and he's present and he can tell you about some of the marketing efforts that they have conducted recently. I don't know if Eric is here -- Mr. Pike is not here yet.

MR. BOGANY: I'm sharing with you that I'm out in the market, I'm where the tire meets the road, and I never hear anybody mention it, so whatever is going on. To me, it ought to at least come through the sources that I use, and I met with some people the other day at Wells Fargo, and I don't know if they're one of the people signed up, but she didn't even think about it.

And I think one of the things from your CitiGroup person here earlier it's so competitive out there, and I think a lot of these banks, a lot of the mortgage companies and brokers are using their own product, but it's not, in my opinion, as good as your product.

MR. FERGUSON: Good morning. Craig Ferguson with CitiMortgage.

Just to, I guess, elaborate more on what Mr. Johnson has been saying, and yes, Amy's point, the competitive market out there is, I think, one of the biggest aspects of why most lenders don't know of this product. And this isn't a first time homebuyer bond program that's been around for a long time that Texas Department of Housing can issue at a low rate and start originating, and much like a lot of the local Texas deals here can do the same thing, even in your area, Fort Bend and Houston.

There are a couple of things with this program. It started September, it's six months old, it's not that old for a new product in Texas. The first time Texas has ever seen a 105 percent mortgage -- that's a mortgage that goes above the 100 percent, the 5 percent is allowing for the closing cost assistance, very new to lenders in Texas.

What's also quite new is the whole idea of the My Community Mortgage. Fannie Mae is really trying to get this product out there, but the product itself is probably less than two years old, so a lot of the lenders we deal with, first of all, what's a My Community Mortgage, and second of all, Wow, 105 percent, we're not even sure we can do that. And so it's our job to get out there.

We've got probably in Texas, let's say, 12 account executives with CitiMortgage in different regions of Texas pushing this product to the lenders who have 50 million other products they're looking at. So the marketing aspect is how do you get to the consumer, and that's where we have been working a lot with Eric. And we've got a marketing department in California that has probably called 50 newspapers, got a press release re-released as an update into most of the newspapers in the state.

We're going to kick off a billboard in San Antonio the end of this month, just to see how that works. We're going to have it out there for a month, see if that picks up any.

MR. BOGANY: Why aren't you doing it in Houston?

MR. FERGUSON: Well, because we figure San Antonio would be a kickoff.

MR. BOGANY: I'm just messing with you.

MR. FERGUSON: Then we'll go to Houston if it works.

MR. BOGANY: Okay.

(General laughter.)

MR. FERGUSON: We've got real Realtor flyers out there, at Mr. Bogany's request. Realtors aren't the friendliest people in the world. A lot of lenders want to get Realtors into their shop. It's difficult getting Realtors interested

MR. JOHNSON: Mr. Bogany is a Realtor.

MR. FERGUSON: I know, that's why I'm saying that.

(General laughter.)

MR. FERGUSON: But from a lending perspective, as you know, mortgage lenders want you, they want you to bring your product to them, so you're the one we're seeking. Much like CitiMortgage, we've got a bunch of Realtor flyers. It's quite difficult to even get into a Realtor meeting because there's a lot of lenders trying to get into the Realtor meeting to push their product.

MR. BOGANY: Well, I will make a suggestion to you on the Realtor side. If you call me and tell me which meeting you're trying to get into, I will make that phone call for you.

MR. FERGUSON: And we've heard nothing unfriendly from you, you've been a great help.

MR. GONZALEZ: Excuse me. In San Antonio?

MR. BOGANY: I know some Realtors in San Antonio too.

But let me tell you who drives the market. The Realtors really drive the market, it's not the lenders, it is really the Realtors who drive because we are the first point of contact with the buyer, and if we don't know what's going on with this product -- like I said, the meeting that I've got Wednesday where we're doing the traveling, it's the combination of TAR, Texas Association of Realtors and TDHCA, that partnership that we've been working on, where we should be in big fold there handing out flyers and things of that nature.

I think the consumer, if you go after the consumer, it's awareness, but they're going to listen to what their lender and what their Realtor tells them to do, and I venture to say what I would do on the new home market -- because I know in the Houston area the new home market is really driving quite a bit -- what I would be doing is targeting those large builders like the Lennars, the KBs, the ones that are doing huge volume that's got to do a bunch of numbers for the stock market, those are the ones I would go in to and say, Hey, can I get an appointment with your mortgage operation and so on. I mentioned to Ryland Homes about this particular product, and they had not heard of it and they're doing a lot of business.

And if I'm going to go to the Realtors, I'm going to hit the big offices first. I'm going to go to the ones that have got the most Realtors and try to get meetings in that end. I just don't think you guys got enough street soldiers to help you in this process.

Now, $383 move-in, total move-in, $383, but all they're doing is using neighborhood goal and the FHA, and marking that house up. If you come in, they're going to take that money out of it.

It just looks like when we're beating our head against the wall, we need to wrench it up a little bit higher because I think you can reach that market.

Byron, Eric is not here, but do you know if we have this product on the Texas Association of Realtors website? Because you know we have this website of affordable housing programs.

MR. JOHNSON: That I don't know.

MR. GONZALEZ: The one I'm aware of is the First Time Homebuyer Program is on there.

MR. BOGANY: But I don't think this program is there, and because it's statewide, it would be there. And even going after some of the lenders like Wells Fargo or Countrywide, some of the big guys, and asking them to push this product, and I don't know if they're not doing it because it's CitiMortgage or not.

But a lot of the mortgage brokers who are out in the market don't have a first time homebuyer program, so they typically come to the seller and ask for 6 percent closing costs because they don't have a product. And maybe we've been going after the Wells Fargo and the Countrywide and they're really not interested in pushing it, and maybe we need to target the Mortgage Bankers Association or the brokers who don't have a product at all that could use this.

I'm just saying maybe shifting the focus, but I truly believe it's going to be a Realtor-type deal, a builder-type deal because those guys are using closing costs and stuff as an opportunity to come in.

MR. FERGUSON: And you're right, the CeTex, the D.R. Horton -- I was going to say the Home 1-2-3, but they're not a builder -- those two builders in particular are probably one of the biggest advocates of this program. CeTex has been slow getting started but they're trying to get it on their system because the 105 percent mortgage in general, just to have that on their system also takes a bit of work.

Just to go back to Byron's, I guess, request, a very good point. I don't know if the interest rate is what is driving it away, but what we've heard, if you're a mortgage lender and you've got 20 different sheets of interest rates out there -- and this is a market daily price program -- our rates are slightly higher, probably 25 basis points or slightly less than that higher.

I think the idea behind this is let's get it down to where market is so we're right on par with Countrywide and even CitMortgage's regular correspondent group, and even if that's just for four months, just to say, Look, we've got the exact same program, now get you used to doing it -- because a lot of those just haven't done the loan, they haven't done the My Community Mortgage, they haven't done the 105 percent loan.

And it's not really an interest rate reset, it's really a price adjustment set that you can change any time you want after. It's kind of are you going to get 80 basis points on no loans or 40 basis points on 100 loans, for that matter.

But it's not a permanent thing. I think the idea was let's see if we can kick-start this, if it works then we can maybe go back and put our fees back in place. So I think that was the idea behind that.

MR. GONZALEZ: I have one other suggestion for CitiMortgage and Byron is contacting Texas Independent Bank out of Dallas which is a banker's bank, a correspondent bank as such, and a lot of the community banks in the state of Texas and surrounding areas use them as correspondents. And I'd suggest that we let them know about our program so that they can put it on the rate sheets that they provide on a daily basis for all the banks in Texas and the surrounding areas. And if you need any help, I can give you a contact and everything there with the mortgage department.

MR. JOHNSON: Okay.

MR. BOGANY: And I would truly go after the builders big time, because their mortgage companies, everybody knows if you go through the builder's mortgage company you pay a higher rate. So right off the bat the client is going to be more knowing that that's going to happen, so then instead of me using some of the incentive money on my loan, I can use it in making my house nicer. So I would really try to go after the builders and sell it, especially the KBs and some of them that are so controlling, Lennar, they almost force you to use their mortgage company. I would go for the home run with those guys because they're doing the more of the volume of the business.

MR. FERGUSON: And Lennar is American Home Mortgage, I think.

MR. BOGANY: It's Universal.

MR. FERGUSON: All right. And any help you can get us with the Realtor market.

MR. BOGANY: Just let me know where you want to go. Even in San Antonio I can make a call.

(General laughter.)

MR. FERGUSON: Thank you.

MR. JOHNSON: And Shadrick, you said the Texas Realtor website?

MR. BOGANY: Yes. We have a partnership with Texas Department of Housing where we try to put all your programs on and try to promote it through the Realtors, but I'm willing to bet this one may not be on that program. We're teaching this class, we'll give the Realtors MCC about affordable housing and about the different programs, so if I could at least get a flyer for Wednesday, I would truly mention it. And actually, I think Eric may be at that meeting, so maybe Eric, just make sure he brings it up.

MR. JOHNSON: I'll talk to Eric before this afternoon and I'll let you know whether it's on there or not.

MR. BOGANY: All right.

MR. GONZALEZ: Do you we have a motion for the Approval of the Loan Star Mortgage Program Interest Rate Reset?

MR. BOGANY: So moved.

MR. GONZALEZ: Second. All those in favor?

(A chorus of ayes.)

MR. GONZALEZ: All opposed?

(No response.)

MR. GONZALEZ: Motion carries.

We'll go to item F.

MR. JOHNSON: Approval of 2006 Mortgage Credit Certificate Program.

We've executed or offered three programs recently: 2003, 2005 and 2005-A. You can see there with the first table that, in essence, all three programs are fully originated. The balances that remain are comprised primarily of reservations for targeted areas, so essentially 2005-A we have about $1.4 million that's available for non-targeted areas.

So we're coming to you, as illustrated on the chart previously, to start structuring this, getting the documents together, so that we can have our public notice and make this program available in June or July. And it would be another $15 million in authority and we've had very good success with it on a statewide basis.

MR. BOGANY: Can we move some of the money out of the targeted areas back into the regular market if it's not being used?

MR. JOHNSON: Only after one year, and the 2005 program is approaching that expiration date.

MR. BOGANY: I would recommend approval of staff's suggestion on the 2006 Mortgage Credit Certificate Program.

MR. GONZALEZ: I second the motion. All those in favor?

(A chorus of ayes.)

MR. GONZALEZ: All opposed?

(No response.)

MR. GONZALEZ: Motion carries for Approval of 2006 Mortgage Credit Certificate Program.

MR. JOHNSON: Those are all of my agenda items. Thank you very much.

MR. GONZALEZ: Thank you.

MR. GONZALEZ: Item G, Approval of Asset Management Oversight Agreement with Texas State Affordable Housing Corporation.

MR. DALLY: At this time I recognize Tom Gouris to make a presentation on this.

MR. GOURIS: Good morning. My name is Tom Gouris, director of Real Estate Analysis for the department.

This is a request to move forward to contract the asset oversight functions of the department, or at least the majority of them, with Texas State Affordable Housing Corporation. The agreement that we will get out of this will provide us the opportunity to continue to oversee the activities that are going on at our multi-family bond transactions.

TSAHC has been doing the oversight for about 42 existing properties that we've had in the portfolio that came into the portfolio prior to April of 2003. At that point we decided to take that responsibility and make a new fresh determination on who should be helping us with that oversight, and we've gone out with an RFP and have come back with several potential providers. However, of the four most qualified providers, TSAHC has shown us that they have the ability and the best capability to continue to operate for us.

So for those 47 properties and any other properties that we take on in the near future until this contract is changed, we would recommend that we contract with TSAHC to do that oversight work.

Two of the features that I want to talk about about the contract is that we will have a $25 starting fee per unit, and we will be reimbursed $3 of that fee to fund our oversight of the oversight.

The second feature that I'd like to point out is that originally we were talking about a three- or five-year contract and then a renewal or go through the RFP process again. We've worked through that so that now we're talking about a six-month window in which either party can terminate the contract, so if we want to go out and bring this in-house down the road, or if we want to find another asset oversight vendor, we can go out and bid that out and within six months terminate this contract and move forward with another one.

Any questions?

MR. DALLY: Do you want to summarize that recommendation down at the bottom?

MR. GOURIS: Sure. So what we're asking the board to do is we're recommending the authorization of the executive director to enter into and complete negotiations, finalize and execute an agreement to provide asset oversight services.

MR. BOGANY: So moved.

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

(A chorus of ayes.)

MR. GONZALEZ: All opposed?

(No response.)

MR. GONZALEZ: Motion carries for the board to authorize the executive director to enter into negotiations, finalize and execute an agreement to provide asset oversight services.

Any other items? If not, I'll entertain a motion to adjourn.

MR. BOGANY: So moved.

MR. GONZALEZ: Second. All those in favor?

(A chorus of ayes.)

MR. GONZALEZ: Motion carries. This concludes our Finance Committee meeting.

(Whereupon, at 9:49 a.m., the meeting was concluded.)

C E R T I F I C A T E

MEETING OF: TDHCA Board Finance Committee

LOCATION: Austin, Texas

DATE: March 20, 2006

I do hereby certify that the foregoing pages, numbers 1 through 40, inclusive, are the true, accurate, and complete transcript prepared from the verbal recording made by electronic recording by Joseph M. Schafer before the Texas Department of Housing & Community Affairs.

3/26/2006
(Transcriber) (Date)

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