

TEXAS STATE AFFORDABLE HOUSING CORPORATION

BOARD MEETING

Conference Room
TSAHC Offices
2200 East Martin Luther King Jr. Blvd.
Austin, Texas 78702

Thursday,
November 14, 2013
10:35 a.m.

BOARD MEMBERS:

ROBERT "BOB" JONES, Chair
WILLIAM H. DIETZ, JR. (absent)
GERRY EVENWEL
ALEJANDRO "ALEX" MEADE
JERRY ROMERO

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P R O C E E D I N G S

MR. JONES: The Board meeting of the Texas State Affordable Housing Corporation is now called to order. And first on the agenda is to see if we have a quorum. William Dietz, Vice Chair?

(No response.)

MR. JONES: Is he coming later, or not today?

VOICE: Not today, sir.

MR. JONES: I will just leave it blank for now. Gerry Evenwel, Member?

MR. EVENWEL: Present.

MR. JONES: Alex Meade, Member?

MR. MEADE: Present.

MR. JONES: Jerry Romero, Member?

MR. ROMERO: Here.

MR. JONES: Okay. And we do have a quorum. Okay. Is there any public comment at this time?

(No response.)

MR. JONES: Who is that guy sitting back with the red tie? You with the public? No? Okay. David, I can't believe you bit. At this time, we will go to the President's report. David.

MR. LONG: Thank you, Mr. Chairman. As always, your program and area reports are in your Board book, if

1 you had any questions on those. Either myself or staff
2 can help you answer any questions you have.

3 A couple of quick updates. The TCC, Texas
4 Community Capital Board meeting is going to be held today
5 at 1:00, here in our offices. So, I am just -- I know Mr.
6 Romero attends those.

7 Ms. Leon also attends those on behalf of this
8 Board. We received a \$5,000 donation from Chris Bergmann,
9 who is our, I think, one of our newest members on the
10 Advisory Council.

11 Several meetings, conferences and presentations
12 that we have been involved in, staff has been involved in.
13 Staff attended the NCSHA Conference in New Orleans, The
14 TALHFA Conference in Houston, The ARCIT Conference in --
15 I can't remember where it was at. David, do you remember
16 where it was at?

17 MR. DANENFELZER: Caldwell.

18 MR. LONG: Caldwell. And David actually
19 attended, and made a presentation at that conference.
20 Meetings with Texas Association of Realtors, regarding
21 United Texas Training. Paige and Sara continue to
22 participate in that. Sara made a presentation under the
23 United Texas Training program in Fort Worth.

24 Neighborworks Waco reception was attended; I

1 attended that, and had a chance to meet with one of you
2 all's old members; Chris DeCluitt. While I was up there,
3 Mr. Dietz was going to join me, but he was sick. And
4 then, Charlie Leon and I attended the New Hope Housing 20-
5 year reception in Houston, and that was an event. If you
6 remember, they are one of our subrecipients under the
7 Texas Foundations Fund.

8 In attendance today, we have Ms. Livingston.
9 Katie is over there with Greenberg, Traurig. Ms.
10 Patterson, Linda Patterson is here with Patterson and
11 Associates. She will be making the presentation to the
12 Board under Tab 2.

13 Mr. Mikeska, of Mikeska, Monahan and Peckham is
14 here. He will be making the presentation under Tab 3.
15 Chris Spelbring with our underwriter firm with Raymond
16 James is here.

17 And I saw Teresa in the back. Is Jennifer
18 here? Jennifer Moriarty and Teresa Alvarez with Wells
19 Fargo are here. And they will be making a presentation to
20 us. And then Edwin Carrington is going to be here, and
21 she's walking in the door now.

22 The next scheduled Board meeting, second
23 Thursday of December, is the 12th. That was the date we
24 would like to kind of look at having the Board meeting on.

1 A big item on that agenda will be the audit presentation
2 by Mr. Mikeska for our year-end audit.

3 And then the last update I have is, after this
4 meeting, we would like to invite anyone that wants to
5 stay, and certainly the Board members, that we have our
6 Thanksgiving luncheon being held after this. And it will
7 be held in here.

8 So after the meeting, if we can clear out long
9 enough to get the tables realigned, we will have luncheon
10 in here. With that, Mr. Chairman, I will conclude, unless
11 there is any questions that the Board members may have,
12 with staff reports or anything else.

13 MR. JONES: Any comments or questions on the
14 report?

15 (No response.)

16 MR. JONES: Is there any public comment on Tab
17 Items A through E?

18 (No response.)

19 MR. JONES: Okay. Thank you, David.

20 MR. LONG: Sure.

21 MR. JONES: Item 1, presentation, discussion
22 and possible approval of the minutes of the Board held on
23 October 10, 2013.

24 MR. EVENWEL: Move the approval of the minutes.

1 MR. JONES: It has been moved.

2 MR. ROMERO: Second.

3 MR. JONES: Second. I just have one question,
4 on page 5. On that second paragraph, what would happen to
5 the funding if an organization chose not to accept their
6 reduced award amount?

7 MR. LONG: I have got you. We'll add that.

8 MR. JONES: It just wasn't -- because they
9 don't basically -- that is what I heard. They just don't
10 turn away awards.

11 MR. LONG: Right.

12 MR. JONES: But it was about reduction. That
13 is the only thing.

14 MR. LONG: Yes, sir. We will make that change
15 and repost those.

16 MR. JONES: Okay. Can we put the motion
17 limited to subject change?

18 MR. EVENWEL: Yes, sir.

19 MR. JONES: Okay. And seconded. Any public
20 comment?

21 (No response.)

22 MR. JONES: All in favor of approval with that
23 change, say aye.

24 (A chorus of ayes.)

1 MR. JONES: Okay. It passes. No opposition.

2 MR. LONG: Mr. Chairman, if I might ask, we
3 have a presentation by Wells Fargo for a check
4 presentation under Tab 4.

5 MR. JONES: Yes. That would be item what?
6 Four?

7 MR. LONG: If we could move that up --

8 MR. JONES: We could move that up. Of course.

9 MR. LONG: -- so that we could accommodate Ms.
10 Moriarty and Ms. Alvarez's schedule for today? If we
11 could move that up?

12 MR. ROMERO: Of course.

13 MR. LONG: Okay. So if we could take Tab Item
14 4 now?

15 MR. JONES: Okay. So at this time,
16 presentation, and possible acceptance of an award to the
17 Corporation from the Wells Fargo Housing Foundation.

18 MR. ROMERO: Mr. Chairman, if I could introduce
19 my colleagues. Teresa Alvarez is the community
20 development representative for the Austin Market, and
21 Jennifer Moriarty in the back is our community development
22 representative for the San Antonio market.

23 In our continuing support for the Texas State
24 Affordable Housing Corporation, we wanted to make sure

1 that we presented to you all the checks that were awarded
2 under our priority grants market initiative through the
3 Wells Fargo Housing Foundation. And as we continue our
4 partnership with TSAHC, just to kind of let everybody
5 know, this partnership is not just me serving on the Board
6 and interacting with staff and with the Board but also
7 with our team members across the State of Texas.

8 And one of the reasons that I wanted Teresa and
9 Jennifer to be here as well is because Jennifer and I will
10 be working together with TSAHC on the grant request,
11 because we are serving San Antonio and El Paso with the
12 amounts that we are going to be granting today. And
13 Teresa of course, is in the Austin market, and interacts
14 with some of the staff here in Austin as well.

15 So to just kind of give you a flavor of the
16 support that we have for this organization and the
17 collaboration that we have done over the years. And
18 hopefully, we will continue to do so as we move forward.
19 So with that --

20 VOICE: They're the prettier versions of Jerry.

21 MR. ROMERO: I like to get them on either side.
22 It makes me look good.

23 MR. JONES: David, should we have Mr. Romero go
24 on the other side of the table?

1 MR. ROMERO: I was thinking that that probably
2 wouldn't be appropriate. But I wasn't sure if Jennifer
3 and Teresa were going to sit there. The presentation
4 itself, I will let Jennifer talk a little bit about any
5 changes. And then I can cover our past collaborative.

6 But again in general, we have submitted a
7 request, TSAHC had submitted a request for \$250,000
8 originally. When it was all said and done, we donated
9 well over, what is it, \$2.2 million throughout a lot of
10 different markets.

11 We were lucky enough to get some support, both
12 in Austin, as well as San Antonio and El Paso. This grant
13 itself will be used with the ACT program, that TSAHC
14 offers. And we are hoping that we will be able to provide
15 affordable housing to approximately maybe eight to ten
16 families, more or less.

17 FEMALE VOICE: Per market.

18 MR. JONES: And for the record, the ACT, for
19 those who may not know the acronym?

20 MR. ROMERO: The Affordable Communities of
21 Texas program that TSAHC manages. So with that, Jennifer,
22 would you like to say a little bit, and I'll send it to
23 you as well?

24 MS. MORIARTY: So, we actually have two checks,

1 \$75,000 each, for each market for El Paso and San Antonio.

2 And in San Antonio, which is the market that I manage for
3 Wells Fargo, TSAHC is partnering with Neighborhood Housing
4 Services, which a Neighborworks organization. I served on
5 the Board for several years with the organization, on board
6 with them since 1990. They have a new Executive Director
7 there.

8 They have done a lot of affordable housing,
9 both new development and rehab over the years. So I think
10 it will be a great opportunity for TSAHC to work with NHS
11 and strengthen their organization, as they kind of turn
12 the corner on some things that they are working on as
13 well.

14 MR. ROMERO: And the El Paso collaborative has
15 been doing affordable housing in El Paso since 1996. And
16 we have partnered with TSAHC in prior years through the
17 priority markets grants initiatives as well. And again,
18 we will be doing the same thing in looking at potentially
19 working on some homes for veterans as well as for some
20 needy families that are looking for housing and trying to
21 do some rehab and reconstruction necessary.

22 MS. ALVAREZ: And as the Austin representative,
23 I just want to say welcome to my colleagues, and thank you
24 for having your money flow through Austin. Thank you very

1 much for that. We appreciate that.

2 Always enjoy working with David and Janie. And
3 in Austin, I just wanted to mention that we did a \$50,000
4 grant to Frameworks CDC for rehab of housing here locally.

5 So, thank you.

6 MR. LONG: I just would add that the
7 partnership that TSAHC has been able to enjoy with Wells
8 Fargo besides the partnership that we have from Jerry
9 Romero as our Board member over the years, you know, years
10 ago, when we first were getting started with several of
11 our programs, Wells Fargo, we applied to them. Wells
12 Fargo provided us with a substantial equity investment,
13 EQ2 award of over a million dollars.

14 And we have been working with that, and it
15 continues to benefit not only the Corporation but the
16 homes and the people we were supposed to be serving with
17 those funds. And it has been a great opportunity.

18 And I greatly appreciate it, and thank all of
19 you for your continued support of our organization and our
20 efforts to provide affordable housing. So we greatly
21 appreciate it, and thank you.

22 (Applause.)

23 MR. JONES: Ms. Taylor is going to arrange
24 positioning for the photo shots.

1 MR. ROMERO: Do you want to just do it while
2 you guys are sitting down, and they can stand behind us?

3 MR. JONES: Whatever Jane says.

4 MR. ROMERO: Okay.

5 MS. TAYLOR: Well, I don't know. We may have
6 to actually get up.

7 MR. JONES: Okay.

8 MS. TAYLOR: Our camera doesn't have such a
9 wide angle.

10 MR. ROMERO: Are you insinuating something?

11 (Whereupon, photos were taken.)

12 MR. JONES: And thank you all.

13 (Applause.)

14 MR. JONES: I think what Wells Fargo has done
15 and has been doing is a testimony, David, to the Texas
16 State Affordable Housing Corporation and its staff. And I
17 want to personally on behalf of the Board thank the staff
18 for developing such a solid relationship that is obviously
19 filled with integrity as well as performance. Am I right,
20 Jerry? Thank you.

21 Okay. Let's go to Item 3, formerly Item 2,
22 presentation and discussion by Patterson and Associates
23 regarding the Corporation's investment portfolio.

24 MS. SMITH: Good morning. My name is Melinda

1 Smith. And Linda Patterson with Patterson and Associates,
2 is here this morning to go over our investment portfolio
3 and kind of what is going on currently in the market, and
4 how it affects what we are doing.

5 MR. ROMERO: Melinda, could I interrupt you
6 real quick? Mr. Chairman, I think the way it was
7 presented on Tab 4, I think the Board needs to take
8 acceptance of the award, because of the way it was written
9 up.

10 MR. JONES: Okay. I'm sorry. Presentation and
11 possible acceptance of award. You are correct. Thank
12 you, Jerry. Is there a motion to accept the award on
13 behalf of the Corporation from the Wells Fargo Housing
14 Foundation?

15 MR. EVENWEL: I move we accept the award.

16 MR. MEADE: And I second.

17 MR. JONES: Okay. Is there any public comment
18 regarding this item?

19 (No response.)

20 MR. JONES: Is there any discussion or
21 questions?

22 (No response.)

23 MR. JONES: Is there any -- all in favor, say
24 aye.

1 (A chorus of ayes.)

2 MR. ROMERO: And I would like to abstain from
3 the voting, being that I am representative of Wells Fargo,
4 just to make sure.

5 MR. JONES: Okay. Let the record show that we
6 have three ayes, no nays and one abstention, Mr. Romero.
7 At least you didn't say no. Okay. Back onto Tab item 2,
8 formerly number three.

9 MS. SMITH: My apologies. So Linda Patterson
10 is here, and I will let Linda take over and -- as soon as
11 she figures out how to move the --

12 MS. PATTERSON: It is the new Windows.

13 MS. SMITH: Yes. Do you need me or Nick to
14 show you.

15 (Simultaneous discussion.)

16 MS. SMITH: It is a slow new Windows.

17 MS. PATTERSON: I wish I had as good of news as
18 your first item, and had lots of money to bring you. But
19 of course, the rates are very low right now. And we are
20 suffering through a situation, which at least, being the
21 optimist that I am, I think I see a beginning to the end.
22 Because I see some strength in the economy. It is there.
23 It is just not really on its feet yet. We just don't
24 have a lot of challenges to go. One of the things on that

1 upper left hand chart, you can see is, one of the things
2 that is bothering the home market, plus our economy right
3 now, is confidence and the fact that it keeps falling off.

4 And it is even past this particular chart, updated
5 another month. It dropped a little bit more.

6 MR. JONES: The one on the desk replaced the
7 one in the book or something?

8 MS. PATTERSON: It just -- I handed out the
9 ones, just so you would have one that was easier to look
10 at. But no, it does not --

11 MR. JONES: Okay. I'm sorry. Go ahead.

12 MS. PATTERSON: Not a problem. Part of the
13 reason for the confidence, of course, is the fact that
14 there are a lot of unknowns right now.

15 We just came through a session in Congress
16 where we had difficulty in passing a debt ceiling, a
17 difficulty passing a budget. And that didn't add to the
18 confidence level generally in the country. That has just
19 been forestalled for a couple of months.

20 MR. JONES: You said, have trouble passing a
21 budget. There hasn't been a budget passed in five years.

22 MS. PATTERSON: Right. That is the trouble.

23 MR. JONES: Well, they still didn't, but --

24 MS. PATTERSON: We still didn't. But we moved

1 down the street a little bit. We have a continuing
2 resolution. I don't hold any hope for that one,
3 particularly. But the debt ceiling for sure will come up
4 again in the first quarter.

5 So again, there are lots of unknowns out there.

6 And what the markets don't like, and what people in
7 general don't like is uncertainty. And we have so much
8 uncertainty. We are changing the Fed Chairman. We have
9 got Obamacare coming on. No one is sure of that cost.

10 Plus the disruption that is going on in
11 Washington. We are trying to bring the two sides of the
12 aisle together again.

13 Another thing that is clearly happening is that
14 the rise in housing has slowed down. In fact, the boil is
15 over now. And we are seeing a significant drop in pending
16 home sales and existing home sales. So you have a
17 situation where things are slowing down.

18 And during this session, during this season of
19 not having confidence, and not having a firm foundation in
20 the economy, there has been a significant slowdown in the
21 business activity. Of course, you can't say that in front
22 of the -- there we go. From the equity market, but
23 definitely in the bond market. And we will see what the
24 bond market is setting up for.

1 We have one more factor here, and that is that
2 it particular affects the markets. And that is the Fed
3 share. And of course, Mr. Bernanke will be leaving at the
4 beginning of the year, and the hearings are actually today
5 for Janet Yellen, who is very well qualified, has a
6 wonderful resume, but is particularly dove-ish.

7 And her comments that were published yesterday
8 reinforced that. Dove-ish meaning, she is willing to keep
9 the rates as low as possible to get the economy moving.
10 She is particularly focused on mortgages, and so she wants
11 to keep those rates low. And her comments yesterday were
12 that she needs a strong economy base before she will
13 consider any kind of increase.

14 Now, on the other side of that of course, is
15 the fact that there is a huge cost to this quantitative
16 easing, that is going on. And that quantitative easing is
17 building such a cost into the economy and such liquidity
18 into the economy that they may start, we may start to see
19 them slowing down on the quantitative easing, beginning in
20 December or January. Otherwise, it will probably be March
21 before we see that.

22 And here, we have two other examples of what
23 the Fed is fighting. The unemployment rate is decreasing,
24 and that looks good, because that is one of the primary

1 goals of the Fed; to keep employment going.

2 But the change in non-farm payroll on the
3 bottom graph shows you that really the unemployment rate
4 is decreasing as much because people are getting jobs, and
5 perhaps even more so because more people are leaving the
6 workforce. And so percentage-wise, it is looking worse.

7 And of course, if they don't have jobs, it
8 really doesn't matter how low the mortgage rate is. They
9 are not going to buy a house. They are not going to buy a
10 new car. And so it is a serious situation.

11 I mentioned the fact that the QE, or the
12 quantitative easing, is also adding a tremendous amount of
13 liquidity into the system, more than we have ever seen
14 before. The problem with that is that, when you have that
15 much money in the economy, it is just like somebody having
16 too much money in their pocket. What are they going to do
17 with it? They're going to spend it.

18 And when we start to get a firm basis in the
19 economy, then with all of that liquidity sitting there,
20 the worst thing that can happen is a huge spike in
21 inflation. We have never seen this much liquidity in the
22 system. We don't know how to pull that back in again.
23 Everyone admits that.

24 Just not sure how that is going to happen. And

1 because of that, you have to -- the Fed is fighting the
2 idea of inflation. But because of what we see in the
3 slowdown in the economy, they are also looking at
4 disinflation, and going to a deflationary cycle, which the
5 worst case of course, was Japan for about ten years.
6 Getting into that kind of situation.

7 We also have a decline going on in employment,
8 which affects the corporate growth that is going on. They
9 are turning more and more towards productivity. The
10 productivity figures in this country are huge. And it is
11 wonderful productivity.

12 But as long as you have wonderful productivity,
13 you are not going to have those corporations hiring people
14 again, because they have a stockpile of money and they
15 don't have to hire people, because they have a long period
16 of time before they have to add more productivity or add
17 more people to the mix.

18 Interestingly enough, I think that one of the
19 things that is going to affect you and your portfolio, and
20 also affect generally what is happening in the economy and
21 in the markets, this is an interesting chart. It is a
22 little hard to see it. But the two solid lines are
23 October and September.

24 But during August is when there was a lot of

1 speculation that Summers would come into the Chairmanship
2 of the Fed, and that they would start releasing some of
3 our coin back on the quantitative easing. And since that
4 happened, you can see the dotted line up above those two
5 solid lines. That doesn't look like very much. That is a
6 huge market move.

7 And it shows the indication of what is going to
8 happen if we actually do see, once we get the new Fed
9 Chair in, and then we start seeing them talking about
10 actually pulling off on the QE. And if that happens, you
11 are going to see, especially in the belly of the curve,
12 which is basically the three to the ten year, you are
13 going to see the curve getting a bit of a bell shape
14 there.

15 Now the reason that it is very flat on the
16 front end, which is unfortunately where a lot of your
17 money has to be invested, because it is money that is
18 rolling through the Corporation. And that is going to
19 stay very low for a very long time. If Yellen's remarks
20 have anything to bear on what is going to happen, you
21 probably won't see us coming off the zero percent discount
22 in Fed funds rate until at least the end of 2015 and
23 potentially into 2016.

24 But if you have enough movement in the middle

1 of the curve, it is going to start pulling that up,
2 because people are so discouraged about not earning any
3 interest at all. So that front end of the curve is really
4 an indication of I don't know where else to go. I have no
5 confidence. I have no confidence in what is going on, so
6 I am going to stay very much in the money market funds and
7 sitting in the banks.

8 When we take that information, and Microsoft
9 moves us to the general portfolio, this is the portfolio
10 for the Corporation. And we are looking at the end of May
11 to the end of September. On the quarter, you can see, I
12 wish that that was earnings, and the increase in funds was
13 actually due to interest, but of course, it is not at
14 these rates.

15 You can see that we have shortened the
16 portfolio ever so slightly. Didn't really want to do
17 that, but it is very difficult right now to find anything
18 to invest in. Because of the flatness in the curve on the
19 front end. You really have to go out into the 18-month,
20 two-year area to try to get any kind of pickup.

21 And considering that with the elements that are
22 going on in the market right now, we may start to see some
23 changes in the first quarter of the next year. Then we
24 don't want to extend too much farther. We just don't want

1 to use that area.

2 We have been using some CDs, as you will see,
3 because the CDs offer some value. But those are also very
4 hard to find, because banks, and I am sure Wells Fargo
5 would say the same thing. They don't need any more money.

6 They don't want any more money. And so they are very
7 difficult to find.

8 But even with the short need of the days, you
9 will see that the portfolio is actually increased a little
10 bit. The net quarterly yield from a 3.44 to a 3.49.

11 One thing that might catch your eye there is
12 that the unrealized gain and loss for the last quarter of
13 1,200 has decreased to a loss, an unrealized loss of \$939.

14 And that is going to be a natural thing that you are
15 going to see for several quarters.

16 That is because as the rates go up, the prices
17 of the securities go down. So anything that you have got
18 on the portfolio is going to have an unrealized loss,
19 which of course, disappears as it goes towards maturity.

20 Over the fiscal year then, a total of \$25,000
21 in interest, which doesn't look very good, except compared
22 to the benchmarks in the general market. This is a look
23 at the portfolio by allocation.

24 This is your asset allocation from quarter to

1 quarter. And you can see that basically the change was in
2 the CDs. Finding some CDs that were yielding closer to
3 .5, .4, and still staying relatively short.

4 The bank rates of course, because they aren't a
5 lot of different places to go, that is a difficult thing.

6 Because it pulls the rates down on the overall portfolio.

7 But the bank funds that are sitting there also are paying
8 for your compensating balance. So it is a situation,
9 compensating balance.

10 MR. JONES: Are you saying that all of those
11 parts of the pie in the investment and the stuff that you
12 did, yielded \$25,000 off of \$6 million?

13 MS. PATTERSON: Yes. This is why people don't
14 want to open their investment reports and their bank
15 statements.

16 MR. JONES: Well, but on the other hand, it
17 means that the money is safe. We are not losing money.

18 MS. PATTERSON: Oh, absolutely. And I will
19 show you in a couple of slides --

20 MR. JONES: But we just went through the last
21 couple of years, it was easy to lose.

22 MS. PATTERSON: Yes. Safety is always primary
23 for us. All of your funds are in Triple A or investment
24 grade investments. And if they are in a bank or a time or

1 demand deposit, they are going to be insured by the FDIC
2 and above that, fully collateralized to 102 percent.

3 So safety is, and of course, you make more
4 money if you take more risks. But I think you are making,
5 when you see the comparison, you are making a good return.

6 Not an astounding one. But a good one for what is
7 available now.

8 You can see in the bar chart how we are using
9 the curve. Because as I said, there is really nothing out
10 there, out to six months. And so things that we had from
11 six to nine months and twelve are coming shorter and
12 shorter. And now in the zero- to three-month area, to
13 maturity.

14 And we are carrying a lot of liquidity. But
15 that is the liquidity that you will need over the next
16 several months to pay for outstanding liabilities and
17 expected expenses.

18 If you look at it a little different way, I
19 pulled out the four quarters for you, so you can see the
20 fluctuation is not only in the dollar amounts. But we
21 have been, in the days, for the weighted average maturity
22 for the portfolio starting a little bit longer in
23 November, and then shortening up in February, when we
24 thought that the rates were going to move.

1 But then the Fed, and the economy slowed down.
2 So it naturally fell off a little bit. And then the
3 primary areas where you see us using the markets, are the
4 agencies, the United States agencies are actually coming
5 back. We are starting just this week to see some good
6 value coming back into the agencies.

7 The money market funds pretty much stable,
8 using that for cash, and a little bit of extra earnings.
9 And then the municipal. And we are using municipal debt,
10 state and local, general obligation debt. We stay away
11 from revenue bonds. We don't like those.

12 And we stay away from areas such as California,
13 Michigan, Illinois, Florida. Try to diversify those as
14 much as possible. But that, as the Treasuries have sunk
15 down is one of the only areas where you can get some
16 value.

17 This is another way to look at it. It is kind
18 of a neat chart, but it takes a little looking to see.
19 You can see how each one of these over the four quarters,
20 we have used.

21 So you can see the municipal, if you take the
22 one, two, three, four, five, six bars over. Over the four
23 quarters, how we have kept the municipal investments up
24 quite high, because there is some value there. When we

1 can, during certain periods, like that second quarter,
2 where we can grab onto a lot of CDs, that increases in the
3 percentage of the portfolio but it is changing, but still
4 using those main factors.

5 That Ginnie Mae, you remember, is one that has
6 been on there for a long time. And that one, I like to
7 look at, because it still has a yield of 5 percent. So
8 somebody is hanging on to that Ginnie Mae and not using
9 it.

10 This is a look back even farther, back to '07.

11 And why I was showing you this; the blue bar is the
12 portfolio yield. And the two benchmarks that we use for
13 the portfolio and by your policy, are the six-month
14 Treasury bill and the twelve-month Treasury bill.

15 And you can see that when the rates are there,
16 we can grab onto them, trying to -- in fact, that last
17 very large blue bar was interesting because it was pretty
18 clear that the rates were going to go down at that time.

19 So we locked into as much as we possibly could,
20 and let the rates fall below. And that is why you have
21 that big spike. And then you can see a dramatic change in
22 the rates as they started to fall in 2008 and '09.

23 But over this entire period, the average yield
24 on the benchmark has been .52. And on the one year, .47.

1 And the return over the one year. So the amount of money
2 made over your benchmark of the one year, the longer
3 benchmark was \$203,000 over that entire period.

4 Since I speak basis points, but most people
5 don't, I put the next slide in to give you an idea.
6 Looking at the portfolio for the four quarters and for the
7 fiscal year. For the fiscal year total, we came out with
8 an average portfolio yield of .339. And that compares to
9 your six-month Treasury bill at a .11 and the one-year at
10 a .15.

11 I took it against the agencies also, which
12 would normally, in a normal market run 15 to 20 basis
13 points over the Treasuries. But you can see that even the
14 one year agency, which is about as long as a benchmark you
15 would ever use is a .19 for the whole period. So a very
16 good comparison to the .33 for the portfolio over the same
17 period of time.

18 And then translating those into dollars and
19 cents on the next slide. For your one-year Treasury bill,
20 what I have done is for the fiscal year, what you are
21 looking at is over the fiscal year, your benchmark of the
22 one-year Treasury bill, which is based on your cash flow
23 and what you are authorized to invest in.

24 The portfolio actually generated an additional

1 \$15,000. And over the six-month bill, \$18,000. So it is,
2 even with these low rates, using the portfolio, making it
3 work is benefitting the Corporation and will continue to
4 do so, especially when we get into the period of time when
5 the rates start rising again. Any questions?

6 MR. JONES: Yes. Who are those folks?

7 MS. PATTERSON: That is off your website.

8 MR. EVENWEL: Actually, you are talking munis.
9 I assume we were not involved in Detroit at all?

10 MS. PATTERSON: No. We have been out of
11 Michigan for years. That was not a surprise to anyone, I
12 am afraid.

13 MR. JONES: So the \$25,000 was over the past
14 year. But it looks brighter at this juncture.

15 MS. PATTERSON: I think it does. If you think
16 that we are going to come to at least another extension of
17 the debt ceiling in the first quarter, we will have Yellen
18 in place. We will have the holiday season behind us,
19 which of course, is the read on retail.

20 I know people are tight right now. But for
21 instance, our trade balance is horrible. We have fallen
22 to \$41 billion in a trade imbalance in the United States.

23 But that is because we were exporting food and food
24 stuffs primarily.

1 And what we are importing is cars, which is
2 interesting. Because people are still buying cars. They
3 are just buying them from overseas, instead of our
4 production. And so there is some confidence out there.

5 People are willing to spend money. They may,
6 because Santa Claus is very important. And they may, if
7 we have a good retail season, you will see a lot of
8 confidence come back from that. People are happier during
9 the holidays.

10 And if things start to fall into place after
11 the holidays, then I think we have a chance to go forward.

12 But I am concerned about Yellen not pulling her foot off
13 the accelerator on the QE.

14 MR. JONES: And I appreciate your report. This
15 is sort of like an aside, I guess. I don't want to
16 belabor it and take up a lot of time.

17 But the quantitative easing appears to be
18 propping up the stock market. It is up over 15,000. What
19 do you see, your assessment of the stock market?

20 MS. PATTERSON: Well, it is propping up the
21 stock market --

22 MR. JONES: So where is all of the money and
23 the profit coming from, if the stock market is over
24 15,000?

1 MS. PATTERSON: Well, I think you have to look
2 at both markets. It is propping up both markets, because
3 it is saying that the Fed is going to keep the interest
4 rates low. Because of that, the yield curve is very low.
5 And of course, that means, since they are inverse, very
6 expensive.

7 So it is actually -- this is not a realistic
8 market on either side. It is not propping -- it is
9 propping up the stocks, because there is no place else to
10 go. And in fact, Bernanke for years said that one of his
11 main reasons for doing the quantitative easing was to keep
12 the rates so low as to push people into riskier assets.
13 The riskier assets being the stock market.

14 And so he has pushed them in there. Now will
15 that pull up a little bit, when the rates start to go up.
16 These rates have a long way to go. So I am not a stock
17 jock. I am not an equity person.

18 But my read on it is, that they will correct a
19 little bit. But you also have very strong corporations.
20 And you have corporations that are sitting on billions of
21 dollars in the case of Microsoft, millions of dollars in
22 our big corporations. They can keep that stock price up.

23
24 And they have nowhere to go but up, because if

1 you look across the globe, what the Fed has been able to
2 do, unfortunately, in my view, is allow every other
3 country to lower their rates. So BOE, BOJ, all of the
4 banks, all of the central banks have lowered their rates
5 almost as low as ours. And because of that, that is one
6 of those liquidity problems.

7 But also because of that, it makes the
8 corporations even more productive when the rates start to
9 rise, as the economies start to grow across the globe.
10 And our biggest corporations are going to -- are
11 everywhere on the globe. So as those economies come back,
12 because of these low interest rates, then they are going
13 to grow.

14 I don't see a big bubble in the stock market.
15 I see a big bubble in the bond market. Because this is
16 artificially low and it is strictly based on the Fed. And
17 they have got to get their foot off that accelerator for
18 so many reasons, because of the cost and the potential for
19 inflation.

20 MR. JONES: Any questions? Any comments?

21 (No response.)

22 MR. JONES: It is good to know that people's
23 money is safe. Thank you very much.

24 MS. PATTERSON: Thank you.

1 MR. JONES: We will move to Item 4, formerly
2 number three. Presentation, discussion of the fiscal year
3 ended August 31, 2013, annual independent financial audit.

4 MR. LONG: Mr. Mikeska is going to give the
5 Board an update on the audit that he is currently
6 performing for the Corporation. Mr. Mikeska.

7 MR. JONES: And I know he is going to say it,
8 if you haven't signed, sign and give me. You are going to
9 do it before we leave, right. You have got mine, right?

10 MR. MIKESKA: I wasn't going to say that in
11 front of the whole Board. Good morning. My name is Don
12 Mikeska, with the firm of Mikeska, Monahan and Peckham.
13 And as Mr. Long indicated, we are in the process of
14 conducting our field work.

15 And I just really wanted to accomplish two
16 things this morning; give you an opportunity to pose any
17 questions to me. But I also wanted to give you an update
18 of where we stand with our field work.

19 All of the confirmations have been sent in for
20 third party banks and investors. We are still awaiting
21 response from some of those. We have completed the single
22 audit which we spoke about at the last Audit Committee
23 meeting, and then at the following Board meeting, because
24 you did receive more than \$500,000 worth of federal -- you

1 expended more than \$500,000 worth of federal awards.

2 You are required to have a single audit under
3 OMB Circular a-133. We have conducted the majority of our
4 tests regarding that audit. There are no findings, no
5 question of costs. Nothing to report.

6 We did indicate earlier that the program was
7 NFMC, National Foreclosure Mitigation Counseling program,
8 administered through Texas Department of Housing and
9 Community Affairs. And we are a subrecipient of those
10 monies.

11 Just to give you an update, we selected 26
12 expenditures under that program, reimbursement, score
13 counseling programs, and reimbursements to the Corporation
14 for administrative costs, salaries. And those 26 items
15 that were selected accounted for more than 54 percent of
16 the dollars spend of the federal program. So that is a
17 pretty heavy concentration of items to examine in that few
18 number of transactions.

19 But really, everything is going fine. We are
20 on target, I think, of meeting the deadline by the State
21 Auditor's Office, which is to have a report in by December
22 20th. I understand the Board will hold a meeting before
23 that time.

24 And I presume the Audit Committee will also

1 hold a meeting prior to that, so that we can discuss the
2 draft of the audit. I just wanted to give you all an
3 opportunity, if you had any questions that you wanted to
4 put to us, just a status report.

5 MR. JONES: See, this is just the beginning.
6 That is why there are no questions. We have got to get
7 them papers signed. Is there any public comment on this
8 item?

9 (No response.)

10 MR. JONES: Okay. Hearing none, thank you very
11 much. I appreciate it. And Item 5, which was always Item
12 5. Okay. We are back up.

13 Presentation, discussion and possible approval
14 of a resolution regarding the application for and
15 conversion of reservation for allocation of private
16 activity bonds to mortgage credit certificates and
17 containing other matters incident and related thereto.
18 Did I say all of the stuff you said to say? And the
19 whereas and the what for.

20 MS. OMOHUNDRO: Good morning. My name is Paige
21 Omohundro. I am the home ownership finance manager. And
22 despite what Ms. Patterson said about home sales
23 decreasing, I imagine that is on the national scale.

24 As you can see from our home ownership reports,

1 we have been having some great production. And we are
2 happy to see that. And the resolution before you just
3 allows us to continue our endeavors, to offer a mortgage
4 credit certificate program in 2014.

5 We currently have \$100 million of bonding
6 authority at our disposal. What the resolution will allow
7 us to do is actually officially go before the Texas Bond
8 Review Board and convert that \$100 million into mortgage
9 credit certificates which would kind of amount to
10 approximately \$72 million in mortgage loans.

11 And the application is due tomorrow. So the
12 passage of this resolution would be much appreciated. No
13 pressure.

14 MR. JONES: Just a quick \$100 million to get --

15 MS. OMOHUNDRO: Yes.

16 MR. JONES: Obviously, you guys know what to do
17 with the money. Any questions, any comments for Ms.
18 Omahundro?

19 (No response.)

20 MR. JONES: Any public comment on Item 5?

21 (No response.)

22 MR. JONES: Okay. The Board will entertain a
23 motion as prescribed in Item 5.

24 MR. ROMERO: So moved.

1 MR. JONES: It has been moved.

2 MR. MEADE: Second.

3 MR. JONES: It has been seconded by Mr. Meade.

4 Any further comments?

5 (No response.)

6 MR. JONES: All those in favor of approval, say
7 aye.

8 (A chorus of ayes.)

9 MR. JONES: Okay. No opposition. It is
10 unanimous. Thank you.

11 MS. OMOHUNDRO: Thank you.

12 MR. JONES: We don't really give away money
13 like that, except to people who know what to do with it.

14 MS. OMOHUNDRO: We have a good team.

15 MR. JONES: Yes, you do. And Item 6.

16 Presentation and discussion of activities under the Texas
17 Statewide Homebuyer Education Program.

18 MS. OMOHUNDRO: Okay. Well, I am going to
19 introduce Sarah Ellinor. Sarah has been with us almost a
20 year, so it is time that she gets an opportunity to be
21 before you.

22 I know that she has introduced herself to you.

23 And as you know, we have taken over administration of the
24 Texas Statewide Homebuyer Education Program. And I am

1 just going to turn it over to her to allow you to hear
2 about our success and our upcoming year.

3 MS. ELLINOR: Good morning, everyone. I am
4 Sarah Ellinor, home ownership programs coordinator with
5 the Texas State Affordable Housing Corporation. I wanted
6 to give you just a brief overview of what TSHEP is and how
7 TSAHC came to be the administrator. And how our first
8 year went, and then our plans for next year.

9 So in 1997, the Texas Legislature asked that
10 TDHCA implement a statewide homebuyer education program.
11 So in response to that mandate, they created the Texas
12 Statewide Homebuyer Education Program or TSHEP as we
13 always refer to it. So the goal of TSHEP is to provide
14 training at a significantly reduced cost to housing
15 counselors that are working for non-profits, even to local
16 government community-based organizations. And this is in
17 an effort to make sure that there is comprehensive and
18 uniform homebuyer education provided throughout the state.

19 So today around 700 counselors have been
20 trained through TSHEP. Why is homebuyer education
21 important? We wanted to share this with you.

22 That recently, a study was done by Experian and
23 NeighborWorks America, an organization out of DC. That
24 shows that a homebuyer that has received some sort of

1 prepurchase education is 33 percent less likely to default
2 on their loan for 90 days or more within that first two
3 years. Excuse me?

4 MR. JONES: How much? What is the percentage?

5 MS. ELLINOR: Thirty-three percent less likely
6 to default for 90 days or more within that first two years
7 of origination. So we feel like that is pretty huge, you
8 know, pretty significant empirical data that shows that
9 homebuyer education is important.

10 So TSAHC, we 100 percent support homebuyer
11 education, and the organizations that are providing it.
12 In fact, anyone using our down payment assistance or
13 mortgage credit certificate programs is required to take a
14 homebuyer education class before they close.

15 So on to our first year of administration. We
16 had a very successful first year. We contracted with
17 Neighborworks America, the same organization that
18 participated in that study. And they are an organization
19 out of DC that has a specific center for homebuyer
20 education and counseling training.

21 So we offered six courses with them this year.

22 We had two rounds of training: one week-long training in
23 April, which was held here in Austin; one week-long
24 training in Dallas. All six of those classes that we

1 offered are -- they are able to fulfill the national
2 industry standards for homebuyer education and counseling.

3 So it allows these counselors to maintain certifications
4 or obtain certifications.

5 The highlights of our first year; we were able
6 to train 93 counselors. And those 93 counselors
7 represented 57 organizations throughout the state. And 40
8 different cities throughout the state. So we had fairly
9 you know, great representation.

10 And of those 93 counselors that we surveyed
11 after the training, 100 percent of them said that they
12 would recommend the training to others. So we were happy
13 with those results. We felt like that really showed that
14 we provided them with the education they needed, and it
15 was both beneficial and enjoyable.

16 So after our first year, we sent out a survey
17 to kind of get more information from the counselors, to
18 know what type of training they would like to see brought
19 to Texas next year. So with the results of that survey,
20 we were able to come up with the schedule for 2014.

21 You can see that in your books. That we are
22 now going to hold three sessions next year, instead of
23 just two. So we feel pretty excited about that. Our
24 first session will be February 10th through the 15th in

1 San Antonio.

2 And we will hold two classes concurrently at
3 that time. Our second session, we are partnering with an
4 organization called Raise Texas and the Federal Reserve of
5 San Antonio. So it again will be held in San Antonio for
6 the second round, May 5th through the 7th.

7 And during that session, we will be offering
8 two courses concurrently. Two financial coaching courses
9 concurrently. This has been kind of a big demand.

10 There has been a big demand for this financial
11 coaching course. So we felt that it would be best to
12 offer two classes, given the maximum class attendance is
13 30. So we are expecting between 50 and 60 in that second
14 round.

15 MR. JONES: Given that you have them, two in
16 San Antonio, one in Austin, what do the agencies that you
17 contact and notify that you are going to be having these
18 trainings, they sponsor people to come down and take the
19 training? The agencies? How do you get people from other
20 parts of the state down here to just this part to take the
21 training?

22 MS. ELLINOR: Well, a lot of times counselors
23 need to, like I said, maintain or obtain certifications in
24 order to continue --

1 MR. JONES: Like continuing ed, period. Okay.
2 I get you.

3 MS. ELLINOR: Continue their counseling
4 practice. So yes, the organization will a lot of times
5 sponsor them to attend the training. We also offer
6 scholarships.

7 The second round, we won't be offering
8 scholarships, but the first and third round, we will be,
9 to help cover their hotel stay while they are in town. So
10 we do assist with that.

11 MS. OMOHUNDRO: And these courses, as Sarah had
12 mentioned, are at a very reduced amount.

13 You might want to fill them in on just what we
14 charge for each kind of course, just to give them an idea.

15 MS. ELLINOR: Okay. To give you an idea, one
16 of the courses we offer is a five-day course. It is the
17 train the trainer homebuyer education and methods course.

18 That costs around \$1,000 to attend the training through
19 Neighborworks directly at one of their national institutes
20 that they hold throughout the United States throughout the
21 year. To attend it here, through TSHEP in Texas, it is
22 \$100.

23 MR. JONES: What?

24 MS. ELLINOR: So it is very nominal for them to

1 attend the training here in Texas. That is why it's so --

2 MR. JONES: You're not too low? I mean -- no.

3 Not at all. David's back there going, no, we're not.

4 MS. ELLINOR: Well, we have been very
5 successful at fund-raising. We are very thankful to our
6 sponsors.

7 MR. JONES: Okay. I got you. Okay. So it is
8 offset somewhere else.

9 MS. OMOHUNDRO: Correct.

10 MS. ELLINOR: Absolutely. Our first round of
11 training --

12 MR. JONES: Okay. So it is still \$1,000, but
13 they don't have to be -- okay. I got you.

14 MS. ELLINOR: Right. We are -- you know, that
15 is the purpose of the program, is to provide the training
16 at a lower cost.

17 MR. JONES: Which is probably why you have
18 eleven successes, as you are saying, in Texas. Okay. Got
19 you. It is starting to fall into place. I am starting to
20 see the big picture now.

21 MR. ROMERO: Sarah, you are doing concurrent
22 sessions on these different training days?

23 MS. ELLINOR: Uh-huh.

24 MR. ROMERO: Would there be any reason for any

1 one person to take both of them? And how would they be
2 able to do that, if you are doing them concurrent? They
3 wouldn't be?

4 MS. ELLINOR: Not usually. Usually one class
5 is more important to a counselor than the other. But it
6 does allow for more counselors to obtain the continuing
7 education credits by offering more than one course at the
8 same time.

9 So the third session that we will be holding
10 will be here in Austin in August, the 4th through the 8th.
11 And we will be offering three classes at that time, which
12 you can see.

13 MR. JONES: But you get repeat people coming
14 down and taking different courses at different times.
15 Because most people have to do continuing education every
16 year, a certain amount of credits, certification anyway.
17 So it is almost mandatory. And you offer it. Okay. I
18 got it.

19 MS. ELLINOR: Yes. That is basically the
20 overview.

21 MR. JONES: It's neat that we do that.

22 MS. ELLINOR: Do you guys have any other
23 questions?

24 MR. JONES: How do they apply for scholarships?

1 MS. ELLINOR: We have a scholarship application
2 form. And luckily last year we were able to fundraise
3 enough so that we didn't have to choose. If they applied
4 for a scholarship, they got one.

5 MR. JONES: How many?

6 MS. ELLINOR: The first session, we had ten.
7 The second session, we had 16. But that was because we
8 were offering classes that only lasted two days rather
9 than five, so we were able to offer more scholarships the
10 second round.

11 MR. JONES: And the total so far that have
12 taken the courses?

13 MS. ELLINOR: Ninety-three, through us.

14 MS. OMOHUNDRO: And over 700 --

15 MS. ELLINOR: 700 over the course of the years
16 that TSHEP has been in existence.

17 MR. JONES: And how many years is that total?

18 MS. OMOHUNDRO: Since 1997.

19 MR. JONES: '97? Okay. You have done this
20 much in one year. Okay. Well done.

21 MS. ELLINOR: All right.

22 MR. JONES: Thank you. Any other questions?
23 Any comments?

24 (No response.)

1 MR. JONES: Any public comment regarding this
2 Item number 6?

3 (No response.)

4 MR. JONES: Hearing none, a big thank you.

5 MS. ELLINOR: Okay. Thank you.

6 MR. JONES: A job well done. Is there any
7 reason for a closed meeting?

8 (No response.)

9 MR. JONES: None? Mr. Long?

10 MR. LONG: No, Mr. Chairman. There is no need
11 for a closed session at this time.

12 MR. JONES: Okay. I want to thank Penny Bynum
13 of On the Record Reporting and Transcription. I
14 appreciate you. And we also want to thank Liz Bayless --
15 I personally do -- the Vice President of the Texas State
16 Affordable Housing Corporation on the fine job she did
17 last month.

18 David, you weren't missed.

19 MR. LONG: That is actually good to know.

20 MR. JONES: Well, that's good. That is what he
21 does. He has all his folks meaning, that it can run if he
22 has to go somewhere.

23 MR. ROMERO: I think that was pretty emphatic:
24 You weren't missed.

1 MR. JONES: I always want to see that quick
2 response. He says, Hey, that's good to know. He always
3 knows what to say, and I have always been impressed at his
4 leadership style, because as you see, we have our latest
5 person, that Ms. Omohundro said, you get to make the
6 presentation, which lets us know that the staff knows, and
7 they field every question. David can answer every single
8 thing we ask here.

9 You can't?

10 MR. LONG: Not without their help, I can't.

11 MR. JONES: Okay. All right. But he lets you
12 guys carry your own weight. And are we still going to do
13 any of the, as we did before Mr. Evenwel, for Mr. Meade?

14 MR. LONG: Well, we had suggested -- and what
15 you're asking about is, are we going to do any program
16 updates and presentations. And I think what we would like
17 to do is offer Mr. Meade the opportunity to come in early
18 or late and/or we would then continue to give program
19 updates, such as we just did with Sarah giving you an
20 update on the TSHEP program.

21 MR. JONES: Right.

22 MR. LONG: And that way, we don't spend an
23 inordinate amount of time going over all the programs.
24 And Mr. Meade can then have one on one. And then if we

1 are having it in advance of the meeting, or after the
2 meeting, Mr. Meade could have that one on one time.

3 But also, any other member that wants to hear
4 about an update can have that presentation as well. But
5 as we go along with updating the Board on other items like
6 the TSHEP program, we would rather do it that way with
7 maybe, every once in a while we give you an update on a
8 program when we have a status update to provide.

9 MR. JONES: Because if we have a short agenda
10 sometimes, I find it always educational to have the staff
11 update on the changes and what they are doing in the
12 department if anything is major.

13 MR. LONG: Right.

14 MR. JONES: And what we did is have two or
15 three staff members report on their department, so you can
16 get up to speed. So we will still do that. But they are
17 going to give you the opportunity to get some updates
18 independent of the meetings. Okay.

19 MR. LONG: As programs, you know, morph and
20 change and whatever, we will give an update like we have
21 done today, with Sarah and Paige giving the update on the
22 Texas Homebuyer Education Program.

23 MR. JONES: Okay. Any other comments from
24 anybody?

1 (No response.)

2 MR. JONES: I want that \$10 for putting that
3 plug in for you after that.

4 All right. Hearing none, this meeting is
5 adjourned.

6 (Whereupon, at 11:35 a.m., the meeting was
7 adjourned.)

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C E R T I F I C A T E

MEETING OF: TSAHC Board of Trustees

LOCATION: Austin, Texas

DATE: November 14, 2013

I do hereby certify that the foregoing pages, numbers 1 through 50, inclusive, are the true, accurate, and complete transcript prepared from the verbal recording made by electronic recording by Penny Bynum before the Texas State Affordable Housing Corporation.

(Transcriber) 11/19/2013
(Date)

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