BOARD MEETING
TEXAS STATE AFFORDABLE HOUSING CORPORATION
Held at the offices of
Texas State Affordable Housing Corporation
2200 E. Martin Luther King Jr. Blvd.
Austin, TX 78702
June 9, 2011 at 10:00 am

Summary of Minutes – AMENDED and Approved by the Board on August 11, 2011

Call to Order, Roll Call
Certification of Quorum

The Board Meeting of the Texas State Affordable Housing Corporation (the "Corporation") was called to order by Bob Jones, Chair, at 10:10 am, on June 9, 2011 at the offices of Texas State Affordable Housing Corporation, 2200 E. Martin Luther King Jr. Blvd, Austin, TX 78702. Roll Call certified that a quorum was present.

Members Present

Bob Jones, Chair
Jo Van Hovel, Vice Chair
Jeran Akers, Member
William H. Dietz, Jr., Member
Jerry Romero, Member

Staff Present

Liz Bayless, Executive Vice President
David Danenfelzer, Manager of Development Finance
Cynthia Gonzales, Office Manager and Assistant Corporate Secretary
Mindy Green, Senior Asset Oversight and Compliance Specialist
Katie Howard, Senior Development Coordinator
Nick Lawrence, Controller
David Long, President
Paige McGilloway, Single Family Programs Manager
Laura Ross, Corporate Secretary
Sarah Schildmier-Bloom, Senior Asset Oversight and Compliance Specialist
Melinda Smith, Chief Financial Officer
Janie Taylor, Manager of Government Relations, Marketing and Development

Special Guests

Pam Black, Bank of Texas
Edwina Carrington, Texas Foundations Fund Advisory Council Member
Jose Gayton, Bank of Texas
Danielle Groux
Jill McFarren, Texas Department of Housing and Community Affairs
Don Mikeska, Mikeska, Monohan & Peckham
Robin Miller, First Southwest Company
Susan Mitchell, Greenberg Traurig
Chip Rainey, Greenberg Traurig

President's Report

Mr. Long began by introducing the guests in attendance at the meeting: Mr. Rainey and Ms. Mitchell, both with Greenberg Traurig (the Corporation's General Counsel); Ms. Carrington, member of the Corporation's Advisory Council; Mr. Miller with First Southwest Company (the Corporation's Financial Advisor); Mr. Mikeska with Mikeska, Monahan & Peckham (the Corporation's Auditor); Ms. Black and Mr. Gayton with Bank of Texas; and Ms. McFarren with the Texas Department of Housing and Community Affairs (TDHCA).

Mr. Long made the board aware of conferences and meetings that staff had attended over the previous month. Mr. Long then turned the Board's attention to the sunset review process. He updated the board that the Corporation's sunset legislation, HB 1818, had passed both the House and Senate and had been sent to the Governor for his signature. He pointed out that the bill included a 12-year extension of the Corporation. Mr. Akers and the board thanked Ms. Taylor and the rest of staff for their hard work during the legislative session. Mr. Long also thanked Ms. Taylor and staff, as well as the board for their participation in the process.

Mr. Long referred to the reports in the board packet and noted that staff was available to answer any questions the board might have. He stated that there continued to be activity and movement in the Single Family programs, especially the MCC program. He also added that the Corporation had closed on a multifamily transaction the previous month. When referring to the budget information, he relayed the Corporation was on track with budget projections.

The board proceeded to ask questions. Mr. Long confirmed that the multifamily transaction was for a total of $49,450,000, and that due to market conditions a transaction of its kind had only been done one other time since 2008. Mr. Long also explained that nothing was included under Tab E of the board packet, because Texas Community Capital (TCC) had not held a meeting recently. Mr. Long informed the board that TCC's application for CDFI certification had been submitted and staff was waiting to hear back about it. Referring to Tab C, Ms. Schildmier clarified that Summer Oaks had been out of compliance because they lacked the right amount of units at affordable income limits, however now they were back in compliance after the requested documentation had been submitted. Referring to the financial statements, Ms. Smith noted that the "Prepaid expenses" line item referred to the Corporation's insurance policies that were prepaid and amortized over the year, as well as any other contracts that were prepaid for maintenance.

Tab 1 Presentation, Discussion and Possible Approval of Minutes of the Board Member Training held on April 14, 2011.

Discussion briefly occurred regarding the training that was provided. It was noted that only new members of the board were required to undergo the training. Any other members could request training at a future date, but they were not required to take it.

Mr. Romero made a motion to approve the board minutes of the board member training held on April 14, 2011. Mr. Dietz seconded the motion. A vote was taken. Mr. Akers abstained from voting. The motion passed.

Tab 2 Presentation, Discussion and Possible Approval of Minutes of the Board Meeting held on April 14, 2011.

Mr. Romero made a motion to approve the minutes of the board meeting held on April 14, 2011. Ms. Van Hovel seconded the motion. A vote was taken. Mr. Akers abstained from voting. The motion passed.

Tab 3 **Presentation, Discussion and Possible Approval of a Resolution to Designate Additional Funds in the Amount of Fifty Thousand Dollars ($50,000.00) to the Texas Foundations Fund, and Concerning Other Matters Incident and Related thereto, to Appoint a New Chairperson of the Advisory Council for the Texas Foundations Fund, and to Restate, Ratify and Affirm the Other Persons Holding the Position of Member of the Texas Foundations Fund Advisory Council.**

Ms. Bayless stated that the Texas Foundations Fund was established to enable the Corporation to provide grants that would assist low income and extremely low income Texas residents with their housings needs. She recalled that when the board approved the 2011 budget, $250,000 had been allocated to the Foundations Fund. Ms. Bayless informed the board that since then, the Corporation had received a third party contribution from the FB Heron Foundation in the amount of $50,000 and staff wished to use it for the Foundations Fund. Because of this, staff was asking the board to approve an increase to the total allocated to the Foundations Fund. The new total of $300,000 would encompass the original $250,000 and would also include the $50,000 from the FB Heron Foundation.

Ms. Bayless thanked Mr. Romero for his service as Chair of the Foundations Fund Advisory Council. Because he was now a member of the Board of Directors, he could no longer serve in that capacity so Ms. Carrington had agreed to serve as the new Chair of the Council.

Ms. Bayless confirmed that the resolution before the board increased the allotment in the budget for the Foundations Fund to $300,000, made Ms. Carrington the Chair of Advisory Council, and also reaffirmed the members of the Advisory Council as being Ms. Carrington, Mr. Vandenberg, and Ms. Bayless as the corporate member. Two seats remained vacant. Discussion followed.

Mr. Romero thanked staff and the board for allowing him to serve as Chair of the Advisory Council. He said he enjoyed his time on the Council and added that Ms. Carrington would make a wonderful chairwoman and brought a lot of experience and knowledge to the position.

Mr. Romero made a motion to approve a resolution to designate additional funds in the amount of fifty thousand dollars ($50,000.00) to the Texas Foundations Fund, to appoint a new Chairperson of the Advisory Council for the Texas Foundations Fund, and to restate, ratify and affirm the other persons holding the position of member of the Texas Foundations Fund Advisory Council. Mr. Akers seconded the motion.

Discussion briefly occurred regarding the funding received from the FB Heron Foundation.

A vote was taken and the motion passed unanimously.

Tab 4 **Presentation, Discussion and Possible Approval of a Resolution relating to the Sale of Mortgage-Backed Securities and Redemption or Purchase and Cancellation, in whole or in part, of Bonds relating to the following Single Family Mortgage Revenue Bond issues of the Corporation: Series 2006B,**

2007A-1, 2007A-3, 2007B, 2007C & 2007D,and other Matters Related thereto.

Mr. Long informed the board that the Corporation had been presented with the opportunity to sell the 2006 and 2007 bonds and be compensated for a share of present value of the issuer fees. The bonds would be redeemed and would no longer be held as outstanding on the Corporation's books. Mr. Long referred to the handout provided by Mr. Miller which gave the board a summary of the transaction. He added that the transaction would impact the Corporation's financial statements and Mr. Mikeska, the Corporation's auditor, was present to discuss what that impact would be.

Mr. Miller, the Corporation's financial advisor, began by informing the board that Freddie Mac owned all of the 2006 single family bonds and part of the bonds issued in 2007, for a total of about $64 million. He explained that the bonds were typically callable after 10 years; however in this instance Freddie Mac was trying to reduce their assets under the direction of the White House and Congress. In order to do this, they were selling off some of their mortgage backed securities. He further stated that under current market conditions, the taxable bonds were worth more than the tax-exempt bonds. Because of this, Freddie Mac was looking to redeem our tax exempt bonds early and sell off the collateral at a premium. They would keep the majority of the premium and would pay TSAHC a fee that equaled the present value of TSAHC's income stream for the life of the bonds. Mr. Miller summed it up that Freddie Mac was offering to give the Corporation 92 basis points on the $64 million which would equate to $520,000 after fees in exchange for redeeming the bonds now. Discussion briefly followed with regard to the reasons why the tax exempt bonds weren't as appealing at the taxable bonds. It was pointed out that if they were redeemed today we would gain $520,000 but would lose the right to sell the securities ourselves. If they weren't redeemed the Corporation would earn $294,000 in fees until the bonds became redeemable and it was not guaranteed that we would earn more. Mr. Miller noted that if we took the deal being offered by Freddie Mac, a majority of the funding they earned would be paid out to the debt holders. Discussion followed. Mr. Miller offered his opinion as Financial Advisor that it was a fair and reasonable offer and the Corporation should accept it.

Discussion turned to the accounting implications should the transaction move forward. Mr. Romero noted that this wasn't a loss of $500,000 to the Corporation if we didn't take the deal. On the contrary, because the Corporation would earn $294,000 in fees anyway it was a matter of $200,000. This aside, calling the bonds now would have a financial impact which was a concern. He turned to fundraising, noting that the Corporation had encountered problems a few years back when due to market conditions it looked as though we were in a negative financial position when the bonds were marked to market. By selling the bonds now, it would present the same negative situation.

Mr. Mikeska addressed the financial implications of the transaction. He noted that currently the fair market value of the bonds was $72 million, though they really had a par value of $65 million. In appearance, there was a $7 million profit on the bonds. Because of this, if the bonds were redeemed the Corporation would realize a $7 million loss with the sale of the bonds. The sale would be presented on the financial statements in the current year and would wipe out part of the Corporation's equity. Reiterating Mr. Romero's point, Mr. Mikeska stated that this would likely have a negative impact on the staff's ability to fundraise. Mr. Mikeska explained that Governmental Auditing Standards Bulletin Number 31 required all governmental entities to record a marketable equity or debt security at fair market value (marking to market). Mr. Mikeska concluded that the impact of the transaction would be substantial with respect to equity,

current operations, and the ability to fundraise. Only if Freddie Mac paid fair market value for the bonds did Mr. Mikeska think it would not have a significant negative impact on the books. Discussion followed regarding possible scenarios and the risk attached to each. Mr. Jones inquired about the possibility of Freddie Mac coming back with a similar offer in the future and Mr. Miller said it was unlikely. Discussion continued about the pros and cons of the transaction.

Mr. Long noted that staff had spoken with both Mr. Miller and Mr. Mikeska extensively on the issue, and had brought it before the board today because despite the downsides, a positive of the transaction was the $520,000 payout. Mr. Long expressed his misgivings and concerns regarding the impact it would have on the Corporation's financials and how that would negatively impact fundraising. He noted that if it was for a higher amount that could offset the loss on the books, then it would be worth pursuing. As it stood currently though, staff did not support the transaction. Discussion followed about the 2007 bonds not owned by Freddie Mac.

Mr. Jones made a motion to reject approval of a Resolution relating to the Sale of Mortgage-Backed Securities and Redemption or Purchase and Cancellation, in whole or in part, of Bonds relating to the following Single Family Mortgage Revenue Bond issues of the Corporation: Series 2006B, 2007A-1, 2007A-3, 2007B, 2007C & 2007D, and other matters related thereto. Ms. Van Hovel seconded the motion. The motion to reject the resolution was unanimously approved.

Tab 5 Presentation, Discussion and Possible Approval of Amendments to the Corporation's Affordable Communities of Texas Program Policies.

Mr. Danenfelzer stated that staff was asking for the board's approval of amendments to the policies of the Affordable Communities of Texas (ACT) Program. He refreshed the board's memory that the ACT program was a land bank and land trust initiative under which almost $5 million in land bank properties had been purchased through the Texas NSP program in the last 2 years. He informed the Board that the acquisition phase under the program was almost complete and staff would begin selling the properties very soon. As a side note, Mr. Danenfelzer made the board aware that a property built under the program had recently won its category in a parade of homes in McAllen.

Turning back to the tab item, Mr. Danenfelzer discussed proposed changes to the guidelines beginning with a change to how households would income qualify. Mr. Danenfelzer explained that currently under the program, income limits set by HUD and based on county statistics were used in determining if households qualified as low income (those at 80% and below the area median family income (AMFI). He pointed out that under TSAHC's Single Family Home Loan Programs, low income borrowers were qualified based on metropolitan area or balance of state statistics. Mr. Danenfelzer stated that statute did not specify the way in which low income should be tabulated. He spoke to how local partners had found in some instances that families did not meet the income limits based on county-wide statistics but did meet the balance of state income limits. By keeping the standard based on the county-wide statistics, some households who were otherwise considered low income were being disqualified. Staff was therefore proposing that low income be determined based on the higher of the two standards. Discussion followed. It was noted that making this change would open up the program to more families.

Discussion then turned to the fee for the buyer's agent portion of the program. Mr. Danenfelzer noted that the current fee of $750 had been established based on the average of what other states were charging for similar programs. Mr. Danenfelzer stated that when the fee was originally

established it was stipulated to be a minimum fee of $750 and gave staff no flexibility in cases where properties were being sold for lower amounts (where a fee of $750 equated to a significant percentage of the purchase). Staff was therefore asking that the fee be changed to a minimum of $250. By doing this, it allowed staff flexibility. The fee could then be raised through the agreement instead of having to amend the policies.

Mr. Romero made a motion to approve the Amendments to the Corporation's Affordable Communities of Texas Program Policies. Mr. Dietz seconded the motion. Motion passed unanimously.

Open Meeting

Mr. Jones thanked staff for their hard work, and congratulated them on the passage of HB 1818. Mr. Long followed by confirming the date of the next board meeting as being Thursday, July 14, 2011.

Adjournment

Mr. Jones declared the meeting adjourned at 11:20 am.

Respectfully submitted by_____
Laura Ross, Corporate Secretary