

TEXAS STATE AFFORDABLE HOUSING CORPORATION

BOARD MEETING

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

Thursday,
February 13, 2014
10:34 a.m.

BOARD MEMBERS:

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

*ON THE RECORD REPORTING
(512) 450-0342*

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1 P R O C E E D I N G S

2 MR. JONES: It is 10:34, and the February
3 meeting of the Texas State Affordable Housing Corporation
4 Board of Directors is called in to order.

5 Mr. William Dietz, Vice Chair?

6 MR. DIETZ: Here.

7 MR. JONES: Gerry Evenwel, Member?

8 MR. EVENWEL: Present.

9 MR. JONES: Alex Meade, Member?

10 MR. MEADE: Here.

11 MR. JONES: Jerry Romero, Member?

12 MR. ROMERO: Here.

13 MR. JONES: And I'm here. We have a full
14 Board and a quorum, obviously.

15 Is there any public comment at this time?

16 (No response.)

17 MR. JONES: Hearing none, David Long with the
18 president's report.

19 MR. LONG: Thank you, Mr. Chairman, members.
20 Good morning.

21 The Board packet, as always, has your program
22 reports in it. I might add that we will have an
23 opportunity if you need it, the quarterly compliance on
24 resident services reports are in there. That is something
25 that we provide you quarterly regarding multifamily

1 properties.

2 I wanted to let you know that we received a
3 \$5,000 donation from Insperity, who has been sponsoring
4 and providing funding for our mortgage calculator that we
5 created several years ago, and that is linked to our Texas
6 Financial Toolbox, and so we're very happy to continue to
7 have their support.

8 Some meetings, conferences and presentations
9 that were made. Paige Omohundro, who is now back with us
10 today, and Sarah Ellinor, they either are or were in San
11 Antonio this week conducting the first 2014 TSHEP training
12 that we do. It's my understanding those classes are going
13 well, and Sarah is down there, so she is not here, but
14 Paige is back home in Austin with us.

15 I wanted to let you know that Paige, Janie
16 and I had the opportunity to have meetings with and then
17 this past Sunday made a presentation to the Texas
18 Association of Realtors at their winter conference to
19 their Housing Initiatives Committee.

20 We were seeking their approval to be a partner
21 on our public awareness campaign to promote homebuyer
22 education. Paige made a fabulous presentation to the
23 organization, and as a result of that presentation, we not
24 only got the Housing Committee's approval of our request,
25 but we also had the opportunity to have one of our

1 counselors and one of our participating lenders present.

2 We had Oscar Saenz with Austin Habitat for
3 Humanity, and Mary Stevens who is a loan officer at
4 Supreme Lending. They were there to not only give a
5 little input on how the program will support what they do,
6 but also to just give opportunity for Q&A after the
7 presentation was made.

8 I do want to ask Paige to come up just for a
9 minute and give you kind of an overview of what that
10 campaign is going to do and kind of what our expectations
11 are, and I kind of gave her very short notice on this, so
12 hopefully she's pretty good about doing presentations off
13 the cuff, but it's just a few minutes just to kind of give
14 you an update on what we're trying to do that she and
15 Janie and everybody has been working on.

16 So Paige, if you don't mind.

17 MS. OMOHUNDRO: Thank you, David. Paige
18 Omohundro, Homeownership Finance manager.

19 David, you did a great job explaining how we
20 approached TAR. As you guys might imagine, homebuyer
21 education is a very important component of what we do. We
22 support it 100 percent, and the statistics show that
23 individuals that have taken a homebuyer education course
24 are just much more successful homeowners. One study by
25 NeighborWorks showed that a third of those that have gone

1 through homebuyer education, a third are more likely to
2 not default on their loans if they've attended a homebuyer
3 education course.

4 And of course, we require it for any
5 homeownership program that you take advantage of with
6 TSAHC, and our foreclosure rate is .09. That's over an
7 8,600 borrower portfolio since 2002. I didn't say one, I
8 said .09; I think it's important to really stress that.
9 And we attribute that to the homebuyer education piece
10 that we require.

11 So you know, homebuyer education has grown
12 even more important to us especially after we're coming
13 out of the foreclosure crisis, what can we do to help
14 borrowers not get in that place. We're thinking homebuyer
15 education is the key. And not all homebuyer education
16 classes are created equal, they're not.

17 So this campaign is really geared toward
18 working with TAR and informing the public, lenders,
19 Realtors, consumers, anyone that's interested in
20 education, about how they can obtain or seek out quality
21 homebuyer education.

22 And as David mentioned, we just had the
23 initiative approved by the Housing Committee at the Texas
24 Association of Realtors. Janie and I will be having a
25 meeting today later on with their PR and marketing crew

1 over there at TAR to develop an actual strategic plan as
2 to how we're going to do that through 2014. It can be a
3 myriad of things.

4 We're thinking about doing some PSAs, maybe
5 some radio spots, commercials, of course using social
6 media, Tweeting, using Facebook as much as we can, and any
7 other mechanism that we as a team can come up with to
8 educate the public about what homebuyer education is, what
9 it can do for you, and then more importantly, how to
10 access that.

11 And the way that we're doing that, the end
12 goal is that people will be driven to our Texas Financial
13 Toolbox which TSAHC has created and maintains, and the
14 toolbox, as you all know, allows the consumer to type in
15 where they live, their county, and it's going to pull up
16 all the organizations that provide either HUD approved or
17 they've adopted national industry standards for homebuyer
18 education, so they're receiving quality, consistent
19 education through these non-profits and online tools.

20 So that's in a nutshell what the campaign is
21 and as we develop the plan more thoroughly and as we
22 launch events or just different initiatives, we'll keep
23 you updated.

24 MR. JONES: Do you do a head count? I mean,
25 how do you project how many people you're trying to reach,

1 or is it regional, is it by person that attends, is it by
2 group?

3 MR. LONG: In terms of the training itself?

4 MR. JONES: I mean, as you do that you do an
5 overall statistical thing. Right?

6 MS. OMOHUNDRO: Well, I mean, that could be a
7 component of it.

8 MR. JONES: To measure.

9 MS. OMOHUNDRO: To find how successful it is,
10 we'll maybe have to come up with some goals that we want
11 to hit, some milestones that we want to reach, but this is
12 a campaign to reach all of Texas.

13 MS. TAYLOR: I just want to add a couple of
14 things to that.

15 MR. JONES: And you are?

16 MS. TAYLOR: I'm Janie Taylor, manager of
17 Communications.

18 And to answer your question, ideally probably
19 what we will do is we will measure the number of people
20 that go to the website, that go to the toolbox, and relate
21 that to what we have done, whether it is a commercial on
22 radio, whether it is an email or anything that we do, and
23 then you pinpoint when you send that out and then relate
24 to how many people access that website, because that's
25 what we will be sending people to.

1 MR. JONES: So on the toolbox it says how did
2 you hear about this, or something like that?

3 MS. TAYLOR: No. There's a thing called
4 Google Analytics which is a back end --

5 MR. JONES: What's that word?

6 MS. TAYLOR: It's called Google Analytics and
7 it is something that's in the back end of website that we
8 have a code that is inputted, it's embedded into the
9 website, into the code that creates the website, and that
10 allows us to track people that go to the website, where
11 they're coming from, what part of the state/country
12 they're coming from, and whether they're clicking on an
13 email and coming from that email, whether they're typing
14 in, and what terms they might have searched to gain access
15 or to reach that website.

16 So we'll be able to tell with that data if
17 we've reached the right number of people and if we've
18 increased the number of people that are going to that
19 website. So that will be a good way of us being able to
20 tell that we've reached a great number of people.

21 MR. JONES: Because I know the presentation
22 is good, I've heard one. So the question is how far is it
23 going and what's the effect. Thank you, Ms. Taylor.

24 Any other questions from the Board or
25 comments?

1 || (No response.)

2 MR. JONES: Thank you.

3 MR. LONG: Thank you, Paige.

A couple of other things, Paige, Tim Almquist
and myself and Liz had an opportunity to meet with U.S.
Bank. They've been coming into town to meet with us just
to kind of finalize some things that are changing within
the program related to servicing as it relates to
Dodd-Frank. Tim and I also then had a followup meeting
that included U.S. Bank and TDHCA, discussing the same
things.

Mindy Taylor and I attended the purchase closing of the sixth property in the Single Family Rental Program. That property is located in Cedar Park, Texas. And just this week we also had a contract accepted for a seventh property under that same program and we plan on closing on that property at the end of this month, around the 25th.

19 Professionals in attendance today, Steve
20 Bolden with Mahomes Boulden is here related to our
21 multifamily bond counsel. Katy Livingston, as Mr. Jones
22 already pointed out, is here as general counsel. And Greg
23 Casas, who is also with Greenburg Traurig, will be here
24 later to help in a presentation to the Board in closed
25 session.

1 A couple of quick updates on some other
2 things. Texas Community Capital Board meeting, which is
3 the entity that this Board shares a role in partnership
4 with TACDC on, has a meeting later today at one o'clock,
5 and my understanding is Mr. Romero, as well as Ms. Cynthia
6 Leon, who is the other Board appointee from TSAHC, will be
7 in attendance at that.

8

9 We will need, Mr. Chairman, to have closed
10 session to go over specific items that are listed either
11 on the agenda, as well as pursuant to legal matters that
12 the Board would like to consider under Government Code
13 551.071.

14

15 With that, the last thing I would just
16 mention to you for consideration, you can do it now or
17 later, is the next Board meeting would typically be
18 scheduled for the second Thursday in March which would be
the 13th of March.

19

20 With that, I'll conclude, unless you have any
questions.

21

22 MR. ROMERO: I have a question on the
23 financials. I'll give Melinda an opportunity to get up
there.

24

25 I'm looking at the Texas State Affordable
Housing Corporation comparison of budget to actual.

1 MR. JONES: Do you have a page that you're
2 referring to?

3 MR. ROMERO: It's at the very last of the
4 financials, it's the comparison.

5 MR. JONES: You're talking about the note?

6 MR. ROMERO: The last part.

7 MR. JONES: December 31, 2013.

8 MR. ROMERO: That's my first question. Is it
9 December 31, 2013, or is it January.

10 MS. SMITH: It's December 31.

11 MR. ROMERO: Okay. Did you find it?

12 MR. JONES: It's before Tab Item 1, the
13 second to last page before Tab Item 1.

14 (General discussion regarding location of
15 document in Board books.)

16 MR. ROMERO: So on the Single Family revenue,
17 I didn't understand the footnote, Melinda. It showed that
18 we're actually ahead of schedule as far as revenue is
19 concerned.

20 MS. SMITH: Right.

21 MR. ROMERO: The footnote kind of led me to
22 believe that we hadn't made it.

23 MS. SMITH: I know. I was sitting there
24 reading that myself and thinking what in the world were
25 you trying to say.

1 MR. JONES: Slow down for a minute so we can
2 catch up.

3 MR. ROMERO: If you look on the revenue side,
4 the Single Family, the actual is \$2,089,000.

5 MR. JONES: Right, and the budget for the
6 whole year was \$3.7-.

7 MR. ROMERO: Right. And there's a footnote
8 on number 1.

9 MR. JONES: Right.

10 MS. SMITH: And I think what I was attempting
11 to say was part of the reason that we were ahead of
12 schedule was because we had received more reimbursement of
13 the down payment assistance that we had fronted for the
14 loans.

15 Because there was a slowdown in just the whole
16 loan process, it gave us the ability to get more of that
17 down payment assistance that we had fronted before back.

18 MR. LONG: Without having to release more on
19 every loan.

20 MS. SMITH: Without having to release more.
21 And so all that goes into the revenue line item. But the
22 bottom line is it is the TBA program that is causing it to
23 be ahead of the game, and part of that was because we just
24 got more reimbursed that we had fronted before.

25 MR. ROMERO: When we say reimbursed, are we

1 talking about from --

2 MR. LONG: From the sale of the pools.

3 MR. ROMERO: Okay. So it's not the money
4 that we had set aside for the down payment assistance,
5 it's money that we're getting back.

6 MR. LONG: Correct.

7 MS. SMITH: Right.

8 MR. ROMERO: Okay.

9 MS. SMITH: And I apologize. I noticed that
10 the minute I sat down.

11 MR. ROMERO: That's all right. That was my
12 only question.

13 MR. JONES: Well, so did Mr. Romero.

14 (General laughter.)

15 MR. JONES: Any other comments or questions?

16 (No response.)

17 MR. JONES: Okay. Thanks, David. Does that
18 conclude your report, Mr. President?

19 MR. LONG: It does. Thank you, Mr. Chairman.

20 MR. JONES: Okay. Let's go to Item 1:
21 Presentation, discussion and possible approval of the
22 minutes of the Board meeting held on January 23, 2014. Is
23 there any recommended changes or corrections?

24 Wait a minute. Do I have to call for public
25 comments for the president's report?

1 MR. LONG: No, sir.

2 MR. JONES: Only on the tab items. You guys
3 got me gun shy now.

4 Is there a motion?

5 MR. ROMERO: I move to approve the minutes as
6 presented.

7 MR. MEADE: Second.

8 MR. JONES: Moved and seconded. Any further
9 discussion of the Board? Any public comment?

10 (No response.)

11 MR. JONES: All in favor say aye of approval.

12 (A chorus of ayes.)

13 MR. JONES: Tab 2, counsel told me to say
14 what it is as written. Did you still want me to read all
15 of this?

16 MR. EVENWEL: Yes.

17 (General laughter.)

18 MR. DIETZ: Take a deep breath.

19 MR. JONES: He's been saying that all
20 morning. Ms. King will know to put it all down there
21 without me saying it.

22 Tab 2, and as Mr. Danenfelzer calls, verbose
23 presentation, we are presenting, discussing, with the
24 possible approval of the resolution as written. Is that
25 good?

1 Go ahead, Mr. Danenfelzer.

2 MR. EVENWEL: Did you want to start with a
3 motion?

4 MR. LONG: Just the presentation would be
5 best for us to start with that, if you don't mind.

6 MR. JONES: The president decided that we
7 should hear it first, because we might say no.

8 MR. LONG: No, I'm not saying that you're
9 going to say no, I just think it's important that you
10 understand the content and the presentation of the
11 materials that we're going to discuss.

12 MR. JONES: Understood. Mr. Danenfelzer.

13 MR. DANENFELZER: David Danenfelzer, manager
14 of Development Finance.

15 I'm here today to talk to you about a
16 resolution which is discussing the South Texas Affordable
17 Properties Corporation portfolio, or as we generally refer
18 to it as the South Texas Portfolio.

19 The portfolio was issued and funded back in
20 2002. It was a 501(c)(3) bond that was done by the
21 Corporation in the total amount of \$64,180,000. The bonds
22 were used to purchase and rehabilitate over 1,400 units of
23 affordable housing in three different cities: San
24 Antonio, the City of Cranbrook which is just outside of
25 the Houston area, and Corpus Christi, Texas.

1 The portfolio, like many 501(c)(3)
2 portfolios, has struggled. One of the key provisions of
3 the early 501(c)(3) developments from around 1995 through
4 2002 were really predicated on the idea that there was a
5 100 percent tax exemption available to such developments.

6 And while that exemption was available to South Texas at
7 the time, there has been a lot of political maneuvering
8 over the years, and in fact, in 2003 the legislature
9 removed that tax exemption, although it did grandfather
10 properties like South Texas into the 100 percent
11 exemption.

12 Unfortunately, though, even with the exemption,
13 because that was one of the main considerations when
14 underwriting these deals in that time frame, there were a
15 lot of other outside forces that came into play.

16 Particularly in 2001 and 2002 there was the dot
17 com bubble which drove up interest rates for borrowing,
18 and also, because of the rapid growth of single family
19 homeownership during the period, rental rates for
20 multifamily properties as these really remained very flat
21 during that period.

22 Over the years the vacancy rates continued to
23 increase during this time period because more and more
24 people were able to afford a home and get into those
25 homes, and it really kind of created a bit of a gap in the

1 multifamily market, and that was one of the difficulties
2 of a lot of the properties that were built at that time.

3 In addition, these were not brand new
4 properties, these were properties that were between 20 and
5 30 years old at the time they were refinanced, so these
6 were not necessarily considered Class A apartments at the
7 time.

8 We do want to give kudos, though, because we
9 do think that South Texas and its ownership has done a
10 good job of maintaining the properties and managing them.

11 They provide good service to their tenants, as well as
12 supportive services, educational and otherwise, after
13 school programs. And so we've always had a generally good
14 working relationship with the organization. However,
15 because of the financial struggles, they've continued to
16 default on the series of bonds, especially the subordinate
17 series of bonds, and as you can see from the writeup,
18 there's actually five subordinate series of bonds and one
19 major series of bonds.

20 And so this has been something with all the
21 struggles they've had, we've worked with them to try to
22 look at refinancings in the past, but ultimately, the only
23 way to provide real relief and an opportunity for all of
24 the bondholders to get 100 percent of their investment
25 back is to liquidate the portfolio at this time.

1 Although rental rates are starting to
2 increase because of tighter rental markets in most of
3 these areas, even with a real significant, even more so
4 than we have right now, the ability to repay the
5 outstanding debt, as well as the accrued interest on the
6 sub series bonds, is next to impossible. So we can pay
7 back nearly all of the principal and most of, I believe,
8 the interest that's accrued on these bonds by liquidating
9 the portfolio at this time.

10

11 Similar to many other portfolios of this age,
12 they are eligible for an early call on the bonds, so this
13 is something that does give us an opportunity to move
14 forward without having to do full foreclosure or deed in
15 lieu of foreclosure procedures.

16

17 We will have to have a lot of agreements in
18 place, and what we're really asking for you today is to
19 give staff and the president and executive vice president
20 the authority to continue negotiating those terms and then
21 move forward with the signing and execution of any
22 agreements related to liquidation of the portfolio.

23

I'll open it up for questions.

24

MR. JONES: Let me first say that the reason
why Mr. Evenwel, I believe, suggested that we could vote
on it first is we've heard this presentation a number of

1 times. Right? I mean, it's been on the agenda more than
2 once.

3 MR. DANENFELZER: This particular item has
4 never been on the agenda before.

5 MR. JONES: This is the second liquidation?

6 MR. DANENFELZER: This is a different
7 liquidation; we did deal with one previously. Back in
8 December we brought to the Board a very similar project,
9 another project that was private activity bonds that's
10 been struggling, and we discussed and got approval for
11 liquidation.

12 MR. JONES: So this is a new liquidation.

13 MR. DANENFELZER: This is a new one, this
14 portfolio.

15 MR. JONES: In the beginning stages, you just
16 want permission to work through it.

17 MR. DANENFELZER: Right. And again, because
18 market conditions are actually somewhat favorable for the
19 sale of a property, it's almost better for us to look at
20 selling the property and repaying the debts with that
21 income rather than trying to make up a lot of deferred
22 payments and accrued interest.

23 MR. JONES: But we haven't done a 501(c)(3)
24 since, what, 2002?

25 MR. DANENFELZER: This was the last

1 501(c)(3); 2002 was the last year.

2 MR. JONES: But we have a plan and all like
3 that.

4 MR. DANENFELZER: We are required by statute
5 to have a plan.

6 MR. JONES: Also, you say bondholders, if you
7 can pull this off, if you can do it, will get 100 percent
8 of their investment back in the way of like all principal
9 but some interest. You really want them not to lose
10 anything on it.

11 MR. DANENFELZER: We'd really like them not
12 to lose anything on it.

13 MR. JONES: But with the time and value of
14 money, they will have lost something if they don't get all
15 the interest.

16 MR. DANENFELZER: Right. And as we move
17 forward with negotiating the terms of the settlement or
18 the liquidation terms, we'll know a lot more. We know the
19 properties were listed for sale and they've received bids,
20 but those bids are with the trustee at this point and
21 they've not been released for public information yet.

22 MR. JONES: So if we approve and you move
23 forward, the goal is not to have to go the foreclosure
24 route but to be able to do it this way.

25 MR. DANENFELZER: Right, to liquidate rather

1 than do a full foreclosure. And I will add, I forgot to
2 mention, David Cole is here. He is the executive director
3 of the Neighborhood Development Corporation and sort of
4 the chief officer of the South Texas Corporation
5 Portfolio.

6 MR. JONES: Would the Board like to hear
7 public comment from Mr. Cole before going forward?

8 MR. ROMERO: Sure.

9 MR. JONES: Mr. Cole. He's with the South
10 Texas Affordable Properties Corporation in Temple, Texas.

11 MR. COLE: Mr. Chairman, members of the
12 Board, I'm David P. Cole. I am the vice president of
13 South Texas Affordable Properties Corporation. I'm also
14 chief operating officer of Neighborhood Development
15 Collaborative, which is the parent organization, also a
16 501(c)(3). The collaborative has been around for over 35
17 years, so we've got a lot of experience over those years
18 in affordable housing, especially on the multifamily side.

19 We came in in 2002 into this project, having
20 done portfolio deals before, so we came in with our eyes
21 open. And having said that, 20-20 hindsight is always a
22 wonderful thing, and we've got a lot of it on this
23 project, but let me put some things in perspective.

24 When we closed on the portfolio, the annual
25 insurance premium for six properties was \$185,000. Today

1 the annual insurance premium is \$650,000. The windstorm
2 insurance on one property alone in Corpus Christi is
3 \$135,000, for lots of reasons that we have no control
4 over.

5 Within three years of purchasing the
6 portfolio, utilities costs doubled. Within four years of
7 purchasing the portfolio, taxing authorities began looking
8 around for money, so they figured they'd go after us,
9 along with a lot of other non-profits, and we got
10 embroiled in some litigation. Bexar County is especially
11 aggressive on this, and we've been in litigation with them
12 ever since 2006. They every year make us go through that.

13 On the positive side, these six properties were
14 always jewels to us. We've experienced really bad
15 properties over 35 years, and these six properties had
16 lots of promise, and our mission is to find properties
17 like this that are going to go on the market and be
18 targeted by slum lords because of the cash flow, they
19 generate a lot of cash, and become a real problem rather
20 than an asset to a city like San Antonio or Corpus Christi
21 or Houston.

22 And in this case we accomplished that
23 mission. We have kept these properties in good condition
24 for twelve years, with good affordability. We have
25 provided a lot of really good resident programs and

1 created some new things so that our residents could go
2 online and get a lot more education than they could in any
3 other way.

4 So we weren't stupid. In about 2006 we
5 realized that the numbers were not going our way, and
6 began looking for ways to refinance the properties. And
7 we actually got that done, almost. In 2007 we had
8 commitments to take out these bonds if the bondholders
9 wanted to be taken out. You may recall that in April of
10 2007 the commercial lending market went down the tubes,
11 and that blew that refinance out of the water.

12 So we weren't deterred, we went and looked
13 for other ways of refinancing, and Mr. Danenfelzer and I
14 got pretty close as we walked through different scenarios.

15 It probably got to the point where he saw an email from
16 me and he thought: Oh, no, here we go again. But he has
17 been so helpful in this whole process and we've probably
18 gone over a half a dozen different proposals for
19 restructuring or refinancing these bonds.

20 Let me give you another snapshot. Three
21 years ago the junior bondholders had all but written these
22 bonds off. We'd never failed to make a payment on the
23 senior bonds, they were always current. We didn't even
24 draw the debt service reserve on those bonds, so senior
25 bondholders were always happy. That made the bond

1 insurer, MBIA, very happy.

2 However, MBIA, at that point, was getting out
3 of the business, the multifamily side of the insurance
4 business, and so they were liquidating all these files,
5 and we were basically the last one left. And we've had a
6 great relationship with MBIA, we've worked hand in glove
7 with them over all these years to make sure that they
8 weren't exposed to any additional risk than what they
9 bought into.

10 MR. JONES: The acronym MBIA means what?

11 MR. COLE: Gee, what is it? Mortgage Bond
12 Insurance Association. They now call themselves MBIA,
13 Inc.

14 MR. JONES: Well, it's just an acronym now.

15 MR. COLE: It's kind of like Fannie Mae.

16 So at one point we began working with them on
17 a buyout of senior bonds, so that seemed to be the way to
18 go for a while, but again, it didn't quite get there. And
19 the bondholders were willing to give discounts at that
20 point. They were willing to take 50 cents on the dollar,
21 some of them 30 cents on the dollar. And it just was
22 looking a little bit bleak.

23 The name of the game in this case was
24 survive, make sure you survive for a better day, and
25 that's what we have done. We have now reached a better

1 day. We don't do anything halfway, so we kept these
2 properties up, we worked with everybody we could, we
3 worked with bondholders, we worked with TSAHC to make sure
4 that these properties survived, and now we have the
5 solution.

6 The Texas market has gone from warm to hot.
7 Last fall we called a meeting of MBIA and all the
8 bondholders and decided let's see what happens if we put
9 this portfolio on the market, can we do better than we're
10 doing now. So in December we launched a marketing effort
11 and we have collected bids which are being reviewed for
12 not just dollars but can they perform, and all indications
13 are now that yes, we will pay off the bonds in full.

14 As you all know, in any real estate
15 transaction there are ifs, ands and buts. People will try
16 to re-trade the deal when you get close to closing, so
17 we're trying to analyze these various offers and figure
18 out which ones are really viable.

19 But I think I can say with pretty strong
20 confidence that the bondholders will walk away with all
21 their money out of this. And they are intimately involved
22 in this process, they are not just sitting there. They
23 have their own counsel who's actually drafting agreements.

24 MR. JONES: When you say -- excuse me -- all
25 the money, you mean their principal.

1 MR. COLE: And interest.

2 MR. JONES: And interest.

3 MR. COLE: And there's a possibility --

4 again, I emphasize possibility -- that they would even get
5 their prepayment premium.

6 MR. JONES: So why are you guys sitting here?

7 (General laughter.)

8 MR. COLE: Well, when I took this to my two
9 boards of directors that I had to go to, I sit on those
10 boards but I'm the one who always has to do the
11 presentation, and the reaction was the same. One member
12 said what are we talking about? I move. And that's the
13 way it went down with my own boards.

14 MR. JONES: Thank you.

15 MR. DIETZ: Do I understand that you're using
16 a call provision in the bonds to do this?

17 MR. DANENFELZER: That's correct, yes. There
18 is an early redemption call provision. The bonds have
19 been outstanding for twelve years; they actually opened up
20 their call provision in year ten.

21 One of the reasons we are here is because one
22 of the agreements we'll have to sign off on is the removal
23 of the regulatory agreement. The general requirement under
24 tax-exempt bonds for 501(c)(3)s is for a 15-year
25 regulatory agreement.

1 Because of the liquidation, we would remove
2 that, and we can do that, we need to make sure that we do
3 it in a proper way with legal guidance. So the bonds are
4 eligible for repayment, but the Corporation actually does
5 need to sign off on the release of a regulatory agreement
6 and some of the other indenture restrictions.

7 MR. DIETZ: And the underlying assets are
8 being sold to?

9 MR. DANENFELZER: They'll be sold to a third
10 party entity which at this time we don't know who that
11 will be.

12 MR. DIETZ: And they will no longer have any
13 affordable restrictions?

14 MR. DANENFELZER: There will be no affordable
15 restrictions and the Corporation won't have any direct tie
16 with that organization.

17 MR. ROMERO: David, we're going to lose 1,476
18 units off our asset and oversight portfolio?

19 MR. DANENFELZER: That would be correct.

20 MR. ROMERO: How is that going to impact our
21 budget?

22 MR. DANENFELZER: You know, I don't know the
23 specific numbers. I know it will be a significant amount
24 of cash, potential income that we won't be having, but the
25 offsetting balance is we won't need to go do asset

1 oversight inspections, compliance, ongoing monitoring of
2 the properties anymore, so we won't be getting paid for
3 work we won't be doing.

4 MR. ROMERO: Is there any way we can get just
5 some kind of proposal to show us what we might anticipate
6 that we're going to see in loss?

7 MR. DANENFELZER: Yes.

8 MR. ROMERO: Just modeled or something.

9 MR. DANENFELZER: And I might be able to pull
10 it up here very quickly, but looking at the original
11 models, I know that we do actually have on this portfolio
12 about a million dollars of unpaid asset oversight and
13 compliance because our fees were at the very bottom of the
14 waterfall, meaning they were after all the payment of
15 bonds.

16 MR. JONES: So it stops the bleeding, so to
17 speak, too at the same time.

18 MR. DANENFELZER: Right.

19 MR. LONG: Let me just add on that. We
20 haven't been receiving payment of the asset oversight and
21 compliance fee, so it's basically \$45 a door on 1,476
22 units, so depending on how you want to look at that, Mr.
23 Romero, would be we won't be doing the compliance work,
24 which we continued to do with or without payment, so we
25 won't incur the expense, but there is potential that if it

1 was going to be a recapture of payment in the future, that
2 income stream would be lost, but it's not an income stream
3 we count on right now.

4 MR. ROMERO: But the budget that was proposed
5 and approved basically was including those \$45 per door
6 for the whole portfolio. Right?

7 MR. LONG: No. If we haven't been receiving
8 something for a period of a time, it's not included in our
9 budget that we would try and offset what we can, expenses
10 to revenue in that scenario, so, no.

11 MR. DANENFELZER: And one of the initial
12 proposals -- and staff hasn't finalized its agreement with
13 the trustee or with Mr. Cole yet -- is for the Corporation
14 to be made whole on all the outstanding asset oversight
15 fees, so we're looking to collect about a million dollars
16 in back payments. And so that's part of the negotiations
17 we'll be going through is to ensure we do get those funds
18 and we get repaid for all the work we have done to date.

19 MR. JONES: And it's probably better to make
20 the investors all whole and then go out and try to
21 replenish these units by doing some additional work. Does
22 it give you a better cash position to go do the work to
23 try to get 1,476 more units on the books?

24 MR. DANENFELZER: You know, it doesn't really
25 affect our ability to issue new bonds or do new deals.

1 Not knowing who the potential buyers are of the properties
2 right now, I don't know what proposals they've put
3 forward. There may be one or two that are looking to
4 actually use private activity bonds or some other means to
5 refinance this portfolio.

6 My understanding is it would be eligible for
7 refinancing under a tax credit process which would provide
8 a significant amount of equity into a portfolio, but you
9 know, that's really for the investors who are looking at
10 the portfolios, and I know that's a concern that Mr. Cole
11 has is making sure that it is a good investment group
12 that's not looking to just pay bottom dollar.

13 MR. JONES: Because it will look extremely
14 worse if we miss this window of opportunity and it goes
15 south the other way. That's the worst case scenario.

16 MR. DANENFELZER: Yes.

17 MR. JONES: Is there a motion?

18 MR. EVENWEL: You said there were a couple of
19 lawsuits and stuff. Those things seem to have a life of
20 their own sometimes, and they've got to go away.

21
22 MR. DANENFELZER: Yes, and I'm not sure about
23 the status of any current litigation regarding the tax
24 exemption status. I know Mr. Cole and his group have
25 fought it annually.

1 It's kind of one of those things where ever
2 year -- Bexar County in particular is real good at this --
3 they simply reject the tax exemption and the only way to
4 fight it is to put the amount of taxes into an escrow
5 account that would be owed and then litigate it.

6 MR. COLE: I can update on that. We have
7 concluded the last piece of litigation with them. We won
8 again. Essentially what they do is they drive you crazy
9 and then they say, Oh, okay, we give up.

10 MR. DANENFELZER: Unfortunately -- and this
11 is very similar to the previous liquidation we talked
12 about in December -- the state law says that if a county
13 tax assessor says you owe money and you want to fight it,
14 you have to actually put the money in an escrow which
15 means you have to advance several hundred thousand dollars
16 into an escrow, you take that out of your other accounts
17 and then litigate the issue. You may spend 10-, 20,
18 \$30,000 fighting it, and then after several months they
19 may go, Okay, you're fine, you can take your money back.

20 But in Bexar County's case, they do
21 traditionally do this to all of our tax-exempt properties
22 that we've financed, and several of them actually have
23 written into their budgets now litigation expenses because
24 they know every year Bexar County is going to say no, and
25 they're going to have to fight it and then they're going

1 to win, and so they just kind of budget it. It's one of
2 those things you don't want to see on a budget line item,
3 I'm sure, litigation expenses, but Mr. Cole and NBC has
4 done a good job of managing that situation.

5 MR. DIETZ: When we're talking about the
6 bondholders, these are institutional bondholders, for the
7 most part?

8 MR. DANENFELZER: For the most part they're
9 institutional. Some of these bonds were publicly issued
10 and so there may be smaller what we tend to call
11 mom-and-pop investors, but generally non-accredited
12 investors that have hold of them, although my
13 understanding from the trustee is the majority of them are
14 in actually managed portfolios with accredited investors.

15 So we're not too worried about anybody in
16 particular having an issue at this time, you know, an
17 individual. And given the fact that the individuals,
18 especially on the sub series bonds, haven't been paid in
19 many years, to get that payment may be a little bit of a
20 gift, I guess, at this point. At least they get their
21 money back.

22 MR. JONES: Any other questions or comments?
23 Is there any public comment on this item 2?

24 (No response.)

25 MR. JONES: What's the pleasure of the Board?

1 MR. ROMERO: I make the motion to approve the
2 resolution as presented.

3 MR. MEADE: Second.

4 MR. JONES: It's been moved and seconded.
5 All in favor say aye.

6 (A chorus of ayes.)

7 MR. JONES: Thank you.

8 MR. COLE: Thank you, gentlemen.

9 MR. JONES: Item 3: Presentation, discussion
10 and possible approval of the publication for public
11 comment of the Texas Foundations Fund draft 2014
12 guidelines.

13 MS. BAYLESS: Liz Bayless, executive vice
14 president.

15 Mr. Chairman and members, Tab 3 is an action
16 item related to the Texas Foundations Fund. As you know,
17 the Texas Foundations Fund is a segregated fund of the
18 Corporation that is used to provide grants to non-profit
19 organizations or rural government entities to address
20 critical housing needs of very low income Texans. Last
21 year the fund made 16 awards totaling \$300,000.

22 Staff has developed a timeline for the 2014
23 round of grant making. It begins with posting the
24 guidelines for public comment, and that's what we're
25 asking you to approve today. The guidelines are behind

1 Tab 3 of your Board book. If you approve us posting the
2 guidelines for public comment, we anticipate coming back
3 to you at the April Board meeting with any revisions we
4 make as a result of public comment we receive and asking
5 for your final approval of the guidelines at that point.

6 After the 2013 round of grant making, the
7 advisory council had lengthy discussions about the process
8 for determining award recipients, and they are
9 recommending some changes to take effect this year. At
10 this time I'll ask Katie Howard to cover those proposed
11 changes.

12 MS. HOWARD: Katie Howard, senior development
13 coordinator. And before I go through the proposed changes
14 in the guidelines, I did want to mention that in years
15 past we've released a draft of the application in addition
16 to the guidelines, but we elected not to do that this
17 year, and that's for a couple of reasons. First, we've
18 done away with the paper application and we're actually
19 moving to an online application. And then second, the
20 application itself is pretty standard, and so we really
21 didn't get any public comment specific to the application.

22 So it seemed a little unnecessary to release a paper
23 application in addition to the guidelines.

24 And so moving on to the important recommended
25 changes to the guidelines, we have three changes that we

1 believe were really important and that we wanted to bring
2 to your attention.

3

4 The first one is that in addition to the
5 maximum award amount of \$50,000, which has been in place
6 since the start of the Foundations Fund in 2008, we've
7 also established a minimum award amount of \$15,000, and
8 then staff and the advisory council felt that setting a
9 minimum of \$15,000 would ensure that the awards continue
10 to be large enough to be meaningful, while still giving
11 TSAHC the flexibility in determining award amounts. This
12 also means that applicants must request at least the
13 minimum amount in order to be eligible, but for the most
14 part everybody requests \$50,000, so we really don't expect
15 that to be an issue for anybody.

16 Second, we implemented a policy that states
17 that going forward an applicant will not be eligible for
18 funding more than twice in a three-year period. This
19 policy would be effective as of 2014, so applicants
20 receiving funding in both 2012 and 2013 would still be
21 eligible for funding in 2014 and 2015. However, if an
22 applicant receives funding in both 2014 and 2015, they
23 would not be eligible for funding in 2016. And we think
24 this policy will help us ensure that the funds are spread
25 out among quality applicants rather than funding the same

1 applicants year after year.

2 MR. JONES: Applicants receiving funding in
3 2014 and 2015 won't be eligible in 2016. Okay. So it's
4 like a three-year window you're doing this.

5 MS. HOWARD: Correct.

6 MR. JONES: So if you don't get one in 2014
7 or 2015 and you get one in 2016, can you apply again for
8 the 2017, '18 and '19?

9 MS. HOWARD: You could receive in 2016 and
10 2017.

11 MR. JONES: So it will be a rolling
12 three-year period.

13 MS. HOWARD: Correct.

14 MR. JONES: Okay. Got it.

15

16 MS. HOWARD: And then the final important
17 change, and we think this one is actually the most
18 significant, is we're increasing our efforts to achieve
19 greater geographic distribution of our awards so we've
20 divided Texas into eight geographic regions and we're
21 going to make an effort to award at least one qualified
22 applicant in each region, and we think this policy will
23 help us serve areas of the state that we've not yet
24 reached. And so in order to implement this policy, as
25 part of the online application, applicants will now need

1 to select the one geographic region that they plan to
2 serve with the award, and then the counties that they plan
3 to serve within that region. They can select as many
4 counties within that region as they want to, but they'll
5 need to only select one region.

6 MR. ROMERO: If I could add to that. I think
7 part of the discussion that we had regarding the
8 geographic regions was it also gave us an opportunity when
9 we do fundraising to be able to go to funders in that
10 geographic region and let them know that we could hold
11 those funds specifically for funding in those regions and
12 it wouldn't go into the big fund.

13 MS. HOWARD: Thanks, Jerry. Yes, that's a
14 really good point and one of the major reasons we decided
15 to do this.

16 So that's it for the major changes.

17 MR. DIETZ: That wouldn't eliminate somebody
18 who is serving two different of our defined geographic
19 regions?

20 MS. HOWARD: No, it wouldn't. We do have a
21 couple of applicants that that might affect that do serve,
22 you know, more than one region. What they would need to
23 do is just select the region that they want to target our
24 funds to and they can still continue to serve that other
25 region but they just wouldn't be able to use our funding,

1 they would need to find some supplemental funding to serve
2 counties and people in another region.

3 MR. DIETZ: Is that realistic for these
4 entities to be able to do that?

5

6 MS. HOWARD: We think so. One of the
7 important components of the application is that applicants
8 show that they have matching funding available, and so
9 presumably anybody who would score very well in our
10 application process would also have gotten quite a bit of
11 other additional funding in order to be able to provide
12 that program.

13 MR. JONES: So if a person applies for a
14 grant with a proposal of what they'd like to do, they've
15 got to get that proposal through everything because it
16 says that they have one year from the time they're awarded
17 the grant to complete it. If it's just a proposal, they'd
18 better be ready, but most of the time they've got
19 something that they're already doing.

20 MS. HOWARD: We do have provisions that will
21 allow us to provide funding to an organization for a new
22 program, but for the most part, everybody who applies has
23 experience performing the program that they're applying
24 for funding for.

25 MR. DIETZ: The Foundations Fund has awarded

1 amounts smaller than \$15,000 in previous years, has it
2 not?

3 MS. HOWARD: No. This past year was the
4 first year we did award several \$15,000 grants.

5 MR. DIETZ: And that was the lowest.

6 MS. HOWARD: And that was the lowest, yes.
7 And in those discussions that's when we determined that
8 that was the lowest that we wanted to go.

9 MR. JONES: Any questions or comments? Is
10 there any public comment on Tab Item 3?

11 (No response.)

12 MR. JONES: Is there a motion?

13 MR. MEADE: I make a motion.

14 MR. EVENWEL: Second.

15 MR. JONES: It's been moved and seconded.
16 All in favor say aye.

17 (A chorus of ayes.)

18 MR. JONES: It is approved for publication.

19 MS. BAYLESS: Thank you.

20 MS. HOWARD: Thank you.

21 MR. JONES: You're welcome.

22 Item 4: Presentation, discussion and
23 possible approval of the Texas State Affordable Housing
24 Corporations 2014 Annual Action Plan. Good morning, Mr.
25 Leal.

1 MR. LEAL: Good morning, Mr. Chairman,
2 members of the Board. Charlie Leal, Government Relations
3 specialist.

On the agenda in Tab 4 today is the TSAHC Annual Action Plan which we, by statute, are required to produce each year. To refresh your memory, this is the plan that offers the governor, the legislature, housing stakeholders, and the general public a comprehensive look at the actions of the Corporation for the previous year, in addition to laying out the projected activities of the Corporation for the year ahead.

This is the same plan the Board approved back in December to go out for public comments from December 27, 2013 to January 27, 2014. TSAHC did not receive any correspondence with public comments, nor did we receive any public comments at the public hearing we held on January 16.

18 By statute, the plan will be submitted to
19 TDHCA to be included in their annual State Low Income
20 Housing Plan, referred to as the SLIHP. The SLIHP is
21 comprised of the Corporation's plan and TDHCA's plan to
22 address the issue of housing statewide.

23 The SLIHP is also submitted to the governor,
24 lieutenant governor and the speaker of the Texas House.

Today we are requesting the Board's approval

1 of the final 2014 Annual Action Plan. I'd be happy to
2 take any questions.

3 MR. JONES: Any questions? Any public
4 comment on this item?

5 (No response.)

6 MR. JONES: I'll entertain a motion

7 MR. ROMERO: Move to approve.

8 MR. MEADE: Second.

9 MR. JONES: Moved and seconded. Any further
10 discussion?

11 (No response.)

12 MR. JONES: All in favor say aye.

13 (A chorus of ayes.)

14 MR. JONES: Thank you. You did a good job.

15 MR. LEAL: Thank you, sir.

16 MR. EVENWEL: That was too short. He should
17 have talked more.

18 MR. JONES: We should have asked him
19 something.

20 (General laughter.)

21 MR. JONES: At this time item 5:
22 Ratification of the 2013 annual performance review of the
23 president of the Corporation, and related actions. The
24 Board will go into closed session under Texas Government
25 Code Section 551.071, consultation with legal counsel on

1 legal matters, and also Texas Government Code Section
2 551.074, personnel matters. Also, the initial
3 consultation with legal counsel, Section 551.071, we will
4 deal with the recorder because our attorney has her
5 statement to make for the beginning of the closed session.

6 MS. LIVINGSTON: This is Katy Livingston with
7 Greenburg Traurig.

8 Pursuant to Texas Government Code, Section
9 551.103, this portion of the closed meeting held pursuant
10 to Section 551.071 of the Government Code is not subject
11 to being tape recorded or summarized by a certified
12 agenda.

13 MR. JONES: So we will turn it off. When we
14 go into the second phase of our closed session, I'll
15 notify you to come in and turn it back on during that
16 second part of the closed session, Ms. King.

17 It is now 11:26. We're going into closed
18 session.

19 (Whereupon, at 11:26 a.m., the meeting was
20 recessed, to reconvene this same day, Thursday, February
21 13, 2014, following conclusion of the closed session.)

22 MR. JONES: It is now 12:51, and the Board is
23 back in open session.

24 Item number 5: Ratification of the 2013
25 annual performance review of the president of the

1 Corporation and related actions. Is there a motion from
2 the Board?

3 MR. MEADE: So moved.

4 MR. DIETZ: Second.

5 MR. JONES: So it's been moved and seconded
6 that we ratify the 2013 annual performance review of the
7 president of the Corporation and the related actions. No
8 actions were taken while we were in closed session. I
9 want to say that for the record.

10 Is there any public comment on Item 5?

11 (No response.)

12 MR. JONES: Hearing none, all in favor say
13 aye.

14 (A chorus of ayes.)

15 MR. JONES: Any opposition?

16 (No response.)

17 MR. JONES: None.

18 Is there any other business, Mr. President?

19 MR. LONG: Other than the March 13 Board
20 meeting will be our standard meeting, and we'll coordinate
21 with the Board members on that.

22 MR. JONES: I want to thank Ms. King for
23 running in and out and doing the deed, thank you very
24 much, from On the Record Reporting and Transcription, Inc.
25 Our attorneys and the president and our Board members

1 appreciate it.

2 And if there's no other business or no
3 comments, the meeting is adjourned.

4 (Whereupon, at 12:53 p.m., the meeting was
5 concluded.)

1 C E R T I F I C A T E

2

3 MEETING OF: TSAHC Board of Trustees

4 LOCATION: Austin, Texas

5 DATE: February 13, 2014

6 I do hereby certify that the foregoing pages,
7 numbers 1 through 47, inclusive, are the true, accurate,
8 and complete transcript prepared from the verbal recording
9 made by electronic recording by Nancy H. King before the
10 Texas State Affordable Housing Corporation.

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02/16/2014

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(Transcriber)

(Date)

18

19

On the Record Reporting
3636 Executive Ctr Dr., G-22
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