ILLINOIS HOUSING DEVELOPMENT AUTHORITY
FINANCE COMMITTEE MINUTES
February 19, 2016

The meeting of the Finance Committee of the Illinois Housing Development Authority took place on February 19, 2016 at 401 N. Michigan Avenue, Chicago, Illinois at 9:00 a.m. Attending the meeting were Ms. Karen Davis, Ms. Christina Castro, Mr. Sam Tornatore and Ms. Mary Kane via phone for the Members. Also attending the meeting were Mr. Peter Weiss of JP Morgan; Ms. Merci Stahl and Mr. Larry Dillard of Bank of New York Mellon; John Janicik of Mayer Brown; Mr. Mike Koessel of Citigroup; Mr. Tom Caine of Caine Mitter; Mr. Kevin Murphy of Hawkins Delafield; Mr. Chris Spelbring of Raymond James; Mr. Nick Fluehr of Wells Fargo; Ms. Susan Jun of Bank of America; Mr. Ankit Bavishi of Loop Capital; Mr. Steve Abbey of First Merit Bank; Mr. John Germain of Jefferies; Mr. Geoff Proulx of Morgan Stanley; Mr. Matt Engler of Barclays; Mr. Bob Cafarelli of Zions Bank and Mr. Scott Schmidt of US Bank. For the Authority staff; Ms. Nandini Natarajan, Mr. John Chung, Mr. Andy Decoux, Ms. Christine Moran, Ms. Tara Pavlik, Ms. Michele Williams, Ms. Peggy Torrens, Mr. Andrew Nestlehut, Mr. Neil O'Callaghan, Ms. Tracy Grimm, Mr. Tom Kozlowski and Ms. Lily Benitez were present.

Ms. Davis motioned to approve the December 14, 2015 Finance Committee meeting minutes as presented.

New Business

Resolution Authorizing the Issuance of Not to Exceed $25,000,000 Aggregate Principal Amount of Multifamily Housing Revenue Bonds, (Stonebridge of Gurnee Project), Series 2016.

Mr. Chung stated: This is a resolution for Multifamily Housing Revenue Bonds, Series A&B, Stonebridge of Gurnee.

We will be issuing two series of bonds, a Tax-Exempt Series A and Taxable Series B and will be financing the acquisition, demolition and a new construction of Stonebridge of Gurnee, a 120 unit supportive living facility to be located in Gurnee, Illinois.

This will be a conduit financing. We will be issuing fixed-rate, long term tax-exempt and taxable bonds and issuing these bonds, privately, to Qualified Institutional Buyers (QIB) and the standard for the QIB is that you have to have $100 million in investments, as defined in Rule 144A of the Securities Act of 1933. IHDA will also require that secondary trades will also be subject to this QIB standard. The reason for that is that this is privately placed and not credit enhanced and is more complex than privately / publically issued, credit enhanced, cash collateralized that we typically do.

It is a limited obligation transaction and hence, there is no credit risk to the Authority.

The resolution request is for the issuance of Multifamily Housing Revenue Bonds Series 2016A Tax-Exempt Bonds not to exceed $22,500,000 and Series 2016B Taxable Bonds not to exceed $2,500,000. The maturity date will be no later than April 1, 2056 for Series 2016A and April 1, 2031 for Series 2016B. The Bond interest rate not to exceed 7.5% for Series 2016A and 9.0% for Series 2016B.

Bond closing is contemplated to be April 1, 2016.

Resolution Authorizing the Issuance of Not to Exceed $12,000,000 Aggregate Principal Amount of Multifamily Housing Revenue Bonds, Series 2016 (J. Michael Fitzgerald Apartments Project).

Mr. Chung stated: This is a resolution is for Multifamily Housing Revenue Bonds, Series 2016, J. Michael Fitzgerald Apartments.

The bonds will be issued to finance the acquisition and rehabilitation of J. Michael Fitzgerald Apartments, containing 63 units located at 5801 North Pulaski Road in Chicago. It is a conduit financing. This transaction will be a publicly issued deal, fixed rate, short term tax-exempt bonds, collateralized by cash from HUD 202 Grant. It is a limited obligation transaction with no credit risk to the Authority. The bonds will be rated by Moody's and expected to be at the Aaa level due to cash collateralization.

The resolution request is for the authorization of bonds not to exceed $12,000,000. The final maturity no later than March 1, 2019 and interest rate not to exceed 4%.

Projected closing is April 6, 2016.

Resolution Authorizing the Issuance of Not to Exceed $100,000,000 Revenue Bonds 2016 Series A.

Ms. Natarajan stated: This resolution pertains to the issuance of Revenue Bonds 2016 Series A.

In summary, Revenue Bonds 2016 Series A are being issued to provide permanent financing for newly originated loans in the Authority's single family mortgage program. The structure of the bond issue securitizes the Authority's single family mortgage loans into mortgage backed securities (MBS), which have been purchased using the

Authority's own funds. The Authority then plans to issue 2016 Series A to permanently finance the MBSs and reimburse its own funds. The series is expected to be rated Aaa by Moody's Investors Service.

This is the first transaction the Authority is going to be issuing under a newly drafted revenue bond indenture. Since the financial crisis, the Authority has not issued new bonds under its Single Family program. We have moved to a program where we have been securitizing loans into mortgage backed securities and selling them in the secondary market. This is the first time we are doing a bond issue to actually permanently finance those loans under a new Aaa bond indenture. It represents the first time we are going to build back balance sheet.

The resolution request is for the authorization a not to exceed $100 million of the issuance of fixed rate, tax-exempt or taxable Revenue Bonds 2016 Series A in one or more series at the same time or at different times, but not later than July 31, 2016. The bonds are supported by federally guaranteed MBSs, so the collateral that is pledged to the bonds are going to be mortgage backed securities. It is a limited obligation, where the Authority does not pledge its general obligation but the collateral itself will support the bonds. The final maturity is to be no later than 35 years after bond issuance date and the interest rate not to exceed 5% per annum.

The schedule is fairly quick with pricing expected to be February 29, although we may move it earlier if the markets are cooperating and we find that there is an ability to accelerate. The pre-closing is set for March 15 and the closing set for March 16, 2016.

In terms of the marketing of the bond issue, we are expecting it to be tax-exempt. In recent days, from the beginning of the year until the last week, yields in the municipal market and the treasury market have been declining significantly because of concerns in the global economy. In the last week or so they have been trending up; however, RBC who is the senior manager tells us that housing bonds issue still has a lot of interest and they are expecting there to be fairly good execution in terms of the yields we achieve. We are expecting to achieve what is called full spread, which means that we will achieve the maximum permitted yield between the bond rate and the mortgage rate as allowed by tax law.

Resolution Authorizing a Risk Sharing Loan or Loans for Cole Park.

Mr. Decoux and Ms. Moran provided a summary on Cole Park Risk Sharing Loans.

<u>Resolution Authorizing a Credit Advantage-Risk Share Loan for Family Court Townhomes.</u>

Mr. Decoux and Ms. Moran provided a summary on Family Court Credit Advantage-Risk Share Loan.

<u>Resolution Authorizing Appointment of Quantitative Analyst Services.</u>

Ms. Natarajan stated: The resolution is for the selection of Quantitative Services Analysts and Financial Advisors.

The Authority needs the services of firms that are qualified to perform certain functions that are associated with the issuance and management of our bond portfolios and such firms are designated by the term municipal housing quantitative analyst.

On December 18, 2015 the Authority issued an RFP seeking vendors to perform such functions. The services required of the analysts included consolidated cash flow management, arbitrage rebate, making sure our bonds are in compliance with the tax code as well financial advisory services, making sure we have qualified, independent financial advice with respect to our bond issuances and other activities.

We received eight (8) responses in total, three (3) for Cash Flow Management Services, two (2) for Arbitrage Rebates Services and three (3) for Financial Advisory Services. The resolution provides for a three (3) year agreement, with the option for a three (3) year renewal, with Board approval required for any renewal agreement.

The awardees we are recommending are Caine Mitter & Associates for Cash Flow Management Services, BLX Group for Arbitrage Rebate Services and Caine Mitter & Associates for Financial Advisory Services.

The maximum amounts to paid under the contract are $225,000 per year or $675,000 over three (3) years for Cash Flow Management Services; $58,500 per year or $175,500 over three (3) years for Arbitrage Rebate Services and $225,000 per year or $675,000 over three (3) years for Financial Advisory Services. These are annual, not to exceed amounts, where the amounts to be paid will actually be based on services actually rendered.

In all cases, we feel we chose the most qualified bidder and achieved the most economical solution for the Authority. In particular, for the Financial Advisors and Quantitative Service Analysts, Cain Mitter's pricing is such that it is approximately 25% less than average than the other respondents, if they were selected for both services. By providing both services, there were certain efficiencies in processes as well as the delivery that can be achieved because of the overlap that happens. In all cases, the awardees are currently performing these specific services for the Authority and are doing a very good job.

Resolution Ratifying Extension and Authorizing Selection of Investment Banks.

Ms. Natarajan stated: This resolution is for the Selection of Investment Bankers.

The Authority requires the services of Investment Bankers in connection with the implementation of its financing plans, through which the Authority's securities are offered, placed or sold to the investment community.

Pursuant to the Illinois procurement code, the Authority issued an RFP on August 10, 2015 seeking vendors to service housing investment bankers and received a number a number of responses. We received twenty four (24) responses in total and if selected, the following banks for a period of two (2) years – for Senior Managers, these are the banks that will be running the transactions, do all the major marketing and take a significant portion of the liability of underwriting the issue: Citigroup Global Markets; J.P. Morgan Securities; Morgan Stanley; RBC Capital Markets and Merrill Lynch. For Co-Managers, which are firms that usually play a supporting role but also have liability in terms of the marketing and underwriting of the bonds, our recommendations are: Jefferies; Robert W. Baird & Co.; Mesirow Financial; Wells Fargo Bank; Barclays Capital; Raymond James; Samuel A. Ramirez & Co.; Loop Capital; Stifel, Nicolaus & Co. and Siebert, Brandford, Shank & Co.

Resolution Ratifying Financial Permitted Activities.

Mr. Nestlehut provided a summary for the Second Quarter Fiscal Year 2016 Permitted Financial Activities.

The first slide is the IHDA Portfolio Allocation showing a breakdown of our portfolio at 23.07% in Money Market Funds or a market value of $186.5 million; 30.18% in Mortgage Backed Securities or a market value of $243.2 million; 41.04% in US Agencies or a market value of $331.5 million; 5.68% in US Treasuries or a market value of $50.9 million and 0.03% in Investment Agreements or a market value of $246,223 Thousand bringing the total market value to $812.4 million.

A second quarter summary shows total Purchases at $387.6 million, total Sales at $209.4 million and total Maturities at $186.2 million.

Two additional slides show total Payouts and Draws at $8.9 million and total Bond Debt Service at $18.7 million.

The last slide shows our Interest Rate Management Agreement broken down by Interest Rate Caps and Swaps.

Discussion: Homeownership Mortgage Program Update.

Ms. Pavlik stated: Reservations for December 2015 at 445 first mortgage loans or $54.10 million; 209 mortgage loans or $26.74 million for GNMA and 236 mortgage loans or $27.36 million for Fannie Mae or conventional.

Ms. Pavlik presented a slide showing prior year reservation comparisons for the month of December 2015. Reservations in December 2014 were $28.6 million for GNMA and $18.8 million for Fannie for a total of $47.4 million.

Ms. Pavlik continued: Through December 2015 and over the life of the program, 98.9% of all borrowers have been utilizing our Down Payment Assistant Program; we have a 21.92% fallout rate and our current pipeline is $170.51 million.

Overall 53% of our borrowers are using an FHA product, 4% for VA, 2% for USDA which is also in that GNMA bucket; 41% are Conventional.

ONGOING ACTIVITIES

Discussion: Monthly Interim Financial Statements.

Ms. Williams discussed the Authority's Monthly Interim Financial Statements by highlighting the Total operating revenues, Government reimbursements and Total operating expenses.

Discussion: HMRB 2016A Bond Issuance.

Ms. Natarajan presented a Discussion of Bond Transaction slide on HMRB, 2016 Series A (Federally Taxable) and Mr. Peter Weiss a Pricing Book on HMRB, 2016 Series A (Federally Taxable)

Ms. Davis adjourned the meeting at 9:50 a.m.