



**Tennessee Housing Development  
Agency - Board of Directors  
Meeting Materials  
September 25, 2018**



**Tab 1 – Itinerary, Maps, Logistics**

**Tab 2 – Agenda**

**Tab 3 – Minutes from 07/24/18,  
Staff Service Award and  
Q2 Board Report**

**Tab 4 – Bond Finance Committee  
Meeting Materials**

**Tab 5 – Audit & Budget Committee  
Meeting Materials**

**Tab 6 – Grants Committee  
Meeting Materials**

**Tab 7 – Lending Committee  
Meeting Materials**

**Tab 8 – Tax Credit Committee  
Meeting Materials**

# Tab # 1

Items:

Itinerary

## Itinerary



---

### THDA Board of Directors Annual Out of Town Meeting Memphis, Tennessee

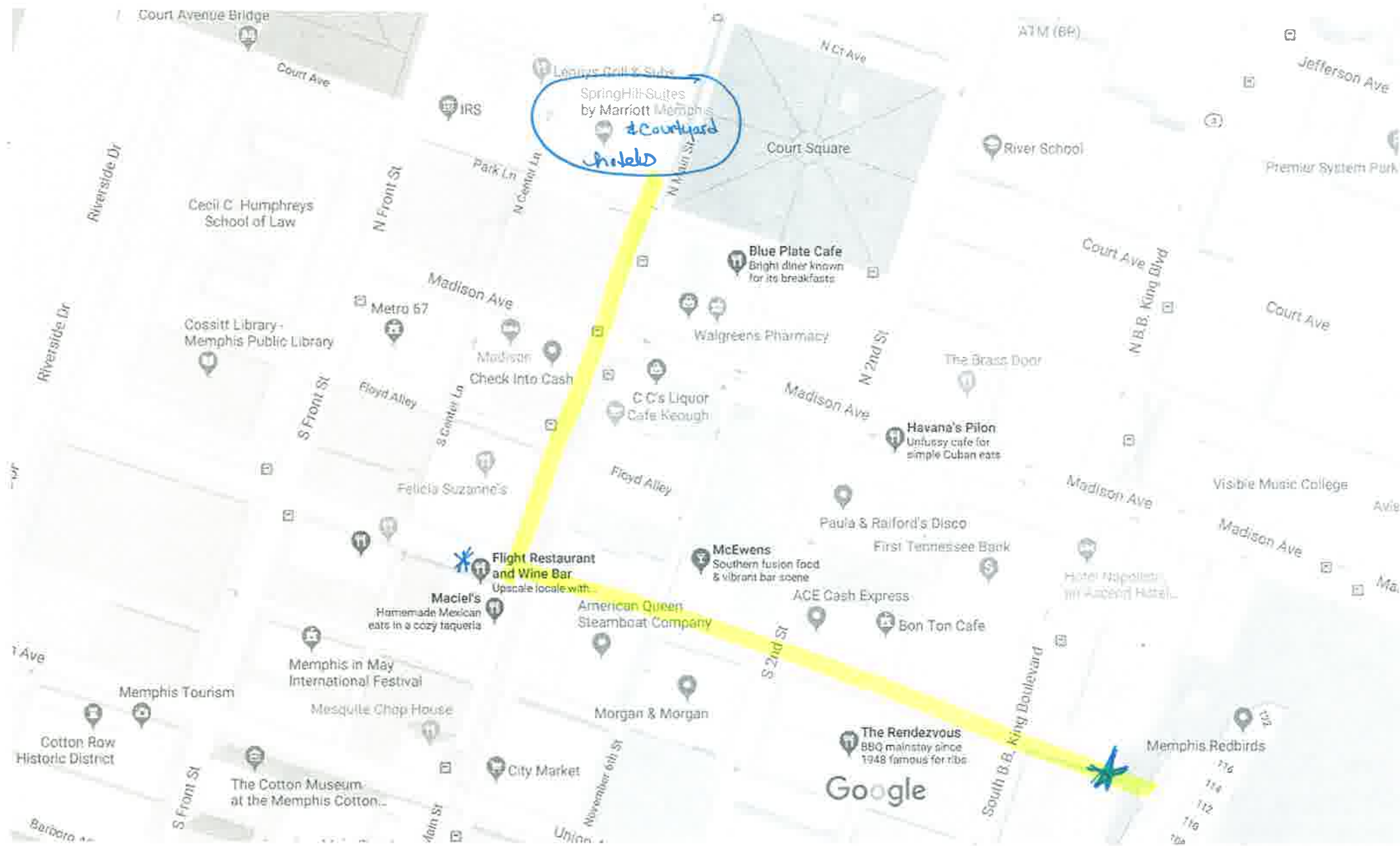
---

#### **Monday, September 24, 2018**

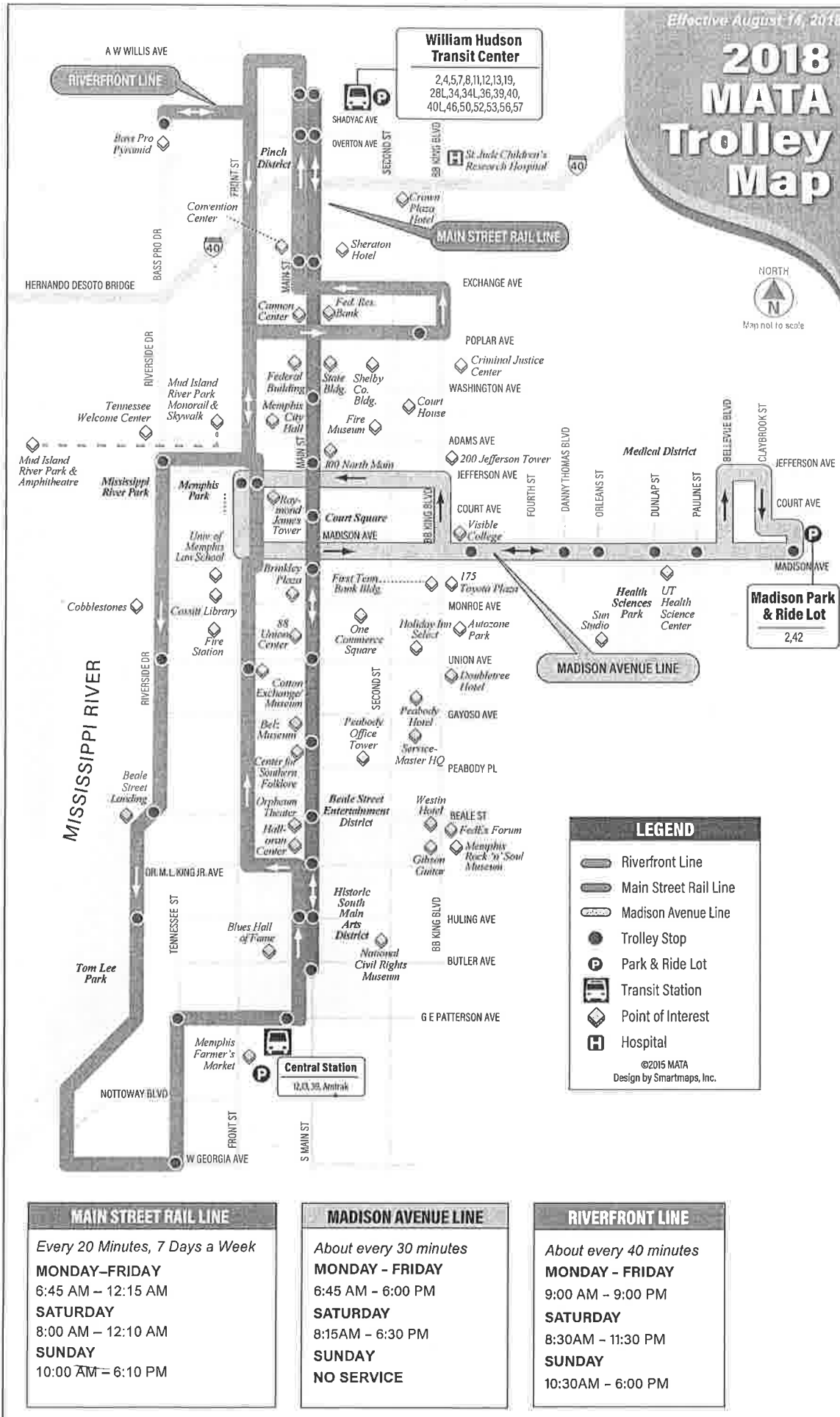
4:00 p.m.	Check into Hotels: SpringHill Suites; 85 West Court Avenue; Memphis 38103 Phone (901) 522-2100 Courtyard by Marriott; 7t Jefferson Avenue; Memphis 38103 Phone (901) 522-2200
5:30 p.m. to 7:00 p.m.	<b>Friends of Housing – All-Stars of Housing Reception</b> AutoZone Ball Park; Home Plate Club Level (3 blocks from hotel) 200 Union Avenue; Memphis 38103  At the reception, there will be heavy Hors d'oeuvres and a cash bar (one complimentary drink), soft drinks, tea and water at no charge  See attached maps -- Parking must be paid on your own Trolley is available @ \$1/per person/per ride (no change/credit cards)

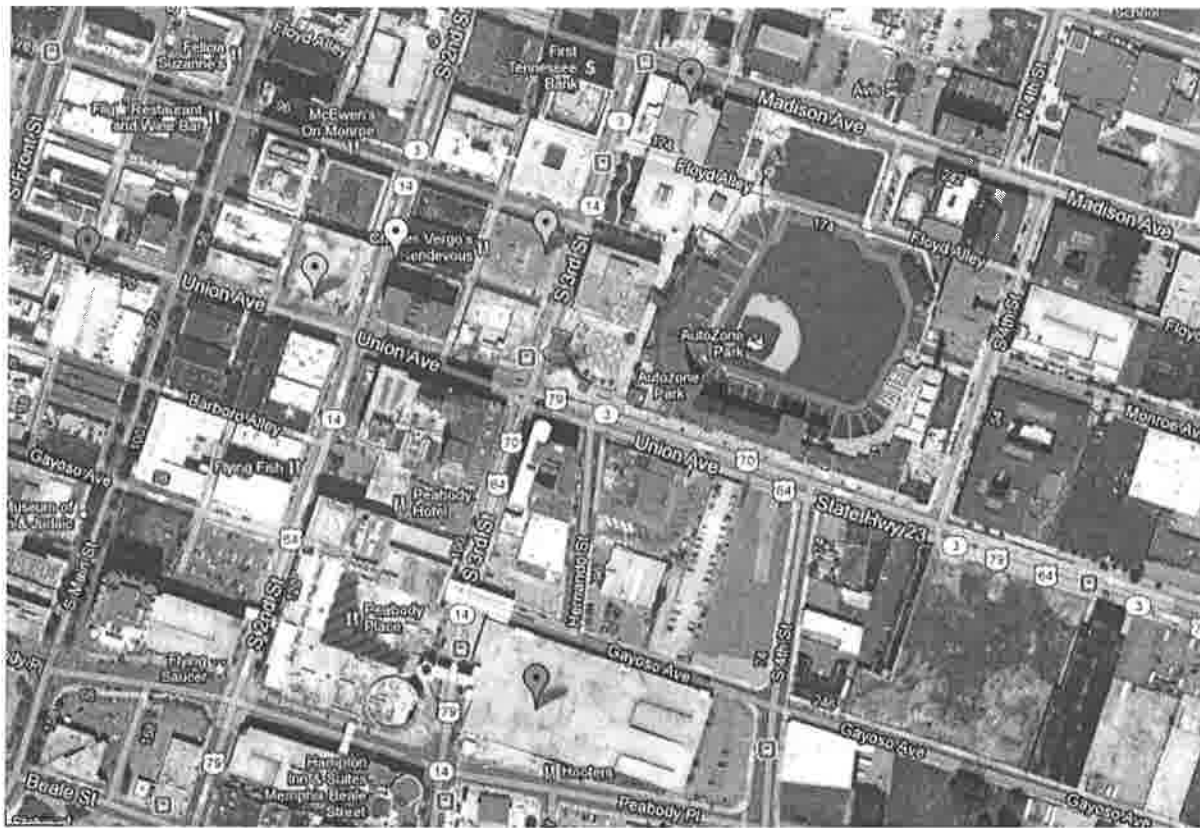
#### **Tuesday, September 25, 2018**

8:00 a.m. to 9:00 a.m.	Board Members and Staff – Breakfast will be served in the Renaissance Room of the SpringHill Suites (3 <sup>rd</sup> Floor)
9:00 a.m. to 11:00 a.m.	THDA Committee Meetings – Kress Ballroom of the SpringHill Suites (1 <sup>st</sup> Floor) Entrance off Main Street Parking is available – first come, first serve at \$5/vehicle, lots are open and there is meter parking as well for those attending the meetings only
11:00 a.m. to 11:45 a.m.	Bus Tour of the Surrounding Memphis Area
12 noon to 12:55 p.m.	Check out of hotels Board Members and Staff – Lunch will be served in the Renaissance Room of the SpringHill Suites (3 <sup>rd</sup> Floor)
1:00 p.m.	THDA Board Meeting – Kress Ballroom of the SpringHill Suites (1 <sup>st</sup> Floor) Entrance off Main Street Parking is available – first come, first serve at \$5/vehicle, lots are open and there is meter parking as well for those attending the meetings only



#1 ride (bills only - no change or credit/debit cards)





- 
**ACP Entrance**  
 3rd Street and Union Avenue (200 Union Avenue, Memphis, TN 38103)
- 
**Toyota Center Parking**  
 195 Madison Avenue Memphis, TN 38103 Rates range from \$7-\$10.
- 
**Hope Garage**  
 171 Monroe Avenue, Memphis, TN 38103 3rd Street and Monroe Avenue Rates range from \$7-\$10.
- 
**Jefferson Plaza Garage**  
 54 Second Street, Memphis, TN 38103 Rates range \$7-\$10
- 
**One Commerce Square Garage**  
 120 Union Avenue, Memphis, TN 38103 Rates range from \$7-\$10.
- 
**Parking Can Be Fun**  
 79 Union Avenue, Memphis, TN 38103 Rates range from \$7-\$10.
- 
**Peabody Place Parking**  
 250 Peabody Place, Memphis, TN 38103 Rates range from \$7-\$10.

# Tab # 2

Items:

Agenda



All meetings will be held in rooms as designated below

**AGENDA (Tab #2)**

<b>Public Comment to the Board</b>	<b>Brown, Perrey, Board Members</b>
<b>A. Opening Comments and Introductions .....</b>	<b>Brown</b>
<b>B. Approval of Minutes from July 24, 2018, Meeting (Tab #3) .....</b>	<b>Brown</b>
<b>C. Executive Director's Report (Tab #3) .....</b>	<b>Perrey</b>
<b>D. Committee Reports and Committee Matters</b>	
<b>1. Bond Finance Committee (09/24/2018—10:00 a.m. State Capitol Conf RmG-3) (Tab #4) .....</b>	<b>Brown</b>
* a. Financial Advisor Process .....	Miller
* b. Issue 2018-4 Authorization.....	Miller
* c. Issue 2018-4 Reimbursement Resolution .....	Miller
* d. Investment Policy .....	Miller
Recess** .....	<b>Brown</b>
**The Bond Finance Committee will reconvene on September 25, 2018, at 9:10 a.m. Central Time	
<b>2. Audit &amp; Budget Committee (09/25/2018—9:00 a.m. Kress Ballroom) (Tab #5) .....</b>	<b>Lillard</b>
a. Executive Director Performance Evaluation Process .....	Oliver
b. Internal Audit Director Performance Evaluation Process .....	Lillard
c. Public Records Rules .....	Balcom
d. Fiscal Year 2018 Investment Report .....	Ridley
* e. Fiscal Year 2020 Budget .....	Ball
<b>3. Bond Finance Committee (09/25/2018—9:10 a.m. Kress Ballroom) (Tab #4) .....</b>	<b>Brown</b>
Reconvene .....	<b>Brown</b>
e. Fiscal Year 2018 Investment Report .....	Ridley
* f. Fiscal Year 2020 Budget .....	Ball
<b>4. Grants Committee (09/25/2018—9:15 a.m. Kress Ballroom) (Tab #6) .....</b>	<b>van Vuuren</b>
* a. 2019 Challenge Grant Program Description .....	Watt
* b. 2018 HOME CHDO Mini Round 2 Program Description .....	Watt
c. Summary of 2017 National Housing Trust Fund Program and 2018 HOME CHDO Mini-Round Program Awards .....	Watt
<b>5. Lending Committee (09/25/2018—9:30 a.m. Kress Ballroom) (Tab #7) .....</b>	<b>Cleaves</b>
* a. GAP Appraisal Program Description .....	Hall
b. Loan Servicing Update .....	Fisher
<b>6. Tax Credit Committee (09/25/2018—9:45 a.m. Kress Ballroom) (Tab #8) .....</b>	<b>Tully</b>
* a. 2019-2020 Low Income Housing Tax Credit Qualified Allocation Plan Approval .....	Duarte
* b. Multifamily Tax-Exempt Bond Authority Commitment Extensions .....	Duarte
c. 2018 Multifamily Tax-Exempt Bond Authority Program Update .....	Duarte

# Tab # 3

## Items:

Minutes from July 24, 2018 Meeting

Service Award Recipients

Q2 Board Report from Research & Planning

TENNESSEE HOUSING DEVELOPMENT AGENCY  
BOARD OF DIRECTORS  
July 24, 2018

Pursuant to the call of the Chairman, the Tennessee Housing Development Agency Board of Directors (the “Board”) met in regular session on Tuesday, July 24, 2018, at 1:00 p.m., in the Nashville Room of the William R. Snodgrass Tennessee Tower Building, Nashville, Tennessee.

The following Board members were present: Chair Kim Grant Brown; Keith Boring for Secretary of State Tre Hargett; Regina Hubbard; Treasurer David Lillard; Samantha Wilson for Commissioner Larry Martin; Todd Skelton; John Snodderly; Lynn Tully; and Ann Butterworth for Comptroller Justin Wilson. Members of the Board who were absent: Daisy Fields; Dorothy Cleaves; Austin McMullen; Pieter van Vuuren and Mary Mac Wilson.

Ralph Perrey, Executive Director, recognized the following THDA staff members for their years of service:

Denise Hutchinson	Single Family Programs	5 years
Stephen Chinique	Single Family Programs	5 years
Tracy Stram	Information Technology	5 years
LeAnn Blankman	Accounting	10 years
Sharlene Olvera-Gonzalez	S8 Rental Assistance	20 years
David Castle	Information Technology	20 years
Mia Billingsley	Community Programs	35 years

Mr. Perrey also recognized the attendees from THDA’s Leadership Academy Class of 2018.

Chair Brown, seeing a quorum present, called the meeting to order and offered a time for public comment. With no one wishing to address the Board, Chair Brown called for consideration of the May 22, 2018, minutes. Upon motion by Mr. Lillard, second by Mr. Skelton, the minutes were approved.

Chair Brown recognized Mr. Perrey who provided the following report:

1. Volunteer Mortgage Loan Servicing. Negotiations have concluded and on August 1, 2018, THDA will begin servicing THDA loans previously serviced by U.S. Bank. Mr. Perrey recognized Steve Fisher, Trebia Johns, Heather Johnson, Lindsay Hall, Lynn Miller, Bruce Balcom and Trent Ridley for their work in accomplishing the servicing transfer.
2. Loan Production. \$44 million in loan applications for the month. Year to date, production is \$347 million, more than THDA has had at this point in any year for the past twelve years, except for last year.

3. Reimbursement Resolution. The request to increase the reimbursement resolution is due to \$56 million in commitments to date against Issue 2018-3 with pricing expected in two weeks.
4. Challenge Grants – No applications were funded and revisions to the program description are being made.

Mr. Perrey recognized Rhonda Ronnow, Director of Single Family Loan Operations, for a presentation on loan production and the related reporting system; Lorrie Shearon, Chief Strategy Officer, for a report on the THDA Strategic Plan; and Stephanie Bounds, the new Director of Communications.

Chair Brown presented the Bond Finance Committee report and recognized Lynn Miller, THDA Chief Legal Counsel, for consideration of an the amendment to the Issue 2018-3 Reimbursement Resolution as recommended by the Bond Finance Committee. Ms. Miller referenced her memo dated July 16, 2018, and noted that the Board authorized Issue 2018-3 and approved a Reimbursement Resolution in the amount of \$60 million at the May meeting. She explained that on June 19, 2018, THDA began committing mortgage loans to be purchased with Issue 2018-3 bond proceeds and, as of July 20, approximately \$53 million had been committed, with approximately \$14.7 million of that amount purchased using THDA funds. She noted that due to production levels, staff thinks commitments could exceed the approved \$60 million reimbursement amount by the time Issue 2018-3 closes on September 6, so staff recommends approval of the Board Resolution titled “Amendment to a Resolution of the Board of Directors of the Tennessee Housing Development Agency Authorizing Reimbursement of THDA from Proceeds of Issue 2018-3” (“Reimbursement Resolution Amendment”) to increase the amount of reimbursement from \$60 million to \$80 million. Upon motion by Chair Brown, second by Ms. S. Wilson, the Board unanimously approved the Reimbursement Resolution Amendment.

Chair Brown then recognized Ms. Miller to discuss the financial advisor request for proposal. As described in her July 16, 2018, memo, Ms. Miller indicated the current financial advisor for THDA was selected in 2013, through a competitive process, to serve as financial advisor for THDA debt issuances for a three-year term that expired on December 31, 2016, however, the contract was extended for two one-year terms as provided in the contract. She explained that with no further extension options, the current contract will expire on December 31, 2018, so staff expects to start the competitive process for selecting a financial advisor at the September meetings. She noted that the Bond Finance Committee recommended approval of this process. Upon motion by Chair Brown, second by Mr. Boring, motion carried to authorize staff to start the process.

Chair Brown next recognized Ms. Miller to report on areas of chronic economic distress (“ACED”). Ms. Miller referenced a memo dated July 9, 2018, from Hulya Arik and Bettie Teasley and explained that the federal tax code allows designation of ACEDs, but that current ACEDs were designated in the 1980s and have never been updated. She noted that the first time homebuyer requirement is waived in ACEDs and income limits can be higher. Ms. Miller indicated the referenced memo explains the staff process and includes a chart of current and proposed ACEDs and maps of proposed ACEDs. She indicated that the Bond Finance Committee recommended approval of the resolution titled “RESOLUTION OF THE BOARD OF DIRECTORS OF THE

TENNESSEE HOUSING DEVELOPMENT AGENCY DESIGNATING CERTAIN AREAS OF CHRONIC ECONOMIC DISTRESS AND AUTHORIZING APPLICATION FOR APPROVAL OF SUCH DESIGNATIONS” dated July 24, 2018. Upon motion by Chair Brown, second by Mr. Skelton, the referenced resolution was approved.

Chair Brown recognized Ms. Miller for the review of the State Form CT-0253, Report on Debt Obligation (the “Report”) for Issue 2018-1. Ms. Miller explained that the Report is statutorily required for every bond sale and must be submitted to the Board of Directors for review. She indicated the Report was filed with the Comptroller’s Office on June 28, 2018, within the 45-day filing period. Ms. Miller noted that her memo dated July 16, 2018, provided a cost comparison of the four most recent bond issues. No action by the Board was needed.

Chair Brown recognized Mr. Tim Rittenhouse with CSG, financial advisor for THDA, who discussed THDA bond issuance and financial highlights.

Chair Brown then recognized Ms. Tully for the Grants Committee report. Ms. Tully chaired the Grants Committee in Mr. McMullen’s absence. Ms. Tully noted the first item on the agenda is the Program Description for the 2019 Fall Tennessee Housing Trust Fund (“THTF”) Competitive Grants Program. She referenced a memorandum from Don Watt, Director of Community Programs dated July 9, 2018, and the attached proposed THTF 2019 Fall Round Competitive Grants Program Description (“THTF 2019 Fall Program Description”). She explained that the proposal is to make \$2,000,000 available under the THTF 2019 Fall Program Description to create affordable rental housing opportunities across the state, with priority given to projects that address the housing needs of ex-offenders, youth transitioning out of foster care, and homeless veterans, as well as populations that are either extremely-low or low-income households. She highlighted the following Grants Committee recommended changes for the THTF 2019 Fall Program Description:

- (1) Require services to be made available to assist individuals with disabilities to remain in the community.
- (2) Exclude the cost of developers’ fees and project operating reserves as eligible expenses.
- (3) Clarify that building permits must be obtained for all housing projects that are created in localities that require them. In localities that do not require building permits, require that the units be inspected by qualified inspectors.
- (4) Add prioritization criteria for award determinations when a tie score exists between applications. First priority will be given to applications with the highest Innovation scores, then applications with the greatest Needs scores, and finally, to the applications that provide the greatest number of housing units.

Upon motion by Ms. Tully, second by Ms. Hubbard, motion carried to approve the THTF 2019 Fall Program Description.

Ms. Tully next presented the Grants Committee recommended changes to the 2018 Low Income Home Energy Assistance Program (“LIHEAP”) and referenced a memo from Mr. Don Watt, Director of Community Programs, dated July 16, 2018. She noted that LIHEAP provides funds to assist eligible households cover their utility bills. She indicated that staff is proposing a significant change in timing to allow program year 2018 and 2019 LIHEAP implementation to align with the federal fiscal year. Upon motion by Ms. Tully, second by Mr. Lillard, motion carried to apply for the 2019 LIHEAP program, to approve the timing changes for the 2018 and 2019 LIHEAP program years and related changes as described in the referenced memo.

Ms. Tully next referenced four grant extension requests for the 2012 and 2013 HOME programs recommended by the Grants Committee. She referenced a memo from Mr. Watt dated July 17, 2018 and the accompanying grant extension request letters from the Cities of Columbia, Cowan, Lawrenceburg, and from Coffee County. Upon motion by Ms. Tully, second by Mr. Skelton, motion carried to approve grant extensions to December 31, 2018, based on the rationale in the referenced memo.

Ms. Tully next reference a memo dated July 17, 2018 from Mr. Watt describing the Grants Committee recommended 2019 Housing Trust Fund allocation to Habitat for Humanity of Tennessee and the attached Housing Trust Fund Habitat Tennessee Program Description. Upon motion by Ms. Tully, second by Mr. Snodderly, motion carried to approve a 2019 allocation of \$500,000 from the Tennessee Housing Trust Fund to Habitat for Humanity of Tennessee under the Habitat Tennessee Program Description, effective July 1, 2018 – June 30, 2019.

Ms. Tully completed the Grants Committee report by noting that the Committee received updates on 2018 funding awards for ESG, HOME, and Spring Tennessee Housing Trust Fund Competitive Grants.

Chair Brown then recognized Treasurer Lillard for the Audit & Budget Committee report. Mr. Lillard indicated that a quorum was not present; therefore, no action was taken by the Committee. Mr. Lillard indicated that the Audit & Budget Committee heard from Ms. Beth Pugh, THDA Assistant Director of Internal Audit, who presented the Fiscal Year 2019 Audit Plan along with a list of projects in progress as of July 1, 2018. Upon motion by Mr. Lillard, second by Ms. Butterworth, motion carried to endorse the Fiscal Year 2019 Audit Plan.

Mr. Lillard noted that Mr. Trent Ridley, Chief Financial Officer, presented a Fiscal Year 2018 Recap and referenced a memo from Mr. Ridley dated July 17, 2018, providing a financial status update that was distributed at the meeting. No Board action was required.

Next, Chair Brown recognized Ms. Hubbard for the Lending Committee report. Ms. Hubbard chaired the Lending Committee in Ms. Cleaves’ absence. Ms. Hubbard called on Dr. Hulya Arik, THDA Economist, to describe Single Family Mortgage Loan Program Income Limits recommended by the Lending Committee. Dr. Arik referenced a memo dated July 9, 2018, and explained that staff determined possible income limits based on newly released Area Gross Median Income and Average Area Purchase Prices from HUD and in accordance with IRS requirements. She noted that income limits could remain unchanged based on use of FY 2017

data, except for downward adjustments that are mandatory, or be changed based on FY 2018 data. She explained that staff and the Lending Committee agreed that the Proposed 2018 Income Limits, described in the referenced memo, created the best opportunity to increase the income limits for the most counties, with the fewest reductions. She noted that the mandatory decreased income limits were effective as of July 20, 2018, and any increases would be effective August 1, 2018. Upon motion by Ms. Hubbard, second by Ms. S. Wilson, motion carried to approve the Proposed 2018 Income Limits, reflecting increased limits for 81 counties and reduced limits for 14 counties, as described in the referenced memo.

Ms. Hubbard indicated that the Lending Committee concurred with the Bond Finance Committee recommendation regarding Areas of Chronic Economic Distress. She also referenced a memo from Lindsay Hall dated July 17, 2018, describing an Appraisal Gap Grant Pilot program that will be considered further in September.

Chair Brown recognized Mr. Snodderly for the Rental Assistance Committee report. Mr. Snodderly noted there was one action item, the approval of amendments to the Section 8 Rental Assistance Housing Choice Voucher Administrative Plan. He referenced a memo from Trent Ridley, Jeboria Scott and Charity Williams dated July 17, 2018 describing the changes and including the amendments recommended by the Committee. Upon motion by Mr. Snodderly, second by Mr. Lillard, the amendments to the Section 8 Rental Assistance Housing Choice Voucher Administrative Plan were approved with the following roll call vote:

Ms. Brown	Yes
Ms. Hubbard	Yes
Mr. Skelton	Yes
Mr. Snodderly	Yes
Ms. Tully	Yes
Mr. Boring	Yes
Mr. Lillard	Yes
Ms. S. Wilson	Yes
Ms. Butterworth	Yes

Mr. Snodderly noted that Ms. Scott also provided an update on the Mainstream 811 Non-Elderly Disabled (NED) grant, but no Board action was needed.

Chair Brown called on Ms. Tully for the Tax Credit Committee report. Ms. Tully announced that consideration of the 2019-2020 Low Income Housing Tax Credit Qualified Allocation Plan is deferred.

Ms. Tully next described a request from Jim Tracey and Don Harris, with U.S. Department of Agriculture-Rural Development (“USDA-RD”), for a second extension of the deadline to sell and close bonds under the 2018 Multifamily Tax Exempt Bond Authority Program for 10 developments seeking USDA-RD financing. She referenced a memo from Donna Duarte, Director of Multifamily Programs, describing a conditional waiver to Part VIII-A-2-d of the Multifamily Tax-Exempt Bond Program Description for these USDA-RD developments and proposing a new December 19, 2018 deadline for closing the issuance and sale of bonds due to unavoidable delays with USDA-RD. With a recommendation for approval from the Committee and upon motion by

Ms. Tully, second by Mr. Lillard, motion carried to approve the conditional waiver with enhanced monitoring and an extension to December 19, 2018.

Ms. Tully next presented amendments to the Low Income Housing Tax Credit 2018 Qualified Allocation Plan that affect Sevier County. She referenced a memo from Ms. Duarte dated July 9, 2018, and explained that by increasing the Sevier County cap to \$5,241,745 and the QCT cap to 48%, two additional Sevier County applications can be offered full allocations of competitive 2018 Low Income Housing Tax Credits to produce 128 additional affordable rental housing units and the remaining balance of \$428,309 of competitive 2018 Low Income Housing Tax Credits can be offered as a partial reservation to the final 2018 applicant proposing a development in Sevier County. She noted that the Committee recommended the amendments due to THDA's commitment of resources to assist Sevier County following the 2016 wildfires. Upon motion by Ms. Tully, second by Mr. Snodderly, motion carried to amend the Low Income Housing Tax Credit 2018 Qualified Allocation Plan to increase the Sevier County cap to \$5,241,745 and to increase the qualified census tract limit to 48%.

Ms. Tully noted the next item is a requested allocation exchange of 2017 Low Income Housing Tax Credits for a like amount of 2018 Low Income Housing Tax Credits, as requested for South City, Foote Homes Phase II (TN17-030). She referenced a memo from Ms. Duarte dated July 9, 2018, and noted that the Committee recommended approval subject to the conditions contained in the referenced memo. Upon motion by Ms. Tully, second by Mr. Lillard, the allocation exchange with the conditions noted in the referenced memo was approved.

Ms. Tully also noted the Committee received a report on the status of bond closings using 2018 Multifamily Tax Exempt Bond Authority, but no Board action was required.

With no further business to discuss, the meeting was adjourned.

Respectfully submitted,

Ralph M. Perrey  
Executive Director

Approved the 25<sup>th</sup> day of September, 2018.



# *Celebrating* *Years of Service*

---

5 Years

*Kathryn Moore*

Community Outreach Liaison  
Industry and Governmental Affairs  
THDA Hire Date: August 19, 2013

# THDA QUARTERLY BOARD REPORT

April 1, 2018 – June 30, 2018

## Summary of Quarterly Activities

### Finances and Resources

Available Volume Cap (June 30, 2018)		\$1,246,058,194
Bonds Outstanding (June 30, 2018)		\$2,089,025,000
	<i>Current Year</i>	<i>Prior Year</i>
Operating Income (9 Months ended March 31, 2018)	\$13,773,000	\$12,975,000
Net Assets (9 Months ended March 31, 2018)	\$518,210,000	\$516,414,000

### Homeownership Activities

	<i>Number</i>	<i>Value</i>
Loans Committed During Quarter	1362	\$181,180,844
Loans Funded During Quarter	1201	\$160,035,299
	<i>Q2, 2018</i>	<i>Q2, 2017</i>
Loans Active	24,287	23,187
Value of Loans (in millions)	\$2,116	\$1,924
Loans Paid Off during Quarter	538	614
Loans 60-days Delinquent	2.08%	1.74%
Loans 90-days Delinquent	4.95%	6.00%
Loans in Foreclosure	0.79%	0.71%
	<i>Q2, 2018</i>	<i>Total Served</i>
Foreclosure Counseling (AG)	149	17,908

### Section 8 Housing Choice Voucher Program

Rental Vouchers	5,887
Homeownership Vouchers	44
Total HAP Payments	\$8,940,638.36

### Project Based Section 8

Properties	376
Units	28,548
Total HAP Payments	\$45,256,406.64

### Multifamily Tax Exempt Bond Authority

2018 Applications		
Bond Authority:	\$346,000,000	
	<i>Applications</i>	<i>Bond Authority</i>
Firm Bond Authority Requested	29	\$345,820,814
Conditional Authority Requested	8	152,089,814
Committed	0	\$0
Closed	4	\$60,300,000

### Low Income Housing Tax Credit Program

2018 Applications		
	<i>Noncompetitive (4%)</i>	
	<i>Applications</i>	<i>Credits (\$)</i>
Received/Requested	37	\$22,804,769
Allocated	4	\$4,176,792
	<i>Competitive (9%)</i>	
	<i>Applications</i>	<i>Credits (\$)</i>
Received/Requested	49	\$44,122,603
Allocated	0	\$0
	<i>Developments Under Construction</i>	
	<i>Properties</i>	<i>Units</i>
Noncompetitive LIHTC	34	4,080
Competitive LIHTC	45	4,564



















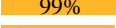
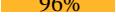
### Placed in Service/Compliance

As of 12/31/17	
Properties	593
Units	50,573

# THDA QUARTERLY BOARD REPORT

April 1, 2018 – June 30, 2018

## Summary of Grant Programs

<u>Program</u>	<u>Funds Awarded /</u> <u>Allocated</u>	<u>Paid this Quarter</u>	<u>Paid to Date</u>	<u>Awarded Funds</u> <u>Remaining</u>	<u>Unallocated</u> <u>Program \$</u>	<u>Percent Expended</u>
<i>Tennessee Housing Trust Fund (active grants)</i>						
Home Modification and Ramps	\$600,000	\$30,008	\$366,592	\$233,408		 61%
Emergency Repair	\$5,464,314	\$623,597	\$3,673,120	\$1,791,194		 67%
Competitive Grants	\$18,278,202	\$1,081,526	\$12,588,096	\$5,690,106		 69%
Habitat for Humanity	\$1,000,000	\$249,990	\$1,000,000	\$0		 100%
Challenge Grant	\$500,000	\$0	\$0	\$0		0%
<i>National Housing Trust Fund</i>		\$0	\$0			
2017	\$2,844,252	\$0	\$0	\$2,844,252		0%
2016	\$2,700,000	\$0	\$0	\$2,700,000		0%
<i>HOME</i>						
2017	\$10,890,000	\$12,000	\$248,789	\$10,641,211		 2%
2016	\$7,328,292	\$541,227	\$1,638,382	\$5,689,910		 22%
2015	\$8,671,000	\$416,438	\$2,022,518	\$6,648,482		 23%
2014	\$9,874,036	\$500,689	\$4,473,721	\$5,400,315		 45%
2012 & 2013	\$16,506,409	\$778,422	\$12,767,091	\$3,739,318		 77%
<i>Emergency Solutions Grant</i>	\$7,380,038	\$944,325	\$6,401,240	\$978,798		 87%
<i>Weatherization</i>	\$14,638,681	\$454,671	\$8,209,810	\$6,428,871		 56%
LIHEAP Set-Aside	\$11,722,323	\$535,444	\$4,875,656	\$6,846,667		 42%
<i>LIHEAP (excluding Weatherization Set-Aside)</i>	\$177,755,044	\$9,845,564	\$97,917,425	\$79,837,619		 55%
<i>Treasury/Recovery Programs</i>						
Appalachian Renovation Loan Program	\$227,179	\$97,776	\$227,179		\$1,272,822	 15%
Blight Elimination Program	\$416,875	\$31,797	\$416,875		\$9,583,125	 4%
Principal Reduction Program	\$203,333	\$125,646	\$203,333		\$4,796,667	 4%
Reinstatement Only Program	\$208,479	\$149,217	\$208,479		\$5,491,521	 4%
Downpayment Assistance	\$43,680,000	\$10,470,000	\$39,465,000		\$16,601,963	 65%
Keep My TN Home (HHF)	\$184,814,431	\$61,048	\$182,844,739	\$1,969,692		 99%
Keep My TN Home (Medical Hardship Program)	\$22,631,287	\$97,652	\$21,758,440	\$872,847		 96%

## Notes:

### Finances and Resources

*Available Volume Cap:* This is the total tax-exempt bond volume THDA currently has available to use for housing purposes.

*Bonds Outstanding:* This is the current value of bond volume outstanding. Pursuant to TCA 12-23-121(a), THDA has a maximum bonding authority of \$2,930,000,000.

*Operating Income:* This number reflects THDA's operating income for the most recent time period as provided by Accounting (not including changes in the fair value of investments).

*Net Assets:* This number reflects THDA's net assets from the end of the previous quarter.

### Multifamily Programs

LIHTC projects are stated in terms of the annualized amount of credit a project applies for and receives. Over the life of a LIHTC award, the dollar totals shown are granted each year for ten years.

### Homeownership Activities

*Loans Delinquent/In Foreclosure:* The numbers used here reflect those loans funded with bonds outstanding, matching up with THDA's quarterly bond disclosure reports posted on THDA.org.

### Summary of Grant Programs

*Housing Trust Fund:* This includes all active grants (those with funds available to be drawn) since the start of the Housing Trust Fund.

*Keep My TN Home (Hardest Hit Fund & Medical Hardship Programs):* Funds are expended from these programs as needed, thus an additional column is included to show federal or Board awarded funds that are currently uncommitted. The total uncommitted dollars plus the funds awarded column for each program is equal to the total Board or federally awarded funding amounts.

*Downpayment Assistance:* During Q2 of 2018, THDA committed \$11,685,000 in downpayment assistance, but as of June 30, had funded \$10,470,000 of loans.

*Keep My Tennessee Home (HHF):* Administrative funds are deducted from the funds award and not included in the report. THDA approved the last borrower for the Keep My Tennessee Home Program in November 2014, but continued disbursing funds on behalf of the borrowers approved previously. Disbursed dollar amounts show the payments that were made during the current quarter.

# Tab # 4

Items:

Bond Finance Committee Meeting Materials

**Tennessee Housing Development Agency**  
**Bond Finance Committee**  
**September 24, 2018**  
**10:00 a.m. Central Time**

---

AGENDA

1. Call to Order ..... J. Wilson
2. Approval of minutes from August 7, 2018, meeting ..... J. Wilson
3. Financial Advisor Process.....Miller
4. Issue 2018-4 Authorization.....Miller
5. Issue 2018-4 Reimbursement Resolution .....Miller
6. Investment Policy.....Miller
7. Fiscal Year 2018 Investment Report.....Ridley
8. Fiscal Year 2020 Budget.....Ball
9. Recess\*\* ..... J. Wilson

\*\*The Bond Finance Committee will reconvene at 9:10 AM on  
September 25, 2018, at Kress Ballroom, SpringHill Suites,  
Memphis, Tennessee.

LOCATION

Conference Room G-3  
State Capitol, Ground Floor  
Nashville, Tennessee 37243

COMMITTEE MEMBERS

Kim Grant Brown, Chair  
Secretary Tre Hargett  
Treasurer David Lillard  
Commissioner Larry Martin  
Comptroller Justin Wilson

TENNESSEE HOUSING DEVELOPMENT AGENCY  
BOND FINANCE COMMITTEE  
August 7, 2018

Pursuant to the call of the Chairman, the Bond Finance Committee of the Tennessee Housing Development Agency Board of Directors (the “Committee”) met on Tuesday, August 7, 2018, at 4:30 P.M. in Conference Room G-3, State Capitol, Nashville, Tennessee. The following members were present: Keith Boring (for Secretary of State Tre Hargett), Treasurer David Lillard, and Comptroller Justin Wilson (*Secretary*). Kim Grant Brown (*Chair*) and Samantha Wilson (for Commissioner of Finance & Administration Larry Martin) participated by conference call.

At the request of Chair Brown, Treasurer Lillard chaired the meeting. Treasurer Lillard noted a physical quorum was present and called the meeting to order. He asked for a motion to approve the minutes of the July 23, 2018, meeting. Upon motion by Comptroller Wilson, second by Mr. Boring, and with the following roll call vote, the motion carried to approve the July 23, 2018, minutes:

Chair Brown:	Yes
Mr. Boring for Secretary Hargett:	Yes
Treasurer Lillard:	Yes
Ms. Wilson for Commissioner Martin:	Yes
Comptroller Wilson:	Yes

Treasurer Lillard indicated the next item for consideration was the sale of Issue 2018-3 Bonds. He recognized Lynn Miller, THDA Chief Legal Counsel, who presented the following documents that were circulated for the Committee’s consideration:

- Memo from CSG Advisors Incorporated (“CSG”), financial advisor for THDA, dated August 7, 2018, recommending approval of the described pricing for Issue 2018-3.
- Resolution of the Bond Finance Committee approving the issuance and sale of Issue 2018-3 (Non-AMT) in the aggregate principal amount of \$149,900,000 (the “Award Resolution”). The following documents were attached to the Award Resolution as exhibits and were incorporated by reference:
  - Bond Purchase Agreement for the sale of Issue 2018-3 Bonds to the underwriting syndicate, led by Citigroup Global Markets Inc. (“Citigroup”), the bookrunning senior manager;
  - Supplemental Resolution for the Issue 2018-3 Bonds; and
  - Bond Maturity Report showing the maturities and interest rates for the Issue 2018-3 Bonds.

Ms. Miller pointed out that the interest rate of 2.95% for the July 1, 2027 maturity shown on a chart on page 3 of CSG’s memo should be 2.90% and will be changed in a final memo. She noted that during the sale, THDA achieved over \$57 million in retail orders. Ms. Miller called upon Tim Rittenhouse and David Jones, from CSG, who participated by conference call, for their comments.

Mr. Jones indicated that while rates were modestly higher, a review of Citigroup’s proposed scale resulted in downward adjustments to several maturities prior to the start of the retail order period. He noted that during the retail order period, all serial bonds through the 2028 maturities were fully subscribed. He explained that THDA agreed to accelerate the sale with an institutional order period, while continuing to take priority retail orders. Mr. Jones noted that it was beneficial that Citigroup agreed to underwrite the balances in the 2029-2031 serial bonds plus a balance in the 2033 term bond totaling about \$9 million when

the institutional order period closed. Mr. Rittenhouse indicated that the THDA bond issue was viewed as the premier issue of the week with interest in the PAC at levels not seen in almost three months. Mr. Rittenhouse noted that it was a good sale even if the final pricing adjustments were not as dramatic as seen previously.

Ms. Miller noted that CSG recommended approval of the pricing as described in the Bond Maturity Report attached to the Award Resolution and staff recommended adoption of the Award Resolution which will approve the pricing. Upon motion by Comptroller Wilson, second by Mr. Boring, and with the following roll call vote, motion carried to approve the Award Resolution:

Chair Brown:	Yes
Mr. Boring for Secretary Hargett:	Yes
Treasurer Lillard:	Yes
Ms. Wilson for Commissioner Martin:	Yes
Comptroller Wilson:	Yes

There being no further business, Treasurer Lillard adjourned the meeting.

Respectfully submitted,

Sandra Thompson, Assistant Secretary

Approved this 24<sup>th</sup> day of September, 2018.





**Tennessee Housing Development Agency**  
404 James Robertson Parkway, Suite 1200  
Nashville, Tennessee 37243-0900  
615-815-2200

**Bill Haslam**  
Governor

**Ralph M. Perrey**  
Executive Director

**MEMORANDUM**

**DATE:** September 19, 2018  
**TO:** Bond Finance Committee and THDA Board of Directors  
**FROM:** Sandi Thompson, Director Office of State and Local Finance  
Lynn E. Miller, THDA Chief Legal Counsel  
**SUBJECT:** Authorization for Financial Advisor Selection Process

---

At the July 23, 2018, meeting, the Bond Finance Committee indicated that staff should prepare materials for a Request for Proposal ("RFP") process to select a new financial advisor for THDA since the current contract for financial advisory services will expire at December 31, 2018. In connection with that request, attached please find the following documents:

1. Resolution of the Board of Directors of the Tennessee Housing Development Agency Regarding the Process for Selection of A Financial Advisor (the "FA Authorizing Resolution")
2. RFP cover letter
3. Form of the RFP
4. Distribution list of firms to receive the RFP

The request to the Bond Finance Committee is to recommend these documents and the process described therein to the Board. The request to the Board is to approve the FA Authorizing Resolution which will approve the described process and timetable and will authorize the Bond Finance Committee to make necessary adjustments and to make the final selection of financial advisor.

LEM/ds

RESOLUTION OF THE BOARD OF DIRECTORS  
OF THE TENNESSEE HOUSING DEVELOPMENT AGENCY  
REGARDING THE PROCESS FOR SELECTION OF A FINANCIAL ADVISOR  
September 25, 2018

WHEREAS, the current contract for financial advisory services between The State of Tennessee, Office of the Comptroller of the Treasury and CSG Advisors Incorporated, regarding the debt issuances of the Tennessee Housing Development Agency (“THDA”) will expire as of December 31, 2018; and

WHEREAS, the Bond Finance Committee of the THDA Board of Directors (the “Bond Finance Committee”) recommended commencing a competitive process to seek proposals from those wishing to provide financial advisory services for a three year term beginning January 1, 2019; and

WHEREAS, the THDA Board of Directors wish to delegate to the Bond Finance Committee responsibility for the selection process and authority to select a qualified firm to provide financial advisory services prior to the December 31, 2018, expiration of the contract with the current financial advisor.

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE TENNESSEE HOUSING DEVELOPMENT AGENCY AS FOLLOWS:

1. A request for proposal, generally in the form attached hereto (the “RFP”) is hereby approved.
2. The calendar contained in the RFP is hereby approved.
3. Authority is hereby delegated to the Bond Finance Committee to make the final selection of a firm to provide financial advisory services in a manner generally consistent with the RFP.
4. Authority is hereby delegated to the Bond Finance Committee to cause a contract, in a form and with substance satisfactory to the Bond Finance Committee, to be executed by The State of Tennessee, Office of the Comptroller of the Treasury, on or before December 31, 2018, with the financial advisor selected as a result of the described process.
5. Authority is hereby delegated to the Bond Finance Committee and staff thereto to take all actions necessary or convenient to make the final selection of a firm to provide financial advisory services, including without limitation, modification of the RFP and the proposed timetable.
6. This resolution shall take effect immediately.

This Resolution was adopted by the affirmative vote of no fewer than eight (8) members of the THDA Board of Directors at its meeting on September 25, 2018.

September 26, 2018

To Interested Parties:

The Tennessee Housing Development Agency (THDA) through its Bond Finance Committee administered by the Office of State & Local Finance in the Office of the Comptroller of the Treasury, is seeking an independent financial advisor to serve for the period of January 1, 2019, through December 31, 2021. The Bond Finance Committee members consist of the Chairman of the Board of Directors of THDA, the Secretary of State, the Comptroller of the Treasury, the State Treasurer and the Commissioner of Finance and Administration.

Since 1989, the Comptroller of the Treasury, as Secretary of the Bond Finance Committee, on behalf of THDA, has contracted for financial advisory services separate from underwriting services. THDA anticipates needing financial advisory services for 3-5 bond transactions each year, including all associated 10-year rule and 42-month rule analysis, debt service reserve fund analysis and relevant cash flows, as well as other services as specified herein. In addition, the Bond Finance Committee and THDA expect the financial advisor to prepare annual consolidated cash flows for three of THDA's general resolutions, and to prepare cash flows and financial analysis associated with annual updates of THDA's Strategic Five-Year Plan.

In selecting a financial advisor, the Bond Finance Committee and THDA seek to supplement and complement, as well as strengthen, their internal expertise. In addition, the Bond Finance Committee and THDA intend to select, as financial advisor, an independent firm providing financial advisory services that does not provide underwriting services. The Bond Finance Committee of the THDA Board of Directors is statutorily authorized to carry out THDA's debt issuance process, with the Comptroller of the Treasury, as secretary of the Bond Finance Committee, being responsible for the execution of all matters relating to the issuance of THDA debt.

The Bond Finance Committee has appointed the Director of the Office of State & Local Finance within the Office of the Comptroller of the Treasury as the Assistant Secretary to the Bond Finance Committee. The THDA Executive Director, Chief Financial Officer, Chief Legal Counsel and Director of Finance are the primary THDA personnel responsible for working with the Bond Finance Committee. Staff from the Office of State & Local Finance and THDA work with the financial advisor, the bond counsel, the Trustee and the underwriters, if any, to determine the timing, structure and documentation for THDA debt issues. THDA utilizes the services of Kutak Rock LLP, Atlanta, Georgia, as bond counsel. If a negotiated sale is deemed appropriate, the firms of Citigroup, Raymond James, and RBC Capital Markets currently serve as senior managers and J.P. Morgan, Wells Fargo Securities and a member of the selling group serve as co-managers.

Since 2002, THDA debt issuance has occurred via negotiated sale. THDA, however, intends to consider the method of sale for each debt issuance on a case by case basis with consideration of a number of factors, including without limitation, the following factors:

- Complexity of the transaction, including whether the debt issuance incorporates structured bond components (such as planned amortization class bonds) and, generally, more complex redemption features.
- Including AMT or taxable components.
- Complexity of credit features, including multiple collateral pools and detailed loan portfolio histories, performance, and mortgage insurance characteristics.
- Importance of retail sales and institutional pre-marketing as part of the marketing plan.
- Volatility of bond market and other market conditions.
- Degree of investor concern about housing-backed transactions – especially secured by “whole loans.”
- Confidence in the rating agencies’ ability to evaluate structured credits.

The Bond Finance Committee and THDA expect a reasoned recommendation from the financial advisor as to method of sale in connection with each proposed debt issuance. Consequently, there can be no assumption that use of negotiated sales will remain at this level on a going forward basis.

The Bond Finance Committee and THDA maintain control over all processes related to debt issuance. The financial advisor is not expected to take a primary role with respect to the timing of financing transactions and transaction documents, including the preparation of the official statements. THDA maintains control of preliminary official statements and official statements and distributes them electronically. In the context of a bond issue, the financial advisor is expected to recommend the debt structure, type of sale, and other items as requested. In addition, the financial advisor, together with the Office of State & Local Finance and THDA staff, is expected to communicate with underwriters, selling group members, investors, bond counsel, rating agencies and others. In the context of competitive sales, THDA uses electronic bidding.

THDA anticipates the financial advisor will be utilized consistently to assist with the following:

- structuring bond issues, including debt service analysis, 10-year rule/32-year rule analysis, universal cap analysis and other analysis required by bond counsel or rating agencies or as otherwise necessitated by specific bond structures
- reviewing transaction documents and documents related to the underwriter and selling group
- reviewing and commenting on documents related to bids and bid verification in a competitive sale
- interacting with the underwriting team on behalf of the Bond Finance Committee and THDA in a negotiated sale
- recommending underwriter compensation in the case of a negotiated sale
- preparing memoranda or other documents containing recommendations as requested by THDA and the Bond Finance Committee
- assisting in the selection of underwriters and analyzing pricing proposals
- preparing cash flow projections, in connection with each bond transaction and annually on a consolidated basis for THDA’s three open indentures
- identifying and analyzing refunding opportunities and other debt management opportunities
- assisting with tax analysis

- assisting in investment decisions
- managing 10 year rule requirements, including genealogy, refunding components, etc.
- preparing analysis for the 5-Year Strategic Financial Plan
- managing yield compliance with respect to bond issues under open tax plans
- evaluating market conditions and providing comparables in connection with THDA debt issuance
- evaluating performance of the underwriting team
- evaluating bond pricing performance in relation to the market

If your firm is interested in serving as the independent financial advisor for THDA, we invite you to participate in a pre-proposal conference call on October 4, 2018, at 9:00 a.m. CDT. You must register by noon October 2, 2018, with Steve Osborne at 615-747-5343 or by email to [steve.osborne@cot.tn.gov](mailto:steve.osborne@cot.tn.gov). All proposers are strongly encouraged to participate in the call.

Ten (10) copies of the written proposal in conformance with the attached Request for Proposal are due by noon October 19, 2018, and must be clearly marked "Proposal for Financial Advisor". In addition, by noon October 19, 2018, one (1) copy of a pricing proposal that meets all of the requirements of Part IV of the attached Request for Proposal must be submitted in a separate sealed envelope, clearly marked "Pricing Proposal". Both the qualitative proposal and the pricing proposal may be delivered in the same package but in two separate envelopes. Both the written proposal and the pricing proposal must be addressed and delivered, by the deadline specified, as follows:

Office of State and Local Finance  
Cordell Hull Building  
425 Fifth Avenue N., 4<sup>th</sup> Floor  
Nashville, Tennessee 37243  
Attn: Steve Osborne  
RFP Coordinator  
(615) 747-5343

The ten (10) copies, delivered as specified above, are the official response to the Request for Proposal.

No joint proposals will be accepted. Any subcontracting for services must be clearly delineated in your proposal. The ultimate selection of financial advisor will be based upon a variety of factors. Experience and expertise with State level housing finance agencies will be a prime consideration.

Staff representing various members of the Bond Finance Committee and THDA will review the submitted responses. If determined necessary, additional information may be requested. Once the review process is complete, a written contract between the financial advisor and the Comptroller of the Treasury, as Secretary of the Bond Finance Committee, will be executed.

The Bond Finance Committee and THDA retain the right to reject all proposals, to elect to continue discussions with one or more firms, or act in any manner which, in the sole discretion of the Bond Finance Committee and THDA, is deemed to be in the best interest of THDA.

Beginning on the date of receipt of this proposal, and extending until the financial advisor selection process is completed, no contact concerning this process, this Request for Proposal or for information about THDA that could be used in responding to this Request for Proposal is to be made with bond counsel, underwriters, any THDA staff member, any THDA Board member, any Bond Finance Committee member, or any staff

member of a THDA Board or Bond Finance Committee member, except Steve Osborne. Notwithstanding the foregoing, THDA will continue to work with its current financial advisor, as needed, in connection with upcoming THDA financings. Contact, other than as specified herein, will be viewed negatively and could result in disqualification in the selection process.

Questions regarding this Request for Proposal must be submitted, via e-mail or otherwise in writing, to Steve Osborne at [steve.osborne@cot.tn.gov](mailto:steve.osborne@cot.tn.gov) no later than 3:00 pm, CDT on October 3, 2018. Any questions received and the response of THDA will be addressed during the pre-proposal conference call on October 4, 2018. THDA will also post questions and the THDA response on the THDA website at [www.thda.org](http://www.thda.org). Substantive questions will not be addressed after October 4, 2018.

Additional information regarding THDA and its programs may be reviewed at [www.thda.org](http://www.thda.org). We appreciate your interest in THDA and look forward to receiving your response.

Sincerely,

Justin P. Wilson, Comptroller  
Secretary for Bond Finance Committee of the  
Tennessee Housing Development Agency

Enclosures

xc: Bill Haslam, Governor  
Tre Hargett, Secretary of State  
David Lillard, Treasurer  
Larry Martin, Commissioner of Finance and Administration  
Kim Grant Brown, Chairman, THDA Board of Directors  
Ralph Perrey, Executive Director, THDA

**REQUEST FOR PROPOSAL FOR  
FINANCIAL ADVISOR  
TENNESSEE HOUSING DEVELOPMENT AGENCY  
September 26, 2018**

Please be as succinct as possible with all summary information and responses to specific questions. Lengthy responses and documents are strongly discouraged. No more than twelve pages will be considered for the responses to Sections II and III. Exhibit A will be excluded from this page limit. In addition, if you wish to present your responses to items 1 and 2 under Section II A below in chart form, those charts will also be excluded from the specified page limit. Responses to Section IV, Pricing Proposal, must be limited to the two sheets provided and must be submitted in a separate sealed envelope clearly marked "Pricing Proposal". Failure to submit the pricing proposal as requested will result in disqualification of the proposer.

**I. The Calendar**

September 26, 2018	RFP Distributed
October 2, 2018, noon	Deadline to register for pre-proposal conference call*
October 4, 2018, 9:00 a.m. CDT	Pre-proposal conference call
October 19, 2018 noon	Proposals due to Steve Osborne
October 26, 2018	Short list developed by staff and bond counsel
November 12, 2018	Bond Finance Committee meeting to consider staff recommendation
December 31, 2018	Current contract ends
January 1, 2019	New contract begins

\*Register by calling Steve Osborne at 615-747-5343 or by email to: [steve.osborne@cot.tn.gov](mailto:steve.osborne@cot.tn.gov)

**II. Experience and Qualifications**

**A. Capabilities**

1. Indicate whether your firm is a registered Municipal Advisor.
2. Since January 2014, for which housing finance agencies or authorities has your firm acted as financial advisor? Please specify the roles your firm played in the financing for these issuers, the form of sale (competitive or negotiate), the type of issuer involved (either direct borrowers or conduit issuers) (jurisdiction), and the types of projects financed. For each housing finance agency or authority for which your firm has served as financial advisor, specify whether the services were for single family or multi-family bonds and whether the resolutions were closed or open.
3. In tabular form, indicate the dollar volume and number of issues handled for these issuers, broken down between short-term and long-term issues and between single-family and multi-family. Also, please identify taxable issues separately, if any. Provide totals at the bottom of your chart as well.
4. Provide a contact name and phone number for three of the issuers listed above, including at least two state level single family issuers to be used as references.

5. List the three bond counsel firms with whom you most frequently work and the lawyers at those firms with whom you most often work.
6. Briefly describe your firm's structuring and analytic capability. What software is used and is it available for client use?
7. Describe how your firm can be differentiated from other financial advisors in the housing finance market and how that can benefit THDA.

B. Personnel

1. Provide background summaries on staff members who would be assigned routine responsibility for THDA's account, indicating the year first employed by your firm. If employees to be assigned to THDA's account have experience beyond your firm, please summarize that information. Indicate the employees who will serve as the primary and secondary contacts. Indicate the total number of professional level employees who work directly in housing.
2. Of the hours required to perform services on THDA's account, indicate the percentage to be performed by each staff member.
3. Indicate the office out of which THDA account would be serviced, the physical address, e-mail address, and phone number.
4. If any services for THDA's account will not be performed directly by your firm's employees, indicate the firm and the service to be subcontracted. **Any subcontracted financial advisory services or housing cash flow preparation must be included in the appropriate cap.**

C. Diversity

Describe your firm's hiring practices and indicate the breakdown of public finance employees by position (management, professional and clerical), gender and race using the format contained in the chart attached as Exhibit A. Describe your firm's affirmative hiring policy and efforts. Have there been any formal complaints against your firm or members of your firm alleging discrimination based on protected class status? If so, how have the complaints been resolved?

### III. Discussion Questions

A. Briefly describe or list the following:

1. Your firm's experience with open indentures for single-family mortgage loans.
2. Your firm's experience in preparation of consolidated cash flows for open indentures.
3. Your firm's experience with down payment assistance programs funded by the debt issuer.
4. Your firm's experience with universal cap and the strategies used to minimize the impact.
5. Your firm's experience with managing the requirements of the ten-year rule.
6. Your firm's experience with state housing finance agencies in developing long term strategic financial plans.



7. The steps your firm will take in order to be able to prepare the necessary cash flows, indicating the amount of time necessary.
8. Your firm's experience with and recommendations regarding whole loans versus mortgage backed securities in portfolios of state housing finance agencies, specifically discussing the following:
  - a. Transitioning from a whole loan program to an alternative structure;
  - b. Identification of and evaluation of the pros and cons of alternative single family mortgage loan financing options currently available;
  - c. The concept of keeping a whole loan program while executing MBS/TBA/pass-through structures; and
  - d. Recommendations that are suitable for THDA.
9. Describe the preliminary pricing process that your firm uses when bonds are sold at competitive sale and when bonds are sold a negotiated sale.
10. Describe alternatives to FHA mortgage insurance your firm has recommended to state housing finance agency clients.
11. Describe recommendations regarding use of proceeds your firm has made to state housing finance agency clients who have a pool of bonds proceeds that must be blended with the proceeds of other bond issues at 0% interest or other reduced interest rates in order to achieve yield compliance.
12. Discuss an innovative idea that your firm brought to a state housing finance agency client that help the client meet their business goals and objectives, particularly with respect to financing in challenging market conditions.

#### **IV. Pricing Proposal (to be submitted in separate sealed envelope)**

Use the enclosed form for the Pricing Proposal. The evaluation model is only an estimate of the number of times certain services will be required, it is neither a guarantee nor a limit on the number of times a service will be required.

##### **A. Pricing For Bond Transactions**

Indicate a fixed, all inclusive fee per bond transaction. This fee must include all professional fees, out-of-pocket expenses, all issue specific cash flow analyses, all yield analyses and any subcontracted financial advisory services or cash flow preparation required to complete a transaction. The flat fee bid must include all analyst and computer time as well as any fees or expenses associated with any subcontracts. For purposes of this bid, assume four bond transactions each year.

The fee bid should include all fees and expenses for all of the following activities:

1. Review of the current status of resolutions, cash flow projections, balance sheet, and contingent obligations.
2. Discussion of future program goals and specific requirements relative to administrative costs and program size.

3. Recommendation of long-term plans for investment strategy, financial exposure, cost projections, prepayment trends and use of unencumbered reserves.
4. Assistance in developing a specific financing plan and structure for THDA debt.
5. Review of outstanding debt and advice as to restructuring and refunding opportunities and evaluate future debt options.
6. Identification of financing alternatives/debt structures and monitor market activity and debt transactions as related to THDA financing needs.
7. Assistance in developing a financing timetable which takes into account market trends, supply of competing issues, and investor purchasing patterns.
8. Advice as to the method of sale (utilization of competitive, negotiated, or private placement) for particular debt transactions.
9. Preparation of regular cash flow analyses, credit analyses, market analyses, secondary market information, modifications to the marketing program for bond issues.
10. Preparation of memoranda and other documents as requested by THDA for presentation to the Bond Finance Committee and the THDA Board in connection with the authorization of a bond transaction, including, without limitation, description and analysis of market conditions, and recommendations regarding timing of sale, method of sale and resolution to be utilized.
11. Assistance in preparing bond resolutions, modifications to existing resolutions, and all other documents related to the financing.
12. Assistance in developing rating agency presentations and follow-up, including agendas and required cash flow analyses, as needed.
13. Assistance in the preparation of the preliminary and final official statements.
14. Upon request, the development of an investment strategy for the various bond funds including, if appropriate, contacting, negotiating with, and taking bids from investment agreement providers.
15. Preparation of final cash flows, 10-year rule analyses, 32-year rule analyses, bond redemption analyses, yield analyses, debt service reserve analyses and assist in analyses and preparation of yield memoranda for arbitrage certifications.
16. Advice on the need for and selection of national and local underwriters or the acceptance of an offer to purchase from an investor in the case of a private placement and underwriting fees and designation rules for negotiated sales.
17. Preparation or assistance in the preparation of a final report on the results of each negotiated bond sale including, but not limited to, the performance of each member of the underwriting syndicate (requests and allocations) and selling group, distribution of bonds by geographical region and type of investor, pricing and expense characteristics of comparable sales by other issuers, etc. (for negotiated sales only).
18. Assistance in the preparation of the notice of sale and bid form, verify all bids submitted, and advise THDA of the results of bidding (competitive sales only).
19. Performance of any other services, as necessary for successful THDA financings.

B. Pricing Cash Flows

Pricing for all cash flows specified below must be a flat fee per cash flow that includes both analyst and computer time. Indicate whether all or any part of cash flow analysis will be handled on a subcontracting basis. Any fees or expenses associated with such subcontracts must be included within the flat fee bid.

1. Consolidated Cash Flows - Proposers should assume a minimum of three (one for each of the three active THDA general resolutions) consolidated cash flows, annually.
2. Other Cash Flows - From time to time additional cash flow analysis may be required, for example, to support bond redemption strategies, to analyze use of funds within or outside the general resolutions, or to examine the impact of various proposed actions.
3. Cash Flows associated with a Bond Transaction - The pricing for this item must be included in the fixed, all inclusive fee bid for each bond transaction.
4. Cash flows associated with the annual update of the five-year strategic financial plan.

C. Pricing Bond Redemptions

THDA regularly evaluates its bond redemption strategy and may redeem bonds as frequently as monthly or quarterly, in addition to the redemptions associated with scheduled debt service payment dates. Indicate a flat fee for all analysis of and recommendations for bonds to be redeemed. This fee must include all professional fees, out-of-pocket expenses, all necessary analyses and any subcontracted financial advisory services or cash flow preparation required to complete each bond redemption.

D. Pricing Subsequent Yield Analysis for Bonds Issued Under Open Tax Plans

From time to time, THDA issues bonds that result in the creation or use of a pool or pools of proceeds that must be blended with the proceeds of other bond issues at 0% interest or other reduced interest rates in order to achieve yield compliance. Indicate the fee associated with yield analysis that may be subsequently required to demonstrate yield compliance.

E. Pricing For General Debt Management, Planning and Other Services

From time to time, THDA may request additional services. These services will be performed only at the request of and with the prior approval of THDA at the hourly rates bid for general debt management, planning and other services, provided, however; no fees will be paid if the services are performed in connection with a specific THDA bond issue. Indicate the all-inclusive hourly rates to be charged. Note that THDA reserves the right to negotiate a fixed fee prior to authorizing any such identified services.

## EXHIBIT A

CHART SHOWING POSITION, RACE AND GENDER OF  
ALL PUBLIC FINANCE EMPLOYEES AS OF September 30, 2018

	Management		Professional		Clerical		Total
	Male (number)	Female (number)	Male (number)	Female (number)	Male (number)	Female (number)	
Caucasian (number)							
African American (number)							
Other (number)							

## PRICING PROPOSAL

(Note: all fees and expenses must be included in the pricing)

Submit your pricing proposal using only this form and in an envelope clearly marked "Pricing Proposal" by the specified deadline.

Pursuant to state contracting requirements, an annual cap for services and fees must be established. Staff representatives will negotiate the annual cap with the successful proposer. The successful proposer must agree to that cap for the contract to be executed.

Qualifications or limits placed on the pricing submitted or on the maximum contract amount will be deemed non-responsive and the proposal will be disqualified.

\_\_\_\_\_  
(name of firm)

By:

\_\_\_\_\_  
(name of principal)

\_\_\_\_\_  
Phone No.

\_\_\_\_\_  
E-mail Address

Flat Fee Pricing			
	Contract Year 2019	Contract Year 2020	Contract Year 2021
Bond Transaction Fee (fee per transaction)			
Consolidated Cash Flows (fee per consolidated cash flow)			
Other Cash Flows (fee per cash flow)			
5-Year Strategic Plan Update			
Bond Redemption Analysis			
Subsequent yield analysis for bond issues under open tax plans			

<b>Hourly Rates for Debt Management, Planning and Other Services</b>			
Employee or Title/Position	Contract Year 2019	Contract Year 2020	Contract Year 2021

**Distribution Working List**  
**THDA Financial Advisor**  
(09/10/2018)

The following list of firms to whom the underwriter RFP will be sent was derived from a list of independent financial advisory firms in the 2018 NCSHA Membership Directory, the Top 10 Bond Buyer listing for Housing Financial Advisor, MSRB information about registered municipal advisors and input from Kutak Rock, THDA bond counsel. The Underwriter RFP will also be posted to the THDA website.

<b>Firm</b>	<b>Address</b>	<b>Telephone</b>	<b>Contact</b>	<b>E-Address &amp; Date Sent</b>	<b>Receipt Confirmed</b>	<b>Re-Sent &amp; Confirmed</b>
CSG Advisors Incorporated <a href="http://www.csgadvisors.com">www.csgadvisors.com</a>	41 Perimeter Center East, Suite 615 Atlanta, GA 30346	678-319-1911	David Jones, Vice President	<a href="mailto:djones@csgadvisors.com">djones@csgadvisors.com</a>		
Caine Mitter & Associates Incorporated <a href="http://www.cainemitter.com">www.cainemitter.com</a>	225 W. 35 <sup>th</sup> St., Suite 900 New York, NY 10001	212-686-8820	Thomas Caine, President	<a href="mailto:tcaine@cainemitter.com">tcaine@cainemitter.com</a>		
Lamont Financial Services Corporation <a href="http://lamontfin.com/">http://lamontfin.com/</a>	30 Two Bridges Road, Suite 205 Fairfield, NJ 07004	973-785-8900	Robert A. Lamb, President	<a href="mailto:bob@lamontfin.com">bob@lamontfin.com</a>		
Swap Financial Group <a href="http://www.swapfinancial.com">www.swapfinancial.com</a>	135 W. 50 <sup>th</sup> St., 20 <sup>th</sup> Fl. New York, NY 10020	212-478-3700	Peter Shapiro, Sr. Managing Director	<a href="mailto:pshapiro@swapfinancial.com">pshapiro@swapfinancial.com</a>		
Public Financial Management <a href="https://www.pfm.com/">https://www.pfm.com/</a>	116 Jefferson Street South, Suite 301 Huntsville, AL 35801	256-536-3035	Philip Dotts, Managing Director	<a href="mailto:dottsp@pfm.com">dottsp@pfm.com</a>		
Acacia Financial <a href="http://acaciafin.com/">http://acaciafin.com/</a>	6000 Midlantic Dr., Suite 410 North Mount Laurel, NJ 08054	856-234-2266	Kim M. Whelan, Managing Director	<a href="mailto:kwhelan@acaciafin.com">kwhelan@acaciafin.com</a>		
Public Resources Advisory Group <a href="https://pragadvisors.com/our-team/">https://pragadvisors.com/our-team/</a>	39 Broadway, Suite 1210 New York, NY 10006	212-380-5268	May L. Chau, Sr. Managing Director	<a href="mailto:mchau@pragadvisors.com">mchau@pragadvisors.com</a>		
Omnicap Group <a href="http://www.omnicap.net/">http://www.omnicap.net/</a>	2286 E. Maple Ave. El Segundo, CA 90245	310-318-3095	Jeff Smith, President Chris Valentino, Managing Director	<a href="mailto:jsmith@omnicap.net">jsmith@omnicap.net</a> <a href="mailto:cvalentino@omnicap.net">cvalentino@omnicap.net</a>		
Hilltop Securities <a href="http://www.hilltopsecurities.com/">http://www.hilltopsecurities.com/</a>	1201 Elm St., Suite 3500 Dallas, Tx 75270	214-953-4102	Jack Addams, Head of Pub Fin Timothy E. Nelson, Mng Dir, Housing	<a href="mailto:jack.addams@hilltopsecurities.com">jack.addams@hilltopsecurities.com</a> <a href="mailto:tim.nelson@hilltopsecurities.com">tim.nelson@hilltopsecurities.com</a>		
Piper Jaffray <a href="http://www.piperjaffray.com/">http://www.piperjaffray.com/</a>	800 Nicollet Mall, 12 <sup>th</sup> Fl. Minneapolis, MN 55402	612-303-6657	Frank Fairman, Head of Pub Fin	<a href="mailto:francis.e.fairman@pjc.com">francis.e.fairman@pjc.com</a>		
Ramirez & Co <a href="http://www.ramirezco.com/">http://www.ramirezco.com/</a>	61 Broadway, 29 <sup>th</sup> Floor New York, NY 10006	212-378-7127	Ted Sobel, Head of Public Fin	<a href="mailto:ted.sobel@ramirezco.com">ted.sobel@ramirezco.com</a>		



# Tennessee Housing Development Agency

Andrew Jackson Building, Third Floor  
502 Deaderick Street, Nashville, TN 37243

**Bill Haslam**  
Governor

**Ralph M. Perrey**  
Executive Director

## MEMORANDUM

**DATE:** September 19, 2018  
**TO:** THDA Bond Finance Committee and Board  
**FROM:** Lynn Miller *LM*  
Chief Legal Counsel  
**SUBJECT:** Authorization of General Residential Finance Program Bonds, Issue 2018-4

---

## DOCUMENTS FOR BOND FINANCE COMMITTEE CONSIDERATION

Attached please find the following documents in connection with the requested authorization of the next THDA bond issue, Issue 2018-4:

1. Memo from CSG Advisors recommending authorization in the maximum principal amount of \$225 million for a bond issue under the General Residential Finance Program Bond Resolution adopted in 2013, including authorization of a new money component and a refinancing component (refunding of Issue 2009-2 currently outstanding under the THDA 1985 General Resolution). Staff expects this bond issue to be priced in early October, with closing prior to the end of November, depending on THDA loan production. The final size and structure will be determined by the Bond Finance Committee closer to pricing.
2. THDA Plan of Financing for Issue 2018-4 Residential Finance Program Bonds, which the Bond Finance Committee will be asked to approve.
3. Resolution of the Board of Directors of the Tennessee Housing Development Agency Authorizing the Issuance and Sale of Residential Finance Program Bonds, Issue 2018-4, which includes the form of Series Resolution for Issue 2018-4 and which authorizes the referenced bond issue and delegates authority to the Bond Finance Committee to determine all final terms and conditions. The Bond Finance Committee will be asked to recommend this resolution and the transaction to the THDA Board of Directors.
4. Resolution of the Board of Directors of the Tennessee Housing Development Agency Authorizing Reimbursement of THDA from Proceeds of Issue 2018-4 in an amount not to exceed \$60 million.

## COMPLIANCE WITH THDA DEBT MANAGEMENT POLICY

Issue 2018-4 complies with the Tennessee Housing Development Agency Debt Management Policy adopted on November 28, 2011, as amended (the "Debt Management Policy"). In particular, Issue 2018-4 complies with the Debt Management Policy as follows:



Part III - by allowing THDA "...to maintain a steadily available supply of funds to finance its mortgage loan programs at cost levels that provide competitive, fixed interest rate mortgage loans that benefit low and moderate income families, while maintaining or improving THDA's overall financial strength and flexibility..."

Part VIII - the issuance of this debt will not cause THDA to exceed the statutory debt limit contained in TCA Section 13-23-121.

Part X - the factors and items listed to be considered in planning, structuring and executing a bond issue have been and will be considered as planning, structuring and executing this bond issue moves forward.

Part XIV - serial bonds, terms bonds and PAC bonds are being considered for the structure of the bond issue.

Parts XV – authorization of a potential refunding component is expected to result in present value savings and will further THDA program objectives of providing competitive, fixed interest rate mortgage loans that benefit low and moderate income families.

Parts XVIII, XIX, XX and XXI are not applicable as authorization requested for Issue 2018-4 does not include interest rate and forward purchase agreements, conduit debt, or variable rate debt.

#### BOOKRUNNING SENIOR MANAGER

In connection with the appointment of the underwriting team in January 2018, the Bond Finance Committee elected to move from a strict rotation to a "soft" rotation for the selection of the senior bookrunning manager. The Bond Finance Committee retained the option of changing the order based on an analysis of performance on the immediately preceding THDA bond issue.

The staff recommended "soft" rotation began with Raymond James (Issue 2018-1), followed by RBC (Issue 2018-2) and Citigroup (Issue 2018-3). Following conversations with CSG Advisors and State and Local Finance staff, THDA staff recommends that Raymond James be appointed as the bookrunning senior manager for Issue 2018-4.

#### ROTATING CO-MANAGER

Based on an analysis by CSG Advisors, THDA staff recommends that selling group member J.J.B. Hilliard, W.L. Lyons, LLC be appointed to serve as rotating co-manager for Issue 2018-4 based on allotments resulting from Tennessee retail orders on Issue 2018-3.

#### SELLING GROUP

Duncan-Williams, Inc.  
Fidelity Capital Markets  
FTN Financial  
Robert W. Baird  
Wiley Brothers-Aintree Capital

LEM/ds

## MEMORANDUM

**TO:** THDA Board of Directors and THDA Bond Finance Committee

**FROM:** David Jones, Tim Rittenhouse and Mark Kaveny

**SUBJECT:** Structuring Alternatives and Economic Benefit Analysis – Residential Finance Program Bonds, Issue 2018-4

**DATE:** September 14, 2018

### Overview

This memo provides an analysis of structuring alternatives for Issue 2018-4 and describes the related economic benefits to THDA and the borrowers it serves. As further described below and based on projected mortgage loan purchases, we recommend a \$225 million bond issuance with a structure that has both refunding bonds and new money bonds and includes premium planned amortization class (“PAC”) bonds structured throughout the maturity schedule. Appendix 1 explains how the PAC bonds function and the benefits to THDA of issuing PAC bonds. The recommended Issue 2018-4 structure includes:

- 1) \$15,780,000 (non-AMT) refunding bonds to refund Issue 2009-2, and
- 2) \$209,220,000 (non-AMT) new money proceeds to fund THDA’s new production, for a total issue size of \$225,000,000.

### Economic Benefit Analysis of Refunding Issue 2009-2

Based on current market conditions and an expected prepayment speed of approximately 200% PSA, refunding Issue 2009-2 would generate a net present value savings of \$0.83 million, or 5.3%, as a percent of the refunded bonds. The mortgage loans in Issue 2009-2 have prepaid at a weighted average speed of 178% PSA over the last twelve months, experiencing a lifetime weighted average prepayment speed of 226% PSA. Projected economic benefits of the refunding are shown below and in Exhibit A.

#### ***THDA’s Economic Savings as a Result of Refunding:***

<u>Loan Prepayment Speed</u>	<u>Estimated NPV Savings</u>
100% FHA*	\$.96 million (6.1%)
200% PSA	\$.83 million (5.3%)
300% PSA	\$.59 million (3.7%)

- Percentages are of bonds issued.
- The weighted average prepayment speed over the last 12 months for the prior issue was 178% PSA.
- As prepayment speeds increase, the economic savings to THDA decreases, since faster prepayments reduce the period of time in which THDA earns the interest spread between the mortgage rate on the loans and the average interest rate on the bonds.

\* 100% FHA is listed as it is most commonly the prepayment measure used in determining tax yield spread for tax-exempt bond-financed mortgage loans. 100% FHA is approximately equivalent to 115% PSA prepayments.

There are several effects of including the refunding in the proposed new transaction:

- 1) expected savings from the refunding allow THDA flexibility to maintain current mortgage loan interest rates or adjust mortgage loan interest rates than would otherwise be possible without contributions of additional zeros, accepting a lower spread, or some other form of subsidy;
- 2) the shorter average lives of the transferred mortgage loan portfolios accelerates the repayment of the bonds forward and lower bond costs on the new issue; and
- 3) the refunding bonds remove the state moral obligation pledge from the prior bonds.

## Structuring Analysis

Based on current market conditions, indications of investor demand for particular bonds, other recent HFA bond offerings, and the terms of the bonds to be refunded, we compared multiple bond structures in order to determine how best to reduce the bond yield of the issue and minimize the amount of zero percent loans needed to achieve full spread under tax law.

By refunding Issue 2009-2, an estimated \$20.4 million of seasoned loans will transfer to Issue 2018-4, compared to only \$15.78 million in refunding bonds, for excess assets of approximately \$4.6 million (excluding transferred investments or cash). Given that the transferred loans are seasoned loans with remaining terms averaging 21.1 years, the bond maturities can be structured with more bonds in the first 21 years of the maturity schedule, taking advantage of the steepness in the yield curve and the lower coupons on such earlier-maturing bonds. Each of the following alternatives uses this technique to reduce the bond yield of Issue 2018-4.

Three bond structures are shown on Exhibit B. In each case, after calculating an estimated bond yield, the spread for tax compliance purposes between the mortgage yield and the bond yield was determined. Then, the amount of net zero participation loans that Issue 2018-4 would consume to bring the issue up to the maximum allowable tax spread of 1.125% was computed, based on current market interest rates. All scenarios assume that \$28.2 million of zeros will be transferred from Issue 2018-1, bringing that issue into yield compliance.

- **Scenario 1** includes only non-AMT serial and term bonds without a PAC bond, resulting in a spread for tax purposes of 0.775%. In this case \$17.4 million in net zeros would be consumed to increase the issue to a full 1.125% spread, assuming THDA's current interest rates. This scenario provides a base case that helps to highlight the benefits of PAC bonds in the following structures.
- **Scenario 2** includes non-AMT PAC bonds with sinking funds throughout the entire 30-year maturity schedule. The lower yield on the non-AMT PAC bonds reduces the bond yield by 0.166%, results in a tax spread of .983%, and would consume \$6.6 million of net zeros. Compared to *Scenario 1*, *Scenario 2* demonstrates a significant benefit from including non-AMT PAC bonds.
- **Scenario 3**. Lastly, instead of structuring the PAC bonds with sinking funds across the entire 30-year schedule, non-AMT PAC bonds fill the longest maturities of the transaction, reducing the need for higher coupon conventional term bonds beyond January 2043. This allows for more serial and term bonds in the shorter-to-intermediate maturities, although the PAC bonds are limited in size in order to maintain a 5-year average life at a 100% PSA prepayment speed, somewhat mitigating the benefit of the structure by reducing the size of the total PAC bonds compared to *Scenario 2*. The net effect is to reduce the bond yield by 0.06% compared to *Scenario 2* with a tax spread of 1.039% and consuming \$3.6 million of net zeros, \$3 million fewer zeros than *Scenario 2*.

## Impact on Rating Agency Stress Cash Flows

In addition to the impacts on bond yield and on zero participation loans, it is important to evaluate the effect of each scenario on the rating agency stress cash flows so as to ensure that any new bond issue does not overly stress the cash flows of the overall 2013 General Resolution. *Scenarios 1 and 2* would not add stress to the rating agency cash flows tests of the Resolution. The technique employed in *Scenario 3* of “back-loading” the PAC bonds relies on some of the strength of the 2013 General Resolution under the rating agency PAC stress test that assumes 100% PSA prepayments until the PAC bonds are fully redeemed, with no prepayments thereafter. Under this test, the back-loaded PACs would reduce future liquidity in the Resolution by a cumulative \$7.3 million at the peak of the stress, even while building the overall net worth of the Resolution, summarized below.

**TABLE 1: Forecasted Minimum Revenue Balances in Rating Agency Cash Flows (\$ in millions), 2013 General Resolution**

Cash Flow Scenario	Before Issue 2018-2	After Issue 2018-2	Change
PAC Stress Test *	\$96.35 million	\$89.02 million	(\$7.3 million)

*\*Assumes 100% PSA Prepayments until the PAC Bonds are fully redeemed, then 0% PSA thereafter.  
(Represents the minimum Revenue Fund forecasted balances during 2035-2044 after PAC stress occurs.)*

Several THDA issues from 2013 through 2016 and more recently 2017-2, 2017-4, and 2018-2 were each designed with back-loaded PAC bonds in order to help reduce these issues’ bond yields and cut the amount of zeros that each issue consumed. However, as the yield curve has flattened recently, the benefits of back-loading the PAC bonds has reduced. The yield benefit of back-loaded PAC bonds was typically greater in these bond issues than the 0.05% yield benefit provided for in *Scenario 3*. Conversely, 3 of the 4 bond issues in 2017 did not contain a back-loaded PAC bond structure nor did THDA last issuance, Issue 2018-3.

*As a result of the lack of meaningful benefit, and to preserve flexibility within the 2013 General Resolution, we do not recommend a back-loaded PAC bond structure for Issue 2018-4.*

## Impact on Volume Cap

There are sufficient maturities structured in the early portion of the bond maturity schedule such that there is no need to use volume cap for the refunding bonds. Volume cap will be needed for the amount of new money loans being financed plus bond premium. See Exhibit B for the amount of volume cap required under each scenario, each of which require volume cap equal to \$209,220,000 plus premium.

## Recommendation

**We recommend *Scenario 2* which includes a PAC bond with sinking funds spread throughout the maturity schedule.** In view of the modest incremental benefits from *Scenario 3*, using the *Scenario 2* structure for Issue 2018-4 avoids additional stress to the 2013 Resolution and preserves the strength of the Resolution for future use, when relying on those resources may be more critical.

For all of the reasons listed above, we recommend *Scenario 2*.

## Exhibit A (Issue 2009-2)

### Economic Refunding Analysis - With All Benefit Reflected in PV Savings Interest Rates as of September 7, 2018

Issue 2009-2		
	2009-2 "As Is"	Refunding No PAC
<b>General Information</b>		
Optional Redemption Date	1/1/2019	1/1/2019
Potential Bond Defeasance Date	11/15/2018	11/15/2018
Projected Amount Outstanding on January 1, 2019:		
AMT:	-	-
Non-AMT:	15,780,000	15,780,000
Total:	15,780,000	15,780,000
Weighted Average Coupon of Refunded Bonds	4.437%	4.437%
Weighted Average Coupon of Refunding Bonds	n/a	2.744%
Reduction in Bond Coupon	n/a	1.692%
<b>Tax Law Yields of Bonds to be Refunded at Issuance</b>		
Mortgage Yield	5.182%	5.182%
Bond Yield	4.060%	4.060%
Yield Spread	1.122%	1.122%
<b>Tax Law Yields on 11/15/18</b>		
Mortgage Yield	4.986%	4.986%
Yield of Bonds to be Refunded	4.565%	4.565%
<b>Projected Spread: As Is</b>	<b>0.421%</b>	<b>0.421%</b>
Refunding Bond Yield	n/a	2.546%
<b>Projected Spread: If Refunded</b>	<b>N/A</b>	<b>2.440%</b>
<b>Benefit of Refunding (total)</b>		
Gross Present Value Savings @ 100% FHA	-	1,214,756
Less: Optional Redemption Premium	-	-
Less: Negative Arbitrage	-	(89,459)
Less: Costs of Issuance	-	(157,800)
<b>Net Present Value Savings @ 100% FHA</b>	<b>-</b>	<b>967,497</b>
<b>Net Present Value Savings as a Percent of Bonds</b>	<b>n/a</b>	<b>6.1%</b>
Net Present Value Savings @ 200% PSA	-	834,086
Net Present Value Savings as a Percent of Bonds	0.0%	5.3%
Net Present Value Savings @ 300% PSA	-	591,493
Net Present Value Savings as a Percent of Bonds	0.0%	3.7%

**Preliminary Structuring Analysis**  
Interest Rates as of September 7, 2018

**Additional Notes:**

- (1) Includes a 0% interest, deferred, forgivable second mortgage.
- (2) Relies on strength of 2013 Resolution for PAC stress test cash



## Appendix 1

### Planned Amortization Class Bonds (“PACs”)

PACs are a municipal bond feature unique to housing bonds. Municipal housing bonds allow homebuyers with mortgages made from bond proceeds to prepay their mortgages at any time. Since the mortgages may prepay, it is important that the bonds also may be prepaid. As a result, housing bonds are routinely sold with special provisions for mandatory redemptions from prepayments (and certain other sources).

The traditional method of redeeming housing bonds from prepayments is to call the bonds in proportion to the amount of bonds then outstanding in each maturity (“pro rata”). As prepayments occur over the period the bonds remain outstanding, this approach assures that all bonds can continue to be reliably repaid from the cash flow from the remaining mortgage portfolio, even as circumstances and rates of prepayments continue to vary. The speed of prepayments is measured in several ways but most commonly according to the Public Securities Association standard (“PSA”), where 100% PSA matches the expected average prepayment speed and, for example, 300% PSA is three times the standard.

As investor interests were more precisely identified, the preference of some buyers of housing bonds for greater certainty with respect to how long their bonds would remain outstanding allowed a class of bonds to be defined that would be protected from prepayments in a more predictable way. For example, a PAC buyer might be assured of a stable expected life of his bond, whether the pace of prepayments of the underlying mortgage portfolio was 100% PSA up to 400% PSA, for a stable “average life” of five years, typically. Slower prepayments would mean PAC bondholders’ bonds would stay outstanding longer; prepayments faster than 400% PSA would shorten the time the bond would be outstanding. **In return for this greater certainty the PAC investor receives a lower yield than is offered to buyers of other housing term bonds, providing significant savings to housing bond issuers.**

PACs may be designed in several ways, each with tradeoffs. If the PAC is to be repaid approximately proportionately to the rest of the bonds in the issue, it replaces fewer high cost term bonds within the bond structure, reducing the savings to the issuer while assuring that the PACs may be repaid from the cash flows of the mortgage portfolio, regardless of variations in prepayment speeds. A more back-loaded PAC replaces more term bonds, lowering effective bond yield but adding cash flow stress, if prepayment experience were to be heavy initially so that the PACs are redeemed quickly and, then, prepayments stop thereafter.

To accommodate the preference of some investors, PACs are often sold with substantial premiums. The premiums require private activity volume cap, and the proceeds of the premium may help to reduce issuer contributions for reserves and costs of issuance. PAC bonds may also be protected from optional calls, depending on the characteristics of the PAC.

PACs are generally not offered to retail investors due to the bonds’ complexity and because holders of small blocks have the risk that their bonds will not be redeemed in a manner consistent with expectations of a purchaser of larger blocks of these bonds.

# TENNESSEE HOUSING DEVELOPMENT AGENCY

Issue 2018-4

Scenario 1:

No PAC with 2009-2 Refunding

## 2018-4 (Non-AMT)

Serials	\$	69,015,000
Term 2033		14,110,000
Term 2038		40,445,000
Term 2043		43,755,000
Term 2049		57,675,000
Term 2049 PAC		-
Total	\$	225,000,000

<u>Maturity / Sinking Fund</u>	<u>Bond Type</u>	<u>Par Amount</u>	<u>Coupon / Yield</u>	<u>PAC Amount</u>	<u>Coupon / Yield</u>
7/1/2019	Serials	730,000	1.800%		
1/1/2020	Serials	2,450,000	1.900%		
7/1/2020	Serials	2,475,000	2.000%		
1/1/2021	Serials	2,500,000	2.000%		
7/1/2021	Serials	2,525,000	2.050%		
1/1/2022	Serials	2,555,000	2.150%		
7/1/2022	Serials	2,585,000	2.200%		
1/1/2023	Serials	2,615,000	2.300%		
7/1/2023	Serials	2,645,000	2.350%		
1/1/2024	Serials	2,680,000	2.450%		
7/1/2024	Serials	2,715,000	2.500%		
1/1/2025	Serials	2,750,000	2.650%		
7/1/2025	Serials	2,785,000	2.700%		
1/1/2026	Serials	2,825,000	2.800%		
7/1/2026	Serials	2,870,000	2.850%		
1/1/2027	Serials	2,910,000	2.950%		
7/1/2027	Serials	2,955,000	3.000%		
1/1/2028	Serials	3,000,000	3.050%		
7/1/2028	Serials	3,050,000	3.100%		
1/1/2029	Serials	3,100,000	3.200%		
7/1/2029	Serials	3,150,000	3.200%		
1/1/2030	Serials	3,205,000	3.300%		
7/1/2030	Serials	3,255,000	3.300%		
1/1/2031	Serials	3,315,000	3.400%		
7/1/2031	Serials	3,370,000	3.400%		
1/1/2032	Term 2033	3,430,000	3.550%		
7/1/2032	Term 2033	3,495,000	3.550%		
1/1/2033	Term 2033	3,560,000	3.550%		
7/1/2033	Term 2033	3,625,000	3.550%		
1/1/2034	Term 2038	3,695,000	3.850%		
7/1/2034	Term 2038	3,765,000	3.850%		
1/1/2035	Term 2038	3,845,000	3.850%		
7/1/2035	Term 2038	3,920,000	3.850%		
1/1/2036	Term 2038	3,995,000	3.850%		
7/1/2036	Term 2038	4,075,000	3.850%		
1/1/2037	Term 2038	4,160,000	3.850%		
7/1/2037	Term 2038	4,245,000	3.850%		
1/1/2038	Term 2038	4,330,000	3.850%		
7/1/2038	Term 2038	4,415,000	3.850%		
1/1/2039	Term 2043	4,505,000	3.950%		
7/1/2039	Term 2043	4,595,000	3.950%		
1/1/2040	Term 2043	4,460,000	3.950%		
7/1/2040	Term 2043	4,060,000	3.950%		
1/1/2041	Term 2043	4,140,000	3.950%		
7/1/2041	Term 2043	4,225,000	3.950%		
1/1/2042	Term 2043	4,310,000	3.950%		
7/1/2042	Term 2043	4,395,000	3.950%		
1/1/2043	Term 2043	4,485,000	3.950%		
7/1/2043	Term 2043	4,580,000	3.950%		
1/1/2044	Term 2049	4,670,000	4.000%		
7/1/2044	Term 2049	4,770,000	4.000%		
1/1/2045	Term 2049	4,865,000	4.000%		
7/1/2045	Term 2049	4,965,000	4.000%		
1/1/2046	Term 2049	5,070,000	4.000%		
7/1/2046	Term 2049	5,175,000	4.000%		
1/1/2047	Term 2049	5,280,000	4.000%		
7/1/2047	Term 2049	5,390,000	4.000%		
1/1/2048	Term 2049	5,500,000	4.000%		
7/1/2048	Term 2049	5,615,000	4.000%		
1/1/2049	Term 2049	5,380,000	4.000%		
7/1/2049	Term 2049	995,000	4.000%		
		<b>225,000,000</b>			



# TENNESSEE HOUSING DEVELOPMENT AGENCY

## Issue 2018-4

### Scenario 2:

### Non-AMT PAC Throughout Maturity Schedule with 2009-2 Refunding

#### 2018-4 (Non-AMT)

Serials	\$	43,265,000
Term 2033		9,050,000
Term 2038		26,220,000
Term 2043		26,615,000
Term 2049		33,650,000
Term 2049 PAC		86,200,000
Total	\$	225,000,000

<u>Maturity / Sinking Fund</u>	<u>Bond Type</u>	<u>Par Amount</u>	<u>Coupon / Yield</u>	<u>PAC Amount</u>	<u>Coupon / Yield</u>
7/1/2019	Serials	195,000	1.800%	230,000.00	4.25% / 2.75%
1/1/2020	Serials	1,520,000	1.900%	700,000.00	
7/1/2020	Serials	1,540,000	2.000%	715,000.00	"
1/1/2021	Serials	1,555,000	2.000%	730,000.00	"
7/1/2021	Serials	1,575,000	2.050%	745,000.00	"
1/1/2022	Serials	1,595,000	2.150%	760,000.00	"
7/1/2022	Serials	1,615,000	2.200%	775,000.00	"
1/1/2023	Serials	1,635,000	2.300%	795,000.00	"
7/1/2023	Serials	1,660,000	2.350%	810,000.00	"
1/1/2024	Serials	1,685,000	2.450%	825,000.00	"
7/1/2024	Serials	1,705,000	2.500%	845,000.00	"
1/1/2025	Serials	1,725,000	2.650%	865,000.00	"
7/1/2025	Serials	1,755,000	2.700%	880,000.00	"
1/1/2026	Serials	1,785,000	2.800%	900,000.00	"
7/1/2026	Serials	1,810,000	2.850%	920,000.00	"
1/1/2027	Serials	1,840,000	2.950%	940,000.00	"
7/1/2027	Serials	1,870,000	3.000%	960,000.00	"
1/1/2028	Serials	1,900,000	3.050%	980,000.00	"
7/1/2028	Serials	1,935,000	3.100%	1,000,000.00	"
1/1/2029	Serials	1,970,000	3.200%	1,020,000.00	"
7/1/2029	Serials	2,005,000	3.200%	1,045,000.00	"
1/1/2030	Serials	2,040,000	3.300%	1,065,000.00	"
7/1/2030	Serials	2,080,000	3.300%	1,085,000.00	"
1/1/2031	Serials	2,115,000	3.400%	1,110,000.00	"
7/1/2031	Serials	2,155,000	3.400%	1,135,000.00	"
1/1/2032	Term 2033	2,195,000	3.550%	1,160,000.00	"
7/1/2032	Term 2033	2,240,000	3.550%	1,195,000.00	"
1/1/2033	Term 2033	2,285,000	3.550%	1,220,000.00	"
7/1/2033	Term 2033	2,330,000	3.550%	1,245,000.00	"
1/1/2034	Term 2038	2,380,000	3.850%	1,270,000.00	"
7/1/2034	Term 2038	2,430,000	3.850%	1,295,000.00	"
1/1/2035	Term 2038	2,480,000	3.850%	1,325,000.00	"
7/1/2035	Term 2038	2,535,000	3.850%	1,350,000.00	"
1/1/2036	Term 2038	2,590,000	3.850%	1,370,000.00	"
7/1/2036	Term 2038	2,645,000	3.850%	1,400,000.00	"
1/1/2037	Term 2038	2,700,000	3.850%	1,430,000.00	"
7/1/2037	Term 2038	2,760,000	3.850%	1,460,000.00	"
1/1/2038	Term 2038	2,820,000	3.850%	1,490,000.00	"
7/1/2038	Term 2038	2,880,000	3.850%	1,520,000.00	"
1/1/2039	Term 2043	2,940,000	3.950%	1,555,000.00	"
7/1/2039	Term 2043	3,005,000	3.950%	1,590,000.00	"
1/1/2040	Term 2043	2,835,000	3.950%	1,745,000.00	"
7/1/2040	Term 2043	2,385,000	3.950%	1,780,000.00	"
1/1/2041	Term 2043	2,435,000	3.950%	1,815,000.00	"
7/1/2041	Term 2043	2,490,000	3.950%	1,850,000.00	"
1/1/2042	Term 2043	2,545,000	3.950%	1,890,000.00	"
7/1/2042	Term 2043	2,605,000	3.950%	1,925,000.00	"
1/1/2043	Term 2043	2,660,000	3.950%	1,965,000.00	"
7/1/2043	Term 2043	2,715,000	3.950%	2,005,000.00	"
1/1/2044	Term 2049	2,775,000	4.000%	2,045,000.00	"
7/1/2044	Term 2049	2,840,000	4.000%	2,085,000.00	"
1/1/2045	Term 2049	2,905,000	4.000%	2,125,000.00	"
7/1/2045	Term 2049	2,965,000	4.000%	2,170,000.00	"
1/1/2046	Term 2049	3,035,000	4.000%	2,210,000.00	"
7/1/2046	Term 2049	3,105,000	4.000%	2,255,000.00	"
1/1/2047	Term 2049	3,175,000	4.000%	2,300,000.00	"
7/1/2047	Term 2049	3,240,000	4.000%	2,350,000.00	"
1/1/2048	Term 2049	3,315,000	4.000%	2,395,000.00	"
7/1/2048	Term 2049	3,290,000	4.000%	2,445,000.00	"
1/1/2049	Term 2049	3,005,000	4.000%	2,490,000.00	"
7/1/2049				2,645,000.00	"
<b>Total</b>		<b>138,800,000</b>		<b>86,200,000</b>	

**TENNESSEE HOUSING DEVELOPMENT AGENCY**  
**Issue 2018-4**  
**Scenario 3:**  
**Non-AMT PAC "Fully Backloaded" with 2009-2 Refunding**

**2018-4 (Non-AMT)**

Serials	\$	64,105,000
Term 2033		13,220,000
Term 2038		38,000,000
Term 2043		36,975,000
Term 2049 PAC		72,700,000
Total	\$	225,000,000

<u>Maturity / Sinking Fund</u>	<u>Bond Type</u>	<u>Par Amount</u>	<u>Coupon / Yield</u>	<u>PAC Amount</u>	<u>Coupon / Yield</u>
7/1/2019	Serials	530,000	1.800%		
1/1/2020	Serials	2,270,000	1.900%		
7/1/2020	Serials	2,290,000	2.000%		
1/1/2021	Serials	2,320,000	2.000%		
7/1/2021	Serials	2,345,000	2.050%		
1/1/2022	Serials	2,370,000	2.150%		
7/1/2022	Serials	2,400,000	2.200%		
1/1/2023	Serials	2,425,000	2.300%		
7/1/2023	Serials	2,455,000	2.350%		
1/1/2024	Serials	2,490,000	2.450%		
7/1/2024	Serials	2,520,000	2.500%		
1/1/2025	Serials	2,555,000	2.650%		
7/1/2025	Serials	2,595,000	2.700%		
1/1/2026	Serials	2,630,000	2.800%		
7/1/2026	Serials	2,670,000	2.850%		
1/1/2027	Serials	2,710,000	2.950%		
7/1/2027	Serials	2,755,000	3.000%		
1/1/2028	Serials	2,800,000	3.050%		
7/1/2028	Serials	2,845,000	3.100%		
1/1/2029	Serials	2,895,000	3.200%		
7/1/2029	Serials	2,945,000	3.200%		
1/1/2030	Serials	2,995,000	3.300%		
7/1/2030	Serials	3,045,000	3.300%		
1/1/2031	Serials	3,100,000	3.400%		
7/1/2031	Serials	3,150,000	3.400%		
1/1/2032	Term 2033	3,210,000	3.550%		
7/1/2032	Term 2033	3,275,000	3.550%		
1/1/2033	Term 2033	3,335,000	3.550%		
7/1/2033	Term 2033	3,400,000	3.550%		
1/1/2034	Term 2038	3,465,000	3.850%		
7/1/2034	Term 2038	3,535,000	3.850%		
1/1/2035	Term 2038	3,605,000	3.850%		
7/1/2035	Term 2038	3,680,000	3.850%		
1/1/2036	Term 2038	3,755,000	3.850%		
7/1/2036	Term 2038	3,830,000	3.850%		
1/1/2037	Term 2038	3,910,000	3.850%		
7/1/2037	Term 2038	3,990,000	3.850%		
1/1/2038	Term 2038	4,075,000	3.850%		
7/1/2038	Term 2038	4,155,000	3.850%		
1/1/2039	Term 2043	4,245,000	3.950%		
7/1/2039	Term 2043	4,330,000	3.950%		
1/1/2040	Term 2043	4,195,000	3.950%		
7/1/2040	Term 2043	3,780,000	3.950%		
1/1/2041	Term 2043	3,860,000	3.950%		
7/1/2041	Term 2043	3,940,000	3.950%		
1/1/2042	Term 2043	4,125,000	3.950%		
7/1/2042	Term 2043	4,205,000	3.950%		
1/1/2043	Term 2043	4,295,000	3.950%		
7/1/2043				4,980,000	4.25% / 2.75%
1/1/2044				5,080,000	"
7/1/2044				5,175,000	"
1/1/2045				5,275,000	"
7/1/2045				5,380,000	"
1/1/2046				5,485,000	"
7/1/2046				5,590,000	"
1/1/2047				5,700,000	"
7/1/2047				5,765,000	"
1/1/2048				5,875,000	"
7/1/2048				5,995,000	"
1/1/2049				6,110,000	"
7/1/2049				6,290,000	"
<b>Total</b>		<b>152,300,000</b>		<b>72,700,000</b>	

TENNESSEE HOUSING DEVELOPMENT AGENCY  
PLAN OF FINANCING  
RESIDENTIAL FINANCE PROGRAM BONDS, ISSUE 2018-2  
September 24, 2018

Pursuant to TCA Section 13-23-120(e)(4):

AMOUNT:

The bonds may be sold in one or more series to be known as Residential Finance Program Bonds, Issue 2018-4 (the “Bonds”), to be issued under the General Residential Finance Program Bond Resolution adopted by THDA on January 29, 2013, as amended (the “General Resolution”).

The aggregate principal amount of the Bonds shall not exceed \$225,000,000. The actual aggregate principal amount shall be determined by the Bond Finance Committee of the THDA Board of Directors (the “Bond Finance Committee”) upon the recommendation of the Financial Advisor, Executive Director, Assistant Secretary of the Bond Finance Committee and approved by THDA’s Bond Counsel and may take into account the following limitations and other factors:

- (1) the amount of Bonds which may be issued pursuant to the Act and the total amount of bonds outstanding under the General Resolution; and
- (2) the amount of Bonds which may be issued to refund bonds or notes outstanding under the General Resolution, the General Homeownership Program Bond Resolution (the “1985 Resolution”); or under the General Housing Finance Resolution (the “2009 Resolution”) to provide economic savings, additional opportunities for interest rate subsidies with respect to THDA Program Loans or as a result of prepayments, proceeds on hand, excess revenues, or maturing principal; and
- (3) the amount of Bonds that may be issued, the proceeds of which are necessary to reimburse THDA for Program Loans financed from available THDA funds prior to the availability of proceeds from the Bonds; and
- (4) the amount of Bonds which may be issued, the proceeds of which are necessary to meet demand for Program Loans; and
- (5) the availability of THDA’s funds, subject to the review of the Bond Finance Committee, for the purpose of providing for the payment of the costs of issuance of the Bonds, paying capitalized interest with respect to the Bonds, funding the Bond Reserve Fund, providing additional security for the Bonds, and achieving a lower rate of interest on the Program Loans; and
- (6) the amount of resources (loans and cash) available under the 1985 General Resolution to overcollateralize the Bonds, if needed, to improve yield, reduce the amount of other subsidies and to increase the program asset debt ratio under the General Resolution.

APPLICATION  
OF PROCEEDS:

Proceeds of the Bonds will be applied to (i) redemption and payment at maturity of certain of THDA's bonds or notes outstanding under the 1985 Resolution, and/or the 2009 Resolution; (ii) finance Program Loans by the direct purchase thereof; and (iii) other uses as specified below in approximately the following amounts:

- 90% for single-family first lien mortgage loans,  
refinancing outstanding bonds;
- 8% for bond reserve;
- 1% for capitalized interest; and
- 1% for cost of issuance and underwriter's  
discount/fee.

DATE, METHOD AND  
TERMS OF SALE:

The sale of the Bonds will take place by competitive or negotiated sale, including private placement, and will occur no later than December 31, 2018. THDA will prepare for the sale with the aid of its financial advisor, CSG Advisors, and its bond counsel, Kutak Rock.

MATURITIES:

The Bonds may be any combination of tax-exempt and/or taxable long and/or short term serial, term, and/or discounted or premium bonds as may be determined by the Bond Finance Committee. The Bonds shall have a maturity not to exceed 34 years from the date of original issuance.

BOND INTEREST RATES:

The interest rates on the Bonds shall be fixed long term rates and shall not result in a net interest cost in excess of 9% per annum.

REDEMPTION TERMS:

The Bonds may be subject to redemption prior to maturity on such terms as are to be determined by the Bond Finance Committee.

LOAN INTEREST RATES AND  
COST OF ADMINISTRATION:

Unless otherwise permitted under the Internal Revenue Code, the blended effective interest rate on Program Loans financed with proceeds of tax-exempt Bonds (including any transferred loans upon the refunding of any outstanding bonds) will not exceed 112.5 basis points over the yield on such tax-exempt bonds, as calculated in accordance with the Internal Revenue Code, from which all of THDA's costs of administration for the Bonds may be paid.

RESOLUTION OF THE BOARD OF DIRECTORS  
OF THE TENNESSEE HOUSING DEVELOPMENT AGENCY  
AUTHORIZING THE ISSUANCE AND SALE OF  
RESIDENTIAL FINANCE PROGRAM BONDS, ISSUE 2018-4  
September 25, 2018

WHEREAS, pursuant to the Tennessee Housing Development Agency Act (the “Act”), the Bond Finance Committee of the THDA Board of Directors (the “Committee”), on September 24, 2018, approved a plan of financing for Residential Finance Program Bonds, Issue 2018-4 (the “Bonds”) in an aggregate par amount not to exceed \$225,000,000 (the “Plan of Financing”); and

WHEREAS, the Plan of Financing provides for the Bonds to be issued as additional series of long term and/or short term tax-exempt and/or taxable bonds, with fixed interest rates, under the General Residential Finance Program Bond Resolution adopted by THDA on January 29, 2013, as amended (the “General Resolution”) and to be sold by competitive or negotiated sale, all at the election of the Committee; and

WHEREAS, THDA on January 23, 2018, adopted a Housing Cost Index, as defined in Section 13-23-103(7) of the Act, which shows that, as of January 8, 2018, primary housing costs exceed 25% of an average Tennessee household’s gross monthly income; and

WHEREAS, pursuant to Section 147 of the Internal Revenue Code of 1986, as amended (the “Code”), THDA must conduct a public hearing regarding the issuance of the Bonds and submit the results of the public hearing to the Governor of the State of Tennessee for approval; and

WHEREAS, THDA proposes to distribute a preliminary official statement (the “Preliminary Official Statement”) to prospective purchasers and to make available to the respective purchasers a final official statement (the “Official Statement”) with respect to the Bonds; and

WHEREAS, the Board wishes to authorize the Committee to proceed with the issuance and sale of the Bonds to provide funds for THDA’s programs in accordance with the Plan of Financing and this Resolution.

NOW, THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THE TENNESSEE HOUSING DEVELOPMENT AGENCY AS FOLLOWS:

1. The issuance and sale of the Bonds, in an aggregate par amount not to exceed \$225,000,000, with the final terms, all as determined by the Committee, upon the recommendation of THDA’s Financial Advisor, the Executive Director and the Secretary of the Committee, with the approval of THDA’s Bond Counsel, is hereby authorized.

2. The resolution titled “A Supplemental Resolution Authorizing the Sale of Residential Finance Program Bonds, \$\_\_\_\_\_ Issue 2018-4A (AMT), \$\_\_\_\_\_ Issue 2018-4B (Non-AMT), and \$\_\_\_\_\_ Issue 2018-4C (Non-AMT)” (the “Supplemental Resolution”), in the form attached hereto, is adopted, subject to the provisions contained herein.

3. THDA is authorized and directed to conduct a public hearing prior to the issuance of the Bonds, to the extent required by the Code, with reasonable public notice and to submit the results of the public hearing to the Governor to obtain the Governor’s written approval.

4. The Committee is authorized to (a) select the manner of sale; (b) designate multiple series or sub-series, as needed; (c) designate AMT, non-AMT or taxable components; (d) designate fixed interest rates; (e) approve a final structure for the Bonds; (f) approve a final principal amount or amounts, not to exceed a par amount of \$225,000,000; (g) authorize bond insurance, if determined necessary; (h) determine all other final terms of the Bonds, in accordance with this Resolution, the Plan of Financing and the Supplemental Resolution; (i) approve the final version of the Supplemental Resolution, with such additional changes, substitutions, deletions, additions, completions or amendments therein as determined by the Committee, upon the recommendation of the Executive Director or Secretary of the Committee, with the approval of Chief Legal

Counsel of THDA and Bond Counsel, as the Committee shall determine to be necessary or appropriate to establish the final terms of the Bonds and their manner of sale; and (j) award the Bonds in accordance therewith. At the discretion of the Committee, the Bonds may include new volume cap and any combination of amounts needed to refund all or any part of bonds or notes outstanding under the General Resolution, under the General Homeownership Program Bond Resolution or under the General Housing Finance Resolution, including, without limitation, to produce proceeds for new mortgage loans or to produce economic savings or opportunities for interest rate subsidies. In addition, the Committee, at its discretion may elect to transfer resources from the General Homeownership Program Bond Resolution and/or the General Housing Finance Resolution to the General Resolution in connection with the issuance of the Bonds upon recommendation of the Executive Director or Secretary of the Committee with the approval of Bond Counsel, Financial Advisor and Chief Legal Counsel.

5. The Assistant Secretary of the Committee, with the assistance of Bond Counsel, the Financial Advisor, and the Executive Director and Chief Legal Counsel of THDA, is authorized to prepare a Preliminary Official Statement and a final Official Statement for printing and distribution in connection with the issuance and sale of the Bonds.

6. The Assistant Secretary of the Committee, with the assistance of Bond Counsel and the Executive Director and Chief Legal Counsel of THDA, is authorized to prepare all documents determined to be necessary or appropriate for the competitive sale of all or any portion of the Bonds or all documents, including, without limitation, a purchase agreement in a form appropriate for a negotiated sale, including a private placement, of all or any portion of the Bonds, as determined to be necessary or appropriate, for a negotiated sale of all or any portion of the Bonds.

7. The Secretary of the Committee, or the Chair, the Vice Chair, or the Executive Director of THDA is hereby authorized to execute (i) the proposal submitted by the lowest bidder or bidders in the event of a competitive sale of all or any portion of the Bonds or (ii) a purchase agreement in the event of a negotiated sale, including a private placement, of all or any portion of the Bonds, the form of which has been approved by the Committee, upon the recommendation of the Financial Advisor and Bond Counsel, and (iii) to deliver the Bonds as appropriate.

8. The Assistant Secretary of the Committee is hereby authorized to do and perform all acts and things provided to be done or performed by the Secretary of the Committee herein, in the General Resolution and in the Supplemental Resolution.

9. The Secretary of the Committee, and the Chair, the Vice-Chair, the Executive Director, the Director of Finance and the Chief Legal Counsel of THDA and other appropriate officers and employees of THDA are hereby authorized to do and perform or cause to be done and performed, for or on behalf of THDA, all acts and things (including, without limitation, execution and delivery of documents) that constitute conditions precedent to the issuance and sale of the Bonds or that are otherwise required to be done and performed by or on behalf of THDA prior to or simultaneously with the issuance and sale of the Bonds.

10. Capitalized terms not otherwise defined herein shall have the same meaning as set forth in the Supplemental Resolution, as the context indicates.

11. This resolution shall take effect immediately.

This Resolution was adopted by the affirmative vote of no fewer than eight (8) members of the THDA Board of Directors at its meeting on September 25, 2018.

---

**TENNESSEE HOUSING DEVELOPMENT AGENCY**

---

**A Supplemental Resolution**

**Authorizing the Sale of**

**Residential Finance Program Bonds**

**\$\_\_\_\_\_ Issue 2018-4A (AMT)**

**\$\_\_\_\_\_ Issue 2018-4B (Non-AMT)**

**\$\_\_\_\_\_ Issue 2018-4C (Non-AMT)**

---

Adopted September 25, 2018  
as amended and supplemented  
by the Bond Finance Committee  
of THDA on \_\_\_\_\_, 2018

---

ARTICLE I  
DEFINITIONS AND AUTHORITY

Section 1.01.	Short Title .....	1
Section 1.02.	Definitions.....	1
Section 1.03.	Authority for this Resolution .....	4

ARTICLE II  
TERMS AND ISSUANCE

Section 2.01.	Issue Amount and Designation .....	4
Section 2.02.	Purposes .....	4
Section 2.03.	Amounts, Maturities and Interest Rates.....	5
Section 2.04.	Denominations, Numbers and Letters.....	7
Section 2.05.	Paying Agent.....	7
Section 2.06.	Execution of Bonds .....	7
Section 2.07.	Place of Payment; Record Date .....	8
Section 2.08.	Sinking Fund Redemption Provisions .....	8
Section 2.09.	Optional Redemption .....	9
Section 2.10.	Special Optional Redemption .....	10
Section 2.11.	Special Mandatory Redemptions .....	11
Section 2.12.	Selection by Lot .....	13
Section 2.13.	Purchase of Bonds by THDA or Trustee .....	13

ARTICLE III  
SALE AND DELIVERY

Section 3.01.	Sale.....	13
---------------	-----------	----

ARTICLE IV  
DISPOSITION OF PROCEEDS AND OTHER MONEYS

Section 4.01.	Loan Fund; Bond Reserve Fund Requirement.....	13
Section 4.02.	Proceeds of Issue 2018-4A Bonds and Issue 2018-4B Bonds.....	14
Section 4.03.	Program Loan Determinations.....	15

ARTICLE V  
FORM OF BONDS, AND TRUSTEE’S CERTIFICATE OF AUTHENTICATION

Section 5.01.	Form of Bonds .....	15
Section 5.02.	Form of Trustee’s and Authenticating Agent’s Certificate of Authentication.....	16

ARTICLE VI  
MISCELLANEOUS

Section 6.01.	No Recourse Against Members or Other Persons .....	16
---------------	--	----



Section 6.02.	Bonds not Debt, Liability or Obligation of the State or the United States of America.....	16
Section 6.03.	Delivery of Projected Cash Flow Statements .....	16
Section 6.04.	Authorized Officers .....	16
Section 6.05.	Authorized Trustee.....	17
Section 6.06.	Covenant to Comply with Federal Tax Law Requirements.....	17
Section 6.07.	Continuing Disclosure Undertaking .....	17
Section 6.08.	Confirmation and Adjustment of Terms by Committee .....	20
Section 6.09.	Effective Date .....	20
EXHIBIT A	BOND PURCHASE AGREEMENT	
EXHIBIT B	[PLANNED AMORTIZATION AMOUNTS FOR ISSUE 2018-4A PAC BONDS, ISSUE 2018-4C PAC BONDS AND 400% PSA PREPAYMENT AMOUNT TABLE]	
EXHIBIT C	FORM OF BOND	

**A SUPPLEMENTAL RESOLUTION AUTHORIZING THE SALE OF**  
**RESIDENTIAL FINANCE PROGRAM BONDS**  
\$ \_\_\_\_\_ **ISSUE 2018-4A (AMT)**  
\$ \_\_\_\_\_ **ISSUE 2018-4B (Non-AMT)**  
\$ \_\_\_\_\_ **ISSUE 2018-4C (Non-AMT)**

BE IT RESOLVED by the Board of Directors of the **TENNESSEE HOUSING DEVELOPMENT AGENCY** ("THDA") as follows:

**ARTICLE I**

**DEFINITIONS AND AUTHORITY**

**Section 1.01. Short Title.** This resolution may hereafter be cited by THDA as the Issue 2018-4 Supplemental Residential Finance Program Bond Resolution.

**Section 1.02. Definitions.**

(a) All terms which are defined in Section 1.2 of the resolution of THDA adopted January 29, 2013, as amended and supplemented by the Bond Finance Committee on April 18, 2013, and entitled "General Residential Finance Program Bond Resolution" (the "General Resolution") have the same meanings in this Resolution as such terms are given in Section 1.2 of the General Resolution.

(b) In addition, as used in this Resolution, unless the context otherwise requires, the following terms have the following respective meanings:

["*400% PSA Prepayment Amount*" means the cumulative amount of principal prepayments on the Program Loans allocable to the Issue 2018-4 Bonds (including Program Securities and the Transferred Program Loans) at a rate equal to 400% PSA, as set forth in Exhibit B hereto.]

"*Bond Purchase Agreement*" means the contract for the purchase of the Issue 2018-4 Bonds between THDA and the Underwriters, in substantially the form attached hereto as Exhibit A.

"*Business Day*" shall mean any day except for a Saturday, Sunday or any day on which banks in Tennessee or New York are required or authorized to be closed.

"*Co-Managers*" means [J.P. Morgan Securities LLC, Wells Fargo Bank, National Association and \_\_\_\_\_].

"*Code*" shall mean the Internal Revenue Code of 1986, as amended.

"*DTC*" means The Depository Trust Company, New York, New York, a limited-purpose trust company organized under the laws of the State of New York, and its successors and assigns.

*“Excess 2018-4 Principal Payments”* means, as of any date of computation, 100% of all regularly scheduled principal payments and prepayments on Program Loans, or portions thereof, allocable to the Issue 2018-4 Bonds (including Program Securities [and the Transferred Program Loans]) to the extent such regularly scheduled principal payments and prepayments are not required to make regularly scheduled principal payments, including Sinking Fund Payments, on the Issue 2018-4 Bonds.

*“Issue 2018-4 Bonds”* means, collectively, the Issue 2018-4A Bonds, the Issue 2018-4B Bonds and the Issue 2018-4C Bonds.

*“Issue 2018-4A Bonds”* means the Issue 2018-4A Bonds of THDA authorized by this Resolution pursuant to the Plan of Financing.

[*“Issue 2018-4A PAC Bonds”* means the Issue 2018-4A Bonds in the aggregate principal of \$\_\_\_\_\_ maturing \_\_\_\_\_.]

[*“Issue 2018-4A PAC Bonds Planned Amortization Amount”* means the cumulative amount of Issue 2018-4A PAC Bonds expected to be redeemed upon the receipt of Excess 2018-4 Principal Payments at a rate equal to \_\_\_\_% PSA, as set forth in Exhibit B hereto.]

*“Issue 2018-4B Bonds”* means the Issue 2018-4B Bonds of THDA authorized by this Resolution pursuant to the Plan of Financing.

*“Issue 2018-4C Bonds”* means the Issue 2018-4C Bonds of THDA authorized by this Resolution pursuant to the Plan of Financing.

[*“Issue 2018-4C PAC Bonds”* means the Issue 2018-4C Bonds in the principal amount of \$\_\_\_\_\_ maturing \_\_\_\_\_.]

[*“Issue 2018-4C PAC Bonds Planned Amortization Amount”* means the cumulative amount of Issue 2018-4C PAC Bonds expected to be redeemed upon the receipt of Excess 2018-4 Principal Payments at a rate equal to \_\_\_\_% PSA, as set forth in Exhibit B hereto.]

*“Issue Date”* means the date on which the Issue 2018-4 Bonds are issued by THDA and delivered to the Underwriters, expected to occur on \_\_\_\_\_, 2018.

*“MSRB”* means the Municipal Securities Rulemaking Board by operation of its Electronic Municipal Market Access System.

*“Official Statement”* means the Official Statement dated \_\_\_\_\_, 2018 used in connection with the sale of the Issue 2018-4 Bonds.

[*“PAC Bonds”* means, collectively, the Issue 2018-4A PAC Bonds and the Issue 2018-4C PAC Bonds.]

“*Preliminary Official Statement*” means the Preliminary Official Statement dated \_\_\_\_\_, 2018 used in connection with the offering of the Issue 2018-4 Bonds.

“*Rating Agency*” shall mean Moody’s Investors Service, Inc. (or any successor thereto), and Standard & Poor’s Ratings Services, a Standard & Poor’s Financial Services LLP business (or any successor thereto).

[“*Refunded Bonds*” means, THDA’s Homeownership Program Bonds, Issue \_\_\_\_\_ and Homeownership Program Bonds, Issue \_\_\_\_\_.]

“*Resolution*” means this Supplemental Resolution adopted by THDA on September 25, 2018, as amended and supplemented by the Bond Finance Committee on \_\_\_\_\_, 2018.

“*Serial Bonds*” means the Issue 2018-4 Bonds which are not Term Bonds.

“*Term Bonds*” means, collectively, the Issue 2018-4A Bonds maturing \_\_\_\_\_, the Issue 2018-4B Bonds maturing \_\_\_\_\_ and the Issue 2018-4C Bonds maturing \_\_\_\_\_.

[“*Transferred Investments*” means amounts on deposit in certain funds and accounts of THDA allocated to the Refunded Bonds which are allocated to the Issue 2018-4 Bonds upon the refunding of the Refunded Bonds.]

[“*Transferred Program Loans*” means the Program Loans allocable to the Refunded Bonds which are allocated to the Issue 2018-4 Bonds upon the refunding of the Refunded Bonds.]

“*Underwriters*” means, collectively, [RBC Capital Markets, LLC, Raymond James & Associates, Inc., and Citigroup Global Markets Inc.], their respective successors and assigns, and the Co-Managers as purchasers of the Issue 2018-4 Bonds.

(c) Unless the context otherwise indicates, words of the masculine gender will be deemed and construed to include correlative words of feminine and neuter genders, words importing the singular number include the plural number and vice versa, and words importing persons include firms, associations, partnerships (including limited partnerships), trusts, corporations and other legal entities, including public bodies, as well as natural persons.

(d) The terms “hereby,” “hereof,” “hereto,” “herein,” “hereunder” and any similar terms as used in this Resolution refer to this Resolution and such terms used in the form of registered bond herein refer to such bonds.

(e) [Unless the context otherwise indicates, the term “Program Loan” as used herein shall include Transferred Program Loans and Program Securities and the phrase “Program Loans allocable to the Issue 2018-4 Bonds” shall include the Transferred Program Loans as well as any new Program Loans and Program Securities acquired with proceeds of the Issue 2018-4 Bonds.]

**Section 1.03. Authority for this Resolution.** This Resolution is adopted pursuant to the provisions of the Act and the General Resolution.

## **ARTICLE II**

### **TERMS AND ISSUANCE**

**Section 2.01. Issue Amount and Designation.** In order to provide funds necessary for the Residential Finance Program in accordance with and subject to the terms, conditions and limitations established herein and in the General Resolution, Residential Finance Program Bonds, Issue 2018-4A are hereby authorized to be issued in the aggregate principal amount of \$\_\_\_\_\_, Residential Finance Program Bonds, Issue 2018-4B are hereby authorized to be issued in the aggregate principal amount of \$\_\_\_\_\_ and Issue 2018-4C are hereby authorized to be issued in the aggregate principal amount of \$\_\_\_\_\_. In addition to the title “Residential Finance Program Bond,” the Issue 2018-4 Bonds will bear the additional designations “Issue 2018-4A (AMT), “Issue 2018-4B (Non-AMT)” and “Issue 2018-4C (Non-AMT),” as appropriate. The Issue 2018-4 Bonds shall be issued only in fully registered form. The Issue 2018-4A Bonds will consist of \$\_\_\_\_\_ principal amount of Serial Bonds and \$\_\_\_\_\_ principal amount of Term Bonds. The Issue 2018-4B Bonds will consist of \$\_\_\_\_\_ principal amount of Serial Bonds and \$\_\_\_\_\_ principal amount of Term Bonds. The Issue 2018-4C Bonds will consist of \$\_\_\_\_\_ principal amount of Serial Bonds and \$\_\_\_\_\_ principal amount of Term Bonds.

**Section 2.02. Purposes.** [The Issue 2018-4A Bonds and the Issue 2018-4B Bonds are being issued to refund the Refunded Bonds. As a result of such refunding, the Transferred Program Loans and the Transferred Investments will become allocated to the Issue 2018-4 Bonds.] The Issue 2018-4C Bonds are being issued (a) to finance Program Loans (including Program Securities), or participations therein, on single family residences located within the State, (b) if required, to pay capitalized interest on the Issue 2018-4 Bonds, (c) if required, to make a deposit in the Bond Reserve Fund, and (d) if required, to pay certain costs of issuance relating to the Issue 2018-4 Bonds.

The proceeds of the Issue 2018-4 Bonds [and the Transferred Investments] shall be applied in accordance with Article IV hereof.

### **Section 2.03. Amounts, Maturities and Interest Rates.**

(a) The Issue 2018-4 Bonds will mature on the dates, in the principal amounts and bear interest from their Issue Date, calculated on the basis of a 360-day year of twelve 30-day months, payable semi-annually on each January 1 and July 1, commencing [July 1, 2019], at the rate set opposite such date in the following tables:

**Issue 2018-4A Bonds**  
**Serial Bonds**

<b>Maturity Date</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Maturity Date</b>	<b>Principal Amount</b>	<b>Interest Rate</b>
	\$	%		\$	%

**Term Bonds**

<b>Maturity Date</b>	<b>Principal Amount</b>	<b>Interest Rate</b>
	\$	%

**Issue 2018-4B Bonds**  
**Serial Bonds**

<b>Maturity Date</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Maturity Date</b>	<b>Principal Amount</b>	<b>Interest Rate</b>
	\$	%		\$	%

**Term Bonds**

<b>Maturity Date</b>	<b>Principal Amount</b>	<b>Interest Rate</b>
	\$	%

**Issue 2018-4C Bonds**  
**Serial Bonds**

<b>Maturity Date</b>	<b>Principal Amount</b>	<b>Interest Rate</b>	<b>Maturity Date</b>	<b>Principal Amount</b>	<b>Interest Rate</b>
	\$	%		\$	%

### **Term Bonds**

<b>Maturity Date</b>	<b>Principal Amount</b>	<b>Interest Rate</b>
--------------------------	-----------------------------	--------------------------

\$

%

(b) Whenever the due date for payment of interest on or principal of the Issue 2018-4 Bonds or the date fixed for redemption of any Issue 2018-4 Bond shall be a day which is not a Business Day, then payment of such interest, principal or Redemption Price need not be made on such date, but may be made on the next succeeding Business Day, with the same force and effect as if made on the due date for payment of principal, interest or Redemption Price and no additional interest shall be payable on such Business Day which, merely by operation of this paragraph, may have accrued after the original due date.

#### **Section 2.04. Denominations, Numbers and Letters.**

(a) The Issue 2018-4 Bonds of each series maturing in each year are to be issued in denominations of \$5,000 or any integral multiple thereof not exceeding the aggregate principal amount of Issue 2018-4 Bonds of each series maturing in such year. The Issue 2018-4 Bonds are to be lettered “RA,” “RB,” or “RC,” as applicable, and numbered separately from 1 consecutively upwards.

(b) The Issue 2018-4 Bonds, when issued, will be registered in the name of Cede & Co., as nominee of DTC. Only one Issue 2018-4 Bond will be outstanding for each maturity and interest rate of each series of the Issue 2018-4 Bonds in the aggregate principal amount of such maturity, interest rate and series. Subject to the provisions of the General Resolution, purchases of ownership interests in the Issue 2018-4 Bonds will be made in book-entry form only in authorized denominations set forth in Section 2.04(a). Beneficial owners of the Issue 2018-4 Bonds will not receive certificates representing their interest in the Issue 2018-4 Bonds. So long as Cede & Co. shall be the registered owner of the Issue 2018-4 Bonds, THDA will deem and treat Cede & Co. as the sole and exclusive owner of the Issue 2018-4 Bonds and THDA will have no responsibility to any DTC participant or beneficial owner thereof.

**Section 2.05. Paying Agent.** The Trustee is hereby appointed as paying agent for the Issue 2018-4 Bonds pursuant to Section 11.2 of the General Resolution. The Trustee may appoint an agent for presentation of transfers in New York, New York and DTC may act as such agent.

**Section 2.06. Execution of Bonds.** The Issue 2018-4 Bonds shall be executed by the manual or facsimile signature of the Chair or Vice Chair and the seal of THDA or a facsimile thereof shall be imprinted, impressed or otherwise reproduced on the Issue 2018-4 Bonds and attested by the manual or facsimile signature of the Executive Director or Secretary of THDA. The Issue 2018-4 Bonds shall be delivered to the Trustee for proper authentication and delivered to DTC pursuant to the DTC FAST delivery program, as the registered owner of the Issue 2018-4 Bonds upon instructions from THDA to that effect.

**Section 2.07. Place of Payment; Record Date.** While the Issue 2018-4 Bonds are registered in book-entry only form in the name of Cede & Co. as nominee of DTC, payments of principal, Redemption Price and interest on the Issue 2018-4 Bonds shall be made in accordance with the procedures of DTC. In the event the Issue 2018-4 Bonds are no longer held in book-entry only form, the principal and Redemption Price of all Issue 2018-4 Bonds shall be payable at the designated corporate trust office of the Trustee. Interest on the Issue 2018-4 Bonds will be paid by check mailed by the Trustee to the registered owner thereof. Any registered owner of the Issue 2018-4 Bonds in a principal amount equal to or exceeding \$1,000,000 may receive payments of interest by wire transfer if written notice is given to the Trustee at least ten Business Days before an applicable Interest Payment Date. The Record Date for payment of interest on the Issue 2018-4 Bonds shall be the 15th day of the month next preceding an Interest Payment Date.

**Section 2.08. Sinking Fund Redemption Provisions.**

(a) The Issue 2018-4 Bonds that are Term Bonds are subject to redemption in part by lot on the dates set forth below for such maturity of Issue 2018-4 Bonds at a Redemption Price equal to 100% of the principal amount thereof from mandatory Sinking Fund Payments in the principal amounts for each of the dates set forth below:

**Issue 2018-4A Term Bonds due \_\_\_\_\_**

<b>Date</b>	<b>Amount Due</b>	<b>Date</b>	<b>Amount Due</b>
	\$		\$

\_\_\_\_\_  
\*Maturity

**Issue 2018-4B Term Bonds due \_\_\_\_\_**

<b>Date</b>	<b>Amount Due</b>	<b>Date</b>	<b>Amount Due</b>
	\$		\$

\_\_\_\_\_  
\*Maturity



**Issue 2018-4C Term Bonds due \_\_\_\_\_**

<b>Date</b>	<b>Amount Due</b>	<b>Date</b>	<b>Amount Due</b>
	<b>\$</b>		<b>\$</b>

\_\_\_\_\_  
\*Maturity

(b) Upon the purchase or redemption of Issue 2018-4 Bonds of any series and maturity for which Sinking Fund Payments have been established other than by application of Sinking Fund Payments, each future Sinking Fund Payment for such Issue 2018-4 Bonds of such series and maturity will be credited by an amount bearing the same ratio to such Sinking Fund Payment as the total principal amount of such Issue 2018-4 Bonds of such series and maturity to be purchased or redeemed bears to the total amount of all Sinking Fund Payments for such series and maturity of Issue 2018-4 Bonds, unless otherwise directed by THDA in accordance with the General Resolution.

**Section 2.09. Optional Redemption.** The Issue 2018-4 Bonds maturing on and after [January 1, 2029] [other than the PAC Bonds], are subject to redemption at the option of THDA prior to their respective maturities, either as a whole or in part at any time, on or after [July 1, 2028] (any such date to be determined by THDA or selected by the Trustee subject to the provisions of and in accordance with the General Resolution, and when so determined or selected will be deemed and is hereby set forth as the redemption date), upon notice as provided in Article VI of the General Resolution, at a Redemption Price equal to 100% of the principal amount thereof, plus accrued interest to the date of redemption.

[[The PAC Bonds are subject to redemption at the option of THDA, either as a whole or in part at any time or on or after [July 1, 2028] (any such date to be determined by THDA or selected by the Trustee subject to the provisions of and in accordance with the General Resolution, and when determined or selected will be deemed and is hereby set forth as the redemption date), upon notice as provided in Article VI of the General Resolution, at the respective Redemption Prices set forth below (expressed as a percentage of the principal amount of such PAC Bonds to be redeemed), plus accrued interest to the redemption date:

<b><u>Period</u></b>	<b><u>Issue 2018-4A PAC Bond Redemption Price</u></b>	<b><u>Issue 2018-4C PAC Bond Redemption Price</u></b>
[July 1, 2028] to [_____]	[_____]%	[_____]%
[_____] and thereafter	[_____]	[_____]]

**Section 2.10. Special Optional Redemption.** The Issue 2018-4 Bonds are subject to redemption, at the option of THDA, as a whole or in part at any time prior to maturity, in accordance with the provisions of the General Resolution in an amount equal to amounts available for such purpose from (i) proceeds of the Issue 2018-4 Bonds not expected to be applied to the financing of Program Loans, (ii) repayments and prepayments of Program Loans (including Program Securities [and the Transferred Program Loans]) allocated to the Issue 2018-4 Bonds not

otherwise required to be applied to the special mandatory redemption of the Issue 2018-4 Bonds as described in Sections 2.11(b) or 2.11(c) hereof or to make regularly scheduled principal payments, including Sinking Fund Payments, on the Issue 2018-4 Bonds, (iii) repayments and prepayments of Program Loans made with the proceeds of any other Bonds issued under the General Resolution, subject to limitations contained in the Code, (iv) other amounts on deposit in the Revenue Fund in excess of the amounts required for the payment of Debt Service and Program Expenses, and (v) amounts on deposit in the Bond Reserve Fund in excess of the Bond Reserve Requirement; provided however, that the PAC Bonds (A) are only subject to redemption as described in clause (ii) above as described in Section 2.11(b) hereof [, and] (B) shall not be subject to redemption as described in clauses (iii), (iv) and (v) above if such redemption would cause amortization of a PAC Bond to exceed the related Planned Amortization Amount [and (C) shall be redeemed on a pro rata basis to the extent of any special optional redemption].

The date of redemption pursuant to this Section 2.10 shall be determined by the Trustee upon the direction of THDA subject to the provisions of and in accordance with the General Resolution (and when so determined such date will be deemed and is hereby set forth as the redemption date). The Issue 2018-4 Bonds to be so redeemed shall be redeemed at a Redemption Price of 100% of the principal amount thereof, plus interest accrued to the redemption date, if applicable; provided, however, that the Redemption Price for the PAC Bonds in the event of a redemption described in clause (i) of the paragraph above shall be the issue price thereof (par plus premium), plus accrued interest to the redemption date.

The Issue 2018-4 Bonds to be redeemed pursuant to this Section 2.10 shall be selected by THDA in its sole discretion; provided, however, that the PAC Bonds may not be redeemed in an amount in excess of their proportionate amount of all Issue 2018-4 Bonds then Outstanding in the event of any redemption pursuant to clause (i) of the first paragraph of this Section 2.10 [, and, to the extent the PAC Bonds are redeemed pursuant to any special optional redemption, the PAC Bonds shall be redeemed on a pro rata basis.]

### **Section 2.11. Special Mandatory Redemptions.**

(a) ***Unexpended Proceeds.*** The Issue 2018-4 Bonds are subject to mandatory redemption on \_\_\_\_\_ in the event and to the extent that there are unexpended proceeds of the Issue 2018-4 Bonds on deposit in the Issue 2018-4 Subaccount of the Loan Fund on \_\_\_\_\_; provided that such redemption date may be extended, at the option of THDA, and subject to the satisfaction of the conditions set forth in Section 4.01 hereof.

Notwithstanding any extension of the redemption date described above, in order to satisfy requirements of the Code, the Issue 2018-4 Bonds are subject to mandatory redemption on \_\_\_\_\_, \_\_\_\_\_, to the extent any amounts remain on deposit in the Issue 2018-4 Subaccount of the Loan Fund on \_\_\_\_\_, \_\_\_\_\_.

The redemption price of the Issue 2018-4 Bonds to be so redeemed shall be 100% of the principal amount thereof plus interest accrued to the date of redemption, if applicable; provided, however, that the redemption price for the PAC Bonds shall be the issue price thereof (par plus premium) plus accrued interest to the redemption date. The Issue 2018-4 Bonds to be redeemed shall be selected by THDA in its sole discretion; provided, however, that the PAC Bonds may not be redeemed in an amount in excess of

their proportionate amount of all Issue 2018-4 Bonds then Outstanding [, and, to the extent the PAC Bonds are redeemed, the PAC Bonds shall be redeemed on a pro rata basis.]

(b) **[Excess 2018-4 Principal Payments (PAC Bonds).** The PAC Bonds are subject to redemption prior to their maturity, in whole or in part at a Redemption Price of 100% of the principal amount of such PAC Bonds to be redeemed, plus interest accrued to the date of redemption, from amounts transferred to the Redemption Account representing Excess 2018-4 Principal Payments. Any Excess 2018-4 Principal Payments so deposited in the Redemption Account shall be applied to the redemption of PAC Bonds on any Interest Payment Date commencing [July 1, 2019]; provided that PAC Bonds may be redeemed between Interest Payment Dates on the first Business Day of any month for which adequate notice of redemption may be given.

While any PAC Bonds remain Outstanding, Excess 2018-4 Principal Payments shall be used as follows:

FIRST, if principal prepayments on the Program Loans allocable to the Issue 2018-4 Bonds (including Program Securities [and the Transferred Program Loans]) are equal to or less than the 400% PSA Prepayment Amount, as determined by THDA, then available Excess 2018-4 Principal Payments shall first be applied to redeem the PAC Bonds on a pro rata basis up to an amount correlating to the Issue 2018-4A PAC Bonds Planned Amortization Amount and the Issue 2018-4C PAC Bonds Planned Amortization Amount, as applicable, and, subject to Section 2.11(c) below, the remainder may be applied by THDA for any purpose permissible under the Resolution, including the redemption of any Bonds under the Resolution, other than the PAC Bonds.

SECOND, if principal prepayments on the Program Loans allocable to the Issue 2018-4 Bonds (including Program Securities [and the Transferred Program Loans]) are in excess of the 400% PSA Prepayment Amount, as determined by THDA, then available Excess 2018-4 Principal Payments shall first be applied to redeem PAC Bonds on a pro rata basis up to an amount correlating to the Issue 2018-4A PAC Bonds Planned Amortization Amount and the Issue 2018-4C PAC Bonds Planned Amortization Amount, as applicable, (as set forth in “FIRST” above) and, subject to Section 2.11(c) below, the remainder may be applied by THDA for any purpose permissible under the Resolution, including the redemption of any Bonds issued under the Resolution, including the PAC Bonds (any such remainder used to redeem PAC Bonds being an “Excess Principal PAC Bond Redemption”); provided, however, that (i) the source of an Excess Principal PAC Bond Redemption is restricted to that portion of available Excess 2018-4 Principal Payments which is in excess of 400% PSA, (ii) the principal amount of an Excess Principal PAC Bond Redemption may not be an amount in excess of the PAC Bonds’ proportionate amount of all Issue 2018-4 Bonds then Outstanding and (iii) the PAC Bonds shall be redeemed on a pro rata basis.

The Issue 2018-4A PAC Bonds Planned Amortization Amount, the Issue 2018-4C PAC Bonds Planned Amortization Amount and the 400% PSA Prepayment Amount set forth in Exhibit B hereto are each subject to proportionate reduction to the extent PAC Bonds are redeemed from amounts on deposit in the Issue 2018-4 Subaccount of the Loan Fund which are not applied to finance Program Loans in accordance with Section 2.11(a) hereof.]

(c) **Ten Year Rule.**

(i) To the extent not required to make regularly scheduled principal payments on the Issue 2018-4 Bonds (including Sinking Fund Payments) or otherwise required to be used to redeem the PAC Bonds as described in Section 2.11 (b) above, repayments and prepayments of principal on the Program Loans, or portions thereof, allocable to the Issue 2018-4 Bonds (including Program Securities [and the Transferred Program Loans]) received more than ten years after the Issue Date of the Issue 2018-4 Bonds (or the date of original issuance of the bonds refunded by the Issue 2018-4 Bonds, directly or through a series of refundings) shall be applied to redeem the Issue 2018-4 Bonds on or before the next Interest Payment Date with respect to the Issue 2018-4 Bonds, which Interest Payment Date is at least six months from the date of receipt of such Program Loan principal payments, in such principal amounts as required to satisfy requirements of the Code. The Redemption Price of Issue 2018-4 Bonds so redeemed shall be 100% of the principal amount thereof, plus interest accrued to the redemption date, if applicable.

(ii) THDA shall advise the Trustee of the appropriate Redemption Date for any redemption pursuant to this Section 2.11(c). The Issue 2018-4 Bonds to be redeemed shall be selected by THDA in its sole discretion; provided however, that the PAC Bonds may be redeemed in an amount that exceeds the applicable Planned Amortization Amount only if there are no other Issue 2018-4 Bonds Outstanding and if such PAC Bonds are redeemed pursuant to this paragraph, the PAC Bonds shall be redeemed on a pro rata basis.

**Section 2.12. Selection by Lot.** If less than all of the Issue 2018-4 Bonds of like Series and maturity are to be redeemed, the particular bonds of such maturity to be redeemed shall be selected by lot in accordance with Section 6.4 of the General Resolution.

**Section 2.13. Purchase of Bonds by THDA or Trustee.** Whenever moneys are available for redemption of Bonds under Sections 2.08, 2.09, 2.10 or 2.11 above, THDA or the Trustee is authorized to purchase Bonds at a price not to exceed the applicable Redemption Price.

## **ARTICLE III**

### **SALE AND DELIVERY**

**Section 3.01. Sale.**

(a) The Issue 2018-4 Bonds are hereby authorized to be sold to the Underwriters at the prices and on the terms and conditions set forth in the Bond Purchase Agreement and upon the basis of the representations, warranties and agreements therein set forth. The Chair, Secretary or Assistant Secretary of the Bond Finance Committee and the Executive Director of THDA are hereby authorized to execute the Bond Purchase Agreement. The Board of Directors of THDA hereby authorizes the Committee to adopt a resolution approving the purchase price of the Issue 2018-4 Bonds.

(b) The Secretary of the Bond Finance Committee of THDA is hereby authorized to make public and to authorize distribution of the Official Statement relating to the Issue 2018-4 Bonds in substantially the form presented to THDA with such changes, omissions, insertions and revisions as such officer shall deem advisable. The Chair, Vice Chair, Executive Director and Secretary of the Bond Finance Committee are hereby authorized to sign and deliver such Official Statement to the Underwriters. The distribution of the Preliminary Official Statement relating to the Issue 2018-4 Bonds to the public is hereby authorized and approved.

(c) The Issue 2018-4 Bonds shall be delivered to the Underwriters in accordance with the terms of the Bond Purchase Agreement and this 2018-4 Supplemental Resolution.

## **ARTICLE IV**

### **DISPOSITION OF PROCEEDS AND OTHER MONEYS**

**Section 4.01. Loan Fund; Bond Reserve Fund Requirement.** Upon receipt of the proceeds of the sale of the Issue 2018-4 Bonds, THDA shall deposit such proceeds, together with any contribution from THDA of available THDA funds, in the Issue 2018-4 Bond Subaccount of the Loan Fund and in the Bond Reserve Fund, if applicable, as shall be set forth in a certificate of THDA delivered on or prior to the date of issuance of the Issue 2018-4 Bonds. Amounts on deposit in the Issue 2018-4 Bond Subaccount of the Loan Fund in excess of \$\_\_\_\_\_ shall be applied to (i) the financing of Program Loans (including Program Securities), or participations therein, in accordance with the provisions of the General Resolution and Section 4.03 hereof, (ii) deposits to the Bond Reserve Fund and the Debt Service and Expense Account of the Revenue Fund, (iii) payment of Costs of Issuance and (iv) payment of capitalized interest to the extent, if any, specified by written instructions of an Authorized Officer.

Amounts on deposit in the Issue 2018-4 Subaccount of the Loan Fund shall be withdrawn therefrom and applied to the mandatory redemption of Issue 2018-4 Bonds as described in Section 2.11(a) hereof. The date of such redemption provided in Section 2.11(a) may be extended upon the delivery by THDA to the Trustee and the Rating Agency of a Projected Cash Flow Statement which satisfies the requirements of Section 7.11 of the General Resolution; provided further that the date of such redemption shall not be extended beyond the date set forth in the second paragraph of Section 2.11(a) unless THDA is in receipt of an opinion of Bond Counsel to the effect that such extension will not adversely affect the exclusion of interest on the Issue 2018-4 Bonds from the income of the owners thereof for federal income tax purposes. The amount of funds on deposit in the Issue 2018-4 Bond Subaccount of the Loan Fund to be used to pay Costs of Issuance with respect to the Issue 2018-4 Bonds shall not exceed 2% of the proceeds of the Issue 2018-4 Bonds.

THDA hereby covenants that an amount equal to twenty percent (20%) of the funds deposited in the Issue 2018-4 Bond Subaccount of the Loan Fund which are to be used to finance Program Loans (including Program Securities) (or other available funds of THDA), shall be made available for owner financing of “targeted area residences” (as defined in Section 143(j) of the Code) until \_\_\_\_\_, 2019.

The Bond Reserve Fund Requirement with respect to the Issue 2018-4 Bonds shall be [an amount equal to 3% of the then current balance of Program Loans (other than Program Loans underlying Program Securities) allocable to the Issue 2018-4 Bonds plus the amount on deposit in the Issue 2018-4 Subaccount of the Loan Fund which has not been designated to provide for the payment of Costs of Issuance or capitalized interest. On the Issue Date, THDA shall deposit an amount in the Bond Reserve Fund to satisfy the Bond Reserve Requirement.]

**Section 4.02. Proceeds of Issue 2018-4A Bonds and Issue 2018-4B Bonds.** Proceeds of the Issue 2018-4A Bonds and Issue 2018-4B Bonds, together with any contribution from THDA of available THDA funds, initially shall be deposited in the Issue 2018-4 Bond Subaccount of the Loan Fund. On the Issuance Date, \$\_\_\_\_\_ of the amount on deposit in the Issue 2018-4 Bond Subaccount of the Loan Fund (representing [the principal] [a portion of] the proceeds of the Issue 2018-4A Bonds and the [entire proceeds of the] Issue 2018-4B Bonds [in the aggregate amount of \$\_\_\_\_\_ [and available funds of THDA in the amount of \$\_\_\_\_\_]]) shall be applied to the refunding of the Refunded Bonds. [On such date, the Transferred Program Loans shall be credited to the Issue 2018-4 Bond Subaccount of the Loan Fund and the Transferred Investments shall be deposited in such Funds or Accounts as shall be set forth in a certificate of THDA delivered on or prior to the Issuance Date.]]

**Section 4.03. Program Loan Determinations.** No Program Loan shall be financed with proceeds of the Issue 2018-4 Bonds unless (i) such Program Loan is made for the acquisition of residential housing for occupancy by not more than four families and (ii) the deed of trust securing such Program Loan shall constitute and create a first lien subject only to Permitted Encumbrances, on the real property or on the interest in the real property constituting a part of the residential housing with respect to which the Program Loan secured thereby is made and on the fixtures acquired with the proceeds of the Program Loan attached to or used in connection with such residential housing.

In addition, the Program Loan must either:

- (a) have been pooled into a Program Security; or
- (b) have been insured or guaranteed by the Federal Housing Administration, the Farmers Home Administration, the Veteran's Administration, or another agency or instrumentality of the United States or the State to which the powers of any of them have been transferred, or which is exercising similar powers with reference to the insurance or guaranty of Program Loans; or
- (c) have a principal balance not exceeding 78% of the value, as determined in an appraisal by or acceptable to THDA, or the purchase price of the property securing the Program Loan, whichever is less; or
- (d) be made in an amount not exceeding the value, as determined in an appraisal by or acceptable to THDA, or purchase price of the property securing the Program Loan, whichever is less, but only if (i) THDA is issued a mortgage insurance policy by a private mortgage insurance company, qualified to do business in the State and the claims paying ability of which private mortgage insurer is rated by each Rating Agency in a rating category at least as high as the then current rating assigned to the Bonds, under which the insurer, upon foreclosure of the property securing the Program Loan, must pay the holder

of the Program Loan the unrecovered balance of a claim including unpaid principal, accrued interest, taxes, insurance premiums, and expenses of foreclosure, if any, or in lieu thereof may permit the holder of the Program Loan to retain title and may pay an agreed insured percentage of such claim; and (ii) the insured percentage of the Program Loan equals the amount by which the original principal amount of the Program Loan exceeds 78% of the value, as determined by an appraisal by or acceptable to THDA or purchase price of the property securing the Program Loan, whichever is less.

## ARTICLE V

### FORM OF BONDS, AND TRUSTEE'S CERTIFICATE OF AUTHENTICATION

**Section 5.01. Form of Bonds.** Subject to the provisions of the General Resolution, the Issue 2018-4 Bonds in fully registered form shall be in substantially the form attached hereto as Exhibit C, with such variations as shall be appropriate in order to conform to the terms and provisions of the General Resolution and this Resolution.

**Section 5.02. Form of Trustee's and Authenticating Agent's Certificate of Authentication.** The Issue 2018-4 Bonds shall not be valid or become obligatory for any purpose unless there shall have been endorsed thereon a certificate of authentication in substantially the following form:

#### (FORM OF TRUSTEE'S CERTIFICATE OF AUTHENTICATION)

This bond is one of the bonds described in the within-mentioned Resolutions and is one of the Residential Finance Program Bonds, [Issue 2018-4A (AMT)] [Issue 2018-4B (Non-AMT)] [Issue 2018-4C (Non-AMT)] of the Tennessee Housing Development Agency.

U.S. BANK NATIONAL ASSOCIATION, as  
Trustee

By \_\_\_\_\_  
Authorized Officer

## ARTICLE VI

### MISCELLANEOUS

**Section 6.01. No Recourse Against Members or Other Persons.** No recourse may be had for the payment of principal of or premium or interest on the Issue 2018-4 Bonds or for any claim based thereon or on this Resolution against any member of THDA or any person executing the Issue 2018-4 Bonds and neither the members of THDA nor any person executing the Issue 2018-4 Bonds may be liable personally on the Issue 2018-4 Bonds or be subject to any personal liability or accountability by reason of the execution thereof.

**Section 6.02. Bonds not Debt, Liability or Obligation of the State or the United States of America.** The Issue 2018-4 Bonds are not a debt, liability or the obligation of the State or any

other political subdivision thereof. Neither the full faith and credit nor the taxing power of the State, or of any other political subdivision thereof, is pledged for the payment of the principal of or interest on the Issue 2018-4 Bonds. The Issue 2018-4 Bonds are not a debt, liability or obligation of the United States of America or any agency thereof. Neither the full faith and credit nor the taxing power of the United States of America is pledged for payment of the principal of or interest on the Issue 2018-4 Bonds.

**Section 6.03. Delivery of Projected Cash Flow Statements.** THDA shall deliver such Projected Cash Flow Statements at the times and on the occasions set forth in the General Resolution or this Resolution.

**Section 6.04. Authorized Officers.** The Chair, Vice Chair, Executive Director, General Counsel, Deputy Executive Director and Secretary of THDA and the Secretary and any Assistant Secretary of the Bond Finance Committee and any other proper officer of THDA, be, and each of them hereby is, authorized and directed to execute and deliver any and all documents and instruments and to do and cause to be done any and all acts and things necessary or proper for carrying out the transactions contemplated by this Resolution, the General Resolution and the Official Statement.

**Section 6.05. Authorized Trustee.** THDA authorizes and directs the Trustee to perform any and all acts contemplated to be performed by the Trustee pursuant to the terms and provisions of this Resolution.

**Section 6.06. Covenant to Comply with Federal Tax Law Requirements.** THDA hereby covenants to comply with all applicable requirements of the Code so that interest on the Issue 2018-4 Bonds will be excluded from gross income of the holders thereof for federal income tax purposes, including the rebate requirement of Section 148(f) of the Code. THDA also covenants to pay any interest or penalty imposed by the United States for failure to comply with said rebate requirements. In accordance with the rebate requirement, THDA agrees that there will be paid from time to time all amounts required to be rebated to the United States pursuant to Section 148(f) of the Code and any temporary, proposed or final Treasury Regulations as may be applicable to the Issue 2018-4 Bonds from time to time.

**Section 6.07. Continuing Disclosure Undertaking.**

(a) THDA shall deliver to the MSRB, within 210 days after the end of each Fiscal Year:

(i) a copy of the annual financial statements of THDA prepared in accordance with generally accepted accounting principles as prescribed by the Governmental Accounting Standards Board; and

(ii) an annual update of the type of information in the Official Statement (A) contained in Appendix E, (B) regarding annual required contributions for employee pension plan and other post-employment benefits to the extent not included in annual financial statements and (C) of the nature disclosed under the following headings (including, without limitation, information with respect to the outstanding balances of Program Loans, by mortgage type, delinquency information, acquisition costs and income limits):



- (A) Residential Finance Program Bonds; and
- (B) Residential Finance Program Loans.

The information described in this subsection (a) may be provided by specific reference to documents (including official statements, to the extent the official statements include the information described in this subsection (a)) previously provided to the MSRB or filed with the Securities and Exchange Commission.

If unaudited financial statements are provided as part of the information required to be delivered under this subsection (a) within the time period specified above, THDA shall provide, when and if available, a copy of THDA's audited financial statements to the MSRB.

(b) THDA shall deliver to the MSRB and the Trustee, in a timely manner not in excess of 10 business days after the occurrence of the event, notice of the occurrence of any of the following events (if applicable) with respect to the Issue 2018-4 Bonds:

- (i) principal and interest payment delinquencies;
- (ii) non-payment related defaults, if material;
- (iii) unscheduled draws on the Bond Reserve Fund (or other debt service reserves) reflecting financial difficulties;
- (iv) unscheduled draws on any credit enhancements reflecting financial difficulties;
- (v) substitution of any credit or liquidity provider, or their failure to perform;
- (vi) adverse tax opinions, the issuance by the Internal Revenue Service of proposed or final determinations of taxability, Notices of Proposed Issue (IRS Form 5701-TEB) or other material notices or determinations with respect to the tax status of the Issue 2018-4 Bonds, or other material events affecting the tax status of the Issue 2018-4 Bonds;
- (vii) modifications to rights of the holders of the Issue 2018-4 Bonds, if material;
- (viii) bond calls, if material, and tender offers;
- (ix) defeasances;
- (x) release, substitution or sale of property securing repayment of the Issue 2018-4 Bonds, if material;
- (xi) rating changes;
- (xii) bankruptcy, insolvency, receivership or similar event of THDA (which event is considered to occur when any of the following occur: the

appointment of a receiver, fiscal agent or similar officer for THDA in a proceeding under the U.S. Bankruptcy Code or in any other proceeding under state or federal law in which a court or governmental authority has assumed jurisdiction over substantially all of the assets or business of THDA, or if such jurisdiction has been assumed by leaving the existing governing body and officials or officers in possession but subject to the supervision and orders of a court or governmental authority, or the entry of an order confirming a plan of reorganization, arrangement or liquidation by a court or governmental authority having supervision or jurisdiction over substantially all of the assets or business of THDA);

(xiii) The consummation of a merger, consolidation or acquisition involving THDA or the sale of all or substantially all of the assets of THDA, other than in the ordinary course of business, the entry into a definitive agreement to undertake such an action or the termination of a definitive agreement relating to any such actions, other than pursuant to its terms, if material; and

(xiv) Appointment of a successor or additional trustee or the change of name of a trustee, if material.

Notwithstanding the foregoing, notice of optional or unscheduled redemption of any Issue 2018-4 Bonds or defeasance of any Issue 2018-4 Bonds need not be given pursuant to this Section 6.07 any earlier than the notice (if any) of such redemption or defeasance is given to the owners of the Issue 2018-4 Bonds pursuant to the Resolution.

(c) THDA shall give notice to the Trustee and the MSRB in a timely manner of any failure by THDA to provide any information required pursuant to subsection (a) above within the time limit specified therein.

(d) All notices, documents and information provided to the MSRB shall be provided in an electronic format as prescribed by the MSRB and shall be accompanied by identifying information as prescribed by the MSRB.

(e) THDA agrees that the provisions of this Section 6.07 shall be for the benefit of the beneficial owners of the Issue 2018-4 Bonds whether or not the Rule (as defined below) applies to such Issue 2018-4 Bonds.

(f) THDA may amend this Resolution with respect to the above agreements, without the consent of the beneficial owners of the Issue 2018-4 Bonds (except to the extent required under clause (iv)(B) below), if all of the following conditions are satisfied: (i) such amendment is made in connection with a change in circumstances that arises from a change in legal (including regulatory) requirements, a change in law (including rules or regulations) or in interpretations thereof, or a change in the identity, nature or status of THDA or the type of business conducted thereby; (ii) these agreements as so amended would have complied with the requirements of Rule 15c2-12 (the “Rule”) as of the date of this Resolution, after taking into account any amendments or interpretations of the Rule, as well as any change in circumstances; (iii) THDA shall have delivered to the Trustee an opinion of counsel, addressed to THDA and the Trustee, to the same effect as set forth in clause (ii) above; (iv) either (A) THDA shall deliver to the Trustee an opinion of or

determination by a person unaffiliated with THDA (which may include the Trustee or bond counsel), acceptable to THDA and the Trustee, addressed to THDA and the Trustee, to the effect that the amendment does not materially impair the interests of the holders of the Issue 2018-4 Bonds or (B) the holders of the Issue 2018-4 Bonds consent to the amendment pursuant to the same procedures as are required for amendments to the General Resolution with consent of the holders of Bonds pursuant to the General Resolution as in effect on the date of this Resolution; and (v) THDA shall have delivered copies of such opinion(s) and the amendment to the MSRB.

(g) THDA's obligations with respect to the beneficial owners of the Issue 2018-4 Bonds under these agreements as set forth above terminate upon a legal defeasance pursuant to the General Resolution, prior redemption or payment in full of all of the Issue 2018-4 Bonds. THDA shall give notice of any such termination to the MSRB.

(h) Failure by THDA to comply with this Section 6.07 shall not constitute an Event of Default under the General Resolution but the undertaking in this Section 6.07 may be enforced by any beneficial owner of the Issue 2018-4 Bonds exclusively by an action for specific performance. The obligations of THDA in this Section 6.07 shall be construed and interpreted in accordance with the laws of the State, and any suits and actions arising out of the obligations under this Section 6.07 shall be instituted in a court of competent jurisdiction in the State.

**Section 6.08. Confirmation and Adjustment of Terms by Committee.** The terms of the Issue 2018-4 Bonds are herein established subject to confirmation by the Committee upon the sale of the Issue 2018-4 Bonds by the Committee. The Committee is hereby authorized to make such changes or modifications in the principal amounts, maturities and interest rates for the Issue 2018-4 Bonds and in the application of the proceeds thereof, paying agents, terms of redemption and the schedule of prepayment amounts to be used for accrued principal installments in such manner as the Committee determines to be necessary or convenient to better achieve the purposes of the Act and in the best interests of THDA.

**Section 6.09. Effective Date.** This Resolution will take effect immediately.

**EXHIBIT A**

**BOND PURCHASE AGREEMENT**

## EXHIBIT B

### [PLANNED AMORTIZATION AMOUNTS FOR PAC BONDS]

<u>Date</u>	<u>[Issue 2018-4A PAC Bonds Planned Amortization Amount]</u>	<u>[Issue 2018-4C PAC Bonds Planned Amortization Amount]</u>
-------------	--	--

**[[400]% PSA PREPAYMENT AMOUNTS  
FOR ISSUE 2018-4 BONDS]**

<b>Date</b>	<b>Cumulative Amount</b>	<b>Date</b>	<b>Cumulative Amount</b>
-------------	------------------------------	-------------	------------------------------

**EXHIBIT C**

**FORM OF BOND**

**REGISTERED**

**R[A][B][C][-1]**

**\$[\_\_\_\_\_]**

**TENNESSEE HOUSING DEVELOPMENT AGENCY  
RESIDENTIAL FINANCE PROGRAM BOND  
ISSUE 2018-4[A][B][C] [(AMT)][(Non-AMT)]**

<b>Interest Rate</b>	<b>Dated Date</b>	<b>Maturity Date</b>	<b>Cusip</b>
[____]%	[____], 2018	[_____]	880461[_____]

**REGISTERED OWNER: CEDE & CO.**

**PRINCIPAL SUM: [\_\_\_\_\_]**

**TENNESSEE HOUSING DEVELOPMENT AGENCY** (hereinafter sometimes called “THDA”), a body politic and corporate and a political subdivision of the State of Tennessee (herein called the “State”), created and existing under and by virtue of the laws of the State, acknowledges itself indebted, and for value received hereby promises to pay to the Registered Owner (shown above), or registered assigns, the principal sum (shown above), on the maturity date specified above, and to pay interest on said principal sum to the Registered Owner of this Bond from the dated date hereof until THDA’s obligation with respect to the payment of said principal sum shall be discharged, at the rate per annum specified above payable on each January 1 and July 1 commencing [July 1, 2019]. The principal of and interest on this Bond are payable at the designated corporate trust office of U.S. Bank National Association, Nashville, Tennessee in any coin or currency of the United States of America, which, on the respective dates of payment thereof shall be legal tender for the payment of public and private debts.

This Bond is one of the bonds of THDA designated “Residential Finance Program Bonds” (herein called the “Bonds”) authorized to be issued in various series under and pursuant to the Tennessee Housing Development Agency Act, Sections 13-23-101 et seq., of the Tennessee Code Annotated, as amended (herein called the “Act”), a resolution of THDA adopted January 29, 2013, as amended and supplemented by the Bond Finance Committee on April 18, 2013, and entitled “General Residential Finance Program Bond Resolution” (herein called the “General Resolution”) and a supplemental resolution authorizing each issue. As provided in the General Resolution, the Bonds may be issued from time to time in one or more series of various principal amounts, may bear interest at different rates and subject to the provisions thereof, may otherwise vary. All Bonds

issued and to be issued under the General Resolution are and will be equally secured by the pledges and covenants made therein, except as otherwise expressly provided or permitted in the General Resolution.

This bond is one of a series of bonds additionally designated “Issue 2018-4[A][B][C]” (herein called the “Bonds”) issued in the aggregate principal amount of \$\_\_\_\_\_ under the General Resolution, a resolution of THDA adopted on September 25, 2018, as amended and supplemented by the Bond Finance Committee of THDA on \_\_\_\_\_, 2018 (collectively with the General Resolution, the “Resolutions”). Copies of the Resolutions are on file at the office of THDA in Nashville, Tennessee and at the principal corporate trust office of U.S. Bank National Association, Nashville, Tennessee, as trustee under the General Resolution (said trustee under the General Resolution being called herein the “Trustee”) and reference to the Resolutions and any and all supplements thereto and modifications and amendments thereof and to the Act is made for a description of the pledges and covenants securing the Bonds, the nature, extent and manner of enforcement of such pledges, the rights and remedies of the bearers or registered owners of the Bonds with respect thereto and the terms and conditions upon which the Bonds have been issued and may be issued thereunder.

To the extent and in the manner permitted by the terms of the Resolutions, the provisions of the Resolutions or any resolution amendatory thereof or supplemental thereto may be modified or amended by THDA with the written consent of the holders of at least two-thirds in principal amount of the Bonds then outstanding, and, in case less than all of the several series of Bonds would be affected thereby, with such consent of the holders of at least two-thirds in principal amount of the Bonds of each series so affected then outstanding. If such modification or amendment will by its terms not take effect so long as any Bonds of any specified like series and maturity remain outstanding, however, the consent of the holders of such Bonds shall not be required. In addition, certain other modifications or amendments to the Resolutions can be made which are not contrary to or inconsistent with the Resolutions without the consent of the Bondholders.

The holder of this Bond shall have no right to enforce the provisions of the Resolutions, to institute actions to enforce the provisions of the Resolutions or to institute, appear in or defend any suit or other proceeding with respect thereto, except as provided in the General Resolution. In certain events, on the conditions, in the manner and with the effect set forth in the General Resolution, the principal of all the Bonds issued thereunder and then outstanding, together with accrued interest thereon, may become or may be declared due and payable before the maturity thereof.

This Bond is transferable, as provided in the Resolutions, only upon the books of THDA kept for that purpose at the office of the Trustee by the registered owner hereof in person or by such owner’s attorney duly authorized in writing, upon surrender of this Bond together with a written instrument of transfer satisfactory to the Trustee duly executed by the registered owner or such owner’s attorney duly authorized in writing, and thereupon a new registered Bond or Bonds in the same aggregate principal amount and of the same subseries and maturity shall be issued to the transferee in exchange therefor as provided in the General Resolution and upon the payment of the charges, if any, therein prescribed. THDA and the Trustee may treat and consider the person in whose name this Bond is registered as the absolute owner hereof for the purpose of receiving



payment of, or on account of, the principal or redemption price, if any, hereof and interest due hereon and for all other purposes whatsoever.

This Bond is a special limited obligation of THDA payable solely from the revenues and assets pledged therefor pursuant to the General Resolution.

The Bonds are issued as fully registered bonds in the denomination of \$5,000 or any integral multiple thereof.

The Bonds are subject to optional, mandatory and sinking fund redemption as described in the Resolutions.

This Bond does not constitute a debt, liability or other obligation of the State or any political subdivision thereof other than THDA and neither the State nor any political subdivision thereof shall be obligated to pay the principal of the Bonds or the interest thereon. Neither the faith and credit nor the taxing power of the State or of any political subdivision thereof is pledged to the payment of the principal of or interest on the Bonds.

This Bond shall not be valid or become obligatory for any other purpose or be entitled to any security or benefit under the Resolutions until the Certificate of Authentication hereon shall have been signed by the Trustee.

The Act provides that neither the members of THDA nor any person executing this Bond shall be liable personally hereon or shall be subject to any personal liability or accountability by reason of its execution.

IT IS HEREBY CERTIFIED, RECITED AND DECLARED that all acts, conditions and things required by the Constitution or statutes of the State and the Resolutions to exist, to have happened or to have been performed precedent to or in the issuance of this Bond, exist, have happened and have been performed in due time, form and manner as required by law and that the issuance of the Bonds, together with all other indebtedness, of THDA, is within every debt and other limit prescribed by law.

[Remainder of page intentionally left blank]

IN WITNESS WHEREOF, TENNESSEE HOUSING DEVELOPMENT AGENCY has caused this Bond to be executed in its name by the manual or facsimile signature of its Chair and its corporate seal (or a facsimile thereof) to be affixed, imprinted, engraved or otherwise reproduced hereon and attested by the manual or facsimile signature of its Executive Director, all as of the dated date shown above.

TENNESSEE HOUSING DEVELOPMENT  
AGENCY

By \_\_\_\_\_  
[\_\_\_\_\_] Chair [SEAL]

Attest:

By \_\_\_\_\_  
Ralph M. Perrey  
Executive Director

## **CERTIFICATE OF AUTHENTICATION**

This bond is one of the bonds described in the within-mentioned Resolutions and is one of the Residential Finance Program Bonds, Issue 2018-4[A][B][C] [(AMT)][(Non-AMT)] of the Tennessee Housing Development Agency.

U.S. BANK NATIONAL ASSOCIATION, as  
Trustee

By \_\_\_\_\_  
Authorized Signatory

Dated: \_\_\_\_\_, 2018

## ABBREVIATIONS

The following abbreviations, when used in the inscription on the face of the within Bond, shall be construed as though they were written out in full according to applicable laws or regulations.

TEN COM	-	as tenants in common
TEN ENT	-	as tenants by the entireties
JT TEN	-	as joint tenants with the right of survivorship and not as tenants in common

UNIFORM GIFT MIN ACT - _____ (Cust)	Custodian _____ (Minor)
	under Uniform Gifts to Minors
	Act _____ (State)

Additional Abbreviations may also be used though  
not in the above list

## ASSIGNMENT

For value received, the undersigned hereby sells, assigns and transfers unto \_\_\_\_\_ the within Bond and all rights thereunder, and hereby irrevocably constitutes and appoints \_\_\_\_\_, attorney to transfer the said Bond on the bond register, with full power of substitution in the premises.

Dated: \_\_\_\_\_

Social Security Number or  
Employer Identification  
Number of Transferred: \_\_\_\_\_

Signature guaranteed: \_\_\_\_\_

NOTICE: The assignor's signature to this Assignment must correspond with the name as it appears on the face of the within Bond in every particular without alteration or any change whatever.

A RESOLUTION OF THE BOARD OF DIRECTORS  
OF THE TENNESSEE HOUSING DEVELOPMENT AGENCY  
AUTHORIZING REIMBURSEMENT OF THDA  
FROM PROCEEDS OF ISSUE 2018-4  
September 25, 2018

WHEREAS, the Tennessee Housing Development Agency (“THDA”) is financing mortgage loans for eligible borrowers to purchase single family residences in compliance with the Internal Revenue Code of 1986, as amended (the “Code”), and the General Residential Finance Program Bond Resolution, (the “2013 General Resolution”); and

WHEREAS, THDA expects to use its own funds to continue its mortgage loan programs prior to the availability of proceeds from the issuance of the General Residential Finance Program Bonds, Issue 2018-4, if and when issued and sold (the “Bonds”), through the direct purchase of eligible mortgage loans; and

WHEREAS, THDA will continue to commit and purchase mortgage loans prior to the closing date for the Bonds (the “Closing”); and

WHEREAS, THDA expects that up to \$100,000,000 in mortgage loans may be purchased prior to Closing; and

WHEREAS, it is in the best interest of THDA to reimburse itself from the proceeds of the Bonds for THDA funds expended to purchase mortgage loans prior to the Closing.

NOW THEREFORE, BE IT RESOLVED BY THE BOARD OF DIRECTORS OF THDA THAT:

1. Use of proceeds from the Bonds in an amount not to exceed \$100,000,000 shall be used to reimburse THDA for the actual amounts expended to purchase mortgage loans made to eligible borrowers who purchased single family residences in accordance with the requirements of the Code and the 2013 General Resolution.
2. This resolution shall take effect immediately.



# Tennessee Housing Development Agency

Andrew Jackson Building, Third Floor  
502 Deaderick Street, Nashville, TN 37243

**Bill Haslam**  
Governor

**Ralph M. Perrey**  
Executive Director

## **MEMORANDUM**

**DATE:** September 19, 2018  
**TO:** THDA Board of Directors  
**FROM:** Jennifer Selliers, CSCP®, Director of Internal Compliance  
State of Tennessee Department of Treasury  
Lynn E. Miller, THDA Chief Legal Counsel  
**SUBJECT:** Investment Policy (Revised and Restated)

---

THDA staff and Treasury Department staff reviewed the current THDA Investment Policy and recommend adoption of the attached Investment Policy (Revised and Restated) dated September 25, 2018 ("Proposed Investment Policy").

The current THDA Investment Policy was originally adopted in September, 1993 and subsequently revised in 1995. The Proposed Investment Policy represents a modernization of the current Investment Policy in light of many changes in both the investment and regulatory environment.

Assets held by the respective trustee under any General Bond Resolution will continue to include only those authorized under the respective General Bond Resolution, unless such investments or investment activities are further restricted in some manner by this Investment Policy or by state law. Assets that are not held by the respective trustee under any General Bond Resolution will continue to include only those authorized for state funds or investment in the State Pooled Investment Fund, unless such investments or investment activities are further restricted in some manner by this Investment Policy.

JS/LEM/ds

# **TENNESSEE HOUSING DEVELOPMENT AGENCY**

## **INVESTMENT POLICY**

**REVISED AND RESTATED**

# Table of Contents

<b>I. Definitions .....</b>	<b>3</b>
<b>II. Overview and Authority .....</b>	<b>4</b>
A. Introduction .....	4
B. Authority .....	5
C. Delegation Authority.....	5
D. Scope.....	5
<b>III. Objective .....</b>	<b>5</b>
<b>IV. Roles and Responsibilities .....</b>	<b>6</b>
A. Board of Directors.....	6
B. State Treasurer .....	6
C. Executive Director .....	6
D. Investment Staff.....	7
<b>V. Governing Principles .....</b>	<b>7</b>
A. Preservation of Principal and Liquidity .....	7
B. Benchmark .....	8
C. Permitted Investment Instruments and Investment Activities .....	8
D. Use of Demand Features or Guarantees .....	8
<b>VI. Additional Investment Criteria .....</b>	<b>8</b>
A. Maturity .....	8
B. Quality.....	8
C. Diversification .....	10
<b>VII. Risk Management and Monitoring .....</b>	<b>10</b>
A. Safekeeping and Custody.....	10
B. Liquidity Management and Stress Testing.....	10
C. Trading, Brokerage and Research .....	10
D. Policies, Procedures and Controls .....	10
<b>VIII. Reporting.....</b>	<b>11</b>
A. Quarterly.....	11
B. Annual .....	11
C. Periodic .....	11
<b>IX. Other Considerations.....</b>	<b>11</b>
<b>X. Approval and Adoption .....</b>	<b>11</b>



# I. Definitions

The following definitions are used hereafter with respect to and for purposes of this Investment Policy:

**Board of Directors** – Board of Directors for THDA.

**Certificate of Deposit** – As defined by and in accordance with T.C.A., Section 9-4-602.

**Comparable Quality** – A security or investment that 1) presents minimal credit risk, 2) is denominated in United States Dollars (USD), and 3) is determined by the Investment Staff, whereby such determination is made in writing and retained for record retention purposes, to be of comparable quality to securities that have a credit rating within the highest tier of short-term ratings or its long-term equivalent.

**Daily Liquid Assets** - The following investment instruments: cash and money market demand deposit accounts that mature within one (1) business day; U.S. Direct Obligation Securities; securities that will mature within one (1) business day; securities subject to a demand feature that is exercisable and payable within one (1) business day; and amounts receivable and due unconditionally within one (1) business day on pending sales of securities.

**Fiduciary Standard** - THDA assets not held by the respective trustee under any General Bond Resolution shall be invested and managed in good faith, in the best interest of the citizens of the State, in accordance with this Investment Policy, with the care an ordinarily prudent person in a like position would exercise under similar circumstances. THDA assets held by the respective trustee under any General Bond Resolution shall be invested and managed in good faith, in the best interest of the citizens of the State, in accordance with this Investment Policy, and in accordance with the requirements of the respective General Bond Resolution with the care an ordinarily prudent person in a like position would exercise under similar circumstances.

**First Tier Quality** – A security that 1) presents minimal credit risk, 2) is denominated in United States Dollars (USD), and 3) has an Investment Grade credit rating.

**General Bond Resolution** – Each bond resolution as may be adopted by the Board of Directors, as outlined in Appendix A which shall be amended, as necessary, by the Executive Director.

**Investment Grade** – A credit rating within the highest tier of short-term ratings or its long-term equivalent (e.g., P-1, A-1, F1) by a NRSRO. Rating modifiers (+, -) will not be considered when determining the tier. If rated by two NRSROs and the ratings conflict, the lower tier applies. If rated by more than two (> 2) NRSROs, the highest ratings determined by at least two (≥ 2) NRSROs applies. The Board of Directors has determined that U.S. Direct Obligation Securities, U.S. Agency Securities and U.S. Instrumentality Securities to be of Comparable Quality that have been rated within the highest category of credit ratings and are deemed to be rated Investment Grade.

**Investment Staff** – Any State of Tennessee Department of Treasury employee (“Treasury Investment Staff”) and, if applicable, any THDA employee (“THDA Investment Staff”) involved in the investment management of THDA assets.

**Money Market Demand Accounts** - As defined by and in accordance with T.C.A., Section 9-4-602.

**Nationally Recognized Statistical Rating Organization (“NRSRO”)** - Any credit rating agency that is registered with the Securities and Exchange Commission (“SEC”) as such. For the avoidance of doubt, a NRSRO includes “commercial paper rating services.”

**Prime Banker’s Acceptance** - As defined by and in accordance with T.C.A., Section 9-4-602.

**Prime Commercial Paper** - As defined by and in accordance with T.C.A., Section 9-4-602.

**Repurchase Agreement** – As defined by and in accordance with T.C.A., Section 9-4-602.

**State** – State of Tennessee.

**State Treasurer** – The treasurer of the State of Tennessee.

**T.C.A.** – Tennessee Code Annotated.

**THDA** - The Tennessee Housing Development Agency.

**U.S. Agency Securities** – Debt obligations guaranteed as to principal and interest by any agency of the United States.

**U.S. Direct Obligation Securities** – bonds, notes and treasury bills of the United States or other debt obligations guaranteed as to principal and interest by the United States.

**U.S. Government Securities** – U.S. Direct Obligation Securities, U.S. Agency Securities and U.S. Instrumentality Securities.

**U.S. Instrumentality Securities** – Debt obligations guaranteed as to principal and interest by any United States government-sponsored corporation. For the avoidance of doubt, “government-sponsored corporation” includes any United States government-sponsored enterprises (“GSEs”) and any instrumentality with the express or implied backing of the United States government.

## **II. Overview and Authority**

### **A. Introduction**

THDA, a political subdivision and instrumentality of the State, was established to serve a public purpose and improve and otherwise promote the health, welfare, and prosperity of the citizens of the State. THDA was created to promote the production of more affordable new housing units for very low, low and moderate income individuals and families in the State, to promote the preservation and rehabilitation of existing housing units for such persons, and to bring greater stability to the residential construction industry and related industries so as to assure a steady flow of production of new housing units.

## **B. Authority**

The Board of Directors is responsible for carrying out the powers given to THDA under State law, including, but not limited to, establishing the Investment Policy for THDA assets and electing or appointing an Executive Director. The Executive Director administers, manages and directs the affairs and business of THDA subject to the policies, control and direction of the Board of Directors.

Pursuant to T.C.A., Section 13-23-112, the State Treasurer is the custodian of the assets of THDA except for those assets required by contracts with bondholders or noteholders to be in the custody of the respective bond or note trustee. Furthermore, the State Treasurer is responsible for making investments in accordance with the Investment Policy established by the Board of Directors.

## **C. Delegation Authority**

Pursuant to T.C.A. Section 13-23-112(f), the State Treasurer may delegate all or a portion of his/her custodial and/or investment duties and responsibilities to the Executive Director.

Furthermore, in making investments in accordance with this Investment Policy, the State Treasurer and, if applicable, the Executive Director are authorized to delegate all or a portion of his/her custodial and/or investment duties and responsibilities to Treasury Investment Staff and THDA Investment Staff, respectively. Therefore, references herein to the State Treasurer and/or Executive Director may apply to his/her designee(s).

The State Treasurer and, if applicable, Executive Director shall periodically review the actions taken by delegees in order to monitor performance and compliance with the terms of the delegation.

## **D. Scope**

The Investment Policy is binding on all persons and entities with authority over THDA assets.

## **III. Objective**

The purpose of this Investment Policy is to support the governing principles specified in Section V of this Investment Policy by:

- Outlining the distinct roles and responsibilities of the Board of Directors, State Treasurer, Executive Director, and Investment Staff;
- Electing the method of measuring securities and investments for financial reporting purposes;
- Setting forth the additional investment criteria, which the Board of Directors determines to be prudent in consideration of the purposes, terms, General Bond Resolution payment and distribution requirements and other circumstances of THDA, in accordance with the Fiduciary Standard.;
- Communicating the Investment Policy, as approved by the Board of Directors; and

- Functioning as a supervisory tool, guiding the ongoing oversight of investment of THDA assets.

## **IV. Roles and Responsibilities**

In addition to the duties and responsibilities described herein, additional duties and responsibilities may exist. All persons and entities with authority over THDA assets are ultimately responsible for compliance with all applicable obligations.

### **A. Board of Directors**

- 1) Adopt an Investment Policy, which the Board of Directors determines to be prudent in consideration of the purposes, terms, General Bond Resolution payment and distribution requirements and other circumstances of THDA, in accordance with the Fiduciary Standard;
- 2) Evaluate the investment performance of THDA assets through reports supplied by the State Treasurer; and
- 3) Periodically review the actions taken by delegees in order to monitor performance and compliance with the terms of the delegation.

### **B. State Treasurer**

- 1) Implement the Investment Policy, as approved by the Board of Directors;
- 2) Operate with a duty of undivided loyalty, investing and managing THDA assets solely in accordance with the Fiduciary Standard and this Investment Policy;
- 3) Delegate investment, administrative and management functions that a prudent person of comparable skills would properly delegate under the circumstances;
- 4) Evaluate and, as applicable, approve the investment-related processes employed and procedures established by delegees, service providers and Investment Staff;
- 5) Evaluate the investment performance of THDA assets through reports supplied by delegees, service providers and Investment Staff;
- 6) Monitor THDA compliance with this Investment Policy; and
- 7) Take actions that are deemed essential to protect THDA assets, the interests of the citizens of the State, and the interest of bondholders or noteholders as may be required under each respective General Bond Resolution.

### **C. Executive Director**

- 1) Assume executive responsibility and authority, if so delegated by the State Treasurer, for the ongoing evaluation and management of the THDA assets, ensuring compliance with the Investment Policy and such other investment-related laws, rules and regulations, policies, procedures, internal controls, and requirements of any respective General Bond Resolutions that may apply;
- 2) Operate with a duty of undivided loyalty, investing and managing THDA assets, if so delegated by the State Treasurer, solely in accordance with the Fiduciary Standard and this Investment Policy;
- 3) Hire, fire and otherwise effectively manage and supervise THDA Investment Staff;

- 4) Delegate investment and management functions to THDA Investment Staff that a prudent person of comparable skills would properly delegate under the circumstances;
- 5) Review and, as applicable, approve the use of custodians, trustees, and other service providers;
- 6) Consult with the State Treasurer on investment-related administrative, organizational and related activities and provide reports as may be requested by the State Treasurer;
- 7) Collaborate, as applicable, with the State Treasurer and Investment Staff on the development and implementation of appropriate investment strategies, policies, procedures and internal controls;
- 8) Prepare and submit reports, as required, to document investment activities; and
- 9) Notify the State Treasurer of investment-related situations that merit his/her attention.

#### **D. Investment Staff**

- 1) Assume fiduciary responsibility and authority, as delegated, for the Investment Staff member's role in the ongoing evaluation, administration and management of THDA assets;
- 2) Utilize special skills and expertise in an effort to meet the requirements of the Investment Policy;
- 3) Operate with a duty of undivided loyalty, investing, administering and managing THDA assets in accordance with the Fiduciary Standard and this Investment Policy;
- 4) Source and evaluate prospective investments on an as-needed basis;
- 5) Assist the State Treasurer with respect to any matters related to THDA assets;
- 6) Prepare and submit reports, as required, to document investment activities; and
- 7) Notify the State Treasurer, of situations that merit his/her attention.

### **V. Governing Principles**

The Board of Directors has adopted, in good faith, in the best interest of the citizens of Tennessee and the interest of bondholders or noteholders as may be required under each respective General Bond Resolution, that the following governing principles for the oversight of THDA assets:

#### **A. Preservation of Principal and Liquidity**

Investment and reinvestment of THDA assets shall be designed to be consistent with preservation of principal. The THDA shall hold liquid assets sufficient to meet reasonably foreseeable General Bond Resolution payment and distribution requirements, as may be required under each respective General Bond Resolution, and to meet THDA operating requirements.

## **B. Benchmark**

The one-year, two-year and three-year U.S. Treasury Constant Maturity Rate as published by the United States Federal Reserve Board of Governors shall be the established benchmarks for evaluating THDA investment performance.

## **C. Permitted Investment Instruments and Investment Activities**

In accordance with T.C.A. Sections 13-23-01 et seq., as amended, permitted investments and investment activities for THDA assets that are not held by the respective trustee under any General Bond Resolution shall include only those authorized for state funds pursuant to T.C.A. Section 9-4-602 and investment in the State Pooled Investment Fund established pursuant to T.C.A. Section 9-4-603, unless such investments or investment activities are further restricted in some manner by this Investment Policy. Permitted investments and investment activities for THDA assets held by the respective trustee under any General Bond Resolution shall include only those authorized under the respective General Bond Resolution unless such investments or investment activities are further restricted in some manner by this Investment Policy or by state law.

## **D. Use of Demand Features or Guarantees**

If a security, underlying collateral, or other investment is subject to a guarantee or demand feature and the guarantee or demand feature is not being relied upon, the guarantee or demand feature shall be disregarded for the purposes of calculating maturity, quality, diversification or liquidity.

# **VI. Additional Investment Criteria**

The Board of Directors hereby imposes the following investment restrictions, which the Board of Directors determines to be prudent in consideration of the purposes, terms, General Bond Resolution payment and distribution requirements and other circumstances of THDA, in accordance with the Fiduciary Standard. The disqualification of an investment under one section of this Investment Policy does not prevent its qualification in whole or in part under another section.

## **A. Maturity**

A minimum of five percent ( $\geq 5\%$ ) of the daily fair market value of THDA total investments must mature within five years. No more than fifty percent ( $\leq 50\%$ ) of the daily fair market value of THDA total investments shall have a maturity of greater than fifteen ( $> 15$ ) years without the approval of the Bond Finance Committee of the Board of Directors.

All of the investment maturities shall be laddered to avoid maturity concentration.

## **B. Quality**

The quality of the following securities shall be evaluated in terms of the minimum quality criteria listed:

<b>Security Type</b>	<b>Minimum Quality Criteria</b>
U.S. Direct Obligation Securities, U.S. Agency Securities or U.S. Instrumentality Securities	First Tier.
Repurchase Agreement	<p>A counter-party, or its parent, shall have an Investment Grade credit rating, be a primary dealer as defined by the Federal Reserve Bank of New York, or be of Comparable Quality.</p> <p>The underlying collateral is limited to First Tier U.S. Direct Obligation Securities, U.S. Agency Securities or U.S. Instrumentality Securities. The fair value of the underlying collateral shall be at least equal to the resale price provided in the Repurchase or Reverse Repurchase Agreement.</p>
Certificates of Deposit and Money Market Demand accounts	<p>A depository institution shall be a state depository pursuant to T.C.A. §9-4-107 and collateralized in accordance with T.C.A. §9-4-403.</p> <p>The underlying collateral is limited to those securities and investments authorized under T.C.A. §9-4-103, excluding surety bonds.</p>
Prime Commercial Paper	First Tier, but the security shall have an Investment Grade credit rating by at least two ( $\geq 2$ ) NRSROs and the issuer shall be approved in writing by the State Treasurer.
Prime Banker's Acceptances	First Tier, the security or issuer shall have an Investment Grade credit rating, and the security shall be eligible for purchase by the federal reserve system.

## **C. Diversification**

Less than five percent (< 5%) of THDA assets shall be in investments of any one issuer of securities. The diversification limitations listed above shall not apply to or include U.S. Government Securities and Certificates of Deposit and Money Market Demand Accounts.

Additionally, THDA assets shall not be invested in more than:

- two hundred fifty million dollars ( $\leq \$250,000,000$ ) of prime commercial paper issued by any one issuer, excluding prime commercial paper that matures on the next business day; and
- twenty-five million dollars ( $\leq \$25,000,000$ ) of prime banker's acceptances issued by any one issuer.

Furthermore, the total fair market value of securities on loan under any securities lending agreement shall not exceed fifty percent (< 50%) of the fair market value of THDA assets on any day.

## **VII. Risk Management and Monitoring**

### **A. Safekeeping and Custody**

To mitigate custodial credit risk, THDA assets under each respective General Bond Resolution shall be held by the respective bond or note trustee. Other THDA assets shall be held by the State Treasurer at a custodial bank, savings and loan association, trust company or the Federal Reserve Bank, as approved by the State Treasurer.

### **B. Liquidity Management and Stress Testing**

In order to ensure sufficient operational liquidity, THDA shall maintain a minimum of twenty-five one-hundredths of a percent ( $\geq 0.25\%$ ) daily fair market value of THDA total investments in Daily Liquid Assets.

The State Treasurer shall cause micro and macro stress testing (e.g. liquidity and market scenarios) to be periodically performed on THDA assets in order to ensure that that appropriate liquidity thresholds have been established for THDA. The results and any recommendations stemming from such testing shall be reported to the State Treasurer.

### **C. Trading, Brokerage and Research**

Best execution, cost and benefits that serve the exclusive interest of THDA in accordance with the Fiduciary Standard are the overriding principles in determining the trading and brokerage counterparty to be used in any transaction. Selection of trading and brokerage counterparties shall be subject to the qualifications and processes approved by the State Treasurer.

### **D. Policies, Procedures and Controls**



The State Treasurer shall ensure efficient and effective development and administration of an Investment Policy compliance program that is reasonably designed to prevent, detect and, if necessary, remedy violations of applicable laws, rules, regulations and policies THDA investment and securities activities.

## **VIII. Reporting**

### **A. Quarterly**

After the end of each quarter, the State Treasurer shall electronically submit a detailed, written review of the THDA investment activity to the Board of Directors and the Bond Finance Committee of the Board of Directors.

### **B. Annual**

Within ninety (90) days of the end of the fiscal year, the State Treasurer shall electronically submit a comprehensive THDA investment report to the Board of Directors and the Bond Finance Committee of the Board of Directors. This report shall include, at a minimum, twelve-month performance returns compared to the Investment Policy benchmarks and any recommendations regarding the Investment Policy and the investment strategy for the ensuing fiscal year.

### **C. Periodic**

The State Treasurer shall provide other investment or investment-related reports as requested by the Board of Directors.

## **IX. Other Considerations**

The Board of Directors hereby authorizes the State Treasurer to provide written interpretive guidance and approve in writing, from time to time, exceptions from the requirements contained within the Investment Policy as deemed to be in accordance with the Fiduciary Standard. Such interpretive guidance or exception shall be reported in writing to the Board of Directors at its next meeting.

## **X. Approval and Adoption**

The Board of Directors approved and adopted this revised and restated Investment Policy of the Tennessee Housing Development Agency at its meeting on the \_\_\_ day of \_\_\_\_\_, 2018 and such Investment Policy shall only be changed by subsequent action of the Board of Directors.

---

Kim Grant Brown, Chairman of the Board of Directors  
TENNESSEE HOUSING DEVELOPMENT AUTHORITY



## Tennessee Housing Development Agency

Andrew Jackson Building Third Floor  
502 Deaderick St., Nashville, TN 37243

**Bill Haslam**  
Governor

**Ralph M. Perrey**  
Executive Director

### MEMORANDUM:

TO: THDA Board of Directors  
FROM: Trent Ridley, Chief Financial Officer   
SUBJECT: Investment Report Summary – June 30, 2018  
DATE: September 19, 2018

---

Each quarter, the THDA finance team produces a report that summarizes the investment activity of the agency. The full reports are available on THDA's web site.

Attached for your review is an executive summary of the investment report for the quarter ending June 30, 2018. This report gives you an idea about the amount of non-mortgage funds managed by our finance team and the overall performance of the portfolio. Please note on the "Portfolio Management Summary" that the investments for the quarter yielded a 2.31% effective rate of return (slightly up from 2.30% for the quarter ending June, 30, 2017) on an average daily balance of \$276.2 million. For FY18, the weighted average daily balance and effective rate of return were \$263.3 million and 2.24% compared to \$265.5 million and 2.27% in FY17. In spite of the rise in short-term interest rates, our effective rate of return decreased slightly primarily due to the maturation of some of our older, high-yielding Treasury Securities, which represented 26.98% of the investment portfolio at 9/30/16 compared to 3.16% at 6/30/18.

As always, Wayne Beard, our Finance Director, does an exceptional job of managing the organization's cash flow to balance liquidity needs for debt service while implementing a conservative investment strategy to protect investment principal but maximizing yield. If you need any additional information regarding THDA's investments, please do not hesitate to call me at (615) 815-2012 or contact me via e-mail at [tridley@thda.org](mailto:tridley@thda.org).



# Tennessee Housing Development Agency

## Investment Report

**June 30, 2018**

**Andrew Jackson Building Third Floor  
502 Deaderick Street  
Nashville, Tennessee 37243**



[www.THDA.org](http://www.THDA.org) - (615) 815-2200 - Toll Free: 800-228-THDA

TENNESSEE HOUSING DEVELOPMENT AGENCY  
QUARTERLY INVESTMENT REPORT  
TABLE OF CONTENTS

Page 3	THDA Investment Policy
Page 11	Overall Portfolio Information – Executive Summary
Page 13	<i>General Fund</i> (The sections for the various funds are organized as follows): <ul style="list-style-type: none"><li>A. Description of Fund and Investment Objectives</li><li>B. Current and Recent Fund Data</li><li>C. Portfolio Listing (Inventory) (By Resolution)<ul style="list-style-type: none"><li>1. Investments by Issuer</li><li>2. Sorted by Investment Type</li></ul></li><li>D. Yield Calculations – Current Quarter &amp; Historical</li><li>E. Quarterly Transactions Listing (By Resolution)<ul style="list-style-type: none"><li>1. Purchases Report – sorted by Source</li><li>2. Sales Report – sorted by Source</li><li>3. Maturity Report – sorted by Maturity Date</li></ul></li></ul>
Page 22	<i>Loan Funds</i>
Page 34	<i>Float/Equity Funds</i>
Page 69	<i>Reserve Funds</i>
Page 97	<i>Arbitrage</i>

---

# **Tennessee Housing Development Agency**

---

## **Investment Policy**

---

Adopted September 14, 1993  
As Amended July 20, 1995, and  
November 16, 1995

---

# CONTENTS

- I. Scope
- II. Authority
- III. Objectives
- IV. Prudence
- V. Eligible Investments
- VI. Monitoring and Adjusting the Portfolio
- VII. Internal Controls
- VIII. Competitive Selection of Investment Instruments
- IX. Broker/Dealer Selection and Review
- X. Safekeeping
- XI. Reporting Requirements
- XII. Diversification
- XIII. Risk Tolerance
- XIV. Operating Procedures
- XV. Bond Related Funds
  - A. General Fund
  - B. Undistributed Bond Proceeds Funds
  - C. Servicing Agent Funds
  - D. Debt Service Reserve Fund
  - E. Escrow Account Funds
  - F. Other Funds
- XVI. Other Agency Funds
  - A. Assets Fund
  - B. Housing Program Fund
  - C. Housing Program Reserve Fund
- XVII. Adoption

- I. **SCOPE:** It is intended that this policy apply to the investment of all non-mortgage assets of the Tennessee Housing Development Agency (Agency), including those assets pledged to holders of the Agency's bonds.
- II. **AUTHORITY:** Section 5 of Chapter 900 of the Acts of 1988 (Tennessee Code Annotated, Section 13-23-112) requires the Agency to establish an investment policy for assets of the Agency. The State Treasurer is responsible for investing Agency assets in accordance with the duly adopted investment policy. The State Treasurer, in his sole discretion, may delegate to the Executive Director any portion of investment responsibilities deemed appropriate.
- III. **OBJECTIVES:**
- A. Safety of principal is the foremost objective, followed by liquidity and yield. Each investment transaction shall seek to first ensure that capital losses are avoided, whether they be from securities defaults or erosion of market value.
  - B. Investment decisions should not incur unreasonable investment risks in order to obtain current investment income.
  - C. The combined Agency portfolios shall remain sufficiently liquid to enable the Agency to meet all operating requirements.
  - D. Agency portfolios shall be designed to attain a market-average rate of return throughout budgetary and economic cycles, taking into account investment risk constraints, the cash flow characteristics of the Agency, and State law that restricts the placement of short-term funds.
  - E. Agency portfolios will be diversified to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions.
  - F. While the Agency will not make investments for the purpose of trading or speculating as the dominant criterion, the Agency shall seek to enhance total portfolio return by means of active portfolio management. The prohibition of speculative investments precludes pursuit of gain or profit through unusual risk. However, trading in response to changes in market value or market direction is warranted under active portfolio management.
  - G. All participants in the investment process shall act responsibly as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust.
- IV. **PRUDENCE:** The standard of prudence to be used by all officials responsible for the investment of Agency assets shall be the "prudent man rule" which obligates a fiduciary to ensure that:
- ". . . investment shall be made with the exercise of that degree of judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation but for investment, considering the probable safety of their capital as well as the probably income to be derived."
- V. **ELIGIBLE INVESTMENTS:** Eligible investments for Agency assets shall include only investment instruments authorized for state funds pursuant to Tennessee Code Annotated, Section 9-4-602 and investments in the State Pooled Investment Fund established pursuant to Tennessee Code Annotated, Section 9-4-603. To the extent Agency assets are invested in certificates of deposit, such investment shall be accomplished through participation in the

State Pooled Investment Fund. To the extent the Agency's eligible investments must be secured, "eligible collateral" acceptable as such security may include any items defined as eligible collateral in Tennessee Code Annotated Section 9-4-103 or repurchase agreements that meet all requirements of Section V.C. The Agency, at its option or as required under its bond resolutions or other agreements with bondholders, may select or further restrict the types of eligible investments or the types of eligible collateral that may be used or may further restrict the levels of valuation of eligible collateral.

- A. Investment in U.S. government securities may constitute one hundred percent (100%) of the portfolio due to the absence of credit risk in this market.
- B. Securities shall be purchased through authorized broker/dealers for the security to be acquired. All transactions will be executed on a delivery versus payment basis. Due bills or notes are not acceptable as collateral in lieu of the purchased security.
- C. The following terms and conditions shall apply to investments in repurchase agreements:
  - 1. The seller and the Agency shall enter into a master repurchase agreement in a form approved by the State Treasurer, and the Attorney General and Reporter.
  - 2. Securities purchased under the repurchase agreement shall be limited to obligations of the United States Government or its agencies.
  - 3. At the time of purchase, the market value of the securities shall be equal to or greater than one hundred two percent (102%) of the cash investment.
  - 4. Securities shall be marked-to-market daily and shall be maintained at a value equal to or greater than the original cash investment amount, including accrued interest on such amount.
  - 5. The seller and the Agency may enter into an agreement with an independent custodian bank ("Custodian") in a form approved by the State Treasurer, and the Attorney General and Reporter pursuant to which the Custodian will provide transfer and safekeeping services for all securities and/or cash in connection with all repurchase transactions governed by the master repurchase agreement. For purposes of this provision, "independent custodian bank" means a bank which is not related to the seller nor the Agency through shared ownership or control.
  - 6. All securities purchased under a repurchase agreement shall be held in an account of the Agency under the control of either the Trustee or the State Treasurer, unless the seller and the Agency have entered into a custodial agreement pursuant to Paragraph 5 above. In such event, the securities shall be held in an account of the Agency with the Custodian.
  - 7. The seller may, at any time, substitute other securities of equal or greater market value for any purchased securities provided such other securities are obligations of the United States Government or its agencies.
  - 8. Repurchase agreements may be entered into only with sellers approved for use by Treasury Department portfolio managers, unless an exception is granted by the Bond Finance Committee.
  - 9. The maturity date of the securities purchased under a repurchase agreement shall exceed the term of the repurchase agreement. All securities purchased



by the Agency shall be delivered simultaneously against payment to either the State Treasurer, or to an account of the Agency at the Trustee or the Custodian or, in the case of definitive securities, as provided in the master repurchase agreement.

10. The transactions under each individual repurchase agreement shall be confirmed by the seller to the Agency. Each confirmation shall clearly describe the purchased securities (including the CUSIP number, if any), identify the Agency and the seller, and set forth (a) the purchase date, (b) the purchase price, (c) the repurchase date, unless the transaction is to be terminable on demand, and (d) the pricing rate or repurchase price applicable to the transaction. Upon receipt, the confirmation shall be reviewed to insure that the terms contained therein correspond exactly to the terms negotiated by the parties. Any discrepancies appearing on the confirmation shall be conclusive grounds for terminating the repurchase agreement or renegotiating its terms, as may be appropriate. Upon a renegotiation of terms, a corrected confirmation shall be requested.

*(Section V.C. amended by Board Resolution on July 20, 1995.)*

- D. Special conditions for collateralized guaranteed investment contracts: The Agency may invest its assets in guaranteed investment contracts of longer than one (1) year with a select few of the highest quality foreign and domestic banks, domestic brokerage firms, or domestic insurance companies, as selected by the Agency upon the advice of its financial adviser. Such guaranteed investment contracts shall be secured by a perfected, first priority security interest in eligible collateral, as defined in Section V. The provider of the guaranteed investment contract and the Agency shall enter into a master guaranteed investment agreement, in a form approved by the State Treasurer, and/or other contracts or agreements as approved by the State Treasurer and the Attorney General and Reporter.

Eligible collateral shall have an initial market value of at least 102% of the principal amount of the cash investment. If the aggregate market value of the eligible collateral is less than 100% of the cash investment, then additional eligible collateral sufficient to bring the aggregate market value of all eligible collateral to at least 102% of the cash investment shall be required.

*(Section V.D. added by Board Resolution on November 16, 1995.)*

- VI. **MONITORING AND ADJUSTING THE PORTFOLIO:** On a routine basis, the contents of the portfolio, the available markets and the relative values of completing instruments will be monitored and the portfolio adjusted accordingly.
- VII. **INTERNAL CONTROLS:** The Agency shall establish a system of internal controls which shall be documented in writing. The controls shall be designed to prevent losses of funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the Agency. Controls deemed most important include: control of collusion, separation of duties, separating transaction authority from accounting and record keeping, custodial safekeeping, clear delegation of authority, written confirmation of telephone transactions, minimizing the number of authorized investment officials, documentation of transaction strategies, and code of ethics.

The Executive Director shall provide to the State Treasurer a copy of the report of internal controls submitted to the Comptroller of the Treasury in accordance with the Financial Integrity Act.

VIII. **COMPETITIVE SELECTION OF INVESTMENT INSTRUMENTS:** Before investment of any Agency funds, a competitive "bid" process shall be conducted. If a specific maturity date is required, either for cash flow purposes or for conformance to maturity guidelines, bids will be requested for instruments which meet the maturity requirement. If no specific maturity is required, a market trend (yield curve) analysis will be conducted to determine which maturities would be most advantageous. Bids will be requested for various options with regards to eligible investment instruments. The bid which provides the highest rate of return within the maturity required and within the parameters of these policies will be accepted. Records will be kept of the bids offered, the bids accepted and a brief explanation of the decision which was made regarding the investment. Exceptions to the competitive placement of Agency investments are permissible as market conditions warrant and will be documented in the Agency's files.

IX. **BROKER/DEALER SELECTION AND REVIEW:** Repurchase agreements will only be transacted with primary government securities dealers that report to the New York Federal Reserve Bank and who complete the Agency's master repurchase agreement. The Agency shall periodically review the list of primary dealers from the New York Federal Reserve Bank to determine which dealers have been added or deleted.

For purchase of securities on a delivery versus payment basis, any broker/dealer that gives priority to institutional trading over regular retail trading customers and exemplifies satisfactory performance in bidding and settlement of transactions will be authorized to bid on security acquisitions. An authorization letter (sample attached) will be sent to each authorized dealer. If a dealer is consistently unsuccessful in bidding and/or unsatisfactorily fulfills bids they have received, they will be removed from the approved list of dealers for six months. The list of approved broker/dealers shall be reviewed and updated periodically.

X. **SAFEKEEPING:** All Agency investment securities shall be held by the Trustee or the State Treasurer. The party holding such securities shall issue a safekeeping receipt listing the specific instrument, rate, maturity and other pertinent information.

XI. **REPORTING**

Periodic: The Executive Director of the Tennessee Housing Development Agency shall submit a quarterly investment report to the Bond Finance Committee. This report will describe the portfolio activity during the period and compute the average yield and average maturity of the portfolio and list the acquisitions and dispositions during the quarter. The report shall summarize the investment strategies employed in the most recent period, describe the investment portfolios in terms of investment securities, maturities, yield and average maturity of the combined portfolios. A report will be presented of the pro rata debt service requirements by month for the next 12 months chronologized by debt service payment dates. Each report shall indicate any areas of policy concern and suggested or planned revision of investment strategies.

Annual: Within 90 days of the end of the fiscal year, the Executive Director of the Tennessee Housing Development Agency shall present a comprehensive annual report on the investment program and investment activity to the Bond Finance Committee. This report shall include twelve-month comparisons or return, shall suggest policies and improvements that might enhance the investment program, and include an investment plan for the ensuing fiscal year.

XII. **DIVERSIFICATION:** The Tennessee Housing Development Agency should diversify investment portfolios in order to reduce the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. The following strategies and constraints shall apply:

- A. Portfolio maturities shall be staggered in a way that avoids undue concentrations of assets in a specific maturity sector. Maturities shall be selected which provide for stability of income and reasonable liquidity.
- B. It is the intent of this policy that sufficient investments be scheduled to mature to provide for the required liquidity for debt service and other expenditures per resolution requirements. A minimum of the pro rata cumulative debt service requirement at the end of each month for the then current bond year for each bond resolution must mature to meet the debt service payment dates. A schedule showing the cumulative debt service requirement by month shall be kept on file at the Agency.

In addition a minimum of five percent (5.00%) of the par value of total investments must mature within five years. No more than fifty percent (50.00%) of the par value of the combined portfolios can be invested in maturities of greater than fifteen (15) years without the approval of the Bond Finance Committee.

- XIII. **RISK TOLERANCE:** Investment risks can result from issuer defaults, market price changes, or various technical complications leading to temporary illiquidity. Portfolio diversification is employed as a way to control risk. Investment managers are expected to display prudence in the selection of securities, as a way to minimize default risk.
- XIV. **OPERATING PROCEDURES:** Written operating procedures to implement the provisions of the Agency investment policy shall be established. These procedures shall be subject to the review and approval of the State Treasurer.
- XV. **BOND RELATED FUNDS:** Funds held by the Agency under the 1974, 1981 and 1985 Resolutions shall be subject to the applicable Resolution requirement. Since the fund and account structure arises by Resolution, each type of receipt will be discussed rather than each fund and account.
  - A. General Fund: This fund is the recipient of excess funds transferred from the 1974 Resolution Revenue Fund. These funds represent the amount remaining after setting aside the pro rata debt service requirement on each interest and principal payment date. Conversely, any deficit in the Revenue Fund needed to meet debt service is funded from the General Fund. Short term liquidity should be maintained in order to meet any monthly deficit that might occur in the Revenue Fund. Funds which are awaiting investment shall be invested in an interest-bearing account.
  - B. Undistributed Bond Proceeds Fund: These funds represent the proceeds from the sale of bonds, prior to being disbursed for the purpose of making mortgage loans, paying cost of issuance and capitalized interest. These funds shall be invested in eligible investments with maturities scheduled to assure that funds are available to fund loans. Funds which are awaiting investment or disbursement shall be invested in an interest-bearing account.
  - C. Servicing Agent Funds: These funds represent amounts remitted to servicing agents for payment of principal and interest on Agency mortgage loans. These funds are accumulated by the mortgage servicers and periodically remitted to the Trustee for deposit into the appropriate fund. Servicing agent funds, when remitted to the Trustee, shall be deposited in interest-bearing accounts with interest accruing to the Agency. These accounts shall be fully insured and/or collateralized to the benefit of the Agency. The Agency shall monitor such accounts and, when warranted, funds will be invested in securities with maturities dictated by the debt service requirements.
  - D. Debt Service Reserve Funds: These funds represent one (1) year of principal and interest payments on each Agency bond issue. Debt Service Reserve funds shall be invested in eligible investments with maturities as established by the Bond Finance

Committee in consultation with the Agency's investment advisor/underwriter. All 1974 and 1981 Resolution Debt Service Reserve funds shall be invested by the Trustee. All 1985 Resolution Debt Service Reserve Funds shall be invested by the State Treasurer or the Trustee. Funds which are awaiting investment or disbursement shall be invested in an interest-bearing account.

- E. Escrow Account Funds: These funds represent funds held in trust by the Agency for the purpose of paying taxes, insurance and other obligations for the mortgagors of multi-family projects financed under the 1974 Resolution. The funds are short to intermediate term in nature and are to be invested with a maturity schedule which ensures sufficient liquidity to honor the obligations of the Escrow Account Fund. Funds which are awaiting investment or disbursement shall be invested in an interest-bearing account.
- F. Other Funds: These funds include all non-mortgage investment income (interest on non-mortgage investments, fees, penalties, etc.). These funds shall be deposited in accounts as provided in the Resolution fund structure.

**XVI. OTHER AGENCY FUNDS:** Funds held by the Agency which are not being held under a specific bond resolution shall be subject to the following investment limitations and conditions.

- A. Assets Fund: These funds represent excess amounts which have been withdrawn from individual bond resolutions in accordance with the terms of the applicable resolution. In addition, at the direction of the Board, portions of the Assets Fund may be invested for the program purposes of the Agency. These funds provide for monthly interest income transfers to the Housing Program Fund.
- B. Housing Program Fund: These funds represents the operating reserves of the Agency which are used to fund Agency administrative costs, pay certain expenses of bond issues, make grants to eligible political subdivisions and not-for-profit corporations and support the growth of the Housing Program Reserve Fund.
- C. Housing Program Reserve Fund: This fund consists of excess funds transferred from the Assets Fund and the Housing Program Fund. Income from investments in this fund are transferred to the Housing Program Fund at least annually. In addition, at the direction of the Board, portions of the Housing Program Reserve Fund may be invested for the program purposes of the Agency.

**XVII. ADOPTION**

This investment policy was adopted by the Tennessee Housing Development Agency Board of Directors on September 14, 1993.

## EXECUTIVE SUMMARY

### THDA Finance Team:

Trent Ridley, CFO

Wayne Beard, Finance Director

Joe Brown, Controller

August 7, 2018

### *\*Important Transactions during the past quarter:*

- 1) The agency closed \$160,000,000 of bonds, Residential Finance Program Issue 2018-2, on June 12, 2018. This financing provided \$143,525,000 of funds to purchase mortgage loans and increased the agency's pool of 0% percent mortgage proceeds by \$1,300,000 leaving a balance of \$92,330,000 at June 30, 2018. The transaction also provided \$13,075,000 of funds to refund Bond Issue 2009-1 on July 1, 2018.
- 2) During the past quarter, \$51.58 million in mortgage prepayments were received by the agency. This was approximately a \$3.3 million decrease from the previous quarter (\$44.28 million) and approximately a \$7.97 million decrease from the same quarter last year (\$59.55 million). Prepayments are currently being used to redeem bonds monthly as current investment rates are lower than bond coupon rates.
- 3) The agency redeemed \$56.44 million of bonds during the quarter using mortgage principal collections. \$11 million of bonds under the 1985 Resolution were redeemed this quarter, leaving approximately \$221.46 million in THDA bonds outstanding that carry the moral obligation of the State of Tennessee as of June 30, 2018. Comparatively, total bonds outstanding carrying the moral obligation at June 30, 2017 was \$323.34 million.
- 4) The Federal Reserve target funds rate range increased to 1.75% - 2.00% at the June 13, 2018 meeting of the Federal Open Market Committee (FOMC). Information received since the Committee met in May indicated that the labor market continued to strengthen and economic activity has been rising moderately. Economic has been rising at a solid rate. Unemployment has declined and recent data suggest household spending has picked up. The committee expects that further gradual increases in the federal funds target rate will be consistent with sustained expansion of economic activity, strong labor market conditions and inflation near the committee's 2 percent objective over the medium term. Risks to the economic outlook appear roughly balanced.



**PORTFOLIO MANAGEMENT SUMMARY**  
**Portfolio Management**  
**Portfolio Summary**  
**June 30, 2018**

THDA  
Andrew Jackson Building  
502 Deaderick St., Third Floor  
Nashville, TN 37243  
(615)815-2020

Investments	Par Value	Market Value	Book Value	% of Portfolio	Term	Days to Mat./Call	YTM/C 360 Equiv.
Federal Agency Coupon Securities	166,915,000.00	163,339,466.53	167,323,445.76	45.11	2,095	1,210	2.198
Federal Agency Disc. -Amortizing	188,000,000.00	187,487,134.00	187,503,155.36	50.55	63	49	1.856
Treasury Coupon Securities	11,664,000.00	12,969,782.94	11,726,801.82	3.16	2,415	1,088	6.048
Agency Step-Up Securities	4,370,000.00	4,371,853.93	4,369,087.14	1.18	3,811	2,850	2.905
Investments	370,949,000.00	368,168,237.40	370,922,490.08	100.00%	1,098	639	2.155

Total Earnings	June 30	Period Ending	Fiscal Year Ending
Current Year		1,591,119.02	5,889,448.35
Average Daily Balance		276,169,344.94	
Effective Rate of Return		2.31%	

Mack W. Beard, Director of Finance

## **GENERAL FUND**

### **DESCRIPTION**

The General Fund was established under the 1974 Resolution and was funded from earnings above and beyond the debt cost of THDA Bond Issues that were done early in the existence of the agency.

On December 31, 1998 mortgages from bond issue 1994-1 in the 1985 Resolution were transferred to the General Fund in the 1974 Resolution after the bonds from that issue were completely paid off. Prepayments and repayments from those mortgages are deposited into the General Fund.

On June 30, 2014 the agency moved assets from the 1974 Resolution to the 2013 Resolution to boost the financial strength of the 2013 Resolution. This move involved the aforementioned earnings from the early existence of the agency along with the remaining mortgage balances from the 1994-1 bond issue.

The assets in the General Fund can be used for a variety of purposes. Some uses of the General Fund Assets are/have been:

- 1) Provide funding for special mortgage loan programs
- 2) Pre-fund mortgage loans pending the closing of a bond issue
- 3) Grants



**THDA QUARTERLY INVESTMENT REPORT**  
**GENERAL FUND**  
*June 30, 2018*

**Historical Fund Balances**

	1974 Resolution		1985 Resolution	
	Amortized Cost	Market Value	Amortized Cost	Market Value
6/30/15	17,439,890.53	17,423,343.94	N/A	N/A
6/30/16	24,608,583.13	24,601,956.11	N/A	N/A
6/30/17	22,725,082.09	22,725,133.01	N/A	N/A
6/30/18	15,452,663.90	15,411,874.97	N/A	N/A

**Historical Returns (Yield)**

Quarter ending 6/30/2018	Current Fiscal Year	Last 12 Months	Last 24 Months
1.750%	1.193%	1.193%	1.277%

**1974 Resolution**

**Benchmarks:**

- (1) One-year CMT
- (2) Three-year CMT
- (3) Five-year CMT

2.250%	1.747%	1.747%	1.287%
2.610%	2.062%	2.062%	1.662%
2.767%	2.298%	2.298%	1.960%

**Duration**

Average Duration to Maturity (Years)  
Average Duration to Call (Years)

**1974 Resolution**

2.8
1.5

**Asset Allocation**

Money Market Funds  
Federal Agency Coupons  
Variable Rate Securities  
Repurchase Agreements  
Treasury Coupon Securities  
Discount Bonds

**1974 Resolution**

Dollar value*	Percentage	Dollar value*	Percentage
12,932,663.90	83.69%	N/A	N/A
2,520,000.00	16.31%	N/A	N/A
-	0.00%	N/A	N/A
-	0.00%	N/A	N/A
-	0.00%	N/A	N/A
-	0.00%	N/A	N/A
15,452,663.90	100.00%	N/A	N/A

**Total**

\*Dollar values are stated as book (amortized cost) value.



## **LOAN FUNDS**

### **DESCRIPTION**

Proceeds from a new bond sale that are earmarked for funding mortgage loans are deposited into the Loan Fund. THDA invests these proceeds from the day of closing (the first day the funds are received) until the funds are needed for mortgage loans. Consideration must be given to the maintenance of liquidity so those funds are available as mortgage loans are funded.

A major challenge for THDA in managing the investments in the loan fund is minimizing “negative arbitrage”. This results because the rates that can be earned with a short-term investment instrument are usually less than the cost of the new long-term debt from which the proceeds derived.

Occasionally an amount is set aside from bond proceeds to cover this shortfall. This amount is called “capitalized interest”. Another method that is sometimes used to minimize or eliminate negative arbitrage is the purchasing of longer-term investments with higher rates in the loan fund. The intent would be to sell such investments when cash is needed either on the open market, or if advantageous, to other THDA funds that are expected to have a foreseeable need for such investments.

# THDA QUARTERLY INVESTMENT REPORT

## LOAN FUNDS

June 30, 2018

### Historical Fund Balances

	1985 Resolution		2009 Resolution		2013 Resolution	
	Amortized Cost	Market Value	Amortized Cost	Market Value	Amortized Cost	Market Value
6/30/15	14,578,127.19	14,308,560.09	10,473,044.86	10,216,772.18	124,520,693.95	124,397,735.37
6/30/16	8,484,095.02	8,321,193.28	5,686,245.70	5,604,371.10	86,821,844.51	86,829,957.99
6/30/17	0.00	0.00	0.00	0.00	80,887,219.27	80,722,372.55
6/30/18	0.00	0.00	0.00	0.00	127,466,688.10	126,341,036.51

### Historical Returns (Yield)

Quarter ending 6/30/2018	Current Fiscal Year	Last 12 Months	Last 24 Months
N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A
1.764%	1.538%	1.538%	1.531%

1985 Resolution  
2009 Resolution  
2013 Resolution

### Benchmarks:

- (1) One-year CMT
- (2) Three-year CMT
- (3) Five-year CMT

2.250%	1.747%	1.747%	1.287%
2.610%	2.062%	2.062%	1.662%
2.767%	2.298%	2.298%	1.960%

### Duration

Average Duration to Maturity (Years)

Average Duration to Call (Years)

1985 Resolution	2009 Resolution	2013 Resolution
N/A	N/A	1.2
N/A	N/A	0.7

### Asset Allocation

Money Market Funds  
Federal Agency Coupons  
Variable Rate Securities  
Repurchase Agreements  
Pass Through Securities  
Discount Bonds

1985 Resolution			2009 Resolution			2013 Resolution		
Dollar value*	Percentage		Dollar value*	Percentage		Dollar value*	Percentage	
	0.00%			0.00%		12,462,670.81	9.78%	
	0.00%			0.00%		42,382,247.84	33.25%	
	0.00%			0.00%		-	0.00%	
	0.00%			0.00%		-	0.00%	
	0.00%			0.00%		-	0.00%	
	0.00%			0.00%		72,621,769.45	56.97%	
-	0.00%		-	0.00%		127,466,688.10	100.00%	

### Total

\*Dollar values are stated as book (amortized cost) value.

## FLOAT/EQUITY FUNDS

### DESCRIPTION

*Float Funds* are considered to be the portion of funds at any given time in the various funds and accounts that will be needed for the next scheduled semi-annual Debt Service payment or for bond call from mortgage prepayment proceeds. Any excess that accumulates in the accounts is considered *Equity Funds*. These funds represent the cumulative net gain in any fund or group of funds. For both the Float and Equity funds, THDA's investment objective is a balancing act: to maximize earnings while achieving sufficient liquidity at January 1 and July 1 to meet debt service and bond call requirements.

The following funds hold the Float/Equity funds:

#### **Revenue Fund (1985 Resolution):**

- Debt Service & Expense Account (DS&E)
- Non-Mortgage Receipts Account (NMR)

#### **Revenue Fund (2009 Resolution):**

- Debt Service & Expense Account (DS&E)
- Non-Mortgage Receipts Account (NMR)

#### **Revenue Fund (2013 Resolution):**

- Debt Service & Expense Account (DS&E)
- Non-Mortgage Receipts Account (NMR)
- 2013 Old 74 Cash and Investment Account

The chart below depicts where the General Bond Resolutions specify the different types of receipts be deposited and held:

	<u>1985 Resolution</u>		<u>2009 Resolution</u>	
	<u>DS&amp;E</u>	<u>NMR</u>	<u>DS&amp;E</u>	<u>NMR</u>
	<u>Account</u>	<u>Account</u>	<u>Account</u>	<u>Account</u>
Mortgage Loan Principal & Interest	X		X	
Prepayment & Foreclosure Receipts	X		X	
Interest on Non-Mortgage Investments		X		X

	<u>2013 Resolution</u>	
	DS&E	NMR
	<u>Account</u>	<u>Account</u>
Mortgage Loan Principal & Interest	X	
Prepayment & Foreclosure Receipts	X	
Interest on Non-Mortgage Investments		X

**THDA QUARTERLY INVESTMENT REPORT**  
**FLOAT / EQUITY FUNDS**  
**June 30, 2018**

**Historical Fund Balances**

	1985 Resolution		2009 Resolution		2013 Resolution	
	Amortized Cost	Market Value	Amortized Cost	Market Value	Amortized Cost	Market Value
6/30/15	97,022,123.16	97,017,776.35	41,211,495.01	41,186,926.08	65,674,106.16	65,974,689.96
6/30/16	87,961,119.29	87,957,306.84	40,000,621.84	39,994,409.87	79,169,263.36	79,269,925.73
6/30/17	50,292,289.57	50,293,867.46	37,370,251.09	37,367,821.15	119,420,680.19	119,464,475.09
6/30/18	36,248,325.57	36,249,361.89	27,746,684.14	27,747,156.46	112,193,769.14	112,074,054.62

**Historical Returns (Yield)**

Quarter ending 6/30/2018	Current Fiscal Year	Last 12 Months	Last 24 Months
1.729%	1.256%	1.256%	1.086%
1.646%	1.216%	1.216%	1.123%
1.755%	1.379%	1.379%	1.335%

**1985 Resolution**

**2009 Resolution**

**2013 Resolution**

**Benchmarks:**

- (1) One-year CMT  
(2) Three-year CMT  
(3) Five-year CMT

2.250%	1.747%	1.747%	1.287%
2.610%	2.062%	2.062%	1.662%
2.767%	2.298%	2.298%	1.960%

**Duration**

Average Duration to Maturity (Years)

Average Duration to Call (Years)

1985 Resolution	2009 Resolution	2013 Resolution
0.03	0.05	0.29
0.03	0.05	0.25

**Asset Allocation**

Money Market Funds  
Federal Agency Coupons  
Treasury Coupon Securities  
Variable Rate Securities  
Repurchase Agreements  
Pass Through Securities  
Discount Bonds

	1985 Resolution		2009 Resolution		2013 Resolution	
	Dollar value*	Percentage	Dollar value*	Percentage	Dollar value*	Percentage
8,366,505.89	23.08%		13,186,116.46	47.52%	55,931,709.61	40.65%
-	0.00%		-	0.00%	9,236,162.08	6.71%
-	0.00%		-	0.00%	-	0.00%
-	0.00%		-	0.00%	-	0.00%
-	0.00%		-	0.00%	-	0.00%
-	0.00%		-	0.00%	-	0.00%
-	0.00%		-	0.00%	-	0.00%
27,881,819.68	76.92%		14,560,567.68	52.48%	72,438,998.55	52.64%
36,248,325.57	100.00%		27,746,684.14	100.00%	137,606,870.24	100.00%

**Total**

\*Dollar values are stated as book (amortized cost) value.

## **RESERVE FUNDS (DSRF & BRF)**

### **DESCRIPTION**

Debt Service Reserve Fund (DSRF) -These funds have been set aside from prior bond proceeds, and represent the maximum annual debt service for the life of the bonds. The Debt Service Reserve requirement is by Resolution rather than bond issue. The calculation of the DSRF is performed by the Financial Advisor at the time of a new bond issue as well as annually and is based on amortized value rather than market value (pursuant to the terms of the General Bond Resolutions)

For most of THDA's history, the standard practice has been to invest the DSRF in investments with approximately the same maturity of the longest-term bond. This practice has been at the advice of Underwriters, Financial Advisors and Rating Agencies. However, beginning in 1993 when rates were at historic lows the Rating Agencies required substantially shorter maturity DSRF investment since a 30-year investment would lose substantial value if rates increased substantially. Therefore since that time investment decisions for these funds have been influenced by market conditions at the time of the investments.

Debt Service Reserve Fund (DSRF) – An analysis of the 1985 Resolution DSRF was performed as of June 30, 2018. The resulting Debt Service Reserve Fund requirement was \$28,312,820.02.

Bond Reserve Fund (BRF) - In December of 2009, THDA established a new general bond resolution, the Housing Finance Program (the 2009 resolution). This resolution calls for a Bond Reserve Fund. The required deposit for this fund is the greater of an amount equal to the aggregate of the respective amounts for each series of bonds established in the supplemental resolution authorizing such series or an amount equal to 3% of the then current balance of the program loans plus any other amount on deposit in the loan fund which has not been designated to provide for the payment of costs of issuance or capitalized interest. An analysis was performed as of June 30, 2018 to determine the amount to be held in the Bond Reserve Fund. This analysis determined that this balance needed to be \$7,413,326.67.

In May of 2013, THDA established a new general bond resolution, the Residential Finance Program (the 2013 resolution). As with the 2009 resolution, this resolution calls for a Bond Reserve Fund. The amount of the required deposit for this fund is calculated in the same manner as in the 2009

resolution. CSG Advisors performed an analysis in conjunction with the sale of Bond Issue 2018-2 in June of 2018 under this resolution. The resulting Bond Reserve Fund requirement was \$50,564,491.

**THDA QUARTERLY INVESTMENT REPORT**  
**RESERVE FUNDS**  
**June 30, 2018**

**Historical Fund Balances**

	1985 Resolution		2009 Resolution		2013 Resolution	
	Amortized Cost	Market Value	Amortized Cost	Market Value	Amortized Cost	Market Value
6/30/15	134,953,639.42	145,220,063.60	21,146,889.61	20,904,662.42	23,425,657.68	23,309,852.27
6/30/16	102,747,919.20	109,708,484.13	21,261,458.24	21,278,590.89	37,356,482.00	37,224,653.38
6/30/17	101,336,830.72	104,120,340.61	21,263,369.95	21,206,044.69	46,304,284.25	46,037,294.51
6/30/18	91,015,399.41	91,610,612.61	21,307,582.65	20,713,277.95	50,951,091.06	49,480,576.18

**Historical Returns (Yield)**

Quarter ending 6/30/2018	Current Fiscal Year	Last 12 Months	Last 24 Months
3.045%	3.539%	3.539%	4.342%
2.528%	2.526%	2.526%	2.484%
2.510%	2.484%	2.484%	2.365%

**1985 Resolution**

**2009 Resolution**

**2013 Resolution**

**Benchmarks:**

- (1) One-year CMT  
(2) Three-year CMT  
(3) Five-year CMT

1.747%	1.747%	1.287%	1.287%
2.062%	2.062%	1.662%	1.662%
2.298%	2.298%	1.960%	1.960%

**Duration**

- Average Duration to Maturity (Years)  
Average Duration to Call (Years)

1985 Resolution	2009 Resolution	2013 Resolution
3.6	5.4	5.7
2.3	4.5	4.2

**Asset Allocation**

- Money Market Funds  
Federal Agency Coupons  
Treasury Coupon Securities  
Variable Rate Securities  
Repurchase Agreements  
Pass Through Securities  
Discount Bonds

	1985 Resolution		2009 Resolution		2013 Resolution	
	Dollar value*	Percentage	Dollar value*	Percentage	Dollar value*	Percentage
Money Market Funds	33,097,063.74	36.36%	362,485.08	1.70%	533,599.40	1.05%
Federal Agency Coupons	47,205,867.76	51.87%	19,930,763.66	93.54%	50,417,491.56	98.95%
Treasury Coupon Securities	10,712,467.91	11.77%	1,014,333.91	4.76%	-	0.00%
Variable Rate Securities	-	0.00%	-	0.00%	-	0.00%
Repurchase Agreements	-	0.00%	-	0.00%	-	0.00%
Pass Through Securities	-	0.00%	-	0.00%	-	0.00%
Discount Bonds	-	0.00%	-	0.00%	-	0.00%
<b>Total</b>	<b>91,015,399.41</b>	<b>100.00%</b>	<b>21,307,582.65</b>	<b>100.00%</b>	<b>50,951,090.96</b>	<b>100.00%</b>

\*Dollar values are stated as book (amortized cost) value.



# **ARBITRAGE**

## **DESCRIPTION**

Arbitrage, in part is defined as “the simultaneous purchase and sale of the same or equivalent security in order to profit from price discrepancies”.

This relates to THDA as it is applied to the use of proceeds from tax-exempt bonds, specifically the use of such bond proceeds or earnings from such proceeds to purchase taxable non-mortgage investments. Any excess earnings over the cost of borrowing (bond rate) are arbitrage earnings and must be rebated to the Internal Revenue Service.

This is a net calculation and is computed annually. Attached is a spreadsheet showing the arbitrage liability by bond issue as of 6/30/2018. Every five years, on the anniversary date of each bond issue, for the life of the bond issue, cash settlement has to be made with the IRS. If earnings for a five-year period are less than what the investments would have earned at the bond rate, no payment is due the IRS. If the earnings are more than what would have been earned at the bond rate, cash payment of the excess must be paid to the IRS. THDA has contracted with Kutak Rock to make these complex calculations.

From an Investment management performance measurement standpoint, THDA knows that if there is a rebate liability for a bond issue, then the agency has maximized earnings for that particular issue. This is probably the best benchmark of all because as mentioned above any earnings in excess of bond cost cannot be retained by the agency.

Tennessee Housing Development Agency  
Rebate Liability as of June 30, 2018

<b><i>Resolution / Bond Issue</i></b>	<b><i>Arbitrage Rebate Liability</i></b>
<b><u>1985 Res</u></b>	
2009-1	-
2009-2	-
2010-1	-
2011-1	365,323.85
2012-1	-
2012-2	-
<b>Sub-total</b>	<b>365,323.85</b>
<b><u>2009 Res</u></b>	
2009-A	-
2010-A	-
2010-B	-
2011-A	-
2011-C	-
2015-A	-
<b>Sub-total</b>	<b>-</b>
<b><u>2013 Res</u></b>	
2013-1	-
2013-2	-
2014-1	-
2014-2	-
2015-1	-
2015-2	-
2016-1	-
2016-2	-
2016-3	-
2017-1	-
2017-2	-
2017-3	-
2017-4	-
2018-1	-
2018-2	-
<b>Sub-total</b>	<b>-</b>
<b>TOTALS</b>	<b>365,323.85</b>



## Tennessee Housing Development Agency

Andrew Jackson Building Third Floor  
502 Deaderick St., Nashville, TN 37243

**Bill Haslam**  
Governor

**Ralph M. Perrey**  
Executive Director

### MEMORANDUM

TO: THDA Board of Directors

FROM: Trent Ridley, Chief Financial Officer  
Joe Brown, CPA, Controller

SUBJECT: Proposed Budget for Fiscal Year 2019-2020

DATE: September 19, 2018

Attached is THDA's "**Comprehensive Budget**" that details expenses and revenues for both the state and bond programs, and estimates net operating income for Fiscal Year 2020. THDA is required to submit the budget proposal to the Department of Finance and Administration by September 28, 2018. The proposed Budget is to be reviewed by the Audit and Budget Committee and the Bond Finance Committee, prior to review by the Board. For your convenience, the following are highlights of the budget submitted for board approval:

1. **Current Year "Estimated" Budget FY19** –Revenues and expenses are projected to be \$498.0 million and \$497.4 million respectively, of which \$381.0 million is the State Budget. Expenses include \$37.1 million for operations, \$74.7 million for mortgage and bond related expenses, and \$385.5 million for grants (including \$5.8 million for the AG Mortgage Settlement Program). Revenues include \$99.0 million in mortgage and investment income, \$385.8 million in federal administrative and grant funds, and \$13.1 million in reserves (AG Settlement) and other fee income. The FY19 salary budget increases over FY18 by \$1.6 million (\$1.3 million for the conventional market seller servicer initiative, and \$0.3 million for Market and Pay for Performance and TCRS Group Benefits). The current year reflects expense savings generated from bringing loans serviced by U.S. Bank in-house. Finally, mortgage revenue and bond expenses were adjusted to reflect current trends. The remainder of the operational budget remains relatively unchanged.
2. **FY20 Recommended Comprehensive Budget** – The **State Budget** portion is \$375.2 million and represents a status quo budget, with the exception of a decrease for non-recurring grants. Regarding the **Comprehensive Budget**, operational revenues and expenses are projected to be \$121.6 million and \$109.9 million respectively, netting an approximate \$11.6 million operating income. This income will be used to fund \$7.5 million for HTF grants. Reductions in revenues and expenses are primarily attributable to trends relating to our mortgage revenue bond program and the full implementation of Direct Servicing

If you have any questions regarding the comprehensive budget or need additional information, please do not hesitate to contact Trent Ridley at (615) 815-2012 or via e-mail at [tridley@thda.org](mailto:tridley@thda.org).

**TENNESSEE HOUSING DEVELOPMENT AGENCY**  
**FY19-20 COMPREHENSIVE BUDGET**  
EXECUTIVE SUMMARY

	ACTUAL FY18	ESTIMATED FY19	NON RECUR FY19	RECOMMENDED FY20		
				STATE	MRB	TOTAL
EMPLOYEE SALARIES	14,498,400	18,751,300	-	18,751,300	-	18,751,300
EMPLOYEE BENEFITS	5,929,500	6,846,000	-	6,846,000	-	6,846,000
<b>TOTAL PAYROLL</b>	<b>20,427,900</b>	<b>25,597,300</b>	<b>-</b>	<b>25,597,300</b>	<b>-</b>	<b>25,597,300</b>
TRAVEL	518,000	473,600	-	538,600	-	538,600
PRINTING & DUPLICATING	33,700	99,600	-	94,200	5,400	99,600
COMMUNICATIONS	567,900	565,200	-	216,100	349,100	565,200
MAINTENANCE	10,700	8,000	-	8,000	-	8,000
PROFESSIONAL SERVICES	5,043,400	4,686,000	-	1,336,000	3,925,000	5,261,000
SUPPLIES	234,700	271,400	-	169,400	102,000	271,400
RENTALS & INSURANCE	77,000	129,200	-	129,200	-	129,200
STAFF TRAINING	300,400	233,500	-	303,500	-	303,500
COMPUTER RELATED	1,288,700	1,329,300	-	127,300	1,202,000	1,329,300
STATE PROVIDED SERVICES	1,912,300	3,779,600	-	3,069,600	-	3,069,600
OTHER PROGRAM EXPENSES	4,583,000	8,600,000	-	-	8,600,000	8,600,000
INTEREST EXPENSE	58,195,000	59,904,000	-	-	59,904,000	59,904,000
MORTGAGE SERVICE FEES	6,833,000	700,000	(700,000)	-	-	-
ISSUANCE COSTS	3,812,300	5,000,000	(1,200,000)	-	3,800,000	3,800,000
HARDEST HIT FUND OPERATIONS	-	-	-	-	-	-
DEPRECIATION	471,500	471,500	-	-	471,500	471,500
<b>TOTAL OTHER EXPENDITURES</b>	<b>83,881,600</b>	<b>86,250,900</b>	<b>(1,900,000)</b>	<b>5,991,900</b>	<b>78,359,000</b>	<b>84,350,900</b>
<b>TOTAL OPERATING EXPENDITURES</b>	<b>104,309,500</b>	<b>111,848,200</b>	<b>(1,900,000)</b>	<b>31,589,200</b>	<b>78,359,000</b>	<b>109,948,200</b>
<b>OPERATING REVENUES</b>						
FEDERAL ADMIN. FEES	15,167,900	15,252,900	-	13,752,900	1,500,000	15,252,900
INVESTMENT INCOME	7,024,000	6,768,000	-	20,000	6,748,000	6,768,000
TAX CREDIT FEES	3,765,500	3,700,000	-	2,700,000	1,000,000	3,700,000
OTHER CURRENT SERVICES	283,700	300,000	-	300,000	-	300,000
MULTIFAMILY BOND AUTH FEES	1,334,000	1,300,000	-	-	1,300,000	1,300,000
THDA OPERATING FUND	-	-	-	12,816,300	(12,816,300)	-
MORTGAGE INTEREST	90,087,000	92,273,000	-	-	92,273,000	92,273,000
HOUSING PROGRAM FUND	-	2,000,000	-	2,000,000	-	2,000,000
<b>TOTAL OPERATING REVENUES</b>	<b>117,662,100</b>	<b>121,593,900</b>	<b>-</b>	<b>31,589,200</b>	<b>90,004,700</b>	<b>121,593,900</b>
<b>REVENUES LESS EXPENDITURES</b>	<b>13,352,600</b>	<b>9,745,700</b>	<b>1,900,000</b>	<b>-</b>	<b>11,645,700</b>	<b>11,645,700</b>
<b>GRANT ACTIVITY:</b>						
SECTION 8 PAYMENTS	215,361,000	263,810,400	-	266,810,400	-	266,810,400
HOME GRANTS	8,273,000	7,571,500	-	7,571,500	-	7,571,500
WEATHERIZATION	2,687,600	2,000,000	-	2,000,000	-	2,000,000
LIHEAP	55,102,400	55,000,000	-	55,000,000	-	55,000,000
EMERGENCY SOLUTIONS GRANT	2,923,500	2,557,000	-	2,557,000	-	2,557,000
NATIONAL HOUSING TRUST FUND	-	6,000,000	-	3,000,000	-	3,000,000
APPALACHIAN REGIONAL COUNCIL	227,200	-	-	-	-	-
AG MORTGAGE SETTLEMENT PROGRAM	1,020,600	5,800,000	(5,800,000)	-	-	-
HOUSING TRUST FUND	6,845,500	9,000,000	(1,500,000)	6,500,000	1,000,000	7,500,000
TECHNICAL GRANTS	85,300	175,000	-	175,000	-	175,000
HARDEST HIT FUND	33,033,300	33,630,400	-	-	18,108,700	18,108,700
DOWN PAYMENT ASSISTANCE	-	-	-	-	-	-
<b>TOTAL GRANT PAYMENTS</b>	<b>325,559,400</b>	<b>385,544,300</b>	<b>(7,300,000)</b>	<b>343,613,900</b>	<b>19,108,700</b>	<b>362,722,600</b>
STATE APPROPRIATION	-	-	-	-	-	-
FEDERAL REVENUE	284,260,000	336,938,900	-	336,938,900	-	336,938,900
NFMC	-	-	-	-	-	-
HARDEST HIT FUND	33,033,300	33,630,400	-	-	18,108,700	18,108,700
THDA BOND RESOLUTIONS	-	-	-	6,675,000	(6,675,000)	-
HOUSING PROGRAM FUND	-	5,800,000	(5,800,000)	-	-	-
<b>TOTAL COLLECTIONS</b>	<b>317,293,300</b>	<b>376,369,300</b>	<b>(5,800,000)</b>	<b>343,613,900</b>	<b>11,433,700</b>	<b>355,047,600</b>
<b>COLLECTIONS LESS PAYMENTS</b>	<b>(8,266,100)</b>	<b>(9,175,000)</b>	<b>1,500,000</b>	<b>-</b>	<b>(7,675,000)</b>	<b>(7,675,000)</b>
OVERALL AGENCY EXPENDITURES	429,868,900	497,392,500	(9,200,000)	375,203,100	97,467,700	472,670,800
OVERALL AGENCY FUNDING	434,955,400	497,963,200	(5,800,000)	375,203,100	101,438,400	476,641,500
<b>OVERALL REVENUES LESS EXPENDITURES</b>	<b>5,086,500</b>	<b>570,700</b>	<b>3,400,000</b>	<b>-</b>	<b>3,970,700</b>	<b>3,970,700</b>
<b>PERSONNEL: FULL TIME POSITIONS</b>	<b>275</b>	<b>290</b>	<b>-</b>	<b>290</b>	<b>-</b>	<b>290</b>

IN-HOUSE SERVICING BUDGET		
FISCAL YEAR 2019-2020		
	ESTIMATED FY19	RECOMMENDED FY20
<b>REVENUE</b>		
Earned Servicing Fee	7,376,900	7,658,400
Late Fees	529,100	517,800
Escrow Interest Earned	0	0
<b>Total Earned Fees</b>	<b>7,906,000</b>	<b>8,176,200</b>
<b>EXPENSES</b>		
Salaries	2,093,134	2,093,134
Benefits	617,007	617,007
Travel	33,000	33,000
Supplies	11,400	11,400
Training	18,800	18,800
Facilities	159,400	159,400
IT Related	116,900	116,900
Unreimbursed Advances	521,000	521,000
Third - Party Vendors		
Escrow Tax Payments	160,800	160,800
Corelogic Claims Process	141,200	141,200
Net Banking Services	240,600	240,600
Monthly Statements	47,400	47,400
Credit Reporting	85,300	85,300
WaterFall Calc	19,600	19,600
Other Third Parties	0	0
SRP Amortization	2,056,900	2,027,100
<b>Total Expenses</b>	<b>6,322,441</b>	<b>6,292,641</b>
<b>Operating Income</b>	<b>1,583,559</b>	<b>1,883,559</b>
<b>Positions</b>	<b>38</b>	

<b>ACCOUNT 70800 (PROFESSIONAL SERVICES &amp; DUES)</b>
<b>FISCAL YEAR 2019-2020</b>

Description	Actual 2017-18	Budget 2018-19	Proposed 2019-20
-------------	-------------------	-------------------	---------------------

**GENERAL BUSINESS**

Business Development and Outreach	366,500	300,000	450,000
Legal Services	7,600	8,000	8,000
Governor's Housing Conference	173,400	150,000	150,000
Temporary Services	9,500	10,000	10,000
Leadership Development and Training	2,200	8,000	8,000
S8RA HAP Portability Payments	231,900	232,000	242,000
S8RA Background Checks, Inspections, Other	752,000	750,000	753,000
S8CA Appraisals / Rent Comps	30,000	30,000	30,000
HHF Titles, Closings, Temporary Staffing, Other	300	1,000	1,000
WAP and HOME Inspections	182,600	185,000	185,000
Financial Services	7,500	8,000	13,000
Other	218,900	206,000	306,000

<b>SUB-TOTAL</b>	<b>1,982,400</b>	<b>1,888,000</b>	<b>2,156,000</b>
------------------	------------------	------------------	------------------

**INFORMATION TECHNOLOGY**

IT System Maintenance and Support	72,300	73,000	83,000
Financial Software (Accounting, Investments, Bonds, etc)	22,100	25,000	25,000
TN Housing Search	10,000	10,000	10,000
LIHTC Application and Monitoring	547,100	450,000	500,000
Single Family Systems (THELMA, Mitas)	653,600	645,000	645,000
Master Servicing and Direct Servicing Systems	175,100	100,000	152,000
Community Programs Systems (THO)	294,900	200,000	220,000
Housing Choice Voucher Systems	60,000	65,000	70,000
HUD Contract Administration Systems	0	0	0
IT Other	230,700	135,000	285,000

<b>SUB-TOTAL</b>	<b>2,140,900</b>	<b>1,783,000</b>	<b>2,070,000</b>
------------------	------------------	------------------	------------------

**ADVERTISING SERVICES (OBJECT 086)**

Great Choice Ad Campaign	712,000	800,000	800,000
Classified Ads, Public Notices, Advertising	117,200	120,000	130,000

<b>SUB-TOTAL</b>	<b>829,200</b>	<b>920,000</b>	<b>930,000</b>
------------------	----------------	----------------	----------------

**DUES & SUBSCRIPTIONS (OBJECT 087)**

National Council of State Housing Agencies (Dues)	37,200	40,000	40,000
Various Publications, Subscriptions & Memberships	53,700	55,000	65,000

<b>SUB-TOTAL</b>	<b>90,900</b>	<b>95,000</b>	<b>105,000</b>
------------------	---------------	---------------	----------------

<b>TOTAL PROFESSIONAL SERVICES &amp; DUES</b>	<b>5,043,400</b>	<b>4,686,000</b>	<b>5,261,000</b>
---	------------------	------------------	------------------

<b>ACCOUNT 71000 (RENTALS AND INSURANCE)</b>
<b>FISCAL YEAR 2019-2020</b>

*THDA INSURANCE INFORMATION (OBJ 105)*

Company	Type of Insurance	Premium Begin Date	Premium End Date	Premiums	Coverage
Chubb Group	Fidelity Bond	2/1/18	2/1/19	43,659	\$15,000,000
Cincinnati Insurance Company	Personal Property	4/8/17	4/8/20	31,418	\$1,064,000
Integon	Mortgage Protection/Lender Placed	9/1/16	Until Cancelled	0	Various
Lloyds of London	Errors and Omission (Servicing)	9/29/16	9/29/19	20,412	\$3,000,000
Travelers	Fidelity Bond (Servicing)/Crime Policy	9/2/18	9/2/19	24,710	\$3,500,000
				120,199	22,564,000

<i>Lease of Reproduction Equipment:</i>	Canon Solutions America	31,719
---	-------------------------	--------

		Actual 2017-2018	Budget 2018-2019	Proposed 2019-2020
<b>TOTAL RENTALS &amp; INSURANCE:</b>		<b>77,000</b>	<b>129,200</b>	<b>129,200</b>
		<b>77,000</b>	<b>129,200</b>	<b>129,200</b>

<b>ACCOUNT 725000 (STATE PROVIDED SERVICES)</b>
<b>FISCAL YEAR 2019-2020</b>

Location	Actual 2017-18	Budget 2018-19	Proposed 2019-20
<b>THDA OFFICE LEASES</b>	<b>1,230,300</b>	<b>1,230,700</b>	<b>1,230,700</b>

*\*MISCELLANEOUS SERVICES (OBJECT 25A, 25D, 25E, 25Z, 254, 255)*

Attorney General (Bankruptcies)	0	50,000	50,000
Secretary Of State (25E)	0	6,000	6,000
Indirect Costs (25Z)	0	600,000	600,000
Flexible Benefits, Wellness, and Sick Leave Bank Admin	5,900	165,000	165,000
State Audit (255)	128,800	100,000	100,000
Printing and Reproduction	6,200	20,000	20,000
Insurance - State Risk Management Premium	75,200	300,000	165,000
Miscellaneous	24,900	100,000	100,000
<b>SUB-TOTAL</b>	<b>241,000</b>	<b>1,341,000</b>	<b>1,206,000</b>

*DATA PROCESSING SERVICES (OBJECT 250,251,252,257,259)*

F&A - Statewide Accounting	61,700	150,000	75,000
General Services - Records Management (257)	14,900	18,000	18,000
General Services - Motor Veh Repairs	0	10,000	10,000
General Services - State-Owned Veh Mileage	140,300	250,000	150,000
General Services - Space Planning / Purchasing	1,200	300,000	50,000
Edison Billing (HR, Payroll, Accting, Purch)	215,300	400,000	250,000
<b>SUB-TOTAL</b>	<b>433,400</b>	<b>1,128,000</b>	<b>553,000</b>

*TELECOMMUNICATIONS (OBJECT 253)*

<b>Telephone Charges (F&amp;A)</b>	<b>7,600</b>	<b>79,900</b>	<b>79,900</b>
<b>TOTAL STATE PROVIDED SERVICES</b>	<b>1,912,300</b>	<b>3,779,600</b>	<b>3,069,600</b>

**THDA OFFICE LEASE SUPPLEMENTAL INFORMATION**

Location	Lease Exp. Date	Annual Totals
19002 - Andrew Jackson Building	Notice	903,700
Parkway Towers	07/30/20	159,400
19003 - Nashville (Madison) (HOLDOVER)	09/30/27	82,300
27002- Jackson (Lowell Thomas State Office Building)	Notice	34,500
59002 - Lewisburg (Marshall)	06/30/20	16,100
71010 - Cookeville (Putnam)	06/30/20	34,300
<b>TOTAL</b>		<b>1,230,300</b>



<b>REVENUES</b>
<b>FISCAL YEAR 2019-2020</b>

Description	Actual 2017-18	Budget 2018-19	Proposed 2019-20
-------------	-------------------	-------------------	---------------------

*FEDERAL REVENUE (SOURCE 801)*

Section 8 Grants	215,361,000	263,810,400	266,810,400
HOME Grants	7,958,300	7,571,500	7,571,500
Emergency Shelter Grants	2,923,500	2,557,000	2,557,000
Weatherization Grants	2,687,600	2,000,000	2,000,000
Hardest Hit Fund Grants	33,033,300	33,630,400	18,108,700
National Housing Trust Fund	0	6,000,000	3,000,000
Appalachian Regional Council	227,200	0	0
Neighborworks	0	0	0
LIHEAP	55,102,400	55,000,000	55,000,000
ESG Administrative Fees	122,700	200,000	200,000
WAP Administrative Fees	557,500	900,000	900,000
HHF Administrative Fees	1,850,800	1,900,000	1,900,000
HOME Administrative Fees	465,500	500,000	500,000
LIHEAP Administrative Fees	643,700	752,900	752,900
Neighborworks Administrative Fees	0	0	0
Section 8 Administrative Fees	10,898,800	11,000,000	11,000,000
<b>Total Federal Revenue</b>	<b>331,832,300</b>	<b>385,822,200</b>	<b>370,300,500</b>

*MORTGAGE INTEREST, INVESTMENT, AND OTHER INCOME (SOURCE 880)*

Interest Earnings (Housing Program Fund)	20,000	20,000	20,000
Tax Credit Application Fees	137,700	137,700	137,700
Tax Credit Monitoring Fees	3,627,800	3,562,300	3,562,300
Miscellaneous Revenue	88,800	105,100	105,100
Mortgage Interest Income	90,087,000	92,273,000	92,273,000
Investment Income	7,004,000	6,748,000	6,748,000
Multi Family Bond Application Fees	1,334,000	1,300,000	1,300,000
Conference and Other Income	194,900	194,900	194,900
<b>SUB-TOTAL</b>	<b>102,494,200</b>	<b>104,341,000</b>	<b>104,341,000</b>

<b>TOTAL OF ALL REVENUES</b>	<b>434,326,500</b>	<b>490,163,200</b>	<b>474,641,500</b>
------------------------------	--------------------	--------------------	--------------------

<i>RESERVES: GRANT AND ADMINISTRATIVE FUNDS FROM HOUSING PROGRAM FUND</i>	<b>0</b>	<b>7,800,000</b>	<b>2,000,000</b>
---	----------	------------------	------------------

<b>TOTAL OF ALL FUNDING SOURCES</b>	<b>434,326,500</b>	<b>497,963,200</b>	<b>476,641,500</b>
-------------------------------------	--------------------	--------------------	--------------------

<b>ACCOUNT 71300 (GRANTS &amp; SUBSIDIES)</b>
<b>FISCAL YEAR 2019-2020</b>

**HOUSING TRUST FUND (OBJECT 71300) \*SEE ATTACHED HOUSING TRUST FUND PROPOSAL FOR DETAILS**

Description	Cost Center	Funds Committed/ Awarded Through FY18	Paid Through 6/30/2018	Funds Remaining 7/1/18	Actual FY 2018	Budget FY 2019	Projection FY 2020
Rebuild/Recovery/Challenge Grant		3,000,000	1,095,583	1,904,417	0	500,000	500,000
UCP - Hsg Mod and Ramp Prg	HTF	900,000	566,675	333,325	175,084	300,000	300,000
Rural Development	HTF	6,359,232	6,332,904	26,328	0	0	0
Emergency Repair	HTF	19,066,655	16,842,653	2,224,002	1,683,528	2,700,000	2,700,000
Habitat for Humanity	HTF	2,000,000	1,983,334	16,666	1,498,334	500,000	500,000
Manufactured Housing Replacement		856,125	149,181	706,944	0	0	0
Dunlap New Hope Grant	HTF	300,000	222,389	77,611	0	0	0
Habitat Nashville World Build					0	1,000,000	0
Gap Financing Pilot					0	500,000	0
Competitive Grants	HTF	22,625,098	16,921,664	5,703,434	3,488,554	3,500,000	3,500,000
<b>TOTALS</b>		<b>55,107,110</b>	<b>44,114,384</b>	<b>10,992,726</b>	<b>6,845,500</b>	<b>9,000,000</b>	<b>7,500,000</b>

**TECHNICAL ASSISTANCE GRANTS**

Description			Actual FY 2016	Actual FY 2017	Actual FY 2018	Budget FY 2019	Projection FY 2020
<b>Development Districts</b>			<b>79,000</b>	<b>241,600</b>	<b>85,300</b>	<b>175,000</b>	<b>175,000</b>

**SECTION 8 GRANTS**

Description			Actual FY 2016	Actual FY 2017	Actual FY 2018	Budget FY 2019	Projection FY 2020
Voucher Program			23,205,100	35,196,000	35,890,900	38,210,400	38,210,400
New Construction			0	0	0	0	0
Contract Administration			163,117,200	167,759,900	179,470,100	225,600,000	228,600,000
<b>TOTALS</b>			<b>186,322,300</b>	<b>202,955,900</b>	<b>215,361,000</b>	<b>263,810,400</b>	<b>266,810,400</b>

**HOME GRANTS (OBJECT 139)**

Description	Cost Center	Funds Awarded/ Committed	Paid Through FY 2018	Funds Remaining 7/1/2018	Actual FY 2018	Budget FY 2019	Projection FY 2020
Home 2012 CHDO	HM12 CHDO	2,600,300	2,547,400	52,900	0	0	0
Home 2012	HM12	7,935,700	6,739,400	1,196,300	1,456,200	0	0
Home 2013	HM13	8,570,700	6,233,900	2,336,800	1,155,400	0	0
Home 2014	HM14	9,874,000	4,737,500	5,136,500	2,071,400	0	0
Home 2015	HM15	8,671,000	2,186,800	6,484,200	1,739,300	0	0
Home 2016	HM16	7,328,300	1,905,700	5,422,600	1,602,000	0	0
Home 2017	HM17	10,890,000	273,200	10,616,800	248,700	0	0
Home 2018	HM18	12,000,000	108,200	11,891,800	0	0	0
Budget						7,571,500	7,571,500
<b>TOTALS</b>		<b>67,870,000</b>	<b>24,732,100</b>	<b>43,137,900</b>	<b>8,273,000</b>	<b>7,571,500</b>	<b>7,571,500</b>

**OTHER STATE / FEDERAL GRANTS**

Description			Actual FY 2016	Actual FY 2017	Actual FY 2018	Budget FY 2019	Projection FY 2020
Emergency Solutions			3,795,900	4,087,500	2,923,500	2,557,000	2,557,000
National Foreclosure Mitigation			0	0	0	0	0
LIHEAP			43,290,500	45,437,700	55,102,400	55,000,000	55,000,000
Weatherization			1,889,600	5,106,900	2,687,600	2,000,000	2,000,000
National Housing Trust Fund			0	0	0	6,000,000	3,000,000
Appalachian Regional Council			0	0	227,200	0	0
Hardest Hit Fund			20,112,700	12,655,300	33,033,300	33,630,400	18,108,700
AG Settlement - Mortgage Asst			2,554,400	2,696,400	707,900	0	0
AG Settlement - Counseling			603,400	461,400	312,700	5,800,000	0
<b>TOTALS</b>			<b>72,246,500</b>	<b>70,445,200</b>	<b>94,994,600</b>	<b>104,987,400</b>	<b>80,665,700</b>

					Actual FY 2018	Budget FY 2019	Projection FY 2020
<b>TOTAL GRANTS &amp; SUBSIDIES</b>					<b>325,559,400</b>	<b>385,544,300</b>	<b>362,722,600</b>

# Tab # 5

## Items:

Audit & Budget Committee Meeting Materials

**Tennessee Housing Development Agency**  
**Audit & Budget Committee**  
**September 25, 2018**  
**9:00 a.m. Central Time**

---

AGENDA

1. Call to Order .....Lillard
2. Approval of Minutes from July 24, 2018 .....Lillard
3. Executive Director Performance Evaluation Process ..... Oliver
4. Internal Audit Director Performance Evaluation Process ..... Lillard
5. Public Record Rules ..... Balcom
6. Fiscal Year 2018 Investment Report ..... Ridley
7. Fiscal Year 2020 Budget ..... Ball
8. Adjourn ..... Lillard

LOCATION

SpringHill Suites – Kress Ballroom  
85 West Court Avenue – 1<sup>st</sup> Floor  
Memphis, TN 38103

COMMITTEE MEMBERS

Treasurer David Lillard, Chair  
Kim Grant Brown  
Dorothy Cleaves  
Secretary Tre Hargett  
Austin McMullen  
Pieter van Vuuren

TENNESSEE HOUSING DEVELOPMENT AGENCY  
AUDIT & BUDGET COMMITTEE  
July 24, 2018

Pursuant to the call of the Chairman, the Audit & Budget Committee of the Tennessee Housing Development Agency Board of Directors met on Tuesday, July 24, 2018, at 9:30 a.m., in the Nashville Room of the William R. Snodgrass Tennessee Tower Building; Nashville, Tennessee.

The following Committee members were present: State Treasurer David Lillard, (Chairman), Kim G. Brown, and Secretary of State Tre Hargett. Committee members, Dorothy Cleaves, Austin McMullen, and Pieter van Vuuren were absent.

Chairman Lillard indicated that a quorum was not present; therefore, the staff will provide information regarding the agenda items but no action will be taken by the committee.

Chairman Lillard recognized Ms. Beth Pugh, THDA Assistant Director of Internal Audit, to discuss the Fiscal Year 2019 Audit Plan ("Audit Plan"). Ms. Pugh noted that the Audit Plan and a listing of projects in progress as of July 1, 2018, were prepared and submitted to the Comptroller's Office Division of State Audit on July 3, 2018, as required. She explained that on the list of five projects in process as of July 1, 2018, reports on four of these projects should be issued within thirty days and one within 90 days. Ms. Pugh added that at the November Board meeting a detailed summary of activities for the prior year will be provided.

Ms. Pugh noted that a risk based approach was used in developing the Audit Plan. She explained that issues considered include budget dollars for each program, management's risk assessment, length of time since the last audit, legal and statutory audit requirements, input from program division directors, and input from THDA executive leadership. The draft Audit Plan was emailed to the Audit and Budget Committee members prior to submission to the Comptroller's office. Ms. Pugh also provided a brief description of the items listed in the Audit Plan. She noted the Audit Plan is subject to change throughout the year if issues arise or there are changes within THDA. She indicated no Board action is required.

Chairman Lillard recognized Mr. Trent Ridley, Chief Financial Officer, to present the Fiscal Year 2018 Financial Recap. Mr. Ridley referenced the memo included in the Board packet which outlines the financial status of THDA for fiscal year 2018. He noted that THDA operating income is projected to be approximately \$13.4 million, a decrease from the prior year. The variance is primarily driven by the filling of servicing positions. He reported that while operating income decreased, total loans outstanding increased, primarily attributable to the Hardest Hit Fund Down Payment Assistance program. Mr. Ridley conveyed that as production increases, debt also increases; therefore, the increase in mortgage interest is offset by a comparable increase in bond interest. He indicated that servicing operations experienced a loss in fiscal year 2018, which was expected because of staffing new servicing positions. He indicated staff will continue to be added for the US Bank portfolio transition which is expected to occur by August 1, 2018, thereby producing a projected net savings of approximately \$2 million or more in fiscal year 2019.

Mr. Ridley reported that the Accounting Division is in the process of closing THDA books for fiscal year 2018; and he will submit a complete report at the September or November meeting.

With no other issues or reports to be presented, Chairman Lillard adjourned the meeting.

Respectfully submitted,

Gathelyn Oliver  
Director of Internal Audit

Approved this \_\_\_\_ day of September, 2018.

Pending

STATE OF TENNESSEE



DAVID H. LILLARD, JR.  
STATE TREASURER

TREASURY DEPARTMENT  
STATE CAPITOL  
NASHVILLE, TENNESSEE 37243-0225

615.741.2956  
David.Lillard@tn.gov

MEMORANDUM

TO: THDA Audit and Budget Committee  
THDA Board of Directors

FROM: David H. Lillard, Jr., State Treasurer  
Audit and Budget Committee Chair, 2018

DATE: September 18, 2018

SUBJECT: Executive Director Performance Evaluation Process

---

Item 24 of the Audit and Budget Committee ("ABC") Charter and the Amended and Restated By-Laws of THDA requires the ABC to, "Develop and carryout a process for annually evaluating the performance of the THDA Executive Director and make recommendations in connection therewith to the THDA Board." The attached document outlines the proposed process and timeline for conducting the evaluation of the Executive Director for the period October 1, 2017 - September 30, 2018. The proposed process and timeline are intended to be consistent with previous evaluations and the process and timeframe utilized agency-wide by THDA, with minor adjustments.

The ABC will be asked to review and finalize this process at the September meeting. Under the proposed timeline, the final evaluation and compensation determination by the Board would occur at the November meeting.

Attachment

**Executive Director**  
**Performance Evaluation and Compensation Review Process**  
**THDA Audit and Budget Committee**  
**For the Period October 1, 2017-September 30, 2018**

Pursuant to Item 24 of the Audit and Budget Committee (“ABC”) Charter, the ABC is charged with developing and carrying out a process for annually evaluating the performance of the THDA Executive Director and making recommendation in connection therewith to the Tennessee Housing Development Agency (“THDA”) Board. Below is the proposed process and timeline for conducting the evaluation of the Executive Director for the period October 1, 2017 – September 30, 2018, which is consistent with the performance evaluation schedule to be used for THDA staff.

1. Following the September Board meeting, the ABC Chair and Vice Chair will:
  - a. Request the Executive Director’s year-end self-assessment. The self-assessment should include three to five goals for major initiatives during the performance period, and how they were met as well as a self-assessment of performance relative to the THDA competencies and guiding principles and management of staff and agency operations.
2. In mid-October, the Internal Audit Director will email the Board the following:
  - a. Executive Director Performance Evaluation Survey, which will be structured consistently with the evaluation process used for THDA staff
  - b. Executive Director’s Year-End Self-Assessment
  - c. Expectations of participation by Board members in the evaluation process
3. By the end of October, the following will occur:
  - a. Board responses will be due to the Internal Audit Director.
  - b. The Internal Audit Director and the THDA Human Resources Director will update salary survey data, to include Southeast Housing Finance Agencies’ Executive Director salaries; Tennessee Commissioner salaries; Executive Director Compensation Data and Salary history.
  - c. The Internal Audit Director will include the Executive Director Performance Evaluation on the November board agenda as the final item.
  - d. The ABC Chair, Vice Chair, and THDA Board Chair will meet with the Executive Director for presentation of the self-assessment.
4. Prior to the November Board meeting:
  - a. The Internal Audit Director will compile the survey results and comments received into a summary document and provide to the THDA Board Chair and the ABC.
  - b. The Internal Audit Director will share salary data with the THDA Board Chair and the ABC.
5. At the November ABC meeting:



- a. The ABC will review the summary and create a final evaluation.
  - b. The ABC will review the salary data and make a compensation recommendation.
- 6. At the November Board meeting:
  - a. The THDA Board Chair will request that staff and the Executive Director leave the room prior to the agenda item.
  - b. The ABC and the Board Chair will present the final evaluation and compensation recommendation (including effective date) to the Board. The compensation adjustment, if any, will be considered by the THDA Board of Directors.
- 7. Following the November meeting:
  - a. The ABC Chair, Vice Chair, and THDA Board Chair will have a meeting with the Executive Director to present the final evaluation.
  - b. The Internal Audit Director will file the final signed evaluation with the Human Resources Director.
- 8. By December 1:
  - a. The Human Resources Director will submit a memorandum from the THDA Board Chair regarding the compensation recommendation, which will be effective January 1, the date that any performance raises are effective for the rest of THDA.

STATE OF TENNESSEE



DAVID H. LILLARD, JR.  
STATE TREASURER

TREASURY DEPARTMENT  
STATE CAPITOL  
NASHVILLE, TENNESSEE 37243-0225

615.741.2956  
David.Lillard@tn.gov

**MEMORANDUM**

TO: THDA Audit and Budget Committee

FROM: David H. Lillard, Jr., State Treasurer  
Audit and Budget Committee Chair, 2018

DATE: September 18, 2018

SUBJECT: Internal Audit Director Performance Evaluation Process

---

Item 23 of the Audit and Budget Committee ("ABC") Charter and the Amended and Restated By-Laws of THDA requires the ABC to, "Employ, establish the salary for and terminate (when deemed necessary) the Internal Audit Director, who shall serve at the pleasure of the ABC." The attached document outlines the proposed process and timeline for conducting the evaluation of the Internal Audit Director for the period October 1, 2017 - September 30, 2018. The proposed process and timeline are intended to be consistent with previous evaluations and the process and timeframe utilized agency-wide by THDA, with minor adjustments.

The ABC will be asked to review and finalize this process at the September meeting. Under the proposed timeline, the final evaluation and compensation determination by the Board would occur at the November meeting.

Attachment

**Director of Internal Audit**  
**Performance Evaluation and Compensation Review Process**  
**For the Period October 1, 2017-September 30, 2018**

Tennessee Code Annotated Section 13-23-112(h)(1)(C) authorizes the Tennessee Housing Development Agency ("THDA") Audit and Budget Committee ("ABC") to determine the employment and salary of THDA's Director of Internal Audit. Below is the proposed process and timeline for conducting the evaluation of the Director of Internal Audit for the period October 1, 2017-September 30, 2018, which is consistent with the performance evaluation schedule to be used for THDA staff.

1. Following the September Board meeting, the ABC Chair will:
  - a. Request the Executive Director's year-end self-assessment. The self-assessment should include at least three to five goals for major initiatives during the performance period, and how they were met as well as a self-assessment of performance relative to the THDA competencies and guiding principles and management of staff and agency operations.
2. In mid-October, the ABC Chair will:
  - a. Email the ABC Committee the self-assessment and a request for feedback on the Director of Internal Audit's performance, including a Director of Internal Audit Performance Evaluation Survey.
  - b. Request feedback from the Executive Director on the Director of Internal Audit's performance.
  - c. Review salary information regarding THDA staff and other state agencies' directors of internal audit.
  - d. Request that the Director of Internal Audit Performance Evaluation be included on the November ABC agenda.
3. Prior to the November ABC meeting:
  - a. The ABC Chair will review the feedback from ABC members and the Executive Director and develop a summary document.
  - b. The ABC Chair and Vice Chair will meet with Director of Internal Audit for presentation of the self-assessment.
4. At the November ABC meeting:
  - a. The ABC Chair will present the summary and salary data to the ABC. The ABC will review the summary and salary data and create a final evaluation and make a compensation recommendation. Board action is not required.
5. Following the November meeting:
  - a. The ABC Chair will file the signed evaluation with the Human Resources Director.
6. By December 1:

- a. The Human Resources Director will submit a memorandum from the ABC Chair regarding the compensation recommendation, which will be effective January 1, the date that any performance raises are effective for the rest of THDA.



## Tennessee Housing Development Agency

Andrew Jackson Building, Third Floor  
502 Deaderick Street, Nashville, TN 37243


Bill Haslam  
Governor

Ralph M. Perrey  
Executive Director

### MEMORANDUM

**DATE:** September 19, 2018

**TO:** Audit & Budget Committee  
Board of Directors

**FROM:** Bruce Balcom, Assistant Chief Legal Counsel 

**SUBJECT:** Proposed Public Records Rules

---

In the 2018 legislative session the General Assembly enacted changes to the Tennessee Public Records Act. Those changes require all state agencies to promulgate rules governing the handling of public records requests. The statute requires the rules go into effect January 1, 2019. Staff has prepared proposed rules for Board consideration. This will be an action item at the November Board meeting.

In 2017, in response to a prior statutory change, the Board approved a policy governing the handling of public records requests. The attached proposed rules are based upon the substance of that policy. Additionally, the Comptroller's office shared its proposed rules with staff. Those rules, which were developed in conjunction with the Treasurer and Secretary of State's offices, were used as an additional resource. While substantially similar to the Board policy, there are some changes which fall into three specific areas.

1. Changes to language and formatting to better fit the more formal status of rulemaking rule. This included changing some language to be more specific and clear in order to avoid potential legal issues. These changes do not change the substance of how THDA has been handling public records requests.
2. Changes to more generic language to avoid potential future need to amend the rules. An example of this is the cost per copy. The Office of Open Records Counsel publishes a Schedule of Reasonable Charges, which could be subject to future change. By referring to that instead of listing the actual costs, we minimize the likelihood of needing to amend the rules.
3. In Section 0770-07-01-.06(3) clarifying language is inserted to assure that while personal electronic devices may be used to make images of records, the use of such devices is limited to the purpose of recording the records and cannot be used to take recordings of the interior of secured spaces or to attempt to engage staff in interviews.

**RULES OF  
TENNESSEE HOUSING DEVELOPMENT AGENCY**

**CHAPTER 0770-07-01  
PUBLIC RECORDS**

**TABLE OF CONTENTS**

<b>Rule Number</b>	<b>Rule Title</b>
0770-07-01-.01	Purpose and Scope
0770-07-01-.02	Definitions
0770-07-01-.03	Requesting Access to Public Records
0770-07-01-.04	Responding to Public Records Requests
0770-07-01-.05	Redaction
0770-07-01-.06	Access to Records
0770-07-01-.07	Fees and Charges and Procedures for Billing and Payment
0770-07-01-.08	Aggregation of Frequent and Multiple Requests
0770-07-01-.09	Failure to Inspect or to Pay for Copies

**0770-07-01-.01 Purpose and Scope.**

- (1) Pursuant to Tenn. Code Ann. § 10-7-503(g), the following Public Records Rules for Tennessee Housing Development Agency ("THDA") are hereby adopted to provide economical and efficient access to public records as provided under the Tennessee Public Records Act ("TPRA").
- (2) The TPRA provides that all state, county and municipal records shall, at all times during business hours, be open for personal inspection by any citizen of this state, and those in charge of the records shall not refuse such right of inspection to any citizen, unless otherwise provided by state law. Accordingly, the public records of THDA are presumed to be open for inspection unless otherwise provided by law.
- (3) Personnel of THDA, through the THDA Public Records Request Coordinator identified in this Rule below, shall timely and efficiently provide access and assistance to persons requesting to view or receive copies of public records. No provisions of this Rule shall be used to hinder access to open public records. However, the integrity and organization of public records, as well as the efficient and safe operation of THDA, shall be protected as provided by current law. Concerns about this Policy should be addressed to the Public Records Request Coordinator for THDA or to the Tennessee Office of Open Records Counsel ("OORC").

**0770-07-01-.02 Definitions**

- (1) **Public Records.** All documents, papers, letters, maps, books, photographs, microfilms, electronic data processing files and output, films, sound recordings, or other material, regardless of physical form or characteristics, made or received pursuant to law or ordinance or in connection with the transaction of official business by any governmental agency.
- (2) **Public Records Request Coordinator or PRRC.** The individual, or individuals, who has, or have, the responsibility to ensure public record requests are routed to the appropriate records custodian and are fulfilled in accordance with the TPRA.
- (3) **Records Custodian.** The office, official or employee lawfully responsible for the direct custody and care of a public record. The records custodian is not necessarily the original preparer or receiver of the record.

- (4) Requestor. A citizen of the State of Tennessee seeking access to a public record, whether for inspection or duplication.

#### 0770-07-01-.03 Requesting Access to Public Records

- (1) Public record requests, whether written or oral, shall be made to the PRRC, to ensure public record requests are routed to the appropriate records custodian and fulfilled in a timely manner.
- (2) Public record requests must include the following information clearly and concisely expressed:
  - (a) Name and Tennessee contact information (in order to provide any communication required under the TPRA);
  - (b) Detailed description of the records being requested, including type, timeframe, subject matter or key words, and any other information identifying the records;
  - (c) Statement whether the request is for inspection or receipt of copies or both; and
  - (d) Delivery preference if requesting copies.
- (3) Proof of Tennessee citizenship by presentation of a valid Tennessee driver license is required as a condition to inspect or receive copies of public records and must be presented with the request. To the extent that the requestor cannot provide government-issued photo identification, the PRRC may accept an alternative form of identification. The PRRC may waive the requirement of presentation of a driver license if the requestor has previously provided proof of Tennessee citizenship. Proof of citizenship for offenders currently housed in Tennessee state prisons will be confirmed through the Department of Corrections.
- (4) Requests for inspection shall be made:
  - (a) in person at the office of the PRRC;
  - (b) by phone to the PRRC; or
  - (c) in writing sent or delivered to the PRRC.
- (5) Requests for copies, or requests for inspection and copies, shall be made in writing. A requestor shall use the THDA Public Records Request form which is available on the THDA website.
- (6) Requests not made in the appropriate manner, or not directed to the PRRC as provided herein, will not be accepted. Requests made via any method other than those prescribed herein will not be accepted.
- (7) The contact information for the PRRC is as follows:

Bruce Balcom or Charity Miles Williams  
Andrew Jackson Building, 3<sup>rd</sup> Floor  
502 Deaderick Street  
Nashville, Tennessee 37243-0200  
615-815-2200  
615-916-5054 (Fax)  
[publicrecordsrequest@thda.org](mailto:publicrecordsrequest@thda.org)
- (8) Any changes to the contact information for the PRRC shall be posted on the THDA's website. The name of the person(s) currently serving as PRRC shall be posted on the THDA's website.

#### 0770-07-01-.04 Responding to Public Records Requests

- (1) The PRRC shall review public record requests and make an initial determination of the following:
  - (a) Proof of Tennessee citizenship;
  - (b) Sufficiency of description of the records to allow specific identification;
  - (c) Whether the THDA is the custodian of the records; and
  - (d) Whether the records qualify as public records under the TPRA or are subject to a legal protection against access.
- (2) The PRRC shall acknowledge receipt of the request and take any appropriate actions.
- (3) If not practicable to provide the requested records promptly, the PRRC shall, within seven (7) business days from the receipt of the request, respond to the requestor with a completed Public Records Request Response form or email with equivalent information.
- (4) If a public record request is denied, the PRRC shall deny the request in writing, providing the basis for the denial.
- (5) If the PRRC reasonably determines production of records should be segmented because the records request is for a large volume of records, or additional time is necessary to prepare the records for access, the PRRC shall notify the requestor that production of the records will be in segments and that a records production schedule will be provided as expeditiously as practicable. If appropriate, the PRRC will contact the requestor to see if the request can be clarified or narrowed.
- (6) If requested records are published by THDA on its website, the PRRC may satisfy a public records request by referring the requestor to THDA's website. If a requestor desires paper copies of the records instead, THDA will provide the copies in compliance with this Rule.

#### 0770-07-01-.05 Redaction

- (1) If a record contains confidential information, or information that is not open for public inspection, the PRRC or the records custodian shall prepare a redacted copy prior to providing access.
- (2) Whenever a redacted record is provided, the PRRC shall provide the requestor with the basis for redaction, if requested by the requestor, without revealing confidential information.

#### 0770-07-01-.06 Access to Records

- (1) Inspection:
  - (a) There shall be no charge for inspection of public records.
  - (b) The location for inspection of open public records will be determined by the PRRC and shall occur during times in which THDA is otherwise open for business at the office location of the PRRC in Nashville.
  - (c) Under reasonable circumstances, the PRRC may require an appointment for inspection or may require inspection of records at an alternate location.
- (2) Copies:
  - (a) Copies will be available for pickup at a location specified by the PRRC.



- (b) Upon payment for postage, copies will be delivered to the Requestor's home or business address by the United States Postal Service. Additional permitted means of delivery are UPS and FedEx, pre-paid label require
  - (c) Electronic records that can be sent in a single transmission will be sent by email.
  - (d) The PRRC may allow a requestor to make copies of inspected records with personal equipment at the inspection location, upon prior approval by the PRRC and payment in advance of any costs and fees incurred by THDA in preparing the records to be copied. A requestor will not be allowed to connect any personal equipment to any THDA end-point device or the network and will not be allowed to jeopardize the integrity or organization of the records.
- (3) Limitations on use of recording devices:
- (a) A requestor's use of electronic recording equipment shall be limited to devices which take images of the records requested. Requestor shall not be permitted to capture video of the interior of buildings where copies or inspections are being made. After being informed by staff that attempts to capture such video or images, continued efforts to take video or images of staff or the interior of the buildings will result in termination of the inspection or copying session. If making an inspection only, the use of personal recording devices shall not be permitted unless any costs and fees have been paid in advance as provided in 0770-07-01-.06(2)(d).

#### 0770-07-01-.07 Fees and Charges and Procedures for Billing and Payment

- (1) The PRRC will provide requestors with an itemized estimate of the charges prior to producing copies of records. Requestors must pre-pay the estimate before the records will be produced.
- (2) When fees for copies and labor do not exceed an amount established by THDA, the fees may be waived by the PRRC. Fees associated with aggregated record requests will not be waived.
- (3) Fees and charges for copies are as follows:
  - (a) Per page for letter and legal sized copies, at the safe-harbor amounts set forth in the OORC's Schedule of Reasonable Charges.
  - (b) Labor when time exceeds one (1) hour.
  - (c) If an outside vendor is used, the actual costs assessed by the vendor.
  - (d) For storage devices, such as flash drives, and other office items, the cost incurred by THDA.
  - (e) Any additional costs directly related to providing access to public records for the purpose of duplication by THDA or the requestor.
- (4) Requestors must pay by personal or cashier's check or money order payable to THDA and delivered as specified by the PRRC. If a requestor's check does not clear, THDA will not comply with any public record requests by that requestor until payment, including any processing fees related to the check, is received in full pursuant to Tenn. Code Ann. § 10-7-503(a)(7)(A)(vii)(b).

#### 0770-07-01-.08 Aggregation of Frequent and Multiple Requests

- (1) THDA will aggregate record requests for records of THDA in accordance with the Reasonable Charges for Frequent and Multiple Requests Policy promulgated by the OORC when more than four (4) requests are received within a calendar month (either from a single individual or a group of individuals deemed working in concert).

- (2) Routinely released and readily accessible records shall be excluded from aggregation. Such records include materials posted by THDA on its website, or documents kept by THDA for general distribution to the public upon request such as brochures or reports generated for public distribution.

0770-07-01-.09 Failure to Inspect or to Pay for Copies

- (1) If a requestor makes two (2) or more requests to view a Public Record within a six-month period and, for each request, the requestor fails to view the Public Record within fifteen (15) business days of receiving notification that the record is available to view, or misses two (2) or more scheduled appointments to view, THDA will not comply with any public records request from the requestor for a period of six (6) months from the date of the second request to view the Public Record unless the THDA determines failure to view the Public Record was for good cause.
- (2) If, after agreeing to pay an estimated cost prior to the production of copies, a requestor fails to pay the cost to produce the requested copies, THDA will not comply with any public record requests from the requestor until payment is received.

Authority: T.C.A. § 13-23-104, § 13-23-115(18) and § 10-7-501, et seq.



## Tennessee Housing Development Agency

Andrew Jackson Building Third Floor  
502 Deaderick St., Nashville, TN 37243

**Bill Haslam**  
Governor

**Ralph M. Perrey**  
Executive Director

### MEMORANDUM:

TO: THDA Board of Directors  
FROM: Trent Ridley, Chief Financial Officer   
SUBJECT: Investment Report Summary – June 30, 2018  
DATE: September 19, 2018

---

Each quarter, the THDA finance team produces a report that summarizes the investment activity of the agency. The full reports are available on THDA's web site.

Attached for your review is an executive summary of the investment report for the quarter ending June 30, 2018. This report gives you an idea about the amount of non-mortgage funds managed by our finance team and the overall performance of the portfolio. Please note on the "Portfolio Management Summary" that the investments for the quarter yielded a 2.31% effective rate of return (slightly up from 2.30% for the quarter ending June, 30, 2017) on an average daily balance of \$276.2 million. For FY18, the weighted average daily balance and effective rate of return were \$263.3 million and 2.24% compared to \$265.5 million and 2.27% in FY17. In spite of the rise in short-term interest rates, our effective rate of return decreased slightly primarily due to the maturation of some of our older, high-yielding Treasury Securities, which represented 26.98% of the investment portfolio at 9/30/16 compared to 3.16% at 6/30/18.

As always, Wayne Beard, our Finance Director, does an exceptional job of managing the organization's cash flow to balance liquidity needs for debt service while implementing a conservative investment strategy to protect investment principal but maximizing yield. If you need any additional information regarding THDA's investments, please do not hesitate to call me at (615) 815-2012 or contact me via e-mail at [tridley@thda.org](mailto:tridley@thda.org).



# Tennessee Housing Development Agency

## Investment Report

**June 30, 2018**

**Andrew Jackson Building Third Floor  
502 Deaderick Street  
Nashville, Tennessee 37243**



[www.THDA.org](http://www.THDA.org) - (615) 815-2200 - Toll Free: 800-228-THDA

TENNESSEE HOUSING DEVELOPMENT AGENCY  
QUARTERLY INVESTMENT REPORT  
TABLE OF CONTENTS

Page 3	THDA Investment Policy
Page 11	Overall Portfolio Information – Executive Summary
Page 13	<i>General Fund</i> (The sections for the various funds are organized as follows): <ul style="list-style-type: none"><li>A. Description of Fund and Investment Objectives</li><li>B. Current and Recent Fund Data</li><li>C. Portfolio Listing (Inventory) (By Resolution)<ul style="list-style-type: none"><li>1. Investments by Issuer</li><li>2. Sorted by Investment Type</li></ul></li><li>D. Yield Calculations – Current Quarter &amp; Historical</li><li>E. Quarterly Transactions Listing (By Resolution)<ul style="list-style-type: none"><li>1. Purchases Report – sorted by Source</li><li>2. Sales Report – sorted by Source</li><li>3. Maturity Report – sorted by Maturity Date</li></ul></li></ul>
Page 22	<i>Loan Funds</i>
Page 34	<i>Float/Equity Funds</i>
Page 69	<i>Reserve Funds</i>
Page 97	<i>Arbitrage</i>

---

# **Tennessee Housing Development Agency**

---

## **Investment Policy**

---

Adopted September 14, 1993  
As Amended July 20, 1995, and  
November 16, 1995

---

# CONTENTS

- I. Scope
- II. Authority
- III. Objectives
- IV. Prudence
- V. Eligible Investments
- VI. Monitoring and Adjusting the Portfolio
- VII. Internal Controls
- VIII. Competitive Selection of Investment Instruments
- IX. Broker/Dealer Selection and Review
- X. Safekeeping
- XI. Reporting Requirements
- XII. Diversification
- XIII. Risk Tolerance
- XIV. Operating Procedures
- XV. Bond Related Funds
  - A. General Fund
  - B. Undistributed Bond Proceeds Funds
  - C. Servicing Agent Funds
  - D. Debt Service Reserve Fund
  - E. Escrow Account Funds
  - F. Other Funds
- XVI. Other Agency Funds
  - A. Assets Fund
  - B. Housing Program Fund
  - C. Housing Program Reserve Fund
- XVII. Adoption

- I. **SCOPE:** It is intended that this policy apply to the investment of all non-mortgage assets of the Tennessee Housing Development Agency (Agency), including those assets pledged to holders of the Agency's bonds.
- II. **AUTHORITY:** Section 5 of Chapter 900 of the Acts of 1988 (Tennessee Code Annotated, Section 13-23-112) requires the Agency to establish an investment policy for assets of the Agency. The State Treasurer is responsible for investing Agency assets in accordance with the duly adopted investment policy. The State Treasurer, in his sole discretion, may delegate to the Executive Director any portion of investment responsibilities deemed appropriate.
- III. **OBJECTIVES:**
- A. Safety of principal is the foremost objective, followed by liquidity and yield. Each investment transaction shall seek to first ensure that capital losses are avoided, whether they be from securities defaults or erosion of market value.
  - B. Investment decisions should not incur unreasonable investment risks in order to obtain current investment income.
  - C. The combined Agency portfolios shall remain sufficiently liquid to enable the Agency to meet all operating requirements.
  - D. Agency portfolios shall be designed to attain a market-average rate of return throughout budgetary and economic cycles, taking into account investment risk constraints, the cash flow characteristics of the Agency, and State law that restricts the placement of short-term funds.
  - E. Agency portfolios will be diversified to avoid incurring unreasonable and avoidable risks regarding specific security types or individual financial institutions.
  - F. While the Agency will not make investments for the purpose of trading or speculating as the dominant criterion, the Agency shall seek to enhance total portfolio return by means of active portfolio management. The prohibition of speculative investments precludes pursuit of gain or profit through unusual risk. However, trading in response to changes in market value or market direction is warranted under active portfolio management.
  - G. All participants in the investment process shall act responsibly as custodians of the public trust. Investment officials shall recognize that the investment portfolio is subject to public review and evaluation. The overall program shall be designed and managed with a degree of professionalism that is worthy of the public trust.
- IV. **PRUDENCE:** The standard of prudence to be used by all officials responsible for the investment of Agency assets shall be the "prudent man rule" which obligates a fiduciary to ensure that:
- ". . . investment shall be made with the exercise of that degree of judgment and care, under circumstances then prevailing, which persons of prudence, discretion, and intelligence exercise in the management of their own affairs, not for speculation but for investment, considering the probable safety of their capital as well as the probably income to be derived."
- V. **ELIGIBLE INVESTMENTS:** Eligible investments for Agency assets shall include only investment instruments authorized for state funds pursuant to Tennessee Code Annotated, Section 9-4-602 and investments in the State Pooled Investment Fund established pursuant to Tennessee Code Annotated, Section 9-4-603. To the extent Agency assets are invested in certificates of deposit, such investment shall be accomplished through participation in the



State Pooled Investment Fund. To the extent the Agency's eligible investments must be secured, "eligible collateral" acceptable as such security may include any items defined as eligible collateral in Tennessee Code Annotated Section 9-4-103 or repurchase agreements that meet all requirements of Section V.C. The Agency, at its option or as required under its bond resolutions or other agreements with bondholders, may select or further restrict the types of eligible investments or the types of eligible collateral that may be used or may further restrict the levels of valuation of eligible collateral.

- A. Investment in U.S. government securities may constitute one hundred percent (100%) of the portfolio due to the absence of credit risk in this market.
- B. Securities shall be purchased through authorized broker/dealers for the security to be acquired. All transactions will be executed on a delivery versus payment basis. Due bills or notes are not acceptable as collateral in lieu of the purchased security.
- C. The following terms and conditions shall apply to investments in repurchase agreements:
  - 1. The seller and the Agency shall enter into a master repurchase agreement in a form approved by the State Treasurer, and the Attorney General and Reporter.
  - 2. Securities purchased under the repurchase agreement shall be limited to obligations of the United States Government or its agencies.
  - 3. At the time of purchase, the market value of the securities shall be equal to or greater than one hundred two percent (102%) of the cash investment.
  - 4. Securities shall be marked-to-market daily and shall be maintained at a value equal to or greater than the original cash investment amount, including accrued interest on such amount.
  - 5. The seller and the Agency may enter into an agreement with an independent custodian bank ("Custodian") in a form approved by the State Treasurer, and the Attorney General and Reporter pursuant to which the Custodian will provide transfer and safekeeping services for all securities and/or cash in connection with all repurchase transactions governed by the master repurchase agreement. For purposes of this provision, "independent custodian bank" means a bank which is not related to the seller nor the Agency through shared ownership or control.
  - 6. All securities purchased under a repurchase agreement shall be held in an account of the Agency under the control of either the Trustee or the State Treasurer, unless the seller and the Agency have entered into a custodial agreement pursuant to Paragraph 5 above. In such event, the securities shall be held in an account of the Agency with the Custodian.
  - 7. The seller may, at any time, substitute other securities or equal or greater market value for any purchased securities provided such other securities are obligations of the United States Government or its agencies.
  - 8. Repurchase agreements may be entered into only with sellers approved for use by Treasury Department portfolio managers, unless an exception is granted by the Bond Finance Committee.
  - 9. The maturity date of the securities purchased under a repurchase agreement shall exceed the term of the repurchase agreement. All securities purchased

by the Agency shall be delivered simultaneously against payment to either the State Treasurer, or to an account of the Agency at the Trustee or the Custodian or, in the case of definitive securities, as provided in the master repurchase agreement.

10. The transactions under each individual repurchase agreement shall be confirmed by the seller to the Agency. Each confirmation shall clearly describe the purchased securities (including the CUSIP number, if any), identify the Agency and the seller, and set forth (a) the purchase date, (b) the purchase price, (c) the repurchase date, unless the transaction is to be terminable on demand, and (d) the pricing rate or repurchase price applicable to the transaction. Upon receipt, the confirmation shall be reviewed to insure that the terms contained therein correspond exactly to the terms negotiated by the parties. Any discrepancies appearing on the confirmation shall be conclusive grounds for terminating the repurchase agreement or renegotiating its terms, as may be appropriate. Upon a renegotiation of terms, a corrected confirmation shall be requested.

*(Section V.C. amended by Board Resolution on July 20, 1995.)*

- D. Special conditions for collateralized guaranteed investment contracts: The Agency may invest its assets in guaranteed investment contracts of longer than one (1) year with a select few of the highest quality foreign and domestic banks, domestic brokerage firms, or domestic insurance companies, as selected by the Agency upon the advice of its financial adviser. Such guaranteed investment contracts shall be secured by a perfected, first priority security interest in eligible collateral, as defined in Section V. The provider of the guaranteed investment contract and the Agency shall enter into a master guaranteed investment agreement, in a form approved by the State Treasurer, and/or other contracts or agreements as approved by the State Treasurer and the Attorney General and Reporter.

Eligible collateral shall have an initial market value of at least 102% of the principal amount of the cash investment. If the aggregate market value of the eligible collateral is less than 100% of the cash investment, then additional eligible collateral sufficient to bring the aggregate market value of all eligible collateral to at least 102% of the cash investment shall be required.

*(Section V.D. added by Board Resolution on November 16, 1995.)*

- VI. **MONITORING AND ADJUSTING THE PORTFOLIO:** On a routine basis, the contents of the portfolio, the available markets and the relative values of completing instruments will be monitored and the portfolio adjusted accordingly.
- VII. **INTERNAL CONTROLS:** The Agency shall establish a system of internal controls which shall be documented in writing. The controls shall be designed to prevent losses of funds arising from fraud, employee error, misrepresentation by third parties, unanticipated changes in financial markets, or imprudent actions by employees and officers of the Agency. Controls deemed most important include: control of collusion, separation of duties, separating transaction authority from accounting and record keeping, custodial safekeeping, clear delegation of authority, written confirmation of telephone transactions, minimizing the number of authorized investment officials, documentation of transaction strategies, and code of ethics.

The Executive Director shall provide to the State Treasurer a copy of the report of internal controls submitted to the Comptroller of the Treasury in accordance with the Financial Integrity Act.

VIII. **COMPETITIVE SELECTION OF INVESTMENT INSTRUMENTS:** Before investment of any Agency funds, a competitive "bid" process shall be conducted. If a specific maturity date is required, either for cash flow purposes or for conformance to maturity guidelines, bids will be requested for instruments which meet the maturity requirement. If no specific maturity is required, a market trend (yield curve) analysis will be conducted to determine which maturities would be most advantageous. Bids will be requested for various options with regards to eligible investment instruments. The bid which provides the highest rate of return within the maturity required and within the parameters of these policies will be accepted. Records will be kept of the bids offered, the bids accepted and a brief explanation of the decision which was made regarding the investment. Exceptions to the competitive placement of Agency investments are permissible as market conditions warrant and will be documented in the Agency's files.

IX. **BROKER/DEALER SELECTION AND REVIEW:** Repurchase agreements will only be transacted with primary government securities dealers that report to the New York Federal Reserve Bank and who complete the Agency's master repurchase agreement. The Agency shall periodically review the list of primary dealers from the New York Federal Reserve Bank to determine which dealers have been added or deleted.

For purchase of securities on a delivery versus payment basis, any broker/dealer that gives priority to institutional trading over regular retail trading customers and exemplifies satisfactory performance in bidding and settlement of transactions will be authorized to bid on security acquisitions. An authorization letter (sample attached) will be sent to each authorized dealer. If a dealer is consistently unsuccessful in bidding and/or unsatisfactorily fulfills bids they have received, they will be removed from the approved list of dealers for six months. The list of approved broker/dealers shall be reviewed and updated periodically.

X. **SAFEKEEPING:** All Agency investment securities shall be held by the Trustee or the State Treasurer. The party holding such securities shall issue a safekeeping receipt listing the specific instrument, rate, maturity and other pertinent information.

XI. **REPORTING**

Periodic: The Executive Director of the Tennessee Housing Development Agency shall submit a quarterly investment report to the Bond Finance Committee. This report will describe the portfolio activity during the period and compute the average yield and average maturity of the portfolio and list the acquisitions and dispositions during the quarter. The report shall summarize the investment strategies employed in the most recent period, describe the investment portfolios in terms of investment securities, maturities, yield and average maturity of the combined portfolios. A report will be presented of the pro rata debt service requirements by month for the next 12 months chronologized by debt service payment dates. Each report shall indicate any areas of policy concern and suggested or planned revision of investment strategies.

Annual: Within 90 days of the end of the fiscal year, the Executive Director of the Tennessee Housing Development Agency shall present a comprehensive annual report on the investment program and investment activity to the Bond Finance Committee. This report shall include twelve-month comparisons or return, shall suggest policies and improvements that might enhance the investment program, and include an investment plan for the ensuing fiscal year.

XII. **DIVERSIFICATION:** The Tennessee Housing Development Agency should diversify investment portfolios in order to reduce the risk of loss resulting from over concentration of assets in a specific maturity, a specific issuer, or a specific class of securities. The following strategies and constraints shall apply:

- A. Portfolio maturities shall be staggered in a way that avoids undue concentrations of assets in a specific maturity sector. Maturities shall be selected which provide for stability of income and reasonable liquidity.
- B. It is the intent of this policy that sufficient investments be scheduled to mature to provide for the required liquidity for debt service and other expenditures per resolution requirements. A minimum of the pro rata cumulative debt service requirement at the end of each month for the then current bond year for each bond resolution must mature to meet the debt service payment dates. A schedule showing the cumulative debt service requirement by month shall be kept on file at the Agency.

In addition a minimum of five percent (5.00%) of the par value of total investments must mature within five years. No more than fifty percent (50.00%) of the par value of the combined portfolios can be invested in maturities of greater than fifteen (15) years without the approval of the Bond Finance Committee.

- XIII. **RISK TOLERANCE:** Investment risks can result from issuer defaults, market price changes, or various technical complications leading to temporary illiquidity. Portfolio diversification is employed as a way to control risk. Investment managers are expected to display prudence in the selection of securities, as a way to minimize default risk.
- XIV. **OPERATING PROCEDURES:** Written operating procedures to implement the provisions of the Agency investment policy shall be established. These procedures shall be subject to the review and approval of the State Treasurer.
- XV. **BOND RELATED FUNDS:** Funds held by the Agency under the 1974, 1981 and 1985 Resolutions shall be subject to the applicable Resolution requirement. Since the fund and account structure arises by Resolution, each type of receipt will be discussed rather than each fund and account.
  - A. General Fund: This fund is the recipient of excess funds transferred from the 1974 Resolution Revenue Fund. These funds represent the amount remaining after setting aside the pro rata debt service requirement on each interest and principal payment date. Conversely, any deficit in the Revenue Fund needed to meet debt service is funded from the General Fund. Short term liquidity should be maintained in order to meet any monthly deficit that might occur in the Revenue Fund. Funds which are awaiting investment shall be invested in an interest-bearing account.
  - B. Undistributed Bond Proceeds Fund: These funds represent the proceeds from the sale of bonds, prior to being disbursed for the purpose of making mortgage loans, paying cost of issuance and capitalized interest. These funds shall be invested in eligible investments with maturities scheduled to assure that funds are available to fund loans. Funds which are awaiting investment or disbursement shall be invested in an interest-bearing account.
  - C. Servicing Agent Funds: These funds represent amounts remitted to servicing agents for payment of principal and interest on Agency mortgage loans. These funds are accumulated by the mortgage servicers and periodically remitted to the Trustee for deposit into the appropriate fund. Servicing agent funds, when remitted to the Trustee, shall be deposited in interest-bearing accounts with interest accruing to the Agency. These accounts shall be fully insured and/or collateralized to the benefit of the Agency. The Agency shall monitor such accounts and, when warranted, funds will be invested in securities with maturities dictated by the debt service requirements.
  - D. Debt Service Reserve Funds: These funds represent one (1) year of principal and interest payments on each Agency bond issue. Debt Service Reserve funds shall be invested in eligible investments with maturities as established by the Bond Finance

Committee in consultation with the Agency's investment advisor/underwriter. All 1974 and 1981 Resolution Debt Service Reserve funds shall be invested by the Trustee. All 1985 Resolution Debt Service Reserve Funds shall be invested by the State Treasurer or the Trustee. Funds which are awaiting investment or disbursement shall be invested in an interest-bearing account.

- E. Escrow Account Funds: These funds represent funds held in trust by the Agency for the purpose of paying taxes, insurance and other obligations for the mortgagors of multi-family projects financed under the 1974 Resolution. The funds are short to intermediate term in nature and are to be invested with a maturity schedule which ensures sufficient liquidity to honor the obligations of the Escrow Account Fund. Funds which are awaiting investment or disbursement shall be invested in an interest-bearing account.
- F. Other Funds: These funds include all non-mortgage investment income (interest on non-mortgage investments, fees, penalties, etc.). These funds shall be deposited in accounts as provided in the Resolution fund structure.

**XVI. OTHER AGENCY FUNDS:** Funds held by the Agency which are not being held under a specific bond resolution shall be subject to the following investment limitations and conditions.

- A. Assets Fund: These funds represent excess amounts which have been withdrawn from individual bond resolutions in accordance with the terms of the applicable resolution. In addition, at the direction of the Board, portions of the Assets Fund may be invested for the program purposes of the Agency. These funds provide for monthly interest income transfers to the Housing Program Fund.
- B. Housing Program Fund: These funds represents the operating reserves of the Agency which are used to fund Agency administrative costs, pay certain expenses of bond issues, make grants to eligible political subdivisions and not-for-profit corporations and support the growth of the Housing Program Reserve Fund.
- C. Housing Program Reserve Fund: This fund consists of excess funds transferred from the Assets Fund and the Housing Program Fund. Income from investments in this fund are transferred to the Housing Program Fund at least annually. In addition, at the direction of the Board, portions of the Housing Program Reserve Fund may be invested for the program purposes of the Agency.

**XVII. ADOPTION**

This investment policy was adopted by the Tennessee Housing Development Agency Board of Directors on September 14, 1993.

## EXECUTIVE SUMMARY

### THDA Finance Team:

Trent Ridley, CFO

Wayne Beard, Finance Director

Joe Brown, Controller

August 7, 2018

### *\*Important Transactions during the past quarter:*

- 1) The agency closed \$160,000,000 of bonds, Residential Finance Program Issue 2018-2, on June 12, 2018. This financing provided \$143,525,000 of funds to purchase mortgage loans and increased the agency's pool of 0% percent mortgage proceeds by \$1,300,000 leaving a balance of \$92,330,000 at June 30, 2018. The transaction also provided \$13,075,000 of funds to refund Bond Issue 2009-1 on July 1, 2018.
- 2) During the past quarter, \$51.58 million in mortgage prepayments were received by the agency. This was approximately a \$3.3 million decrease from the previous quarter (\$44.28 million) and approximately a \$7.97 million decrease from the same quarter last year (\$59.55 million). Prepayments are currently being used to redeem bonds monthly as current investment rates are lower than bond coupon rates.
- 3) The agency redeemed \$56.44 million of bonds during the quarter using mortgage principal collections. \$11 million of bonds under the 1985 Resolution were redeemed this quarter, leaving approximately \$221.46 million in THDA bonds outstanding that carry the moral obligation of the State of Tennessee as of June 30, 2018. Comparatively, total bonds outstanding carrying the moral obligation at June 30, 2017 was \$323.34 million.
- 4) The Federal Reserve target funds rate range increased to 1.75% - 2.00% at the June 13, 2018 meeting of the Federal Open Market Committee (FOMC). Information received since the Committee met in May indicated that the labor market continued to strengthen and economic activity has been rising moderately. Economic has been rising at a solid rate. Unemployment has declined and recent data suggest household spending has picked up. The committee expects that further gradual increases in the federal funds target rate will be consistent with sustained expansion of economic activity, strong labor market conditions and inflation near the committee's 2 percent objective over the medium term. Risks to the economic outlook appear roughly balanced.



**PORTFOLIO MANAGEMENT SUMMARY**  
**Portfolio Management**  
**Portfolio Summary**  
**June 30, 2018**

THDA  
 Andrew Jackson Building  
 502 Deaderick St., Third Floor  
 Nashville, TN 37243  
 (615)815-2020

<b>Investments</b>	<b>Par Value</b>	<b>Market Value</b>	<b>Book Value</b>	<b>% of Portfolio</b>	<b>Term</b>	<b>Days to Mat./Call</b>	<b>YTM/C 360 Equiv.</b>
Federal Agency Coupon Securities	166,915,000.00	163,339,466.53	167,323,445.76	45.11	2,095	1,210	2.198
Federal Agency Disc. -Amortizing	188,000,000.00	187,487,134.00	187,503,155.36	50.55	63	49	1.856
Treasury Coupon Securities	11,664,000.00	12,969,782.94	11,726,801.82	3.16	2,415	1,088	6.048
Agency Step-Up Securities	4,370,000.00	4,371,853.93	4,369,087.14	1.18	3,811	2,850	2.905
<b>Investments</b>	<b>370,949,000.00</b>	<b>368,168,237.40</b>	<b>370,922,490.08</b>	<b>100.00%</b>	<b>1,098</b>	<b>639</b>	<b>2.155</b>

<b>Total Earnings</b>	<b>June 30 Period Ending</b>	<b>Fiscal Year Ending</b>
Current Year	1,591,119.02	5,889,448.35
<b>Average Daily Balance</b>	<b>276,169,344.94</b>	
<b>Effective Rate of Return</b>	<b>2.31%</b>	

Mack W. Beard, Director of Finance

## **GENERAL FUND**

### **DESCRIPTION**

The General Fund was established under the 1974 Resolution and was funded from earnings above and beyond the debt cost of THDA Bond Issues that were done early in the existence of the agency.

On December 31, 1998 mortgages from bond issue 1994-1 in the 1985 Resolution were transferred to the General Fund in the 1974 Resolution after the bonds from that issue were completely paid off. Prepayments and repayments from those mortgages are deposited into the General Fund.

On June 30, 2014 the agency moved assets from the 1974 Resolution to the 2013 Resolution to boost the financial strength of the 2013 Resolution. This move involved the aforementioned earnings from the early existence of the agency along with the remaining mortgage balances from the 1994-1 bond issue.

The assets in the General Fund can be used for a variety of purposes. Some uses of the General Fund Assets are/have been:

- 1) Provide funding for special mortgage loan programs
- 2) Pre-fund mortgage loans pending the closing of a bond issue
- 3) Grants



# THDA QUARTERLY INVESTMENT REPORT

## GENERAL FUND

June 30, 2018

### Historical Fund Balances

	1974 Resolution		1985 Resolution	
	Amortized Cost	Market Value	Amortized Cost	Market Value
6/30/15	17,439,890.53	17,423,343.94	N/A	N/A
6/30/16	24,608,583.13	24,601,956.11	N/A	N/A
6/30/17	22,725,082.09	22,725,133.01	N/A	N/A
6/30/18	15,452,663.90	15,411,874.97	N/A	N/A

### Historical Returns (Yield)

#### 1974 Resolution

Quarter ending 6/30/2018	Current Fiscal Year	Last 12 Months	Last 24 Months
1.750%	1.193%	1.193%	1.277%

### Benchmarks:

- (1) One-year CMT
- (2) Three-year CMT
- (3) Five-year CMT

2.250%	1.747%	1.747%	1.287%
2.610%	2.062%	2.062%	1.662%
2.767%	2.298%	2.298%	1.960%

### Duration

#### 1974 Resolution

Average Duration to Maturity (Years)

2.8

Average Duration to Call (Years)

1.5

### Asset Allocation

#### 1974 Resolution

#### 1985 Resolution

	Dollar value*	Percentage	Dollar value*	Percentage
Money Market Funds	12,932,663.90	83.69%	N/A	N/A
Federal Agency Coupons	2,520,000.00	16.31%	N/A	N/A
Variable Rate Securities	-	0.00%	N/A	N/A
Repurchase Agreements	-	0.00%	N/A	N/A
Treasury Coupon Securities	-	0.00%	N/A	N/A
Discount Bonds	-	0.00%	N/A	N/A
<b>Total</b>	<b>15,452,663.90</b>	<b>100.00%</b>	<b>N/A</b>	<b>N/A</b>

\*Dollar values are stated as book (amortized cost) value.

## **LOAN FUNDS**

### **DESCRIPTION**

Proceeds from a new bond sale that are earmarked for funding mortgage loans are deposited into the Loan Fund. THDA invests these proceeds from the day of closing (the first day the funds are received) until the funds are needed for mortgage loans. Consideration must be given to the maintenance of liquidity so those funds are available as mortgage loans are funded.

A major challenge for THDA in managing the investments in the loan fund is minimizing “negative arbitrage”. This results because the rates that can be earned with a short-term investment instrument are usually less than the cost of the new long-term debt from which the proceeds derived.

Occasionally an amount is set aside from bond proceeds to cover this shortfall. This amount is called “capitalized interest”. Another method that is sometimes used to minimize or eliminate negative arbitrage is the purchasing of longer-term investments with higher rates in the loan fund. The intent would be to sell such investments when cash is needed either on the open market, or if advantageous, to other THDA funds that are expected to have a foreseeable need for such investments.

**THDA QUARTERLY INVESTMENT REPORT**

**LOAN FUNDS**

**June 30, 2018**

**Historical Fund Balances**

	1985 Resolution		2009 Resolution		2013 Resolution	
	Amortized Cost	Market Value	Amortized Cost	Market Value	Amortized Cost	Market Value
6/30/15	14,578,127.19	14,308,560.09	10,473,044.86	10,216,772.18	124,520,693.95	124,397,735.37
6/30/16	8,484,095.02	8,321,193.28	5,686,245.70	5,604,371.10	86,821,844.51	86,829,957.99
6/30/17	0.00	0.00	0.00	0.00	80,887,219.27	80,722,372.55
6/30/18	0.00	0.00	0.00	0.00	127,466,688.10	126,341,036.51

**Historical Returns (Yield)**

**1985 Resolution**

**2009 Resolution**

**2013 Resolution**

Quarter ending 6/30/2018	Current Fiscal Year	Last 12 Months	Last 24 Months
N/A	N/A	N/A	N/A
N/A	N/A	N/A	N/A
1.764%	1.538%	1.538%	1.531%

**Benchmarks:**

(1) One-year CMT

(2) Three-year CMT

(3) Five-year CMT

2.250%	1.747%	1.747%	1.287%
2.610%	2.062%	2.062%	1.662%
2.767%	2.298%	2.298%	1.960%

**Duration**

Average Duration to Maturity (Years)

Average Duration to Call (Years)

**1985 Resolution    2009 Resolution    2013 Resolution**

N/A	N/A	1.2
N/A	N/A	0.7

**Asset Allocation**

Money Market Funds  
Federal Agency Coupons  
Variable Rate Securities  
Repurchase Agreements  
Pass Through Securities  
Discount Bonds

**Total**

1985 Resolution		2009 Resolution		2013 Resolution	
Dollar value*	Percentage	Dollar value*	Percentage	Dollar value*	Percentage
	0.00%		0.00%	12,462,670.81	9.78%
	0.00%		0.00%	42,382,247.84	33.25%
	0.00%		0.00%	-	0.00%
	0.00%		0.00%	-	0.00%
	0.00%		0.00%	-	0.00%
	0.00%		0.00%	72,621,769.45	56.97%
-	0.00%	-	0.00%	127,466,688.10	100.00%

*\*Dollar values are stated as book (amortized cost) value.*

## FLOAT/EQUITY FUNDS

### DESCRIPTION

*Float Funds* are considered to be the portion of funds at any given time in the various funds and accounts that will be needed for the next scheduled semi-annual Debt Service payment or for bond call from mortgage prepayment proceeds. Any excess that accumulates in the accounts is considered *Equity Funds*. These funds represent the cumulative net gain in any fund or group of funds. For both the Float and Equity funds, THDA's investment objective is a balancing act: to maximize earnings while achieving sufficient liquidity at January 1 and July 1 to meet debt service and bond call requirements.

The following funds hold the Float/Equity funds:

#### **Revenue Fund (1985 Resolution):**

- Debt Service & Expense Account (DS&E)
- Non-Mortgage Receipts Account (NMR)

#### **Revenue Fund (2009 Resolution):**

- Debt Service & Expense Account (DS&E)
- Non-Mortgage Receipts Account (NMR)

#### **Revenue Fund (2013 Resolution):**

- Debt Service & Expense Account (DS&E)
- Non-Mortgage Receipts Account (NMR)
- 2013 Old 74 Cash and Investment Account

The chart below depicts where the General Bond Resolutions specify the different types of receipts be deposited and held:

	<u>1985 Resolution</u>		<u>2009 Resolution</u>	
	<u>DS&amp;E</u>	<u>NMR</u>	<u>DS&amp;E</u>	<u>NMR</u>
	<u>Account</u>	<u>Account</u>	<u>Account</u>	<u>Account</u>
Mortgage Loan Principal & Interest	X		X	
Prepayment & Foreclosure Receipts	X		X	
Interest on Non-Mortgage Investments		X		X

	<u>2013 Resolution</u>	
	DS&E	NMR
	<u>Account</u>	<u>Account</u>
Mortgage Loan Principal & Interest	X	
Prepayment & Foreclosure Receipts	X	
Interest on Non-Mortgage Investments		X

**THDA QUARTERLY INVESTMENT REPORT**

**FLOAT / EQUITY FUNDS**

**June 30, 2018**

**Historical Fund Balances**

	1985 Resolution		2009 Resolution		2013 Resolution	
	Amortized Cost	Market Value	Amortized Cost	Market Value	Amortized Cost	Market Value
6/30/15	97,022,123.16	97,017,776.35	41,211,495.01	41,186,926.08	65,674,106.16	65,974,689.96
6/30/16	87,961,119.29	87,957,306.84	40,000,621.84	39,994,409.87	79,169,263.36	79,269,925.73
6/30/17	50,292,289.57	50,293,867.46	37,370,251.09	37,367,821.15	119,420,680.19	119,464,475.09
6/30/18	36,248,325.57	36,249,361.89	27,746,684.14	27,747,156.46	112,193,769.14	112,074,054.62

**Historical Returns (Yield)**

**1985 Resolution**  
**2009 Resolution**  
**2013 Resolution**

Quarter ending 6/30/2018	Current Fiscal Year	Last 12 Months	Last 24 Months
1.729%	1.256%	1.256%	1.086%
1.646%	1.216%	1.216%	1.123%
1.755%	1.379%	1.379%	1.335%

**Benchmarks:**

(1) One-year CMT  
(2) Three-year CMT  
(3) Five-year CMT

2.250%	1.747%	1.747%	1.287%
2.610%	2.062%	2.062%	1.662%
2.767%	2.298%	2.298%	1.960%

**Duration**

Average Duration to Maturity (Years)  
Average Duration to Call (Years)

1985 Resolution	2009 Resolution	2013 Resolution
0.03	0.05	0.29
0.03	0.05	0.25

**Asset Allocation**

Money Market Funds  
Federal Agency Coupons  
Treasury Coupon Securities  
Variable Rate Securities  
Repurchase Agreements  
Pass Through Securities  
Discount Bonds

	1985 Resolution		2009 Resolution		2013 Resolution	
	Dollar value*	Percentage	Dollar value*	Percentage	Dollar value*	Percentage
Money Market Funds	8,366,505.89	23.08%	13,186,116.46	47.52%	55,931,709.61	40.65%
Federal Agency Coupons	-	0.00%	-	0.00%	9,236,162.08	6.71%
Treasury Coupon Securities	-	0.00%	-	0.00%	-	0.00%
Variable Rate Securities	-	0.00%	-	0.00%	-	0.00%
Repurchase Agreements	-	0.00%	-	0.00%	-	0.00%
Pass Through Securities	-	0.00%	-	0.00%	-	0.00%
Discount Bonds	27,881,819.68	76.92%	14,560,567.68	52.48%	72,438,998.55	52.64%
<b>Total</b>	36,248,325.57	100.00%	27,746,684.14	100.00%	137,606,870.24	100.00%

*\*Dollar values are stated as book (amortized cost) value.*

## **RESERVE FUNDS (DSRF & BRF)**

### **DESCRIPTION**

Debt Service Reserve Fund (DSRF) -These funds have been set aside from prior bond proceeds, and represent the maximum annual debt service for the life of the bonds. The Debt Service Reserve requirement is by Resolution rather than bond issue. The calculation of the DSRF is performed by the Financial Advisor at the time of a new bond issue as well as annually and is based on amortized value rather than market value (pursuant to the terms of the General Bond Resolutions)

For most of THDA's history, the standard practice has been to invest the DSRF in investments with approximately the same maturity of the longest-term bond. This practice has been at the advice of Underwriters, Financial Advisors and Rating Agencies. However, beginning in 1993 when rates were at historic lows the Rating Agencies required substantially shorter maturity DSRF investment since a 30-year investment would lose substantial value if rates increased substantially. Therefore since that time investment decisions for these funds have been influenced by market conditions at the time of the investments.

Debt Service Reserve Fund (DSRF) – An analysis of the 1985 Resolution DSRF was performed as of June 30, 2018. The resulting Debt Service Reserve Fund requirement was \$28,312,820.02.

Bond Reserve Fund (BRF) - In December of 2009, THDA established a new general bond resolution, the Housing Finance Program (the 2009 resolution). This resolution calls for a Bond Reserve Fund. The required deposit for this fund is the greater of an amount equal to the aggregate of the respective amounts for each series of bonds established in the supplemental resolution authorizing such series or an amount equal to 3% of the then current balance of the program loans plus any other amount on deposit in the loan fund which has not been designated to provide for the payment of costs of issuance or capitalized interest. An analysis was performed as of June 30, 2018 to determine the amount to be held in the Bond Reserve Fund. This analysis determined that this balance needed to be \$7,413,326.67.

In May of 2013, THDA established a new general bond resolution, the Residential Finance Program (the 2013 resolution). As with the 2009 resolution, this resolution calls for a Bond Reserve Fund. The amount of the required deposit for this fund is calculated in the same manner as in the 2009

resolution. CSG Advisors performed an analysis in conjunction with the sale of Bond Issue 2018-2 in June of 2018 under this resolution. The resulting Bond Reserve Fund requirement was \$50,564,491.



**THDA QUARTERLY INVESTMENT REPORT**

**RESERVE FUNDS**

**June 30, 2018**

**Historical Fund Balances**

	1985 Resolution		2009 Resolution		2013 Resolution	
	Amortized Cost	Market Value	Amortized Cost	Market Value	Amortized Cost	Market Value
6/30/15	134,953,639.42	145,220,063.60	21,146,889.61	20,904,662.42	23,425,657.68	23,309,852.27
6/30/16	102,747,919.20	109,708,484.13	21,261,458.24	21,278,590.89	37,356,482.00	37,224,653.38
6/30/17	101,336,830.72	104,120,340.61	21,263,369.95	21,206,044.69	46,304,284.25	46,037,294.51
6/30/18	91,015,399.41	91,610,612.61	21,307,582.65	20,713,277.95	50,951,091.06	49,480,576.18

**Historical Returns (Yield)**

**1985 Resolution**  
**2009 Resolution**  
**2013 Resolution**

Quarter ending 6/30/2018	Current Fiscal Year	Last 12 Months	Last 24 Months
3.045%	3.539%	3.539%	4.342%
2.528%	2.526%	2.526%	2.484%
2.510%	2.484%	2.484%	2.365%

**Benchmarks:**

(1) One-year CMT  
(2) Three-year CMT  
(3) Five-year CMT

1.747%	1.747%	1.287%	1.287%
2.062%	2.062%	1.662%	1.662%
2.298%	2.298%	1.960%	1.960%

**Duration**

Average Duration to Maturity (Years)  
Average Duration to Call (Years)

**1985 Resolution    2009 Resolution    2013 Resolution**

3.6	5.4	5.7
2.3	4.5	4.2

**Asset Allocation**

Money Market Funds  
Federal Agency Coupons  
Treasury Coupon Securities  
Variable Rate Securities  
Repurchase Agreements  
Pass Through Securities  
Discount Bonds

	1985 Resolution		2009 Resolution		2013 Resolution	
	Dollar value*	Percentage	Dollar value*	Percentage	Dollar value*	Percentage
Money Market Funds	33,097,063.74	36.36%	362,485.08	1.70%	533,599.40	1.05%
Federal Agency Coupons	47,205,867.76	51.87%	19,930,763.66	93.54%	50,417,491.56	98.95%
Treasury Coupon Securities	10,712,467.91	11.77%	1,014,333.91	4.76%	-	0.00%
Variable Rate Securities	-	0.00%	-	0.00%	-	0.00%
Repurchase Agreements	-	0.00%	-	0.00%	-	0.00%
Pass Through Securities	-	0.00%	-	0.00%	-	0.00%
Discount Bonds	-	0.00%	-	0.00%	-	0.00%
<b>Total</b>	<b>91,015,399.41</b>	<b>100.00%</b>	<b>21,307,582.65</b>	<b>100.00%</b>	<b>50,951,090.96</b>	<b>100.00%</b>

*\*Dollar values are stated as book (amortized cost) value.*

# **ARBITRAGE**

## **DESCRIPTION**

Arbitrage, in part is defined as “the simultaneous purchase and sale of the same or equivalent security in order to profit from price discrepancies”.

This relates to THDA as it is applied to the use of proceeds from tax-exempt bonds, specifically the use of such bond proceeds or earnings from such proceeds to purchase taxable non-mortgage investments. Any excess earnings over the cost of borrowing (bond rate) are arbitrage earnings and must be rebated to the Internal Revenue Service.

This is a net calculation and is computed annually. Attached is a spreadsheet showing the arbitrage liability by bond issue as of 6/30/2018. Every five years, on the anniversary date of each bond issue, for the life of the bond issue, cash settlement has to be made with the IRS. If earnings for a five-year period are less than what the investments would have earned at the bond rate, no payment is due the IRS. If the earnings are more than what would have been earned at the bond rate, cash payment of the excess must be paid to the IRS. THDA has contracted with Kutak Rock to make these complex calculations.

From an Investment management performance measurement standpoint, THDA knows that if there is a rebate liability for a bond issue, then the agency has maximized earnings for that particular issue. This is probably the best benchmark of all because as mentioned above any earnings in excess of bond cost cannot be retained by the agency.

Tennessee Housing Development Agency  
Rebate Liability as of June 30, 2018

<b><i>Resolution / Bond Issue</i></b>	<b><i>Arbitrage Rebate Liability</i></b>
<b><u>1985 Res</u></b>	
2009-1	-
2009-2	-
2010-1	-
2011-1	365,323.85
2012-1	-
2012-2	-
<b>Sub-total</b>	<b>365,323.85</b>
<b><u>2009 Res</u></b>	
2009-A	-
2010-A	-
2010-B	-
2011-A	-
2011-C	-
2015-A	-
<b>Sub-total</b>	<b>-</b>
<b><u>2013 Res</u></b>	
2013-1	-
2013-2	-
2014-1	-
2014-2	-
2015-1	-
2015-2	-
2016-1	-
2016-2	-
2016-3	-
2017-1	-
2017-2	-
2017-3	-
2017-4	-
2018-1	-
2018-2	-
<b>Sub-total</b>	<b>-</b>
<b>TOTALS</b>	<b>365,323.85</b>



## Tennessee Housing Development Agency

Andrew Jackson Building Third Floor  
502 Deaderick St., Nashville, TN 37243

**Bill Haslam**  
Governor

**Ralph M. Perrey**  
Executive Director

### MEMORANDUM

TO: THDA Board of Directors

FROM: Trent Ridley, Chief Financial Officer  
Joe Brown, CPA, Controller

SUBJECT: Proposed Budget for Fiscal Year 2019-2020

DATE: September 19, 2018

Attached is THDA's "**Comprehensive Budget**" that details expenses and revenues for both the state and bond programs, and estimates net operating income for Fiscal Year 2020. THDA is required to submit the budget proposal to the Department of Finance and Administration by September 28, 2018. The proposed Budget is to be reviewed by the Audit and Budget Committee and the Bond Finance Committee, prior to review by the Board. For your convenience, the following are highlights of the budget submitted for board approval:

1. **Current Year "Estimated" Budget FY19** –Revenues and expenses are projected to be \$498.0 million and \$497.4 million respectively, of which \$381.0 million is the State Budget. Expenses include \$37.1 million for operations, \$74.7 million for mortgage and bond related expenses, and \$385.5 million for grants (including \$5.8 million for the AG Mortgage Settlement Program). Revenues include \$99.0 million in mortgage and investment income, \$385.8 million in federal administrative and grant funds, and \$13.1 million in reserves (AG Settlement) and other fee income. The FY19 salary budget increases over FY18 by \$1.6 million (\$1.3 million for the conventional market seller servicer initiative, and \$0.3 million for Market and Pay for Performance and TCRS Group Benefits). The current year reflects expense savings generated from bringing loans serviced by U.S. Bank in-house. Finally, mortgage revenue and bond expenses were adjusted to reflect current trends. The remainder of the operational budget remains relatively unchanged.
2. **FY20 Recommended Comprehensive Budget** – The **State Budget** portion is \$375.2 million and represents a status quo budget, with the exception of a decrease for non-recurring grants. Regarding the **Comprehensive Budget**, operational revenues and expenses are projected to be \$121.6 million and \$109.9 million respectively, netting an approximate \$11.6 million operating income. This income will be used to fund \$7.5 million for HTF grants. Reductions in revenues and expenses are primarily attributable to trends relating to our mortgage revenue bond program and the full implementation of Direct Servicing

If you have any questions regarding the comprehensive budget or need additional information, please do not hesitate to contact Trent Ridley at (615) 815-2012 or via e-mail at [tridley@thda.org](mailto:tridley@thda.org).

**TENNESSEE HOUSING DEVELOPMENT AGENCY**  
**FY19-20 COMPREHENSIVE BUDGET**  
EXECUTIVE SUMMARY

	ACTUAL FY18	ESTIMATED FY19	NON RECUR FY19	RECOMMENDED FY20		
				STATE	MRB	TOTAL
EMPLOYEE SALARIES	14,498,400	18,751,300	-	18,751,300	-	18,751,300
EMPLOYEE BENEFITS	5,929,500	6,846,000	-	6,846,000	-	6,846,000
<b>TOTAL PAYROLL</b>	<b>20,427,900</b>	<b>25,597,300</b>	<b>-</b>	<b>25,597,300</b>	<b>-</b>	<b>25,597,300</b>
TRAVEL	518,000	473,600	-	538,600	-	538,600
PRINTING & DUPLICATING	33,700	99,600	-	94,200	5,400	99,600
COMMUNICATIONS	567,900	565,200	-	216,100	349,100	565,200
MAINTENANCE	10,700	8,000	-	8,000	-	8,000
PROFESSIONAL SERVICES	5,043,400	4,686,000	-	1,336,000	3,925,000	5,261,000
SUPPLIES	234,700	271,400	-	169,400	102,000	271,400
RENTALS & INSURANCE	77,000	129,200	-	129,200	-	129,200
STAFF TRAINING	300,400	233,500	-	303,500	-	303,500
COMPUTER RELATED	1,288,700	1,329,300	-	127,300	1,202,000	1,329,300
STATE PROVIDED SERVICES	1,912,300	3,779,600	-	3,069,600	-	3,069,600
OTHER PROGRAM EXPENSES	4,583,000	8,600,000	-	-	8,600,000	8,600,000
INTEREST EXPENSE	58,195,000	59,904,000	-	-	59,904,000	59,904,000
MORTGAGE SERVICE FEES	6,833,000	700,000	(700,000)	-	-	-
ISSUANCE COSTS	3,812,300	5,000,000	(1,200,000)	-	3,800,000	3,800,000
HARDEST HIT FUND OPERATIONS	-	-	-	-	-	-
DEPRECIATION	471,500	471,500	-	-	471,500	471,500
<b>TOTAL OTHER EXPENDITURES</b>	<b>83,881,600</b>	<b>86,250,900</b>	<b>(1,900,000)</b>	<b>5,991,900</b>	<b>78,359,000</b>	<b>84,350,900</b>
<b>TOTAL OPERATING EXPENDITURES</b>	<b>104,309,500</b>	<b>111,848,200</b>	<b>(1,900,000)</b>	<b>31,589,200</b>	<b>78,359,000</b>	<b>109,948,200</b>
<b>OPERATING REVENUES</b>						
FEDERAL ADMIN. FEES	15,167,900	15,252,900	-	13,752,900	1,500,000	15,252,900
INVESTMENT INCOME	7,024,000	6,768,000	-	20,000	6,748,000	6,768,000
TAX CREDIT FEES	3,765,500	3,700,000	-	2,700,000	1,000,000	3,700,000
OTHER CURRENT SERVICES	283,700	300,000	-	300,000	-	300,000
MULTIFAMILY BOND AUTH FEES	1,334,000	1,300,000	-	-	1,300,000	1,300,000
THDA OPERATING FUND	-	-	-	12,816,300	(12,816,300)	-
MORTGAGE INTEREST	90,087,000	92,273,000	-	-	92,273,000	92,273,000
HOUSING PROGRAM FUND	-	2,000,000	-	2,000,000	-	2,000,000
<b>TOTAL OPERATING REVENUES</b>	<b>117,662,100</b>	<b>121,593,900</b>	<b>-</b>	<b>31,589,200</b>	<b>90,004,700</b>	<b>121,593,900</b>
<b>REVENUES LESS EXPENDITURES</b>	<b>13,352,600</b>	<b>9,745,700</b>	<b>1,900,000</b>	<b>-</b>	<b>11,645,700</b>	<b>11,645,700</b>
<b>GRANT ACTIVITY:</b>						
SECTION 8 PAYMENTS	215,361,000	263,810,400	-	266,810,400	-	266,810,400
HOME GRANTS	8,273,000	7,571,500	-	7,571,500	-	7,571,500
WEATHERIZATION	2,687,600	2,000,000	-	2,000,000	-	2,000,000
LIHEAP	55,102,400	55,000,000	-	55,000,000	-	55,000,000
EMERGENCY SOLUTIONS GRANT	2,923,500	2,557,000	-	2,557,000	-	2,557,000
NATIONAL HOUSING TRUST FUND	-	6,000,000	-	3,000,000	-	3,000,000
APPALACHIAN REGIONAL COUNCIL	227,200	-	-	-	-	-
AG MORTGAGE SETTLEMENT PROGRAM	1,020,600	5,800,000	(5,800,000)	-	-	-
HOUSING TRUST FUND	6,845,500	9,000,000	(1,500,000)	6,500,000	1,000,000	7,500,000
TECHNICAL GRANTS	85,300	175,000	-	175,000	-	175,000
HARDEST HIT FUND	33,033,300	33,630,400	-	-	18,108,700	18,108,700
DOWN PAYMENT ASSISTANCE	-	-	-	-	-	-
<b>TOTAL GRANT PAYMENTS</b>	<b>325,559,400</b>	<b>385,544,300</b>	<b>(7,300,000)</b>	<b>343,613,900</b>	<b>19,108,700</b>	<b>362,722,600</b>
STATE APPROPRIATION	-	-	-	-	-	-
FEDERAL REVENUE	284,260,000	336,938,900	-	336,938,900	-	336,938,900
NFMC	-	-	-	-	-	-
HARDEST HIT FUND	33,033,300	33,630,400	-	-	18,108,700	18,108,700
THDA BOND RESOLUTIONS	-	-	-	6,675,000	(6,675,000)	-
HOUSING PROGRAM FUND	-	5,800,000	(5,800,000)	-	-	-
<b>TOTAL COLLECTIONS</b>	<b>317,293,300</b>	<b>376,369,300</b>	<b>(5,800,000)</b>	<b>343,613,900</b>	<b>11,433,700</b>	<b>355,047,600</b>
<b>COLLECTIONS LESS PAYMENTS</b>	<b>(8,266,100)</b>	<b>(9,175,000)</b>	<b>1,500,000</b>	<b>-</b>	<b>(7,675,000)</b>	<b>(7,675,000)</b>
OVERALL AGENCY EXPENDITURES	429,868,900	497,392,500	(9,200,000)	375,203,100	97,467,700	472,670,800
OVERALL AGENCY FUNDING	434,955,400	497,963,200	(5,800,000)	375,203,100	101,438,400	476,641,500
<b>OVERALL REVENUES LESS EXPENDITURES</b>	<b>5,086,500</b>	<b>570,700</b>	<b>3,400,000</b>	<b>-</b>	<b>3,970,700</b>	<b>3,970,700</b>
<b>PERSONNEL: FULL TIME POSITIONS</b>	<b>275</b>	<b>290</b>	<b>-</b>	<b>290</b>	<b>-</b>	<b>290</b>

IN-HOUSE SERVICING BUDGET		
FISCAL YEAR 2019-2020		
	ESTIMATED FY19	RECOMMENDED FY20
<b>REVENUE</b>		
Earned Servicing Fee	7,376,900	7,658,400
Late Fees	529,100	517,800
Escrow Interest Earned	0	0
<b>Total Earned Fees</b>	<b>7,906,000</b>	<b>8,176,200</b>
<b>EXPENSES</b>		
Salaries	2,093,134	2,093,134
Benefits	617,007	617,007
Travel	33,000	33,000
Supplies	11,400	11,400
Training	18,800	18,800
Facilities	159,400	159,400
IT Related	116,900	116,900
Unreimbursed Advances	521,000	521,000
Third - Party Vendors		
Escrow Tax Payments	160,800	160,800
Corelogic Claims Process	141,200	141,200
Net Banking Services	240,600	240,600
Monthly Statements	47,400	47,400
Credit Reporting	85,300	85,300
WaterFall Calc	19,600	19,600
Other Third Parties	0	0
SRP Amortization	2,056,900	2,027,100
<b>Total Expenses</b>	<b>6,322,441</b>	<b>6,292,641</b>
<b>Operating Income</b>	<b>1,583,559</b>	<b>1,883,559</b>
<b>Positions</b>	<b>38</b>	

<b>ACCOUNT 70800 (PROFESSIONAL SERVICES &amp; DUES)</b>
<b>FISCAL YEAR 2019-2020</b>

Description	Actual 2017-18	Budget 2018-19	Proposed 2019-20
-------------	-------------------	-------------------	---------------------

**GENERAL BUSINESS**

Business Development and Outreach	366,500	300,000	450,000
Legal Services	7,600	8,000	8,000
Governor's Housing Conference	173,400	150,000	150,000
Temporary Services	9,500	10,000	10,000
Leadership Development and Training	2,200	8,000	8,000
S8RA HAP Portability Payments	231,900	232,000	242,000
S8RA Background Checks, Inspections, Other	752,000	750,000	753,000
S8CA Appraisals / Rent Comps	30,000	30,000	30,000
HHF Titles, Closings, Temporary Staffing, Other	300	1,000	1,000
WAP and HOME Inspections	182,600	185,000	185,000
Financial Services	7,500	8,000	13,000
Other	218,900	206,000	306,000

<b>SUB-TOTAL</b>	<b>1,982,400</b>	<b>1,888,000</b>	<b>2,156,000</b>
------------------	------------------	------------------	------------------

**INFORMATION TECHNOLOGY**

IT System Maintenance and Support	72,300	73,000	83,000
Financial Software (Accounting, Investments, Bonds, etc)	22,100	25,000	25,000
TN Housing Search	10,000	10,000	10,000
LIHTC Application and Monitoring	547,100	450,000	500,000
Single Family Systems (THELMA, Mitas)	653,600	645,000	645,000
Master Servicing and Direct Servicing Systems	175,100	100,000	152,000
Community Programs Systems (THO)	294,900	200,000	220,000
Housing Choice Voucher Systems	60,000	65,000	70,000
HUD Contract Administration Systems	0	0	0
IT Other	230,700	135,000	285,000

<b>SUB-TOTAL</b>	<b>2,140,900</b>	<b>1,783,000</b>	<b>2,070,000</b>
------------------	------------------	------------------	------------------

**ADVERTISING SERVICES (OBJECT 086)**

Great Choice Ad Campaign	712,000	800,000	800,000
Classified Ads, Public Notices, Advertising	117,200	120,000	130,000

<b>SUB-TOTAL</b>	<b>829,200</b>	<b>920,000</b>	<b>930,000</b>
------------------	----------------	----------------	----------------

**DUES & SUBSCRIPTIONS (OBJECT 087)**

National Council of State Housing Agencies (Dues)	37,200	40,000	40,000
Various Publications, Subscriptions & Memberships	53,700	55,000	65,000

<b>SUB-TOTAL</b>	<b>90,900</b>	<b>95,000</b>	<b>105,000</b>
------------------	---------------	---------------	----------------

<b>TOTAL PROFESSIONAL SERVICES &amp; DUES</b>	<b>5,043,400</b>	<b>4,686,000</b>	<b>5,261,000</b>
---	------------------	------------------	------------------

ACCOUNT 71000 (RENTALS AND INSURANCE)
FISCAL YEAR 2019-2020

THDA INSURANCE INFORMATION (OBJ 105)

Company	Type of Insurance	Premium Begin Date	Premium End Date	Premiums	Coverage
Chubb Group	Fidelity Bond	2/1/18	2/1/19	43,659	\$15,000,000
Cincinnati Insurance Company	Personal Property	4/8/17	4/8/20	31,418	\$1,064,000
Integon	Mortgage Protection/Lender Placed	9/1/16	Until Cancelled	0	Various
Lloyds of London	Errors and Omission (Servicing)	9/29/16	9/29/19	20,412	\$3,000,000
Travelers	Fidelity Bond (Servicing)/Crime Policy	9/2/18	9/2/19	24,710	\$3,500,000
				120,199	22,564,000

Lease of Reproduction Equipment:	Canon Solutions America	31,719
----------------------------------	-------------------------	--------

		Actual 2017-2018	Budget 2018-2019	Proposed 2019-2020
<b>TOTAL RENTALS &amp; INSURANCE:</b>		<b>77,000</b>	<b>129,200</b>	<b>129,200</b>
		<b>77,000</b>	<b>129,200</b>	<b>129,200</b>



<b>ACCOUNT 725000 (STATE PROVIDED SERVICES)</b>
<b>FISCAL YEAR 2019-2020</b>

Location	Actual 2017-18	Budget 2018-19	Proposed 2019-20
<b>THDA OFFICE LEASES</b>	<b>1,230,300</b>	<b>1,230,700</b>	<b>1,230,700</b>

*\*MISCELLANEOUS SERVICES (OBJECT 25A, 25D, 25E, 25Z, 254, 255)*

Attorney General (Bankruptcies)	0	50,000	50,000
Secretary Of State (25E)	0	6,000	6,000
Indirect Costs (25Z)	0	600,000	600,000
Flexible Benefits, Wellness, and Sick Leave Bank Admin	5,900	165,000	165,000
State Audit (255)	128,800	100,000	100,000
Printing and Reproduction	6,200	20,000	20,000
Insurance - State Risk Management Premium	75,200	300,000	165,000
Miscellaneous	24,900	100,000	100,000
<b>SUB-TOTAL</b>	<b>241,000</b>	<b>1,341,000</b>	<b>1,206,000</b>

*DATA PROCESSING SERVICES (OBJECT 250,251,252,257,259)*

F&A - Statewide Accounting	61,700	150,000	75,000
General Services - Records Management (257)	14,900	18,000	18,000
General Services - Motor Veh Repairs	0	10,000	10,000
General Services - State-Owned Veh Mileage	140,300	250,000	150,000
General Services - Space Planning / Purchasing	1,200	300,000	50,000
Edison Billing (HR, Payroll, Accting, Purch)	215,300	400,000	250,000
<b>SUB-TOTAL</b>	<b>433,400</b>	<b>1,128,000</b>	<b>553,000</b>

*TELECOMMUNICATIONS (OBJECT 253)*

<b>Telephone Charges (F&amp;A)</b>	<b>7,600</b>	<b>79,900</b>	<b>79,900</b>
<b>TOTAL STATE PROVIDED SERVICES</b>	<b>1,912,300</b>	<b>3,779,600</b>	<b>3,069,600</b>

**THDA OFFICE LEASE SUPPLEMENTAL INFORMATION**

Location	Lease Exp. Date	Annual Totals
19002 - Andrew Jackson Building	Notice	903,700
Parkway Towers	07/30/20	159,400
19003 - Nashville (Madison) (HOLDOVER)	09/30/27	82,300
27002- Jackson (Lowell Thomas State Office Building)	Notice	34,500
59002 - Lewisburg (Marshall)	06/30/20	16,100
71010 - Cookeville (Putnam)	06/30/20	34,300
<b>TOTAL</b>		<b>1,230,300</b>

<b>REVENUES</b>
<b>FISCAL YEAR 2019-2020</b>

Description	Actual 2017-18	Budget 2018-19	Proposed 2019-20
-------------	-------------------	-------------------	---------------------

*FEDERAL REVENUE (SOURCE 801)*

Section 8 Grants	215,361,000	263,810,400	266,810,400
HOME Grants	7,958,300	7,571,500	7,571,500
Emergency Shelter Grants	2,923,500	2,557,000	2,557,000
Weatherization Grants	2,687,600	2,000,000	2,000,000
Hardest Hit Fund Grants	33,033,300	33,630,400	18,108,700
National Housing Trust Fund	0	6,000,000	3,000,000
Appalachian Regional Council	227,200	0	0
Neighborworks	0	0	0
LIHEAP	55,102,400	55,000,000	55,000,000
ESG Administrative Fees	122,700	200,000	200,000
WAP Administrative Fees	557,500	900,000	900,000
HHF Administrative Fees	1,850,800	1,900,000	1,900,000
HOME Administrative Fees	465,500	500,000	500,000
LIHEAP Administrative Fees	643,700	752,900	752,900
Neighborworks Administrative Fees	0	0	0
Section 8 Administrative Fees	10,898,800	11,000,000	11,000,000
<b>Total Federal Revenue</b>	<b>331,832,300</b>	<b>385,822,200</b>	<b>370,300,500</b>

*MORTGAGE INTEREST, INVESTMENT, AND OTHER INCOME (SOURCE 880)*

Interest Earnings (Housing Program Fund)	20,000	20,000	20,000
Tax Credit Application Fees	137,700	137,700	137,700
Tax Credit Monitoring Fees	3,627,800	3,562,300	3,562,300
Miscellaneous Revenue	88,800	105,100	105,100
Mortgage Interest Income	90,087,000	92,273,000	92,273,000
Investment Income	7,004,000	6,748,000	6,748,000
Multi Family Bond Application Fees	1,334,000	1,300,000	1,300,000
Conference and Other Income	194,900	194,900	194,900
<b>SUB-TOTAL</b>	<b>102,494,200</b>	<b>104,341,000</b>	<b>104,341,000</b>

<b>TOTAL OF ALL REVENUES</b>	<b>434,326,500</b>	<b>490,163,200</b>	<b>474,641,500</b>
------------------------------	--------------------	--------------------	--------------------

<i>RESERVES: GRANT AND ADMINISTRATIVE FUNDS FROM HOUSING PROGRAM FUND</i>	<b>0</b>	<b>7,800,000</b>	<b>2,000,000</b>
---	----------	------------------	------------------

<b>TOTAL OF ALL FUNDING SOURCES</b>	<b>434,326,500</b>	<b>497,963,200</b>	<b>476,641,500</b>
-------------------------------------	--------------------	--------------------	--------------------

<b>ACCOUNT 71300 (GRANTS &amp; SUBSIDIES)</b>
<b>FISCAL YEAR 2019-2020</b>

**HOUSING TRUST FUND (OBJECT 71300) \*SEE ATTACHED HOUSING TRUST FUND PROPOSAL FOR DETAILS**

Description	Cost Center	Funds Committed/ Awarded Through FY18	Paid Through 6/30/2018	Funds Remaining 7/1/18	Actual FY 2018	Budget FY 2019	Projection FY 2020
Rebuild/Recovery/Challenge Grant		3,000,000	1,095,583	1,904,417	0	500,000	500,000
UCP - Hsg Mod and Ramp Prg	HTF	900,000	566,675	333,325	175,084	300,000	300,000
Rural Development	HTF	6,359,232	6,332,904	26,328	0	0	0
Emergency Repair	HTF	19,066,655	16,842,653	2,224,002	1,683,528	2,700,000	2,700,000
Habitat for Humanity	HTF	2,000,000	1,983,334	16,666	1,498,334	500,000	500,000
Manufactured Housing Replacement		856,125	149,181	706,944	0	0	0
Dunlap New Hope Grant	HTF	300,000	222,389	77,611	0	0	0
Habitat Nashville World Build					0	1,000,000	0
Gap Financing Pilot					0	500,000	0
Competitive Grants	HTF	22,625,098	16,921,664	5,703,434	3,488,554	3,500,000	3,500,000
<b>TOTALS</b>		<b>55,107,110</b>	<b>44,114,384</b>	<b>10,992,726</b>	<b>6,845,500</b>	<b>9,000,000</b>	<b>7,500,000</b>

**TECHNICAL ASSISTANCE GRANTS**

Description			Actual FY 2016	Actual FY 2017	Actual FY 2018	Budget FY 2019	Projection FY 2020
<b>Development Districts</b>			<b>79,000</b>	<b>241,600</b>	<b>85,300</b>	<b>175,000</b>	<b>175,000</b>

**SECTION 8 GRANTS**

Description			Actual FY 2016	Actual FY 2017	Actual FY 2018	Budget FY 2019	Projection FY 2020
Voucher Program			23,205,100	35,196,000	35,890,900	38,210,400	38,210,400
New Construction			0	0	0	0	0
Contract Administration			163,117,200	167,759,900	179,470,100	225,600,000	228,600,000
<b>TOTALS</b>			<b>186,322,300</b>	<b>202,955,900</b>	<b>215,361,000</b>	<b>263,810,400</b>	<b>266,810,400</b>

**HOME GRANTS (OBJECT 139)**

Description	Cost Center	Funds Awarded/ Committed	Paid Through FY 2018	Funds Remaining 7/1/2018	Actual FY 2018	Budget FY 2019	Projection FY 2020
Home 2012 CHDO	HM12 CHDO	2,600,300	2,547,400	52,900	0	0	0
Home 2012	HM12	7,935,700	6,739,400	1,196,300	1,456,200	0	0
Home 2013	HM13	8,570,700	6,233,900	2,336,800	1,155,400	0	0
Home 2014	HM14	9,874,000	4,737,500	5,136,500	2,071,400	0	0
Home 2015	HM15	8,671,000	2,186,800	6,484,200	1,739,300	0	0
Home 2016	HM16	7,328,300	1,905,700	5,422,600	1,602,000	0	0
Home 2017	HM17	10,890,000	273,200	10,616,800	248,700	0	0
Home 2018	HM18	12,000,000	108,200	11,891,800	0	0	0
Budget						7,571,500	7,571,500
<b>TOTALS</b>		<b>67,870,000</b>	<b>24,732,100</b>	<b>43,137,900</b>	<b>8,273,000</b>	<b>7,571,500</b>	<b>7,571,500</b>

**OTHER STATE / FEDERAL GRANTS**

Description			Actual FY 2016	Actual FY 2017	Actual FY 2018	Budget FY 2019	Projection FY 2020
Emergency Solutions			3,795,900	4,087,500	2,923,500	2,557,000	2,557,000
National Foreclosure Mitigation			0	0	0	0	0
LIHEAP			43,290,500	45,437,700	55,102,400	55,000,000	55,000,000
Weatherization			1,889,600	5,106,900	2,687,600	2,000,000	2,000,000
National Housing Trust Fund			0	0	0	6,000,000	3,000,000
Appalachian Regional Council			0	0	227,200	0	0
Hardest Hit Fund			20,112,700	12,655,300	33,033,300	33,630,400	18,108,700
AG Settlement - Mortgage Asst			2,554,400	2,696,400	707,900	0	0
AG Settlement - Counseling			603,400	461,400	312,700	5,800,000	0
<b>TOTALS</b>			<b>72,246,500</b>	<b>70,445,200</b>	<b>94,994,600</b>	<b>104,987,400</b>	<b>80,665,700</b>

					Actual FY 2018	Budget FY 2019	Projection FY 2020
<b>TOTAL GRANTS &amp; SUBSIDIES</b>					<b>325,559,400</b>	<b>385,544,300</b>	<b>362,722,600</b>

# Tab # 6

Items:

Grants Committee Meeting Materials

**Tennessee Housing Development Agency**  
**Grants Committee**  
**September 25, 2018**  
**9:15 a.m. Central Time**

---

AGENDA

1. Call to Order ..... van Vuuren
2. Approval of Minutes for July 24, 2018 Meeting ..... van Vuuren
3. 2019 Challenge Grant Program Description ..... Watt
4. 2018 HOME CHDO Mini Round 2 Program Description ..... Watt
5. Summary of 2017 National Housing Trust Fund Program and 2018 HOME CHDO  
Mini Round Program Awards ..... Watt
6. Adjourn..... van Vuuren

LOCATION

SpringHill Suites – Kress Ballroom  
85 West Court Avenue - First Floor  
Memphis, TN 38103

COMMITTEE MEMBERS

Pieter van Vuuren, Chair  
Tre Hargett  
Austin McMullen  
Lynn Tully  
Justin Wilson

TENNESSEE HOUSING DEVELOPMENT AGENCY  
GRANTS COMMITTEE  
July 24, 2018

Pursuant to the call of the Chair, the Grants Committee of the Tennessee Housing Development Agency Board of Directors met in regular session Tuesday, July 24, 2018, at 9:01 a.m. Central Time in the Nashville Room at the William R. Snodgrass Tennessee Tower, 312 Rosa L. Parks Avenue, Nashville, Tennessee.

The following Committee members were present: Secretary of State Tre Hargett, Lynn Tully, Kim Grant Brown and Ann Butterworth (for Comptroller Justin Wilson). Other Board members present were John Snodderly, Regina Hubbard, Keith Boring (for Secretary of State Tre Hargett) and Samantha Wilson (for Commissioner of Finance and Administration Larry Martin). Pieter van Vuuren and Austin McMullen were absent.

Ms. Tully acted as Chair and called the meeting to order. She called for consideration of the minutes from the May 22, 2018, meeting. Upon motion by Ms. Grant Brown, second by Secretary Hargett, the minutes were approved.

Ms. Tully next called on Don Watt, Director of Community Programs, to present the Program Description for the 2019 Fall Tennessee Housing Trust Fund ("THTF") Competitive Grants Program. Mr. Watt referenced his memorandum dated July 9, 2018, and the attached proposed THTF 2019 Fall Round Competitive Grants Program Description ("THTF 2019 Fall Program Description"). He noted that THDA is proposing to make \$2M in funds available under the THTF 2019 Fall Program Description to create affordable rental housing opportunities across the state, with priority given to projects that address the housing needs of ex-offenders, youth transitioning out of foster care, and homeless veterans, as well as populations that are either extremely-low or low-income households. He highlighted the following staff-proposed changes for the THTF 2019 Fall Program Description:

- (1) Require services to be made available to assist individuals with disabilities to remain in the community. These services, such as case management and life skills, must not be mandated as a condition of the housing.
- (2) Exclude the cost of developers' fees and project operating reserves as eligible expenses. THDA does provide allowance for an administrative fee.
- (3) Clarify that building permits must be obtained for all housing projects that are created in localities that require them. In localities that do not require building permits, require that the units be inspected by qualified inspectors.
- (4) Add prioritization criteria for award determinations when a tie score exists between applications. First priority will be given to applications with the highest Innovation scores, then applications with the greatest Needs scores, and finally, to the applications that provide the greatest number of housing units.

Upon motion by Secretary Hargett, second by Ms. Grant Brown, the Committee unanimously recommended to the Board approval of the THTF 2019 Fall Program Description 2019.

Ms. Tully next called upon Mr. Watt to present proposed changes to the 2018 Low Income Home Energy Assistance Program ("LIHEAP") and to present the 2019 LIHEAP Model Plan. Mr. Watt referenced his memorandum dated July 16, 2018. He noted that LIHEAP provides funds to assist eligible households cover their utility bills. He reported that in 2017, the program served over 85,000 households. He indicated that the 2019 allocation is expected to be comparable to the 2018 allocation of nearly \$64M and that allocations will be made to the same 19 program administrators across the state. He further indicated that

staff is proposing a significant change in timing to allow LIHEAP implementation to begin on October 1, when the LIHEAP funds are received from the federal government. He described the following reasons for this proposed change:

- (1) The Department of Human Services implementation of the Community Services Block Grant, which is also administered by the same 19 administrators, is moving to a federal fiscal year. THDA's grantees requested that both programs be administered on a similar timeline.
- (2) It will facilitate THDA's ability to meet its obligation requirements. Funds would be able to be reallocated, if necessary, in advance of the Sept. 30<sup>th</sup> obligation deadline, ensuring that the funds are used effectively across the state.

To meet these objectives and to improve grantee expenditure of funds, Mr. Watt described the following staff recommended changes for both 2018 and 2019 LIHEAP funds:

- (1) Eligible households will be able to access the program twice during the contract period: once between July 1, 2018 to December 31, 2018, and a second time after January 1, 2019.
- (2) THDA reserves the ability to reallocate LIHEAP funds between grantees as needed based on expenditure rates to ensure that the funds can be utilized before the end of the obligation period.
- (3) Adjustments to increase client benefits based on the type of fuel used by the household may be made. Households using a more expensive type of fuel (such as kerosene) may be able to receive greater assistance than households using less expensive types of fuel (such as electricity).
- (4) Grantees may spend grant funds in advance for marketing of the program in order to get the word out to potential beneficiaries.

There was a brief discussion to clarify questions about these proposals. Ms. Butterworth requested written clarification of the key dates and program years for the various programs offered by the Community Programs Division. Mr. Watt acknowledged the possibility for confusion and agreed to provide a summary of key program dates.

Upon motion by Ms. Brown, second by Ms. Butterworth, the Committee unanimously recommended to the Board approval to apply for the 2019 LIHEAP program and approval of the proposed changes for the 2018 and 2019 LIHEAP programs.

Ms. Tully again called upon Mr. Watt to present four grant extension requests for the 2012 and 2013 HOME programs. Mr. Watt referenced his memo dated July 17, 2018 and the accompanying grant extension request letters from the Cities of Columbia, Cowan, Lawrenceburg, and Coffee County. He noted that representatives from each of the four grantees was present in the audience, as well as representatives from South Central Tennessee Development District, in which jurisdiction all four grantees are situated. He explained that each of the four grantees received an extension as part of a blanket extension given to all 2012-2013 grantees arising from complications with State Building Codes requirements in the opt-out counties. He noted that while this would be the second grant extension for them, each grantee has proposed an implementation timeline that is satisfactory to staff, with a deadline for completion of December 31, 2018. Upon motion by Secretary Hargett, second by Ms. Butterworth, the Committee unanimously recommended to the Board to approve the grant extensions.

Next Ms. Tully called upon Mr. Watt to present the 2019 Set-Aside Allocation to Habitat for Humanity of Tennessee. Mr. Watt referenced his memo dated July 17, 2018 and the attached Housing Trust Fund Habitat Tennessee Program Description. He explained that since July 2014, THDA has provided set-aside funding from the THDA Housing Trust Fund for Habitat for Humanity of Tennessee

that have resulted in construction of 111 new homes across the state, including 30 units over the last 12 months. Mr. Watt stated that, at Ms. Tully's request, a map showing where these resources had been allocated throughout the state will be distributed to the Committee. He also noted that the program works very smoothly, Habitat has been an excellent grantee, and staff recommends continuing this allocation. Upon motion by Ms. Brown, second by Ms. Butterworth, the Committee unanimously approved recommendation to the Board of the allocation of \$500,000 of 2019 THTF funding to Habitat for Humanity of Tennessee, effective July 1, 2018 – June 30, 2019, for use under the existing terms of the Habitat Tennessee Program Description.

Next, Ms. Tully called upon Mr. Watt to provide an update on 2018 Grant Awards for the ESG, HOME, and Spring THTF Competitive Grants programs. Mr. Watt referenced three memoranda dated July 17, 2018, one for each of the above programs, describing the following awards:

- (1) For the 2018 ESG program, THDA awarded \$2.8M to 27 non-profits and one local government to provide assistance to individuals who are homeless or threatened with homelessness. In addition, \$600,000 was provided to four cities as part of a set-aside allocation.
- (2) For the 2018 HOME program, THDA awarded \$11.5M to 22 local governments and 2 non-profits to implement homeowner rehabilitation for 179 homeowners over the next 3 years. Mr. Watt also noted that for the latest CHDO round, THDA received 6 applications to make it the first truly competitive CHDO process in the last 3 years.
- (3) For the Spring Round of the 2018 THTF Competitive Grants, THDA awarded \$1.95M to create rental housing for youth transitioning out of the foster care system, 2 projects to create housing for the elderly, and 1 project that will support the rehabilitation of a public housing development through the HUD Rental Assistance Administration Program, with set-aside units for ex-offenders and homeless veterans.

Finally, Mr. Watt provided the Committee with an update on the status of the Sumner County appeals timeline.

There being no further business to come before the Committee, the meeting was adjourned.

Respectfully submitted,

Ralph M. Perrey  
Executive Director

Approved the \_\_\_\_\_ day of \_\_\_\_\_, 2018.





# Tennessee Housing Development Agency

Andrew Jackson Building Third Floor  
502 Deaderick St., Nashville, TN 37243

**Bill Haslam**  
Governor

**Ralph M. Perrey**  
Executive Director

## MEMORANDUM

**TO:** Grants Committee and Board of Directors  
**FROM:** Don Watt, Director of Community Programs  
**DATE:** September 17, 2018  
**RE:** Revised 2019 THDA Challenge Grant Program Description

---

Staff is recommending approval of the attached 2019 THDA Challenge Grant Program Description (the “2019 Program Description”) to provide initial seed funding to support the fundraising efforts of nonprofit organizations to implement housing activities that represent unique milestones, are part of a broad community initiative, or are part of a significant expansion of work outside the normal day-to-day activities of the organization. This revised 2019 Program Description follows THDA’s decision in July not to award any applications under the initial program description approved by the Board at its March 2018 meeting.

The updated 2019 Program Description provides a formalized process for THDA’s solicitation, review, and provision of financial support for special initiatives that do not fall under traditional THDA program requirements. The THDA Challenge Grant Program requires that selected proposals generate cash leverage of at least 500% within nine months of THDA’s commitment of Challenge Grant resources to the housing initiative. This program is intended only for unique opportunities and not for proposals that would otherwise be eligible for other program resources available from THDA.

The proposed housing activity must include or directly support one of the following broad goals:

- Significantly expand or preserve the supply of housing for sale to low and moderate income home buyers, including new construction, reconstruction, and rehabilitation of housing.
- Significantly preserve and enhance the supply of existing owner occupied units.
- Significantly expand or preserve the supply of rental housing for low and moderate income households, including new construction and rehabilitation of rental housing.
- Significantly reduce the number of individuals who are homeless or move a significant number of a more vulnerable population into housing.

Staff has proposed the following changes to the updated 2019 program description:

1. Clarified that leverage must be generated by a fundraising campaign of private resources. Added stipulations that public or quasi-public sources and equity generated from various tax credit resources are not eligible leverage sources.
2. Broadened the definition of an eligible housing activity to include those that support the implementation of development or preservation work or specific initiatives for the homeless or other special needs populations. Such “support” activities may include, among others, the development of job or volunteer training and storage facilities or accommodations with a specific and direct correlation to housing development work in a community.
3. Increased the total funding available from \$500,000 to \$1,500,000 and increased the maximum funding award to \$1,000,000.
4. Established a first-come, first-served funding application cycle, with all applications due by October 31, 2018.
5. Provided authority for the Executive Director of THDA to make the final funding determination and to report back to the Board of Directors on all funding decisions made at its meeting in November.

Staff recommends adoption of the attached revised 2019 THDA Challenge Grant Program Description and the allocation of \$1,500,000 for the purposes described in the 2019 Program Description.



# Tennessee Housing Development Agency

Andrew Jackson Building Third Floor  
502 Deaderick St., Nashville, TN 37243

**Bill Haslam**  
Governor

**Ralph M. Perrey**  
Executive Director

## MEMORANDUM

**TO:** Grants Committee and Board of Directors  
**FROM:** Don Watt, Director of Community Programs  
**DATE:** September 20, 2018  
**RE:** Revised 2019 THDA Challenge Grant Program Description – Additional Revision

---

In addition to the changes identified in my memorandum dated September 17, 2018, included within your board packet, staff is recommending one additional change to the revised 2019 THDA Challenge Grant Program Description provided for your consideration.

Section F – Leverage currently reads “THDA requires the nonprofit to leverage cash in an amount equal to 500% of the value of the THDA Challenge Grant provided for the proposed housing activity.” We are proposing that this percentage be lowered to 300%, given the more narrow description of eligible leverage types.

A revised program description which includes this modification will be provided at the Grants Committee meeting. All other changes proposed in the program description for your consideration remain as initially drafted.

**TENNESSEE HOUSING TRUST FUND**  
**THDA CHALLENGE GRANT PROGRAM**  
Revised September 25, 2018  
**FY 2019 PROGRAM DESCRIPTION**

The THDA Challenge Grant Program provides initial seed funding to support the private fundraising efforts of nonprofit organizations across Tennessee to implement housing and related activities that represent unique milestones, are part of a broad community initiative, or are part of a significant expansion of work outside the normal day to day activities of the organization. Selected proposals must generate cash leverage of at least 500% within nine months of THDA's commitment of Challenge Grant resources to the housing initiative.

**A. ELIGIBLE APPLICANTS**

To be eligible, an organization must meet all of the following:

- Be organized and existing under the laws of the State of Tennessee or organized and existing under the laws of another state, but authorized to do business in Tennessee;
- Must demonstrate at least two years of experience providing affordable housing or affordable housing-related services in the State of Tennessee;
- Have a 501(c)3 designation from the Internal Revenue Service; and
- Be in good program standing with THDA.

Deleted: state

**B. FUNDS AVAILABLE**

THDA will determine the funding amount to be made available annually for THDA Challenge Grants and, in any given year, may determine that funding will not be available. THDA has allocated \$1,500,000 to this program for FY2019; however, THDA reserves the right to not make any awards for FY 2019.

**C. MAXIMUM GRANT**

The maximum grant to be awarded is \$1,000,000 and the minimum grant is \$50,000.

Deleted: 5

THDA will determine, in its sole discretion, whether any THDA Challenge Grant will be awarded in any given year and may determine, in its sole discretion, to not award any Challenge Grant in any given year.

Formatted: Font: 8 pt, Italic

#### D. ELIGIBLE ACTIVITIES

The housing activity proposed must be outside of the normal business of the applicant and not part of an ongoing or existing project. The activity must represent a unique milestone or opportunity for the applicant and for Tennessee. The scope of the housing activity must demonstrate broad community support and result in a significant community or regional impact.

The housing activity must include or directly support one of the following broad goals:

- Significantly expand or preserve the supply of housing for sale to low and moderate income home buyers, including new construction, reconstruction, and rehabilitation of housing.
- Significantly preserve, and enhance, the supply of existing owner-occupied units.
- Significantly expand or preserve the supply of rental housing for low and moderate income households, including new construction and rehabilitation of rental housing.
- Significantly reduce the number of individuals who are homeless or move a significant number of a more vulnerable population into housing.

Applicants are more likely to be successful if their application clearly demonstrates how the housing activity:

- Is part of a comprehensive community development initiative that integrates infrastructure improvements, neighborhood development or redevelopment, commercial development or the provision of services;  
OR
- Supports the implementation of a comprehensive community-wide initiative that delivers housing and related services to the homeless or other vulnerable populations.

A THDA Challenge Grant shall only be used for the implementation of the housing activity approved. Funds may be used for demolition that is undertaken as part of the approved housing activity.

#### E. PROHIBITED ACTIVITIES

No portion of a THDA Challenge Grant shall be used for the following activities or costs:

1. Administrative costs of the applicant or any other participant in the proposed project
2. Non-housing costs associated with the approved housing activity
3. Acquisition of land or housing
4. Rental assistance

Deleted: volve

Deleted: s

Deleted: s

Deleted: tions

Formatted: Font: 8 pt, Italic

## F. LEVERAGE

The THDA Challenge Grant ~~requires~~ the commitment of additional ~~private~~ funds to support the proposed housing activity. THDA requires the nonprofit to leverage cash in an amount equal to 500% of the value of the THDA Challenge Grant provided for the proposed housing activity. The leveraged resources must be cash and be used for the approved housing activity. The applicant must present a fundraising plan to generate the cash leverage requirement.

**Deleted:** is designed to encourage

In order to demonstrate broad community support for the proposed activity, all cash contributions eligible for leverage must be from third party, private entities with no expectation of repayment by the third party contributor. All cash must be secured through formal documentation provided within nine (9) months of THDA's commitment to the proposal. No THDA funds will be disbursed by THDA prior to THDA's receipt of formal, third party documentation demonstrating a binding commitment of resources and any associated terms.

**Deleted:** A

**Deleted:** a

**Deleted:** entity

The following resources will not be considered towards the leverage requirements for this program:

1. Administrative costs of the applicant or its partners in the initiative.
2. Other funds of the applicant that are currently on hand.
3. Project resources provided through any other programs administered by THDA.
4. Resources from any federal, state or local public entity or any quasi-public entity.
5. Private equity generated from the sale of low income housing tax credits, new market tax credits, historic tax credits, or other similar federal or state tax credit financing mechanisms.
6. Donated materials, land or services.
7. In-kind services.
8. Funds invested in earlier phases of a project or committed to the activity prior to THDA's commitment of the THDA Challenge Grant.
9. Costs of infrastructure, development or redevelopment activities not directly associated with the housing activity supported by the THDA Challenge Grant.

**Deleted:** , such as the Federal Home Loan Bank.

## G. MARKETING REQUIREMENTS

Each successful applicant shall work with the Industry and Government Affairs Division and the Communications Division of THDA to publicize the housing activity and the involvement of THDA. This marketing can include, but is not limited to, photo opportunities and beneficiary stories. THDA shall be listed on all marketing and signage as a contributor of funds in support of the approved housing activity.

## H. REPORTING

**Formatted:** Font: 8 pt, Italic

The THDA Executive Director shall periodically report to the THDA Board of Directors regarding THDA Challenge Grants awarded. Each report shall include information about the eligible housing activity, the successful applicant and local community involved, the amount of the Challenge Grant awarded, progress made by the applicant in fundraising and in implementation of the approved housing activity, and, following completion, the impact of the approved housing activity. Grantees shall provide all data, in a form and with the substance as requested by THDA, in its sole discretion.

## I. APPLICATION PROCESS AND REVIEW

THDA will offer a single application process for FY2019. THDA will release information on its website regarding the application process on Wednesday, September 26, 2018. Applications will be accepted and reviewed on a first come, first served basis until all funds are awarded or until Wednesday, October 31, at 4:00 PM CDT, whichever occurs first. No applications received after the October 31 deadline will be considered.

**Deleted:** by

**Deleted:** Friday, April 6

**Deleted:**

**Deleted:** date is earlier.

Applications will be reviewed in the order that the application is received at THDA based on the day that the application is received. All applications received on the same day will handled on a competitive basis.

**Deleted:** be awarded competitively against the other applications received that day.

THDA will announce any funding awards on its website at <https://thda.org/business-partners/challenge-grant>. THDA will post notice if all funds are exhausted before the October 31, 2018.

**Deleted:** Applications must be submitted by 4:00 PM on Thursday, June 14, 2018.

Applications will be reviewed by designated senior staff of THDA and a recommendation for funding consideration will be made to the THDA Executive Director. The THDA Executive Director will make the final funding determination and will notify the Board of all grant awards on or before the Board meeting in November. THDA reserves the right not to select any application submitted.

**Deleted:** a

**Deleted:** recommendation for funding to the THDA Board of Directors for their consideration and approval at their July meeting

**Deleted:** proposal

THDA will provide a preference for applications that:

- Are unique opportunities for the organization;
- Incorporate volunteerism as a key component of the project;
- Result in neighborhood-wide or area-wide redevelopment;
- Address a significant challenge to the community;
- Benefit vulnerable populations, including the homeless, individuals with a disability, youth aging out of foster care, and ex-offenders;
- Have a robust fundraising plan; and,
- Propose the generation of cash leverage in excess of the program requirements.

Contracts for any selected application will begin as follows:

**Formatted:** Font: 8 pt, Italic

**Application Received by:**

By October 5, 2018  
October 6 – 12, 2018  
October 13 – 19, 2018  
October 20 – 26, 2018  
October 27 – 31, 2018

**Contract will begin on:**

October 15, 2018  
October 22, 2018  
October 29, 2018  
November 5, 2018  
November 12, 2018

**Formatted:** Font: Bold, Underline

**Formatted Table**

**Formatted:** Indent: Left: 0.23"

**Formatted:** Indent: Left: 0.24"

**Formatted:** Indent: Left: 0.23"

**Formatted:** Indent: Left: 0.24"

**Formatted:** Indent: Left: 0.23"

**Formatted:** Indent: Left: 0.24"

**Formatted:** Indent: Left: 0.23"

**Formatted:** Indent: Left: 0.24"

**Formatted:** Indent: Left: 0.23"

**Formatted:** Indent: Left: 0.24"

**Deleted:** on August 1, 2018.

**Formatted:** Font: 8 pt, Italic





# Tennessee Housing Development Agency

Andrew Jackson Building Third Floor  
502 Deaderick St., Nashville, TN 37243

**Bill Haslam**  
Governor

**Ralph M. Perrey**  
Executive Director

## MEMORANDUM

**TO:** Grants Committee and Board of Directors  
**FROM:** Don Watt, Director of Community Programs  
**DATE:** September 17, 2018  
**RE:** Request for Authorization of the 2018 HOME CHDO Mini-Round 2 Program Description

---

The funding round authorized under the 2018 HOME Mini-Round Program Description did not receive sufficient eligible applications to award the required amount of 2018 HOME funding for CHDOs. Thus, THDA has approximately \$1,435,877 in development funding and up to \$100,511 in operating assistance available to CHDOs.

Staff proposes the following changes to the 2018 HOME CHDO Mini-Round Program Description:

- Updated applicable due dates and funding amounts available under the program description.
- Made all grant recipients under the 2018 HOME CHDO and HOME CHDO Mini-Round ineligible for funding consideration under this program description.
- Eliminated commitment deadlines specific to the allocation of 2017 HOME CHDO funds. All remaining 2017 funds have been allocated to other grants awarded under the earlier 2018 funding rounds.
- Revised the Universal Design scoring criteria to provide points for each criteria met rather than requiring that a specific list of features to all be implemented.

Staff recommends approval of the 2018 HOME CHDO Mini-Round 2 Program Description as attached and authorization of the Executive Director or his designee to award HOME funds available under the approved Program Description to applications scored by staff based on the rating scale contained in the approved Program Description in descending order from highest score to lowest score until available funding for eligible applications is exhausted, subject to all requirements in the approved Program Description. Staff will provide information to the Committee and Board regarding 2018 HOME CHDO Mini-Round 2 funding awards at the meetings that immediately follow the date of the awards.



**HOUSING GRANT APPLICATION**  
**2018 HOME CHDO MINI-ROUND 2**  
**Program Description and Application Package**  
**Tennessee Housing Development Agency**

The Tennessee Housing Development Agency (THDA) administers the federally funded HOME program to promote the production, preservation and rehabilitation of single family housing for low-income households. The purpose of this Program Description is to explain the requirements and the application process of the HOME program.

HOME funds made available to Community Housing Development Organizations (CHDOs) are awarded through a competitive application process to eligible non-profit organizations that meet the designation as a CHDO by THDA. An applicant must apply for at least \$100,000 and may apply for a maximum HOME grant of \$750,000. There is a \$750,000 limit on the amount of HOME funds that can be awarded in any one county.

Applications for the HOME program must be received by THDA on or before 4:00 PM CST on Thursday, November 15, 2018. THDA anticipates notifying successful applicants by December 15, 2018. HOME Reservation of Funds will begin January 1, 2019 and will end December 31, 2022.

The program description is followed by the application package. The program description and application are also available at [www.thda.org](http://www.thda.org). Once at the THDA website, click on BUSINESS PARTNERS and then Grant Administrators for the links to the HOME program. Click on HOME for the link to the 2018 HOME CHDO Mini-Round 2 Program Description, application and the application attachments. If you have questions please call Bill Lord at (615) 815-2018.

### The HOME Program

This program is governed by Title 24 Code of Federal Regulations, Part 92, as amended. Those regulations are incorporated by reference in this Program Description. In cases of conflicting requirements, the more stringent requirement will apply.

### A. ELIGIBLE APPLICANTS

The State of Tennessee, through THDA, will accept applications for the HOME program from private, non-profit organizations that also qualify as a Community Housing Development Organization, (CHDO).

To be eligible, a non-profit organization must:

1. Meet one of the two following criteria:

**Deleted:** CHDO's previously awarded under the 2018 Regular Round may apply for an amount that would bring their total cumulative award under all 2018 Program Descriptions to no more than \$750,000.

**Deleted:** CDT

**Deleted:** July 13

**Deleted:** August 15

**Deleted:** contracts

**Deleted:** September

**Deleted:** 2018

**Deleted:** August

**Deleted:** 2021

**Deleted:** 5

- a. All private, non-profit organizations must be organized and existing in the State of Tennessee (as evidenced by a Certificate of Existence from the Tennessee Secretary of State, dated no more than thirty (30) days prior to the application date).

OR

- b. Be organized and existing under the laws of another state and be qualified to do business in Tennessee (as evidenced by a Certificate of Existence from the other state's Secretary of State dated no more than thirty (30) days prior to the application date and by a Certificate of Authorization to do business in Tennessee from the Tennessee Secretary of State, dated no more than thirty (30) days prior to the application date).
2. Demonstrate at least two (2) years of experience providing affordable housing or affordable housing related services in the state of Tennessee satisfactory to THDA, in its sole discretion.
3. Have no part of its net earnings inuring to the benefit of any member, founder, contributor or individual;
4. Have among its purposes the provision of decent housing that is affordable to low-income and moderate-income persons, as evidenced in its charter, articles of incorporation, resolutions or by-laws, and experience in the provision of housing to low-income households;
5. Have standards of financial accountability that conform to 2 CFR Part 200, *Uniform Administrative Requirements, Audit Requirements and Cost Principles*; and
6. Have an IRS designation under Section 501(c)(3) or Section 501(c)(4) of the federal tax code. A 501(c)(3) non-profit applicant may not submit an application until they have received their designation from the IRS. A 501(c)(4) non-profit applicant must provide documentation satisfactory to THDA, in its sole discretion, that the non-profit has filed the necessary materials with the IRS and received a response from the IRS demonstrating 501(c)(4) status.

To be considered a qualifying community housing development organization, the CHDO must also meet the following additional requirements:

7. Not be controlled by, or under the direction of, individuals or entities seeking to derive profit or gain from the CHDO. If a CHDO is sponsored or created by a for-profit entity, all of the following shall apply:
  - a. The for-profit entity may not be an entity whose primary purpose is the development or management of housing, such as a builder, developer or real estate management firm;
  - b. The for-profit entity may not have the right to appoint more than one-third of the membership of the CHDO's governing body. CHDO board members appointed by the for-profit entity may not appoint the remaining two-thirds of the board members;
  - c. The CHDO must be free to contract for goods and services from vendors of its own choosing;
  - d. The officers, directors, owners (stockholders, managers, members, etc.) or employees of the for-profit entity cannot be officers, directors, owners (stockholders, managers, members, etc.) or employees of the CHDO.

Deleted: 5

8. Is not a governmental entity (including the participating jurisdiction, other jurisdiction, Indian tribe, public housing authority, Indian housing authority, housing finance agency, or redevelopment authority) and is not controlled by a governmental entity. An organization that is created by a governmental entity may qualify as a CHDO; however, the governmental entity may not have the right to appoint more than one-third of the membership of the organization's governing body and no more than one-third of the board members may be public officials or employees of recipient governmental entity. Board members appointed by the State or local government may not appoint the remaining two-thirds of the board members. The officers or employees of a governmental entity may not be officers of the Board or employees of a CHDO
9. Maintain accountability to low-income community residents by:
  - a. Including residents of low-income neighborhoods, other low-income community residents, or elected representatives of low-income neighborhood organizations in at least one-third of the CHDO's governing board's membership. For urban areas, "community" may be a neighborhood or neighborhoods, city, county or metropolitan area; for rural areas, it may be a neighborhood or neighborhoods, town, village, county, or multi-county area (but not the entire State); and
  - b. Providing a formal process for low-income program beneficiaries to advise the CHDO in its decisions regarding the design, site selection, development, and management of affordable housing.
10. Have a demonstrated capacity to successfully carry out housing projects assisted with HOME funds. A CHDO undertaking development activities as a developer or sponsor must satisfy this requirement by having paid employees with housing development experience who will work on projects assisted with HOME funds. Paid staffing may be documented by providing copies of the most recent W-2, as applicable, issued by the nonprofit entity for each staff member. For its first year of funding as a CHDO, a CHDO may satisfy this requirement through a contract with a consultant who has housing development experience to train appropriate key CHDO staff. A CHDO that will own housing must demonstrate capacity to act as owner of a project and meet the requirements of 24 CFR 92.300(a)(2). A CHDO does not meet the test of demonstrated capacity based on any person who is a volunteer or whose services are donated or cost allocated by another organization, or by hiring a consultant.
11. Have a history of serving the community within which the housing to be assisted with HOME funds is to be located. In general, a CHDO must be able to show at least one year of serving the community through housing activities benefiting low-income persons or families before HOME funds may be awarded to that CHDO. However, a newly created CHDO formed by local churches, service organizations, or neighborhood organizations may meet this requirement by demonstrating that its parent organization has at least one year of serving the community through housing activities benefiting low-income persons or families.

CHDOs may only apply for HOME funding for projects in which the CHDO is the owner and developer. CHDO applicants must submit a **completed application that includes the Non-Profit Checklist/CHDO Designation** with supporting documentation signed by the applicant's counsel.

All applicants with prior HOME grants from THDA must meet both the Commitment and Spend Down Requirements as noted below for the funding round under which the entity received a prior grant award:

1. To meet the Commitment Requirement, THDA must have entered into a legally binding agreement with the organization for specific site addresses for the percentage of development funds specified by grant year.

Deleted: 5

2. To meet the Spend Down Requirement, the organization must have either expended or submitted an official Request for Payment Form with supporting documentation for the percentage of development and operating assistance funds specified by grant year:
3. [Organizations with grant awards under the 2018 HOME or 2018 HOME CHDO Mini-Round are not eligible.](#)

HOME PROGRAM DESCRIPTION	COMMITMENT REQUIREMENT	SPEND DOWN REQUIREMENT
2012 CHDOs	100%	100%
2012 – 2013 Regular Rounds	100%	100%
2013 CHDOs	100%	100%
2014 Regular and CHDOs	100%	100%
2015-2016 Regular and CHDO Round and CHDO Mini-Rounds 1 & 2	100%	50%
2017 Regular	50%	0%
2017 CHDO and CHDO Mini-Rounds 1 and 2	25%	0%
2018 <a href="#">CHDO Round or 2018 CHDO Mini-Round</a>	<a href="#">Not Eligible</a>	<a href="#">Not Eligible</a>

Deleted: Regular

Deleted: 0%

Deleted: 0%

These spending requirements apply to applications from CHDOs that have received THDA HOME grant awards under previous program descriptions. In addition, CHDOs that were funded for homeownership programs that generate CHDO proceeds will have to demonstrate a need for additional HOME funds and documentation that neighborhood market conditions demonstrate a need for the project to be eligible for the 2018 HOME program.

3. To be eligible, all applicants for the 2018 HOME CHDO Mini-Round application cycle must be in compliance with all other THDA programs in which they participate.

## B. ALLOCATION OF FUNDS

HOME funds committed to the State of Tennessee, through THDA, will be allocated as provided in the State of Tennessee's Consolidated Plan, as amended. The amount of the [total](#) 2018 HOME allocation to THDA is \$14,391,943. Additionally, THDA also will make available any returned or leftover funds from the 2017 or earlier funding rounds as determined at the time of award in August, 2018.

Under this program description, THDA [has](#) also set-aside up to 5% of its 2018 HOME allocation for CHDO operating expenses.

Deleted: will

THDA [has](#) set-aside eighteen percent (18%) of the total 2018 HOME allocation for eligible applications from CHDOs, including CHDOs serving Local PJs. Any HOME funds remaining or returned from prior application rounds and designated as CHDO funds will also be made available with this 2018 set-aside. [THDA has approximately \\$1.43 million in funds to make available for development activities under this program description.](#)

Deleted: will

Deleted: 5

The THDA HOME funding to successful CHDO applicants serving a Local PJ will be reduced by the amount of funding the CHDO receives from the Local PJs to keep within the \$750,000 maximum grant.

To be funded, an application must receive a minimum threshold score of 60, an amount equal to at least 50% of the total points available.

Beginning with the 2015 HOME allocation, HUD no longer considers a PJ as meeting its 24-month CHDO commitment through a cumulative total of CHDO commitments since 1992, and each grant year must meet its own 24-month commitment deadline. In addition, the execution of a HOME Working Agreement and the establishment of a CHDO sub-grant in IDIS is insufficient to meet this requirement. Thus, a successful CHDO that receives an allocation of 2018 CHDO funds must commit those funds to specific units no later than June 30, 2020. HUD will recapture any 2018 CHDO funds not committed to specific CHDO activities by June 30, 2020. CHDO applicants need to be aware of these dates and have a pipeline of eligible homebuyers so they can begin their projects as soon as the environmental reviews are completed. If, in the opinion of THDA, the applications submitted do not contain viable proposals or are from a CHDO that lacks the organizational potential to comply with all HOME affordability requirements, THDA may choose not to award any or all of the funds set-aside for CHDOs in the current application round.

**Deleted:** Any 2017 HOME funds awarded to an organization must be committed to specific units no later than June 30, 2019.

**Deleted:** and will recapture any 2017 CHDO funds not committed to specific CHDO activities by June 30, 2019

## C. ELIGIBLE ACTIVITIES

There are specific eligible activities under the HOME CHDO Mini-Round 2 Program Description that must address the housing needs of low-income households. Manufactured housing and manufactured housing lots are not eligible for HOME assistance. Housing does not include emergency shelters (including shelters for disaster victims) or facilities such as nursing homes, convalescent homes, hospitals, residential treatment facilities, correctional facilities, and dormitories, including those for farm workers or housing for students. Eligible housing activities include:

### 1. Homeownership Programs

- a. *CHDO: CHDOs must use HOME funds to develop units for homeownership, including new construction or acquisition and substantial rehabilitation of substandard single-family dwellings.* The CHDO must be the owner and developer of all units at the time the units are constructed or rehabilitated. When units are sold to eligible homebuyers, the HOME funds must be repaid to the CHDO as CHDO proceeds and must be used to develop additional single-family units for homeownership in compliance with the HOME regulations. A CHDO must allow an amount up to \$14,999 of HOME funds to remain with the unit as a soft second mortgage as necessary to qualify the household for permanent financing, but not less than \$1,000. THDA requires that a subsidy remain in the financing when the unit is sold so affordability is based on the less restrictive recapture provision of the HOME regulations. Any homeownership unit developed by a CHDO that cannot be sold to an eligible homebuyer within nine months of the Certificate of Occupancy must be converted to rental housing and rented to an income-eligible tenant.

Before construction or acquisition and rehabilitation can begin under homeownership, all CHDOs must demonstrate a pipeline of eligible buyers pre-qualified for a permanent loan. Although speculative construction or acquisition is not generally allowed, under certain circumstances THDA will allow a CHDO to apply for an exception to this policy on a project by project basis. To be considered for an exception, the CHDO must demonstrate that it meets certain criteria, including:

- (1) Experience and capacity to manage an affordable rental housing program;

**Deleted:** 5

- (2) Success during the last three (3) years in managing affordable rental housing in the area of the proposed project with an average list to lease-up term of no more than 180 days;
- (3) A current average market time of list to contract for sale for similarly priced, comparable homes in the area of the proposed project of no more than 120 days;
- (4) Extenuating circumstances that prevent the CHDO from having a pipeline of pre-qualified homebuyers to support their development activity.

Additionally, if the property remains unsold nine months after completion, a lease-purchase may be permitted if the CHDO can demonstrate that it has an existing and active lease-purchase program.

- b. *Cities, Counties, and Non-profit Organizations (non-CHDO).* Homeownership programs are restricted to a soft second mortgage necessary to qualify the household for permanent financing.
- c. *Soft Second Mortgages.* Any HOME funds used for a soft second mortgage in homeownership programs are limited to the lesser of \$14,999 in HOME funds or the amount of HOME funds necessary to qualify the household for permanent financing, but not less than \$1,000. All grant recipients using HOME for soft second mortgages must use the THDA single-family underwriting template to determine the amount of HOME assistance, and must submit the determination to THDA for review and final approval. If the underwriting template indicates that the homebuyer does not have an unmet need for the soft second mortgage, the grant recipient may not provide direct HOME assistance to that homebuyer. The amount of the soft second mortgage is the “direct HOME subsidy” provided to the homebuyer and subject to recapture.

The soft second mortgage will have an affordability period of five years, which is forgiven at the end of the fifth year if the unit remains in compliance, i.e., the unit remains the permanent residence of the initial buyer and is not leased or vacated. If the unit is sold or transferred during the affordability period, the amount of the HOME subsidy subject to recapture will be reduced by twenty percent (20%) per year of occupancy by the initial homebuyer. If the unit is leased or vacated during the affordability period, the entire HOME subsidy must be repaid.

The soft second mortgages may not be combined with other THDA-funded “second mortgage” assistance programs, including Great Choice Loan Plus assistance, or with funding available through the New Start program, and any subsequent or similar programs operated by THDA. The THDA HOME funded soft second mortgage may be combined with a THDA Great Choice first mortgage loan.

- d. *Sales Price.* All units must be sold for an amount not to be lower than the appraised value of the unit.
- e. *Sales Price Limits.* The sales price limit for homeownership programs are the Property Value Limits. Current limits are available at <https://thda.org/business-partners/home>.
- f. *Underwriting.* Front and back end ratios may not exceed twenty-nine (29%) and forty-one percent (41%), respectively. Lower ratios are encouraged.
- g. *Permanent Financing.* Under homeownership programs, THDA expects the use of THDA mortgage loans whenever suitable. Other financing may be used if it is comparable to a THDA mortgage loan. Permanent financing is considered comparable if the interest rate does not exceed the prevailing THDA Great Choice interest rate by more than one percentage point and when it is

Deleted: 5

demonstrated that the homebuyer represents a commensurate underwriting risk to the lender. All loans must have a fixed interest rate fully amortizing over the 30 year term of the loan. There can be no pre-payment penalty for early payoffs.

- h. *Homebuyer Contribution.* The homebuyer must make a contribution from their own funds equal to one percent (1%) of the purchase price of the property.
- i. *Homebuyer Education.* All homebuyers must complete a homebuyer education program from a THDA qualified homebuyer education provider prior to purchase.
- j. *Neighborhood Market Conditions.* Applicants proposing homeownership projects must document that neighborhood market conditions demonstrate a need for the project and must complete a market study as part of the 2018 application cycle for homeownership programs.
- k. *Deadline for Sale.* Homeownership units must be sold to an eligible homebuyer within nine (9) months of project completion. If a homeownership unit is not sold to an eligible homebuyer within nine months of the Certificate of Occupancy, the unit must be converted to rental housing for the appropriate rental affordability period or the HOME funds must be repaid by the grant recipient to THDA.

THDA expects that the grant recipient will not only shepherd the homebuyer through the home buying process, but also work toward fostering an on-going relationship with the homebuyer. This responsibility includes facilitating additional homeowner counseling, verifying homeowner occupancy requirements on an annual basis, and monitoring mortgage loan default issues.

## 2. CHDO Operating Expenses, Developer's Fees and CHDO Proceeds

- a. *CHDO Operating Expenses.* A CHDO may request up to 7% of the funds awarded for the acquisition and rehabilitation or new construction of housing for sale to low and moderate income home buyers as CHDO operating expenses to help with the administrative costs of operating the organization. Operating expenses are separate from project funds and are funded from the 5% set-aside for CHDO operating expenses from the annual HOME allocation.
- b. *Developer's Fees.* A CHDO may also request an 8% developer's fee if the CHDO is acting as a developer of housing. The developer's fee is 8% of the HOME funds used to construct or acquire and rehabilitate the unit. The developer's fee is a project soft cost and counts against the maximum per unit subsidy limit applicable to a project.
- c. *CHDO Proceeds.* CHDO proceeds are the HOME funds returned to a CHDO upon the sale of a unit developed by the CHDO from the buyer's permanent financing. The CHDO must use its CHDO proceeds to develop more housing for homeownership. A CHDO may use 15% of the CHDO proceeds for operating expenses, divided as follows: Maximum of 7% for administration and Maximum of 8% for developer's fees. Once the CHDO proceeds are used a second time to develop more housing for homeownership, the HOME restrictions on the use of proceeds are eliminated. The 25% cap on the amount of CHDO proceeds that can be used for operating or administrative expenses has been eliminated. This policy applies retroactively to current, active CHDO grants.

Formatted: No bullets or numbering

Deleted: 5



### 3. Project Soft Costs

In planning their programs, applicants may include the actual costs paid to third parties for progress inspections and work write-ups as a project-related soft cost where necessary. The costs for progress inspections and work write-ups are capped at \$2,500. In addition to the costs for inspections and work write-ups, the costs for lead-based paint inspections, risk assessments and clearance testing, and architectural and engineering fees are also paid as project soft costs. All project soft costs count toward the HUD maximum per unit subsidy limit.

## D. PROHIBITED ACTIVITIES

1. Provide project reserve accounts, or operating subsidies;
2. Provide tenant-based rental assistance for the special purposes of the existing Section 8 program, in accordance with Section 212(d) of the Act;
3. Provide non-federal matching contributions required under any other Federal program;
4. Provide assistance authorized under Section 9 of the 1937 Act (annual contributions for operation of public housing);
5. Carry out activities authorized under 24 CFR Part 968 (Public Housing Modernization);
6. Provide assistance to eligible low-income housing under 24 CFR Part 248 (Prepayment of Low Income Housing Mortgages);
7. Provide assistance (other than assistance to a homebuyer to acquire housing previously assisted with HOME funds) to a project previously assisted with HOME funds during the period of affordability established by HUD or THDA in the written agreement. However, additional HOME funds may be committed to a project up to one year after project completion, but the amount of HOME funds in the project may not exceed the HUD maximum per-unit subsidy amount;
8. Pay for any cost that is not eligible under 24 CFR 92.206 through 92.209;
9. Use HOME funds for rental housing projects;
10. Provide assistance for a homeowner rehabilitation project by a CHDO from the 15% CHDO set-aside. A CHDO funded through the 15% CHDO set-aside can only participate in the HOME program if they are the owner and developer of a project.

## E. LAYERING

Layering is the combining of other federal resources on a HOME-assisted project that results in an excessive amount of subsidy for the project. Such activity is prohibited. Grantees must analyze each project to ensure that only the minimum amount of assistance is allocated to the project. In no case may the amount of HOME funds exceed the HUD Maximum per Unit Subsidy Limit.

Deleted: 5

## F. MATCH

THDA will not require applicants to provide match towards funded projects. Although no local match is required, THDA will award points based on the contribution of eligible match reflected in an application as specified in the scoring matrix. THDA will count any qualifying non-federal project funds or other resources reflected in successful applications that qualify as match under the HOME rule toward the match requirement.

HOME match is permanent, non-federal contributions to a project. Matching contributions may be in the form of one or more of the following:

1. Cash contributions not provided by the assisted household and not from a federal source, including the present value of the interest subsidy for loans made at rates below market.
2. Reasonable value of donated site-preparation and construction materials.
3. Reasonable rental value of the donated use of site preparation or construction equipment.
4. Waived fees and taxes.
5. Property donation or below-market sale. A copy of the appraisal and/or purchase contract must be submitted. The donor/seller of the property must also provide a statement certifying that the property was donated or sold for affordable housing purposes and an acknowledgment that the donor/seller received the URA Guide Form Notice Disclosure to Seller, as well as the HUD booklet entitled, "When a Public Agency Acquires Your Property." If the property was originally acquired with federal funds, the value of the property is not match eligible.
6. The direct cost of donated, compliant homebuyer counseling services provided to families that acquire properties with HOME funds under the provisions of 24 CFR §92.254, including on-going counseling services provided during the period of affordability. Counseling may not be valued at more than \$40 per hour.
7. Reasonable value of donated or volunteer labor or professional services. Unskilled volunteer labor may not be valued at more than \$10 per hour; skilled volunteer labor may be valued at the documented going rate.
8. Value of sweat equity may also be eligible if every assisted household under the HOME grant award is required to perform sweat equity. Sweat equity may not be valued at more than \$10 per hour.
9. Other match sources as permitted under the HOME Final Rule.

THDA will monitor the contribution of match throughout the implementation of the grant.

## G. LEVERAGE

In the scoring matrix, any project that has leveraged funds will receive additional points. Leveraged funds are funds provided by local governments, grants from other sources and cash from program beneficiaries. Loan proceeds from a lending institution do not count as leverage. However, the savings generated from a below market interest rate will count as leverage. Administrative funds, *anticipated* fund-raising revenues, other THDA funds, and construction loans do not count toward leverage. Leveraged funds counted in one program year do not qualify again as leverage in subsequent years.

Deleted: 5

The value of donated labor, materials and land will count toward leverage. The value of unskilled labor is set at the current minimum wage, and the value of skilled labor is set at twice the current minimum wage. The value of land and/or a building donated or acquired for a project prior to the application will count as leverage, but there must be an appraisal or tax assessment included in the application to document its value. In order to count donated supplies or materials, only the documented value of the actual goods or materials will be considered and they must be legitimately required by the program. The donor must provide a letter to confirm the amount of the supplies or materials. Proposed discounts will not count as leverage.

## H. HOME PROGRAM REQUIREMENTS

### 1. INCOME LIMITS

HOME funds may be used to benefit only low-income households. "Low-income households" means an individual or household whose income does not exceed 80% of the area median income, adjusted for household size. THDA encourages the targeting of HOME resources for homeowner rehabilitation activities to very low-income households.

"Very low-income household" means a household whose income does not exceed 50% of the area median income, adjusted for household size.

The income of the household to be reported for purposes of eligibility is the sum of the annual gross income of the beneficiary, the beneficiary's spouse, and any other household member residing in the home. Annual gross income is "anticipated" for the next 12 months, based upon current circumstances or known upcoming changes, minus certain income exclusions.

Current limits are available at <https://thda.org/business-partners/home>. Median income for an area or the state shall be that median income estimate made by HUD. Median incomes change when HUD makes revised estimates.

### 2. FORMS OF ASSISTANCE

*Homeownership programs.* Assistance from grant recipients to program beneficiaries as soft second mortgages will be limited to loans equal to the lesser of \$14,999 or the amount necessary to qualify the household for permanent financing which are forgiven at the end of 5 years.

### 3. AFFORDABILITY PERIOD

- a. *CHDOS.* At the time of the sale of the unit to an eligible homebuyer, the CHDO must leave HOME funds in the unit as a soft second mortgage loan in an amount equal to the lesser of \$14,999 or the amount of HOME funds necessary to qualify a household for permanent financing, but not less than \$1,000. There will be an affordability period of five years secured by a Note and Deed of Trust between the CHDO and the homebuyer. The HOME loan is forgiven at the end of the fifth year if the unit remains in compliance with HOME requirements. This means that the property remains the primary residence of the initial homebuyer and is not leased or vacated; and if the property is sold or transferred at the end of the affordability period, the homebuyer has complied with these recapture provisions. If the unit is sold or transferred during the affordability period, the amount of HOME subsidy subject to recapture will be reduced by twenty percent (20%) per year of occupancy by the initial homebuyer. If the unit is leased or vacated during the affordability period, the entire HOME subsidy must be repaid to THDA.

Deleted: 5

- b. *Sale or Transfer of the Property.* The HOME-assisted home buyer may sell or otherwise transfer the unit on or before the end of the affordability period to any willing buyer at any price, and the amount of the HOME subsidy subject to recapture will be reduced by 20% per year of occupancy by the initial homebuyer. The amount subject to recapture is limited by the availability of net proceeds. The net proceeds are the sales price minus superior non-HOME loan repayments minus closing costs. If the net proceeds are not sufficient to recapture the remaining outstanding principal balance of the HOME Note plus the amount of the down payment made by the homeowner, if any, plus the amount of any capital improvement investment made by the homeowner, then the grant recipient shall recapture a pro rata share of the net proceeds of the sale in lieu of the full remaining outstanding principal balance of the HOME Note. “Capital improvement investment” means the improvements to the property made at the homebuyer’s expense (and not through some other form of subsidy), as evidenced by receipts or cancelled checks detailing the capital improvements made. Capital improvements do not include items of maintenance, deferred maintenance or cosmetic improvements. The pro rata amount to be recaptured shall be calculated in accordance with the HOME Program Regulations at 24 CFR 92.254(a)(5)(ii)(A)(3) as follows:

If the net proceeds are not sufficient to recapture the full HOME investment (or a reduced amount) plus enable the homeowner to recover the amount of the homeowner’s down payment and any capital improvement investment made by the home owner since purchase, the grant recipient shall share the net proceeds according to the following formulas:

$$\frac{\text{HOME Subsidy}}{\text{HOME Subsidy} + \text{Homeowner Investment}} \times \text{Net Proceeds} = \text{HOME Amount to Recapture}$$

$$\frac{\text{Homeowner Investment}}{\text{HOME Subsidy} + \text{Homeowner Investment}} \times \text{Net Proceeds} = \text{HOME Amount to Recapture}$$

The new proceeds may be divided proportionately as set forth in these steps:

- (1) *Application of Forgiveness Feature.* Once the net proceeds are determined from the sale of the property, the grant recipient shall reduce the amount due based on the length of time the homebuyer has occupied the home in relation to the affordability period. Soft second mortgages up to \$14,999 have a five year affordability period and a forgiveness feature of 20% per year.
  - (2) *Amount subject to recapture.* The HOME investment that is subject to recapture is based on the amount of HOME assistance that enabled the homebuyer to buy the housing unit. This includes any HOME assistance that reduced the purchase price from fair market value to an affordable price, but excludes the amount between the cost of producing the unit and the market value of the property (i.e., the development subsidy).
  - (3) After the full HOME investment has been repaid, any excess profits will belong to the homeowner.
- c. *Construction Financing-Homeownership.* For CHDOs using HOME for construction financing to develop homeownership units, the initial affordability period will be based on the amount of HOME funding invested in the development of the unit under the resale provisions of the HOME regulations. In order to enforce the provisions of the Working Agreement with the CHDO, THDA will require that a Restrictive Covenant and Deed of Trust be recorded against the property prior to drawing down HOME funds for construction. When the unit is sold to an eligible homebuyer,

Deleted: 5

THDA will provide the closing agent a copy of the release for Restrictive Covenant and Deed of Trust. The CHDO must provide the closing agent with a Grant Note and Deed of Trust between the CHDO and the homebuyer for the soft second mortgage loan under the recapture provisions. Upon receipt by THDA of a copy of the Grant Note, the recorded Deed of Trust between the homebuyer and the CHDO, the recorded deed from the seller to the homebuyer, and the fully executed final TILA-RESPA Integrated Disclosure (TRID) Settlement Statement, the original Release of Lien is forwarded to the closing agent for recording.

#### 4. LEVEL OF SUBSIDY

The maximum HOME investment per unit is provided below:

MINIMUM HOME DOLLARS	\$ 1,000	PER UNIT
MAXIMUM HOME DOLLARS	\$60,021	0-BEDROOM (EFFICIENCY) LIMIT
	\$68,806	1-BEDROOM LIMIT
	\$83,667	2-BEDROOM LIMIT
	\$108,239	3-BEDROOM LIMIT
	\$118,812	4-BEDROOM OR MORE LIMIT

Periodically, THDA may update these limits pending approval from HUD. Updated limits will be effective for all activities in which an agreement for the activity is entered into after the effective date for the limits issued by HUD. These updates will be posted on THDA's web site at <https://thda.org/business-partners/home>.

#### 5. PROPERTY STANDARDS

Property standards must be met when HOME funds are used for a project. Any housing constructed or rehabilitated with THDA HOME funds must meet all applicable local, county, and state codes, rehabilitation standards, Uniform Property Condition Standards (UPCS), and zoning ordinances at the time of project completion.

In the absence of a local code, new construction of single-family units or duplexes must meet the current, State-adopted edition of the International Residential Code for One- and Two-Family Dwellings. The newly constructed units must also meet accessibility requirements and mitigate disaster impact as applicable per State and local codes, ordinances, etc.

In the absence of a local code, rehabilitation of existing homeowner units must meet the current, State-adopted edition of the Existing Building Code of the International Code Council (ICC).

THDA will not make any funding awards for units in a jurisdiction where the unit cannot be inspected by a state certified building inspector or by a provider as permitted under State law.

HOME funded units must also conform, as applicable, to the THDA Minimum Design Standards for New Construction of Single Family and Multifamily Housing Units and with THDA's Minimum Design Standards for Rehabilitation of Single Family and Multi-family Housing Units. THDA must

Deleted: 5

review and approve plans, work write-ups and written cost estimates and determine cost reasonableness for both new construction and rehabilitation prior to putting the project out to bid.

The International Code books are available at: [www.iccsafe.org](http://www.iccsafe.org)

- a. *Disaster Mitigation.* All new construction should be built in a method and/or location that would attempt to protect all new construction from possible disaster due to either a man-made issue, or an act of God that may cause physical or structural damage to the home. The methods should include any items that may be recommended, or required by either local, state, or federal agencies dealing with disasters.
- b. *Energy Code.* New construction projects must also meet the State-adopted edition of the International Energy Conservation Code. Copies of the Energy Code may also be obtained from the International Code Council at the address listed above.
- c. *Energy Conservation.* In addition to meeting the State-adopted edition of the International Energy Conservation Code, new construction projects must be Energy Star qualified as certified by an independent Home Energy Rating System (HERS) rater or achieve a HERS index of 85 or less when tested by a certified rater.
- d. *Section 504.* Section 504 of the Rehabilitation Act of 1973 prohibits discrimination in federally assisted activities and programs on the basis of disability, and imposes requirements to ensure accessibility for qualified individuals with disabilities to these programs and activities.

## 6. AFTER REHABILITATION PROPERTY VALUE

For homeowner rehabilitation projects, the maximum after rehabilitation value permitted for the type of single-family housing (1-4 family residence, condominium, cooperative unit,) shall not exceed 95% of the median purchase price for the area as established by HUD. Current limits are available at <https://thda.org/business-partners/home>.

## 7. SALES PRICE LIMITS

The sales price limit for homeownership programs are the same as the Property Value Limits for homeowner rehabilitation programs. Current limits are available at <https://thda.org/business-partners/home>.

## I. UNIVERSAL DESIGN/VISITABILITY

THDA encourages the inclusion of features that allow individuals with physical disabilities to reside and/or visit the housing that is constructed or rehabilitated with federal HOME funds.

Universal design is a building concept that incorporates products, general design layouts and other characteristics to a housing unit in order to:

- Make the unit usable by the greatest number of people;
- Respond to the changing needs of the resident; and
- Improve the marketability of the unit

Deleted: 5

The goal of universal design seeks to build housing that meets the needs of the greatest number of residents within a community. Universal design differs from accessible design, which is primarily intended to meet the needs of persons with disabilities. However, universal design is inclusive of adaptable design as universal design incorporates structural features that will allow a housing unit to be adapted to an individual's current or future needs. Universal design features include, but are not limited to:

- Stepless entrances.
- Minimum 5' x 5' level clear space inside and outside entry door.
- Broad blocking in walls around toilet, tub and shower for future placement of grab bars.
- Full-extension, pull-out drawers, shelves and racks in base cabinets in kitchen.
- Front mounted controls on all appliances.
- Lever door handles.
- Loop handle pulls on drawers and cabinet doors.

More information on Universal Design may be found at The Center for Universal Design at North Carolina State University: <http://www.ncsu.edu/ncsu/design/cud/index.htm>.

Visitability refers to homes that are designed and built in a manner that allows individuals who have trouble with steps or use wheelchairs or walkers to live in or visit the unit. These features include:

- One zero-step entrance.
- Doors with 32 inches of clear passage space.
- One bathroom on the main floor that is accessible to a person using a wheelchair.

More information on Visitability can be found at: <http://www.visitability.org>.

## J. HOME RELOCATION REQUIREMENTS

***THDA DISCOURAGES PROJECTS INVOLVING DISPLACEMENT OR RELOCATION OF HOUSEHOLDS. PRIOR TO APPLICATION, CONTACT THDA IF YOU ARE PLANNING ANY PROJECT THAT MAY INVOLVE DISPLACEMENT OR RELOCATION.***

The Uniform Relocation Assistance and Real Property Acquisition Policies Act of 1970 (Uniform Act), and its implementing regulations, 49 CFR Part 24, requires relocation assistance where acquisition has occurred under the Uniform Act. In addition, the Uniform Act coverage was expanded in 1987 amendments to cover displacement of individuals resulting from rehabilitation, demolition, or private acquisition carried out under a federally-assisted project or program.

Section 104(d) of the Housing and Community Development Act ("The Barney Frank Amendments") and HUD's Residential Anti-Displacement and Relocation Assistance Plan include additional relocation requirements. This extra level of relocation protection may be triggered for low-income households when units are converted or demolished with Community Development Block Grant (CDBG) or HOME funds. In addition, when Section 104(d) is triggered, jurisdictions may need to replace any low/moderate income dwelling units that are lost due to the conversion or demolition. This section refers only to residential relocation. If non-residential (commercial/industrial) relocation is involved, contact THDA.

Deleted: 5

Understanding how relocation requirements are triggered, alternate ways of meeting them, and the costs of the alternatives is essential in making HOME program decisions. Concerns about relocation may cause an administrator to consider establishing a preference for vacant buildings. However, administrators should also consider that vacant buildings are often much deteriorated. Rehabilitating an occupied building even with the cost of assisting tenants to remain or relocate, may be less costly than rehabilitating a vacant building. In occupied buildings, program administrators must consider whether occupants will be able to return after rehabilitation and whether Housing Choice Voucher (Section 8) assistance is available to help meet relocation costs. Selecting vacant projects does not relieve all relocation concerns. Vacant buildings in good condition may have been recently occupied. If so, the program administrator must consider whether the owner removed the tenants in order to apply for HOME assistance for a vacant building. If so, these tenants are displaced persons.

Skilled staff can save the local program money and build goodwill with owners and tenants. Failure to understand and follow relocation requirements can result in unnecessary costs for the local program. It is possible for uninformed owners and staff to take steps that would obligate the local program to provide significant relocation benefits and services. Early briefings for owners and program staff on relocation rules are essential. Handbook 1378, Tenant Assistance, Relocation and Real Property Acquisition consolidates relocation requirements for HOME and other HUD programs in one document. It is available from HUD Field Offices or by contacting THDA. HUD informational booklets for persons who are displaced or whose property is to be acquired are also available from HUD Field Offices or from THDA.

Uniform Relocation Act (URA) requirements are triggered at the time the application is being prepared, and additional requirements are triggered at the time the working agreement is signed between the owner and the grantee and when rehabilitation is completed. Treatment of displaced persons depends upon whether the displaced person is (1) a tenant or owner; (2) a business or household; or (3) has income above or below the Section 8 Lower Income Limit.

**WHO IS A DISPLACED PERSON?** - Any person (household, individual, business, farm, or non-profit organization) that moves from the real property, permanently, as a direct result of rehabilitation, demolition, or acquisition for a project assisted with HOME funds. Relocation requirements apply to all occupants of a project/site for which HOME assistance is sought even if less than 100% of the units are HOME assisted.

**WHO IS NOT A DISPLACED PERSON?** - A tenant evicted for cause, assuming the eviction was not undertaken to evade URA obligations. A person with no legal right to occupy the property under State or local law (e.g., squatter). A tenant who moved in after the application was submitted but before signing a lease and commencing occupancy, was provided written notice of the planned project, its possible impact on the person (e.g., the person may be displaced, temporarily relocated, or experience a rent increase), and the fact that the person would not qualify as a "displaced person" (or for any assistance under URA) as a result of the project. A person, after being fully informed of their rights, waives them by signing a Waiver Form.

#### **HOW IS DISPLACEMENT TRIGGERED?**

*Before Application.* A tenant moves permanently from the property before the owner submits an application for HOME assistance if THDA or HUD determines that the displacement was a direct result of the rehabilitation, demolition, or acquisition for the HOME project. (e.g., THDA determines that the owner displaced tenants in order to propose a vacant building for HOME assistance.)

*After Application.* A tenant moves permanently from the property after submission of the application, or, if the applicant does not have site control, the date THDA or the local program administrator approves the site because: (1) the owner requires the tenant to move permanently; or (2) the owner fails to provide timely required notices to the tenant; or (3) the tenant is required to move temporarily and the owner does not pay all actual, reasonable out-of-pocket expenses or because the conditions of the move are unreasonable.

Deleted: 5



*After Execution of Agreement.* A tenant moves permanently from the project after execution of the agreement covering the acquisition, rehabilitation or demolition because the tenant is not provided the opportunity to lease a suitable, affordable unit in the project.

#### K. HOME RESIDENTIAL ANTI-DISPLACEMENT AND RELOCATION ASSISTANCE PLAN

THDA will require grant recipients to replace all occupied and vacant habitable lower income housing demolished or converted to a use other than as lower income housing in connection with a project assisted with funds provided under the HOME Investment Partnership Act

All replacement housing will be provided within three years after the commencement of the demolition or conversion. Before entering into a working agreement committing THDA to provide funds for a project that will directly result in the demolition or conversion, THDA will make public by and submit to the HUD/Knoxville HOME coordinator certain information. Each applicant proposing demolition or any reduction in lower income housing units must submit the following information to THDA:

1. A description of the proposed assisted project;
2. The address, number of bedrooms, and location on a map of lower income housing that will be demolished or converted to a use other than as lower income housing as a result of an assisted project;
3. A time schedule for the commencement and completion of the demolition or conversion;
4. To the extent known, the address, number of bedrooms and location on a map of the replacement housing that has been or will be provided;
5. The source of funding and a time schedule for the provision of the replacement housing;
6. The basis for concluding that the replacement housing will remain lower income housing for at least 10 years from the date of initial occupancy; and
7. Information demonstrating that any proposed replacement of housing units with smaller dwelling units (e.g., a 2-bedroom unit with two 1-bedroom units), or any proposed replacement of efficiency or single-room occupancy (SRO) units with units of a different size, is appropriate and consistent with the housing needs and priorities identified in the approved Consolidated Plan.

#### L. EQUAL OPPORTUNITY AND FAIR HOUSING

No person in the United States shall on the grounds of race, color, religion, sex, familial status, national origin, or disability be excluded from participation, denied benefits or subjected to discrimination under any program funded in whole or in part by HOME funds. The following Federal requirements as set forth in 24 CFR 5.105(a), Nondiscrimination and equal opportunity, are applicable to HOME projects:

Fair Housing Act	24 CFR Part 100
Executive Order 11063, as amended (Equal Opportunity in Housing)	24 CFR Part 107
Title VI of the Civil Rights Act of 1964 (Nondiscrimination in Federal programs)	24 CFR Part 1

Deleted: 5

Age Discrimination Act of 1975	24 CFR Part 146
Section 504 of the Rehabilitation Act of 1973	24 CFR Part 8
Section 109 of Title I of the Housing and Community Development Act of 1974	24 CFR Part 6
Title II of the Americans with Disabilities Act	42 U.S.C. §12101 <i>et seq.</i>
Equal Access to Housing in HUD Programs Regardless of Sexual Orientation or Gender Identity	24 CFR Parts 5, 200, 203, 236, 400, 570, 574, 882, 891 and 982
Section 3 of the Housing & Urban Development Act of 1968	24 CFR 135
<ul style="list-style-type: none"> <li>Section 3 requires that the employment and other economic opportunities generated by Federal financial assistance for housing and community development programs shall, to the greatest extent feasible, be directed toward low-income persons, particularly those who are recipients of government assistance for housing.</li> </ul>	
Executive Order 11246, as amended (Equal Employment Opportunity Programs)	41 CFR 60
Executive Order 11625, as amended (Minority Business Enterprises)	
Executive Order 12432, as amended (Minority Business Enterprise Development)	
Executive Order 12138, as amended (Women's Business Enterprise)	
<ul style="list-style-type: none"> <li>Executive Orders 11625, 12432, and 12138 (Minority/Women's Business Enterprise) require that PJs and local programs must prescribe procedures acceptable to HUD for a minority outreach program to ensure the inclusion, to the maximum extent possible, of minorities and women and entities owned by minorities and women in all contracts. Local programs must also develop acceptable policies and procedures if their application is approved by THDA.</li> </ul>	

The HUD Office of Fair Housing also includes the following fair housing laws and Presidential Executive Orders which are not included in 24 CFR 5.105(a) but which are applicable to federally-assisted programs:

Architectural Barriers Act of 1968 at 42 U.S.C. §4151 *et seq.*

Executive Order 12892, as amended  
(Affirmatively Furthering Fair Housing)

Executive Order 12898

Executive Order 13166  
(Limited English Proficiency)

Executive Order 13217  
(Community-based living arrangements for persons with disabilities)

In addition to the above requirements, the PJ and local programs must assure that its Equal Opportunity and Fair Housing policies in the HOME Program are consistent with its current Consolidated Plan.

Deleted: 5

## M. SITE AND NEIGHBORHOOD STANDARDS

Housing provided through the HOME program must be suitable from the standpoint of facilitating and furthering full compliance with the applicable provisions of Title VI of the Civil Rights Act of 1964, the Fair Housing Act, Executive Order 11063, and HUD regulations issued pursuant thereto; and must promote greater choice of housing opportunities. Grantees must ensure that the proposed activity does not allow or promote segregation on the basis of race, disability or income.

## N. AFFIRMATIVE MARKETING

Prior to beginning a HOME project, grant recipients must adopt affirmative marketing procedures and requirements for all HOME-funded homebuyer projects with five or more units. Affirmative marketing steps consist of actions to provide information and otherwise attract eligible persons in the housing market area to the available housing without regard to race, color, national origin, sex, religion, familial status or disability. These must be approved by THDA prior to any HOME funds being committed to a project. Requirements and procedures must include:

1. Methods for informing the public, owners and potential tenants about fair housing laws and the local program's policies;
2. A description of what owners and/or the program administrator will do to affirmatively market housing assisted with HOME funds;
3. A description of what owners and/or the program administrator will do to inform persons not likely to apply for housing without special outreach;
4. Maintenance of records to document actions taken to affirmatively market HOME-assisted units and to assess marketing effectiveness; and
5. Description of how efforts will be assessed and what corrective actions will be taken where requirements are not met.

## O. ENVIRONMENTAL REVIEW

In implementing the HOME program, the environmental effects of each activity must be assessed in accordance with the provisions of the National Environment Policy Act of 1969 (NEPA) and the related authorities listed in HUD's regulations at 24 CFR Parts 50 and 58.

THDA, as the Participating Jurisdiction, will be responsible for carrying out environmental reviews. THDA must request the release of funds from HUD for any projects of non-profit organizations. The non-profit organizations will be responsible for gathering the information required for the environmental reviews. HOME funds and any other funds involved in the project cannot be committed until the environmental review process has been completed and the HOME funds have been released. The Environmental Review covers the entire project, not just the portion funded by HOME. Therefore, except under very limited circumstances, *no funds, including both HOME and non-HOME resources, may be expended on a project prior to the release of funds under the Environmental Review process. Any such expenditure will make the entire project ineligible for funding under the HOME program.*

Deleted: 5

## **P. LEAD-BASED PAINT**

Housing assisted with HOME funds is subject to the Lead-Based Paint Poisoning Prevention Act (42 U.S.C. 4821 et seq.) and 24 CFR Part 35, Subparts C through M. The lead-based paint provisions of 982.401(j) also apply, irrespective of the applicable property standard under 24 CFR 92.251. The Lead-Based Paint regulations are available at [www.hud.gov/lea](http://www.hud.gov/lea) or by contacting 1-800-424-LEAD (5323).

## **Q. LABOR STANDARDS**

Davis-Bacon wage compliance and other Federal laws and regulations pertaining to labor standards apply to all contracts for rehabilitating or constructing 12 or more units assisted with HOME funds. The contract for construction must contain the applicable wage provisions and labor standards. Davis-Bacon does not apply to projects using volunteer labor or to sweat equity projects.

## **R. DEBARMENT AND SUSPENSION**

Local programs must require participants in lower-tier transactions covered by 24 CFR 24 to certify that neither it nor its principals are presently debarred, suspended, proposed for debarment, declared ineligible or voluntarily excluded from the covered transaction.

## **S. FLOOD PLAINS**

*HOME funds may not be used to construct housing* in an area identified by the Federal Emergency Management Agency as having special flood hazards. In addition, THDA discourages the rehabilitation of units located in special flood hazard areas, but in a few instances and with written permission from THDA, houses located in a floodplain may be assisted. The community must be participating in the National Flood Insurance Program and flood insurance must be obtained on the units.

## **T. CONFLICT OF INTEREST**

In the procurement of property and services, the conflict of interest provisions at 2 CFR 200.112, apply. In all cases not governed by 2 CFR 200.112, the conflict of interest provisions of the HOME Rule as stated below apply:

The HOME conflict of interest provisions apply to any person who is an employee, agent, consultant, officer, elected official or appointed official of THDA, a State recipient or subrecipient receiving HOME funds. No person listed above who exercises or has exercised any functions or responsibilities with respect to activities assisted with HOME funds or who are in a position to participate in a decision-making process or gain inside information with regard to these activities may obtain a financial interest or financial benefit from a HOME-assisted activity, or have a financial interest in any contract, subcontract or agreement with respect to the HOME-assisted activity, or the proceeds from such activity, either for themselves or those with whom they have business or immediate family ties, during their tenure or for one year thereafter. Immediate family ties include (whether by blood, marriage or adoption) the spouse, parent (including stepparent), child (including a stepchild), brother, sister (including a stepbrother or stepsister), grandparent, grandchild, and in-laws of a covered person.

Deleted: 5

No owner, developer or sponsor of a project assisted with HOME funds (or officer, employee, agent, elected or appointed official, or consultant of the owner, developer or sponsor or immediate family member or immediate family member of an officer, employee, agent, elected or appointed official, or consultant of the owner, developer or sponsor) whether private, for profit or non-profit (including a CHDO when acting as an owner, developer or sponsor) may occupy a HOME-assisted affordable housing unit in a project during the required period of affordability specified in 92.252(e) or 92.254(a)(4). This provision does not apply to an individual who receives HOME funds to acquire or rehabilitate his or her principal residence or to an employee or agent of the owner or developer of a rental housing project who occupies a housing unit as the project manager or maintenance worker.

Grant recipients should avoid conflicts of interest and the appearance of conflicts of interest in administering their HOME programs as THDA does not routinely consider requesting exceptions to the conflict of interest provisions from HUD. The existence of a conflict of interest or the appearance of a conflict of interest, as determined by THDA in its sole discretion, may be grounds for requiring repayment of HOME funding and limitations on future program participation.

## U. PROCUREMENT

It is important to keep the solicitation of bids for goods and services as well as professional services contracts open and competitive. Cities, counties, and non-profit organizations must follow their procurement policies and meet all state and federal requirements. At a minimum, applicants must comply with 2 CFR 200.318 - General Procurement Standards.

Prior to solicitation of bids, the Grantee should develop a comprehensive scope of work and perform an independent cost estimate. Grantees should obtain a minimum of 3 to 5 bids using formal advertising or requests for proposals for the procurement of professional services such as grant administration, inspections, and work write-ups. There must be an established, well-documented selection procedure and a written rationale for selecting the successful bid or proposal.

## V. APPLICATION AND EVALUATION PROCEDURE

THDA will evaluate each application to determine if the proposal meets threshold criteria. Threshold criteria includes: submission of a complete application; proposal of an eligible activity; proposal of a project that in the opinion of THDA is physically, financially, and administratively feasible; and the proposal of a project that meets the requirements of 24 CFR Part 92, as amended.

CHDOs must submit the **Non-Profit/CHDO Checklist** with supporting documentation. Applicants must upload all organizational information required to be submitted through THDA's Participant Information Management System (PIMS). Copies of organizational documents that are required to be submitted through PIMS but that are submitted through another means will not be considered.

Documentation must be submitted along with the completed Checklist to demonstrate that the organization meets threshold requirements and has the capacity to provide affordable housing for low-income households, including the administration of the proposed project.

Applications meeting the threshold criteria will be scored and ranked in descending numerical order within the CHDO matrix, based on the criteria provided below. In the event of a tie score under the CHDO matrix, THDA first will select the application with the highest capacity score and then, if a tie still remains, the highest percentage of Match.

Deleted: 5

## CHDO MATRIX

Up to 120 points

### 1. CAPABILITY

Up to 60 points

The proposed project demonstrates exceptional project planning and readiness.

Up to 30 points

- The program design is complete and all necessary components to accomplish the project are identified in the application.
- Sites have been identified and CHDO has site control. NOTE: THDA will not be able to issue a Working Agreement unless there are specific addresses or a legal description for the property.
- CHDO has a pipeline of potential homebuyers ready to purchase or working toward readiness to purchase. NOTE: Commitment of CHDO funds must be to a specific address and homebuyer to meet HUD's definition of CHDO commitment by the 24-month deadline.
- CHDO has completed an examination of neighborhood market conditions demonstrating a need for the proposed housing and the anticipated housing types, as well at the target locations or neighborhoods for which the housing is intended.
- CHDO has secured other funding for the project. Commitment letters are included in the application.

The CHDO demonstrates sufficient capacity beyond threshold.

Up to 30 points

- The CHDO has produced successful affordable housing projects of similar size, scope and complexity.
- The CHDO has a demonstrated capacity to manage homeownership programs.
- The CHDO has paid staff with demonstrated housing development experience as documented by W-2 forms.
- The organization operating budget reflects multiple sources of funding.
- If previous experience under HOME:
  - Has the demonstrated ability to conform to the timeframe of Attachment B: Implementation Plan of the HOME Working Agreement;
  - Has demonstrated its ability to commit and draw down funds in a timely manner;
  - Has demonstrated the ability to complete a project within the contract term;
  - Has a lack of monitoring findings; and
  - Appropriately responds to client concerns or complaints and to THDA staff.

Deleted: 5

## 2. CHDO SERVICE AREA NOT IN A PJ

5 points

THDA shall award up to 5 points to applications submitted from CHDO's where the service area of the CHDO does not include an area designated as an entitlement area/PJ by HUD.

## 3. DISASTER AREAS

10 points

THDA shall award 10 points to applications for projects located in counties that have been declared a presidential disaster area under the Robert T. Stafford Disaster Relief and Emergency Assistance Act in the calendar year prior to the application due date. There are currently no presidentially declared disaster areas in Tennessee.

## 4. MATCH

Up to 15 points

THDA shall award up to 30 points to applications that include a committed contribution of eligible match resources towards the project implementation. A commitment of eligible match contribution from an external source must be documented in the application from the source providing the contribution. To determine the points awarded, THDA will not round the percentage calculated.

- The project's sources include an eligible HOME match contribution that is equal to or greater than 15% of the proposed HOME funds to be used for project costs;

15 points

OR

- The project's sources include an eligible HOME match contribution that is equal to or greater than 5% and less than 15% of the proposed HOME funds to be used for project costs;

10 points

OR

- The project's sources include an eligible HOME match contribution that is equal to or greater than 1% and less than 5% of the proposed HOME funds to be used for project costs;

5 points

OR

- The project's sources include an eligible HOME match contribution that is less than 1% of the proposed HOME funds to be used for project costs.

0 points

## 5. LEVERAGE

Up to 10 points

THDA shall award up to 10 points to applications that include the use of funds from other sources. THDA will award points in this category based on the actual percentage of other funds in the project. Leveraged funds counted in one program year do not qualify again as leverage in subsequent years. In order to receive points, there must be written documentation for the leveraged funds in the application.

Deleted: 5

## 6. ENERGY CONSERVATION

Up to 10 points

- a. For acquisition/rehabilitation and sale type homeownership projects, THDA shall award up to 10 points to applications that, to the extent feasible, include at least three energy conservation measures beyond that required by THDA's Design Standards for Rehabilitation in the rehabilitation of each unit.
- b. For new construction homeownership projects, THDA shall award up to 10 points to applications that include at least three energy conservation measures beyond that required by THDA's Design Standards for New Construction.

## 7. UNIVERSAL DESIGN

Up to 10 points

For new construction or acquisition/rehabilitation type homeownership projects, THDA shall award up to 10 total points to applications that include additional identified universal design features in each unit. Points will be awarded based on the schedule below.

Item "a" is worth (4) points. All other items are worth (1) point each. The maximum number of points that can be awarded under this category is 10.

- a. One entrance door that is on an accessible route served by a ramp or no-step entrance and which also has a 36" door.
- b. All Interior Doors a minimum of 32 inches of clear passage space except closets of less than 15 square feet.
- c. All hallways have a clear passage of at least 36 inches, is level with ramped or beveled changes at each threshold.
- d. Each electrical panel, breaker box, light switch or thermostat is no higher than 48 inches above the floor.
- e. Each electrical plug or receptacle is at least 15" above the floor.
- f. Minimum 5' x 5' level clear space inside and outside entry door.
- g. Broad blocking in walls around each toilet, tub and shower for future placement of grab bars.
- h. Full-extension, pull-out drawers, shelves and racks in base cabinets in kitchen.
- i. Front mounted controls on all appliances.
- j. Lever door handles on all doors.
- k. Loop handle pulls on drawers and cabinet doors.
- l. One bathroom on the main floor you can get into in a wheelchair.

**Deleted:** <#>For acquisition/rehabilitation and sale type homeownership projects, THDA shall award up to 10 points to applications that include at least three identified universal design features in each unit. ¶

<#>For new construction homeownership projects, THDA shall award up to 10 points to applications that agree to construct each single family unit in accordance with the following standards beyond that which is required by THDA's Design Standards for New Construction:¶

<#>At least one entrance door, whether located at the front, side, or back of the building, or through an interior garage: ¶<#>Is on an accessible route served by a ramp or no-step entrance; and ¶

<#>Has at least a standard 36 inch door; ¶

<#>On the first floor of the building:¶

(A) . Each interior door is at least a standard 32 inch door, unless the door provides access only to a closet of less than 15 square feet in area; and¶

(B) . Each hallway has a width of at least 36 inches and is level, with ramped or beveled changes at each door threshold; and¶

(C) . Each bathroom wall is reinforced for potential installation of grab bars; and¶

(D) . Each electrical panel or breaker box, light switch, or thermostat is not higher than 48 inches above the floor; and¶

(E) . Each electrical plug or other receptacle is at least 15 inches above the floor; and¶

(F) . The main breaker box is located inside the unit on the first floor.

**Formatted:** Indent: Left: 0.5"

**Formatted:** Justified, Indent: Left: 0.5", Hanging: 0.25", Right: 1.46", Numbered + Level: 1 + Numbering Style: a, b, c, ... + Start at: 1 + Alignment: Left + Aligned at: 0.5" + Indent at: 1"

**Formatted:** Font: 10 pt, Font color: Black,

**Formatted:** Indent: Left: 0.75", No bullets or numbering

**Deleted:** 5





# Tennessee Housing Development Agency

Andrew Jackson Building Third Floor  
502 Deaderick St., Nashville, TN 37243

**Bill Haslam**  
Governor

**Ralph M. Perrey**  
Executive Director

## MEMORANDUM

**TO:** Grants Committee and Board of Directors  
**FROM:** Don Watt, Director of Community Programs  
**DATE:** September 17, 2018  
**RE:** 2017 National Housing Trust Fund Awards

---

THDA made \$2,844,252 available for award under the 2017 National Housing Trust Fund Program Description. THDA received 7 eligible applications requesting nearly \$5.3 million. THDA awarded full funding for the top scoring applicants in the East and Middle Grand Divisions, full funding for the next highest overall scoring application, and partial funding for the fourth highest scoring application. A full breakout of scores and funding is shown on the attached funding matrix. Those applications awarded funding include:

- **Kingsport Housing and Redevelopment Authority** – (East TN) – Rehabilitation of Dogwood Terrace Apartments, a 76-unit public housing development that will be converted to a Rental Assistance Demonstration funded development with fifteen units set-aside for ex-offenders or veterans who are homeless or at risk of homelessness. Twenty units will be set aside as NHTF funded housing. This project also received an award under the 2018 Spring Round of the THTF Competitive Grants Program. The project is part of a bundled transaction of five PHA owned developments that has received a commitment of Multifamily Tax Exempt Bonds and 4% Low Income Housing Tax Credits. This award will be the second award to the housing authority under the NHTF.
- **Columbia Housing and Redevelopment Authority** – (Middle TN) – Substantial redevelopment of the Creekside Acres and Southern Hills developments that will be converted to a 140 unit Rental Assistance Demonstration funded development. Ten units will be set-aside as NHTF funded housing with all units assisted with PBRA. The project has received an allocation of 9% Low Income Housing Tax Credits in the 2016 Round.
- **Knoxville Housing Development Corporation** – (East TN) –New construction of the Clifton Road Elderly Housing Community that will include 53 total units, with 14 units set aside for NHTF eligible tenants. All units in the development will be assisted with PBRA. All units will be modular construction on land to be transferred from the City of Knoxville and exempt from future property taxes.

- **Metropolitan Development and Housing Agency** – (Middle TN) – New construction of 96 units of mixed income housing at the Boscobel 1 development site, with four units set-aside for NHTF eligible households. All NHTF units will have a set aside of project-based rental assistance. The project received a commitment of Low Income Housing Tax Credits in the 2017 Round. The Boscobel 1 development is part of the Envision Cayce Master Plan. The NHTF award is 65% of the eligible funds requested.

The total award of \$2,844,252 will create 48 units of housing for households at incomes not to exceed 30% of AMI. Specific individual awards are provided on the attached scoring matrix.

THDA has reviewed the application scoring with all interested parties seeking technical assistance. Staff anticipates making the 2018 Program Description available for consideration at the November Board meeting and opening that application process on December 1, 2018.

2017 NATIONAL HOUSING TRUST FUND PROGRAM

Applicants Passing Threshold		COUNTY	E M W	NHTF Eligible Development Request	NHTF Operating Reserve Request	Total NHTF Request	Total Project Cost	# of NHTF Units	# of Total Units	Activity	Project Design 30 Pts	Capacity & Experience 30 Pts	Leverage 10 Pts	Need 15 Pts	Areas of Opportunity 15 Pts	Total Score	Total NHTF Funding Award	TOTAL FUNDS AVAILABLE
																		\$2,844,252
Top Regional Scores																		
1-E	Kingsport Housing & Redevelopment Authority	Sullivan	E	\$900,000	\$0	\$900,000	\$7,019,372	20	76	Rehabilitation	26	29	4	10	11	80	\$900,000	\$1,944,252
1-M	Columbia Housing & Redevelopment Corporation	Maury	M	\$750,000	\$0	\$750,000	\$10,961,338	10	140	Acquisition & Rehabilitation	27	27	1	10	10	75	\$750,000	\$1,194,252
Ranking of Remaining Applications																		
1	Knoxville Housing Development Corporation	Knox	E	\$900,000	\$0	\$900,000	\$5,673,000	14	53	New Construction	26	27	3	13	10	79	\$900,000	\$294,252
2	Metropolitan Development Housing Agency	Davidson	M	\$451,956	\$0	\$451,956	\$25,000,000	4	96	New Construction	26	27	3	13	6	75	\$294,252	\$0
3	Franklin Housing Authority	Williamson	M	\$869,999	\$0	\$869,999	\$10,766,522	13	48	New Construction	26	29	1	10	8	74	\$0	\$0
4	Chattanooga Housing Authority	Hamilton	E	\$900,000	\$0	\$900,000	\$29,049,977	20	200	Acquisition & Rehabilitation	23	26	3	11	10	73	\$0	\$0
5	ECG Martin Mill, LP	Knox	E	\$526,380	\$0	\$526,380	\$30,017,379	5	172	New Construction	17	18	2	13	10	60	\$0	\$0

- NOTE:
- 1. NHTF Development Requests for MDHA and Franklin Housing Authority reduced to equal maximum amount eligible based on federal per unit subsidy limits.
  - 2. In the event of a tie in the Total Score, priority for funding is determined based on that application with the highest total points received under the Need & Areas of Opportunity categories.
  - 3. MDHA funding award is a partial funding award. In the event that funds are declined, unallocated funds will be reallocated under the 2018 National Housing Trust Fund Program Description.

	NHTF Eligible Development Funds	NHTF Operating Reserve Funds	Total NHTF Funds	Total Project Cost	# of NHTF Units	# of Total Units
Total Applications Recommended for Award:	\$2,844,252	\$0	\$2,844,252	\$48,653,710	48	365
Total Funds for which Eligible Applications Received:	\$5,298,335	\$0	\$5,298,335	\$118,487,588	86	785

Approved:  8/17/18  
Ralph M. Perrey, Executive Director Date

Applicants Not Passing Threshold	County	Threshold Issue
1 Memphis Housing Authority	Shelby	Final score of 57, below minimum threshold score of 60 for funding consideration
2 Buffalo Trail, LP	Davidson	Final score of 58, below minimum threshold score of 60 for funding consideration
3 Helen Ross McNabb Center	Knox	Proposal does not demonstrate financial feasibility for 30 Year Compliance Period.



# Tennessee Housing Development Agency

Andrew Jackson Building Third Floor  
502 Deaderick St., Nashville, TN 37243

**Bill Haslam**  
Governor

**Ralph M. Perrey**  
Executive Director

## MEMORANDUM

**TO:** Grants Committee and Board of Directors  
**FROM:** Don Watt, Director of Community Programs  
**DATE:** September 17, 2018  
**RE:** 2018 HOME CHDO Mini-Round Awards

---

THDA made available over \$2.68 million to nonprofit housing developers seeking designation as a Community Housing Development Organization (CHDO) under the HOME program. THDA received six applications for consideration.

THDA awarded a total of \$1.3 million to the following organizations:

- \$550,000 to Neighborhood Housing, Inc. to construct five units in Sevier County for sale to eligible home buyers. All funds will be used for development purposes.
- \$250,000 to Clinch-Powell Resource Conservation and Development Council to acquire, rehabilitate and sell three units to eligible home buyers in Claiborne, Hamblen, and Jefferson counties. \$232,500 will be used for development costs and \$17,500 as operating assistance.
- \$500,000 to Cleveland-Bradley Housing Corporation to construct 5 units in Bradley County for sale to eligible home buyers. \$465,000 will be used for development costs and \$35,000 as operating assistance.

Three additional applicants did not meet the threshold requirements for funding consideration. Two entities did not submit sufficient documentation for THDA to qualify the organization as a CHDO. The third applicant did not earn a score sufficient for funding consideration. THDA has made outreach to all denied applicants to review application consideration issues.

The full scoring matrix is attached.

**2018 HOME CHDO Mini-Round Program**

Applicant		Pass Threshold?	County	E M W	Program \$	CHDO Operating \$	Total Funds Requested / Awarded	# OF HH	Capability	Service Area Not in PJ	Disaster Area	Match	Leverage	Energy Conservation & Universal Design	Total Score	PROGRAM FUNDS AVAILABLE
																\$2,683,377
1	Neighborhood Housing, Inc.	Yes	Sevier	E	\$550,000	\$0	\$550,000	5	54	5	0	10	1	10	80	\$2,133,377
2	Clinch-Powell Resource Conservation & Development Council	Yes	Claiborne, Hamblen, Jefferson	E	\$232,500	\$17,500	\$250,000	3	57	5	0	10	1	0	73	\$1,900,877
3	Cleveland-Bradley Housing Corporation	Yes	Bradley	E	\$465,000	\$35,000	\$500,000	5	51	5	0	0	0	6	62	\$1,435,877

<b>TOTAL APPLICATIONS RECOMMENDED FOR FUNDING:</b>	\$1,247,500	\$52,500	\$1,300,000	13
<b>TOTAL APPLICATIONS MEETING THRESHOLD RECEIVED:</b>	\$1,247,500	\$52,500	\$1,300,000	13

Approved: \_\_\_\_\_

  
Ralph M. Perrey, Executive Director

8/20/18  
Date

Applications Received Not Meeting Threshold:

- 1 Eastern Eight Community Development Corporation: Organization did not meet qualification as a CHDO based on submitted documentation.
- 2 Hope of Martin Community Development Corporation: Organization did not meet qualification as a CHDO based on submitted documentation.
- 3 East TN Housing Development Corporation: Did not receive the minimum score of 60 in order to be considered for funding.

# Tab # 7

Items:

Lending Committee Meeting Materials

**Tennessee Housing Development Agency**  
**Lending Committee**  
**September 25, 2018**  
**9:30 a.m. Central Time**

---

AGENDA

1. Call to Order .....Cleaves
2. Approval of Minutes for July 24, 2018 Meeting .....Cleaves
3. Appraisal GAP Program Description ..... Hall
4. Loan Servicing Update ..... Fisher
5. Adjourn.....Cleaves

LOCATION

SpringHill Suites – Kress Ballroom  
85 West Court Avenue, First Floor  
Memphis, TN 38103

COMMITTEE MEMBERS

Dorothy Cleaves, Chair  
Regina Hubbard  
Larry Martin  
Todd Skelton  
Mary Mac Wilson

TENNESSEE HOUSING DEVELOPMENT AGENCY  
LENDING COMMITTEE  
July 24, 2018

Pursuant to the call of the Chairman, the Lending Committee of the Tennessee Housing Development Agency Board of Directors (the "Committee") met in regular session on Tuesday, July 24, 2018, at 9:30 a.m., in the Nashville Room of the William R. Snodgrass Tennessee Tower Building, Nashville, Tennessee.

The following Committee members were present: Regina Hubbard, acting as chair in the absence of Dorothy Cleaves, Samantha Wilson for Larry Martin, and Todd Skelton. Other Board members present were Kim Grant Brown (Board Chair), John Snodderly, and Lynn Tully. Ms. Hubbard called the meeting to order and called for consideration of the minutes from the May 22, 2018, meeting. Upon motion by Mr. Skelton, second by Ms. Wilson, the minutes were approved.

Ms. Hubbard called on Dr. Hulya Arik, THDA Economist, to present the first item on the agenda, Single Family Mortgage Loan Program Income Limits. Dr. Arik explained the determination of income limits requires two pieces of information: Area Gross Median Income and Average Area Purchase Prices. HUD released the FY18 AGMFI figures on April 1, 2018. The IRS released Revenue Procedure 2018-28 updating AAPP and nationwide purchase prices for the MRB and MCC programs on April 24, 2018. IRS Revenue Procedure 2018-33, released May 10, 2018, directs issuers of MRB, including THDA, to use either FY2018 income figures or FY2017 income figures as the basis for calculating new income limits, including income limits for high cost areas. THDA staff calculated the Proposed 2018 Income Limits, included with the board package, based on the 2018 AGMFI and 2018 AAPP and compared the current income limits to the proposed 2018 income limits and concluded that the Proposed 2018 Income Limits created the best opportunity to increase the income limits for the most counties, with the fewest reductions. Staff recommends adoption of increased income limits for 81 counties and reduced income limits for 14 counties as shown on the chart included with Ms. Arik's memo dated July 9, 2018. The decreased income limits are mandatory and were made effective as of July 20, 2018. The recommended increased would be effective August 1, 2018. Upon motion by Mr. Skelton, second by Ms. Wilson, the motion carried and will be presented to the Board.

Ms. Hubbard next called on Lynn Miller, Chief Legal Counsel, to present the next item on the agenda, Areas of Chronic Economic Distress. Ms. Miller stated that the item was discussed in the Bond Finance Committee meeting and is included in the Board material. Ms. Miller referred to the memo from Hulya Arik and Bettie Teasley dated July 9, 2018 to the Board of Directors, and reviewed some background regarding the subject. She stated that the Areas of Chronic Economic Distress, also referred to as targeted areas, are areas in which THDA may offer loans to non-first-time homebuyers purchasing a home in a targeted area and also allows a higher income limit. The applicable Internal Revenue Code does not require that the designation of these counties ever be updated or reviewed; and as a consequence, no changes to the 58 counties designated in the early 1980's have every been made. However, staff realized that some of the Areas of Chronic Economic Distress no longer reflect the economic activity, vitality and distressed areas of the state. Staff recommends designation of 53 counties as Areas of Chronic Economic Distress, as shown on the chart and map included in the Board material. Ms. Miller stated the Bond Finance Committee is recommending that the Board adopt the Resolution that is part of the Board packet that designates those 53 counties and authorizes the THDA Executive Director to adjust the factors, counties, and whatever needs adjusting once we hear from the IRS and HUD. There being no



known timeline for their response, the existing targeted areas will remain in the meantime. Ms. Miller stated that the code permits the state to establish the designation of areas, however staff has been advised by Bond Counsel that the intention is for the governor to make the decision or he may delegate the authority to the Executive Director. Staff will request that the governor delegate the authority to the Executive Director, so the decision will be by the Board as well as the governor. There being no questions, motion to recommend that the Board adopt the Resolution was made by Ms. Wilson, and a second by Mr. Skelton. The motion carried.

Ms. Hubbard called on Lindsay Hall, Chief Operating Officer of Single Family Programs, to present the final item on the agenda, Appraisal Gap Grant Pilot. Ms. Hall presented a challenge facing THDA non-profit partners who build in more distressed communities in the state. In Memphis and Chattanooga, there are certain communities that have not recovered since the crisis. Home values in these areas have not appreciated at the rate of other nearby areas. A problem arises when a non-profit would like to build affordable housing or renovate in these communities and the costs to develop and construct, and costs for material and labor exceed the final appraised value. There is a gap between the actual cost to the non-profit and the appraised value, hindering the recovery in these communities. In an effort to THDA Staff would like to discuss a pilot program with the Board that would run for 24 months and use \$500,000 of THDA funds. This program would offer a grant to the non-profit of up to \$20,000 per unit for the appraisal gap, once the borrower is approved with a Great Choice first mortgage. The Special Programs division would next evaluate the cost submitted by the non-profit for the entire build, along with the appraisal. The loan commitment would come from the Loan Operations division, providing the non-profit with a grant for the difference. The maximum grant under this program would be \$20,000 per home, with the amount determined based on the evaluation of each home. A 24 month time period is believed by staff to be a reasonable timeframe for this pilot, considering the rate at which non-profits build. Ms. Hall responded to a question from Ms. Brown regarding consideration of areas other than Memphis and Chattanooga, stating that staff will be working with the Research division for further determination of possible areas. Ms. Hall stated that staff anticipates bringing this item to the Board in September with a term sheet and more information. Implementation of the program could possibly be as early as December.

There being no further business, Ms. Hubbard adjourned the meeting.

Respectfully submitted,

Ralph M. Perrey  
Executive Director

Approved the \_\_\_\_ day of \_\_\_\_\_, 2018.



# Tennessee Housing Development Agency

Andrew Jackson Building, Third Floor  
502 Deaderick Street, Nashville, TN 37243

**Bill Haslam**  
Governor

**Ralph M. Perrey**  
Executive Director

## MEMORANDUM

**DATE:** September 17, 2018

**TO:** Board of Directors  
Lending Committee

**FROM:** Lindsay Hall, Chief Operating Officer of Single Family Programs

**SUBJECT:** Appraisal Gap Pilot Program

---

THDA staff is requesting authorization for the Appraisal Gap Pilot Program as described in a memo to the Board dated July 17, 2018 and the Appraisal Gap Pilot Program Term Sheet, both of which are attached. In general, the Appraisal Gap Pilot Program provides the following:

1. Grant funding up to \$20,000 per unit (Single Family dwelling) to approved non-profit housing participants in order to offset the gap between the appraised value of the home and the purchase price.
2. A maximum of up to \$500,000 of THDA funds for the Appraisal Gap Pilot Program to provide grants to eligible non-profit participants in specific ZIP codes of Shelby, Hamilton, and Anderson counties on a first come, first served basis through December 31, 2020.

In many neighborhoods and communities in Shelby, Hamilton, and Anderson counties, there is still a challenge because property values are lower than the actual cost of construction; whether it is a new construction home or a renovated home. This cost is absorbed by the non-profit housing agencies as they attempt to stabilize these communities that have not recovered at the same pace as other areas across the state. This Appraisal Gap Program will help these non-profit housing agencies recoup their losses up to \$20,000 per unit in order to increase their capacity to build new construction or substantially renovate affordable homes for sale in the following 37 ZIP Codes:

Shelby County ZIP Codes					
38016	38018	38103	38105	38106	38107
38108	38109	38111	38112	38114	38115
38116	38118	38119	38122	38125	38126
38127	38128	38134	38135	38141	

Hamilton County ZIP Codes					
37338	37373	373402	37404	37406	37407
37409	37410	37411	37412	37415	37421

Anderson County ZIP Codes	
37830	37831

Attached please find:

- The Memo to the Board dated July 17, 2018 describing the Appraisal Gap Pilot Program
- The Appraisal Gap Pilot Program Term Sheet

By making a grant program available for this activity, THDA will be able to assist non-profit housing agencies rebuild and maintain values in challenged neighborhoods while at the same time offering the opportunity for affordable homeownership.

**RECOMMENDATIONS:**

THDA staff recommends that the THDA Board take the following action:

- Authorize staff to modify the approved ZIP Codes list as deemed necessary;
- Authorize staff to make minor changes and housekeeping changes to the programs as deemed necessary; and
- Authorize all appropriate staff to do all things necessary and proper to carry out and launch the described program.



# Tennessee Housing Development Agency

Andrew Jackson Building Third Floor  
502 Deaderick St., Nashville, TN 37243

**Bill Haslam**  
Governor

**Ralph M. Perrey**  
Executive Director

## **MEMORANDUM:**

DATE: July 17, 2018

TO: THDA Board of Directors  
Lending Committee

FROM: Lindsay Hall  
Chief Operating Officer of Single Family Programs

SUBJECT: Appraisal Gap Grant Pilot

---

Since the mortgage crisis nearly a decade ago, there are certain neighborhoods in Memphis and Chattanooga where property values still have not recovered. Property values in these neighborhoods have not appreciated at a pace that matches the appraised value with the actual sales price of homes. With the rising costs of land development, building materials, and labor, non-profit affordable homebuilders who have been working to stabilize these neighborhoods can no longer renovate aged inventory for resale or construct new homes and cover their cost with a traditional sale to a new homeowner. With mortgage financing requiring that lenders use the lesser of the sales price or appraised value when calculating the maximum loan amount, non-profit affordable homebuilders are left with a shortfall between the achievable sales price and their building or renovation expenses.

After discussions with several non-profit housing agencies in these markets and review of both appraisals and building costs, staff found that the shortfall is approximately \$15,000 to \$20,000 per house. In an effort to expand affordable housing in these markets, staff is considering use of \$500,000 from THDA funds to offer Appraisal Gap Grants. These grants would be awarded to approved non-profit housing participants. The maximum grant amount per housing unit would be \$20,000, with the actual amount calculated on the difference between cost to build and the appraised value used for the borrower's financing.

The first mortgage loan used in the purchase of the home would be a Great Choice first mortgage with or without a Great Choice Plus or HHF down payment assistance based on the borrower's needs and program eligibility. At funding of the first mortgage loan, THDA would provide the Appraisal Gap Grant to the non-profit participant (the builder).

Staff believes this grant program will allow non-profit participants (the builder) to increase the availability of new and/or renovated housing stock at an affordable price without depleting their capital; in an effort to stabilize home values within these distressed neighborhoods.

## **APPRAISAL GAP PROGRAM**

**2019/2020 Pilot**

### **Summary Guidelines**

<b>1. Program Overview</b>	The Tennessee Housing Development Agency (THDA) will provide gap funding to eligible nonprofit entities to help cover the costs to build new construction or substantially rehabilitate homes in specified areas of the state where the property values still have not recovered. This program will provide up to \$20,000 per home to eligible nonprofit entities who build new homes or substantially rehabilitate existing homes and sell them to eligible purchasers if the appraised value of the home is less than the cost of construction.
<b>2. Program Goals</b>	THDA believes this grant program will assist non-profit participants in increasing the availability of new and/or renovated homes at affordable prices without depleting their capital and in stabilizing home values within the focus areas described below.
<b>3. Focus Areas</b>	<p>This program will only be available within Shelby, Hamilton and Anderson County in the following 37 ZIP Codes.</p> <p>Shelby: 38016, 38018, 38103, 38119, 38125, 38134, 38135, 38141, 38105, 38106, 38107, 38109, 38111, 38112, 38127, 38108, 38114, 38115, 38116, 38118, 38112, 38126, 38128</p> <p>Hamilton: 37338, 37373, 37409, 37412, 37415, 37421, 37402, 37404, 37406, 37407, 37410, 37411</p> <p>Anderson: 37830, 37831</p>
<b>4. Max Grant Amount</b>	Up to \$20,000 per home. First come, first served.
<b>5. Program Allocation</b>	\$500,000 of THDA funds. The funds will be available for up to 2 years or until the \$500,000 is allocated, whichever comes first.

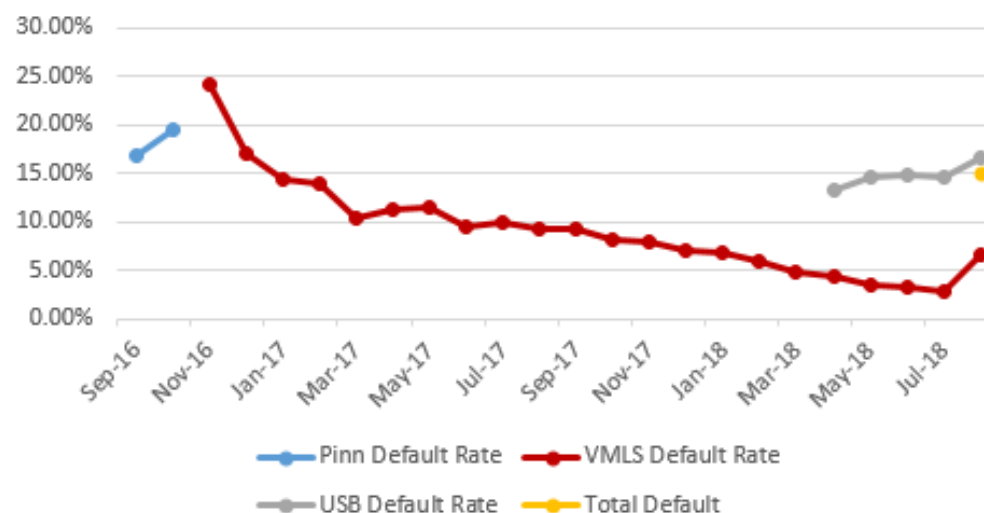
<b>6. Purchaser Eligibility Criteria</b>	To be eligible, a purchaser of an eligible newly constructed or substantially rehabilitated home must qualify for a THDA Great Choice Mortgage Loan and a THDA eligible down payment assistance loan. For THDA Great Choice Loans coupled with HHF-DPA, only rehabilitated homes are permitted.
<b>7. Property Eligibility Criteria</b>	Single Family 1-4 units
<b>8. Program Exclusions</b>	Condominiums, co-ops, manufactured housing
<b>9. Structure of Assistance</b>	One-time disbursement per home to the eligible nonprofit at the closing of the sale to an eligible purchaser in an amount equal to the difference between the THDA approved construction or renovation cost and the appraised value of the home as shown by the appraisal required in connection with the purchaser's financing of the home.
<b>10. Duration of Program</b>	From December 1, 2018 to December 31, 2020 or commitment of the full \$500,000 made available, whichever occurs first.
<b>11. Homebuyer Education</b>	Eligible purchasers shall attend THDA approved Pre Purchase and Post Purchase Homebuyer Education prior to closing.
<b>12. Servicing</b>	Loans will be serviced by Volunteer Mortgage Loan Servicing. If purchaser becomes more than 60 days delinquent, a HUD Housing Counseling consultation is required.

## AUGUST 2018 HIGHLIGHTS

- **CALLS:** 16,444 with 98% handle rate
- **EMAILS:** 1,800 emails responded
- **PAYMENTS:** \$31.29mm posted in FICS
- **ACH:** 1,395 customers set up for auto payments
- **ESCROW:** 14,000 manual disbursements prepared
- **SOLICITATIONS:** 741 borrower loss mitigation letters printed and mailed from Parkway Towers
- **STATEMENTS:** 23,187 mailed
- **SECOND CONVERSION:** 7,078 junior liens moved from D+H into FICS mid-month



VMLS Default Rate



- **DEFAULT RATE:** VMLS default rate remained lower than US Bank's default rate, under 15% total default.

# Tab # 8

Items:

Tax Credit Committee Meeting Materials



**Tennessee Housing Development Agency  
Tax Credit Committee  
September 25, 2018  
9:45 A.M. Central Time**

---

AGENDA

1. Call to Order ..... Tully
2. Approval of Minutes from July 24, 2018 ..... Tully
3. 2019-2020 Low-Income Housing Credit Qualified Allocation Plan.....Duarte
4. Multifamily Tax-Exempt Bond Authority Commitment Extensions .....Duarte
5. 2018 Multifamily Tax-Exempt Bond Authority Program Update.....Duarte
6. Adjourn .....Tully

LOCATION

SpringHill Suites  
85 West Court Avenue  
Memphis, TN 38103

The Kress Ballroom

COMMITTEE MEMBERS

Lynn Tully, Chair  
Kim Grant Brown  
Pieter Vanvuyen  
David Lillard  
Larry Martin  
Todd Skelton

TENNESSEE HOUSING DEVELOPMENT AGENCY  
TAX CREDIT COMMITTEE  
July 24, 2018

Pursuant to the call of the Chair, the Tax Credit Committee of the Tennessee Housing Development Agency Board of Directors met, in regular session, on Tuesday, July 24, 2018, 10:19 a.m. Central Time at the William R Snodgrass Tennessee Tower, Third Floor, Nashville Room, Nashville, Tennessee.

The following Committee members were present: Lynn Tully (Chair), Kevin Bradley for Treasurer David Lillard, Todd Skelton, and Samantha Wilson for Larry Martin, and Kim Brown. Seeing a quorum present, Chairman Tully called the meeting to order and called for consideration of the minutes from May 22, 2018. Upon motion by Todd Skelton, second by Samantha Wilson, the minutes were approved.

Chair Tully acknowledged Jim Tracey State director of U.S. Department of Agriculture - Rural Development program ("USDA-RD"). Mr. Tracey requested a second extension for a bundled Multifamily Tax-Exempt Bond Authority ("MTBA") transaction of USDA-RD developments. Chairman Tully recognized Ms. Donna Duarte who provided additional information about the request. Ms. Duarte referenced a memo provided to the Board Members prior to the start of the meeting supporting a conditional waiver to Part VIII-A-2-d of the Multifamily Tax-Exempt Bond Program Description for these USDA-RD developments and proposing a new December 19, 2018 deadline for closing the issuance and sale of bonds under the 2018 MTBA program due to unavoidable delays with USDA-RD. Chairman Tully called upon Mr. Tracey and Mr. Don Harris, USDA-RD's Tennessee State Housing Program Director, who explained the situation and indicated that USDA-RD has provided an extension for the proposed financing of these developments. Upon motion by Mr. Skelton, second by Ms. Grant Brown, an extension until December 19, 2018, was recommended.

Chair Tully recognized Ms. Duarte to discuss amendments to the Low-Income Housing Tax Credit 2018 Qualified Allocation Plan ("2018 QAP") involving Sevier County. Ms. Duarte referenced her memo dated July 9, 2018, describing the proposed amendments to Part IV-A-1 and Part IV-D of the QAP that will increase the county cap applicable to Sevier County and increase the qualified census tract limit. She noted that approving both amendments will allow additional developments proposed in Sevier County to receive competitive 2018 Low Income Housing Tax Credits, which supports the THDA policy of directing additional resources to Sevier County following wildfires in late 2016. Upon motion by Ms. Grant Brown, second by Mr. Skelton, motion passed to recommending amending the 2018 QAP by increasing the county cap for Sevier County to \$5,241,745 and by increasing the qualified census tract limit to 48%.

Chair Tully noted that consideration of the 2019/2020 Qualified Allocation Plan is deferred.

Chair Tully recognized Ms. Duarte for discussion of the Allocation Exchange for TN17-030; South City/Foote Homes Phase II. Ms. Duarte referenced her memo dated July 9, 2018, and recommended an exchange of 2017 competitive low income housing tax credits for a like amount

of 2018 competitive low income housing tax credits which would allow South City to proceed with their Choice Neighborhood Initiative Grant Award, subject to the conditions referenced in her memo. Upon motion by Mr. Skelton, second by Ms. S. Wilson, motion passed to recommend the referenced exchange of 2017 competitive low income housing tax credits for a like amount of 2018 competitive low income housing tax credits, subject to the referenced conditions.

Chair Tully recognized Ms. Duarte who provided a verbal report of closings under the Multifamily Bond Authority Program.

With no further business, Chair Tully adjourned the meeting.

Best regards,

Ralph M. Perrey  
Executive Director

Accepted this 25<sup>th</sup> day of September, 2018.



# Tennessee Housing Development Agency

Andrew Jackson Building Third Floor  
502 Deaderick St., Nashville, TN 37243

**Bill Haslam**  
Governor

**Ralph M. Perrey**  
Executive Director

## MEMORANDUM

TO: THDA Board of Directors, Tax Credit Committee

FROM: Donna Duarte  
Director of Multifamily Programs

SUBJECT: 2019-2020 Low-Income Housing Credit Qualified Allocation Plan Executive Summary

DATE: September 17, 2018

The 2019-2020 Low-Income Housing Credit Qualified Allocation Plan (“2019-2020 QAP”) is presented for your consideration. The 2019-2020 QAP can be found on Tennessee Housing Development Agency’s (“THDA’s”) webpage at: <https://thda.org/business-partners/lihtc>. We respectfully request your approval of the draft 2019-2020 QAP as described in this memorandum and attachment with the specific inclusion of housekeeping items which will allow Multifamily Programs staff to make minor changes in the document to implement the major changes of the QAP as adopted.

The 2019-2020 QAP incorporates separate scoring rounds for new construction and existing multifamily developments and ensures housing credits are allocated throughout Tennessee. A summary of the major proposed changes for the 2019-2020 QAP is attached to this memorandum. Since the 2019-2020 QAP was completely re-written including format and content, the changes from previous Qualified Allocation Plans are referenced by Section.

Discussions on changes to the 2019-2020 QAP were held with the Tax Credit Committee and program participants on THDA’s website, during statewide public hearings, outside speaking engagements, one on one phone calls, and in emails with developers on specific topics of interest. When applicable, developer feedback was incorporated into the draft 2019-2020 QAP. In July, a first draft of the 2019-2020 QAP was posted to THDA’s website. Developers and other interested parties offered significant questions and comments. Multifamily Programs staff addressed the comments, improved the content of the 2019-2020 QAP and when possible, incorporated suggestions. The 2019-2020 QAP Comments can be found on THDA’s webpage at: <https://thda.org/business-partners/lihtc>.

If you have any questions or comments about this QAP, please contact me.

**Summary of Proposed Changes  
Incorporated into the  
Draft 2019-2020 Low-Income Housing Credit Qualified Allocation Plan  
September 17, 2018**

**Major Changes as Discussed with the Tax Credit Committee**

1. Separate scoring systems for New Construction and Existing Multifamily Housing are found in Section 14.
2. New Construction Regional Pools ensuring new construction throughout Tennessee are found in Section 3.
3. Expanded utility allowance methodology choices rewarding developments which utilize energy efficiencies in construction are found in Section 14 and in the Utility Allowance Guidance found in the THOMAS Documents page on THDA's website.
4. Since this is a two-year QAP county needs scores, urbanicity lists, total development costs, per development limits, and per county caps will be reviewed and adjusted as necessary prior to the Initial Application deadline in 2020.
5. Implementation of the March 23, 2018 adopted 60% Income Averaging minimum set-aside federal election is found in Section 13.
6. Set-asides and available housing credit amounts are covered in Section 3 and are briefly described below:
  - a. The Nonprofit Set-Aside federal requirement of 10% of the annual housing credit ceiling;
  - b. The Choice Neighborhoods Initiative Grant allocation which is set at no more than \$1.7M to one Tennessee applicant in each year;
  - c. The Innovation Round allocation which may not exceed more than one allocation is set to the amount of housing credits available under the per development cap for the type of construction proposed and the urbanicity of the development;
  - d. The PHA Set-Aside which is not more than 20% of the annual housing credit ceiling is allocated to PHA applicants;
  - e. Existing Multifamily Housing allocations which is not more than 25% of the annual housing credit ceiling is allocated to existing multifamily housing applicants proposing acquisition and or rehabilitation; and
  - f. New Construction Regional Pools allocation which is set at least 55% of the annual housing credit ceiling is allocated to applicants proposing new construction.

Also, new construction development limits and total development cost limits have been updated.
7. Significant Adverse Events ("SAEs") found in Section 6 replace Sponsor Characteristics and Development Experience Points in previous QAPs. SAEs are events which negatively impact the development and on-going operations of housing credit properties. Major SAEs limit the eligibility of an Initial Application. As of January 1, 2019, Minor SAEs are attributed to effected development teams on a going-forward basis. Minor SAEs could affect the final score of an Initial Application as noted in Section 13.
8. Applicants proposing rehabilitation of existing multifamily housing are not restricted by the preservation requirements of prior QAPs. Information on requirements of applicants proposing acquisition and or rehabilitation of existing multifamily housing is found in Section 11.
9. Minimum construction requirements and thresholds have been updated to meet current code and zoning requirements. This includes the incorporation of Fannie Mae Expected Useful Life Table

into the physical needs assessment and an increase in the per door rehabilitation costs to \$25,000 which is found in Section 13.

**Necessary Formatting Changes as a Result of the Re-Write of the QAP**

10. Definitions for commonly used terms were added and can be found in Section 2.
11. Application submission requirements as the result of the full implementation of THOMAS can be found in Section 4. The THOMAS changes include documents used in the Initial Application process and are found on the THOMAS Documents page of the website.
12. Additional points selections for scoring are identified in Section 14 and include:
  - a. Deeper income restrictions to serve households at the 40% of median income level;
  - b. Additional energy efficiency option;
  - c. Additional exterior choices (wiring for Internet access, fire stop stove extinguishing systems, washer/dryer hook ups in the residential units; pergolas and verandas in addition to gazebos with permanent seating for residents; development security systems; etc.) for construction;
  - d. Deferral or waiver of the Qualified Contract Process; and
  - e. Recapitalization delay and/or waiver.

The points scoring system for 2019-2020 has been updated and reflects the changes to the QAP.
13. We anticipate further changes as necessary, commonly referred to as housekeeping items, throughout the document to conform to the major changes included in this QAP and as necessary to implement this QAP.



## Tennessee Housing Development Agency

Andrew Jackson Building Third Floor  
502 Deaderick St., Nashville, TN 37243

**Bill Haslam**  
Governor

**Ralph M. Perrey**  
Executive Director

### MEMORANDUM

TO: THDA Board of Directors, Tax Credit Committee

FROM: Donna Duarte  
Director of Multifamily Programs

SUBJECT: Request for Second Extension of Deadline to Close Issuance and Sale of 2018 Multifamily Tax-Exempt Bond Authority

DATE: September 17, 2018

The Public Housing Authorities identified in the table below have received commitments of 2018 Multifamily Tax-Exempt Bond Authority. The current bond closing deadlines specified by Part VIII-A-2-d of the 2018 Multifamily Tax-Exempt Bond Authority Program Description are also reflected in the table. Staff recommends granting extensions to the closing deadlines under the Multifamily Tax-Exempt Bond Authority Program Description to each Development to December 19, 2018, and to waive the required Extension Fee.

Project No.	Development Name	City	Units	Bond Issuance Deadline	Public Housing Authority
18-215	Northridge and Northridge Annex	Columbia	105	September 29, 2018	Columbia Housing and Redevelopment Corporation
18-234	KHRA QCT	Kingsport	207	October 1, 2018	Kingsport Housing and Redevelopment Corporation
18-235	KHRA RAD Non-QCT	Kingsport	174	October 1, 2019	Kingsport Housing and Redevelopment Corporation

### Historical Background to Date

The developments identified in the table are proposed by Public Housing Authorities and have requested 2018 Multifamily Tax-Exempt Bond Authority to meet the requirements of the U.S. Department of Housing and Urban Development (“HUD”) Rental Assistance Demonstration (“RAD”) program. The financing structure for these applications involves financing through HUD. These applications have already been granted a 30 calendar day extension to the deadline to close issuance and sale of 2018 Multifamily Tax-Exempt Bond Authority as specified in Part VIII-A-2-d of the 2018 Multifamily Tax-Exempt Bond Authority Program Description.

Due to unavoidable delays associated with HUD required resubmission of information, these Public Housing Authorities will not be able to meet the THDA required bond closing deadline. Since these transactions will assist the identified Public Housing Authorities rehabilitate 486 units utilizing RAD confirmed rents and given THDA’s overall commitment to the RAD program, staff considers the waiver to be warranted.

Approval of the Tax Credit Commitment is needed to extend the deadline to close issuance and sale of the 2018 Multifamily Tax-Exempt Bond Authority. Part VIII-A-2-d of the 2018 Multifamily Tax-Exempt Bond Authority Program Description states that *“Any Firm MTBA Commitment Letter issued before August 1, 2018 will be permitted to request a single extension of thirty (30) calendar days to the expiration date. An Extension Fee (as described in Part IX-L-1) must accompany the extension request. The extension request may be approved or denied by THDA, in its sole discretion.”*

In consideration of this request, staff requests that a refund of the Incentive Fee (*as described in Part IX-G*) is waived in favor of the bond issuance extension.

Please see the attached documentation from Mr. David Arning, Senior Vice President, LHP Development, LLC and Mr. Terry Cunningham, Executive Director KHRA supporting these requests. Please let me know if you have any questions.





August 27, 2018

Ms. Donna Duarte  
Director of Multifamily Development  
Tennessee Housing Development Agency  
502 Deaderick Street, Third Floor  
Nashville, Tennessee 37243

Re: Request for Extension to Closing Deadline for Northridge and Northridge Annex (TN18-215)

Dear Donna:

We write to you on behalf of the Columbia Housing and Redevelopment Corporation (CHRC) and its affiliate, Columbia II LP, to request an extension of the multifamily tax-exempt bond closing deadline for Northridge and Northridge Annex (the “Development”) from September 28, 2018 to December 19, 2018.

As you know, the Development is part of a multi-phased RAD conversion of CHRC’s public housing portfolio which includes: (1) Creekside, a 9% deal funded by the 2016 RAD set-aside that will be completed next month; (2) Oakwood, a 9% deal funded by the 2017 Innovation set-aside that will close at the same time as the subject Development; and (3) Northridge, a 4% deal funded in 2018 and scheduled to close in the next several weeks.

Earlier this month we received from HUD a revised commitment to enter into a HAP agreement (CHAP) which reflects slightly higher “Modified FY 2016 RAD Rents” approved under the 2018 Appropriations Act. We have signed letters of intent for all debt and equity financing, as well as draft closing documents in circulation. A complete closing package was submitted to HUD last week and is currently under review.

Our development team and financial partners are working hard to close both transactions before the existing THDA deadline. However, due to the unique closing procedures established for RAD projects – which require lengthy reviews by both the RAD closing coordinator and HUD attorney, preparation and circulation of an approval memoranda through HUD’s Office of Recapitalization, and final execution of HUD documents on Thursdays only – we cannot be sure that we will secure HUD’s final approval or signatures on closing documents in time to market, sell and close on the bond financing by September 28<sup>th</sup>.

CHRC and LHP have been working diligently for almost five years to finance and recapitalize this critical affordable housing stock in middle Tennessee. We respectfully request additional time to finalize the transaction and realize the housing authority’s visionary transformation for the community.

We thank you for your consideration and hope you won't hesitate to ask should you have any questions or require any additional information.

Sincerely yours,

A handwritten signature in blue ink, appearing to read "David R. Arning", with a stylized flourish extending from the end.

David R. Arning  
Senior Vice President  
LHP Development, LLC

cc: Trent Ogilvie, CHRC (via e-mail)  
Felita Hamilton, THDA (via e-mail)

August 23, 2018

Tennessee Housing Development Agency  
Attn: Donna Duarte, Multifamily Programs Director  
502 Deaderick Street, Third Floor  
Nashville, Tennessee 37243

Hello Donna:

This letter is to request an extension for the closing date on TN18-234, KHRA QCT and TN18-235, KHRA RAD Non-QCT for the redevelopment of the Kingsport Portfolio transforming 381 units. The extension is needed based on circumstances beyond our control.

In May we received authorization from THDA for the tax credits and bond authority for this combined effort. TN18-234 is for our non-RAD developments in Qualified Census Tracts (QCT), and TN18-235 is for our RAD developments in non-QCT areas. In June we submitted the required HUD RAD financing plan to HUD for these two projects that we would finance together.

Earlier this year, HUD instituted a new online system for entering all physical conditions assessments which is called the RAD Physical Conditions Assessment (RPCA) E-tool. Our team compiled all the data and uploaded the E-tool as we were directed by HUD. Based on our past discussions with HUD over the last year, we had anticipated that HUD would evaluate the two efforts noted separately, and that we would only need to submit a RPCA E-tool for the RAD project.

However, after we had submitted; HUD advised us that the information related to TN-18-234 (which is not RAD) be included in the E-tool which involved combining all data into one single E-tool submission. This was not a small task. Our team had to reproduce all the reports into a single format, and then upload again to the HUD site.

Over the last two months, we have been working with HUD to upload this single E-tool. However, HUD has had some challenges with the new E-tool software system, and for some reason the system would not accept the information that we submitted despite our diligent efforts. Our team has been working directly with the HUD software team to resolve the issue, and we were finally able to upload the data on Wednesday, August 22, 2018.

We have reached out directly to Greg Byrne, Director of HUD's RAD office, who is now performing final reviews, and we expect to receive the necessary approval from HUD, the RAD Conditional Commitment (RCC) by September 15, 2018. We anticipate that we will be able to close within 60 days of that notice.



Although we have been waiting for HUD, over the last few months we have been moving ahead preparing for closing with our entire financing team and attorneys to provide all due diligence and to start closing efforts. We anticipate securing final commitments from our permanent loan, construction loan, and equity investment in the next two weeks and anticipate legal documents finalized in the next 30 days.

Below is a schedule that we have prepared for our closing:

- HUD approval of RPCA E-tools – 8/25/18
- HUD issuance of RCC – 9/15/18
- KHRA executes RCC – 9/21/18
- KHRA Board Authorization Approval of Bond Documents – 9/26/18
- Submit Closing Documents to HUD – 9/30/18
- Closing Approval by HUD – 10/30/18
- Price bonds – 10/30/18
- Financial Closing – 11/7/18

This delay in processing the RAD approval by HUD is likely to push the closing date back into November. Our award letters are dated May 3, 2018, and 120 days would result in a deadline of September 1, 2018. We would like THDA's consideration in extending the closing date to December 1, 2018 based on the delays we are experiencing from HUD beyond our control. Please let us know if you need any other information.

The THDA team has been very supportive of our efforts, and we appreciate your help and consideration.

Sincerely,



Terry W. Cunningham  
Executive Director  
Kingsport Housing and Redevelopment Authority

