TENNESSEE HOUSING DEVELOPMENT AGENCY
BOARD OF DIRECTORS
September 21, 2006

Pursuant to the call of the Chairman, the Tennessee Housing Development Agency Board of Directors met on Thursday, September 21, 2006, at 1:00 P.M. in the 12th Floor Training Room, Parkway Towers, Nashville, Tennessee.

The following members were present: Robyn Askew, Tim Bolding, Gerald Reed for Riley Darnell, Peter Abernathy for Dave Goetz, Winston Henning, Eddie Latimer (Chair), Ann Butterworth for John Morgan, Janice McNeely, Alvin Nance, Ralph Perrey, Tim Pettus, Brad Rainey, Janice Cunningham for Dale Sims, Carl Tindell, and Jackie West.

Bob Cooper, Loretta Jercinovich, Gerald Konohia and Sharon Reynolds were absent.

Chairman Latimer called the meeting to order and opened the floor for public comment. There were no public comments.

The first item on the agenda was approval of the July 20, 2006, meeting minutes. Upon motion by Mr. Bolding seconded by Ms. Butterworth, the minutes were approved as distributed.

Chairman Latimer asked Ted Fellman, Executive Director, to recognize staff. Mr. Fellman began by introducing a new staff member, Jeboria Scott, FSS and Homeownership Coordinator for the Section 8 Rental Assistance Division. He then presented three service awards for 5 years of service. Brett Harris, Senior Compliance Monitor for the Program Compliance Division, Terry Malone, Senior Compliance Monitor for the Program Compliance Division, and Robbie Woodard, Senior Contract Operations Specialist for the Section 8 Contract Administration Division. Mr. Fellman then recognized Janet McClain, Section 8 Senior Housing Coordinator for the Section 8 Rental Assistance Division, as the second person in THDA history to spend 30 years with the Agency.

Chairman Latimer said the Monthly Report was the next item on the agenda. Mr. Fellman referenced the report provided in the Board packet and encouraged each member to look at the information included in the report.

Next on the agenda was the Budget Presentation from Trent Ridley, Chief Financial Officer. Mr. Ridley gave a presentation highlighting the proposed budget for FY 2007-2008, which is included in the Board packet. Mr. Ridley said THDA's financial strength and operating efficiency has improved. THDA's operating fund balance, as a percent of bonds outstanding, increased from 20.93% to 21.20%. He noted that in the FY 2003-2004 there was a decline followed by a large increase that is primarily attributable to mass prepayments during that time. The prepayments were reinvested and the reinvestment rates were low, which impacted THDA's income. He said THDA rebounded and has maintained over the past couple of years. Mr. Ridley said by maintaining profitability it shows that THDA has the capacity to fund, from within THDA resources, the Housing Trust Fund. Mr. Ridley said THDA's operating efficiency and administrative costs, as a percent of program costs and activity, has dropped to 2.54%. Mr. Ridley explained the budget approval process. He said once the budget is approved by the Board, it would then go to Financial Administration ("F&A"), the Governor's office, then the Legislature where, at each step, adjustments could be made.

The proposed budget for FY 2007-2008 includes a proposal to create a Housing Trust Fund to help persons with very low income, senior citizens, and persons with special needs. The proposal includes a THDA commitment of $6,000,000 for the coming year and $6,000,000 for the following fiscal year and the current State allocation of $1,000,000 made to THDA, all of which are reflected in the THDA proposed budget for FY 2007-2008. The expectation is that additional State funds will be allocated in future years and funds from private corporations, financial institutions and other funding sources will be solicited. Financial institutions who contribute would be eligible for the community investment tax credit established by the legislature last year.

Ms. Butterworth stated that both the Audit & Budget Committee and the Bond Finance Committee have considered the proposed budget, including the Housing Trust Fund, and both recommended approval. Upon motion by Ms. Butterworth, seconded by Mr. Bolding, the budget was approved and staff was authorized to make adjustments as F&A may require. Mr. Abernathy abstained because of his position with Finance & Administration.

Next on the agenda was the report of the Bond Finance Committee. Ms. Butterworth said the Committee considered information on a proposal for THDA's next bond issue, Issue 2006-3. Lynn Miller, Deputy Executive Director & General Counsel, referenced materials included in the Board packet relative to Issue 2006-3 and a Reimbursement Resolution. Ms. Miller said, as of September 20, 2006, approximately $7 million in bond proceeds remained from the last bond issue for making mortgage loans. Therefore, THDA is requesting approval to proceed with Issue 2006-3. She referenced the Plan of Financing in the Board packet which the Bond Finance Committee considered and approved authorizing the issuance of tax-exempt bonds in the maximum principal amount of $120 million. Ms. Miller then referenced the Board Resolution which authorizes Issue 2006-3 in an amount not to exceed $120 million and delegates responsibility to the Bond Finance Committee to carry out activities in connection with final sizing, pricing, and structure for the proposed bond issue.

Ms. Miller referenced the financing recommendation memorandum dated September 8, 2006, from CSG Advisors, THDA's financial advisor. Ms. Miller said the Bond Finance Committee determined that a negotiated sale is in the best interest of THDA. Ms. Miller asked for approval of the Board Resolution authorizing Issue 2006-3. She requested that the motion also include approval of the Reimbursement Resolution which would authorize THDA to continue to make loans and later reimburse itself from proceeds of Issue 2006-3. Upon motion by Ms. Butterworth, seconded by Mr. Reed, the Board approved the Board Resolution and the Reimbursement Resolution. Ms. Butterworth clarified that although staff will proceed with a negotiated sale, the Bond Finance Committee will monitor the market to determine whether modifications to sizing and method of sale would be appropriate.

Ms. Butterworth referenced the Investment Report Recap from Mr. Ridley included in the Board packet and referred any questions to Mr. Ridley.

Next on the agenda was the report of the Audit & Budget Committee. Chairman Latimer said the Committee considered and recommended approval of the proposed THDA budget for FY 2007-2008. He then referenced the memorandum regarding Board and staff members annual disclosure included in the Board packet. Ms. Miller said the action the Board is asked to take with the disclosure memorandum is to accept them for inclusion in the minutes, which satisfies the statutory requirement that they be made public. Ms. Butterworth noted that the Audit & Budget Committee accepted the disclosure memorandum and recommends them to the Board. She said the Committee had a discussion about how the information that was disclosed was

handled and was comfortable with the staff response. Upon motion by Ms. Butterworth, seconded by Mr. Bolding, the disclosure memorandum were accepted by the Board.

Chairman Latimer referenced the information regarding charter responsibilities included in the Board packet and gave a brief overview of the discussions. He said the Audit & Budget Committee reviewed the information prepared by staff and will have further discussion in November.

Next items were the Internal Audit Plan for fiscal year 2007 and the Internal Audit Recap for fiscal year 2006. Chairman Latimer said the Plan is what Internal Audit will look at accomplishing in 2007 and the Recap is what was accomplished in 2006.

Next item on the agenda was the report of the Policy & Programs Committee. Mr. Rainey began with a brief summary of THDA's mortgage program activity for calendar year 2006. THDA made 2,787 loans for nearly $284 million. Of the units financed, 517 were new homes and 2,276 were existing homes. The average cost of units financed was $104,782, and the average borrowers' income was just under $41,000 annually.

Mr. Rainey said staff has done a great job of seeing the need for a new mortgage loan option and the Committee is recommending approval of the new Great Advantage loan. He said there are currently two options that make up the bulk of THDA's mortgage loan business, Great Start and Great Rate. Mr. Rainey said potential borrowers may have needs that fall in between the two loan options, so staff has created a new option, Great Advantage, with 2% assistance and an interest rate between Great Start and Great Rate. In addition, staff has made enhancements to all loan options.

Ms. Miller referenced the memo from Laura Sinclair, Director of Single Family Programs, dated September 8, 2006 which lays out the characteristics of the proposed Great Advantage loan option, the two existing loan programs, and the enhancements for all loan options. She clarified that the specific approval requested does not include approval of the specific interest rates referenced by Mr. Rainey.

Mr. Perrey noted that he is not involved in Fannie Mae underwriting or loan products in relation to THDA and, if asked, refers staff to appropriate Fannie Mae staff, then he recuses himself from further involvement.

Upon motion by Mr. Rainey seconded by Mr. Perrey, the motion to adopt the new loan option, Great Advantage, as described by staff, was approved.

Next on the agenda was the Multifamily Bond Authority Program discussion points for the 2007 Program Description. Mr. Rainey said THDA developed a Multifamily Tax-Exempt Bond Authority Program whereby developers may apply to THDA for authority to issue tax-exempt debt at the local level to fund a multifamily deal. The program is governed by the program description. The only discussion point considered was establishing the amount of volume cap to be made available. Mr. Rainey said the Committee recommends allocating $150 million of tax exempt bond authority. Ms. Miller said no action is required by the Board at this time. Staff will be coming back in November with the proposed 2007 program description for consideration by the Committee and Board.

Next was consideration of the Low Income Housing Tax Credit Qualified Allocation Plan for 2007 (the "2007 QAP"). Mr. Rainey referenced the draft 2007 QAP and the memo dated September 12, 2006 from Ed Yandell, Director of Multi-Family Programs, which summarizes the

changes incorporated into the draft 2007 QAP and which is in the Board packet. He stated the Committee recommends approval of the draft 2007 QAP, with the following additional changes recommended by the Committee:

3. Per county tax credit limits: Increase the per county limits, based on construction cost increases, by 15% to $2,760,000 in urban counties and $1,325,000 in rural counties.

4. Per development tax credit limit: Increase the maximum allocation to a single development, based on construction cost increases, by 15% to $920,000.

5. Per developer or related party tax credit limit: Increase the amount of tax credit allocated to a single applicant, developer, owner, or related parties to $1,840,000 to maintain the current relationship to the maximum per development limit.

13. Rehabilitation: Broaden the definition of "major systems" recommended by staff to include doors & windows, parking lots, elevators, fire/safety systems, and cabinets and include an alternative cost per unit approach, for developments involving rehabilitation. In addition, define "rehabilitation" to include replacing or add major systems.

15. Sponsor characteristics: Add a tiered points system based on the time at which a development fails to proceed and reduce the time period over which a failure to proceed would be taken into account from 2 years to 12 months prior to the date of the application deadline.

17. Multiple HOPE VI deals: Permit two applications for tax credits involving HOPE VI funding in any given county, so long as both applications are not in the same HOPE VI area and, regardless of set aside, do not count the first tax credit application of this type receiving tax credits against the county cap, but, regardless of set aside, count the second against the relevant county cap.

Upon motion by Mr. Rainey, seconded by Mr. Perrey, the draft 2007 QAP, with the additional changes recommended by the Committee, was approved with the staff authorized to make additional conforming changes as needed.

Next on the agenda was the report of the Grants Committee. Ms. Askew said the Committee discussed modifications to the HOME program that will be presented in November. Ms. Askew next gave an update on the CITC and BUILD Programs. She said in November 2005, $5 million for loans was authorized and, so far this year, $1.5 million in loans to non-profits has been approved under the BUILD program. Staff stated there is interest in the BUILD program despite a slow start. Ms. Askew noted that in June, 2006, an amendment was made to allow, under the CITC program, financial institutions to take either a 1 time tax credit or an annual tax credit in a lower amount over the life of the loan or 15 years, whichever is first, which has been very helpful in increasing the interest of financial institutions in making loans to obtain the tax credit.

Ms. Askew reported on the use of the State Appropriation for an emergency repair program for elderly homeowners as described in a memo from Coralee Holloway, Director of Community Programs, dated September 7, 2006. Ms. Askew said the $1 million that has been appropriated by the State Legislature will be combined with $1 million from THDA's funds, and the $2 million pool will be distributed and administered through the 9 development districts throughout the state, with each receiving $200,000, including an administrative fee. Program requirements for the emergency repair program are as follows: Any applicant must be at least 62

years old and occupy the residence that is to be repaired as his or her principal residence. The program will permit a grant from the development districts to the program beneficiaries, with a maximum grant of $10,000. Ms. Askew said there would be a matching requirement of 50% of the total grant awarded which can come from the program beneficiary or the development district. She said the match could also come in the form of a loan. Ms. Askew stated the Committee's recommendation is to approve the emergency repair program for elderly homeowners as described in Ms. Holloway's memo. Upon motion by Ms. Askew, seconded by Mr. Reed, the Board approved the new program.

Next on the agenda was Other Matters. Mr. Fellman referenced the draft strategic plan included in the Board packet and thanked the Board for the progressive steps that have been taken regarding the strategic plan. Mr. Fellman said three meetings were held with the Board members in February, May, and July to get feedback, discussion, and input. He said staff compiled the information from each session, met on August 25, 2006, to develop mission, vision, and values statements and began drafting a strategic plan and discussing implementation. He asked for feedback within the next few weeks so that staff can return in November with a final draft.

Next item was consideration of THDA's proposed mission, vision, and values statements as developed by staff. Mr. Fellman referenced the draft of the mission, vision, and values included in the draft strategic plan. Upon motion by Ms. Butterworth, seconded by Mr. Perrey, the floor was open to discussion. Grammatical modifications to the vision statement were discussed. Discussion also ensued regarding use of the term "fun" in one of the value statements. Mr. Fellman requested approval of the mission and vision statements and indicated staff could return in November with revisions to the values statements. Upon motion by Ms. Butterworth, seconded by Mr. Perrey, the mission and vision statements were approved, with the vision statement being modified to include "every Tennessean lives in a safe, sound, affordable home".

Next item was THDA's second annual Governor's Housing Summit scheduled for October 4-5, 2006. Mr. Fellman encouraged all members to register. He said there were currently 180 registrants and sponsorships of over $25,000.

Next item was out of town Board meetings. Mr. Fellman said staff would like to return to having one out of town Board meeting a year. He said this would be an opportunity to see how THDA resources are being used. Mr. Fellman suggested May, which tends to be a slower Board month, with the first location being in Memphis, TN. He encouraged feedback from members so staff could move forward with planning.

Next item was a recap of the National Council of State Housing Boards (NCSHB) meeting. Ms. Butterworth reported that Mr. Perrey, Ms. Jercinovich, and she attended the annual meeting. She said she would distribute a written report on the meeting and encouraged members to attend the meetings when they have the opportunity. Mr. Latimer recognized Ms. Butterworth for being nominated and elected to serve on the NCSHB Board.

Next item was a recap of the National Council of State Housing Agencies (NSCHA) September meeting in San Francisco, CA. Mr. Fellman reported that Mr. Perrey and Mr. Reed attended with various THDA staff. He said of the 55 HFAs, 47 were represented at the conference. Mr. Fellman said there was extensive discussions on special needs housing, public services, and public policy issues. He said there seems to be more momentum toward HFA's getting involved in working with other agencies to provide a more comprehensive approach to housing issues.

Next item was an update on THDA's trustee. Ms. Miller reported that over Labor Day weekend, THDA successfully completed the transitions from Wachovia Bank to U.S. Bank as the trustee for THDA's bond resolutions. She said the trustee is a very important player, involved in THDA's bonds. She stated that in early 2006, Wachovia announced the sale of their trust business to U.S. Bank. THDA went through a process that involved making sure U.S. Bank was legally qualified to serve as THDA's trustee. The Bond Finance Committee, in accordance with enabling legislation, approved US Bank, subject to making sure all necessary documentation was in place. Ms. Miller said since the transition, THDA has been very pleased with how things have worked out.

Mr. Fellman asked Laura Swanson, Director of Section 8 Rental Assistance, to report on achievements within the division. Ms. Swanson said THDA has been awarded a certificate for achieving high performer status under the Section 8 Management Assessment program.

With no further business to come before the Board, the meeting adjourned.

Respectfully submitted,

Ted R. Fellman

Executive Director

SEAL