

UTAH HOUSING CORPORATION
Minutes of Special Meeting

August 13, 2013

PARTICIPANTS

Trustees:

Douglas DeFries, Chair
Kay Ashton, Vice Chair
Mark Cohen, Trustee
Lucy Delgadillo, Trustee
Ed Leary, Trustee
Lerron Little, Trustee

Staff:

Grant Whitaker, UHC President and CEO
Cleon Butterfield, UHC Senior Vice President and CFO
Jonathan Hanks, UHC Senior Vice President and COO
Heather Losee, UHC Executive/Communications Assistant

Trustees of the Utah Housing Corporation (UHC or Utah Housing) and UHC staff met in a Special Meeting on August 13, 2013, at 2:30 PM MST via teleconference and in person at the offices of Utah Housing Corporation, 2479 S Lake Park Blvd, West Valley City, Utah.

The meeting was called to order by Chair, Doug DeFries. The chair then determined for the record that a quorum of Trustees was present, as follows:

Douglas DeFries, Chair
Kay Ashton, Vice Chair
Mark Cohen, Trustee
Lucy Delgadillo, Trustee
Ed Leary, Trustee
Lerron Little, Trustee

The chair excused the following Trustees:

Richard Ellis, Trustee
Jon Pierpont, Trustee
Robert Whatcott, Trustee

The President then reported that the Notice of the Special Meeting was given to all Trustees of Utah Housing and that material addressing the agenda items had been distributed to the Trustees in advance of the meeting.

The President then acknowledged a Verification of Giving Notice, evidencing the giving of not less than 24 hours public notice of the date, time, place and summary of agenda of the Utah Housing Corporation Special Meeting in compliance with the requirements of the Open and Public Meetings Act, Section 52-4-202, Utah Code Annotated 1953, as amended; together with the form of Notice of Special Meeting referred to therein; and also the required public notice of the 2013 Annual Meeting Schedule of Utah Housing will be entered into the Minutes.

The chair called for the first agenda item.

1. Approval of the Minutes of August 1, 2013, Regular Meeting

The President had provided each Trustee with a copy of the written minutes of the August 1, 2013, Regular Meeting, and the Trustees acknowledged they had sufficient time to review these minutes. Mr. DeFries asked for any discussion on the August 1, 2013, minutes as presented.

Mr. DeFries stated that there was one change he recommended in the minutes relative to it being called a special meeting. Mr. Whitaker indicated that that a change would be made referencing it as a regular meeting. Following any discussion, the chair called for a motion.

**MOTION: TO APPROVE THE WRITTEN MINUTES OF THE
REGULAR MEETING OF AUGUST 1, 2013.**

Made by: Kay Ashton
Seconded by: Lerron Little
Vote: Unanimous approval

The chair called for the next agenda item.

2. Resolution 2013-19 Approving FY 2013-14 Business Plan, Budget, and Staffing Plan

RESOLUTION 2013-19

A RESOLUTION OF THE UTAH HOUSING CORPORATION ADOPTING THE FY 2013-14 GOALS, STRATEGIES, AND BUSINESS PLAN OBJECTIVES; THE FY 2013-14 STAFFING PLAN; AND THE FY 2013-14 OPERATING BUDGET.

Mr. DeFries introduced the resolution recommending that the Board adopt a motion approving UHC's Fiscal Year 2013-14 Goals, Strategies and Business Plan; Operating Budget; and Staffing Plan. Mr. DeFries asked Grant Whitaker to begin discussion on those areas of the resolution that were changed following it being tabled at the last meeting.

Mr. Whitaker began by saying that this resolution, proposed for adoption at the August 1, 2013, meeting was tabled while staff developed a more complete presentation of revenue projections. He noted that changes were not made to the business plan or staffing plan and that the administrative and servicing budgets being adopted with this resolution represent the same proposed expenses as presented August 1st. The board requested a more comprehensive presentation on revenue projections to demonstrate that we would have adequate resources to cover those expenses. Included in the board packet is a projected income statement along with the proposed budgets. The projections include some detailed analysis of income differentials between Ginnie Mae TBA's and CRA pools. TBA stands for "To Be Announced" a term that is universally applied when bidding a pool of loans in a Mortgage Backed Security or "MBS" whether backed by Ginnie Mae or Fannie Mae. The reference to CRA pools means the agreements Utah Housing has entered into with different industrial banks to purchase loans that are also eligible for a Ginnie Mae MBS.

Mr. Whitaker continued by saying that a decision of where to place loans is made on an almost daily basis depending on which will be the most profitable to Utah Housing as determined by a present value analysis. That comparison is significant because last year's large influx of revenue was a result of having an abundance of single family mortgages sold into TBAs when the premiums were at extraordinarily high rates. The CRA pools provide less upfront income, but then provide an annuity of income on an ongoing basis.

Mr. Whitaker went on to say that Cleon Butterfield, UHC's CFO, will illustrate a good mix of funding structures. There is an income analysis of second mortgages and some long-term analysis of the net income and sources from which that came. Last year, Utah Housing took advantage of the high Ginnie Mae TBA premiums, but we do not want to assume that those really high levels are going to be there on an ongoing basis because it would be a mistake to presume that we will have \$11 million of net income each year as we had last year. Projections presume a mix between short-term TBA premium and gains earned over a longer period. Mr. Whitaker then asked Cleon Butterfield to continue discussion.

Mr. Butterfield explained that the main message is the financial projections and analytical review of changes. What is being presented are the sources we think that income will be from. The main difference between the projection at the end of next fiscal year compared to the actual income this fiscal year is the difference in premium that we project we will receive on the sale of mortgage loans. Our projected loan program mix is very similar to this year's production of the \$550 million. We know that the loans will be funded with some new programs that the board approved during the last fiscal year, such as NoMI from sales to Fannie Mae in addition to sales to Ginnie Mae. We have projected a mix and related premiums and that is how we have come up with the projection of net income.

Mr. Butterfield indicated that Utah Housing is a complex organization, with many variables that can be addressed as we move through the year and how we perform compared to the target that we are setting on the front end of the year. The premium we earned on the sale of loans last year averaged a very high 6.1%. If we use that 6.1 % as the projection going forward, we would hit the same income as we had this year.

Mr. Butterfield referred to the sheet entitled "Projected Statement of Revenue and Expense" and pointed out that the single-family column projection of a loss is not new, but it's a big number, and it impacts total income in a big way. The single-family program is losing money because of the interest rate environment. If we try to project an improvement in interest by 1 or 2%, single family income would be helped greatly.

Mr. Cohen asked if he was understanding it correctly that if we are to stay in the same low interest rate environment, we would expect our bond premiums to still be at the 6% rate or would we expect it to be less? When we say that we expect less premium, are we also saying going to assume that we are in the same low interest rate environment?

Mr. Butterfield explained that from about September last year through January of this year was an extremely low environment. Our mortgages were 3.25% then, but our mortgages today are 4.25%. We think projecting forward, rates will not go that low again. That four month environment is believed to have been an aberration.

Mr. Butterfield continued by saying that premiums on mortgages are a function of the market versus note rate. You can get 6% premiums if you have a note rate that is above market. What happened in 2013 is rates went down so low that the note rates did not follow, they hit a floor and were comparatively high, or above market expectations, causing the very high premiums. The “pass through” rates, the rate an investor receives on a Ginnie Mae Mortgage Backed Security, right now is at 4% or 4.5%. The premium we earn today on a 4% pass through is about 3% and the pass through of 4.5% is earning a premium of 6% today. Last September through January, we were passing through a 3% and getting a premium of 6% and our 3.5% pass through was getting a premium of about 8%. The average last year was 6.1%. That’s an abnormally high premium. Mr. Whitaker then stated that our average TBA premium over the last four years was about 3.5%.

Mr. Butterfield specified that what we also accounted for in the lower 3.5% premium is an adjustment for the Fannie Mae Mortgage Backed Securities because their guarantee is viewed weaker than a Ginnie Mae. Ginnie Mae is an explicit guarantee as opposed to an implied guarantee. Fannie Maes tend to trade as much as 40 “tics” lower premium than Ginnie Maes which is the equivalent of 1.25%. Our projections were based on similar loan program mix, and a similar interest rate environment as we are in now. If we were to do 40% of that with Fannie Mae we would get a lesser premium because of the weaker Fannie Mae, but we will have a higher note rate on the new NoMI program, offsetting some of the premium loss, but over time and not upfront. We believe our projections are conservative, supportable, and probably the best we can make at this stage.

Mr. Butterfield went on to discuss the schedule in the board packet comparing profit from a CRA participation pool compared to a Ginnie Mae TBA. Sometimes the profit is the same when we are selling mortgages. An FHA loan in the pipeline is eligible to either be put in a TBA, to be packaged and sold, or it could go into a CRA participation program. The loan coming through the pipeline gives us a chance to make a decision how we are going to package and sell it, when it comes out of the pipeline.

Mr. Butterfield said what you are trading off on the sale of a loan, is a one-time premium of X or you can take an ongoing annual margin of Y. We could always take the premium if we just wanted to get the best immediate net income, but there are times we want to take less immediate income and take a margin that will pay for the next six to seven years because economically it’s better for Utah Housing.

Mr. DeFries asked Mr. Cohen if that answered his questions. Mr. Cohen indicated that the information was helpful. Mr. DeFries then asked Mr. Whitaker if there was anything else that needed to be addressed. Mr. Whitaker concluded by stating that we don’t need to go through any of the other information because the board received it for the last meeting and should have had a chance to look at it.

Mr. DeFries then asked if there were any additional comments or discussion from the Board, and following any additional discussion asked for a motion to adopt the resolution.

MOTION: TO APPROVE RESOLUTION 2013-19 OF UTAH HOUSING CORPORATION ADOPTING THE FY 2013-14 GOALS, STRATEGIES, AND BUSINESS PLAN OBJECTIVES; THE FY 2013-14 STAFFING PLAN; AND THE FY 2013-14 OPERATING BUDGET.

Made by: Kay Ashton
Seconded by: Lerron Little

Mr. DeFries asked for disclosures of potential conflicts before the vote was taken. Each Trustee was called on and they responded as follows:

Douglas DeFries	Yes, as filed with UHC.
Kay R. Ashton	Yes, as filed with UHC.
Mark Cohen	Yes, as filed with UHC.
Lucy Delgadillo	No interest to disclose.
Ed Leary	No interest to disclose.
Lerron Little	Yes, as filed with UHC.

The President confirmed that each of those Trustees who so indicated such interest had a Disclosure of Potential Interest statement on file with Utah Housing that it includes current pertinent information regarding his or her potential interests and that those statements are available for inspection and would be incorporated into the minutes by reference.

Following further discussion, Mr. DeFries called for a vote in this matter:

Vote: Approved Unanimously

The chair called for the next agenda item.

Other items of Business

There being no further business, a motion was made by Lerron Little, to move into an executive session, and the motion was approved unanimously. Following that session the chair announced that the meeting was adjourned.