Debt Management Issues Related to the Reorganization of the Oregon Housing and Community Services Department

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OHCSD Debt Profile
as of 3/1/2013

	# of			Outstanding Principal (in $M)			Outstanding Swaps (in $M)	
	Total Bond Series	Variable Rate Series	Swaps	Fixed Rate Mode	Variable Rate Mode	Total	Total Notional	% of Variable Swapped to Fixed Rate
General Obligation Bonds								
Elderly and Disabled Housing Bonds	17	-	-	$120.0	-	$120.0	-	
Direct Revenue Bonds								
Mortgage Revenue Bonds (Single Family Mortgage Program)	63	16	13	458.1	308.7	766.8	287.9	93%
Housing Revenue Bonds (Single Family Mortgage Program)	10	-	-	184.4	-	184.4	-	
Multifamily Housing Revenue Bonds	9	1	1	141.5	13.9	155.4	13.9	100%
Multiple Purpose Bonds	1	-	-	1.8	-	1.8	-	
Subtotal	83	17	14	785.8	322.6	1,108.4	301.8	94%
Subtotal (excluding Pass-Through Revenue Bonds)	**100**	**17**	**14**	**$ 905.8**	**$ 322.6**	**$ 1,228.4**	**$ 301.8**	**94%**
Pass-Through Revenue ("Conduit") Bonds								
Housing Development Revenue Bonds	45	11	-	150.1	87.0	237.1		
Total	**145**	**28**	**14**	**$ 1,055.9**	**$ 409.6**	**$ 1,465.5**		

On-going OHCSD Loan and Debt Management Functions

- Work directly with OHCSD program staff to manage the activities in each bond-financed loan programs

- Manage the activities of OHCSD's eight loan servicers, including:
  - Processing of servicer payment remittances
  - Overseeing all investor reporting activities
  - Monitoring delinquencies, processing foreclosures and managing all activities related to mortgage insurance claims

- Maintain OHCSD's Loan Information Processing System (LIPS) which accounts for all transactions related to each OHCSD loan, processes payments that interface with OHCSD's accounting system, and generates loan information reports used for both primary and secondary market disclosure documents

- Make periodic debt service payments on all bonds and swaps

- Conduct periodic bond calls and distribute related redemption notices to investors for loan prepayments

On-going OHCSD Loan and and Debt Management Functions (continued)

- Direct the investment transactions of bond proceeds and subsequent loan payments to assure liquid funds are available to purchase loans and meet current debt service obligations, while complying with bond indenture requirements and Federal tax law
- Prepare annual audited financial statements for each bond indenture to satisfy secondary market disclosure requirements and to provide continuing financial disclosure to investors, rating agencies and other interested parties
- Monitor compliance with federal tax regulations and various covenants and requirements for each bond indenture
- Prepare annual calculations, make rebate payments, and report on arbitrage rebate liabilities owed to the IRS on all bonds
  - Provide detailed financial information to the IRS during periodic spot inquiries, examinations and audits
- Maintain and update debt service and amortization schedules for all bond-related accounts

Managing OHCSD's Variable Rate Debt

- Issuing variable rate debt hedged with interest rate swaps allowed the agency to lower mortgage rates offered to first-time homebuyers by lowering OHCSD's borrowing costs on certain tax-exempt bonds by approximately 1.0%, as compared to issuing traditional fixed-rate bonds

- Managing on-going accounting and administrative tasks associated with variable rate bonds and interest rate swaps requires a higher level of staffing and greater technical expertise than an all fixed-rate bond portfolio

- OHCSD's variable rate bonds are backed by liquidity agreements with various banks that are subject to periodic renewal over the life of the bonds
  - Negotiation of fees, terms, and legal provisions have become more time-consuming and complex, requiring specialized financial and legal expertise
  - The number of highly-rated liquidity banks has shrunk dramatically in the past few years, making the liquidity renewal process even more challenging
  - Provisions of recent terms liquidity agreements have also become more administratively burdensome, requiring additional and more complex periodic reporting to liquidity providers
  - All of OHCSD's liquidity agreements expire in late 2014 and will need to be either renegotiated or the affected variable rate bonds will need to be replaced with alternative bond structures that refund or convert this debt

Managing OHCSD's Interest Rate Swap Portfolio

- OST assisted OHCSD in executing 14 floating-to-fixed interest rate swaps since the program began in late 2004
- In each case, the swap was used as a hedge to reduce long-term variable interest rate exposure
  - OHCSD's financial advisor estimates that the agency saved $13.4 million to date by issuing variable rate bonds that were hedged with interest rate swaps
- Swap contracts with five separate banks totaling $301.8 million notional amount remain outstanding as of 3/1/2013
- On-going monitoring of these five banks' credit ratings is essential, as swap agreements provide for posting of collateral and/or termination if a bank is downgraded below certain credit levels
- OHCSD monitors and reports on the market value of its swaps on a periodic basis to State Treasury, state auditors, rating agencies and other interested parties

Other Legal and Financial Considerations

- Multifamily housing conduit bonds issued by OHCSD often include various federal affordable housing tax credits that require on-going monitoring for compliance with federal regulations

- OHCSD staff has specialized housing finance expertise not otherwise found in other state agencies

- While OST can assist OHCSD's staff in future affordable housing debt issuance activities, as well as negotiations with liquidity and swap agreement providers, the Debt Management Division does <u>not</u> have the staff, specialized housing finance expertise, or technological resources to take over OHCSD's day-to-day loan operations, which includes monitoring and processing loan repayments for:
  - 6,945 single-family borrowers
  - 329 multifamily housing projects
  - 31 conduit multifamily borrowers