

National Federation of Municipal Analysts

Recommended Best Practices in Disclosure for Housing Revenue Bond Issues



The National Federation of Municipal Analysts (NFMA), since our 1983 inception, has been in the forefront of efforts to improve disclosure of credit and market risks that have faced analysts and investors in the taxable and tax-exempt municipal bond markets. Our work in this regard has been recognized by other industry associations and by various regulatory bodies, and an amicus brief we filed with the US Supreme Court in re Davis v Kentucky was cited by the Court in support of their decision in that case.

NFMA is an organization of over 1,200 members, primarily research analysts, whose profession is to evaluate credit and other risks of municipal securities. These individuals represent, among other types of firms, mutual funds, insurance companies, broker/dealers, commercial banks, and rating agencies.

NFMA's disclosure efforts have ranged from global issues, some of which are communicated to members of Congress and federal regulatory agencies, to detailed work on specific credit sectors. For further information on our continuing efforts to improve municipal disclosure, please refer to "Disclosure Guidelines" and "Position Statements" in the "Publications" section of our website (www.nfma.org).

Our primary means of communicating sector-specific recommendations are "White Papers" and "Recommended Best Practices in Disclosure" (RBPs).

White Papers are NFMA's preferred method of comment when our disclosure recommendations have not previously been articulated in a detailed or organized manner. As a rule, White Papers are written by a team of NFMA members who represent different types of companies.

Recommended Best Practices in Disclosure (RBPs), on the other hand, are utilized when a given analytical topic has previously been subject to thorough discussion. When RBPs are developed, diverse groups of NFMA analysts work with representatives of industry groups and other market professionals to develop best practices guidelines on certain market sectors or topics.

This Recommended Best Practices in Disclosure for Housing Revenue Bond Issues updates a 2000 RBP on the same topic, in order to account for changes that have occurred in the market for tax-exempt housing bond issues since that time.

Please note that this document is intended to complement, rather than supplant, guidance provided by SEC Rule 15c2-12 and its amendments.

NFMA's disclosure efforts are a continuing process. This RBP, and White Papers, are not static documents but are revised as market conditions warrant. We encourage interested parties to contact the NFMA, via our website, to submit comments regarding this and any other document that appear on the website.

As a final note, neither the recommendations included in this RBP nor the information within it are intended to apply equally to all situations and issuers/obligors. We encourage providers of information to indicate when a specific item requested in the RBP is not applicable to a particular situation.

THE RATIONALE BEHIND THE NEED FOR BETTER HOUSING BOND DISCLOSURE

Due to the foresight of several NFMA members, and with the cooperation of the National Council of State Housing Agencies (“NCSHA”) and other industry groups, there has been substantial progress in the evolution of housing disclosure since 1994.

While these efforts have greatly improved the quality and availability of information in the market, further disclosure enhancements need to be implemented. The need for better disclosure is not caused by a lack of cooperation from most participants in the process, but rather as a result of external factors such as the credit crisis and changes in federal laws, programs, and regulations (e.g., Universal Cap and the Ten-Year Rule). In many instances, corresponding changes in bond indentures not only have improved the cash flow management capabilities of issuers, they have also increased the complexity of investment analysis and the requisite technical capability to analyze bond cash flows. In addition, the credit crisis experienced over the past several years highlights the need for more detailed disclosure as it relates to mortgage portfolios as well as third party providers, such as mortgage insurance, liquidity, guaranteed investment agreement and swap providers, so that a more in-depth analysis of programs’ ability to absorb potential losses can be performed.

A resolution’s ability to absorb losses due to foreclosure not recovered from mortgage insurance claims and its ability to handle lost cash flow needs to be independently assessed. Mortgage insurance claim payments cannot be relied upon since those providers credit ratings have deteriorated. With respect to MBS, investors will need to gauge prepayment activity due to claims being paid on defaulted mortgages.

The objective of investors is to maximize investment return and minimize risk. While an issuer may be concerned with timely payment of interest and principal on its loans, investors must also be concerned with variations in actual or perceived credit quality. Investors must be aware of issues that might change the pricing and liquidity of their investments. This drives the need to anticipate trends in portfolio or project performance well in advance of any imminent credit difficulties.

For example, pricing risk is a key concern in analyzing Single Family bonds. These bonds are unique in the municipal industry, as one of the few bond types whose pricing performance is highly correlated with the timing of the underlying cash flow. Single Family bonds were considered to be unique due to the generally high credit quality of the assets securing the bonds. However, this attribute needs to be re-evaluated as programs’ are analyzed due to the credit deterioration of third party providers and the rise in mortgage delinquencies experienced over the past few years.

To analyze the risk of a Single Family issue, an analyst must understand underlying credit characteristics as well as the structure of the deal, the history of bond calls, the ability and willingness of homeowners to refinance, and indenture features that could impact a specific bond (e.g., through cross-calling, sale of mortgages, or cash flow surpluses). Most large issuers will have this relevant information readily available internally and it can be made available externally to investors without undertaking too great an effort or expense.

Multi-Family bonds, on the other hand, are generally subject to more direct credit/concentration risk from the underlying asset(s) securing the bonds. In that respect, they are similar to other bonds in the municipal market. But, like other sectors, they do have unique issues. These include certain security features, the pooling of multiple projects, and the varying level of sophistication of issuers, project developers and owners.

The different types of security enhancements commonly seen in Multi-Family transactions are a significant factor in our analysis and in the kind of data required. No one would dispute that there are major differences between the risk of a Section 8 project, a tax-credit project, a GNMA enhanced project, and a pool of 50 developments spread throughout a state. Each will have unique risks that can affect the value and redemption characteristics of the bonds. Investors must be able to identify and quantify those risks and need detailed, on-going disclosure relevant to the credit.

The availability of better disclosure will greatly enhance the ability of investors to assess credit and redemption risks and to differentiate between bonds as well as among specific issuers. This improvement, depending upon an issuer's general redemption policies and the credit characteristics of their programs, could be reflected in the future demand for that issuer's bonds, rewarding issuers who make the necessary information available in a complete and timely fashion.

It may be helpful for HFAs to compare their disclosure efforts to those used in the taxable market or with other tax-exempt issuers. For example, the Commercial Real Estate Secondary Market and Securitization Association (CSSA) has developed a standardized format for providing information to the market for Commercial Mortgage Backed Securities ("CMBS") issues. The CSSA website is www.CSSACMBS.org. Many state housing finance agency websites make a significant amount of information available to investors. In addition, the National Council of State Housing Agencies ("NCSHA") website provides a gateway to each state HFA website (www.ncsha.org). If a housing finance agency has relevant investor information available, disclosure would be extremely helpful. If this information is not available, an indicative statement in the disclosure should be provided.

Information requirements will vary between issuers and there will be differences in the availability and relevance of information from one issuer to the next. Certain information that is highly relevant to the analysis of one issuer may have no bearing at all on the analysis of another. The intent of this document is to define the overall generic needs within the industry, not to specify a rigid reporting format.

GENERAL COMMENTS

- ◆ Issuers are not expected to provide information other than what is already or routinely available to investors.
- ◆ Recommendations for this sector have been organized into four parts: Part 1--Items Applying to Both Single Family and Multi-Family Housing Bonds; Part 2--Recommended Best Practices in New Issue and Continuing Disclosure for Single Family Housing Bonds; Part 3-A, Recommended Best Practices in New Issue Disclosure for Multi-Family Housing Bonds; and Part 3-B--Recommended Best Practices in Continuing Disclosure for Multi-Family Housing Bonds. There is also an example "Local HFA Bond Surveillance Report" which is recommended for local issuers of Single Family bonds, included as Appendix I. Since many local issuers do not always prepare audited reports for their programs, this sample form should

be of assistance to those issuers concerned with learning investor preferences regarding what information the prototypical disclosure document should contain.

◆ In general, the type of information requested is data that will be generated in the ordinary course of business by most issuers and/or owners. For Single Family bonds, this information includes a calculation of the estimated average life for the program at the time of issuance, details concerning bond calls, and balance sheets and income statements as well as information on the underlying mortgage portfolio and investments. Important information for Multi-Family programs includes key financial and operating information, details on any bond calls, and information on the underlying mortgage asset(s).

◆ Asset Parity testing is another important credit factor for Single Family as well as for certain Multi-Family programs. Issuers should try to disclose enough information in their audits, for each separately rated or non-rated program, so that this ratio can be determined. For Multi-Family programs, particularly stand-alone deals, debt service coverage information may also be relevant to the analysis.

◆ In those cases where issuers finance pools of Multi-Family loans and the credit strength of the bond issue is derived largely from cross-collateralization, the project-level detail recommended in the Best Practices section may be addressed with some discretion, through summaries of key statistics, management discussion, etc.

◆ Although disclosure information is required to be sent to EMMA, issuers can also make information directly available on their websites. When disclosure information is made available on an issuer's website, it is recommended that the data be in a format that allows it to be downloaded directly into an Excel spreadsheet rather than a PDF.

◆ The NFMA is committed to reviewing its Best Practices on an ongoing basis. Consequently, these guidelines may be subject to continuing revisions over time. The NFMA website (www.nfma.org) will always contain the latest version.

This paper is available on the NFMA website at www.nfma.org.

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NFMA constituent societies, individual members, or their firms may not agree with all provisions of these Recommended Best Practices. The NFMA is not a regulatory agency and compliance with the practices advocated herein does not constitute a “safe harbor” from any State or Federal rules or regulations. Nothing in this paper is to be construed as an offer or recommendation to buy or sell any security or class of securities.

PART 1

ITEMS APPLYING TO BOTH SINGLE FAMILY AND MULTI-FAMILY HOUSING BONDS

- Management Discussion and Analysis (MD&A). It is understood that the information in the MD&A is subject to change since it is to some degree a forward-looking statement. Including a good-faith discussion of items management believes may be relevant to bondholders (and potential bondholders) or to the HFA would be helpful in evaluating the issuer and its programs. There are many items relevant to the value of a bond that are neither specific GAAP items nor material events. Examples of such items include a change in the nature of the relationship with the state legislature (e.g., the possibility of state use of, or reduced support for, HFA funds), internal discussions which have a significant likelihood of leading to a change in cross-calling patterns, or the initiation of re-capitalization discussions with multi-family property owners.
- Financial Statements. Issuers should provide separate annual financial statements for each housing bond indenture. Combined financial information from issuers may be appropriate in annual financial reports, which are disseminated to an audience wider than bond investors. Detailed financial information on each indenture or program should be made available either in the notes to the annual report or in another document as appropriate.
- Official Statements and ongoing disclosure. Official statements and all ongoing disclosure documents should *always* contain at least one investor contact (with name, title, phone number, and e-mail and mail address), such as financial officer, investor relations staff, the development/management company contact, or bank trustee officer, for example.
- Accessibility to information. Issuers should ensure that market participants (both bondholders and *potential* bondholders) have access to information. If the HFA is not the information provider, it should provide approval for others to provide approved relevant information. The trustee, servicer, HUD, and project manager, for example, should be informed of the need to provide information to the market.

Many bonds are registered in "street" name. It should be noted that investors are usually willing to sign a form (or provide a letter) indicating that the party requesting such information is indeed the "beneficial" owner/investor of the bonds or its agent.

The provider should recognize the request may be from a *prospective* purchaser of the bonds and that, barring special circumstances, the information should be provided to everyone equally upon request.

- Information reported to EMMA. The list of material events reported to EMMA should include any bond monetary defaults in a bond program. Instances of multifamily loan defaults totaling more than 20% of a portfolio should also be reported to EMMA. Any notices should be in addition to the reporting of other events as required under the SEC's Rule 15c2-12.

PART 2

RECOMMENDED BEST PRACTICES IN NEW ISSUE AND CONTINUING DISCLOSURE FOR SINGLE FAMILY HOUSING BONDS

For Multiple Series or Parity Series Debt

- **Financial statements.** Financial statements provided within the audited financials should be presented on a combined basis as well as by indenture. Notes to the financials should include a brief description of each program for which financials are provided as well as the type of security for the bonds (limited obligation, general obligation of the HFA, reserve fund backed by the moral obligation pledge of the state, etc.).
- **Investment information.** Third party information on fund investments (e.g., Revenue Fund, Acquisition Fund, Redemption Fund, Reserve Fund, etc.) or a discussion of investment policy, if available, should be provided for each bond series.

Information on current GIC, liquidity, and swap providers should be included in the notes to the financials or periodic disclosure. Information provided should include, if applicable, but not be limited to, identifying the counterparty, par amount and term of the facility.

Swap disclosure should include: term-out (5 years, 10 years, no term-out), swap payment priority, and market value.

GIC disclosure should include amounts invested with each provider (in aggregate).

Surety policy providers and related amounts should be disclosed along with replacement terms in the event of a downgrade.

- **Variable rate debt.** Information regarding the amount and type (VRDO, ARS) of variable rate debt outstanding under each indenture and how much of the variable rate debt is hedged should be provided in the notes to the financials or periodic disclosure. Information should include specific issues outstanding under the indenture and the amounts for each issue. In addition, if there are bank bonds, the amount, rate and term-out provisions should be provided.
- **New Issue Bond Program.** Information regarding participation in the New Issue Bond Program (“NIBP”) and the Temporary Credit and Liquidity Program (“TCLP”) should be made available, including whether a new indenture was created for issuance under NIBP.
- **Direct Lending.** Information regarding an issuer’s direct lending financings should be made available to investors, including but not limited to, maturity profiles, the potential for acceleration of these facilities, and whether any of the direct loans are senior to outstanding parity debt.
- **Loan servicing.** If the HFA does not service the loans in the portfolio, a list of servicers should be made available.
- **Tax rules implications.** Tax Law (Ten-Year Rule, Universal Cap, etc.) issues have had an increasingly important impact on issuer financing strategies as well as on the call risk associated with a given bond series. This information is critical to investment analysis of the bonds. (Note: Much of this information would be appropriate for a discussion in the Management Discussion and Analysis (MD&A) section described in Part 1). For example, issuers should disclose the potential bond redemption effects of the Ten-Year and the Universal Cap Rules on new bond issues.

- **Mortgage Portfolio characteristics.** If available, information provided should include loan statistics by vintage (year of loan origination), loan type (fixed rate level pay 30-year conventional, 5-year interest only, then level pay 35-years, etc.) weighted average coupon (WAC), original loan to value, average loan size, average home price, average FICO score, weighted average maturity in months (WAM), total original issuance, total currently outstanding, insurance profile, delinquency numbers (30-day, 60-day, 90+ days, in foreclosure, REO), recovery rate before receipt of insurance claims, and after receipt of insurance claims, loan servicers, mortgage rates, and amount of unused proceeds. Pool numbers and delinquency statistics (30-day, 60-day, 90+ days, in foreclosure) should be provided for MBS programs. The resolutions' ability to absorb losses due to foreclosure and the resolutions' ability to handle the lost cash flows will need to be independently assessed since mortgage insurance claim payments cannot be relied upon now that their credit ratings have deteriorated.
- **Redemption characteristics.** If available, information regarding bond redemption, including bond series debt called (by maturity date) and according to major sources of funds (unused, scheduled, surplus and cross-calls). Frequency of calls allowed (e.g., monthly, semi-annually, etc.), and recycling should be disclosed.
 - Issuers should disclose their ability to cross-call (at their discretion) and their historical practice of (and method for) cross-calling bonds and of recycling program funds. This should also include any pending restrictions on recycling (e.g., Ten-Year Rule impact).
- **Average life.** The expected average life of each maturity (under a range of prepayment speed assumptions) should be provided at the time of issuance.
 - There is no standard for reporting updated average life information. Issuers who periodically generate updated cash flows for their programs and, therefore, have revised average life calculations are strongly encouraged to include such information in continuing disclosure documents.

For Stand Alone Debt (No Parity Debt)

- **Cash flows.** Issuers should indicate whether stand-alone issues rely on reinvestment revenue. If cash flow assumptions are available, they should be disclosed.
- **Disclosure for MBS bond issues.** Each program should at least have a Trustee-prepared semi-annual balance sheet that shows program assets, liabilities and fund balances. In addition, loan pool numbers should be provided along with bond redemption history (by maturity date and according to major sources of funds (unused, scheduled, surplus, etc.)), the amount of debt issued and outstanding (by maturity), and the amount of unused proceeds.
- **Disclosure for non-MBS programs.** The following information should be included in the issuer's disclosure.
- **Mortgage portfolio characteristics.** If available, information provided should include loan statistics by vintage (year of loan origination), loan type (fixed rate level pay 30-year conventional, 5-year interest only, then level pay 35-years, etc.) weighted average coupon (WAC), original loan to value, average loan size, average home price, average FICO score, weighted average maturity in months (WAM), total original issuance, total currently outstanding, insurance profile, delinquency numbers (30-day, 60-day, 90+ days, in

foreclosure, REO), recovery rate before receipt of insurance claims, and after receipt of insurance claims, loan servicers, mortgage rates, and amount of unused proceeds. Pool numbers and delinquency statistics (30-day, 60-day, 90+ days, in foreclosure) should be provided for MBS programs. The resolutions' ability to absorb losses due to foreclosure and the resolutions' ability to handle the lost cash flows will need to be independently assessed now that mortgage insurance claim payments cannot be relied upon now that their credit ratings have deteriorated.

- Loan servicing. A list of servicers for the portfolio should be made available.
- Redemption characteristics. Key bond redemption characteristics, including bond series debt called (by maturity date) and according to major sources of funds (unused, scheduled, surplus, etc.).
- Balance sheet and other program information. A Trustee-prepared semi-annual balance sheet that shows program assets, liabilities and fund balances, information including the current loan balance and breakdown of mortgage insurance policies or similar credit enhancement features, the amount of debt issued and outstanding (by maturity), and the amount of unused proceeds should be made available. An example of a format for reporting information, in particular for local agency issues, is included as Appendix I to this document.
- Average life. The expected average life of each maturity (under a range of prepayment speed assumptions) should be provided at the time of issuance.
 - There is no standard for reporting updated average life information. Issuers who periodically generate updated cash flows for their programs and, therefore, have revised average life calculations are strongly encouraged to include such information in continuing disclosure documents.

PART 3-A

RECOMMENDED BEST PRACTICES IN NEW ISSUE DISCLOSURE FOR MULTI-FAMILY HOUSING BONDS

The following is the suggested type of information, if available, that issuers and underwriters should be disclosing as a matter of course in newly issued Multi-Family revenue bond financings. If an issuer has this type of information, disclosure would be extremely helpful. If this information is not available, an indicative statement in the disclosure should be provided.

	<u>CREDIT ENHANCED</u>
	Bonds that finance a project or projects, the debt service on which is guaranteed by a third-party credit enhancer; or the loan is fully credit enhanced (by FHA, e.g.)
FINANCIAL	<ul style="list-style-type: none"> • Pro-forma debt service coverage • Summary of previous three years of finances (if applicable) • Details (such as interest, maturity, etc.) about all parity loans under this indenture (if applicable) • Expected construction/capital expenditures • Any subordinate debt, tax credits, abatements, or other subsidies • Detailed sources & uses • How funds held under the indenture will be invested
OPERATING	<ul style="list-style-type: none"> • Expected rent levels by unit type • Occupancy history for past three years (if applicable) • Project reserve & replacement requirements • Contact information for: <ul style="list-style-type: none"> Owner Management on/offsite Trustee Local HUD office
PROPERTY DESCRIPTION	<ul style="list-style-type: none"> • Property name, location, age, size, type, etc.
REDEMPTION PRACTICES	<ul style="list-style-type: none"> • Discuss any risk of a substantial (i.e., greater than 5% of outstanding bonds) early bond call before the optional call date, due to prepayments, cross-calling, mortgage sales or issuer practices or policies • Discuss the issuer's previous redemption practices concerning parity debt where substantial par calls were made prior to any optional redemption dates
LEGAL	<ul style="list-style-type: none"> • Contact information to obtain copies of bond documents (including the indenture and loan agreement) should be provided in the Official Statement

	<u>ASSISTED OR SUBSIDIZED</u>
	Bonds that are secured solely or primarily by projects whose credit is largely derived from some form of subsidy or financial assistance (such as Sect. 8, state loan guarantees, etc.)
FINANCIAL	<ul style="list-style-type: none"> • Pro-forma debt service coverage • Summary of previous three years of finances (if applicable) • Details (such as interest, maturity, etc.) about all parity loans under this indenture (if applicable) • Any subordinate debt, tax credits, abatements, or other subsidies (including expiration of subsidies) • Expected construction/capital expenditures • Sources & uses • How funds held under the indenture will be invested
OPERATING	<ul style="list-style-type: none"> • Expected rent levels by unit & tenant type • Occupancy history for past three years (if applicable) • Project reserve & replacement requirements • Contact information for: <ul style="list-style-type: none"> Owner Management on/offsite Trustee Sect. 8 Contract Admin. Local HUD office Public Admin. Entity • Property status w/ HUD (FMR's or comps, HAP contract expiration date, rent increases, etc.) if appropriate
PROPERTY DESCRIPTION	<ul style="list-style-type: none"> • Property name, location, age, size, type, etc. • Provide copy of any HUD inspection reports
REDEMPTION PRACTICES	<ul style="list-style-type: none"> • Discuss any risk of a substantial (i.e., greater than 5% of outstanding bonds) early bond call before the optional call date, due to prepayments, cross-calling, mortgage sales or issuer practices or policies • Discuss the issuer's previous redemption practices concerning parity debt where substantial par calls were made prior to any optional redemption dates
LEGAL	<ul style="list-style-type: none"> • Contact information to obtain copies of bond documents (including the indenture and loan agreement) should be provided in the Official Statement.

	<u>UNASSISTED/UNENHANCED</u>
	Bonds that are secured solely or primarily by revenues from the project(s); could include rated "affordable" housing bonds as well as non-rated issues
FINANCIAL	<ul style="list-style-type: none"> • Pro-forma debt service coverage • Pro-forma operating budget with revenues and expenses by detailed category • Financial statements for previous three years (if applicable) • Project market study and/or appraisal • Any subordinate debt, tax credits, abatements, or other subsidies • Expected construction/capital expenditures • Sources & uses • How funds held under the indenture will be invested
OPERATING	<ul style="list-style-type: none"> • Expected rent levels by unit type • Occupancy history for past three years (if applicable) • Project reserve & replacement requirements • Contact information for : <ul style="list-style-type: none"> Owner Management on/offsite Trustee
PROPERTY DESCRIPTION	<ul style="list-style-type: none"> • Property name, location, age, size, type, etc. • Provide copy of any physical inspection, engineering, and/or environmental reports
REDEMPTION PRACTICES	<ul style="list-style-type: none"> • Discuss any risk of a substantial (i.e., greater than 5% of outstanding bonds) early bond call before the optional call date, due to prepayments, cross-calling, mortgage sales or issuer practices or policies • Discuss the issuer's previous redemption practices concerning parity debt where substantial par calls were made prior to any optional redemption dates
LEGAL	<ul style="list-style-type: none"> • Contact information to obtain copies of bond documents (including the indenture and loan agreement) should be provided in the Official Statement.

PART 3-B

RECOMMENDED BEST PRACTICES IN CONTINUING DISCLOSURE FOR MULTI-FAMILY HOUSING BONDS

The following is the suggested *minimum* type of information that issuers should be disclosing as a matter of course on a continuing basis for Multi-Family revenue bond financings. If an issuer has this type of information, disclosure would be extremely helpful. If this information is not available, an indicative statement in the disclosure should be provided.

	<u>CREDIT ENHANCED</u>
	Bonds that finance a project or projects, the debt service on which is guaranteed by a third-party credit enhancer; or the loan is fully credit enhanced (by FHA, e.g.)
FINANCIAL	<ul style="list-style-type: none"> • Annual audited financials for credit enhancer (or reference how to obtain them) • Summary of key financial information about the project (or projects) such as occupancy rate, coverage, etc. • For any project with below 1.1x coverage, an explanation of reasons • Summary of additional credit supports under the indenture, if any • Trust estate account balances, with information on how invested
OPERATING	<ul style="list-style-type: none"> ➤ Current contact information for: <ul style="list-style-type: none"> Owner Management on/offsite Trustee ➤ Rents by unit type ➤ Occupancy rates ➤ Status of repair/ replacement reserve
PROPERTY CONDITION	<ul style="list-style-type: none"> ➤ List expected capital needs ➤ Management discussion of property condition
LEGAL	<ul style="list-style-type: none"> • Discuss any bond document modifications • List key covenants and compliance with each
REDEMPTION	<ul style="list-style-type: none"> • Redemptions by source of funds, type, and bond maturity • Discuss any changes in issuer policy concerning prepayments, cross calling, recycling loan proceeds, etc.

	<u>ASSISTED OR SUBSIDIZED</u>
	Bonds that are secured solely or primarily by projects whose credit is largely derived from some form of subsidy or financial assistance (such as Sect. 8, state loan guarantees, etc.)
	•
FINANCIAL	<ul style="list-style-type: none"> • Annual audited financials for the obligor (if single project) or indenture (if for pools of loans); AND for any non-conduit type issuer • Annual HUD financial report form, if applicable • Schedule of debt service paid in the fiscal year, by bond series or security level (e.g., senior and subordinated series) if applicable • For any project with below 1.1x coverage, an explanation of reasons • Expiration of subsidies should be made available. Discuss any changes in project assistance or subsidy from prior year, if applicable • Current status of any subordinate debt or loans, grants, subsidies, tax abatements, tax credits, or other types of assistance to the project(s) or financing. • If additional debt was issued under the indenture, list details about the new bonds (coupon, maturity, etc.) and projects (subsidy type, mortgage rate, etc.) • Trust estate account balances, with information on how invested
OPERATING	<ul style="list-style-type: none"> ➤ Current contact information for: <ul style="list-style-type: none"> Owner Management on/offsite Trustee Mortgage Servicer. Sect. 8 Contract Admin. Local HUD office Public Admin. Entity ➤ Occupancy rates ➤ Rent levels by unit type, with tenant type and distribution ➤ Appropriate HUD FMR's or market comps, if applicable ➤ Status of requests for rent increases from HUD, if applicable ➤ HAP Contract expiration date, if applicable • Status of repair/replacement reserve
PROPERTY CONDITION	<ul style="list-style-type: none"> ➤ Provide copy of any physical inspection, engineering or environmental reports ➤ Annual HUD inspection report, if applicable ➤ List expected capital needs • Management discussion of property condition
LEGAL	<ul style="list-style-type: none"> • Discuss any bond document modifications • List key covenants and describe compliance with each • If consultant was retained, provide report, contact info.
REDEMPTION	<ul style="list-style-type: none"> • Redemptions by source of funds, type, and bond maturity • List current owner(s) prepayment rights including dates, conditions, etc. • Discuss any announced intention of owner(s) to prepay • Discuss any changes in issuer policy (or, if applicable, any changes in HUD regulations) concerning prepayments, cross calling, recycling loan proceeds, etc.

	<u>UNASSISTED/UNENHANCED</u>
	Bonds that are secured solely or primarily by revenues from the project(s); could include rated "affordable" housing bonds as well as non-rated issues
FINANCIAL	<ul style="list-style-type: none"> • Annual audited financials for the obligor • Schedule of debt service paid in the fiscal year, by bond series or security level (e.g., senior and subordinated) if applicable • For any project with below 1.1x coverage, an explanation of reasons • Income statements with explanations of variances from budget; preferably provided on a monthly basis but no less frequently than quarterly • Budget provided annually; revenues and expenses by detailed category • Capital expenditures by type and funding source • Trust estate account balances, with information on how invested
OPERATING	<ul style="list-style-type: none"> • Current contact information for: <ul style="list-style-type: none"> Owner Management on/offsite Trustee • Rents by unit type • Occupancy rates • Details on rent concessions, if any • Status of repair/replacement reserve
PROPERTY CONDITION	<ul style="list-style-type: none"> • Provide copy of any physical inspection, engineering or environmental reports • List expected capital needs • Management discussion of property condition
LEGAL	<ul style="list-style-type: none"> • Discuss any bond document modifications • List key covenants and describe compliance with each • If consultant was retained, provide report, contact info.
REDEMPTION	<ul style="list-style-type: none"> • Redemptions by source of funds, type, and bond maturity

APPENDIX I

Below is an illustration of the type of information needed for Local HFA Single Family bond analysis. This is not intended to discourage the use or availability of audited financial statements. Please note from this example that audits typically do not include all the information necessary for a thorough analysis.

Local HFA Bond Surveillance Reports

Issuer : _____
Series : _____
As of : _____

Statement of Balances

	BALANCE	INVESTMENT TYPE (GIC, Treasuries, etc.) & PROVIDER	MATURITY DATE	RATE
ASSETS				
Mortgages Originated				
GNMA/FNMA Balance				
Acquisition Fund*				
Bond Fund*				
Revenue Fund*				
Debt Service Reserve Fund*				
Accrued Interest				
Other				
TOTAL ASSETS				
LIABILITIES				
Serials				
Terms				
CABs				
Accrued Interest				
Other (e.g., accrued trustee fees)				
TOTAL LIABILITIES				

*Note: These are representative Funds. Please provide data using actual Fund names.

Does the issue rely on reinvestment income to cover debt service payments? Please provide original cash flow assumptions if available.

What is status of commitments of monies (if any) in the Acquisition Fund?

Was the acquisition period ever extended? If yes, until what date?

Was there an unexpended bond proceeds call? If so, when and how much?

The current expected average life of each maturity, in each series, should be provided.

Provide Pool Numbers for GNMA/FNMA pools:

List four largest servicers:

1. _____
2. _____
3. _____
4. _____

Have you ever had any problems with any of the servicers? If so, describe.

Is there a Master Servicer or administrator?

Name of Master Servicer/Administrator: _____

Contact: _____

Phone/Fax/e-mail: _____

Trustee: _____

Contact: _____

Phone/Fax/e-mail: _____

Prior Bond Calls

Please provide the following information (from the date of issuance to the present):

- Date of the call
- Dollar amount called, per maturity
- Maturity date of each bond called
- Note the source of funds used (e.g., unused proceeds, mortgage prepayments, cash flow surpluses, etc.)

Sample:

Amount (\$000)	Rate	Maturity	Source	Date Called					Current Expected Average Life
				1/1/94 U	3/1/94 S	7/1/94 P	1/1/95 P	7/1/95 P	
\$ 110	4.10%	1/1/94							0
\$ 115	4.10%	7/1/94		5	5				0
\$ 125	4.20%	1/1/95		5	5				0
\$ 450	5.35%	1/1/09		15	20	10	70		3.47 years
\$ 3,250	5.75%	7/1/13		50	110	125	100	475	6.63 years
\$15,000	6.15%	1/1/24		400	880	1000	800	3500	12.47 years

U = Unused Proceeds Call

S = Surplus call

P = Mortgage Prepayments

Notes:

- 1) This chart is included as guidance for the kind of detailed information that is relevant to investors. Actual disclosure information may be in a different format.
- 2) The calculation of "current expected average life" is something many issuers do not prepare on a continuing basis. If it is available, however, then please disclose it.

Generally, this information is provided by the bond trustee (since most local HFAs are not staffed for this function). Issuers should instruct trustees (at time of bond issuance) to make this information available to all who request it, whether or not they currently are bondholders.