Minutes of the Nevada State Legislature
Senate Committee on Government Affairs
Date: March 26, 1979
Page: One

Present: Chairman Gibson
Vice Chairman Keith Ashworth
Senator Dodge
Senator Echols
Senator Ford
Senator Kosinski
Senator Raggio

Also Present: See Attached Guest Register

Chairman Gibson called the twenty-third meeting of the Government Affairs Committee to order at 2:00 p.m. with all members present.

SB-336 Revises provisions of law concerning deferment of compensation by state employees.

Bob Gagnier, Executive Director of S.N.E.A. stated that this bill is the third attempt of the state employees regarding deferred compensation. The bill has been revised and amended in order to comply with all the necessary regulations of the Internal Revenue Service. The bill clearly states that only state employees are covered and meets all the regulations in the law.

Mr. Gagnier concluded testimony by reading a suggested amendment to the bill. The amendment is as follows: "The committee and its individual members are not liable for investment decisions if they obtain qualified investment counsel, establish proper investment objectives and policies." The amendment would fit in Section 3.

Senator Dodge moved "Amend and Do Pass" on SB-336
Seconded by Senator Ford
Motion carried unanimously.

AB-482 Revises schedule for changing mailing lists of certain state publications.

Phyllis Otten, Technical writer with the Health Division, testified in favor of this bill stating that it will save money and time.

Mrs. Otten stated that this bill will be particularly helpful in the less frequently mailed publications.

Senator Ford passed out a copy of a publication from Florida where the following is noted; (1) where the funding comes from and how much is spent on any particular issue (2) A check list on the front for those to mark if they still wish to receive the document (those not responding are dropped from the mailing list) and (3) A box at the end of the publication noting the exact cost of publishing the particular article. (See Attachment #1, #2, and #3)
Senator Ford suggested amending the bill in order to require that the publishing agency itemize the cost of the publication and the number of publications that were printed.

Senator Ford moved "Amend and Do Pass" on AB-482
Seconded by Senator Kosinski
The motion was defeated.

After further discussion from the committee it was decided that due to the amount of time left in the session the bill could be passed unamended at this time and a new bill initiated regarding the requirements noted in Senator Ford's amendment suggestion. With all members in favor of the bill without the amendment the following motion was made:

Senator Ford moved "Do Pass" on AB-482
Seconded by Senator Keith Ashworth
Motion carried unanimously.

AB-309 Permits advance from state general fund to division of parks of state department of conservation and natural resources for construction projects financed in part by the Federal Government.

John Meader, Administrator of the State Parks System testified to the committee in favor of AB-309 indicating that this bill merely allows the state to get temporary funds until the federal money is reimbursed. At this point Mr. Meader turned testimony over to Mr. Pete Morros, Department of Conservation and Natural Resources.

Mr. Morros stated that the bill is needed in order to get the reimbursable funds from the federal government. He concurred with Mr. Meader's testimony.

Chairman Gibson asked Mr. Meader if the bill is unique or are other agencies using this procedure. Mr. Meader stated that the Highway Board and the Public Works Board are using similar provisions (NRS 408.270 & NRS 341,095) to obtain temporary funding until they are reimbursed from the federal government.

Senator Raggio moved "Do Pass" on AB-309
Seconded by Senator Keith Ashworth
Motion carried unanimously.
SB-127  Enlarges power and duties of housing division of department of commerce.

Chairman Gibson informed those present that the Executive Department requested, earlier, that the bill be held until they had a chance to study it more thoroughly. Mr. Wadhams, Commerce Director, was requested to give testimony and explain the various amendment changes in the bill.

Mr. Wadhams read his prepared list of amendment suggestions and their explanations to the committee. (See Attachment #4)

After Mr. Wadhams presented the committee with all the amendments in SB-127 he passed out a copies of "Bond Amounts and Types of Loans authorized for selected State Housing Finance Agencies". (See Attachment #5) Along with this informational sheet Mr. Wadhams presented the committee with a research report prepared by Dean Witter Reynolds Inc. on the Tax-Exempt Single Family Mortgage Bonds Issued by Local Governments. (This report will not be included in the minutes but was presented to each committee member for their own information and will be kept in their folders)

Mr. Wadhams concluded his testimony by stating that they have been very successful with the program and the suggestions contained in his testimony would only increase ability to serve those people who are in need of low cost housing.

Susan Powers, Community Development Division for the City of Reno, testified in favor of SB-127 and the suggested amendments except for the following: (1) The amount should not be amended to $300 million but remain at the $500 million as originally amended in the bill. (2) The bill should address home improvement loans. Mrs. Powers concluded by stating that we should be looking at preserving what we have. The home improvement loan is very important to those people who don't want an area to become run-down. Mrs. Powers also noted that they are receiving federal money to help them assist those in need of home improvement loans.

Robert J. McCormick, representing the Kissel Company, mortgage lenders, stated that their company has generated almost six million dollars in loans and feels that the Housing division is doing a good job in the low income housing area. Mr. McCormick stated that there is considerable checking done to insure that those who get low cost financing are truly qualified. Fraud is almost non-existant in the low cost housing program. Mr. McCormick expressed concern over allowing the private mortgage lender into the program as it could cause the bonds to sold at a higher rate. He also felt that the buyer will be affected by instability and lack of credit. Mr. McCormack was also concerned about the state's interest in obtaining "third party interest". Mr. McCormick concluded his testimony by praising the progress of the housing division.
Don Roddin, Representing Southern and Northern Nevada Mortgage Associations, testified to the committee that they were in favor of SB-127 and praised the housing division's progress over the past few years. Mr. Roddin agreed with the suggestion of amending the bill to have a ceiling of $300 million. Mr. Roddin further stated that he agreed with Mrs. Power's testimony on home improvement loans and if that is included, the amount should possibly be raised to the $500 million ceiling.

John Melvin, an attorney, testified to the committee as an investor banker and represents Goldman, Sachs. Mr. Melvin stated that they were the managing underwriters for the Housing Division's last bond issue and the one before that. On the question of the private mortgage insurance and the ratings, additional interest rates, etc. Mr. Melvin informed the committee that bond markets have seen many new types of housing issues in the last couple of years. Six months ago the difference between FHA, VA, and PMI would have been one half of one percent. Today it would be approximately one-fourth of one percent and possibly in six months there won't be a difference. Bond insurance policies are now behind the PMI and are called "pool" insurance policies. The pool insurance policy is a back-up insurance policy which covers all losses above 10% of the mortgage portfolio. Investors and rating agencies feel that any bond issue backed by a pool policy of recognized bond insurers will receive a double A rating.

Mr. Melvin concluded by stating that with the growth and development of the housing division, business transactions are conducted with much more confidence than before. Mr. Melvin also praised the housing division and felt that with the addition of PMI and pool insurance the credit of Nevada would never be questioned.

Tom Westoff, Dean Witter employee in the Research Department, stated that he helped prepare the information booklet that Mr. Wadham's passed out earlier in the meeting. Mr. Westoff agreed with Mr. Melvin's testimony on the PMI and pool insurance. He felt that with this, Nevada would be able to offer special issues where FHA and VA would not be able to be of service due to special regulations they must comply with. Mr. Westoff informed the committee that Dean Witter has been the financial advisor to the housing division since its inception.

Mr. McNitt, Housing Administrator in the Housing Division, stated that the constructions costs with FHA and PMI are approximately 5% higher due to regulations. He noted that certain regulations must be met regardless where the house is being constructed. Mr. McNitt gave an example of the specifications that must be met on a house being constructed in Fallon and the amount that could be saved on the cost of building that house if certain specifications could be deleted.
Some of the deferrable expenses on the Fallon house were the mandatory fencing costs, spetic tank requirements, etc. Mr. McNitt concluded by stating that some of the FHA requirements were inflationary.

Joe McDonald, testified on behalf of the Builders Association of Northern Nevada. Mr. McDonald stated that he is a contractor and agreed with Mr. McNitt's testimony. Mr. McDonald supports PMI and pool insurance. He also noted that the ceiling amount should remain at $500. million. He informed the committee that H.U.D. is getting less and less federal money and this area is in desperate need of funding. Mr. McDonald felt that the funding necessary should come from the Nevada Housing Division. He concurred with the legislator's on the committee that all savings should be passed on down to the consumer.

Mr. Wadhams took this opportunity to inform the committee and those present that the restrictions on the housing division are found in NRS 319.260.

Chairman Gibson stated that the testimony and discussion on SB-127 would be continued at another meeting prior to taking action on this bill. Mr. Wadhams would also provide the committee with information on the acquisition of federal or B.L.M. land to be used for low cost senior citizens housing.

With no further business the meeting was adjourned at 4:45 p.m.

Respectfully submitted,

Janice M. Peck
Committee Secretary

Approved:

Chairman
Senator James I. Gibson

Note: Attachment #6 is a letter from Mr. William J. Huff, Senior Vice President of Weyerhaeuser Mortgage Company regarding SB-127 and was submitted into the minutes by Mr. McDonald.
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<td>Phyllis Atten</td>
<td>Yes</td>
<td>AB 432</td>
<td>Health Div.</td>
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<td>Susan Fanny</td>
<td>Yes</td>
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<td>Lorna Edwards</td>
<td>Yes</td>
<td>SB 336</td>
<td>Self</td>
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<tr>
<td>John Meder</td>
<td>Yes</td>
<td>AB 309</td>
<td>State Parks</td>
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<td>Tom Braddon</td>
<td>Yes</td>
<td>AB 127</td>
<td>Mtg. Bankers Savings</td>
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<td>Bob Cagney</td>
<td>Yes</td>
<td>SB 336</td>
<td>SNEA</td>
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<td>P.J. Max McCormick</td>
<td>Yes</td>
<td>SB 127</td>
<td>MBA</td>
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<td>Dawson Bennett</td>
<td>No</td>
<td>SB 336</td>
<td>State Deferred Corp. Com.</td>
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<td>Thomas Wirth</td>
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<td>SB 127</td>
<td>New Housing</td>
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<tr>
<td>Bernard J. Wirth, Jr.</td>
<td></td>
<td>SB 127</td>
<td>New Housing (Dear Writer)</td>
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HOUSING IN FLORIDA
A REPORT TO THE 1978 FLORIDA LEGISLATURE

DEPARTMENT OF COMMUNITY AFFAIRS
DIVISION OF TECHNICAL ASSISTANCE

and

FLORIDA COUNCIL ON STATE HOUSING GOALS

JUNE, 1978

This public document was financed in part through federal funds from the U.S. Department of Housing and Urban Development under the Comprehensive Planning Assistance Program authorized by Section 701 of the Housing Act of 1954, as amended. It was promulgated at an annual cost of $2,500.00 or $8.32 per copy to meet the housing report requirements of Chapter 420, F.S.
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5600 Fishers Lane (Room 6C-02)
Rockville, Maryland 20857

DHEW Publication No. (ADM) 78-772
Printed 1973
### Red Letter Days: U.S.A. EVENTS

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<td>August 24-25</td>
<td>3rd Annual Chicano Film Festival. Oblate</td>
<td>San Antonio</td>
<td>College of the Southwest. Info: Chicano Film Festival, Centro Video, 265 Oblate Drive San Antonio, Tex. 78216</td>
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<td>October 1</td>
<td>7th Annual Meeting of the Association of Labor-Management Administrators and Consultants on Alcoholism, Inc. (ALMACA)</td>
<td>San Francisco</td>
<td>San Francisco, Calif. Info: ALMACA, 1800 North Kent St., Suite 907, Rosslyn, Va. 22209</td>
</tr>
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</table>

**Ballpark Figures (cont'd)**

- In 1976 there were 8.8 deaths per 100,000 population in the U.S. according to Metropolitan Life Insurance Company, the first time in U.S. history the national death rate has fallen below 3 per 100,000. Although there was a decrease of 6 percent in suicide rates between 1975 and 1976, there was an increase in suicide rates among young people in the 14-24 year age groups. Metropolitan life suicide is the second leading cause of death among males between the ages 15-19. In 1975, 7.6 per 100,000 of the population between the ages 15-19 died from suicide; and 18.5 per 100,000 in the ages 20-24 killed themselves. The rates of suicide attempts by young people have been increasing, an estimated 50 attempts for each successful effort. The highest population group in the suicide statistics are American Indians and Alaska natives in the 14-24 age group, with a rate of 45 to 100,000 population. (Center for Health Statistics, and NIMH Division of Special Mental Health Programs, 1977)

- Of the 54 million children and youth of school age, 5-11 years of age, or 15 percent need help for psychological disorders. Between 1 and 2 million children have specific learning disabilities; one out of every 5,000 children has an autistic disorder; and 400,000 cases of child abuse are reported yearly. Surveys indicate that the total number of child abuse cases is ten times the number actually reported. (President's Commission on Mental Health, Preliminary Report, September 1979)

- Immigration accounts for one-fourth of the net population gain in the United States. Dropout rates for school children from homes where English is spoken is between 8 and 10 percent, compared with a 38 percent dropout rate for school children from homes where the only language spoken at home is other than English. The principal non-English language spoken in the U.S. is Spanish. Where English is spoken among families of Spanish descent, the dropout rate is 14 to 15 percent, but in families where only Spanish is spoken, the dropout rate is 45 percent. The trend of migration from cities is becoming an exodus of 1.8 million people. The eight largest U.S. cities have a net out-migration of 1.2 percent, while rural areas have shown a growth rate of 5.6, contrasted with a growth rate of 4 percent for the country as a whole. Migration in and out of metropolitan areas is having the effect of concentrating minority students in the suburbs, exurbs, and rural areas. (Joseph F. Coles, The Future, February 1979)
Florida's historic state capitol

Three log buildings that served as Florida's first state capitol were erected in Tallahassee in the summer of 1824 for the use of territorial officers and the first Legislative Council. The exact location of these "government buildings" is not known, since the town of Tallahassee was not laid out until the following year; according to tradition the log capitol was situated just south of the present capitol.

In 1826, one wing of what was expected to be the permanent capitol was built on the site of the present capitol. Efforts to complete the building were unsuccessful, and this small two-story structure was used as the capitol only until late in 1839 or early in 1840.

Construction started in 1839 on the erection of a new capitol, and after delays caused by insufficient funds the capitol was completed in time for the first session of the General Assembly of the state in June, 1845.

The capitol remained without noticeable change from 1845 until 1902, except for the addition of a small cupola in 1891. In 1901-02, additions were made to the north and south ends of the building, and the dome was erected. A second enlargement, the erection of the east and west wings, was made in 1921-22. The north wing was built in 1935-37, and a south wing was completed in 1948.

In 1970, work started on the construction of a new capitol complex designed to provide adequate space for the executive and legislative branches of Florida's government. The new Senate and House Office Buildings were completed in 1973, with the completion of the new 22-story capitol in 1977.

One writer has described the new capitol complex as "an ingenious blend of the past and future Florida, the nostalgic and the visionary."
We recommend the following changes in S.B. 127:

1. Delete Section 3 in its entirety.

2. Delete Section 4 in its entirety.

3. Delete Section 8 in its entirety.

4. In Section 10, Subsection 1, Line 2, Page 4, the word "insured" should remain.

5. Delete Subsection 2 and 3 of Section 10.

6. Delete in Section 11, Subsection 2 in its entirety.

7. In Section 13, Subsection 5, Line 21, Page 6, the amount should read $300,000,000.

8. In Section 15, Delete all reference to "trust certificate".

9. In Section 16, Subsection 2, Line 38, Page 7, amend the language to read as follows:

    ....the proceeds may be invested in securities, including but not limited to:

(i) Direct obligations of or obligations guaranteed by the United States of America;

(ii) Obligations, debentures, notes or other evidences of indebtedness issued or guaranteed by any of the following: Banks for Cooperative; Federal Intermediate Credit Banks; Federal Home Loan Bank System; Export-Import Bank of the United States; Federal Land Banks; Federal National Mortgage Association (to the extent guaranteed by the Government National Mortgage Association); Federal Home Loan Mortgage Corporation; Farmers' Home Administration; Tennessee Valley Authority; or the Government National Mortgage Association;

(iii) Obligations issued by public agencies or municipalities and fully secured as to the payment of both principal and interest by a pledge of annual contributions under an Annual Contributions Contract or Contracts with the United States of America; or Temporary Notes, Preliminary Loan Notes or Project Notes issued by public agencies or municipalities, in each case fully secured as to the payment of both principal and interest by a requisition or payment agreement with the United States of America;

(iv) Certificates of deposit issued by, or time deposits with, any bank or trust company organized under the laws of the state, any national banking association which is a member of the Federal Reserve System, or any savings and loan association which is a member of the Federal Savings and Loan Insurance Corporation (including the Trustee, a Lending Institution or any Paying Agent), provided that any such institution has capital stock, surplus and undivided profits aggregating at least $5,000,000, and provided further that such time deposits, to the extent not insured, or certificates of deposit are fully secured by obligations of the type specified in (i), (ii), or (iii) above which have a market value, exclusive of accrued interest at least equal to the amount of such deposits; and
(v). Repurchase Agreements with banks that are members of the Federal Deposit Insurance Corporation, the underlying securities of which are obligations of the type described in (i) and (ii) above.

10. In Section 17, Line 7, Page 8, add the following language after the word "established" ...as necessary to provide adequate reserves for the payment of debt service on the bonds.
<table>
<thead>
<tr>
<th>State Agency</th>
<th>Bond Authorization</th>
<th>Type of Loans Authorized</th>
</tr>
</thead>
<tbody>
<tr>
<td>California Housing Finance Agency</td>
<td>$750MM Outstanding at one time</td>
<td>FHA/VA PMI and Agency Insur. for 50% indebtedness</td>
</tr>
<tr>
<td>Colorado Housing Finance Agency</td>
<td>$400MM Pending legislation Increase to $800MM</td>
<td>FHA/VA Conventional L/V 80% PMI to 80%</td>
</tr>
<tr>
<td>Idaho Housing Agency</td>
<td>$200MM</td>
<td>FHA/VA PMI to 72%</td>
</tr>
<tr>
<td>Iowa Housing Finance Agency</td>
<td>$250MM Pending legislation Increase to $500MM</td>
<td>FHA/VA Conventional L/V 75% PMI to 75%</td>
</tr>
<tr>
<td>Montana Board of Housing</td>
<td>$75MM Pending legislation Increase to #375MM</td>
<td>FHA/VA Allowance of Convention and PMI pending</td>
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<tr>
<td>New Mexico Mortgage Finance Authority</td>
<td>No limits</td>
<td>FHA/VA PMI</td>
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<tr>
<td>Oregon Housing Division</td>
<td>$200MM Pending legislation Increase to $500MM</td>
<td>FHA/VA Conventional L/V 80% PMI to 75%</td>
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<tr>
<td>South Dakota Housing Development Authority</td>
<td>$400MM Pending legislation Increase to $550MM</td>
<td>FHA/VA PMI to 75%</td>
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<tr>
<td>Wyoming Community Development Authority</td>
<td>$100MM Pending legislation Increase to $250MM</td>
<td>FHA/VA Allowance of Convention and PMI pending</td>
</tr>
</tbody>
</table>

*State Insurance Commissioner has won suit claiming PMI's overcharge for insuring top 20% of loan. Decision being appealed.*
Senator Government Affairs Committee  
State of Nevada  
Carson City, Nevada

Re: SB-127  
Proposed Amendment to  
Nevada Housing Finance Act

Gentlemen:

Our company has been very active in utilizing the programs of the Nevada Housing Division and we have completed a thorough review of the amendments proposed by SB-127. In particular, we feel the authorized bonded indebtedness limits should be increased substantially to enable use of these programs as needed. The FHA Project Division of Weyerhaeuser Mortgage Company has originated and provided financing in excess of $200 million over the past 15 years, in the State of Nevada. These projects are principally apartment units for families. We have also assisted in financing elderly housing, nursing homes, cooperative and subsidized housing units, all of which were insured under provisions of FHA’s mortgage insurance programs.

In the past, many of the housing units for low and moderate income families were provided by various subsidy programs of the Federal Government. However, since 1973, federal programs have been sharply curtailed and only a minimum number of such units will be developed as a result of federal programs. Interest rates on conventional loans at present and the lack of availability of funds for conventional apartment rates simply will not permit development of rental housing for low and moderate income families.

In our opinion, the Nevada Housing Division program, utilizing tax free bonds, is the only vehicle available which will enable rental housing for lower income families. For this reason we urge that you enact the proposed amendments and increase in bonded indebtedness by the provisions of SB-127.

Very truly yours,

WEYERHAEUSER MORTGAGE COMPANY

William J. Huff  
Senior Vice President

WJH/aa
S. B. 336

SENATE BILL NO. 336—COMMITTEE ON GOVERNMENT AFFAIRS

MARCH 15, 1979

Referred to Committee on Government Affairs

SUMMARY—Revises provisions of law concerning deferment of compensation by state employees. (BDR 23-1093)

FISCAL NOTE: Effect on Local Government: No. Effect on the State or on Industrial Insurance: No.

EXPLANATION—Matter in italic is new; matter in brackets [ ] is material to be omitted.

AN ACT relating to state employees; revising certain provisions of law concerning deferment of compensation by state employees; and providing other matters properly relating thereto.

The People of the State of Nevada, represented in Senate and Assembly, do enact as follows:

SECTION 1. NRS 287.270 is hereby amended to read as follows:

287.270. "Deferred compensation" means income which [an] a state employee may legally set aside under [current United States Internal Revenue Service rulings] 26 U.S.C. § 457 and which, while invested under the program, is exempt from federal income taxes on the employee's contributions and interest, dividends and capital gains.

SEC. 2. NRS 287.320 is hereby amended to read as follows:

287.320. 1. [An employer] The state may agree with any [employee] to defer any or all of its employee's compensation in accordance with a program approved by the committee and by the United States Internal Revenue Service, as authorized by 26 U.S.C. § 457.

2. The [employer] state shall withhold the amount of compensation which [the employee has, in the] an employee has, by such an agreement, directed the [employer] state to defer.

3. The [employer] state may invest the withheld money in any investment approved by the committee.

4. The investments must be underwritten and offered in compliance with all applicable federal and state laws and regulations, and may be offered only by persons who are authorized and licensed under all applicable state and federal regulations.

5. All amounts of compensation deferred pursuant to the program, all property and rights purchased with those amounts, and all income attributable to those amounts, property or rights remain solely the property and...
ASSEMBLY BILL NO. 482—ASSEMBLYMAN BARENGO

FEBRUARY 28, 1979

Referred to Committee on Government Affairs

SUMMARY—Revises schedule for changing mailing lists of certain state publications. (BDR 29-1200)

FISCAL NOTE: Effect on Local Government: No.
Effect on the State or on Industrial Insurance: No.

EXPLANATION—Matter in italics is new; matter in brackets [ ] is material to be omitted.

AN ACT relating to state publications; revising the schedule for the changing of mailing lists of certain state publications; and providing other matters properly relating thereto.

The People of the State of Nevada, represented in Senate and Assembly, do enact as follows:

SECTION 1. NRS 345.060 is hereby amended to read as follows:

1. As used in this section, unless the context otherwise requires:
   (a) "State agency" includes the legislature, constitutional officers or any department, division, bureau, board, commission or agency of the State of Nevada.
   (b) "State publication" has the meaning ascribed in subsection 3 of NRS 378.160.

2. Except as provided in subsection 3, every state agency which periodically distributes any state publication shall at least after every 12 issues or annually if published more frequently than once a month notify the person receiving the publication that his name will be deleted from the mailing list unless he notifies the state agency within 30 days that he wants to remain on the mailing list.

3. This section does not apply if the person subscribes to and pays a fee for the state publication.
ASSEMBLY BILL NO. 309—COMMITTEE ON
GOVERNMENT AFFAIRS
FEBRUARY 6, 1979

Referred to Committee on Government Affairs

SUMMARY—Permits advance from state general fund to division of state parks of
state department of conservation and natural resources for construction proj­
ected in part by the Federal Government. (BDR 35-461)

FISCAL NOTE: Effect on Local Government: No.
Effect on the State or on Industrial Insurance: No.

EXPLANATION—Matter in italics is new; matter in brackets [ ] is material to be omitted.

AN ACT relating to state parks and monuments; permitting an advance from the
state general fund for capital construction financed in part by the Federal
Government; and providing other matters properly relating thereto.

The People of the State of Nevada, represented in Senate and Assembly,
do enact as follows:

1. SECTION 1. Chapter 407 of NRS is hereby amended by adding
thereon a new section which shall read as follows:

Whenever properly approved claims payable out of the state park
grant and gift fund or any other fund or account used by the division
for a project of capital construction exceed the amount which is available
in such fund or account, and the project is financed in part by money to
be made available to the division by the United States or any of its
agencies or instrumentalities, the state controller may transfer temporarily
from the state general fund to such fund or account an amount required
to pay those claims but not more than the amount collectible from the
United States for the particular project.
Tax—Exempt
Single Family Mortgage Revenue Bonds
Issued by Local Governments

A Special Municipal Research Report
by

DEAN WITTER REYNOLDS INC.
Tax—Exempt
Single Family Mortgage Revenue Bonds
Issued by Local Governments

A Special Municipal Research Report
by

DEAN WITTER REYNOLDS INC.

130 Liberty Street
New York, N.Y. 10006
(212) 437-3000

The foregoing has been prepared solely for informative purposes and is not a solicitation, or an offer, to buy or sell any security. It does not purport to be a complete description of the securities, markets or developments referred to in the material. All expressions of opinion are subject to change without notice. The information is obtained from sources which we consider reliable but we have not independently verified such information and we do not guarantee that it is accurate or complete. We, or our officers and directors, may from time to time have a long or short position in the securities mentioned and may sell or buy such securities.
Preface

This study consists of an analysis of sixteen series of single family mortgage revenue bonds issued by local governments prior to January 1, 1979. Certain generalizations were made in this report based upon the study of these sixteen issues. Since this type of financing is in its infancy, issues with structural changes and innovations may be brought to market after the publication of this research report that may make some of the generalizations outdated. However, we expect the basic structure of these issues to remain consistent with past financings. In addition no credit comparison will be made between the local issues and their state housing agency predecessors. This study attempts to provide a framework for the future analysis of individual issues and does not strive to arrive at any judgemental conclusions regarding the local issuance of single family mortgage revenue bonds as a whole.

Steven A. Rosen
Municipal Research
Dean Witter Reynolds, Inc.
January 30, 1979
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Spreads Between the Interest Costs of the Bonds and the Interest Rates on the Mortgage Loans (Chart) | 34   |
Introduction

Although there have been several mechanisms created which were to expand the availability of capital for residential mortgage loans, none have seemed to adequately satisfy the demand for single family mortgage loans. This demand continues to appear insatiable despite increasing property taxes, high interest rates, and rising housing costs.

In July of 1978, the City of Chicago surprised the investment community by issuing $100,000,000 of tax-exempt bonds, the proceeds to be used to originate single family mortgage loans and thus increase the availability of less costly mortgage money. Even though state housing agencies have issued tax exempt bonds secured by single family mortgage loans for quite some time, this was the first public offering by a "municipality". Subsequently, counties, cities and even a village have issued over $500,000,000 of these types of securities prior to January 1, 1979. The potential volume of mortgage revenue bond issues coming to market in the future may be immeasurable.

There are several significant structural differences between the "Chicago-type" issues and their state housing agency predecessors. While the City of Chicago issued the bonds, the City has little responsibility for the administration of the program and none for the origination or servicing of the mortgage loans. Unlike many of the state housing agency issues, there is no "moral obligation" pledge from the municipalities. Instead, a mortgage pool insurance policy usually covers any losses derived from loan defaults up to an aggregate liability limit of 10% of the initial principal balance of all mortgage loans. Rather than just increasing the availability of mortgage money to those with low or moderate incomes, the Chicago issue attempts to increase the general availability of mortgage money by establishing a broad (adjusted gross) income limitation of $40,000 per year. There is also no limitation on either the purchase price of the property or the amount of principal loaned to the mortgagor. Although subsequent issues have defined these limitations more conservatively, several have followed similar guidelines.
Legal Authority

The Federal law that enabled Chicago and its successors to issue single family mortgage revenue bonds is the same one that regulates the use of "industrial development bonds". During the mid-1960's, local issuers greatly increased and in some instances abused the use of industrial development (IDR) bonds, causing Congress to pass the restrictions contained in the Revenue and Expenditure Control Act of 1968. Until then, cities and counties issued I.D.R. bonds extensively to attract commerce and industry by providing low interest mortgage financing on facilities to be constructed, which resulted in lower lease terms for industrial or commercial tenants. Frequently, this type of financing benefited major corporations far more than the issuing municipality. As a result, Congress restricted the use of industrial development bonds to issues under a current maximum of $10 million except for "certain exempt activities". Although Congress specified housing as an "exempt activity" under the 1968 law, until July, single family mortgage issues were the domain of state housing agencies.
Typical Structure

While single family mortgage issues may differ greatly in credit quality, structurally these issues have many similarities. The issues which have been publicly offered through December 31, 1978 have ranged in size from $15 million to $100 million. The security is primarily provided by the repayment of principal and interest on the mortgage loans.

Mortgages financed through tax-exempt means typically have lower interest rates than those posted on mortgages from traditional revenue sources. Thus, savings through tax-exempt financing are passed on to the mortgagor through lower interest rates. The spread between the issuer’s borrowing costs and mortgage loan rates is designed to cover administrative expenses, mortgage servicing fees, and insurance costs. The spread has ranged from 0.86% to 1.484%. Under arbitrage regulations established by the Internal Revenue Service, the spread is substantially limited to 150 basis points or 1.50%.

The mortgages have maturities of 25-30 years and are payable in equal monthly installments. It is assumed that mortgage payments will be made on a timely basis and no mortgage prepayments are included when constructing the bond maturity schedule. Although there are no accurate statistics with which to calculate conventional mortgage prepayments, state FHA mortgage prepayment experiences are often reported, so as to give some indication as to what can be expected. Both mortgage prepayments and delinquencies are significant in determining whether there will be sufficient cash to meet debt service requirements.

In addition to standard ten year call provisions and typical sinking fund arrangements, there are other redemption provisions of which the investor should be aware. The bonds are usually subject to mandatory redemption at par from unused bond proceeds, after a specified date by which mortgages must have been originated. Bonds are also subject to mandatory redemption on any interest payment date at par from mortgage principal prepayments, decreases in mortgage reserve requirements, and surplus revenues. Potential investors should be cognizant of the redemption provisions, because the provisions may result in a substantial portion of their bonds being called prior to the bonds’ scheduled maturities.

Three different reserve funds are normally established: 1.) A capital (debt service) reserve funded with bond proceeds, usually in an amount approximately equal to the final principal or sinking fund payment; 2.) A mortgage reserve also capitalized from bond proceeds in an amount that varies with each issue, but normally either 1% of the unpaid mortgage principal or 150% of the maximum monthly principal and interest payments due on the mortgages; 3.) An accumulation reserve to be accumulated from excess revenue in an amount that varies with each issue. In the event there are insufficient funds available for the payment of debt service, moneys will be withdrawn first from the accumulation reserve. Once the accumulation reserve is exhausted, moneys may be withdrawn from the mortgage reserve. Funds in the capital reserve may be used for the payment of debt service, but only to the extent no other moneys are available.
The number of lending institutions responsible for originating the mortgage varies with each issue. As payment for a lending institution's services, origination fees are charged the mortgagor. Fees have ranged from 1% to 3½% of the initial mortgage principal. In general, an institution services the mortgages it originates. The institution receives a service fee as payment, which has ranged between ¾% and ½ of 1% of the unpaid mortgage principal. In many instances, a servicing institution may receive a primary administrative fee, or a secondary administrative fee when funds are available, which has ranged between ½% and ½ of 1% of the unpaid mortgage principal.

The mortgagor has often been charged a program participation fee in an amount up to 3½% of the mortgage loan principal. The program participation fee is deposited with the custodian or trustee and utilized to make additional mortgage loans.

A commitment fee (as in state housing agency issues) is occasionally charged in instances when more than one lending institution is responsible for originating mortgage loans. It is calculated as a percentage of the mortgage principal the lending institution has committed to originate. The fee is paid in cash or in the form of a letter of credit and will often be drawn upon or refunded when the institution fails to or successfully originates its commitment.

While the mortgage eligibility criteria vary with each issue, there are certain criteria that single family mortgage revenue issues have had in common. Each mortgage is to be secured by a first lien on the financed property. The property will be the mortgagor's principal place of residence and be located within the boundaries of the issuer. Each mortgage loan provides permanent financing for the purchase of a new or existing residence and may not be for the sole purpose of refinancing any existing mortgage loan. The mortgages are for specific terms and require substantially level monthly payments. Although most mortgages require minimum down payments, the size varies with each program. Practically every issue that has come to market has required a loan to property value (L/V) ratio not exceeding 80% or private mortgage insurance covering the excess exposure.

There are several types of insurance involved in the typical single family mortgage revenue issue. As already mentioned, most issues have required a maximum loan to value ratio of 80%. If a mortgage loan exceeds 80%, the mortgagor is required to purchase private mortgage insurance (PMI) in an amount so that the uninsured portion of the loan does not exceed a specified percentage of the initial appraised value of the property. This percentage has ranged from an L/V ratio of 72% to 80%.

In order for a claim to be presented under a private mortgage insurance policy, the lender or servicer must have obtained title to the property, free and clear of all liens and encumbrances, including any right of redemption by the mortgagor. The property must also be in the same condition as when the mortgage loan was originally insured, subject to reasonable wear and tear. Under the
policies, a claim normally includes unpaid mortgage principal, accrued interest to the date of acquisition, and certain specified expenses. When a claim is presented, the issuer usually has the option of either paying the claim in full or paying the insured percentage of the claim.

In all the issues examined thus far, a mortgage pool insurance policy covers any loss resulting from mortgage defaults up to a policy liability limit of 10% of the initial principal balance of all mortgage loans. While this insurance provides protection against losses attributable to foreclosures, it provides no protection against losses due to hazards or a lack of funds due to mortgage delinquencies. As in PMI, the property must be in the same condition as when the mortgage loan was originally issued (subject to reasonable wear and tear) prior to the presentation of a claim. In most instances, the insurer will have the option: 1.) of purchasing the property at a price equal to the unpaid mortgage principal, plus accrued interest and certain specified expenses; or 2.) pay any loss resulting from a sale of the property. The payment will be reduced by any loss previously paid by a private mortgage insurer, since that insurer is usually presented with claims first.

The mortgagor must also maintain a standard hazard insurance policy in an amount not less than the maximum insurable value of the property or, in some cases, the principal balance owed on the mortgage loan, whichever may be less. In addition, the custodian obtains a special hazard insurance policy that typically contains coverage for certain exclusions from the standard hazard insurance policy (flood, earthquake, building collapse, etc.) and fulfills any “co-insurance” clause requirements. The maximum liability under this policy varies with the issue, but the minimum has usually been 1% of the outstanding mortgage principal.

Each institution servicing mortgage loans maintains an errors and omission insurance policy, which covers the failure to perform obligations under the servicing agreement due to an error or omission of its officers or employees. In some instances, there may be a mortgage servicer performance bond—guaranteeing the performance of each participant under the servicing agreement, or a fidelity bond—protecting against the misappropriation or mishandling of funds by officers and employees.
Possible Consequences and Implications

In these times of extremely high mortgage interest rates and rising housing costs, tax-exempt single family mortgage revenue bonds could provide a significant new source of mortgage capital and a “shot in the arm” for the country’s housing industry. It may grant those individuals, previously closed out of the housing market, a new opportunity to purchase their own home.

Lending institutions which may have found single family mortgages a less profitable venture, due to almost double digit inflation and strict usury laws (in some states), have been confronted with an increasing demand for mortgages. Six-month savings certificates have provided many lending institutions with large influxes of capital with which to make mortgage loans. However, increasing yields on Treasury Bills have forced corresponding increases in the interest rates paid on six-month savings certificates, narrowing the spread between the interest return on mortgages and the interest paid on the certificates. Through tax exemption, lending institutions may have found a relatively inexpensive source of mortgage capital, enabling them to solidify their position in the mortgage industry, and benefit from some of the profits (through origination and service fees), without committing their own capital. In essence, participating lending institutions become mortgage bankers.

It is feared by some that a glut of single family mortgage bonds could drive up the interest cost, not only for state housing agency issues, but for all issuers of municipal bonds as well. Perhaps these fears are unjustified, because the municipal market has demonstrated amazing flexibility in recent years. It exhibited this flexibility by receiving and incorporating the novel financings of hospitals, public power, state housing agencies, and advanced refundings, when ten years ago financing for these purposes was much smaller in magnitude.

Yet never in recent times has the municipal market been faced with such potential volume. It is estimated that the savings and loan industry will have originated $110 billion in mortgages by the end of 1978, compared to a par volume of approximately $46 billion for the entire municipal bond market. If even a small percentage of the mortgage industry seeks to obtain its capital through the tax-exempt market, the annual municipal volume will increase substantially. It is extremely difficult to calculate the market’s ability to accommodate such “growing pains”.

Many who regard these issues as abusing tax-exemption or skirting the fringes of I.D.R. bond regulations, speculate as to Federal action regarding the limitation or control of mortgage revenue bonds. Most look towards action regarding I.D.R. bonds, and arbitrage regulations pertaining to advanced refundings and invested sinking funds, as setting precedence for Federal intermediation. Speculation centers around certain aspects of mortgage revenue issues as possible areas for Federal action.

As with any tax-exempt issue, single family mortgage revenue bonds are subject to arbitrage regulations which limit the yield differential between the net interest cost of the bonds and interest rates on the mortgages. Although
all the issues which have come to
market appear to be within the 150 basis
point yield differential limitation, interest
earnings (on both the long term invest­
ment of reserves and the short term in­
vestment of idle cash) also must be
taken into consideration. This places
many issuers in a paradoxical situation.
The revenue derived from the difference
between the interest cost of the bonds
and the mortgage interest rates, plus in­
terest earnings, must be sufficient to pay
debt service on the bonds and admini­
istrative costs, yet not exceed arbitrage
guidelines.

Future regulations may limit the is­
suance of mortgages to families with low
or moderate incomes and require a
public agency to administer and oversee
the program. Some issuers have limited
participation to persons with low or
moderate incomes, but several have
established gross income limitations of
$30,000 to $50,000. The broader
limitations usually enable a substantial
majority of the citizens residing within
the issuer’s boundaries to qualify for
mortgages. With few exceptions, no
public agency administers the programs
and the issuer bears little oversight
responsibility. This burden, for the most
part, falls on the custodian or trustee.

Finally, as Federal courts have ruled
in another instance, municipalities are
not exempt from anti-trust litigation.
Issuers may be vulnerable to this type of
litigation when a single bank is respon­
sible for originating and servicing all the
mortgages. It would seem inequitable to
turn the entire proceeds of a tax-exempt
bond issue over to one lending institu­
tion, enabling it to offer mortgages at
one or two percent below prevailing
market rates, and solely benefit from the
profits of origination and service fees. It
appears doubtful that a singular private
interest, which has a great deal to gain
by encouraging this type of financing,
can equitably administer a public pur­
pose program with no competition from
other lending institutions and without the
supervision of a public body.
Credit Analysis—Things to Look at

The purpose of this section is not to set standards of analysis, but to outline some types of information to evaluate when analyzing single family mortgage revenue bonds. Since many of these issues have been structurally similar, information not always available in the official statement often determines which are the better secured issues.

The actual demand for mortgages within the issuer’s geographic boundaries is a major factor in determining the possible success or failure of a mortgage program. With a few exceptions, there has usually been very little information about the issuer in the official statement. Yet it is necessary to have this information in order to determine the economic health and well-being of an issuer. Standard socioeconomic data used in general obligation analysis which can be helpful in determining an area’s economic strength and diversification are: trends in population, unemployment data, major employers, property values, retail sales, bank deposits, etc. Annual volumes of single family construction permits issued and mortgage loans filed within the issuer’s boundaries would also be helpful in determining mortgage demand.

Although in some cases mortgage demand may be evident, the ability of a lending institution to originate the mortgage loans within the specified period of time may be another matter. Information should be made available pertaining to the annual volume of mortgage loans made by a participating institution within the boundaries of the issuer, as compared to the amount of mortgage loans it has committed to originate. In addition, the size of a lending institution’s commitment (to originate mortgage loans) could be compared to the size of its total outstanding mortgage portfolio.

In most instances, the originator of the mortgage loans also performs the servicing function. An institution’s ability to service mortgage loans is an important factor in determining the creditworthiness of the issue. This can be determined by looking at a lending institution’s experiences with its own portfolio regarding delinquencies, foreclosures, and losses due to foreclosures.

Although a credit evaluation should not be based solely on the preceding information, consideration of these points should give some indication as to whether a participating lending institution’s commitment to originate and service mortgage loans was made on a realistic and sound basis.

Potential competition from other single family mortgage issues may reduce the demand for mortgage loans from the proceeds of a previous issue. Competing issues may be marketed by state housing agencies, surrounding counties (in the case of municipal issues), or subsequent issues by the same municipality with different participating lenders. One argument supporting the issuance of single family mortgage bonds was that if mortgage money was available at reduced interest rates, a municipality would be more able to retain and possibly attract new middle income residents. However, there is nothing to prevent a city’s surrounding suburban area from marketing similar single family mortgage issues. An example of this situation is the issue from the City of Chicago and subsequent issues from the
area surrounding Chicago, such as the City of Evanston and the Village of Wheeling. Another example is the Pueblo, Colorado issue and a subsequent issue from Pueblo County. Although it is difficult to judge the likelihood of this occurrence, an investor should be aware of the possibility of competition and consider its effect on the demand for the proceeds of his issue.

One useful tool of credit evaluation is cash flow analysis. Though there may be no losses due to foreclosures in a particular mortgage program, delinquencies and even principal prepayments may later produce insufficient revenues for the payment of debt service. It is obvious how delinquent mortgage payments could produce insufficient cash flow, but mortgage prepayments, depending upon their use, can also produce a lack of funds available for debt service. Indentures normally call for the redemption of bonds from mortgage prepayments; however, if prepayments are invested in securities or reinvested in mortgages, the resulting yield must be sufficient to pay debt service on the bonds and administrative costs.

In all local mortgage issues reviewed thus far, bond maturity schedules are constructed assuming no principal prepayments. Although most mortgages require level monthly payments, both delinquencies and prepayments are bound to occur. Hypothetical cash flow studies can be formulated; however, several important variables such as the net interest cost of the issue and the interest rate on the mortgages are not known until after the sale of the bonds. Even after the sale, other unknown variables such as delinquencies, prepayments, and losses due to foreclosures contribute to the suppositional nature of cash flow analysis. In addition, cash flow analyses are more easily formulated with expertise and computer technology not always available to the average investor. For the most part, one must assume that debt service reserves will be adequate to cover excessive mortgage delinquencies and that principal prepayments will be dealt with according to the terms of the bond indenture.
Conclusion

There has been a great deal of discussion over the potential consequences of single family mortgage revenue bonds. Treasury officials have expressed concern over the effect a large volume of this type of financing could have on the general market for state and local securities. The Congressional Budget Office has announced that it is evaluating mortgage revenue bonds. The Department of Housing and Urban Development has also commissioned a study on the effects of mortgage revenue bonds upon both the municipal and mortgage securities markets. It has been reported that the Administration is currently considering legislative action limiting the local issuance of single family mortgage revenue bonds. Several officials of state housing agencies have expressed concern and some have been vocal in their opposition to local single family mortgage issues. The Michigan Attorney General’s office recently issued an opinion that halted approximately 20 counties from issuing mortgage revenue bonds. At least one state governor expressed his disapproval of issuing tax-exempt bonds to finance single family mortgages and was critical of overzealous underwriters, stating that they were “like vultures trying to stir up business”. Other individuals involved in public finance have referred to the issues as “an abuse of tax-exemption”.

While concerns over legality, market effect, and potential abuses remain with us, in many parts of the country, inflated housing costs, rising property taxes, and high mortgage interest rates, have made home purchases almost impossible for families with low or moderate incomes and increasingly difficult for those of the middle class. There is little that can be done about the inflated costs of real estate and building material. The average purchase price of a new home in 1978 was reportedly around $62,600. * Citizen reactions to rising property taxes have been well documented in daily newspapers around the country. If single family mortgage revenue bonds prove to be an effective and efficient manner in which to increase the availability of low interest mortgage money, then perhaps the time for local tax-exempt financing of single family mortgages has arrived.

Initially, this type of financing has received reasonably good market acceptance. Above-average bond yields and generally favorable ratings by Moody’s and Standard and Poor’s have provided a strong attraction for investors. From a credit standpoint, conventional single family mortgage loans have demonstrated low default rates and provide a relatively strong base of security. Capitalized reserve funds and various insurance provisions, including private mortgage and mortgage pool insurance, provide additional layers of security.

However, there is still the disturbing situation of local governments issuing securities to finance single family mortgage programs, without pledging their own credit and without undertaking many of the administrative or supervisory responsibilities. One would think that a program whose existence is ostensibly to achieve some public purpose, would be supervised by an agency responsible for administering public policy. With the exception of the Minneapolis program, this has not been the case.

Unlike state housing agency procedures, enforcement of the various provi-

*According to statistics compiled by the Federal Home Loan Bank Board in cooperation with the Federal Deposit Insurance Corporation.
sions of the originating and servicing agreements has been left almost entirely to the custodian or trustee of the bond issue. In some instances, it has almost appeared as if public policy had been dictated by investment bankers and local mortgage lenders. It is questionable whether private interests, which have much to gain by encouraging this type of financing, can equitably administer a public purpose program with no supervision by a public body. We would prefer seeing public agencies, responsible for supervising public policy, coordinating local mortgage purchase programs.

In our opinion, local single family mortgage issues could prove to be an effective financing vehicle and an attractive security for the potential investor. The issues should neither be wholly accepted nor condemned, but scrutinized on an individual basis according to their particular strengths and weaknesses.
Sixteen Issues

On the following pages are brief comments and structural reviews of the sixteen single family mortgage revenue bond issues analyzed for this study. Standard and Poor's has rated these issues AA, with the Chicago issue being the only exception so far at AA+. Moody's ratings have ranged from A to Aa. We have given each issue a rating of one to six. Issues with a rating of one are those we feel to be the most well-secured. Issues with a rating of six have shown a significant number of potential weaknesses. Please note that we have only compared these sixteen issues to each other and not to other types of municipal financings.

<table>
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<th>S&amp;P</th>
<th>Moody's</th>
<th>DWR</th>
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<td>Evanston, Ill.</td>
<td>AA</td>
<td>Aa</td>
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<tr>
<td>Kanawha Co., W. Va.</td>
<td>AA</td>
<td>Aa</td>
<td>1</td>
</tr>
<tr>
<td>Minneapolis Housing . . . , Minn.</td>
<td>AA</td>
<td>Aa</td>
<td>1</td>
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<tr>
<td>Chicago, Ill.</td>
<td>AA+</td>
<td>Con. (Al)</td>
<td>2</td>
</tr>
<tr>
<td>Denver, Col.</td>
<td>AA</td>
<td>Con. (A)</td>
<td>2</td>
</tr>
<tr>
<td>Belleville, Ill.</td>
<td>AA</td>
<td>NR</td>
<td>3</td>
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<td>Danville, Ill.</td>
<td>AA</td>
<td>NR</td>
<td>3</td>
</tr>
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<td>Quincy, Ill.</td>
<td>AA</td>
<td>NR</td>
<td>3</td>
</tr>
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<td>Pekin, Ill.</td>
<td>AA</td>
<td>NR</td>
<td>4</td>
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<td>AA</td>
<td>NR</td>
<td>4</td>
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<td>Rock Island, Ill.</td>
<td>AA</td>
<td>NR</td>
<td>4</td>
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<td>Wheeling, Ill.</td>
<td>AA</td>
<td>A</td>
<td>4</td>
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<tr>
<td>City of Pueblo, Col.</td>
<td>AA</td>
<td>NR</td>
<td>5</td>
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<td>Wilmington, Del.</td>
<td>AA</td>
<td>NR</td>
<td>5</td>
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<td>Jefferson Co. Board . . . , Ark.</td>
<td>AA</td>
<td>NR</td>
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<tr>
<td>Mesa Co., Col.</td>
<td>AA</td>
<td>NR</td>
<td>6</td>
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NR—no rating
Definition of Terms

Accumulation Reserve: Surplus moneys accumulated until a specified requirement is obtained. The reserve is utilized to make up any deficiencies in required funds or accounts.

Administrative Fees: Compensation for the administration and servicing of mortgage loan programs. There are two types of administrative fees; primary—which are mandatory, and; secondary—payable after all other required payments and only if funds are available. Annual fees have ranged from $6 to ½ of 1% of the outstanding mortgage principal.

Capital Reserve: Debt service reserve normally capitalized from bond proceeds in an amount approximately equivalent to the final principal or sinking fund payment.

Commitment Fees: Paid by lending institutions and expressed as a specific percentage (1% - 2½%) of their mortgage commitment. It has been in the form of cash or a letter of credit, but is usually reimbursed or reduced in proportion to the amount of mortgage loans originated.

Competing Housing Agency: The existence of a potentially competing state housing agency with the authority to institute single family mortgage programs. Those with active programs (single family mortgage revenue bonds issued within the last year) are so noted.

Income Limitation: A mortgagor's maximum adjusted gross income. Adjustments may vary with each issue.

Living Units: Limitations on the number of living units within a residence securing a mortgage loan.

LV (Loan to Value) Ratio: The required ratio between the initial mortgage principal and the purchase price or appraised value of the property securing the loan. In most instances reviewed thus far, the required loan to value ratio for a conventional mortgage loan was 80%. When the LV ratio exceeds 80%, private mortgage insurance is required, so that the uninsured portion of the mortgage loan does not exceed a specified ratio, which has ranged between 72% and 80%.

Minimum Mortgagor's Equity: The percentage of a property's purchase price required as a down payment.
<table>
<thead>
<tr>
<th>Term</th>
<th>Description</th>
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<tbody>
<tr>
<td>Mortgages (%)</td>
<td>Interest rate on the mortgages.</td>
</tr>
<tr>
<td>Mortgages ($)</td>
<td>Volume of mortgage loans acquired with bond proceeds.</td>
</tr>
<tr>
<td>Mortgage Pool Insurance Liability</td>
<td>Provides coverage of losses due to foreclosures (in excess of coverage provided by any private mortgage insurance policy) up to a policy limit that has usually been 10% of the initial aggregate principal amount of the mortgage loans.</td>
</tr>
<tr>
<td>Mortgage Principal Limitation</td>
<td>The maximum principal amount of a mortgage loan.</td>
</tr>
<tr>
<td>Mortgage Reserve</td>
<td>Usually capitalized from bond proceeds and in a minimum amount at least equal to 1% of the unpaid mortgage principal.</td>
</tr>
<tr>
<td>NIC</td>
<td>Net interest cost of the bond issue.</td>
</tr>
<tr>
<td>Origination Period</td>
<td>Date after which undisbursed bond proceeds must be used to retire bonds.</td>
</tr>
<tr>
<td>Originator Fees</td>
<td>Paid by the mortgagor for the originating institution’s own account, which has ranged between 1 and 3½% of the initial mortgage principal.</td>
</tr>
<tr>
<td>Originators</td>
<td>Participating institutions responsible for originating mortgages.</td>
</tr>
<tr>
<td>Program Participation Fees</td>
<td>A percentage of the initial mortgage loan principal (which has ranged between 1% and 3½%) paid by the mortgagor, and normally used in the acquisition or mortgages.</td>
</tr>
<tr>
<td>Servicing Fees</td>
<td>Compensation for the institution servicing the mortgage loans. Annual fees have ranged between % and % of 1% of the outstanding mortgage principal.</td>
</tr>
<tr>
<td>Spread (%)</td>
<td>The difference between the net interest cost of the bonds and the interest return on the mortgages.</td>
</tr>
</tbody>
</table>
$100,000,000  
City of Chicago, Cook County, Illinois  
Single Family Mortgage Revenue Bonds, 1978 Series A

Dated: July 1, 1978
NIC: 7.13%
Mortgages (%): 7.99%
Mortgages ($): $83,596,000
Capital Reserve: A minimum balance of $13,000,000
Mortgage Reserve: 150% of the maximum monthly principal and interest payments due on the mortgage loans
Accumulation Reserve: Accumulated surplus until equals $500,000
Originators: First Federal Savings and Loan Association
Origination Period: To March 31, 1979
Program Participation Fee: 1%
Originator Fees: 2%
Servicing Fees: ¾ of 1%
Administrative Fees: ¼ of 1%

Mortgage Eligibility Criteria
Living Units: 1—6; 75% single family, no more than 15% for 3—6 family units
Income Limitation: $40,000
Mortgage Principal Limitation: None
Minimum Mortgagor’s Equity: 5%
LV Ratio: Conventional — 80%  
With PMI — 80%
Mortgage Pool Insurance Liability: 10% of initial mortgage loan principal
Competing State Housing Agency: Yes

COMMENTS: This was the trendsetter and model for subsequent single family mortgage issues. The income limitation would seem to enable a majority of the residents of Chicago to participate in the program. The demand for mortgages in the City of Chicago is quite apparent. One could question the reason for turning the entire proceeds of the issue over to one S & L, rather than to a consortium of banks. Yet there does not appear to be much question regarding the ability of the First Federal Savings and Loan Association to originate and service the mortgages. A major point of concern is that of all the issues reviewed in this report, the Chicago issue has the smallest spread between the NIC on the bonds and the interest rate on the mortgages.
$50,000,000
City and County of Denver
Single Family Mortgage Revenue Bonds, 1978 Series A

Dated: August 1, 1978
NIC: 6.998%
Mortgages (%): 7.875%
Mortgages ($): $43,050,000
Capital Reserve: $6,150,000
Mortgage Reserve: 1% of unpaid mortgage principal
Accumulation Reserve: 1% of unpaid bond principal and the amount, if any, by which residual coverage under the Mortgage Pool Insurance Policy is less than 50% of the original policy limit.

Originators: Midland Federal Savings and Loan Association
Origination Period: September 1, 1979
Program Participation Fee: 3½%
Originator Fees: 1½%
Servicing Fees: ½ of 1%
Administrative Fees: Primary—¼ of 1%, Secondary—¼ of 1%

Mortgage Eligibility Criteria
Living Units: 1—4; 75% for single family mortgages
Income Limitation: $20,000
Mortgage Principal Limitation: None
Minimum Mortgagor’s Equity: 5%
LVR Ratio: Conventional — 80% With PMI — 72%
Mortgage Pool Insurance Liability: 10%
Competing State Housing Agency: Yes — active program

COMMENTS: The City and County of Denver has a strong and growing economy. Once again, a single S & L originates and services mortgages, but the Midland Federal Savings and Loan seems to maintain a strong presence in the City and County of Denver. Total loan portfolio includes $467 million of single family mortgages and mortgage loan activity exceeded $215 million for 1977. Mortgage delinquencies and foreclosures are low. Midland appears to be more than capable of originating and servicing the mortgage loans.

On the day after each bond principal date, any surplus money remaining after all required debt service payments and deposits, including the Accumulation Reserve Account and secondary administrative fee, is paid to the issuer to be used for any purpose, rather than used for the redemption of bonds.
$20,000,000
City of Pueblo, Colorado
Single Family Mortgage Revenue Bonds, 1978 Series A

Dated: August 1, 1978
NIC: 6.998%
Mortgages (%): 7.875%
Mortgages ($): $17,175,000
Capital Reserve: A minimum balance of $2,425,000
Mortgage Reserve: 1% of unpaid mortgage principal
Accumulation Reserve: 1% of unpaid bond principal, and the amount, if any, by which residual coverage under the Mortgage Pool Insurance Policy is less than 50% of the original policy limit.

Originators: Midland Federal Savings and Loan Association
Origination Period: October 1, 1979
Program Participation Fee: 3½%
Originator Fees: 1½%
Servicing Fees: ½ of 1%
Administrative Fees: Primary — ¼ of 1%, Secondary — ¼ of 1%

Mortgage Eligibility Criteria
Living Units: 1 — 4; 75% single family mortgages
Income Limitation: $18,000
Mortgage Principal Limitation: None
Minimum Mortgagor's Equity: 5%
LV Ratio: Conventional — 80% With PMI — 72%
Mortgage Pool Insurance Liability: 10%
Competing State Housing Agency: Yes — active program

COMMENTS: Once again, only one S & L originates and services the mortgage loans. While Midland Federal Savings and Loan seems quite capable of servicing the mortgage loans, the S & L's main office is in Denver and only a branch presence is maintained in Pueblo. The limited presence may inhibit their ability to originate mortgage loans, especially since Midland faces competition from 3 local banks who are committed to originate mortgages loans from the proceeds of a subsequent Pueblo County issue.

On the day after each bond principal date, any surplus money remaining after all required payments and deposits, including the Accumulation Reserve Account and secondary administrative fee, is paid to the issuer to be used for any purpose, rather than for the redemption of bonds.
$25,000,000
City of Belleville, St. Clair County, Illinois
Single Family Mortgage Revenue Bonds, 1978 Series A

Dated: November 1, 1978
NIC: 7.19%
Mortgages (%): 8.19%
Mortgages ($) : $21,035,000
Capital Reserve: $3,100,000
Mortgage Reserve: 150% of the maximum monthly principal and interest payments due on the mortgage loans
Accumulation Reserve: up to requirement of $200,000
Originators: 8 Banks
Origination Period: November 1, 1980
Program Participation Fee: 1%
Originator Fees: 2%
Servicing Fees: $ of 1%
Administrative Fees: 0

Mortgage Eligibility Criteria
Living Units: 1 — 4
Income Limitation: $40,000
Mortgage Principal Limitation: $80,000
Minimum Mortgagor’s Equity: 20%
LTV Ratio: Conventional — 80% With PMI — None
Mortgage Pool Insurance Liability: 10%
Competing State Housing Agency: Yes

COMMENTS: The City of Belleville is a middle class suburb of St. Louis, Mo. The leading institutions have estimated that $32 to $37 million of conventional single family mortgage loans were made within Belleville during the last year. It appears that the eight lending institutions will be capable of originating and servicing $21 million of mortgage loans within the designated two year origination period.
$20,000,000
City of Rock Island, Illinois
Single Family Mortgage Revenue Bonds, 1978 Series A

Dated: November 1, 1978
NIC: 7.23%
Mortgages (%): 8.35%
Mortgages ($): $17,000,000
Capital Reserve: $2,400,000
Mortgage Reserve: 1% of the unpaid principal of outstanding mortgage loans
Accumulation Reserve: $500,000
Originators: The Rock Island Bank, First National Bank of Rock Island, Black Hawk Federal Savings and Loan, American Bank of Rock Island, Rock Island Savings and Loan
Origination Period: November 1, 1979
Program Participation Fee: 1%
Originator Fees: 2%
Servicing Fees: ½ of 1%
Administrative Fees: ¼ of 1% — secondary

Mortgage Eligibility Criteria
Living Units: 1 – 4; 75% for single family residences
Income Limitation: $40,000
Mortgage Principal Limitation: None
Minimum Mortgagor’s Equity: 10%
LV Ratio: Conventional — 80%  With PMI — 72%
Mortgage Pool Insurance Liability: 10%
Competing State Housing Agency: Yes

COMMENTS: Rock Island is one of the Quad Cities located on the Mississippi River at the Iowa/Illinois border. It has a substantial industrial base. For the year ended 12/31/77, the five lending institutions originated approximately $23.3 million of mortgage loans in Rock Island. Thus it appears that the 1978 Series A bonds will supply a substantial portion of the mortgage capital for the five banks in the coming year. The Rock Island Bank has the largest mortgage loan commitment of $7,650,000. RIB has not originated this volume of mortgage loans in any year since 1973. The origination period for the commitments is one year.
$16,760,000
City of Quincy, Adams County, Illinois
Single Family Mortgage Revenue Bonds, 1978 Series A

Dated: November 1, 1978
NIC: 7.16%

Mortgages (%): 8.35%
Mortgages ($) : $14,000,000
Capital Reserve: $2,196,225

Mortgage Reserve: 1% of outstanding mortgage loan principal
Accumulation Reserve: 1% of outstanding bond principal plus the amount, if any, by which residual coverage under the mortgage trust insurance policy is less than 50% of the original policy limit.

Originators: First Federal Savings and Loan, Gem City Savings and Loan, Quincy-Peoples Savings and Loan

Origination Period: November 1, 1979
Commitment Fees: 2½ % Letter of Credit — reduced on a pro-rata basis
Program Participation Fee: 1% — paid by participating institutions
Originator Fees: 3%
Servicing Fees: %
Administrative Fees: 0

Mortgage Eligibility Criteria
Living Units: 1 — 4; 75% for single family
Income Limitation: $40,000
Mortgage Principal Limitation: None
Minimum Mortgagor’s Equity: 5%
LV Ratio: Conventional — 80% With PMI — 72%
Mortgage Pool Insurance Liability: 10%
Competing State Housing Agency: Yes

COMMENTS: The City of Quincy is located on the Mississippi River about 125 miles north of St. Louis. Quincy (1970 pop. 45,288) is the largest city within a 100 mile radius and serves as an economic center for an agricultural region that includes 22 counties in 3 states. While mortgage demand appears difficult to calculate, it is estimated that the 3 lending institutions originated approximately $24-$27 million of conventional single family mortgage loans in Quincy for the 12 month period preceding October 1, 1978. Since the size of the bond issue is modest, the three lending institutions seem capable of originating the mortgage loans prior to the specified origination period.
Mesa County, Colorado
Single Family Mortgage Revenue Bonds, Series 1978
(Housing Assistance Corporation, Grand Junction, Colorado—Administrator)

Dated: November 1, 1978

NIC: 7.16%

Mortgages (%): 8.40%

Mortgages ($): $12,500,000

Capital Reserve: 150% of the maximum debt service requirement (excluding the 2010 maturity) capitalized from bond proceeds.

Mortgage Reserve: 1% of the outstanding mortgage principal

Accumulation Reserve: 1% of the outstanding bond principal and the amount of claims paid under the Mortgage Pool Insurance Policy.

Originators: Housing Assistance Corporation, Grand Junction, Colorado

Origination Period: December 1, 1980

Commitment Fees: ½ of 1% of the origination commitment—refunded when and if originated

Program Participation Fee: 1%

Originator Fees: 1½%

Servicing Fees: ½ of 1%

Administrative Fees: ¼ of 1% to administrator

Mortgage Eligibility Criteria

Living Units: 1—2 units

Income Limitation: $24,000

Mortgage Principal Limitation: None

Minimum Mortgagor’s Equity: 10%—which may be loaned to the mortgagor by the servicer and be on a parity lien with the mortgage loan.

L.V Ratio: VA-75% Conventional—80% With PMI—72%

Mortgage Pool Insurance Liability: 10%

Competing State Housing Agency: Yes—active program

COMMENTS: The Housing Assistance Corporation of Grand Junction, Colorado, was established specifically to administer the mortgage loan program. It has no experience in administering mortgage loan programs, no employees other than the officers of the Corporation, and total assets of $1,000. The Company intends to hire personnel or independent contractors to perform its obligations under the Administration Agreement. Their compensation shall be: 1.) $50 for each mortgage loan originated; 2.) an annual Administrative Fee of ½ of 1% of the outstanding mortgage loan principal; 3.) any surplus above the accumulation reserve account requirement.

Each mortgage loan requires mortgagor’s equity of at least 10%. However, the 10% equity may be financed with a direct loan from the mortgage servicer and be secured on a parity with the lien of the mortgage loan. In the instance of foreclosure, these loans will have a parity lien on the mortgaged property.
$25,450,000
County of Pueblo, Colorado
Single Family Mortgage Revenue Bonds, 1978 Series A

Dated: December 1, 1978
NIC: 7.149%
Mortgages (%): 8.25%
Mortgages ($): $21,000,000
Capital Reserve: $3,607,500
Mortgage Reserve: 1% of outstanding mortgage principal
Accumulation Reserve: $300,000
Originators: American Federal Savings & Loan, Otero Savings & Loan, Republic National Bank
Origination Period: December 1, 1979
Program Participation Fee: 1%
Originator Fees: 1%
Servicing Fees: ½ of 1%
Administrative Fees: ¼ of 1% — secondary

Mortgage Eligibility Criteria

Living Units: 1 — 4 units, 75% for single family
Income Limitation: $18,000
Mortgage Principal Limitation: None
Minimum Mortgagor’s Equity: 5%
L.V Ratio: Conventional — 80% With PMI — 72%
Mortgage Pool Insurance Liability: 10%
Competing State Housing Agency: Yes — active

COMMENTS: Although there may be competition from a previous issue by the City of Pueblo, this issue may have an advantage because mortgage money is available on a county-wide basis and the three lending institutions have a more significant presence within the County than the one savings and loan connected with the previous issue. The two issues together provide $38,175,000 of mortgage capital to be originated by 12/1/79. It is likely that some bonds will be called from unused proceeds shortly after their origination periods expire. The state housing agency also has an active single family mortgage program. Under more normal circumstances, the three participating institutions would appear to have little trouble in originating and servicing the mortgage loans.
Dated: December 1, 1978
NIC: 7.292%
Mortgages (%): 8.55%
Mortgages ($): $12,606,000
Capital Reserve: $1.8 million
Mortgage Reserve: 150% of the maximum monthly principal and interest payments due on the mortgage loans
Accumulation Reserve: $100,000 plus the amount, if any, by which residual coverage under the mortgage pool insurance policy is less than 50% of the original policy limit.

Originators: Herget National Bank of Pekin
Origination Period: June 1, 1980
Program Participation Fee: 1%
Originator Fees: 2%
Servicing Fees: $ of 1%
Administrative Fees: $ of 1%

**Mortgage Eligibility Criteria**

Living Units: Single family only
Income Limitation: $40,000 — However, if the LV is greater than 80%, then income shall not exceed $30,000 and the mortgage loan will not exceed $50,000.

Mortgage Principal Limitation: None
Minimum Mortgagor's Equity: 10%
LV Ratio: Conventional — 80% With PMI — 75%
Mortgage Pool Insurance Liability: 10%
Competing State Housing Agency: Yes

**COMMENTS:** The City of Pekin (approx. pop. 33,000) is situated on the Illinois River, about 10 miles from Peoria. Although agriculture is important to the region's economy, there is substantial manufacturing and industrial employment, particularly by the Caterpillar Tractor Co. located in Peoria. The Herget National Bank of Pekin is the sole institution responsible for originating the $12.6 million of mortgage loans within the specified 18-month origination period ending 6/1/80. The maximum volume of mortgage loans made by Herget within any calendar year, for the last five years, was approximately $11.9 million. For the 21 months ending 9/30/78, the Bank originated $17.7 million of mortgage loans. It is not known what percentage of these loans were made within the City of Pekin. As of 9/30/78, the Bank was servicing a portfolio of 760 real estate loans with an outstanding principal balance of about $21 million. The mortgage loans originated with the proceeds of this issue would increase the total volume Herget services by 60%.
The Health Care and Residential Facilities
Board of Jefferson County, Arkansas
Single Family Mortgage Loans
'1978 Conventional Series

Dated: December 1, 1978
NIC: 7.34068%
Mortgages (%): 8.50%
Mortgages ($) : $41,000,000 (plus another $14,000,000 from a FHA — VA Series)
Capital Reserve: 150% of maximum monthly principal and interest to be paid on the mortgage loans
Accumulation Reserve: deposits of surplus will be accumulated, but the requirement is unknown
Origination Period: November 30, 1980
Program Participation Fee: 2% — paid by lending institution
Originator Fees: 3½% Servicing Fees: ½ of 1%
Administrative Fees: None

Mortgage Eligibility Criteria
Living Units: Single family only
Income Limitation: $29,500
Mortgage Principal Limitation: $59,000
Minimum Mortgagor’s Equity: 5%
LV Ratio: Conventional — 80% With PMI — 75%
Mortgage Pool Insurance Liability: 10%
Competing State Housing Agency: Yes — seeking increased debt authorization
Misc: A $16,515,000 FHA-VA Series sold simultaneously with this issue.
COMMENTS: There are several instances of conflict of interest regarding individuals that are serving as members of both the Health Care and Residential Facilities Board and as board of directors of the lending institutions. One joint manager of the issue serves as an originator and servicer of the mortgage loans, the custodian, and two persons from its Board of Directors also serve as members of the Facilities Board that administers the program.

The proceeds of this issue and the $16,515,000 FHA-VA Series were intended to provide $55,000,000 of mortgage capital. Mortgage demand within Jefferson County did not appear to warrant this sum. Population has declined in the County from 85,329 in 1970 to a current estimate of 83,700, while population for the State grew by approximately 10%. The unemployment rate of 7.2% (9/30/78) exceeded the state and national averages. Only 78 single family construction permits were filed in the County for 1977, and 34 for the first 8 months of 1978. Approximately $41,275,000 of mortgages were filed in the County for 1977, and $35,000,000 for the first 8 months of 1978. Failure to originate mortgage loans may have a serious effect on cash flow or cause a significant portion of the bonds to be called prior to their maturities, depending upon whether unused bond proceeds are invested or utilized for redemption.

In addition, two of the smaller participating institutions had committed to originate $5,000,000 of mortgage loans (from the combined proceeds of the two issues), yet had never originated a similar volume of mortgages within any calendar year. Finally, each lending institution servicing the mortgage loans had only to exercise "its best reasonable efforts" to obtain an errors and omissions insurance policy and a fidelity bond insurance policy, each in a minimum amount of $100,000.

Note: As finally marketed, this issue was reduced from $48,315,000 to $24,160,000. The reduced issue provided $20,225,240 with which to acquire single family mortgages. This reduction alters our consideration of specific facts (such as mortgage demand in relation to bond proceeds), but the fundamental issue remains the same, as do our basic conclusions.
$15,415,000
City of Danville, Vermillion County, Illinois
Single Family Mortgage Revenue Bonds

Dated: December 1, 1978
NIC: 7.3414%
Mortgages (%): 8.55%
Mortgages ($): $13,000,000
Capital Reserve: $2,000,000
Mortgage Reserve: 1% of the unpaid mortgage principal
Accumulation Reserve: 1% of the unpaid bond principal plus the amount, if any, by which residual coverage under the mortgage trust insurance policy is less than 50% of the original policy limit.

Originators: 10 lending institutions
Origination Period: December 1, 1979
Commitment Fees: 1% in cash; 2½% letter of credit reduced on a pro-rata basis
Program Participation Fee: 1% (reimburses lending institution’s commitment fee)
Originator Fees: 2%
Servicing Fees: % of 1%
Administrative Fees: None

**Mortgage Eligibility Criteria**

Living Units: 1 or 2 units, 75% for single-family
Income Limitation: $30,000
Mortgage Principal Limitation: None
Minimum Mortgagor’s Equity: 10%
LV Ratio: Conventional — 80% With PMI — 72%
Mortgage Pool Insurance Liability: 10%
Competing State Housing Agency: Yes

**COMMENTS:** The City of Danville is the seat of Vermillion County and is located near the Illinois/Indiana border, about 85 miles west of Indianapolis. Population has increased moderately from 37,864 in 1950 to a current estimate of 44,000. The City has some significant industry, but primarily serves as a trade and service center for a productive surrounding agricultural area. The mortgage loans will be originated and serviced by 10 lending institutions, substantially all the mortgage lenders within Danville. Although it is difficult to calculate mortgage demand, the proportions of the bond issue are modest and Danville appears to have a stable economy. So it does not seem as if the lending institutions will have much difficulty in originating the mortgage loans.

Any surplus funds above the accumulation reserve requirement remaining after each bond principal payment date (other than mortgage prepayments) will be disbursed to the issuer to be used for any public purpose related to housing, rather than utilized for the redemption of bonds.
$55,240,000
The Housing and Redevelopment Authority in and for the City of Minneapolis
Home Ownership Program Mortgage Revenue Bonds

Dated: December 1, 1978
NIC: 7.06%
Mortgages (%): 8.0%
Mortgages ($): $46,250,000
Capital Reserve: $6,625,000
Mortgage Reserve: 1% of the unpaid mortgage principal
Accumulation Reserve: $300,000
Originators: 26 lending institutions of which only 13 will service mortgages
Origination Period: Optional redemption dates on 12/1/79 and 6/1/80 with final mandatory
redemption from undisbursed bond proceeds on 12/1/80.
Commitment Fees: 1% — refunded proportionately with the origination of mortgage loans
Originator Fees: 1%
Servicing Fees: ⅜ of 1%
Administrative Fees: ⅜ of 1% of the outstanding mortgage principal to the Authority

Mortgage Eligibility Criteria
Living Units: 1 – 4 units 85% for single family
Income Limitation: $22,000
Mortgage Principal Limitation: 1 unit — $44,500; 2 units — $67,000;
3 units — $85,000; 4 units — $100,000
Minimum Mortgagor’s Equity: None
LV Ratio: FHA, VA Conventional — 75% With PMI — 75%
Mortgage Pool Insurance Liability: 10%
Competing State Housing Agency: Yes — active program
Misc: If a lending institution has not originated at least 50% of its mortgage commitment
within 4 months, the Authority has the option of reducing that institution’s commitment
and reallocating it to another participating institution.

COMMENTS: The City of Minneapolis has a strong economy and is rated AAA/Aaa by both rating
agencies. The Housing and Redevelopment Authority was organized in 1947 and is responsible for the
administration of programs concerning housing and redevelopment. This is actually the fourth series of
bonds financing Home Ownership Programs; the first two issues were privately placed. The mortgage
loans will be originated by 26 lending institutions. The largest loan commitment was $5,000,000 and the
smallest was $100,000. The bonds will provide a total of $46,250,000 of mortgage capital. The 26 par­
ticipating institutions originated approximately $187,000,000 of single family mortgage loans in the City
during the 12 month period from November, 1977 to November, 1978. The mortgage demand, the ex­
perienced administration of a public authority, and the strong economy of the City place this issue among
the superior single family mortgage programs.
$27,500,000
Kanawha County, West Virginia
Single Family Residence Mortgage Revenue Bonds, 1978 Series A

Dated: December 1, 1978
NIC: 7.348%
Mortgages (%) : 8.70%
Mortgages ($) : $22,950,000
Capital Reserve: $3,445,500
Mortgage Reserve: 1% of unpaid mortgage principal
Accumulation Reserve: 1% of the unpaid bond principal plus the amount, if any, by which residual coverage under the mortgage trust insurance policy is less than 50% of the original policy limit.

Originators: 11 lending institutions
Origination Period: January 1, 1980
Commitment Fees: 1% in cash prior to the delivery of the bonds and a 2½% letter of credit upon delivery — reduced proportionately to mortgage loans originated.

Originator Fees: 1%
Servicing Fees: ¾ of 1%
Administrative Fees: ¾ of 1% — secondary

Mortgage Eligibility Criteria
Living Units: Single family only
Income Limitation: $30,000
Mortgage Principal Limitation: None
Minimum Mortgagor's Equity: 5% Maximum — 20%
LV Ratio: Conventional — 80% With PMI — 72%
Mortgage Pool Insurance Liability: 10%
Competing State Housing Agency: Yes — active

COMMENTS: Kanawha County (est. pop. of 223,300) is located in the southwestern part of West Virginia. Charleston, the State capital, is also the county seat. The County has a diversified economy and unemployment is low. Per capita income figures exceed both State and national averages. Eleven institutions will be responsible for originating the $22,950,000 of mortgage loans. The largest loan commitment is for $3,183,333 and the smallest is for $250,000. The eleven participants originated approximately $72,911,000 of single family mortgage loans in Kanawha County during the 1977 calendar year. Due to the diversified and stable economy, strong mortgage demand, and the relatively modest proportions of the financing, this issue is among the better single family mortgage programs.
$17,920,000
City of Wilmington, Delaware
Single Family Mortgage Revenue Bonds, 1979 Series A

Dated: January 1, 1979
NIC: 7.472%
Mortgages (%): 8.50%
Mortgages ($): $14,950,000
Capital Reserve: $2,329,000
Mortgage Reserve: 1% of mortgage commitments
Accumulation Reserve: $200,000
Originators: Delaware Trust Company, Farmers Bank of the State of Delaware, Federal Savings and Loan, Wilmington Savings Fund Society, Wilmington Trust Company, VNB Mortgage Corporation
Origination Period: December 15, 1980
Program Participation Fee: 2%
Originator Fees: $250 or 1% of mortgage loan — whichever is greater
Servicing Fees: ½ of 1%
Administrative Fees: None

Mortgage Eligibility Criteria
Living Units: 1 — 4 units, 85% for single family
Income Limitation: $30,000
Mortgage Principal Limitation: None
Minimum Mortgagor’s Equity: 5%
L.V Ratio: FHA — VA Conventional — 80% With PMI — 75%
Mortgage Pool Insurance Liability: 10%
Competing State Housing Agency: Yes, but no active single family program.

Misc: Capital Reserve Interest Accumulation Account — excess investment earnings from Capital Reserve Fund until $240,000 is accumulated, which will be used to pay bonds maturing on 1/1/2012. A 3% penalty rate will be levied on all conventional mortgages prepaid within 5 years of origination.
COMMENTS: Wilmington (pop. 76,654) is the largest city in Delaware and has been beset with many of the problems typical of older urban centers. A substantial debt burden, large population losses to outlying suburban areas, high unemployment rates, and stagnant and declining property values are just a few of the problems affecting the City. Projects to revitalize the downtown area and to renovate some of the older housing stock in certain neighborhoods are currently underway. Housing starts in the City of Wilmington decreased steadily from 72 in 1973 to 25 in 1977. However, housing starts showed a substantial increase to 156 in 1978. Six lending institutions will be participating in the program. The largest mortgage commitment was for $5,000,000 and the smallest was for $750,000. The Farmers Bank, which has a mortgage commitment of $1,000,000, has experienced financial problems and has been receiving both administrative and financial assistance from the State of Delaware, which now owns 76.7% of the institution's stock. The VNB Mortgage Corporation (a mortgage banking subsidiary of the Virginia National Bank), which has the largest mortgage commitment of $5,000,000, has experienced a very high delinquency rate on the mortgages that it services. As of 6/30/78, 6.86% of VNB's mortgages are delinquent in payments of 30 days or more. This exceeds national averages.
$15,000,000
Village of Wheeling, Cook and Lake Counties, Illinois
Single Family Mortgage Revenue Bonds, 1979 Series A

Dated: January 1, 1978
NIC: 7.674%
Mortgages (%): 8.95%
Mortgages ($): $12,570,000
Capital Reserve: $1,850,000
Mortgage Reserve: 150% of maximum monthly principal and interest payments due on the mortgage loans
Accumulation Reserve: $100,000
Originators: Wheeling Trust and Savings Bank (20% of the funds will be reserved for any other approved lending institution making mortgage loans in the Village)
Origination Period: January 1, 1981
Program Participation Fee: 1%
Originator Fees: 2%
Servicing Fees: ½ of 1%
Administrative Fees: None

Mortgage Eligibility Criteria
Living Units: 1 – 4 units, 80% for single family
Income Limitation: $40,000
Mortgage Principal Limitation: $80,000
Minimum Mortgagor’s Equity: 20%
LV Ratio: Conventional – 80%
Mortgage Pool Insurance Liability: 10%
Competing State Housing Agency: Yes

Misc: Mortgage loans can be used for remodeling or repairing as long as it increases the appraised value by a minimum of 25% and is secured by a first lien on the property.
COMMENTS: The Village of Wheeling is a rapidly growing middle class suburb, located 26 miles northwest of Chicago’s Loop. Population rose from 7,169 in 1960 to a current estimate of 22,800. As of 1977 residential property represented approximately 45% of the total land area of the Village and industrial property, located in nine industrial centers, represented another 45%. Wheeling was ranked 23rd of 170 communities in the Chicago Metropolitan Area in the number of residential building permits issued for 1977. Approximately 1070 single family construction permits were issued within the Village for the period of 1973-1977.

The Wheeling Trust and Savings Bank will be primarily responsible for originating mortgage loans, accounting for a minimum of 80% of the proceeds or $10,054,000. Although the Bank must originate these mortgages within a specified two year period, the institution has never loaned this volume of mortgages within any consecutive two year period. Wheeling Trust has a low delinquency rate on mortgages within its own portfolio, however, its servicing portfolio will approximately double with the addition of mortgage loans made with bond proceeds.
$25,000,000
City of Evanston, Cook County, Illinois
Residential Mortgage Revenue Bonds, Series 1979 A

Dated: January 1, 1979
NIC: 7.266%
Mortgages (%): 8.75%
Mortgages ($) : $21,067,000
Capital Reserve: $3,100,000
Mortgage Reserve: 150% of maximum monthly principal and interest payments due on the mortgage loans
Accumulation Reserve: $200,000
Originators: 8 lending institutions
Origination Period: February 1, 1980
Program Participation Fee: 1%
Originator Fees: 2%
Servicing Fees: ½ of 1%
Administrative Fees: None

Mortgage Eligibility Criteria
Living Units: 1—4; 75% single family, 25% for substantial home improvements or 2 to 4 family residences
Income Limitation: $50,000 — however, 50% of the funds will be reserved until 9/1/79 for those with incomes below $30,000.
Mortgage Principal Limitation: $100,000
Minimum Mortgagor’s Equity: 5%
LV Ratio: Conventional — 80% With PMI — 72%
Mortgage Pool Insurance Liability: 10%
Competing State Housing Agency: Yes

COMMENTS: The City of Evanston is located directly north of Chicago and has a population of approximately 80,000. It is a residential area with above average family incomes, which may explain the high income and mortgage principal limitations. Although the 8 participating institutions seem more than capable of originating and servicing the mortgage loans, it is difficult to determine mortgage demand. However, the economic strength and geographic location of the City would lead one to believe that there would be sufficient mortgage demand.
### Spreads Between the Interest Costs of the Bonds and the Interest Rates on the Mortgage Loans

<table>
<thead>
<tr>
<th>Issuer</th>
<th>Size ($000)</th>
<th>Dated</th>
<th>Moody’s</th>
<th>S &amp; P</th>
<th>FEE (%)</th>
<th>NIC (%)</th>
<th>Mortgage (%)</th>
<th>Spread (%) minus (Service + Mandatory Admin. Fees)</th>
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<td>$100,000</td>
<td>7/1/78</td>
<td>Con. (A)</td>
<td>AA +</td>
<td>.375</td>
<td>.25*</td>
<td>7.13</td>
<td>7.99</td>
</tr>
<tr>
<td>Denver, Col.</td>
<td>50,000</td>
<td>8/1/78</td>
<td>Con. (A)</td>
<td>AA</td>
<td>.50</td>
<td>.25* + .25**</td>
<td>6.998</td>
<td>7.875</td>
</tr>
<tr>
<td>Pueblo, Col.</td>
<td>20,000</td>
<td>8/1/78</td>
<td>NR</td>
<td>AA</td>
<td>.50</td>
<td>.25* + .25**</td>
<td>6.998</td>
<td>7.875</td>
</tr>
<tr>
<td>Belleville, Ill.</td>
<td>25,000</td>
<td>11/1/78</td>
<td>NR</td>
<td>AA</td>
<td>.50</td>
<td>—</td>
<td>7.19</td>
<td>8.19</td>
</tr>
<tr>
<td>Rock Island, Ill.</td>
<td>20,000</td>
<td>11/1/78</td>
<td>NR</td>
<td>AA</td>
<td>.50</td>
<td>.25**</td>
<td>7.23</td>
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<td>Quincy, Ill.</td>
<td>16,760</td>
<td>11/1/78</td>
<td>NR</td>
<td>AA</td>
<td>.625</td>
<td>—</td>
<td>7.16</td>
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<tr>
<td>Mesa Co., Col.</td>
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<td>NR</td>
<td>AA</td>
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<td>.25***</td>
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<tr>
<td>Pueblo Co., Col.</td>
<td>25,450</td>
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<td>AA</td>
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<td>.25**</td>
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<td>.25*</td>
<td>7.282</td>
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<tr>
<td>Jefferson Co., Board...</td>
<td>48,315</td>
<td>12/1/78</td>
<td>NR</td>
<td>AA</td>
<td>.50</td>
<td>—</td>
<td>7.34068</td>
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<tr>
<td>Danville, Ill.</td>
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<td>—</td>
<td>7.3414</td>
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<tr>
<td>Minneapolis Housing...</td>
<td>55,240</td>
<td>12/1/78</td>
<td>Aa</td>
<td>AA</td>
<td>.375</td>
<td>.375***</td>
<td>7.06</td>
<td>8.00</td>
</tr>
<tr>
<td>Kanawha Co., W. Va.</td>
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<td>AA</td>
<td>.375</td>
<td>.375**</td>
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<td>1/1/79</td>
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<td>7.472</td>
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</tr>
<tr>
<td>Wheeling, Ill.</td>
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<td>1/1/79</td>
<td>A</td>
<td>AA</td>
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<td>—</td>
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</tr>
<tr>
<td>Evanston, Ill.</td>
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<td>1/1/79</td>
<td>Aa</td>
<td>AA</td>
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<td>—</td>
<td>7.266</td>
<td>8.75</td>
</tr>
</tbody>
</table>

- Primary Administrative Fees—mandatory.
- Secondary Administrative Fees—payable after all other payments and only if funds are available.
- Mandatory Administrative Fees—payable to the program administrator, not to the mortgage servicer.