TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

An Internal Audit of the Bond Finance program's processes and controls

Audit Report # 17-002

Executive Summary

The Office of Internal Audit (OIA) reviewed TDHCA's Bond Finance program's processes and controls, from the identification of need for additional bonds to the final approval of bonds and sale of mortgages to the Master servicer. This included the review of roles and responsibilities of parties involved in the process, such as Program Administrator and Liquidity Provider. Based on the fieldwork performed, OIA concludes that the Bond Finance Program processes are generally performed accurately and according to applicable rules.

Audit Results

- Controls over the loan application processes are working as intended
- Controls over the lender selection processes were working as intended
- Controls over wire transfers are working as intended
- Duties of the Program Administrator (eHousing) are carried out effectively and monitored by TDHCA.

Recommendation

- Due to volume of the transactions OIA recommends Desk reviews of Program Administrator's records in years when site visits are not conducted

Response:
Management agreed with our recommendations
Detailed responses are included in the body of the audit report.

Responsible Area:
Director of Texas Homeownership Program

Objective, Scope and Methodology

Our objectives included evaluation and explanation of the Bond Finance Program and the administrative and internal control procedures related to the program. Our scope included a review of the Texas Government Code and TDHCA Board resolutions, as well as the program's policies, processes, and procedures. Based upon our preliminary understanding of the Bond Finance Program we identified critical points and risk, to develop audit objectives and an audit program including methodology.

We reviewed the Bond Finance Program's goals, processes, and roles and responsibilities. We reviewed the controls related to the Bond Program and tested certain transactions and controls. The Texas Internal Auditing Act, TGC Sec. 2102.005 requires auditing of a state agency's major programs and systems, and related controls.

Mark Scott

Mark Scott, CPA, CIA, CISA, CFE, MBA
Director, Internal Audit

3/13/2018
Date Signed

TEXAS DEPARTMENT OF HOUSING AND COMMUNITY AFFAIRS

www.tdhca.state.tx.us

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March 13, 2018

Writer's direct phone # 512.475.3813
Email: mark.scott@tdhca.state.tx.us

Board Members of the Texas Department of Housing and Community Affairs ("TDHCA")

RE: REVIEW OF THE BOND FINANCE PROGRAM PROCESSES AND CONTROLS

Dear Board Members:

This report presents the results of the Office of Internal Audit ("OIA") "*Review of the Bond Finance Program Processes and Controls.*" This audit was conducted in accordance with applicable audit standards. It included the objectives to evaluate and explain the *Bond Finance Program* and to evaluate the administrative and internal control procedures related to the program.

The Bond Finance unit rated high on the risk assessment due to its level of complexity of transactions and processes and its significant level of activity. Additionally, the Bond Finance unit had not been audited by OIA within the last 5 years.

This report is divided into the following sections:

A. Background
B. Scope and methodology
C. Roles and responsibilities of each party in the Bond Finance program
D. Processes and flow of transactions
E. Testing of Lender Documentation
F. Other audit work

A) BACKGROUND

State and local governments issue and sell tax-exempt Housing Bonds, commonly known as Mortgage Revenue Bonds ("MRBs") and Multifamily Housing Bonds. The proceeds of single family MRBs are used to finance mortgage loans for low to moderate income first-time homebuyers. Nationally MRBs have made first-time homeownership possible for almost three million lower and moderate income families. These bonds are payable solely from the revenues and funds pledged for the payment thereof and do not constitute direct obligations of the issuer, TDHCA. State law allocates the total amount of tax exempt issuance authority, referred to as bond cap, to various authorized types of issuance, and one-third of the private activity bond authority reserved for single family use is assigned to TDHCA, the other two-thirds being assigned to other local issuers and to the Texas State Affordable Housing Corporation ("TSAHC").[1]

The Bond Finance Program is primarily responsible for administering the Department's MRB program. MRB programs provide low cost funds used to make below market rate loans to both single family homebuyers and developers of multifamily housing for lower income households. The Department's authority to issue MRBs is derived from its enabling legislation and provisions of the Internal Revenue Code. On an annual basis the Department may issue only a limited amount of tax-exempt single family MRBs due to Internal Revenue Code imposed maximums and State imposed limitations. For Calendar Year 2017 the maximum single family allocated authority was approximately $260 million. TDHCA may, in addition to issuing MRBs, convert all or a portion of its allocated bond cap to mortgage credit certificates ("MCCs"). MCCs are certificates provided to qualifying homeowners enabling them to claim a credit on their federal income tax return. MCCs may be issued as a standalone form of assistance or paired with a TBA loan but not with a tax exempt MBS loan. Note, however, that if other approved types of bond issuance do not utilize all of their allocated bond cap, TDHCA is permitted to seek additional authority to use some or all of that unutilized portion. The Department may also issue taxable MBSs. The MRB programs utilize no General Revenue of the State and create no liability to the State of Texas. Homebuyers receive a first lien mortgage loan and down payment and closing cost assistance in the form of a 30-year, 0% interest, non-amortizing second mortgage loan. The collateral for the bonds consists of mortgage backed securities guaranteed as to principal and interest by Ginnie Mae, Fannie Mae, and Freddie Mac, plus other available indenture assets. The mortgage-backed securities are backed by the mortgage loans that were originated through the program.

The goals of the Bond Program include facilitating a fluid market for home mortgage bonds and mortgage-backed securities. The Bond Program also must ensure compliance with various statutes and rules which govern the Program's activities.

B) Scope and Methodology

Our scope included a review of applicable portions of the Texas Government Code and TDHCA Board resolutions, as well as the program's policies, processes, and procedures. Based upon our preliminary understanding of the Bond Finance Program we identified critical points and risk, to develop audit objectives and an audit program including methodology.

We reviewed the Bond Finance Program's goals, processes, and roles and responsibilities. We reviewed the controls related to the Bond Program and tested certain transactions and controls. The Texas Internal Auditing Act, Tex. Gov't Code§2102.005 requires auditing of a state agency's major programs and systems.

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[11] **Tex. Gov' Code §1372.022**: *10% is available exclusively to the Texas State Affordable Housing Corporation for the purpose of issuing qualified mortgage bonds; and 56.66% is available exclusively to housing finance corporation for the purpose of issuing qualified mortgage bonds.*

Tex. Gov't Code §1372.023: *33.34 % is available exclusively to the Texas Department of Housing and community Affairs for the purpose of issuing qualified mortgage bonds.*

C) Roles and Responsibilities of each party in the Bond Finance Program

- **Issuer**
  TDHCA (the Department) is the issuer of MRBs for the primary purpose of providing funds for the origination of low cost mortgage loan to first time homebuyers. Those loans are packaged into mortgage-backed, pass-through certificates guaranteed as to timely payment of principal and interest by either the Government National Mortgage Association (Ginnie Mae), the Federal Home Loan Mortgage Corporation (Freddie Mac) or the Federal National Mortgage Association (Fannie Mae), which represent beneficial ownership of pools of the Mortgage Loans originated under the program. These pass-through mortgage backed securities are held in the master trust indentures utilized for the MBS program.

- **Master Servicer**
  The Master Servicer is a loan servicer that purchases, services, and pools into mortgage backed securities, mortgage loans originated through the Department's single family program. The Master Servicer issues the mortgage-backed securities through Ginnie Mae, Fannie Mae, or Freddie Mac. Currently, the Department's Master Servicer is Idaho Housing and Finance Association ("IHFA").

  The Master Servicer must be approved by Fannie Mae and Freddie Mac to sell and service conventional mortgage loans, and must meet all of the eligibility requirements, including current net worth requirements. In addition, on a monthly basis, the Master Servicer shall provide TDHCA with an invoice setting forth the details of the amounts due to the Master Servicer, if any. Amounts due to the Master Servicer, after netting amounts owed by the Master Servicer to TDHCA, are paid by the relevant indenture. (See Exhibit A)

- **The Program Administrator**
- The Program Administrator is the entity responsible for completing the Compliance Review of loan documentation and requirements after closing with selected lenders. Currently the Department's Program Administrator is eHousing. The various lenders do the initial testing of the borrowers' eligibility to participate in the program. eHousing verifies that the lenders have gathered the appropriate documentation. TDHCA monitors eHousing's records on a periodic basis.

  The records maintained by eHousing are subject to the Department's review and audit at any time. Historically the Department has performed audits of eHousing's records every 2 to 3 years, with the latest audit performed in 2017.

Finding Item Number	Management Comments – Status Pertaining to the Recommendations and Action to be Taken	Target Completion Date	Responsible Party
17-002.01	Due to volume of the transactions OIA recommends that the Bond Finance Program perform Desk reviews of Program Administrator's records in the years between site visits.	8/31/2018	Director of Texas Homeownership program

Management's response:

Bond Finance and Texas Homeownership will add an additional desk review of the Program Administrator's records in the years between site visits and plan to conduct on-site reviews no less than once every two years.

- **TBA Provider**
  TBA stands for "to be announced" and is a private sector mortgage brokerage model whereby a party, the TBA Provider, commits to a price, based on mortgage rate, for mortgage backed securities to be issued in the future and backed by mortgage loans not yet originated. Price commitments are typically reset each day, unless significant market movements occur, in which case the TBA Provider publishes a new price and rate sheet. Currently the Department's TBA Provider is Hilltop Securities.

  The TBA program is designed to improve liquidity. Because of the speed of its execution of transactions, the TBA program does not involve the same degree of risk, especially interest rate risk and delivery risk, involved in the MBS market. Mortgages can be delivered in to-be-announced package; and there are criteria set by the parties which TDHCA has determined will mirror the IRS requirements for MBS loans. We did not test these aspects of the TBA program as part of this audit, except to the extent we tested other aspects of the mortgage processes.

- **Trustee**
  The Trustee is the entity responsible for managing the Trust Estate under the indenture. The Trustee administers the funds or property specified in the indenture in a fiduciary capacity on behalf of the bondholders. Currently the Department's Trustee for single family bonds is Bank of New York Mellon.

- **Warehouse Provider**
  The Warehouse Provider is responsible for providing funds to the Master Servicer (Idaho HFA) for the purchase of Mortgage Backed Securities (MBS) that will secure single family mortgage revenue bonds issued by the Department. The Warehouse Provider sells the same MBS to the bond Trustee (Bank of New York Mellon) as instructed by the Department, typically concurrent with the issuance of the Bonds. Currently the Department's Warehouse Provider is Hilltop Securities.

- **Liquidity Provider**
  Variable rate bonds and swaps typically require a liquidity facility. A "liquidity facility" is a letter of credit, standby bond purchase agreement or other arrangement used to provide liquidity to purchase securities, typically variable rate demand obligations that have been tendered to the issuer or its agent but cannot be immediately remarketed to new investors. The provider of the liquidity facility purchases the securities until such time as they can be remarketed. The Texas Comptroller of Public Accounts is the Liquidity Provider for the TDHCA's variable rate bonds.

  OIA verified with the TDHCA contact at the Comptroller that the Comptroller has not had to purchase any "remaining bonds" under the liquidity agreement.

- **Working Group**
  Generally includes relevant Department staff, the Financial Advisor, Bond Counsel, Disclosure Counsel, Senior Manager, Underwriter's Counsel, Co-Managers, Trustee, and Trustee's Counsel.

- **Federal Home Loan Bank of Dallas (FHLB)**
  FHLB provides short-term financing to TDHCA for the purchase of mortgage loans originated through the Department's TBA program.

- **TDHCA Staff**
  The Bond Finance program consists of approximately five employees, which includes the Director of Bond Finance or Chief Investment Officer (herein the "Director of Bond Finance"), Sr. Financial Analysts, and Project Managers. The responsibilities and authorities of Bond Finance team consists of, but not limited to, evaluating and analyzing financial market, recruiting and recommending underwriters to the Board, setting Bond prices, and working with various lenders in the community.

  TDHCA purchasing staff is required to fill out an annual disclosure for conflict of interest. Because Bond Finance program staff makes decisions that affect the selection of underwriters, etc, management should consider having Bond Finance staff fill out conflict of interest statements. This is not a statutory requirement and therefore this is not a formal finding.

- **Texas Homeownership Division**
  The primary focus of the Division is to manage relationships with local lenders making mortgage loans under the MBS and/or TBA programs and/or providing TDHCA MCCs. It generates public awareness of the TDHCA Homeownership options available in Texas. The programs are marketed through a variety of outreach programs including direct calls, participation in homebuyer fairs and consumer events, specialized training for participating lenders and Texas Realtors, and industry trade shows and publications.

D) Processes and Flow of Transactions

Issuing Bonds:

Bonds are debt instruments requiring repayment to the investor of the principal amount borrowed plus interest over some specified period of time. Bonds may consist of Serial (short-term) and term (long-term) bonds, or a combination thereof. The first step in issuing bonds is assessing the need for bond funds. The Director of Bond Finance, The Director of the Texas Homeownership Division, and the Financial Advisor are responsible for identifying and assessing the need for bond funds. The Director of Bond Finance will determine if there are available resources to go forward with a bond issuance and assess market conditions. Once the need for funds has been established the Director of Bond Finance prepares a preliminary plan of finance which includes size and structure of the bond deal and targeting closing date. The Director of Bond Finance also selects a recommended senior underwriter. The preliminary plan and the recommendation for the underwriting team will then be presented to the TDHCA Board for approval.

Bond Finance staff compiles a Distribution List and a Schedule of Events for the new bond issuance and distributes it to the Working Group. The Financial Advisor submits various cash flow scenarios to the Director of Bond Finance. The Director analyzes each scenario and discusses each structure with the Working Group. The Director of Bond Finance also ensures that the cash flows will cover debt service, maintain assets that exceed outstanding bonds and withstand stress scenarios. The Sr. Bond Finance analyst prepares financial schedules, tables and exhibits and sends them to Disclosure Counsel, who then prepares various bond documents including the Preliminary Official Statement ("POS") and Official Statement ("OS"). The working group reassesses the bond structure and current market conditions several times during the planning process.

The Bond Counsel prepares a Tax Equity and Fiscal Responsibility Act ("TEFRA") Notice and publishes it in accordance with IRS requirements. The notice is also sent to the *Texas Register* and must be published at least 30 days in advance of the hearing. Bond Finance conducts a TEFRA Hearing which includes summary of the transaction that includes the series, what the bonds will be used for, the dollar amount, and the income limit. The speech is then converted into a report by the Hearing Officer and sent to Bond Counsel. The Director of Bond Finance completes and submits a Notice of Intent to issue bonds to the Bond Review Board ("BRB").

The next step in the process is to submit a Board Action Request to the Department's Board for approval. Bond Counsel prepares and distributes a package for the Department's Executive Director, the Director of Bond Finance, the Department's Board Chair, and Legal Counsel to sign and return. A detailed cost of issuance is provided to BRB with the application for their approval. The Director of Bond Finance prepares the BRB application and sends to Bond Counsel, who then requests volume cap from the BRB. TDHCA must receive approval from the BRB before bonds can be issued. The Director of Bond Finance provides written confirmation of the rating on the bonds (if rated) to the BRB before the approval can be issued. Once approved the BRB provides a formal notification of approval to the Director of Bond Finance.

After BRB's approval a conference call is conducted with the Working Group to sign off on the POS. Bond Counsel will send a transcript of the bond issue to the Attorney General's Office. The transcript will be included with the BRB bond application after its approval. Final bond documents are distributed and reviewed by the Working Group. The Director of Bond Finance and some of the staff are present on the day of "Pricing" and will adjust the pricing strategy based on market conditions if needed. The bonds are then "released to the market" for the pricing period. The Director of Bond Finance and the Financial Advisor monitor the pricing process and review orders as submitted. When the pricing period is over the Senior Manager will either recommend a re-pricing or will notify the Director of Bond Finance of their intention to underwrite the issue, who in turn will either authorize the re-price or agrees to the underwriting. The Senior Manager then gives an underwriting commitment to the Director of Bond Finance that the bonds have been sold. Disclosure Counsel will then update the POS with pricing information such as bond principal amount, interest rates, and maturity dates.

Advance and Wire Transfer

Advances from the FHLB and wire transfers to IHFA are initiated almost on a daily basis to purchase mortgage loans. A list is submitted to the program staff through a secure site with the information about mortgages that IHFA purchased during the previous day. The list is called Advance Reimbursement and it includes information such as amount and type of each mortgage (ex; FHA, VA,... etc). The program staff takes an advance from the Federal Home Loan Bank ("FHL Bank") prior to submitting a wire transfer request to purchase mortgage loans. An advance confirmation and reference number are issued to staff for each advance taken. After TDHCA staff has initiated the wire transfer, a wire transfer confirmation is also issued to staff.

Currently five upper level management members and three staff members at TDHCA are authorized to initiate and approve wire transfer using previously authorized hard coded wiring instructions. Only upper level management are authorized to initiate a wire transfer using new wiring instructions and this requires secondary authorization.
They each have a unique ID, password and 8 digit wire transfer PIN, in addition to a device called a "Token" that generates a 6 digit number, to be used to access the secure site. The Tokens are registered to each individual and the numbers are reset every 30 seconds for security. On the first screen the Login ID is entered. On the second screen a Password and Token code are entered. On the Wire Transfer screen, the Password and Tokencode are re-entered (by this time, the numbers on the Token are already reset and the new set of numbers are entered). On the final screen, the amount of wire transfer and an 8 digit PIN is entered and the wire request is submitted to the FHL Bank. Once the request for wire transfer is submitted a confirmation is sent back to TDHCA for documentation purposes. TDHCA has five hard-coded repeat wire transfer options, which include one to IHFA, and the other four are to Texas Treasury.

Mortgage lender participation

Texas Home Ownership division is tasked with generating awareness of the program among mortgage lenders through marketing and participating in banking and networking events. Any qualified mortgage lender can participate in the program if they meet the established requirements and guidelines. The mortgage lender approval process is a shared process between TDHCA and Idaho HFA. Interested mortgage lenders are required to submit IHFA Lender Application Packet directly to IHFA, followed by TDHCA Lender Application Packet submitted directly to TDHCA.

TDHCA packet includes Application to Participate in the program, Master Mortgage Origination Agreement, Form of Board Resolution, for Opinion of Counsel, Confirmation of IHFA Lender Application Packet Submission. A lender cannot be approved and allowed to participate in the program if they've not been cleared by IHFA. Once all documents have been submitted and reviewed, TDHCA notifies the applicant and also informs eHousing of their approval of the new participating lender. eHousing is in charge of setting up any necessary training and access support needed for the lender.

E) Testing of Lender Documentation

We conducted testing to verify that lenders participating in the TDHCA First Time Homebuyer program met applicable requirements, and that transactions by TDHCA were only made with qualified lenders.

The purpose of the first test was to determine if lenders of mortgages were approved participating lenders. We randomly selected 280 (5%) of the 5590 mortgages closed in calendar year 2017. All of the lenders tested had been approved as participating lenders.

The purpose of the second test was to determine if the Approved Participating Lenders have properly completed the application process with confirmation of approval. We randomly selected 18 (10%) of the

176 participating lenders list. We tested to verify that all the required documentations are on file with TDHCA and found no areas of exception. The lists of documents reviewed are as follow:

- Application
- Master Mortgage Origination Agreement
- Board Resolution
- Opinion of Counsel
- Confirmation of IHFA Lender Application Packet Submission
- Loan Officer / Originator list (sponsored branch address, contact information, and cities served)

We found no audit exceptions in our testing.

F) Other audit work

This is the first comprehensive internal audit of the Bond Finance Program's processes and controls. TDHCA contracts with the Texas State Auditor's Office ("SAO") to conduct annual financial statement audits of the Revenue Bond Program. The latest audit was issued in December 2017, and stated that the financial statements were presented in accordance with Generally Accepted auditing Principles ("GAAP"). (A graphic depiction of bond amounts outstanding as of 8/30/2017 is included as Exhibit B of this internal audit report)

OIA extends our sincere appreciation to management and staff of the Bond Finance Program for their cooperation and assistance during the course of this audit.

Sincerely,

Mark Scott

Mark Scott, CPA, CIA, CISA, CFE, MBA
Internal Audit Director

MS/BE, NS

Exhibit A

Master Servicer ("MS") duties and requirements:

After an approved borrower closes on the mortgage with the originating lender, the Master Servicer ("MS") purchases the mortgage loan. The Servicer is responsible for reviewing relevant Mortgage Loan Documents provided through the Mortgage Lenders and for confirming the eligibility of each Mortgage Loan for pooling into a mortgage-backed security. The Series 2016 Bonds Master Servicer was US Bank and the Series 2017 Bonds Master Servicer is Idaho Housing and Finance Association.

1. The Servicer will confirm with the Program Administrator (eHousing Plus) that the Mortgage Loan meets the requirements of the Program Guidelines by verifying the Loan Compliance Approval Date prior to the Servicer's purchase of the Mortgage Loan. The Servicer will not purchase a loan that the Program Administrator has not deemed Compliance Approved.
2. The Servicer must be approved by Fannie Mae and Freddie Mac to sell and service conventional mortgage loans, must meet all of the eligibility requirements, including current net worth requirements, and is approved by Fannie Mae, and Freddie Mac to deliver Mortgage Loans to Fannie Mae and Freddie Mac to back Mortgage Certificates and will remain so approved under current requirements for the term of the agreement.
3. The Servicer must be approved by the Government National Mortgage Association ("GNMA") to sell and service Mortgage Loans having Federal Housing Administration ("FHA") insurance or a U.S. Department of Veterans Affairs ("VA") Guaranty, a U. S. Department of Agriculture Rural Housing Service ("RHS") Guaranty or a U. S. Department of Housing and Urban Development ("HUD") Guaranty, and be an FHA/VA approved mortgagee, must meet all the eligibility requirements, including current net worth requirements, and must be approved by GNMA to issue mortgage-backed securities guaranteed by GNMA, and applicable regulations, and will remain so approved under current requirements for the term of the agreement.
4. In servicing the Eligible Mortgage Loans, the Servicer shall conform to at least the minimum requirements established by FHA in the case of FHA insured Mortgage Loans, VA in the case of VA-guaranteed Mortgage Loans, RHS in the case of RHS Mortgage Loans, HUD in the case of HUD guaranteed Mortgage Loans or Fannie Mae or Freddie Mac and the applicable Private Mortgage Insurer in the case of Conventional Mortgage Loans, and to the requirements of the GNMA Guide, the Fannie Mae Guides or the Freddie Mac Guides.
5. Also, the Servicer shall service the Eligible Mortgage Loans in accordance with the servicing standards required for Mortgage Loans insured by FHA or guaranteed by VA, HUD or RHS and as required by GNMA, Fannie Mae, or Freddie Mac.
6. The Servicer is to be familiar with all GNMA, Fannie Mae, and Freddie Mac rules and regulations applicable to the Program and will use diligent, reasonable efforts to remain familiar with the rules and regulations applicable to the Program, including, but not limited to, any changes or proposed changes in the GNMA, Fannie Mae, and Freddie Mac servicing rate, size of Pools or other features affecting the Eligible Mortgage Loans or Mortgage Certificates and shall promptly notify TDHCA of such changes or proposed changes of which the Servicer becomes aware.

7. In addition, the Servicer shall provide to FHA, VA, RHS, HUD, GNMA, Fannie Mae and Freddie Mac any and all notices required as a condition of the payment of all benefits and such reports regarding servicing, including reports of delinquencies as may be required.

8. Government National Mortgage Association mortgage-backed securities will be issued by the Servicer to be purchased by the Trustee or a Secondary Market Institution and are guaranteed by GNMA pursuant to GNMA's GNMA I or GNMA II mortgage-backed securities program.

9. If the Servicer does not approve a Mortgage Loan for purchase that has a related Second Mortgage Loan, the Servicer will provide notice to TDHCA of cancelled Mortgage Loans. Such notice will be provided not less than monthly and will contain sufficient information related to the disallowed Mortgage Loan and Second Mortgage Loan, as well as pertinent Mortgage Lender contact information.

10. In any case in which property subject to a Eligible Mortgage Loan has been or is about to be conveyed by the Mortgager to his or her successor in interest, the Servicer is authorized to release the original mortgagor and to take or enter into an assumption agreement with the person to whom the property has been or is about to be conveyed, but only if certain conditions are met, as listed in Section 9.03 of the *Mortgage Acquisition, Pooling and Servicing Agreement*.

11. If the Servicer determines that the mortgagor or his successor in interest has conveyed a Residence and that the required conditions have not been met, the Servicer shall give notice thereof to TDHCA. If no action other than foreclosure can be taken or if the Servicer fails to cause such action to be taken, the Servicer shall provide notice of same to TDHCA, shall take any and all steps necessary to secure all benefits payable under the applicable FHA Insurance, VA, HUD or RHS Guaranty or Private Mortgage Guaranty Insurance policy, and shall, unless otherwise directed by TDHCA, commence foreclosure proceedings within fifteen (15) days of the date of such notice.

12. The Servicer shall "warehouse" the Eligible Mortgage Loans utilizing a loan participation agreement with TDHCA until such time that the Servicer has accumulated sufficient volume of Eligible Mortgage Loans to form a Pool and cause the issuance of a GNMA Certificate, Fannie Mae Certificate or Freddie Mac Certificate or for sale through the cash window to Fannie Moe or Freddie Mac.

13. On a monthly basis, the Servicer shall provide TDHCA with an invoice setting forth the details, for the preceding calendar month, of the amounts due to the Servicer and from the Servicer for payment of servicing fees and the net amount due.

14. All insurance premiums advanced by the Servicer shall be added to the amount owing under the Eligible Mortgage Loan where the terms of the loan so permit.

Exhibit B

Outstanding Bonds at August 31, 2017

As of August 31, 2017, the Program had an outstanding bonds balance of $1,324,429,929 and had used its funds to issue more than 5,500 mortgage loans with a total initial principal of more than $890 million during the 2017 calendar year.

Source: Department fiscal year 2017 financial records as presented to the TDHCA Audit and Finance Committee on December 14, 2017 and the fiscal year 2017 Independent Audit Report issued by the Texas State Auditor's Office.

Fiscal Year	Beginning Bond Balance	Purchases	Bonds Matured or Retired	Bonds Refunded or Extinguished	Ending Bond Balance
2017	$ 1,433,724,985	$ 152,450,952	$ 26,902,762	$ 234,843,246	$ 1,324,429,929