



U.S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
WASHINGTON, DC 20410-7000

ASSISTANT SECRETARY FOR
COMMUNITY PLANNING AND DEVELOPMENT

MAY 24 2018

Dear Sir/Madam:

The Department of Housing and Urban Development is soliciting purchase proposals from firms interested in purchasing obligations guaranteed under Section 108 of the Housing and Community Development Act of 1974, as amended (Section 108). It is anticipated that successful firms selected under this solicitation will offer these obligations for sale to the public as members of an underwriting group. HUD anticipates that the underwriting group will conduct the first such purchase and public offering within 8 to 12 weeks of the selection.

The guaranteed obligations are trust certificates backed by a pool of notes guaranteed or eligible for guarantee by HUD. Further background is provided in Attachment A, together with a statement of the functions to be performed by the underwriting group.

Members of the underwriting group will be selected by HUD to purchase these obligations and participate in this sale through a competitive process. Accordingly, each firm seeking to participate must submit a proposal to HUD.

Selection of the purchasers/members of the underwriting group for this sale will be based upon the criteria contained in Attachment B. Upon selection of the underwriting group, HUD will appoint one or more lead managers with responsibility for coordinating the efforts of the underwriting group.

This solicitation does not commit HUD to award a sales contract, to pay for any cost incurred in the preparation of a purchase proposal in response to this solicitation, or to procure or contract for services or supplies. HUD reserves the right to accept or reject any or all proposals received as a result of this solicitation, to negotiate with all qualified sources, or to cancel in part or in its entirety, this solicitation, if it is in the best interests of HUD to do so. HUD may require the firms selected to participate in negotiations, and to submit such price, technical, or other revisions to their proposals as may result from negotiations.

Firms are requested to include in their proposals the information specified in the supplemental instructions contained in Attachment C. Proposals should be submitted in accordance with the submission instructions in Attachment C to 108Underwriters@hud.gov, if submitted electronically, or to the following physical address:

U. S. DEPARTMENT OF HOUSING AND URBAN DEVELOPMENT
Financial Management Division
451 7th Street, SW
Room 7204
Washington, DC 20410

All purchase proposals must be received by HUD no later than 6:00 P.M., Washington, DC time, on June 29, 2018. Late submissions and modifications are subject to the conditions set forth in Attachment C.

If you have any questions regarding this letter, please get in touch with Paul Webster at 202-708-1871.

Sincerely,



Neal Rackleff
Assistant Secretary

Attachments

ATTACHMENT A PURCHASE PROPOSAL REQUIREMENTS

As discussed in the letter accompanied by this attachment, the Department of Housing and Urban Development ("HUD") is soliciting purchase proposals from firms interested in purchasing trust certificates backed by a pool of notes guaranteed or eligible for guarantee by HUD. These obligations will be guaranteed by HUD under Section 108 of the Housing and Community Development Act of 1974, as amended.

The full faith and credit of the United States is pledged to the payment of all guarantees of Section 108 obligations.

Pursuant to Section 108 and in conjunction with the Community Development Block Grant program, HUD guarantees:

- (i) notes issued by units of general local government (e.g., cities and counties), States, Insular Areas (American Samoa; Guam; Northern Mariana Islands; and the Virgin Islands), or public agencies designated by such public entities to issue the Notes (the "Borrowers"); and
- (ii) certificates backed by trusts or pools of such notes.

HUD anticipates that successful firms selected under this solicitation will offer trust certificates backed by a pool of notes issued by the Borrowers for sale to the public as members of an underwriting group. HUD anticipates that the underwriting group will conduct the first such purchase and public offering within 8 to 12 weeks of its selection.

Background

HUD is an executive department of the United States of America, established in 1965 by the Department of Housing and Urban Development Act. At its establishment, HUD was vested with the functions, powers, and duties of the Housing and Home Finance Agency, the Federal Housing Administration and the Public Housing Administration in that agency, and the Government National Mortgage Association. HUD administers the principal Federal government programs that provide assistance for housing and for community development.

Pursuant to title I of the Housing and Community Development Act of 1974, as amended, (the "HCD Act"), HUD provides annual, formula-based, community development block grants ("CDBG grants") to units of general local government ("entitlement public entities") that meet the statutory eligibility requirements - generally, cities with population of more than 50,000 and urban counties with populations of more than 200,000 (the "CDBG Entitlement program").

HUD also provides annual, formula-based, CDBG grants to States that agree to administer the CDBG program for units of general local government in nonentitlement areas ("nonentitlement public entities"). Nonentitlement public entities are cities with populations of less than 50,000 and counties with populations of less than 200,000. States award CDBG grants

to nonentitlement public entities pursuant to a distribution plan submitted annually to HUD. In the State of Hawaii, HUD provides CDBG grants directly to nonentitlement public entities from the annual, formula-based, amount of CDBG grant funds allocated for the state. HUD provides grants directly to Insular Areas from annual appropriations.

The total amount of the CDBG program for Fiscal Year 2018 is \$3.3 billion.

CDBG grants and Section 108 loan funds may be used by the public entities for a variety of economic and community development activities. Each activity must principally benefit low- and moderate-income persons, aid in the elimination or prevention of slums or blight or meet other community development needs having a particular urgency. Information on the CDBG and Section 108 programs is available at

<https://www.hudexchange.info/programs/cdbg/> and

<https://www.hudexchange.info/programs/section-108/> .

The repayment terms of guaranteed notes are flexible to meet the needs of each Borrower. The terms for repayment of principal may vary, and include amortization, bullet payments, or deferral of principal payments with amortization thereafter. The maximum repayment period for a guaranteed note is twenty years.

The total amount of loan guarantee commitments that can be issued in any fiscal year is subject to limitations contained in annual appropriations. The maximum amount of loan guarantee commitments authorized for Fiscal Year 2018 is \$300 million. The President's Budget for Fiscal Year 2019 proposes no commitment authority for Section 108.

Prior to February 1, 1995, public offerings of Section 108 obligations consisted of the sale of the notes issued by the public entities and guaranteed by HUD. Beginning February 1, 1995, obligations issued for sale in public offerings have consisted of guaranteed trust certificates backed by a pool of notes issued by the public entities and guaranteed by HUD. Such trust certificates are issued pursuant to section 108(r) (42 U.S.C. § 5308(r)). This authority was provided on April 11, 1994, by the Multifamily Housing Property Disposition Reform Act of 1994 (Public Law 103-233) to allow HUD to guarantee the timely payment of the principal and interest on trust certificates backed by a trust composed of notes guaranteed or eligible for guarantee by HUD. HUD also guarantees the timely pass through of interest and principal on the certificates.

The initial underwritten public offering of the guaranteed trust certificates was held on February 1, 1995, in the aggregate principal amount of \$245,785,000. The following table lists the date of the circular for each underwritten public offering of guaranteed trust certificates.

<u>Date of Offering Circular</u>	<u>Aggregate Principal Amount</u>
January 25, 1995	\$245,785,000
May 29, 1996	\$322,195,000

October 21, 1997	\$283,320,000
April 21, 1999	\$614,595,000
June 7, 2000	\$355,415,000
August 2, 2001	\$313,756,000
August 1, 2002	\$281,319,000
July 29, 2003	\$340,280,000
June 22, 2004	\$283,451,000
September 8, 2006	\$324,129,000
June 4, 2008	\$491,051,000
July 14, 2010	\$366,912,000
November 9, 2011	\$331,561,000
May 18, 2015	\$391,805,000

Since the inception of the program in 1974 through September 30, 2017, HUD has issued 1,944 commitments for guarantees, totaling \$9.5 billion. Of this amount, actual loan disbursements through September 30, 2017, total \$6 billion. No defaults on any guaranteed notes have resulted in any payments by HUD under its guarantee from amounts set aside for that purpose. However, HUD has used CDBG funds pledged by Section 108 Borrowers to make payments on their behalf.

HUD currently anticipates the offering of additional guaranteed trust certificates within 8-12 weeks of selecting underwriters. However, HUD's plans with respect to future offerings under the Section 108 Loan Guarantee program are subject to change due to such factors as the level of demand for funds by public entities, statutory amendments, market conditions and changes in HUD policies.

Responsibility of selectees under this sale

At a time suitable for a public offering or other purchase as determined by HUD in consultation with the underwriters, the selected underwriters shall purchase all guaranteed trust certificates at a negotiated interest rate, even if the obligations are not pre-sold to investors. In negotiating interest rates on the guaranteed obligations, the underwriters shall furnish such information as HUD deems necessary to support the reasonableness of the rates. In structuring the public offering or any other purchase-related documents, the underwriters and their counsel shall cooperate with HUD to assure reasonable efficiency in the offering or other purchase process and the achievement of the objectives of the Section 108 program as determined by HUD. Selected underwriters will work with HUD on purchase arrangements, rather than with individual Borrowers.

The underwriters, as part of the purchase agreement, are required to coordinate public offerings of guaranteed trust certificates with the financing of guaranteed obligations by one or more interim lenders. HUD currently uses a form of promissory note known as the "Variable/Fixed Rate (VFR) Note." The "variable" aspect of the note relates to the variable rate associated with the interim financing facility while the "fixed rate" aspect relates to the public offering process. The key characteristic of this note is the fact that, once guaranteed, it can be taken from the interim financing facility into the public offering simply upon the borrower's execution of a permanent repayment schedule. Implementation of this process has greatly

reduced the paperwork associated with the public offering process. There is also a “Fixed Rate Note” which is utilized for loans placed directly in the public offering as opposed to the interim facility. The VFR and Fixed Rate Note forms are available at:

<https://www.hudexchange.info/resource/5710/solicitation-for-section-108-underwriting-team/>.

Other obligations of underwriters in this sale

Underwriters shall, for the benefit of the Borrowers as represented by HUD:

- (i) Establish an effective primary market in all obligations guaranteed under Section 108.
- (ii) Use their best efforts to establish and maintain a secondary market in all obligations guaranteed under Section 108.
- (iii) Obtain the services of an experienced trustee to handle trust, custodian, registrar, transfer, payment and servicing functions.
- (iv) Identify an experienced document custodian that will enter into agreements with Borrowers to hold collateral (e.g., third party loans, mortgages and security agreements) in safekeeping for the benefit of HUD and the Borrowers. NOTE: HUD collateral custody function may be performed by the trustee or another entity. See Attachment C (Supplemental Instructions) for more information about the responsibilities of the document custodian.
- (v) Obtain services of qualified counsel.
- (vi) Arrange for printing of all obligations and offering circulars as necessary.
- (vii) Cooperate with HUD in revising or making new arrangements for interim financing, if HUD determines new arrangements are necessary or desirable. However, selected underwriting firms will not be required to provide interim financing.

Underwriters shall obtain HUD’s consent to the selection of the trustee, HUD collateral document custodian, underwriter’s counsel, printer and arrangements for interim financing.

The underwriting group will be established for any public offerings of Section 108 obligations approved during Federal Fiscal Years 2018, 2019, 2020 and any subsequent public offerings if agreed to by HUD and the underwriting group. Membership in the underwriting group may depend upon the acceptance of the terms of its structure.

Interim Financing Facility (Response Not Mandatory)

Firms may elect to submit proposals to provide interim financing for the Section 108 program. However, such proposals must present terms at least as attractive as the current interim facility to receive consideration. The key characteristics of the current interim facility are:

- Interest rate. Floating rate, adjusted monthly, based on 3-month LIBOR plus 20 basis points.
- Weekly funding. Generally, funds to be made available to Borrowers weekly on Wednesday with ability to occasionally deliver funds on other days.
- No prepayment penalty. Borrowers may prepay outstanding principal balances plus accrued interest on fourteen calendar days' notice and with HUD approval.
- Quarterly interest payments. Interest payments are payable on the 1st day of February, May, August, and November. Principal payments are due August 1.
- Interim financing agreement. HUD and the interim lender have an agreement negotiated between the parties that includes the form of the note and all other pertinent details related to interim financing.

Any firm submitting an interim funding proposal should understand that the interim facility must be able to carry at least three hundred million dollars (\$300,000,000) of interim funding for an indefinite period. Further, any new interim arrangement must be approved by both HUD and the interim lender, incorporate utilization of the existing VFR Note form, and reflect possible replacement of LIBOR as an interest rate index.

For further information regarding the current interim financing, please contact Bennett Hilley of HUD's Financial Management Division at (202) 402-4202.

ATTACHMENT B CRITERIA FOR EVALUATING PURCHASE PROPOSALS

From the submitted purchase proposals, HUD will select one or more responsible firm(s) determined by HUD to be most advantageous to Borrowers under the Section 108 Loan Guarantee program based upon the information requested in Attachment C concerning fees, costs and experience.

As a threshold, HUD will review and evaluate financial information submitted in accordance with Attachment C to identify responsible firms that possess sufficient financial resources to purchase the guaranteed obligation.

Then, to identify the purchase proposal(s) most advantageous to the Borrowers, HUD will evaluate purchase proposals from those firms with sufficient financial resources, as determined by HUD, based on the following criteria. Weight assigned to each criterion is noted in parentheses (total weights = 100%).

Extent to which purchase proposal will offer lowest possible issuance costs (as defined in Attachment C) under a public offering of guaranteed obligations (using the existing designed obligation or using a better, alternative obligation designed by the firm that provides equal or greater flexibility to meet the needs of program participants and HUD). (65%)

Ability to work in underwriting group arrangement with other underwriters involving the purchase and resale of guaranteed obligations. (20%)

Ability, if required, to serve as lead manager in underwriting group arrangement involving purchase and resale of debt obligations. (15%)

Participation of Small Business Concerns and Small Disadvantaged Businesses

HUD encourages the participation of Small Business concerns as that term is defined in the Small Business Act of 1953 at 15 U.S.C. 632, and Small Disadvantaged Businesses, as that term is defined at 13 CFR 124.1002. Where purchase proposals are determined by HUD to be substantially equivalent, favorable consideration will be given to purchase proposals which include significant and meaningful opportunities for Small Business concerns and Small Disadvantaged Businesses to participate in the process involved in the purchase and resale of the guaranteed obligations.

**ATTACHMENT C
SUPPLEMENTAL INSTRUCTIONS**

Information to be submitted

Include latest financial statements that will allow HUD to determine net capital as defined by the Securities and Exchange Commission or, in the case of commercial banks, tier 1 capital as defined by the Office of the Comptroller of the Currency at 12 C.F.R. part 3; also include estimates of average overnight inventory for preceding six months in securities similar to obligations guaranteed under Section 108.

To determine the extent to which criteria specified in Attachment B are met, each purchase proposal should:

Specify the issuance costs (defined below) for obligations with serial maturities as indicated below for which HUD guarantees the timely payment of principal and interest.

YEAR	AMOUNT		YEAR	AMOUNT
1	19,240,000		11	8,700,000
2	21,020,000		12	8,530,000
3	22,840,000		13	10,100,000
4	24,510,000		14	9,070,000
5	25,470,000		15	8,360,000
6	25,370,000		16	9,520,000
7	28,550,000		17	7,830,000
8	22,190,000		18	7,590,000
9	19,620,000		19	5,990,000
10	12,940,000		20	2,560,000
			TOTAL	\$300,000,000

For purposes of determining the issuance costs for each maturity, assume that:

(i) Interest is paid semiannually on the basis of a 360-day year.

(ii) Obligations are sold at par.

(iii) Obligations with maturities of 10 years or less are not subject to prepayment or acceleration prior to maturity and obligations with maturities of 11 years or

longer may be prepaid or accelerated without penalty after 10 years.

- Issuance costs, as used in this solicitation, means the total of all of the following costs, each of which must be specified separately in the purchase proposal:
 - (i) Underwriter's discount (expressed as a percentage of the obligations for each maturity) broken down into its component parts (i.e., management fee, underwriting fee, selling concession and expenses assumed by underwriters).
 - (ii) Fee for underwriters' counsel (do not include in underwriting discount).
 - (iii) Trustee's fee (including counsel's fee).
 - (iv) Fee for printing services.
- The purchase proposal must specify separately the fee schedule for the HUD collateral custody function and describe the document custodian's qualifications to perform this function. The document custodian must meet the requirements for document custodians established by Government-Sponsored Enterprises (GSEs)¹, or when approved by HUD in its sole discretion, other customary and acceptable industry standards.

The document custodian would be expected to enter into a custodial agreement with a Borrower under a promissory note guaranteed by HUD. The form of the custodial agreement must be standardized and acceptable to HUD.

HUD anticipates that for the 3-year period beginning with Federal Fiscal Year 2019, at least 100 Borrowers will execute custodial agreements to store approximately 5 – 10 documents per agreement (the "Security Documents"). The custodial agreement shall be in a form acceptable to HUD and shall provide for the Borrower from time to time to deliver for deposit with the Custodian Security Documents as required by HUD. The custodial agreement shall provide that:

- (i) Borrower's delivery of the Security Documents will be acknowledged by the Custodian through execution and electronic delivery of a receipt to HUD.
- (ii) The Custodian shall segregate and maintain continuous custody and control of all Security Documents on behalf of HUD until the HUD guaranteed note is paid in full, or in other instances that HUD approves the release to the Borrower of one or more Security Documents. The Custodian shall acknowledge to HUD the release of one or more Security

¹ Government-Sponsored Enterprises include the following entities: Federal National Mortgage Association, Federal Home Loan Mortgage Corporation, Federal Home Loan Banks and institutions of the Farm Credit System (Agricultural Credit Bank, Farm Credit Banks and the Federal Agricultural Mortgage Corporation).

Documents.

- (iii) The Custodian shall hold the Security Documents in secure and fireproof facilities in accordance with customary industry standards for such storage.
- (iv) The Custodian shall make all Security Documents available for examination and audit by representative of the Borrower or HUD.
- (v) Upon notification to the Custodian by HUD that a default has occurred under the HUD guaranteed note, the Custodian shall deliver to HUD all Security Documents it holds for the Borrower.

NOTE: *It is anticipated that the guaranteed trust certificates will be backed by notes guaranteed by HUD. However, HUD reserves the right to approve an underwritten public offering of guaranteed trust certificates backed by a pool of notes issued by public entities, in which individual notes are not guaranteed (although the notes would be eligible for guarantee). If such a structure would entail additional expenses, the purchase proposal should specify the nature and amount of such expenses.*

□ Firms are encouraged to submit alternatives to the existing obligation and financing process. These alternatives should result in an obligation that increases current flexibility (for program participants and HUD) and the issuance costs are equal to or lower than the issuance costs specified above. Examples of increased flexibility include: (i) for Borrowers, providing the ability to lock-in a permanent interest rate upon receipt of the loan proceeds, and (ii) for HUD, decreasing the administrative burden associated with the current underwritten public offering process.

NOTE:

- *These examples are not exhaustive; firms are encouraged to offer other ideas for increasing flexibility.*
- *A firm submitting such recommendations should still submit the issuance costs required above.*
- Cite participation in underwriting groups established within last two years to market obligations secured by the pledge of the full faith and credit of the United States or obligations issued or guaranteed by GSEs.
- Cite any experience as lead manager in underwriting groups established within last two years to market obligations secured by the pledge of the full faith and credit of the United States or obligations issued or guaranteed by GSEs.
- Cite the participation, if any, of Small Business concerns and Small Disadvantaged Businesses, as those terms are defined in the Small Business Act or its implementing regulations.

- Each purchase proposal should identify individual(s) who would have primary responsibility for coordinating firm's activities on behalf of the Section 108 Loan Guarantee program and list relevant experience of such individual(s).

Submissions and receipt of purchase proposals

A purchase proposal is received if:

- (i) the submission is sent to the e-mail address specified in the solicitation 108Underwriters@hud.gov and the e-mail and all documents and attachments can be opened and downloaded prior to the exact time specified in the solicitation; or
- (ii) the submission is sent to the e-mail address specified in the solicitation 108Underwriters@hud.gov and the submission includes a link to a file transfer service such as drop box for transfer of large files, and the sender receives a confirmation from the e-mail address specified in the solicitation that all files were successfully downloaded before the exact time designated in the solicitation; or
- (iii) the submission is sent to the physical address specified in the solicitation by delivery service, mail, or hand-carried (including delivery by a commercial carrier). Potential purchasers submitting to the physical address shall submit one (1) original, signed purchase proposal and six (6) copies of the purchase proposal that shall be enclosed together in a sealed envelope and addressed to the office specified in the solicitation. The face of the sealed envelope shall show the hour and date specified in the solicitation for receipt and the name and address of the firm. The delivery package should also include the e-mail address of a representative of the firm to allow HUD to provide an e-mailed acknowledgement of receipt before the exact time specified in the solicitation. It is very important that the purchase proposal be properly identified on the face of the envelope as set forth above so that HUD notes the date and time of receipt is on the face of the purchase proposal envelope.

Late Submissions and Modifications

(i) Any purchase proposal received after the exact time designated in the solicitation for receipt, which is expressed as Washington, D.C., local time in the Eastern Time Zone in the United States of America (USA), is "late" and will not be considered unless HUD, in its sole discretion, determines that late receipt was due primarily to failure of Government electronic mail systems or Government mishandling after receipt at the Government installation.

(ii) Any modification or replacement of a purchase proposal is subject to the same conditions as in paragraph (i) of this provision.

(iii) Notwithstanding paragraph (i) and (ii) of this provision, a late modification of an otherwise successful purchase proposal that makes its terms more favorable to HUD or to borrowers will

be considered at any time it is received and may be accepted.

(iv) If an emergency or unanticipated event interrupts normal Federal government processes so as to cause postponement of the scheduled purchase proposal opening, and urgent Federal government requirements preclude amendment of the solicitation or other notice of an extension of the opening date, the time specified for receipt of purchase proposals will be deemed to be extended to the same time of day specified in the solicitation on the first work day on which normal Federal government processes resume, or at a later date if posted by HUD on the Section 108 website at <https://www.hudexchange.info/resource/5710/solicitation-for-section-108-underwriting-team/>.

Questions/clarifications

Firms are urged to submit any questions they have regarding the solicitation in writing as far in advance of the due date as possible. Any information given to a prospective purchaser concerning a solicitation will be furnished promptly to all other prospective purchasers as an amendment to the solicitation if the information is necessary in submitting purchase proposals or if the lack of it would be prejudicial to other prospective purchasers. Amendments and any other information that may be useful to purchasers will be posted by HUD on the Section 108 website at: <https://www.hudexchange.info/resource/5710/solicitation-for-section-108-underwriting-team/>.

Requests for oral clarifications concerning this solicitation may be given to Paul Webster or Bennett Hilley at (202) 402-4563 or (202) 402-4202, respectively. Oral clarifications will be given for the sole purpose of addressing minor irregularities, informalities or apparent clerical mistakes.

Additional Information

Information concerning the guarantee of obligations purchased by private investors will be available for review on an appointment basis in Room 7282 at 451 7th Street, S.W., Washington, DC. For an appointment, firms should contact Jorge Morales at (202) 402-7175.

Freedom of Information Act notification

Please be advised that purchase proposals submitted in response to this solicitation are subject to disclosure under the Freedom of Information Act (FOIA). To assist HUD in determining whether to release information contained in a purchase proposal in the event a FOIA request is received, firms may, through a clear earmarking or otherwise, indicate those portions of their purchase proposals which they believe should not be disclosed.

While a firm's advice will be considered by HUD in its determination whether to release requested information, it must be emphasized that HUD is required by the FOIA to make an independent evaluation as to the information, notwithstanding the firm's views. It is suggested therefore that if a firm believes that confidential treatment is appropriate, the basis for this view should be provided, where possible. General assertions or blanket requests for confidentiality,

without more information, are not particularly helpful to HUD in making determinations concerning the release of information under the FOIA.

It should also be noted that HUD is required to segregate disclosable information from non-disclosable items, so firms should take particular care in the identification of each portion for which confidential treatment is requested. Firm's views concerning confidentiality will be used solely to aid HUD in preparing its response to FOIA requests. Further, firms should note the presence or absence of such comments and/or earmarking regarding confidential information will have no bearing whatsoever on the evaluation of purchase proposals submitted pursuant to this solicitation, nor will the absence of this earmarking automatically result in greater disclosure.