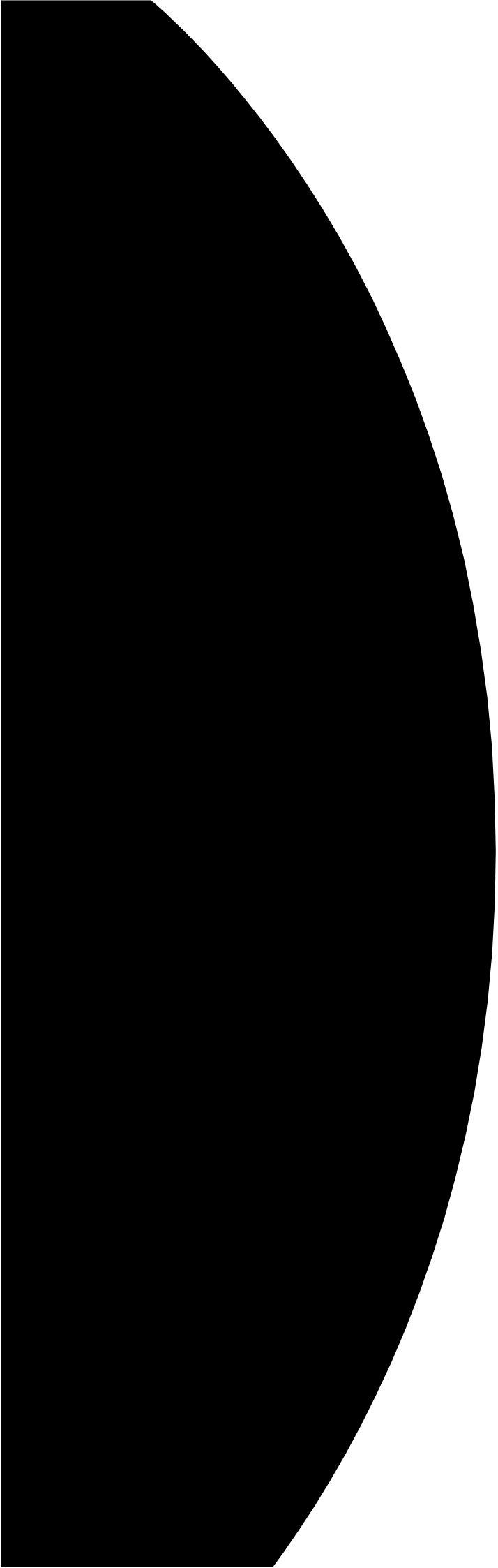




A Manual For Raising Non-Grant Funding For Social Rental Housing

authored by

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for the

**Australian Housing
and Urban Research Institute**

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CHAPTER 1

INTRODUCTION

In previous work on this project AHURI has produced a detailed financial analysis of the comparison between capital grant, and debt funding of social rental housing. A sophisticated financial Model accompanies this report. This document is a manual that State Housing Authorities can use if seeking to raise amounts of more than \$30m for non-grant funding or equity participation to provide additional social rental housing. It is intended to provide structured generic assistance to housing officers considering the process of raising non-grant funding or equity participation. The Manual has three components, the:

- a. generic actions, decisions, and approvals that are required before the type of funding/participation is finalised;
- b. subsequent actions decisions and approvals that are required if non government equity participation is to be the principal means by which social housing is to be expanded; and
- c. subsequent actions decisions and approvals that are required if government debt funding is to be the principal means by which social housing is to be expanded.

Diagram 1 sets out the generic actions, decisions and approvals required as the first stage in the two part process.

CHAPTER 2

FUNDING OPTIONS: STAGE 1

2.1 Program Objectives

Before embarking on a process to obtain external funds/equity participation for social rental housing the recipient organisation should be very clear about the purpose and objectives which apply to the fund raising.

In this regard the:

- reasons for embarking on the fund raising;
- position and projected size of the program viz a viz other programs of housing assistance; and;
- potential costs and benefits;

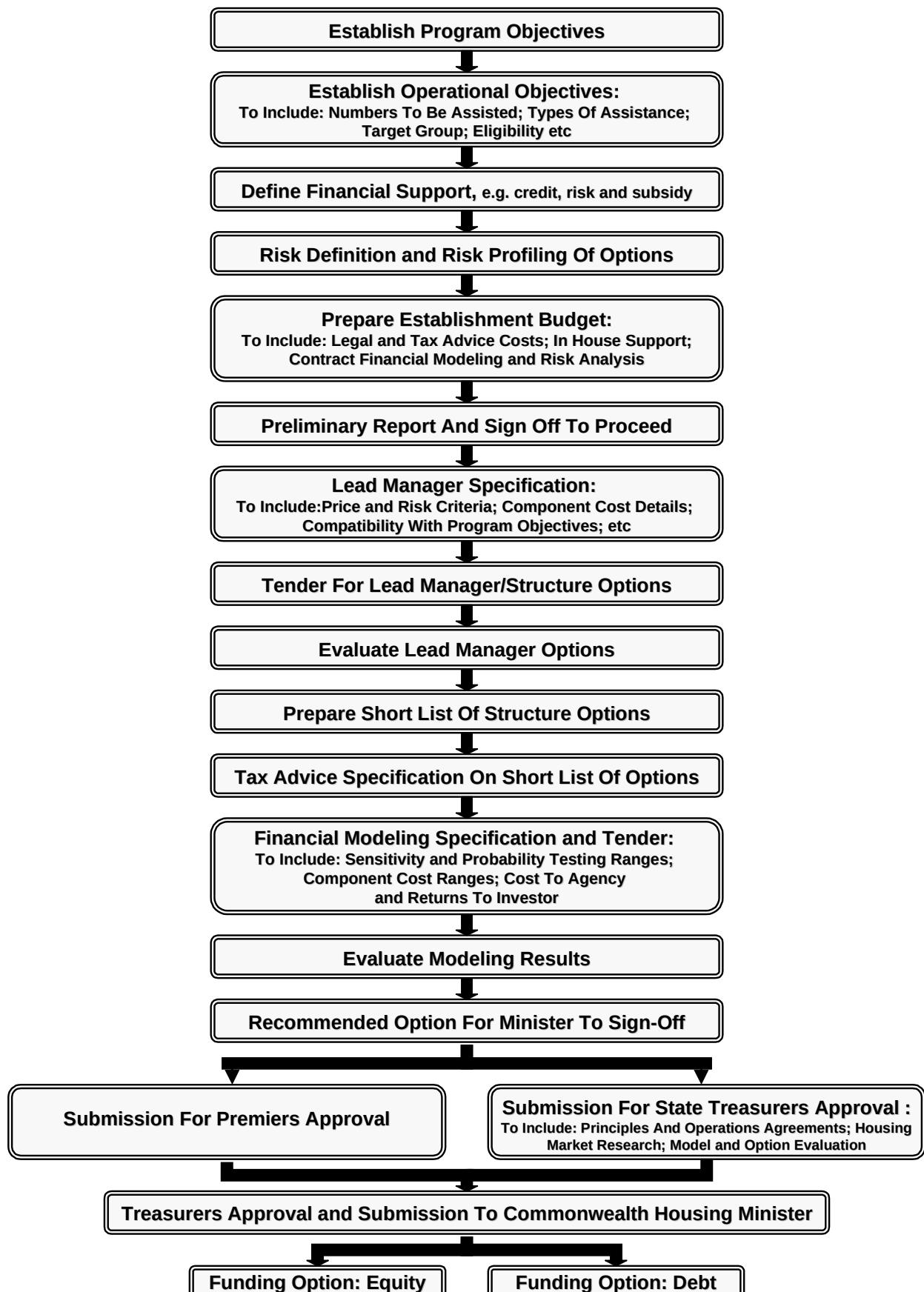
should be documented and explicit.

2.2 Operational Objectives

The main issues which will need to be addressed in developing operational objectives are:

- initial size of program;
- frequency of fund raising;
- type of assistance;
- number of new households to be assisted;
- type of households to be assisted and source of households;
- income eligibility criteria;
- tenancy vacancy and relocation policy;
- acceptable relocation at termination position;
- term of transaction; and
- source of stock and stock maintenance and disposal issues.

Diagram 1: Funding Options



Initial Size Of Program

This will set out the capital fund raising target for the financial year and outline the context viz a viz the size of other organisational capital programs directed at housing assistance.

Frequency Of Fund Raising

The approach to the fund raising method to used will be completely dependent upon whether or not the program is to be recurring or 'once-off'. With a recurring program attention needs to be focused upon minimising the establishment costs associated with each fund raising, i.e. a structure such as a bond has very low replicable costs whilst a direct equity investment may cost as much as 4% of the initial fund raising. Consequently early policy decisions need to be made as to whether or not the fund raising is to be recurring. Whilst final decisions will of course await the quantitative (numerical analysis of subsidy costs of options) and tax analysis (quantitative analysis of tax costs and revenues to government, and after tax returns to the investor), policy intentions can be established early in the process.

Number Of New Households To Be Assisted

The first 'cut' target of number of new households to be assisted will be derived from the initial size of the program divided by the average estimated price per acquired dwelling.

Type of Assistance

It will be important to clarify early in the process what the main method of assistance will be: rental subsidy, bond assistance etc.

Type Of Households To Be Assisted And Source Of Households

Clearly if the household and income eligibility criteria are to be, say, indistinguishable from public housing, then households can simply be taken direct from existing waiting lists and Commonwealth grant funds could also be used to support the subsidies arising from the fund raising. Conversely, if the target household group has different household type and income characteristics to that applying to public housing, then it may be that Commonwealth funds will not be available for subsidy support, or that clarification of availability of Commonwealth/State Housing Agreement, (CSHA) funds may be required.

Income Eligibility Criteria.

Because of the particular demand characteristics in the area of a geographic area, it may be that whilst generally targeting to public housing income eligibility ranges closer targeting to say households over \$20,000 p.a. income is desired. Any special income eligibility characteristics need to be identified early as this will have a major bearing on the overall real subsidy cost.

Ideal Term Of Transaction

Early decisions and objectives are required as to the ideal term of the transaction. If public housing waiting list applicants are to be targeted the longer the term, the less likely it is that there will be significant numbers of public tenant households remaining in the vehicle's (transaction structure), dwellings at the end of the transaction. This reduces the 'relocation risk' confronting authorities when the transaction is terminated. Ideally a term of over twenty years is desirable.

Tenancy Vacancy And Relocation Policy

This issue can be approached from two perspectives. Because the dwellings will need to be sold off before or at termination, (in order to pay down debt principal or provide equity), consideration needs to be given to the treatment of assisted tenants who remain in dwellings until the transaction terminates. If the objective is to maximise the number of assisted tenant households then as one assisted tenant household leaves they will be replaced by another from the relevant waiting list. However, at termination, such a policy will leave the organisation with a major tenant relocation problem.

Conversely if, as assisted tenants leave, dwellings are sold or tenanted by private tenants the subsidy cost and relocation problem is minimised, albeit with considerably fewer low income households assisted.

Acceptable Relocation At Termination

For organisations to determine a position on the above, it is necessary to clarify the acceptable proportion of original households which will be relocated at termination. This can be estimated by examining the percentage of tenant households who voluntarily leave public housing each year and projecting how many households are likely to be left at the end of each period i.e. 5, 10, 15, 20, 25 and 30 years. The analysis will also help agencies to clarify the acceptable relocation risk and hence term of any fund raising.

Source Of Stock and Stock Disposal Issues

Early policy decisions and operational objectives need to be determined for the dwelling stock that are to be passed into the vehicle. In particular, decisions are required about the source of the stock and when dwelling sales will occur. Stock, plus transaction expenses and establishment costs to the value of the fundraising will be required by the execution date of the transaction. Consequently State Housing Authorities, (SHAs), need to determine early on whether existing public housing stock is to be passed in or whether spot purchases will be used to meet transaction requirements. Obviously spot purchase processes need to be anticipated as they will require longer lead times than using existing public housing stock.

Secondly, if it has been determined that new public tenants will replace vacating tenants during the term of the transaction no operational objectives are required about dwelling sales. If, however, it has been determined that dwellings vacated by public tenants are either to be let privately or sold some criteria need to apply as to when a sale is to occur. These criteria need to be determined at the outset, e.g. vacant dwellings will be sold when the value is greater than the original value indexed to inflation plus 1%, and let to private tenants when the value is less, etc.

2.3 Define Financial Support

There are three main types of financial support required:

- credit;
- risk; and
- subsidy.

Credit

If a debt structure is to be used and fixed rate bonds are to be issued by the State Treasury with proceeds on-passed to the Housing Authority it is likely that the Treasury may charge the Housing Authority a premium for the government guarantee over and above the interest coupon applying to the bond. Any non-housing government indemnities-, (promises to pay),- will attract a cost and these costs need to be either factored into the analysis, or (if no guarantees are to be provided), the additional subsidy cost resulting from higher private sector risk premiums will require recognition.

Risk

SHAs face a number of risks in entering an externally funded transaction. These risks are detailed in the discussion about Risk Definition and Risk Profiling, (pp 5-8). However it is important to recognise, discuss and determine which risks the organisation will accept and provision for, which it will not, and what the consequences will be for the risk premium that will be applied to the rental yield calculation.

For example, with a debt structure such as a fixed rate bond, the SHA is implicitly accepting all housing risks (capital and recurrent), and also some interest rate risk, (i.e. if rates subsequently fall the coupon on the bond may become expensive, and the bond repurchase price will include a premium to par (the extent by which the current bond price exceeds the initial issue price)).

Subsidy

All structures will require a continuous stream of subsidy payments which reflect the difference between the rental yield or bond interest payment required and the net rents received. To the extent that certain risks are not accepted by the SHA the fundraising will either not be achieved, or there will be significant risk premium attached to the rental yield required. It is important to note that if SHAs do not accept certain housing and revenue risks on the one hand, they cannot expect that the pricing will remain as per say a bond, on the other, where these risks are being removed from the investor.

All of the early determinations on risk acceptance will, of course, need to remain preliminary until the lead manager has been appointed and the proposed transaction has been canvassed in the investment community. This canvassing process may well reveal either no appetite for the proposed transaction or a very high and inefficient risk premium. For example in the case of one of the infrastructure bond investments, where investors were required to accept some income risk associated with revenue projections from the tolls, the price of the bond was in excess of 2% per annum above the prevailing real rate Commonwealth Treasury Bond. SHAs may find similar or more expensive risk premiums applying to housing fundraising and decide that they can accept certain risks at a real cost less than that implied by private sector pricing mechanisms.

2.4 Risk Definition and Risk Profiling

Risk Terms

The NSW Government's Total Asset Management Manual (1993) discusses risk in the following terms:

'Risk is the possibility that an expected outcome is not achieved or is replaced by another, or that an unforeseen event occurs. This is a broad view of risk that includes both uncertainty due to future events and the consequences of limited knowledge, information or experience'

Risk Analysis is the process of identifying risks, estimating their likelihood's, and evaluating potential consequences.

Risk Management is the set of activities concerned with identifying potential risks, analysing their consequences and devising responses so as to ensure that project or program objectives and delivery goals are achieved. This includes management of ongoing risks associated with the ownership of assets.

Risk Analysis

Diagram 2 sets out a checklist for risk analysis.

Diagram 2: Preliminary Risk Assessment



Source: NSW Government's Total Asset Management Manual, 1993

The steps in developing a risk strategy are to:

- (a) identify risks;
- (b) assess likelihood;
- (c) determine potential impacts and identify most significant risks;
- (d) determine quantitative techniques to be applied;
- (e) document the most significant risks that can be quantified;

At this stage in the analysis we want to identify or define the range of risks that confront the options available for raising funds and to conduct a preliminary risk analysis of potential impacts and most significant risks.

Identification Of Risks

The analysis begins with listing the risks that might affect each project. The aim is to generate a comprehensive list of the relevant risks and document what each one involves.

The identification should include:

- a description of the risk and how it might arise;
- possible initiating factors;
- main assumptions; and
- a list of principal sources of information.

Categories Of Risk

There are two categories of risk *systemic* and *unsystemic*.

In the case of housing assistance options *systemic risks* relate to those changes in the general economic environment and the wider housing market which affect either the rate of return or the cost of subsidy. *Unsystemic risks* concern that part of the variability in return or subsidy cost which cannot be explained by reference to systemic risks.

Unsystemic risk includes such factors as the unique financing structure or financing method plus agency specific risks such as management and human errors etc.

The four main risk types therefore are:

a) ***systemic risks*** including:

- *general economic risks*, which includes such variables as inflation, capital growth or contraction rates, rental yields or real rents change, unemployment and income growth or contraction, nominal and real interest rates, and construction cost escalation rates,
- *natural disasters*, such as landslip, earthquake, fire, flood, lightning, wind and weather;

b) ***unsystemic risks***

- *structural and financial risks*, including funding sources, financing costs, ownership, and residual risks to Authority where there is private sector involvement; contractual risks, and procurement planning.
- *agency of issue specific risk*, including political, project management, project delivery (contract selection, tendering, negligence etc.), human error, organisational (including industrial relations, resources shortage, management, work practices etc.), and systems (including communications failure, hardware and software failure error etc.).

Housing Risks Defined

Systemic Risks

When any State Housing Authority (SHA), makes a direct investment in housing for rent to low to moderate income earners it assumes a number of systemic risks. These are:

Dwelling Price or Asset Risk.

Any dwelling purchased by SHAs may gain or lose value according to market price movements. Consequently it is possible that at different times the asset base of SHAs may actually fall.

Rental Yield Risk.

Many SHAs “mark to market” that is, unrebated rents are set at the prevailing private rental market yields. For SHAs with any significant proportion of unrebated tenants, there is a risk that the unrebated rental income may either fall, or not increase, affecting the rent income received.

Rental Payment:

There are three payment risks associated with public rental housing and these are:

a) *Unemployment and/or Income Loss Risk*

Research on low to moderate income earners has indicated that the income of this group is highly volatile and that in times of recession a significant proportion of this group may suffer substantial income loss. Given that for a very high proportion of public housing tenants' pensions and benefits are the primary source of income this risk may not be very great. However for employed tenants there is a risk of income loss and the consequent reduction in rent received as a result of downward adjustments in rent paid.

b) *Unemployment And/Or Default Risk.*

The second payment risk is that tenants' may completely default, and rental income is lost.

c) Vacancy Risk.

Higher than anticipated vacancies may result in loss of rent income received, although this risk is not very high in public housing due to the large waiting lists.

Interest Rate Risk

If debt financing is used, whether directly by SHAs or on-passed as grants from central borrowing authorities, interest rate risk is present. If rates rise the cost of subsidies or the rate of return will be reduced.

Cost Escalation Risk

Finally SHAs face the risk that maintenance and other costs may escalate at a faster rate than anticipated with consequent higher expenditures.

Determine Significant Risks

The objective is to identify significant risks which must be managed, and to screen minor risks.

Risk Likelihood

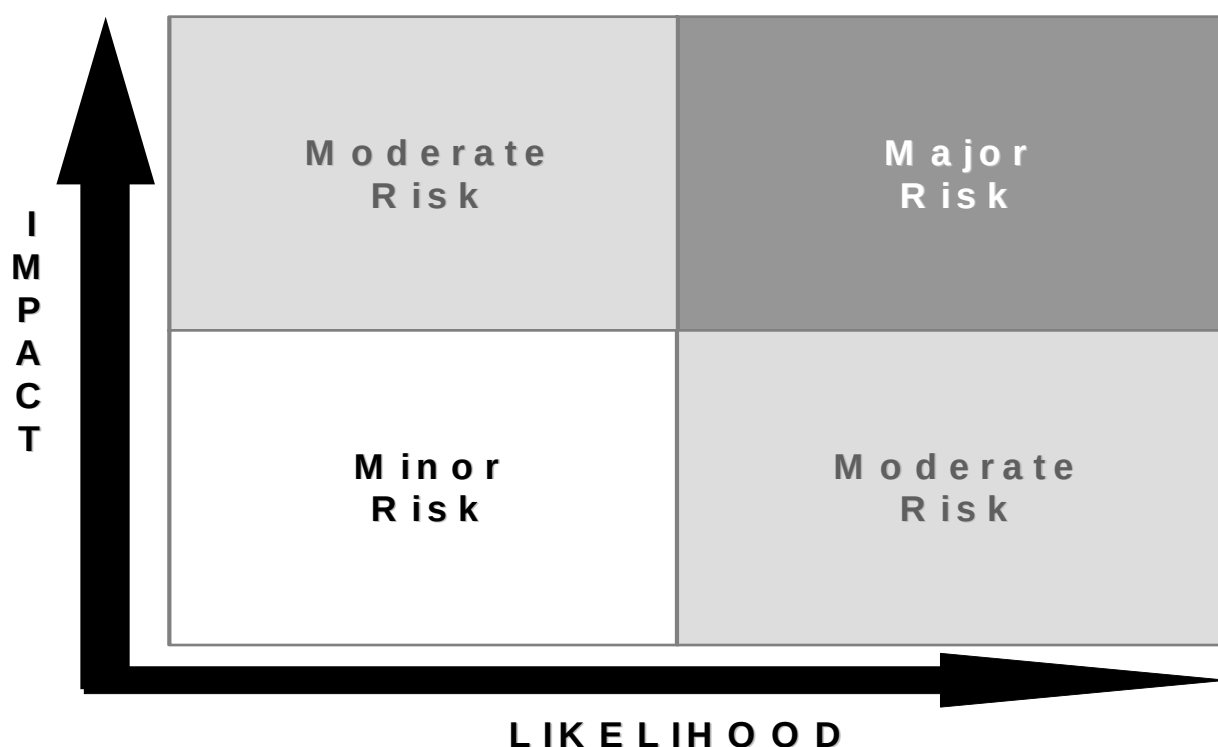
The third step of the analysis is to determine or estimate both the likelihood of a risk arising and its potential consequences.

The assessment involves:

- an estimate of the likelihood of each risk arising. This might be done initially on a simple scale from 'highly unlikely' to 'almost certain';
- an estimate of the consequences of each risk in terms of the project/proposal criteria. This might be done on a simple scale from inconsequential to severe.

Diagram 3 sets out how a quick and dirty risk assessment can be conducted, prior to more detailed quantification.

Diagram 3: Risk Assessment



Source: NSW Government's Total Asset Management Manual, 1993

By identifying the principal risks and locating each one in the deemed position on the diagram, it quickly becomes possible to isolate those risks which require further more serious investigation.

2.5 Prepare Establishment Budget

Once some preliminary work has been done on the above, it is important to prepare a budget which encompasses the cost of all of the work required up until the execution of the fund-raising. Besides the allocation of internal resources expenses will be incurred on external support in the following arenas:

- lead manager fees;
- legal advice;
- tax advice (necessary in the case of an equity fund-raising); and
- financial modeling and quantitative risk analysis.

Discussions will need to be held with the range of possible contractors to enable some preliminary estimates of these costs. If an equity transaction is to be pursued there are additional costs relating to the cost of legal and tax advice for the equity partner, and often a establishment fee to the partner.

2.6 Preliminary Report and Sign Off To Proceed

Once these steps have been completed and a budget and timetable established all of the information required for a Chief Executive or Ministerial Sign-Off To Proceed to develop the proposal is available. A report should then be prepared accordingly.

2.7 Lead Manager Specification

At this point it is appropriate that a lead manager tender specification be prepared. This specification should include

- program objectives;
- operational objectives and determinations;
- the range of options which must be examined, plus any other options which the lead manager can devise;
- the short and long term funding objectives of the program, i.e. initial and annual fundraising volume desired;
- the risks which must be canvassed by the response;
- the range of financial support that will be provided;
- the manner in which the costs are to be itemised i.e. subsidy, risk, credit,
- the fees which are to be itemised; lead manager, trustee, manager and agent i.e. (housing department), lawyers and tax advisors;
- the proposed budget for establishment;
- the quantitative support which will be required, i.e. a model, spreadsheet output etc;
- the criteria which must apply to the lead managers assessment of the options; A possible set might be:
 - fit with program and operational objectives; particularly tenancy management and dwelling disposal objectives;
 - volume of funds that could be raised;
 - feasibility and replicability; i.e. fungability and liquidity;
 - risks to the organisation;
 - establishment and fee costs;
 - subsidy costs;
 - total transaction costs; and
 - special concessions required from government.

2.8 Tender For Lead Manager

Once the tender specification has been prepared a short list of merchant bank and structuring arms of the major banks should be drawn up and the tender dispatched. This information can be obtained from the Australian Bankers Association to be found at www.bankers.asn.au

2.9 Lead Manager Evaluation.

After receiving the tenders the tenders can be evaluated against the stated criteria and a short list of the four best structuring options drawn up.

2.10 Short List Of Structure Options

The precise nature of each of the short listed options should be drawn up complete with a diagram for each.

2.11 Tax Advice Specification On Short List Of Options

Advice should be sought from a relevant tax lawyer on the precise income and capital tax treatment of each of the options for each of the main types of taxpayers; individual, company, superannuation funds, life assurance companies, and partnerships and trusts.

2.12 Financial Modeling Specification and Tender

After receiving the tax advice from the legal advisors a specification for the financial modeling tender should be prepared and distributed to a short list of qualified entities. This tender will concentrate on two major questions; the quantitative cost and risk, and the nature of the analysis tools to be provided to the organisation upon completion of the analysis. The tender will also include a copy of the tax advice as an attachment. For each of the short listed options the tender will include specification of:

- the base case to be analysed;
- the base cost and price data including discount rate or rates; term; vacancy and dwelling disposal assumptions;
- the sensitivity test ranges and number of different sensitivity test outcomes required;
- whether or not probability testing will be required;
- the financial criteria to be provided, ie;
 - present value base case cost by component (establishment cost, fees, credit, risk and yield, subsidy expressed as a percentage of the initial fundraising amount);
 - the range of total gross (before tax) and net (after tax) cost outcomes for both the Commonwealth and the State and the relative variances of each of the options from the base case;
 - maximum exposure and year of maximum exposure;
 - pre and after tax return to investor; and
 - where positive cases exist, year of payback.

The tender will also require a comparison with the 'do-nothing' option i.e. grant funding.

The tender will also specify in what program the Model will be prepared and how user friendly the final Model is to be, including the use of drop down dialog entry boxes etc.

2.13 Evaluation of Modeling and Other Results.

Once the modeling has been completed all submissions and quantitative analysis will be reviewed according to the detailed evaluation criteria set out in the lead manager tender specification.

2.14 Recommended Option For Sign Off

A detailed report to the CEO and Minister can now be prepared according to the results of the evaluation. This will include recommendations as to the lead manager and option to be preferred and outline the next steps in the fund-raising procedure.

2.15 Premiers and Treasurers Submissions

Once the Minister and CEO have signed off detailed submissions to the Premier and Treasurer can be prepared for the Ministers signature. If the preferred option requires Treasury bond issues or guarantees these submissions will include:

- a short two page outline of the proposal, the key results of the analysis, and the next steps.
- attachments which will contain:
 - draft Principles and Operations Agreements which document the relationship and processes applying to the prosecution of these transactions re the Housing Agency and the State Treasury;
 - results of the lead manager evaluation;
 - the short list analysis and option evaluation including a comparison with the do nothing approach;
 - the risk analysis and financial evaluation of the preferred option;
 - a copy of the Model.

2.16 Treasurers Approval and submission to Commonwealth Minister

If CSHA funds are to be used to support the vehicle's costs it will be prudent to obtain agreement from the relevant Commonwealth Minister. The submission to the Commonwealth Minister will include all of the material outlined in 2.15 plus an analysis of the proposal's compliance with the CSHA. If an equity option is preferred the next steps are somewhat different to that applying to a debt option.

CHAPTER 3: FUNDING OPTIONS: EQUITY

Diagram 4 sets out the steps required for an equity fund-raising.

3.1 Submission To State Treasurer Re: Stamp Duty

Under an equity transaction existing public stock may be passed into the vehicle; or, the Housing Authority may procure dwellings for the entity by spot purchasing private stock. In either case the entity will be liable for stamp duty payments of 2% or more of the dwelling value acquired. This cost will add considerably to the Housing Authority's costs so it may be appropriate to seek an exemption from the State Treasurer in this case.

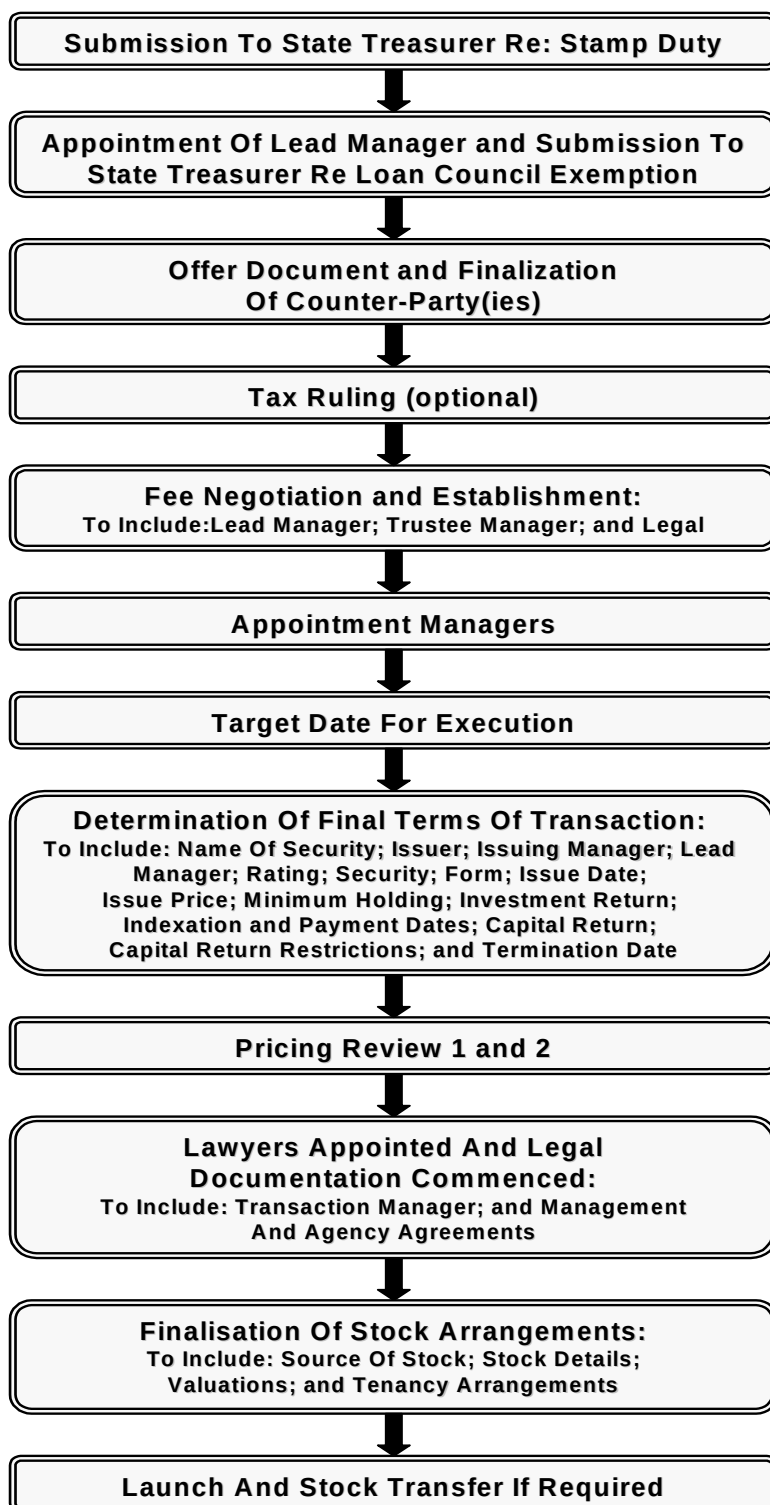
3.2 Appointment Of Lead Manager and Submission To State Treasurer Re: Loan Council Exemption

From the previous evaluation in Stage 1 a Lead Manager can now be appointed. The Lead Manager's function is to make sure the transaction gets done and all of the various required components are in place before execution. The Lead Manager normally makes sure any required underwriting is in place at the agreed price, and identifies and solicits counter-parties to the transaction. The Lead Manager also assists with fee negotiation and with the preparation of submissions re: Loan Council exemption and tax rulings.

Under Loan Council rules equity transactions are exempt from inclusion in a State's debt raising quota.

However, Loan Council has been very clear that full exemptions only apply when all of the risk of the transaction is borne by the private sector. In hybrid transactions where some of the risk is being borne by the State and some by the private sector, Loan Council has been inclined to only exempt a portion of the fundraising, (relative to the risk portion taken by the private sector), or include the full value of the transaction in the State's Loan Council quota. The majority of State's are now borrowing far less than their quota entitlement and this may not constitute the impediment to fund-raising it once was.

Diagram 4: Funding Options: Equity



3.3 Offer Document and Finalisation Of Counter-Party(ies).

The first task of the Lead Manager is to finalise an appropriate private sector counter-party. Normally the Lead Manager will have extensively canvassed possible counter-parties prior to submitting their tender response and will, therefore, be in a strong position to execute the transaction. Indeed one of the criteria for the choice of Lead Manager may well be the strength of counter-party interest obtained.

The Lead Manager will now prepare a draft 'Offer Document' to present to the Counter Party for their agreement to proceed. This offer document will contain:

- the transaction structure;
- the specific terms of the offer including any offer to pay the counter-party's legal fees, (i.e. yield, capital gain provisions, term, 'pass through' provisions (i.e. provisions governing how equity will be repaid as dwellings are sold, and any restrictions on pass through i.e. no repayment of equity for say ten years);
- the credit support, (i.e. government guarantee), risk and subsidy capital which will support the transaction;
- fees to be paid for all functions including; lead manager, trustee, government guarantee and manager and agent fees;
- the dwelling and tenancy management arrangements, particularly their separation from the investment function, and the role of the housing agency as manager and agent;
- details of stock to be provided and the acquisition and valuation processes that will apply; and
- anticipated execution date.

If the counter-party accepts the offer document the procedure is to provide a letter to both the Lead Manager and the Housing Authority confirming acceptance and commitment to proceed to legal documentation and execution.

3.4 Tax Ruling (optional)

It may be that before final execution of the transaction the equity partner requires a tax ruling as comfort. In this regard the Housing Authority would need to instruct the relevant legal advisors to draw up the appropriate application for ruling, and after review by the equity partner and the Housing Authority submit it to the Australian Taxation Office.

3.5 Fee Negotiation and Establishment

After acceptance of the Offer Document the fees to be paid to the various parties (minus the Lead Manager) can be negotiated. At this point it is quite appropriate to put the legal fees out to tender on a fixed fee basis. The main fee parties are, Lead Manager, Trustee and Legal. The transaction may or may not have a Transaction Manager whose primary duty is to calculate the precise regular payments to be made to the equity partner and maintain financial records including sales and value of equity outstanding etc. These functions can be performed by each of the parties but the cost of a Transaction Manager is very small and avoids payment disputes.

3.6 Appoint All Managers

At this point all Managers are appointed subject to execution of the transaction.

3.7 Target Date For Execution

A target date for execution can now be set.

3.8 Final Terms Of Transaction

The final financial and structural transaction terms are now set and the final modeling review completed. A 'terms sheet' is produced for all parties to refer to.

This sheet contains the:

- name of the transaction;
- issuer i.e. housing authority;
- issuing manager;
- lead manager;
- rating (if appropriate, most equity transactions are not rated);
- security type;
- execution date;
- value of total equity;
- investment return (i.e. yield);
- indexation and or payment dates;
- capital return;
- capital return restrictions; and
- termination date.

3.9 Pricing Review 1 and 2.

Once this terms sheet has been finally agreed the final price and transaction details are set before legal documentation commences.

3.10 Lawyers Appointed and Legal Documentation Commences

At this point the lawyers are appointed and the legal documentation commences. There may be up to 10 legal documents including:

- a Partnership document, (main document for agreement between the parties);
- b Management and Agency Agreement, (M&A),(covers the asset and tenancy management responsibilities of the Housing Authority and confers certain rights and sets out fee payments);
- c State Deed, (covers the agreement between the State Treasury and the external party including guarantees and covenants);
- d Trust Deed, (covers the nature of the credit, risk and subsidy support to be provided by the Housing Authority and the purposes for which funds can be used);
- e Trustee Deed, (covers the responsibilities of the Trustee);
- f Transaction Or Equity Managers Agreement, (covers the responsibilities of the equity manager and the fees to be paid); and
- g Calculation Document, (specifies and quantifies the precise way in which the returns the equity partner are to be calculated and sourced).

3.11 Finalisation Of Stock Arrangements

The Housing Authority prepares all the necessary documentation preparatory to transferring the titles of the relevant housing stock to the equity partner. This documentation includes schedules of each property's characteristics,(address, property type) etc, title particulars, valuations, and relevant certificates including stamp duty exemption.

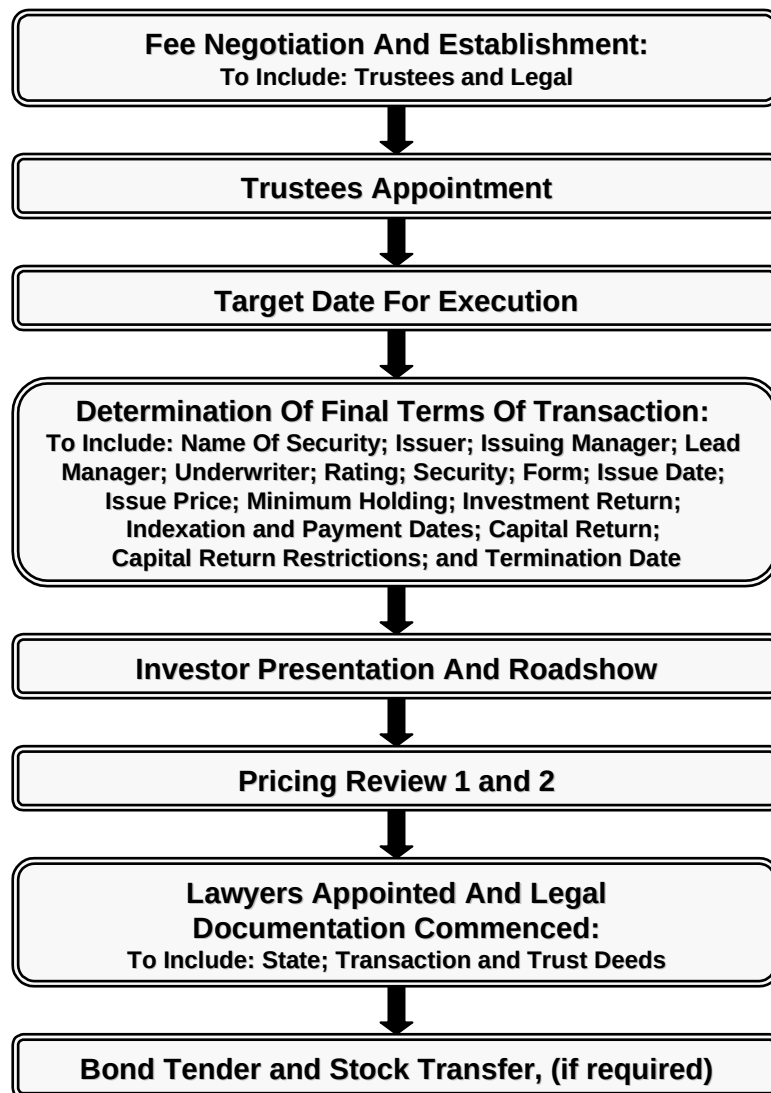
3.12 Transaction Execution and Stock Transfer

On the appointed execution date all documents are signed by the relevant signatories and executed, a bank cheque for the equity value is provided and the stock is transferred to the equity partner.

CHAPTER 4: FUNDING OPTIONS: DEBT

The procedures for the establishment of a debt funded structure are considerably simpler than those applying to equity. Diagram 5 sets out the main steps.

Diagram 5: Funding Options: Debt



In a debt structure the following elements of the equity structure are not required:

- stamp duty exemption;
- Loan Council exemption;
- equity partner, lead manager, transaction manager, and manager and agent;
- offer document;
- tax ruling;
- four of the main documents including, Partnership Agreement, M&A, Equity Managers Agreement and Calculation Document; and
- stock documentation and stock transfer

A Trust Deed for the capital support for the bond payments and a State Deed providing the government guarantee on the bonds plus a terms sheet for the bonds and a bond script is all that is required. An optional component is the appointment of a Trustee to oversee the disposition of the assets of the Trust although these may be handled by the Housing Authority.

4.1 Fee Negotiation and Establishment

At this point it is quite appropriate to put the legal fees out to tender on a fixed fee basis. The main fee parties are, Trustee and Legal.

An additional fee may be paid to Treasury or Treasury Corporation for the administration of the bond payments and repurchase of bonds and for the government guarantee.

4.2 Trustee's Appointment

If appropriate a Trustee would be appointed.

4.3 Target Date For Execution

A target date for execution can now be set.

4.4 Final Terms Of Transaction

The final financial and structural transaction terms are now set and the final modeling review completed. A 'terms sheet' is produced for all parties to refer to.

This sheet contains the:

- name of the transaction;
- issuer i.e. housing authority;
- issuing manager;
- lead manager;
- rating (should secure AAA);
- security type;
- execution date;
- value of total equity;
- investment return (i.e. yield);
- indexation and or payment dates;
- termination date.

4.5 Investor Presentation and 'Roadshow'

In conjunction with the Treasury or Treasury Corporation all major institutional investors would be canvassed for interest in the bond. The results of the 'roadshow' would inform the pricing review.

4.6 Pricing Review 1 and 2.

As with the equity vehicle once this terms sheet has been finally agreed the final price and transaction details are set before legal documentation commences.

4.7 Lawyers Appointed and Legal Documentation Commences

At this point the lawyers are appointed and the legal documentation commences. There may be up to 10 legal documents including:

- a State Deed, (covers the agreement between the State Treasury and the external party including guarantees and covenants);
- b Trust Deed, (covers the nature of the credit, risk and subsidy support to be provided by the Housing Authority and the purposes for which funds can be used);
- c Trustee Deed, (covers the responsibilities of the Trustee if any);

4.8 Transaction Execution, (Bond Tender), and Stock Transfer (if required).

On the appointed execution date the Treasury or Treasury Corporation would conduct a bond tender whereby the terms sheet (without the yield would be) tendered to institutional investors and the yield price struck after receipt of all tenders.

Bibliography

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