

**REQUEST FOR PROPOSALS FROM  
UNDERWRITERS  
FOR  
SINGLE FAMILY HOUSING MORTGAGE  
REVENUE BOND PROGRAM**



**SPECIAL NOTE: YOUR IMMEDIATE ATTENTION IS CALLED TO SECTION I.C. YOU NEED TO SEND TO US AN E-MAIL ADDRESS FOR TRANSMISSION OF NOTICES OF INQUIRIES.**

**October 29, 2004**

**Arkansas Development Finance Authority  
423 Main Street, Suite 500  
Little Rock, AR 72201  
(501) 682-5900**

## SECTION I: INSTRUCTIONS TO PROPOSER/ GENERAL INFORMATION

**A. PROGRAM INFORMATION.** The Arkansas Development Finance Authority (“ADFA” or the “Authority”) is requesting proposals from investment banking firms to serve as senior managing underwriter for the Single Family Housing Mortgage Revenue Bond Program (the “Program”). It is our current intention to assemble and engage one or more firms who will structure and market successive issues of bonds to fund the Authority’s Program for a period of approximately two (2) years beginning in 2005 (term can be extended at the discretion of the ADFA Board). The volume of bonds to be issued during the two-year period is expected to be approximately \$150 to 200 million including new money from the Authority’s private activity bond cap allocation, replacement refundings and taxable bonds.

The Authority hopes to obtain proposals which are designed to contribute to the following major goals for the Program:

1. Affordable housing for low-to-moderate income homebuyers including a mortgage lending rate that is significantly lower than prevailing conventional rates.
2. Preservation of private activity bond cap allocation.
3. Low non-origination risk.
4. Income to the Authority.
5. Small or no Authority contribution.
6. Easily managed by Authority staff.
7. Attractive to the Authority’s clients and agents which include homebuyers, mortgage bankers, realtors, homebuilders, bond lawyers, trust officers, bond holders, elected officials, government agencies, etc.
8. Targeted demographically and/or geographically.
9. Effective use of zero percent loans (subsidy), ensuring compliance with the Code.

The Authority believes more than one financing structure may be needed to effectively reach its single family housing goals. Proposers may submit any number of financing strategies or other program ideas they deem appropriate to accomplish the goals of the Authority. Nevertheless, the objective of this selection process is to select a financing team, not a financing structure. Ultimately, after the selection of the Program team, it is expected that further strategy sessions will be conducted where financing structures and other aspects will be evaluated and pursued as appropriate.

Any investment banking firm selected pursuant to this RFP shall serve at the pleasure of ADFA, and the professional services of any firm selected may be terminated, at the sole discretion of ADFA, upon delivery of written notice of such termination to the selected firms.

Authority for this Program is contained in Arkansas Development Finance Authority Act, consisting of Arkansas Code Annotated § 15-5-101 *et seq.* A copy of the Act is available upon request to the Authority.

**B. SUBMISSION OF PROPOSALS.** Written proposals responding to the questions and requests for information in the manner specified in this Request For Proposal (“RFP”) should be submitted to the following:

[ppatton@adfa.state.ar.us](mailto:ppatton@adfa.state.ar.us)

To be considered, one (1) copy of the proposal should be delivered to ADFA not later than November 19, 2004, by 12:00 p.m. (CST). All proposals shall be time and date stamped upon receipt. Late proposals will not be accepted. ADFA reserves the right to reject any or all proposals.

**Joint proposals from a team of underwriters will not be accepted and will be considered as non-responsive.**

In previous transactions, ADFA has utilized co-managers to increase market penetration, particularly local retail buyers. Co-managers must be willing to commit capital to the issue, if necessary.

**Firms may choose to respond only as senior manager, co-manager or both for the Single Family Program. If your firm is making the choice to propose as co-manager only, please so indicate and only respond to the items requested in Section IV (B) 1, 5 and 6.**

**C. ADDITIONAL INFORMATION.** It is the responsibility of the proposer to inquire about and clarify any aspect of the RFP. Questions should be directed to Patrick Patton ([ppatton@adfa.state.ar.us](mailto:ppatton@adfa.state.ar.us)), Vice President for Internal Audit, at (501) 682-5902. Substantive questions and answers will be documented in letter form and will be sent by electronic mail to all the proposers who provide us with an e-mail address. **IN ORDER TO BE ON THE DISTRIBUTION LIST FOR INTERNET TRANSMISSION OF ALL RESPONSES TO INQUIRIES, YOU MUST IMMEDIATELY ADVISE PATRICK PATTON OF ADFA THE INTERNET E-MAIL ADDRESS TO WHICH YOU WANT ALL SUCH TRANSMISSIONS SENT.**

**D. PROPERTY OF ADFA.** Any information or materials submitted as a response to this RFP shall become the property of ADFA and will not be returned. All submitted materials will be available for public review.

**E. RESPONSE TO REQUEST FOR PROPOSAL.** Investment banking firms wishing to respond to this RFP may interact and contact the Chair of the Staff Professional Selection Committee, Patrick Patton. **NO CONTACT WITH ADFA BOARD MEMBERS IS ALLOWED AND ANY SUCH CONTACT WILL BE GROUNDS FOR IMMEDIATE REJECTION OF A FIRM’S PROPOSAL.**

**F. SELECTION TIMETABLE.**

October 29, 2004	Request for Proposal Issued
November 19, 2004	Proposals Due
TBA	Short List Determined for Oral Interviews (if needed)
TBA	Oral Presentations (if needed)
December 16, 2004	Board Action (Appoint/ratify appointment of underwriter, authorizes the President of ADFA to negotiate fees)

**G. SELECTION PROCESS.** The ADFA Staff Professional Selection Committee will review the submitted proposals. Proposals will be evaluated based on responses to specifics outlined in the Proposal Format section of this RFP and based upon the selection criteria. Proposals, which omit any of these items, may be rejected as non-responsive. From this review, a select group of firms could be chosen for interviews. The Board of Directors Professional Selection Committee will make its decision on a recommendation for selection, which will be reported to the Board of Directors of the Authority. The final selection will be made by a vote of the full Board.

ADFA may at any time prior to the selection of senior managing underwriter reject any and all proposals and cancel this RFP, without liability therefore, upon finding that there is good cause for rejecting all proposals and that it would be in its interest to cancel the solicitation. Further, regardless of the number and quality of proposals submitted, ADFA shall under no circumstances be responsible for any proposer costs and expenses incurred in submitting a response to this RFP. Each proposer who submits a response does so solely at the proposer's cost, risk and expense. ADFA accepts no responsibility for the return of successful or unsuccessful proposals. This RFP in no way obligates ADFA to select a firm.

**H. SELECTION CRITERIA.** The proposals will be reviewed by the Staff Professional Selection Committee composed of selected members of ADFA staff. The committee generally will use the following criteria to evaluate all acceptable proposals and to develop recommendations to be presented to ADFA Board Professional Selection Committee; however, ADFA reserves the right to evaluate proposals based on factors beyond the listed criteria.

*Criteria*

1. Qualifications of the senior underwriter;
  - a. Current commitment to municipal finance
  - b. Prior experience with single family mortgage revenue bond issues including size, number, complexity and success of prior bond programs
  - c. Qualifications of staff assigned to the single family housing program and the team members' demonstrated ability, years and type of experience
  - d. Ability to prepare consolidated and individual transaction cash flows
  - e. Demonstrated marketing ability and resources
  - f. Net capital of firm
  - g. Response to Arkansas presence issue including relevance to this program

2. Merits of any proposed financing structures or other program initiatives including their creativity and cost effectiveness for the program
3. Responsiveness of written proposals to the scope of services
4. Proposed fees

ADFA reserves the right to award the contract to the firm or firms which will best meet the qualifications required by ADFA, which may or may not be the firm(s) with the lowest bid. ADFA also reserves the right to reject any and all proposals prior to execution of the contract with no penalty or cost to ADFA.

## **SECTION II: SCOPE OF SERVICES AND REQUIREMENTS**

The senior managing underwriter will be expected to perform all the normal duties associated with the underwriting and sale of the bonds in a negotiated mode including but not limited to:

1. Structure the bond issues, coordinating with counsel and ADFA;
2. Advise the Authority concerning market conditions and the timing of the sale;
3. Obtain an underwriter's counsel (subject to the approval of ADFA);
4. Prepare supplemental documents related to each bond issue. This will include, but not be limited to, a detailed cost of issuance at closing (format to be distributed to selected firm prior to closing), a detailed (with examples – see Appendix A) interpretation of the application of the bond call provisions in the Series Resolution if requested by the Authority, and an analysis of each bond issue which compares it with similar bonds sold within the same time frame;
5. Develop a sale strategy and marketing plan;
6. Coordinate information with selling group members and financial advisor;
7. Manage the syndicate prior to, during, and after the bond sale;
8. Conduct pre-sale briefings and information sessions;
9. Conduct the bond sale including “running the books” and, if necessary, underwriting;
10. Provide normal administrative services such as procurement of CUSIP number, establishment of account with DTC, etc.;
11. Prepare a summary analysis of the bond sale (format to be distributed to selected firm prior to closing);
12. Coordinate brokerage of guaranteed investment contract providers and official statement printers;
13. Review, comment and assist in the refinement of the single-family loan program and the financing plan for the loan program;
14. Provide assistance to ADFA in managing zero percent loans (subsidy), ensuring compliance with the Code;
15. Cooperate with ADFA and its engaged professionals in the calculation of arbitrage rebate and in solving any problems connected with any bond issue in the Single Family program on an as-needed basis
16. Run consolidated cash flows for all open single family indentures

The co-managing underwriters will participate in the sale and underwriting of the bonds and may assist the senior managing underwriter in other matters on an as-needed basis.

### **SECTION III: STATEMENT OF QUALIFICATIONS**

An updated statement of qualifications should be maintained on file at ADFA for all firms submitting proposals in response to this RFP.

### **SECTION IV: PROPOSAL FORMAT**

**A. TRANSMITTAL LETTER.** A one page transmittal letter prepared on the proposer's business stationery should accompany the proposal.

**B. PROPOSAL.** The proposal should be labeled "Proposal to serve as Underwriter for the ADFA Single Family Housing Mortgage Revenue Bond Program." The submission must contain sufficient information to enable the ADFA Staff and Board Professional Selection Committees to evaluate the proposal. It should be prepared in a clear and concise manner and should address each of the following subsections (**complete proposal responses should be limited to no more than 25 pages**):

1. **Investment Banking Firm Resources.** Describe the manner in which you would organize your firm's resources to serve as ADFA's senior managing underwriter. In doing so, please address the following questions or issues:
  - a. Identify your firm's experience with single family mortgage revenue bonds, including a list of state agencies for which your firm serves as senior manager or co-manager. Describe the capabilities and experience of your firm in providing all of the computer cash flow analyses required by the rating agencies and the bond/mortgage yield computations required by bond counsel.
  - b. Identify the individual who will manage this financing on a day-to-day basis. Indicate the degree to which he or she will be able to commit the firm's resources to ADFA. What is this person's availability for this financing and what other commitments does he or she have? What experience does this person have in managing interest rate subsidy and running consolidated cash flows?
  - c. Identify other public finance bankers who will be assigned to work on this project, their roles and responsibilities. What are some relevant aspects of their background?
  - d. Provide your firm's net capital and your firm's philosophy in applying that capital to ensure the placement and takedown of bond issues.

2. **Comments on Scope of Services.** Elaborate on the services you propose to perform as underwriter for the proposed financing. In what way do you expect the scope of services to differ from those listed in Section II?
3. **Financing Approach and Recommendation for the Financing Plan.**  
State housing finance agencies have withstood difficult financial and program challenges in recent years. The combination of mortgage portfolio run-off and interest rate compression has resulted in decreased profitability and shrinking balance sheets for many agencies. Please provide a discussion of specific ideas and services your firm has provided to state housing finance agencies to address these issues.
4. **Rationale for Appointment and Recent Experience.** This section of the proposal should be used to present the case for your selection to the position, describing how your qualifications and experience in structuring, underwriting and distributing securities are relevant to serving as ADFA's senior managing underwriter. Select one past deal where your firm served as senior managing underwriter (indicating the date of issue, issuer, credit description, size and method of sale) and summarize its similarity to ADFA's program and its successfulness. You may want to compare it with other deals of similar size and purpose that were sold at the same time.
5. **Marketing of ADFA Single Family Housing Bonds.** Please respond briefly to the following:
  - a. Describe your firm's retail and institutional marketing network for municipal bonds, emphasizing your ability to market ADFA bonds. What is the amount of ADFA bonds currently held in your firm's retail customer accounts?
  - b. Describe your philosophy of and procedure for establishing bond sale prices. What is your strategy to attract multiple institutional investors to a deal?
  - c. How will your firm make an active secondary market for our bonds?
  - d. What is your ability to market and remarket variable rate debt instruments?
6. **Arkansas Presence.** Please explain your firm's presence within Arkansas and describe how that presence is relevant to the services and requirements of this Request for Proposal.
7. **Fee Proposal.** Recognizing that the takedown and certain expenses can vary from issue to issue, we expect to negotiate with our senior managing underwriter for each issue, in advance, a budget for these items. However, we would request a fee proposal for the following services:
  - a. Management fee for Book-running Senior Manager services
  - b. Computer fee for running cash flows (including consolidated cash flows and subsidy management)

- c. GIC brokerage fee (ADFA may or may not utilize this service from any underwriter selected)
- d. Describe how you plan to allocate management fee with co-managers or management group

Your fees should be based on what is listed in the Scope of Services and Requirements in Section II of this Request for Proposal. Please state any other services not listed in the Scope of Services and Requirements and how they would change the amount of your proposed fee.

- 8. **Acceptance**. Submission of proposals, in response to this Request for Proposal, constitutes acceptance of all conditions, requirements and limitations described in this document.

INSTRUCTIONS TO TRUSTEE  
RELATING TO SPECIAL MANDATORY REDEMPTION  
PURSUANT TO SECTION 3.02 (2)  
OF THE SERIES RESOLUTION

Attached is a schedule of 2021 Term Bond Calls based on 100% PHA prepayment experience generated from cash flows based on anticipated GNMA and FNMA deliveries. The cumulative call information shall be used to calculate Bond calls pursuant to Section 3.02 (2) of the Series Resolution in the following manner.

- I. If there are no longer 2021 Term Bonds Outstanding, then call all Bonds on a pro rata basis and skip the following steps.
- II. If there are 2021 Term Bonds Outstanding, then:
  - A. The portion of monies in the Redemption Fund not due to deposits from non-origination should first be used to call bonds maturing January 1, 1998 through July 1, 2018 in accordance with the following. The amount of monies to use for this portion of the call should equal the percentage of the par amount of each Bond Outstanding (after the payment of any bond maturity on such date) to the par amount of all Bonds Outstanding times the amount of monies available for the call. The resulting amount should be used to call the Bonds maturing prior to July 1, 2018 on a pro rata basis.

Example: Assume that on July 1, 1996, \$34,000,000 of Bonds maturing on or prior to July 1, 2018 are outstanding (excluding amounts maturing on such date) and \$69,500,000 total Bonds are outstanding (excluding amounts maturing on such date). The ratio of Bonds maturing January 1, 1998 through July 1, 2018 outstanding to total Bonds outstanding would then be 48.9% (\$34,000,000 divided by \$69,500,000). If \$500,000 in prepayments and excess revenues are available for the call, then \$245,000 should be used to call Serial Bonds on a pro rata basis (0.489 times \$500,000 rounded to the nearest \$5,000). The remaining \$255,000 should be used to call bonds according to either step B. (1) or Step B (2) below.
  - B. The remaining amount of Special Redemption Account monies should be applied as per either paragraph (1) or (2) below as applicable.
    1. If the remaining amount of Special Redemption Account proceeds available on a given interest payment date (after the application of funds as per Step A above) would call an amount of 2021 Term Bonds that would result in a cumulative amount of 2021 Term Bond calls that is less than the amount on the attached schedule, then only 2021 Term Bonds should be called.

Example: Assume that on July 1, 1996, \$300,000 in prepayments and excess revenues are available for bond calls after the application of funds according to Step A above. Assume that \$20,000 in 2021 Term Bonds have been called in past periods. This will result in the cumulative amount of 2021 Term Bond calls as of July 1, 1996 being equal to \$320,000. Since this is less than the \$350,000 on the schedule, the entire \$320,000 of available monies should be used to call 2021 Term Bonds.

2. If the amount of Special Redemption Account proceeds (after the application of funds as per Step A above) would result in a cumulative amount of 2021 Term Bond calls that is greater than the amount on the schedule, then 2021 Term Bonds should be called up to the amount of the cumulative call schedule and monies in excess of the cumulative amount on the schedule should be used to call all of the Bonds outstanding on a proportionate basis.

Example: Assume that on July 1, 1996, \$300,000 in prepayments and excess revenues are available after the application of funds according to Step A above. However, now assume that \$250,000 in 2021 Term Bonds have been called in past periods. This would result in a cumulative call of 2021 Term Bonds of \$550,000, which is greater than the amount on the schedule of \$350,000. Therefore, \$100,000 in prepayments and excess revenues should be set aside to call 2021 Term Bonds. The remaining \$200,000 should be used to call on a pro rata basis the remaining 2021 Term Bonds (after subtracting the \$100,000 above from the total 2021 Term Bonds against which the calculation is now made), and all other outstanding Bonds. If the proportionate share of the remaining \$200,000 attributable to 2021 Term Bonds is \$20,000 then the total of \$120,000 in 2021 Term Bonds should be called on July 1, 1996, resulting in a cumulative total call of 2021 Term Bonds to date of \$370,000.

- III. A. In the event of a non-origination call pursuant to Section 3.02 (1) of the Series Resolution, the cumulative call schedule should be reduced pro rata by the percentage of non-delivery. To calculate the pro rata reduction, first calculate the percentage of non-delivery. This is the ratio of (1) money withdrawn from the Program Fund to call bonds on or after July 1, 1996, and on or prior to July 1, 1997, pursuant to the non-origination call divided by (ii) \$70,000,000. For example, if \$3,500,000 is transferred from the Program Fund to the Special Redemption Account in order to call bonds, the non-delivery percentage will equal 5.0% (\$3,500,000 divided by \$70,000,000). Each balance on the cumulative call schedule should then be reduced by that percentage rounded up to the nearest \$5,000 amount. Thus, if the non-delivery percentage is 5.0% the July 1, 1996 cumulative call amount will be reduced from \$350,000 to \$335,000 (\$332,500 rounded up).

- B. When applying the above instructions to the modified cumulative call schedule, the 2021 Term Bonds called with the unexpended proceeds should not be included in the cumulative balance of their respective bond calls. For example, if \$200,000 of the 2021 Term Bonds were called from unexpended proceeds pursuant to Section 3.02 (1) of the Series Resolution and an additional \$500,000 in 2021 Term Bonds were called from other redemption fund revenues, only the \$500,000 calls from redemption fund revenues would be compared to the modified cumulative call schedule.
- C. In the event of any non-origination call adjustment to the schedule, the Trustee shall perform the calculation per the instructions above and shall send the modified schedule to the Authority.

Arkansas Development Finance Authority  
Single-Family Mortgage Revenue Bonds  
(Mortgage-Backed Securities Program)  
1995 Series B

Cumulative 2021 Term Bond Calls  
From Prepayments and Excess Revenues  
(Assumes 100% Prepayments)

Date	Initial Cumulative Calls
01/01/96	\$ 20,000
07/01/96	350,000
01/01/97	860,000
07/01/97	1,710,000
01/01/98	2,515,000
07/01/98	3,480,000
01/01/99	4,560,000
07/01/99	5,700,000
01/01/00	6,880,000
07/01/00	7,970,000
Thereafter	

NOTE: SCHEDULE TO BE MODIFIED IF ACQUISITION FUNDS ARE TRANSFERRED TO THE SPECIAL REDEMPTION ACCOUNT TO CALL BONDS (SEE INSTRUCTIONS)

## HOUSING UNDERWRITERS

Firm/Contact/Email	Firm/Contact/Email
Morgan Keegan Mr. Jim Fowler <a href="mailto:Jim.fowler@morgankeegan.com">Jim.fowler@morgankeegan.com</a> <a href="mailto:Carmen.quinn@morgankeegan.com">Carmen.quinn@morgankeegan.com</a>	Crews & Associates, Inc. Mr. Edmond Hurst <a href="mailto:ehurst@crewsfs.com">ehurst@crewsfs.com</a>
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