VIA E-MAIL

May 11, 2017

Brent Fields, Secretary
Securities and Exchange Commission
100 F Street, NE
Washington, DC 20549-0609

RE: Proposed Amendments to Exchange Act Rule 15c2-12 (File No. S7-01-17)

Dear Mr. Fields:


UHC was created as an independent body politic and corporate, constituting a public corporation of the State of Utah. The purpose of UHC is to assure an adequate source of capital for housing for low and moderate income persons living in the State of Utah. UHC’s involvement in the vast municipal securities market is limited to the issuance of revenue bonds to provide funds for qualifying single family and multi-family housing projects for low and moderate income persons living in the State of Utah.

Since its inception and through December 31, 2016, UHC has issued over $8.5 billion aggregate principal amount of single family mortgage revenue bonds and purchased over 83,000 mortgage loans secured by single family homes. As of January 1, 2017, approximately $1.3 billion aggregate principal amount of UHC’s single family mortgage revenue bonds were outstanding. Further, as of June 30, 2016, approximately $310 million aggregate principal amount of UHC’s multi-family mortgage revenue bonds were outstanding.

UHC generally believes the Proposed Amendments are overbroad and too vague to address the problem identified by the Commission in the Proposing Release without unduly burdening municipal issuers such as UHC and conduit borrowers such as multi-family housing developers. Notwithstanding UHC’s general belief about the Proposed Amendments, these comments are limited to the impact UHC believes the Proposed Amendments would have on UHC as a state housing agency and similar entities throughout the United States. UHC anticipates the Commission will receive ample comment from other industry participants and groups regarding the burden the Proposed Amendments will have on municipal issuers and obligated persons.
The Proposed Amendments and the Proposing Release do not appear to account for the limited and specific sources of payment applicable to a large proportion of municipal securities, including those bonds issued by UHC. Unlike in the corporate securities market, where the bulk of securities are general obligations of a corporate issuer, many municipal securities are payable from specific revenue streams. With respect to UHC and many governmental housing agencies, virtually every issuance of municipal securities is payable primarily or exclusively from revenues of either single family mortgage loans or multi-family mortgage loans. In the case of single family mortgage loans, the revenues are typically derived from FHA insured mortgage loans or pools of Fannie Mae, Freddie Mac, or GNMA mortgage backed securities. In the case of multi-family mortgage loans, the revenues are typically derived from a project developed by a single-purpose private corporation created exclusively to develop such project, and UHC has no general obligation to make payment on these loans. In these circumstances, UHC’s various financial obligations (described further below) should not be material to owners of these bonds. However, because the Proposed Amendments do not appear to explicitly limit the “security holders” to whom the financial obligations of UHC may be material and do not acknowledge the critical distinction between general obligation bonds and revenue bonds, it is unclear whether financial obligations of UHC (such as copier leases, mortgage participation agreements, TBA hedges or revolving lines of credit) that are largely irrelevant to municipal securities payable primarily or exclusively from either single family or multi-family mortgage loans would nevertheless require an event notice under the Proposed Amendments.

While it may seem obvious that the above-described financial obligations would not be material to holders of securities payable primarily from other sources of revenue, with 96% of municipal underwriters subject to a cease-and-desist order under the Commissions Municipalities Continuing Disclosure Cooperative initiative, underwriters are unlikely to make that sensible determination when reviewing issuers’ description of past continuing disclosure compliance, as required by Rule 15c2-12, absent guidance from the SEC.

Accordingly, UHC requests the Commission clarify that the phrase “security holders” in the Proposed Amendments means beneficial owners of the municipal securities offered with respect to which a certain continuing disclosure undertaking is made. UHC further requests the Commission acknowledge that a financial obligation payable primarily or exclusively from one source of revenues would likely not be material to security holders of municipal securities payable primarily or exclusively from a separate or distinct source of revenues of the same issuer or obligated person.

To the extent that UHC's financial obligations are implicated by the Proposed Amendments, the extremely broad nature of the definition of "financial obligations" in the Proposed Amendments is problematic because it could be construed as implicating a multitude of arrangements that are part of the daily operations of UHC. The broad definition of leases implicates a variety of lease arrangements executed by UHC in the ordinary course of business, including office leases, copier leases, etc. In addition, UHC daily incurs many different types of housing-specific business obligations that implicate the general credit of UHC, including mortgage participation agreements, revolving lines of credit to acquire mortgage-backed securities (MBS), and hedges executed in the MBS market also known as the TBA (to-be-announced) market. Identifying and evaluating the materiality of every one of these arrangements daily to determine if an event filing is necessary would be burdensome and costly.
for UHC. Particularly given that this type of information is already included in UHC’s annual audit, daily monitoring of the status of these obligations would be onerous and an inefficient use of limited resources. UHC requests the Commission limit the definition of "financial obligation" to exclude operating obligations and recurring obligations under typical housing finance agency programs.

At a minimum, the Commission should clarify that typical and recurring housing finance arrangements, to the extent material, only need to be disclosed one time at the commencement of the arrangement instead of each time a new obligation is incurred. For example, UHC uses a revolving line of credit to provide short-term funding for the acquisition of mortgage-backed securities, which UHC owns until they are sold into the TBA market or placed into a single family bond issue. As discussed above, UHC generally does not believe this activity is material to owners of its single-family and multi-family bonds because those bonds are payable primarily from a stream of revenue that does not implicate UHC's general credit. However, in the event there was a circumstance where a revolving line of credit such as the one utilized by UHC would be material to owners of a bond issue, UHC requests that the Commission clarify that the existence of the line of credit would only need to be included in an event filing at the commencement of the line of credit, and that additional filings would not be required for subsequent draws on the line of credit. Similarly, to the extent UHC regularly executes hedges to mitigate its risk in the TBA market and such obligations are material, a new event filing should not be required each time a hedge is executed if investors have received notification of the general terms of UHC’s obligations in its annual audit or at a minimum through one annual event filing.

While UHC acknowledges the importance of disclosure to municipal securities investors, UHC respectfully submits that the Proposed Amendments are too broad and vague and will unduly burden municipal issuers and obligated persons. UHC is concerned that increased time and costs necessary to comply with the Proposed Amendments may jeopardize the ability of municipal issuers, including UHC and other housing agencies, to effectively carry out their governmental missions in a cost-effective manner. UHC is concerned that even marginal impacts to its ability to carry out its purposes will have an adverse impact on the availability or cost of low and moderate income housing. Accordingly, UHC respectfully requests the Commission seriously consider the requests for guidance included in this letter and in the many other comments the Commission is likely to receive regarding the detrimental impact of the Proposed Amendments on municipal issuers, and find a more reasonable and sensible way to address the problem perceived by the Commission.

If you have any questions regarding UHC’s comments, please feel free to contact me.

Very Truly Yours,

Grant S. Whitaker
President & CEO