

MCKINNEY
HOUSING FINANCE
CORPORATION



MCKINNEY HOUSING FINANCE CORPORATION MULTIFAMILY BONDS AND PARTNERSHIP 101

CONFIDENTIAL - NOVEMBER 2025

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HOUSING FINANCE CORPORATION BASICS

CHAPTER 394



McKinney Housing Finance Corporation was incorporated in 1980.



Organized by the City of McKinney and operates under the provisions of the Texas Housing Finance Corporations Act, Chapter 394, Texas Local Government Code (the “Act” or “Chapter 394”).



Purpose is to provide a means to finance the cost of residential ownership and developments that will provide decent, safe and sanitary housing at affordable prices for residents of local governments.



Housing finance corporations (“HFC”) constitute public instrumentalities and nonprofit corporations and are not considered municipalities, counties or other political corporations or subdivisions of the State of Texas.

CHAPTER 394

- All directors must be residents of a local government sponsoring the HFC and may be a member of the governing body, an officer or an employee of the local government.
- A HFC and all property owned by it are exempt from license fees, recording fees and all other taxes imposed by the State of Texas or any political subdivision. Exemption includes sales and ad valorem property taxes.
- All powers of the HFC are vested in a board of directors...Powers enumerated under the Act include the power to:
 - make contracts necessary or convenient to the exercise of its powers
 - incur liabilities
 - borrow money
 - issue notes, bonds and other obligations
 - secure such obligations by mortgage of the corporation's assets
 - plan, research, study, develop and promote the establishment of residential development, and
 - make donations for the public welfare or for charitable, scientific or educational purposes

HOUSING FINANCE CORPORATION BASICS

ELIGIBLE ACTIVITIES (EXAMPLES)

- Issuance of single-family mortgage revenue bonds for the purpose of providing low- and moderate-income homebuyers with low-cost mortgages and/or down payment and closing cost assistance
- Direct loans/grants to homebuyers for down payment and/or closing cost assistance
- Mortgage credit certificate (“MCC”) programs
- Issuance of multifamily housing revenue bonds to provide low- and moderate- income housing to be built or rehabilitated
- Ownership by an HFC of multifamily development to provide affordable housing
- Establishment of infill housing construction programs utilizing both donated lots and lots purchased in the open market
- Zero or low interest loans to senior citizens for purposes of rehabilitating their existing homesteads
- Construction, ownership, and operation of senior citizen housing
- Assistance to builders to purchase and rehabilitate substandard single-family housing
- Establishment of emergency rental assistance programs
- Social services
- Scholarship donations
- Any activity with a nexus to affordable housing

HOUSING FINANCE CORPORATION BASICS

HFC SPECIFIC DOCUMENTS/CONTRACTS

- Articles of Incorporation - *Chapter 394*
- Bylaws - *Chapter 394*
- Multifamily Application
 - Approved by the HFC board that outlines specific criteria for multifamily applicants
- Contracts
 - Contracts between the HFC and hired professionals
 - Bond Counsel
 - Municipal Advisor
 - General Partner Counsel
 - General Partner Financial Advisor
 - Accounting Firm

HOUSING FINANCE CORPORATION BASICS

CHAPTER 394 CHANGES – UNDER HB21 – LIHTC DEALS

- Hearing Requirements: An HFC may issue bonds only after public hearing by the applicable local government
 - Previous language under 394 was interpreted as requiring only a hearing by the HFC, which could be satisfied by holding a TEFRA hearing.
- MUDs/ESDs: Taxes imposed by a municipal utility district or emergency services district are no longer exempt – unless an agreement is made
- Open Meetings: Texas Open Meetings Act requirements are now applicable to HFCs regardless of project type.
- Permitted Area of Operation: HFCs cannot own property for residential developments or issue bonds to finance residential developments outside of the geographical boundary of the HFC's sponsoring local government, unless the HFC receives a resolution from the applicable governing body and local HFC.
 - Out of jurisdiction developments will not be eligible for an exemption from ad valorem property tax after January 1, 2027, unless local approving resolutions are obtained.

MULTIFAMILY REVENUE BOND BASICS

WHAT IS A TAX-EXEMPT MUNICIPAL BOND?

- Debt/loan issued by a governmental entity (i.e. state or local housing authority/corporation) which is repaid at a certain rate of return (interest).
- Purchasers of tax-exempt bonds are exempt from paying federal taxes (and, in certain states, from state or local taxes) on interest payments received.
- Proceeds are generally used to finance public projects like schools, hospitals, infrastructure and airports.
- The interest rate paid on tax-exempt bonds is typically lower than the interest rate on taxable obligations of equal creditworthiness.
- Tax opinion from qualified bond counsel is required in order to obtain a tax-exempt rating.

MULTIFAMILY REVENUE BOND BASICS

WHAT IS A PRIVATE ACTIVITY BOND (PAB)?

- To promote certain private activities (which benefit the public), each state is authorized to issue a set amount of Private Activity Bonds each year which may be used for multifamily housing, single-family housing, student loans and industrial development.
 - This set amount is called “Volume Cap.”
- PAB is a bond issued by or on behalf of a local or state governments for the purpose of financing the project of a private user.
- Moves the project risk to the private sector.
- Private debt sold like a public security (tax-exempt).

MULTIFAMILY REVENUE BOND BASICS

WHAT IS A TAX-EXEMPT MULTIFAMILY HOUSING BOND?

- Typically, a PAB is issued by an HFC, PFC or State Issuer (the “Issuer”) who loans the bond proceeds to a borrower to finance the construction or rehabilitation of rental housing at rents affordable to low- and moderate-income individuals and families.
- Tax-exempt financing permits the HFC to assist developers in obtaining a lower cost of financing.
- Lower interest rates on tax-exempt bonds can reduce a developer’s all-in borrowing rate as compared to conventional, taxable financing rates.
- Allows a developer to access 4% low-income housing tax credits, which can finance as much as 30% of the total project costs.
- The Issuers are general conduit issuers, which requires the bond purchaser and issuer to be separate parties. Conduit Issuers are not responsible for the debt obligation.
- Bonds issued by a HFC under the Act are limited obligations of the HFC and are payable solely from the revenue, receipts and other resources pledged to their repayment, and **do not constitute a legal or moral obligation of the City.**
- The City of McKinney, the State of Texas and the HFC are **not responsible for the payments.**

MULTIFAMILY REVENUE BOND BASICS

WHAT ARE LOW INCOME HOUSING TAX CREDITS (“LIHTC”)?

- 4% tax credits are available on financings financed with PABs
 - At least 25% (if the deal is closing after Jan 1, 2026) or 50% (if deal is closing prior to January 1, 2026) of the aggregate basis (which equals eligible basis plus land) must be bond-financed
 - Eligible Basis examples are sitework, financing, 3rd party reports, COI, construction contract
 - Roughly 30% - 35% of the project can be financed with tax credit equity
 - Noncompetitive
- 9% tax credits do not require PAB financing
 - Competitive
 - Roughly 65% of the project can be financed with tax credit equity and ~ 30% debt
 - HFCs are typically involved as a general partner and not as an issuer
- Tax credits are a dollar-for-dollar reduction of income tax in any year over a 10-year period.
- Tax credits are sold to an investor in exchange for equity in the project. This equity provides additional sources of funds which reduces the amount of debt needed to finance the project.

MULTIFAMILY REVENUE BOND BASICS

FEDERAL TAX LAW REQUIREMENTS

- Multifamily housing developments with bond financing must set aside at least:
 - 40% of their apartments for families with income of 60% of AMI or less, or
 - 20% of their apartments for families with income of 50% of AMI or less
- Rent restricted at 30% residences income
- These developments must comply with restrictions and minimum term of affordability for at least 15 years (Section 42 of the Code) – the tax credits require a 30-year income restriction.
- Must be a residential rental housing facility (i.e., no condos, hotels, dormitories, etc.).

*Note – Majority of developers elect 40% at 60% (as that is the minimum set aside), but typically 4% LIHTC deals are 100% at 60% AMI restricted

MULTIFAMILY REVENUE BOND BASICS

PRIVATE ACTIVITY BOND VOLUME CAP

- Tax-exempt multifamily bonds must receive an allocation of private activity volume cap. Using volume cap allows PAB issuers to issue tax-exempt bonds to fund projects.
- The IRS sets the volume cap limits annually, and each state receives an allocation of volume cap from the federal government based on the state's population (i.e., \$130 per capita (increase of \$5 from years past) with a minimum of \$388,789,000 for 2025).
- The State of Texas received \$4,067,808,030 in PAB allocation in 2025.
- Volume cap in the State of Texas is administered by the Texas Bond Review Board.
- Once a multifamily deal receives its volume cap, through a reservation, the bonds must close within 180 days from receipt.

**Region 3 allocation was \$206,311,236 for 2025*

MULTIFAMILY REVENUE BOND BASICS

PRIVATE ACTIVITY BOND VOLUME CAP

- The State of Texas received \$4,067,808,030 in PAB allocation in 2025. This PAB allocation is divided into 5 different Sub-Ceilings.
- SC 1 Single Family 32.25% - \$ \$1,311,868,090
- SC 2 State Voted 10.00% - \$406,780,803
- SC 3 IDBs 2.00% - \$81,356,160
- SC 4 TDHCA & TSAHC MF 7.875%- \$320,339,883
- SC 4 Local HFC's MF 18.375% - \$747,459,725
- SC 5 Other 29.5% - \$1,200,003,369

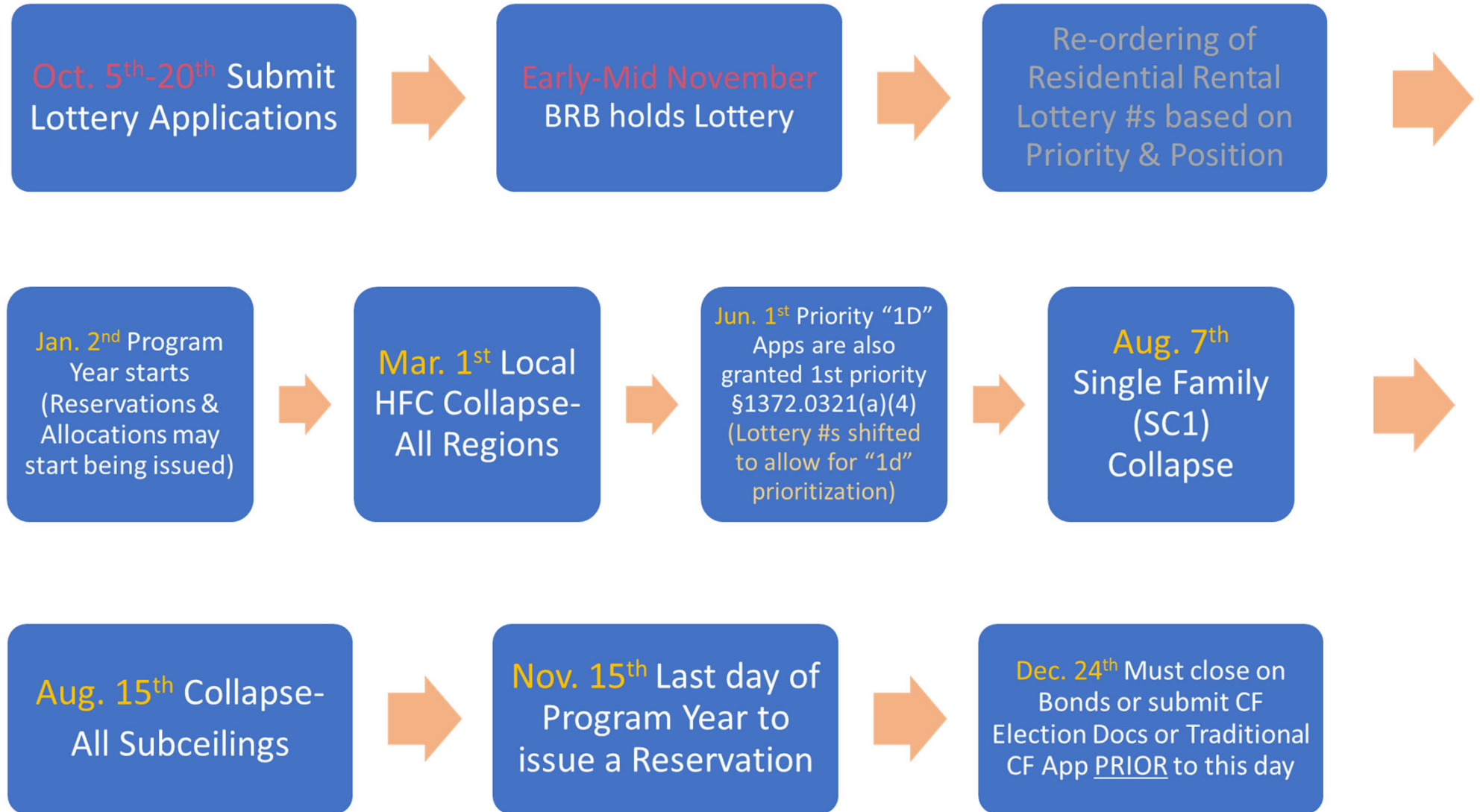
MULTIFAMILY REVENUE BOND BASICS

PRIVATE ACTIVITY BOND PRIORITY ELECTION

- **Priority 0 -** Must have filed a LIHTC app with TDHCA and closed a PAB reservation within the last 4 years; the project requires additional bonds to maintain the 50 percent test; and can only be used once
- **Priority 1A -** Set aside 50% of units - Cap rents at 30% of 50% AMFI
Set aside 50% of units - Cap rents at 30% of 60% AMFI
- **Priority 1B -** Set aside 15% of units - Cap rents at 30% of 30% AMFI
Set aside 85% of units - Cap rents at 30% of 60% AMFI
- **Priority 1C -** Set aside 100% of units - Cap rents at 30% of 60% AMFI
For projects located in a census tract with median income that is greater than the median income of the county MSA, or PMSA that the QCT is located
- **Priority 1D -** projects located in counties, MSAs, or PMSAs with AMFI at or below the statewide median family income receive a priority boost on or after June 1
- **Priority 2 -** MUST receive 4% LIHTC - Set aside 80% of units - Cap rents at 30% of 60% AMFI
- **Priority 3 -** No AMFI Limits

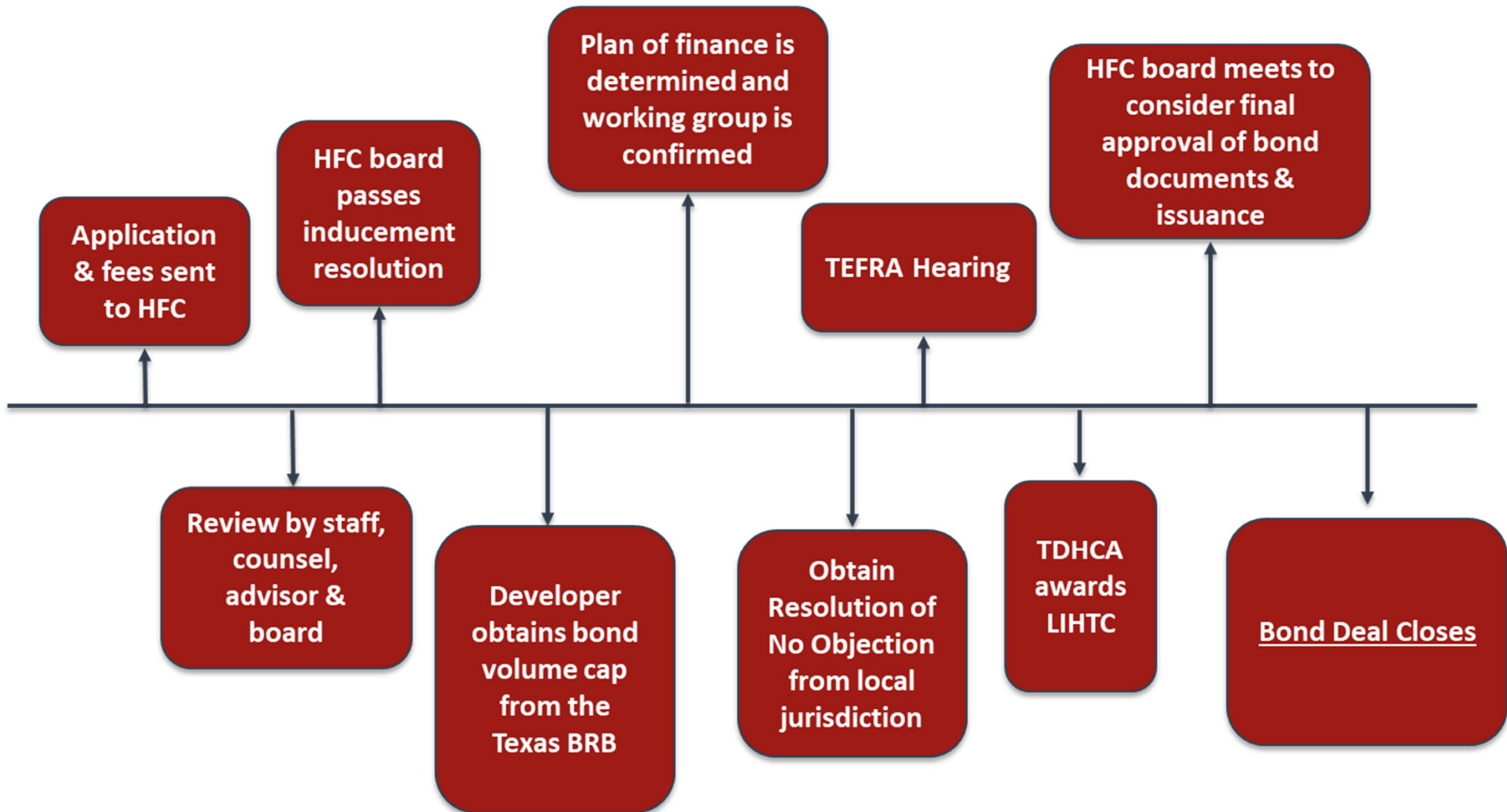
MULTIFAMILY REVENUE BOND BASICS

GENERAL TIMELINE OF PAB PROGRAM YEAR



MULTIFAMILY REVENUE BOND BASICS

TRANSACTION TIMELINE



MULTIFAMILY REVENUE BOND BASICS

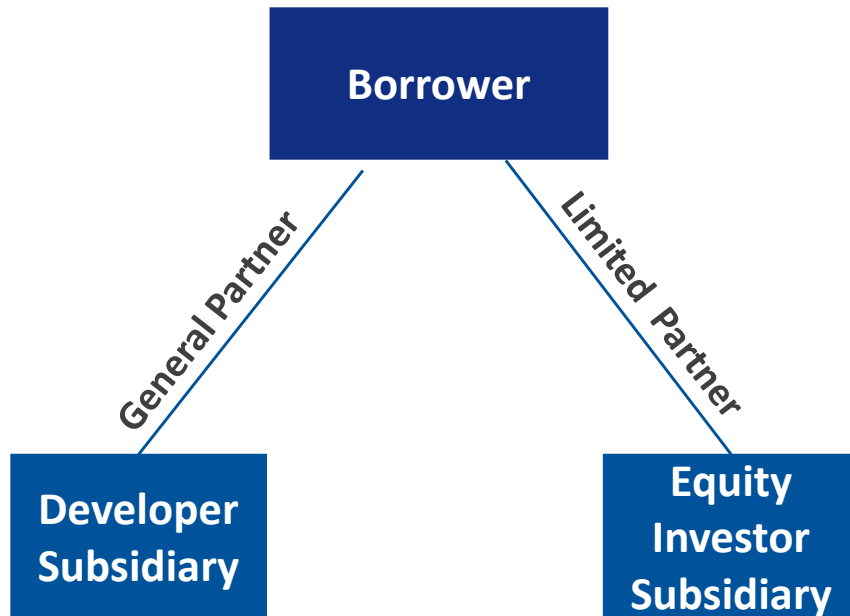
BENEFITS OF BEING AN ISSUER OF MULTIFAMILY HOUSING REVENUE BONDS

- Provide the ability to create affordable housing that wouldn't otherwise be possible.
- Source of revenue for the HFC as it would be entitled to fees for its role of issuing the bonds.
 - Issuance Fee - 0.50% of total par amount of bonds issued paid at closing
 - Annual Issuer Admin Fee – Ongoing annual fees based off 0.125% of total par amount of bonds issued paid annually so long as the bonds are outstanding. Typically receive first two – three years are paid upfront at closing

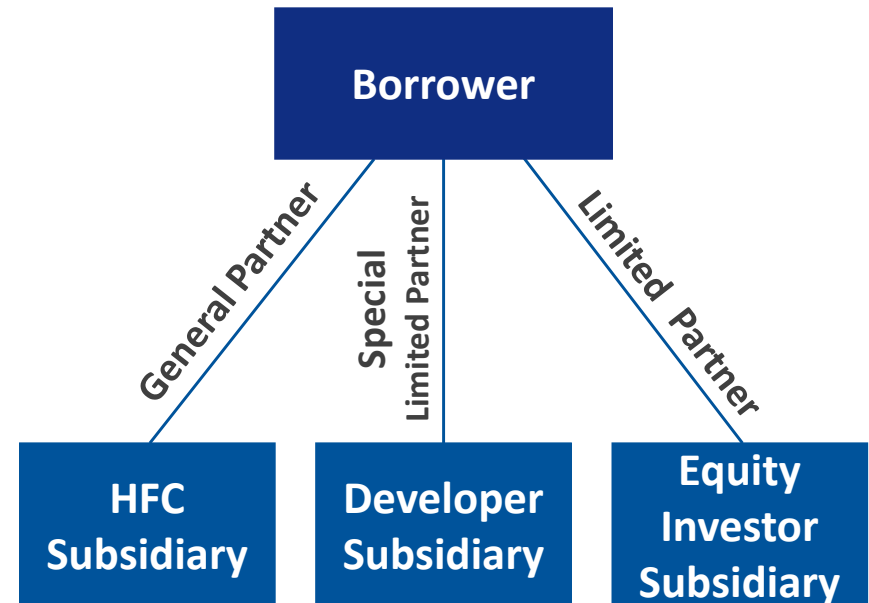
PARTNERSHIP STRUCTURE

COMPOSITION OF BORROWER ENTITY

Conduit Structure



“Partnership” Structure



- Partnership structure can be implemented in bond financing (typically utilizing 4% LIHTC financings), 9% LIHTC financings and conventional financings.
- Developers often seek to take advantage of the “partnership structure” by including a wholly owned affiliate of the HFC as the General Partner of the borrower to receive the tax abatement benefit.

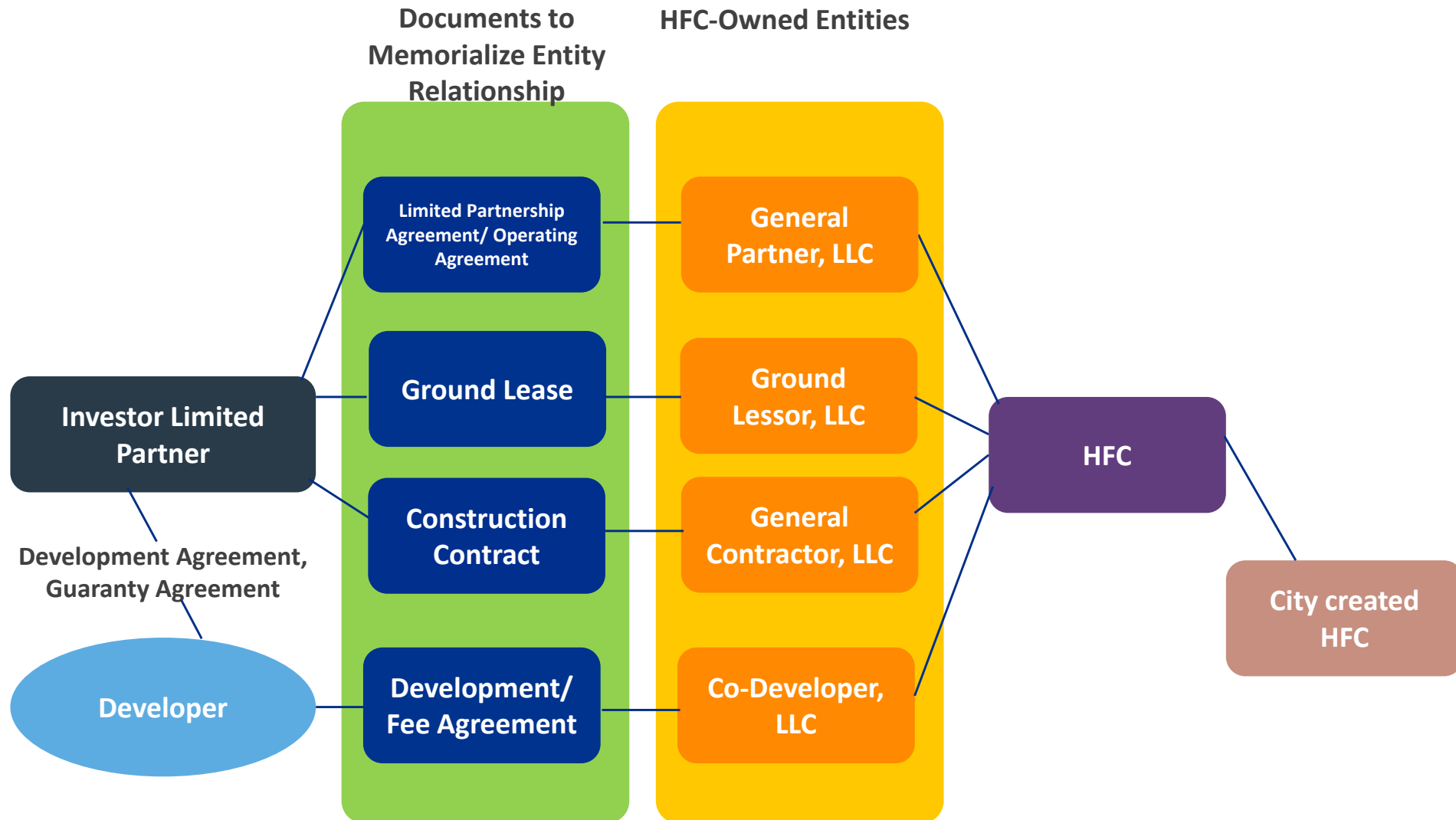
PARTNERSHIP STRUCTURE

LIMITATION OF LIABILITY

- The financing is structured as non-recourse so that the HFC entities and the HFC have no liability for the debt on the property except for some liabilities such as fraud or willful misconduct.
- HFCs should limit risk by forming wholly-owned subsidiaries to serve in roles of General Partner, Ground Lessor, Co-Developer and General Contractor instead of serving in such roles directly.
- HFCs are typically the sole member of limited liability companies (“LLC”) formed for these purposes.
 - Risk of liability in LLCs, but it is a separate legal entity with limited assets (\$10,000) except for partnership interest
 - Capitalize LLCs at level commensurate with obligations
 - Obtain appropriate indemnifications
 - Limit representations
 - No Guarantees

PARTNERSHIP STRUCTURE

OVERVIEW OF PARTNERSHIP STRUCTURE



PARTNERSHIP STRUCTURE

OVERVIEW OF PARTNERSHIP STRUCTURE

- The “partnership structure” generally involves participation of the HFC in one or more of the following roles:
 - **General Partner**
 - GP in a limited partnership with the development entity and equity investor and elects to be taxed as a corporation.
 - Fee to HFC: Typical share in excess cash flow and sale of the project of 25% - 50% OR annual lease payment (subject to cash flow) and upon sale or refinance a 1.5% gross sale proceeds fee.
 - Fee to HFC: Partnership Management Fee of \$10,000, paid annually increasing by 3%, to cover administrative and accounting expenses
 - **Ground Lessor**
 - Formed to own the land on which the development is located. Leases land back to borrower pursuant to long-term lease. Lease will have an up-front lease payment sufficient to acquire land.
 - **Co-Developer**
 - Formed to enter development agreement with development entity to construct project on leased land.
 - Fee to HFC: Typical share in developer fee of 20% - 40%
 - **General Contractor**
 - Enters a construction contract (and subcontract) with the construction company to bring about a sales tax exemption for the purchase of materials.
 - Fee to HFC: Typical share in sales tax savings of 25% or 1.5% of the hard construction costs.

PARTNERSHIP STRUCTURE

ADVANTAGES



The HFC will have more leverage to require certain services provided to residents of a particular development as the General Partner of the owner.



As General Partner, the HFC can receive a share of the developer fee and/or net cash flow generated from the project and/or an annual lease payment based off the percent of taxes abated. These funds are generally received for a minimum affordability period and would provide a predictable revenue stream for the HFC. The funds could be used to assist the HFC in furthering their affordable housing initiatives.



The HFC may also participate as the general contractor to allow a sales tax exemption on the hard construction materials. The HFC would subcontract through a joint venture contract to a sub-contractor to perform the actual duties of the general contractor, but the HFC would receive a fee for their role as general contractor.



The HFC is granted a right of first refusal (ROFR) and has the option to purchase the property at a price equal to the market value.



The HFC is ensuring long-term viability of the project and is providing affordable housing for as long as possible.



The HFC can function as a part of a comprehensive housing and economic development strategy.

PARTNERSHIP STRUCTURE

DISADVANTAGES/ BURDENS



The HFC could take on business risk of investing time and resources into projects that may not provide a substantial return for a long period of time.

If the project does not appreciate and does not cash flow, there is no liability to the HFC.



The separate limited liability companies require administrative oversight.



Liability risk from “slip and fall” type cases, but that is limited and minimized to the separate subsidiary entities.



Political risk

MULTIFAMILY REVENUE BOND BASICS

COLLIN COUNTY RENT AND INCOME LIMITS

Income Limits for 2025							
Persons	60%	50%	70%	80%	100%	120%	140%
1 Persons	\$49,320	\$41,100	\$57,540	\$65,760	\$82,200	\$98,640	\$115,080
2 Persons	\$56,340	\$46,950	\$65,730	\$75,120	\$93,900	\$112,680	\$131,460
3 Persons	\$63,360	\$52,800	\$73,920	\$84,480	\$105,600	\$126,720	\$147,840
4 Persons	\$70,380	\$58,650	\$82,110	\$93,840	\$117,300	\$140,760	\$164,220

Rent Limits for 2025							
Bedrooms (People)	60%	50%	70%	80%	100%	120%	140%
Efficiency (1)	\$1,233	\$1,027	\$1,438	\$1,644	\$2,055	\$2,466	\$2,877
1 Bedrooms(1.5)	\$1,320	\$1,100	\$1,540	\$1,761	\$2,201	\$2,641	\$3,081
2 Bedrooms(3)	\$1,584	\$1,320	\$1,848	\$2,112	\$2,640	\$3,168	\$3,696
3 Bedrooms(4.5)	\$1,830	\$1,525	\$2,135	\$2,440	\$3,050	\$3,660	\$4,270

Regulatory Disclosures

MUNICIPAL ADVISOR DISCLOSURE STATEMENT

This disclosure statement (“Conflict Disclosures”) is provided by Hilltop Securities Inc. (“the Firm”) to disclose information regarding conflicts of interest and legal or disciplinary events of the Firm that are required to be disclosed to potential clients pursuant to MSRB Rule G-42(b) and (c)(ii).

PART A – Disclosures of Conflicts of Interest

MSRB Rule G-42 requires that municipal advisors provide to their clients disclosures relating to any actual or potential material conflicts of interest, including certain categories of potential conflicts of interest identified in Rule G-42, if applicable.

Material Conflicts of Interest – The Firm makes the disclosures set forth below with respect to material conflicts of interest in connection with the Scope of Services under the Agreement with the Firm, together with explanations of how the Firm addresses or intends to manage or mitigate each conflict.

General Mitigations – As general mitigations of the Firm’s conflicts, with respect to all of the conflicts disclosed below, the Firm mitigates such conflicts through its adherence to its fiduciary duty to clients, which includes a duty of loyalty to clients in performing all municipal advisory activities for clients. This duty of loyalty obligates the Firm to deal honestly and with the utmost good faith with client and to act in the client’s best interests without regard to the Firm’s financial or other interests. In addition, because the Firm is a broker-dealer with significant capital due to the nature of its overall business, the success and profitability of the Firm is not dependent on maximizing short-term revenue generated from individualized recommendations to its clients but instead is dependent on long-term profitability built on a foundation of integrity, quality of service and strict adherence to its fiduciary duty. Furthermore, the Firm’s municipal advisory supervisory structure, leveraging our long-standing and comprehensive broker-dealer supervisory processes and practices, provides strong safeguards against individual representatives of the Firm potentially departing from their regulatory duties due to personal interests. The disclosures below describe, as applicable, any additional mitigations that may be relevant with respect to any specific conflict disclosed below.

I. Affiliate Conflict. The Firm, directly and through affiliated companies, provides or may provide services/advice/products to or on behalf of clients that are related to the Firm’s advisory activities. Hilltop Securities Asset Management (HSAM), a SEC-registered affiliate of the Firm, provides post issuance services including arbitrage rebate and treasury management. The Firm’s arbitrage team verifies rebate and yield restrictions on the investments of bond proceeds on behalf of clients in order to meet IRS restrictions. The treasury management division performs portfolio management/advisor services on behalf of public sector clients. The Firm, through affiliate Hilltop Securities Asset Management (HSAM), provides a multi-employer trust tailor-made for public entities which allows them to prefund Other Post-Employment Benefit liabilities. The Firm has a structured products desk that provides advice to help clients mitigate risk through investment management, debt management and commodity price risk management products. These products consist of but are not limited to swaps (interest rate, currency, commodity), options, repos, escrow structuring and other securities. Continuing Disclosure services provided by the Firm work with issuers to assist them in meeting disclosure requirements set forth in SEC rule 15c2-12. Services include but are not limited to ongoing maintenance of issuer compliance, automatic tracking of issuer’s annual filings and public notification of material events. The Firm administers government investment pools. These programs offer governmental entities investment options for their cash management programs based on the entities specific needs. The Firm and the aforementioned affiliate’s business with a client could create an incentive for the Firm to recommend to a client a course of action designed to increase the level of a client’s business activities with the affiliates or to recommend against a course of action that would reduce or eliminate a client’s business activities with the affiliates. This potential conflict is mitigated by the fact that the Firm and affiliates are subject to their own comprehensive regulatory regimes.

II. PlainsCapital Bank Affiliate Conflict. The Firm, directly and through affiliated companies, provides or may provide services/advice/products to or on behalf of clients that are related to the Firm’s advisory activities. Affiliate, PlainsCapital Bank, provides banking services to municipalities including loans and custody. The Firm and the aforementioned affiliate’s business with a client could create an incentive for the Firm to recommend to a client a course of action designed to increase the level of a client’s business activities with the affiliates or to recommend against a course of action that would reduce or eliminate a client’s business activities with the affiliates. This potential conflict is mitigated by the fact that the Firm and affiliates are subject to their own comprehensive regulatory regimes.

MUNICIPAL ADVISOR DISCLOSURE STATEMENT (CONTINUED)

III. Other Municipal Advisor or Underwriting Relationships. The Firm serves a wide variety of other clients that may from time to time have interests that could have a direct or indirect impact on the interests of other clients. For example, the Firm serves as municipal advisor to other municipal advisory clients and, in such cases, owes a regulatory duty to such other clients just as it does to all its municipal advisory clients. These other clients may, from time to time and depending on the specific circumstances, have competing interests, such as accessing the new issue market with the most advantageous timing and with limited competition at the time of the offering. In acting in the interests of its various clients, the Firm could potentially face a conflict of interest arising from these competing client interests. In other cases, as a broker-dealer that engages in underwritings of new issuances of municipal securities by other municipal entities, the interests of the Firm to achieve a successful and profitable underwriting for its municipal entity underwriting clients could potentially constitute a conflict of interest if, as in the example above, the municipal entities that the Firm serves as underwriter or municipal advisor have competing interests in seeking to access the new issue market with the most advantageous timing and with limited competition at the time of the offering. None of these other engagements or relationships would impair the Firm's ability to fulfill its regulatory duties to any specific client.

IV. Secondary Market Transactions in Client's Securities. The Firm, in connection with its sales and trading activities, may take a principal position in securities, including securities of its clients, and therefore the Firm could have interests in conflict with a client with respect to the value of the client's securities while held in inventory and the levels of mark-up or mark-down that may be available in connection with purchases and sales thereof. In particular, the Firm or its affiliates may submit orders for and acquire a municipal advisory client's securities issued in an issue under a municipal advisory agreement from members of the underwriting syndicate, either for its own account or for the accounts of its customers. This activity may result in a conflict of interest with the client in that it could create the incentive for the Firm to make recommendations to the client that could result in more advantageous pricing of the client's bond in the marketplace. Any such conflict is mitigated by means of such activities being engaged in on customary terms through units of the Firm that operate independently from the Firm's municipal advisory business, thereby reducing the likelihood that such investment activities would have an impact on the services provided by the Firm to any client under a municipal advisory agreement.

V. Broker-Dealer and Investment Advisory Business. The Firm is dually registered as a broker-dealer and an investment advisor that engages in a broad range of securities-related activities to service its clients, in addition to serving as a municipal advisor or underwriter. Such securities-related activities, which may include but are not limited to the buying and selling of new issue and outstanding securities and investment advice in connection with such securities, including securities of the firm's municipal advisory clients, may be undertaken on behalf of, or as counterparty to, the client, personnel of the client, and current or potential investors in the securities of the client. These other clients may, from time to time and depending on the specific circumstances, have interests in conflict with those of the Firm's municipal advisory clients, such as when their buying or selling of the municipal advisory client's securities may have an adverse effect on the market for municipal advisory client's securities, and the interests of such other clients could create the incentive for the Firm to make recommendations to the municipal advisory client that could result in more advantageous pricing for the other clients. Furthermore, any potential conflict arising from the firm effecting or otherwise assisting such other clients in connection with such transactions is mitigated by means of such activities being engaged in on customary terms through units of the Firm that operate independently from the Firm's municipal advisory business, thereby reducing the likelihood that the interests of such other clients would have an impact on the services provided by the Firm to its municipal advisory clients.

VI. Compensation-Based Conflicts. Fees that are based on the size of the issue are contingent upon the delivery of the Issue. While this form of compensation is customary in the municipal securities market, this may present a conflict because it could create an incentive for the Firm to recommend unnecessary financings or financings that are disadvantageous to its clients, or to advise clients to increase the size of the issue. This conflict of interest is mitigated by the general mitigations described above.

Fees based on a fixed amount are usually based upon an analysis by the client and the Firm of, among other things, the expected duration and complexity of the transaction and the scope of municipal services to be performed by the Firm. This form of compensation presents a potential conflict of interest because, if the transaction requires more work than originally contemplated, the Firm may suffer a loss. Thus, the Firm may recommend less time-consuming alternatives, or fail to do a thorough analysis of alternatives. This conflict of interest is mitigated by the general mitigations described above.

MUNICIPAL ADVISOR DISCLOSURE STATEMENT (CONTINUED)

Hourly fees are calculated with, the aggregate amount equaling the number of hours worked by Firm personnel times an agreed-upon hourly billing rate. This form of compensation presents a potential conflict of interest if the client and the Firm do not agree on a reasonable maximum amount at the outset of the engagement, because the Firm does not have a financial incentive to recommend alternatives that would result in fewer hours worked. This conflict of interest is mitigated by the general mitigations described above.

PART B – Disclosures of Information Regarding Legal Events and Disciplinary History

MSRB Rule G-42 requires that municipal advisors provide to their clients certain disclosures of legal or disciplinary events material to its client's evaluation of the municipal advisor or the integrity of the municipal advisor's management or advisory personnel. Accordingly, the Firm sets out below required disclosures and related information in connection with such disclosures.

I. Material Legal or Disciplinary Event. The Firm discloses the following legal or disciplinary events that may be material to Client's evaluation of the Firm or the integrity of the Firm's management or advisory personnel:

- For related disciplinary actions please refer to the Firm's [BrokerCheck](#) webpage.
- From July 2011 to October 2015, Hilltop failed to submit required MSRB Rule G-32 information to EMMA in connection with 122 primary offerings of municipal securities for which the Firm served as placement agent. During the period January 2012 to September 2015, the Firm failed to provide MSRB Rule G-17 letters to issuers in connection with 119 of the 122 offerings referenced above. From October 2014 to September 2015, the Firm failed to report on Form MSRB G-37 that it had engaged in municipal securities business as placement agent for 45 of these 122 offerings. This failure was a result of a misunderstanding by one branch office of Southwest Securities. Hilltop discovered these failures during the merger of FirstSouthwest and Southwest Securities and voluntarily reported them to FINRA. The Firm paid a fine of \$100,000 for these self-reported violations.
- In connection with a settlement on July 9, 2021, the U.S. Securities and Exchange Commission found that, between January 2016 and April 2018, the Firm bought municipal bonds for its own account from another broker-dealer and that, on occasion during that time period, the other broker-dealer mischaracterized the Firm's orders when placing them with the lead underwriter. The SEC found that, among other things, the Firm lacked policies and procedures with respect to how stock orders were submitted for new issues bonds to third parties, including the broker-dealer that mischaracterized the Firm's orders. The SEC found violations of MSRB Rules G-27, G-17, and SEC rule 15B(c)(1) and a failure to reasonably supervise within the meaning of Section 15(b)(4)(E) of the Securities Exchange Act of 1934. The Firm was censured and ordered to pay disgorgement of \$206,606, prejudgment interest of \$48,587 and a penalty of \$85,000.
- On August 14, 2024, the Securities and Exchange Commission ("SEC") entered into a settlement order with Hilltop Securities Inc. ("Hilltop") to settle an administrative action finding that Hilltop failed to (1) maintain and preserve off-channel communications related to Hilltop's broker-dealer business, as well as related to recommendations made or proposed to be made and advice given or proposed to be given with respect to Hilltop's investment advisory business; and (2) reasonably supervise its personnel with a view to preventing or detecting certain of its personnel's aiding and abetting violations of certain provisions of the federal securities laws. Hilltop admitted to the facts in the settlement order, acknowledged its conduct violated the federal securities laws, and agreed to: (a) a cease-and-desist order, (b) a censure, (c) payment of a civil monetary penalty in the amount of \$1,600,000, and (d) certain undertakings related to the retention of electronic communications.

MUNICIPAL ADVISOR DISCLOSURE STATEMENT (CONTINUED)

II. How to Access Form MA and Form MA-I Filings. The Firm's most recent Form MA and each most recent Form MA-I filed with the SEC are available on the SEC's EDGAR system at Forms MA and MA-I. The SEC permits certain items of information required on Form MA or MA-I to be provided by reference to such required information already filed by the Firms in its capacity as a broker-dealer on Form BD or Form U4 or as an investment adviser on Form ADV, as applicable. Information provided by the Firm on Form BD or Form U4 is publicly accessible through reports generated by BrokerCheck at <http://brokercheck.finra.org> and the Firm's most recent Form ADV is publicly accessible at the Investment Adviser Public Disclosure website at <http://www.adviserinfo.sec.gov>. For purposes of accessing such BrokerCheck reports or Form ADV, click previous hyperlinks.

PART C – MSRB Rule G-10 Disclosure

MSRB Rule G-10 covers Investor and Municipal Advisory Client education and protection. This rule requires that municipal advisors make certain disclosures to all municipal advisory clients. This communication is a disclosure only and does not require any action by the firm's municipal advisory clients. The disclosures are noted below.

Hilltop Securities Inc. is registered with the U.S. Securities and Exchange Commission and the Municipal Securities Rulemaking Board as a Municipal Advisor.

You can access the website for the Municipal Securities Rulemaking Board at www.msrb.org

The Municipal Securities Rulemaking Board has posted a municipal advisory client brochure. A copy of the brochure is attached to the memo. This link will take you to the electronic version MA-Clients-Brochure.

PART D – Future Supplemental Disclosures

As required by MSRB Rule G-42, this Municipal Advisor Disclosure Statement may be supplemented or amended, from time to time as needed, to reflect changed circumstances resulting in new conflicts of interest or changes in the conflicts of interest described above, or to provide updated information with regard to any legal or disciplinary events of the Firm. The Firm will provide Client with any such supplement or amendment as it becomes available throughout the term of the Agreement.

