STATE OF CALIFORNIA

CALIFORNIA HOUSING FINANCE AGENCY

BOARD OF DIRECTORS

PUBLIC MEETING

Burbank Airport Marriott Hotel
2500 Hollywood Way
Burbank, California

Friday, March 26, 2010
9:30 a.m. to 1:00 p.m.

Minutes approved by the Board of Directors at its meeting held:

Attest: May 12, 2010

Reported by: DANIEL P. FELDHAUS, CSR #6949, RDR, CRR

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A P P E A R A N C E S

Board of Directors Present

PETER N. CAREY
(Acting Board Chair)
President/CEO
Self-Help Enterprises

KATIE CARROLL
for BILL LOCKYER
State Treasurer
State of California

MICHAEL A. GUNNING
Vice President
Personal Insurance Federation of California

PAUL C. HUDSON
Chairman/CEO
Broadway Federal Bank

JONATHAN HUNTER
Managing Director, Region II
Corporation for Supportive Housing

LYNN L. JACOBS
Director
Department of Housing and Community Development
State of California

FRED KLASS
for ANA J. MATOSANTOS
Director
Department of Finance
State of California

BARBARA MACRI-ORTIZ
Attorney at Law
Law Office of Barbara Macri-Ortiz

A P P E A R A N C E S

Board of Directors Present
Continued

HEATHER PETERS
for DALE E. BONNER, Secretary
Business, Transportation, and Housing Agency
State of California

JACK SHINE
Chairman
American Beauty Development Co.

L. STEVEN SPEARS
Acting Executive Director
California Housing Finance Agency
State of California

BROOKS TAYLOR
For CATHERINE COX, Acting Director
Office of Planning & Research
State of California

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Participating CalHFA Staff:

MARGARET ALVAREZ
Director of Asset Management

GARY M. BRAUNSTEIN
Special Advisor to Executive Director
and
Acting Director of Homeownership

ROBERT L. DEANER II
Director of Multifamily Programs

BRUCE D. GILBERTSON
Director of Financing

LORALYN HAMAHASHI
Deputy Comptroller
Fiscal Services

APPEARANCES

Participating CalHFA Staff:
continued

THOMAS C. HUGHES
General Counsel

HOWARD IWATA
Director of Administration
and
Acting Director of Fiscal Services

CHARLES K. McMANUS
Director of Mortgage Insurance Services

LIANE WATANABE MORGAN
Acting CIO
Information Technology

JOJO OJIMA
Office of the General Counsel

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Public Testimony

STEPHANIE HAFFNER
Neighborhood Legal Services

YVONNE MARIA JIMENEZ
Neighborhood Legal Services

REV. JOHN A. LASSEIGNE
Mary Immaculate Catholic Church
Pocoima, California

DOUGLAS W. SWOGER
Los Angeles Housing Department

ROBERT ZAMORA
American Housing Partners

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BE IT REMEMBERED that on Friday, March 26, 2010, commencing at the hour of 9:37 a.m., at the Burbank Airport Marriott Hotel, 2500 Hollywood Way, Burbank, California, before me, DANIEL P. FELDHAUS, CSR #6949, RDR and CRR, the following proceedings were held:

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CHAIR CAREY: This is the March 26^{th} meeting of the California Housing Finance Agency.

Our first order of business is roll call.

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Item 1. Roll Call

MS. OJIMA: Thank you.

Ms. Peters for Mr. Bonner?

MS. PETERS: Here.

MS. OJIMA: Mr. Gunning?

MR. GUNNING: Here.

MS. OJIMA: Mr. Hudson?

(No response.)

MS. OJIMA: Mr. Hunter?

MR. HUNTER: Here.

MS. OJIMA: Ms. Jacobs?

MS. JACOBS: Here.

MS. OJIMA: Ms. Carroll for Mr. Lockyer?

MS. CARROLL: Here.

MS. OJIMA: Ms. Macri-Ortiz?

MS. MACRI-ORTIZ: Here.

MS. OJIMA: Mr. Shine?

MR. SHINE: Here.

MS. OJIMA: Mr. Smith?

(No response.)

MS. OJIMA: Mr. Taylor for Ms. Cox?

MR. TAYLOR: Here.

MS. OJIMA: Mr. Klass for Ms. Matosantos?

(No response.)

MS. OJIMA: Mr. Spears?

MR. SPEARS: Here.

MS. OJIMA: Mr. Carey?

CHAIR CAREY: Here.

MS. OJIMA: We have a quorum.

CHAIR CAREY: Thank you.

And welcome, everybody.

Our first and -- because we're anticipating a couple more Board members -- a couple of Board members joining us, still -- I know there's been some difficult traffic out there -- we will shift the agenda around a little bit with the Board's patience.

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Item 2. Approval of Minutes

CHAIR CAREY: Our first item of business is approval of the minutes of February 25^{th}.

MS. JACOBS: Move approval.

MS. PETERS: Second.

CHAIR CAREY: We have a motion and a second. Any discussion?

MR. HUNTER: I just would note, my job title is "managing director," not "managing partner."

CHAIR CAREY: Okay, further comments? Corrections?

(No response)

CHAIR CAREY: Roll call, please.

MS. OJIMA: Thank you.

Ms. Peters?

MS. PETERS: Yes.

MS. OJIMA: Mr. Gunning?

MR. GUNNING: Yes.

MS. OJIMA: Mr. Hunter?

MR. HUNTER: Yes.

MS. OJIMA: Ms. Jacobs?

MS. JACOBS: Yes.

MS. OJIMA: Ms. Carroll?

MS. CARROLL: Yes.

MS. OJIMA: Ms. Macri-Ortiz?

MS. MACRI-ORTIZ: Yes.

MS. OJIMA: Mr. Shine?

MR. SHINE: Abstain.

MS. OJIMA: Thank you.

Mr. Carey?

CHAIR CAREY: Yes.

MS. OJIMA: The minutes have been approved.

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Item 3. Chairman/Executive Director Comments

CHAIR CAREY: Okay, Item 3, I would just like to reiterate my appreciation to all my peers and staff for yesterday's discussion. I think it was very productive. I don't think we want to keep meeting daily, but I'm glad that we were able to take the time yesterday and pursue that conversation.

With that, I do want to mention, for those who are here, we do have parking passes.

(Mr. Hudson entered the meeting room.)

CHAIR CAREY: And let the record show that Mr. Hudson is here.

With that, I'd like to now turn it over to Steve, our executive director.

MR. SPEARS: Thank you, Mr. Chairman.

I'll make my comments very brief.

One of the main things we're going to do today is provide for you an update to the business plan for your comments. We do this traditionally -- we talked about this yesterday -- the process is generally at the

January meeting, we update you midyear on the business plan. In March, we propose an update to what normally is a five-year business plan; but last summer, if you will recall, the Board felt more comfortable doing a two-year business plan update as we go along.

So we'll give you the next fiscal year.

The general idea of this is to present to you, have your comments -- we understand that you're seeing this for the first time. You know, we'll gladly discuss it further down the road; but the ultimate plan is to present a final business plan for your consideration and action, acceptance, and an operating budget to go with it at the May meeting.

Remember, last year that was delayed a little bit because the Federal HFA initiative was in the process, and there was some uncertainty with how that was going to go. So we delayed all this process to the May and July Board meeting. We'd like to get back on track this year.

So I guess I'd just like to emphasize that I know you're seeing this concept for the first time. We'd appreciate any comments you feel like making today. But we're happy to receive comments from you later, by e-mail, by phone. We really value your input on this.

CHAIR CAREY: Thank you, Steve.

We'll go ahead and move Items 6 and 7 ahead of the rest of the agenda, if that's all right.

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Item 6. Update on Development of Federal TARP Program

CHAIR CAREY: And we'll start with Item 6, which is the update on the development of the Federal TARP program.

MR. SPEARS: I'm going to do this update because our project leader on this is Di Richardson, and I told her to stay at home and work on this. So that's what she's doing. In fact, there are several conference calls today.

Let me just step back. If you will recall, I think it was the day of our last meeting that the Federal government announced that this program was coming down. It's a total of $1.5 billion. The source, TARP funds. It's coming from the United States Treasury, in a program designed for foreclosure prevention. The allocation decision was made after this board met last time. And the amount allocated to the state of California is $699.6 million. So we've just been referring to it generally as $700 million. What's a mere $400,000? We just round it up.

Guidelines were published after that -- and there are three objectives to the program: Helping the unemployed borrower, helping the underwater borrower, and helping the borrower that has a second that is preventing loan modification.

There are seven pages of guidelines. Much of the guidelines had to do with the process that was going to be involved. But the Treasury emphasized several times that they were trying to be flexible, they were trying to allow the individual states to come up with programs that addressed problems in individual states, and I believe I neglected to mention the five states. Besides California, there's Arizona, Nevada, Florida, and Michigan.

And as you might guess, some of the other states may have different issues that, in talking to the executive directors of Nevada and Arizona, we seem to have some common issues. And there is some interest in developing a common program, at least, between the three western states to go and present a unified program, if you will -- at least a core program to the servicers. Rather than have the servicers have to deal with five different states and five different programs and have to shift gears, there seems to be some value in trying to put together a common program. So there's that aspect.

So what have we been doing? We've been meeting personally with, and having conference calls and collecting information from a huge variety.

First of all, we've been on the phone and met with Treasury officials several different times. And although they've sort of worded this as, "We want you to be flexible and innovative," they then call back and say, "So what do you guys think about it?" Because I think they want to be sure that whatever we're thinking about is inside the box of TARP.

And if we -- they've had some of the other states already present ideas to them. I don't know what they were. But I just know that some of their ideas were shot down. So they do want to have this sort of pre-application process where you're in contact with Treasury so you don't present something to them for approval that they have to reject.

So here's the process for Treasury:

They need a detailed business plan by April 16^{th} and a detailed cost by April 16^{th}. Obviously, not very much time.

Treasury will then take a six- to eight-week period where they will approve the program that's presented. And once the program is presented, then we're allocated the money.

And people have asked, "Well, does that mean they're going to wire us $699.6 million? How does" --

that's not been discussed.

I'm assuming if we qualify for the money, we'd get the money. There's been nothing talked about it being paid out over time. So we're really focused on gathering information and meeting with various constituents right now.

So we'll let you know if our fund balance is going to need to be increased by $699.6 million.

There is an issue with the TARP funds cannot go to a state entity. We have to have a special-purpose entity to receive this money, a nonprofit organization which Tom is working that part. And the sole reason for it being set up is to receive this. If we don't have this, we don't get the money. So it's just a technicality really.

So in the meantime, we're trying to collect as much input as we can. We wanted to find out from servicers as much information. We've met with servicers by phone: Wells, Guild, Bank of America, JPMorgan Chase, Citi. We've also met with a number of counselors and been on the phone with counselors and advocates. And we've met with Fannie Mae individually, because a lot of the loans that will be helped will be conforming loans, and a lot of those are owned by Fannie Mae and Freddie Mac. And if we can get their approval of whatever happens, then that gives the servicers the green light and shortens the time frame to get a loan modified. So we think that's a good idea.

And we've also had several calls with the Federal Reserve Bank of New York, who has been a repository of information all across the country about average loan size, borrowers' income -- all sorts of really valuable data, so that we can help size this program. Because the main thing for us is to try to get as much out of this $700 million as we can to the most needy borrowers, in the least amount of time. And if we design a program that tries to do too much, that will be disappointing; if we're not reaching enough people, that will be disappointing. We're just trying to find the sweet spot, if you will, where we can get the most.

So speed is important, simplicity is important, and leverage is important.

We're going to try to see if -- how far we can push it to get banks, investors, servicers to give up various elements, whether it's penalties, past-due fees, arrearages of various kinds, loan balance. We're trying to find out if we can leverage this $700 million to make it $1 billion or $1.2 billion or $1.4 billion. Double it would be really great.

So that's what we're doing.

The final thing I wanted to say is, we are having some public working sessions next week in San Diego, San Bernardino, and Modesto, three hard-hit areas; and have roundtable working sessions. Rather than just take testimony and say, "Thank you very much," really sitting down with folks and trying to pencil out some things that really work and having an interchange of ideas and information.

So with that, Mr. Chairman, I'd open it up to the Board members for questions.

MR. GUNNING: I've already gotten a couple calls asking, "Hey, you're on the Board. What are you going to do with all this money?"

Are there plans to reach out to other communities? Or help me understand selection, or -- have we figured that part out or…

MR. SPEARS: Because it's a borrower-based program -- the quote that the President had in the town hall meeting when he announced this in the Nevada town hall meeting, is that we're going to help unemployed borrowers, we're going to help with preventable foreclosures.

And so it's not, per se, a community-based; but there are communities with high unemployment and whole subdivisions of people who are in trouble.

There are a million people in California today that have some sort of a problem with their mortgage payment.

If you just take the $700 million and divide it by $25,000, if we spent $25,000 per borrower on average, for whatever benefits we decide -- that's 28,000 borrowers. So I would never appear ungrateful for a second, but it is a drop in the bucket, really. So we need to make sure that this is for the most needy people.

The qualifications that have been talked about are absolutely owner-occupied. We're not going to help any investors.

The second thing is, no investment property. This has got to be your only home. If you have investment property, and you really want to keep that first house, you really ought to think about doing something with the other one.

Low- and moderate-income borrowers, if you get beyond that.

And then at some point -- you know, there are people who are in trouble who are not underwater, you know, for one reason or another. But most of the people are underwater. And so if we did that, there's pretty much agreement that you'd have to be beyond a certain point but within a certain range, because there are going to be folks who are just too far underwater. And that's every counselor has said that to us, that the counselors are seeing folks who are just in a situation where they need to be worked out of the home. They're in too big of a home, they're in the wrong product, you know, they asked for help too late. There's just a number of reasons why somebody would be in a situation where this program won't be able to help.

So there's this range in there of folks that we're going to try to help.

One thing that's not in the guidelines is the help for the underemployed. We've asked Treasury about this several times. They never really have put it into writing. They've said that if underemployment is a problem in your state, then, you know, design your program.

And this would be somebody who, for example, worked for a software systems company in the Bay Area, and they lost that job, and now they're working at an electronics store as a salesperson. They have a good job, it's a paying job; but it's $20,000 less than they were making. And they need help with that underemployment. So that's something that we're going to try to address.

MR. GUNNING: So in the future, refer everybody to you? Call Steve?

MR. SPEARS: Call Steve, call Di. Right.

MR. GUNNING: Right. Call Di.

MR. SPEARS: That's been the case up to this point because we were dealing with a number of issues here and getting ready for the Board. So Di is really -- we have her home working on this, as I said.

CHAIR CAREY: To go beyond that, are you working on how you're going to go about doing whatever it is you're going to do with a little more specificity? And is $25,000 the right number? Or are you not yet at that point to determine that?

(Mr. Klass entered the meeting room.)

MR. SPEARS: I was putting that out there just to give you an indication of --

MR. SHINE: Giving a number, and you're in trouble.

MR. SPEARS: Right, just as an indication of the number of people that we'd be able to help.

Obviously, if you move that up to $50,000, it's only 14,000 people. So that's why we want to leverage. We can reach, you know, a great increase in the number of people if we can leverage some additional concessions out of servicers and investors and banks and that sort of thing.

But to answer your first question about operationally, we could establish a giant bureaucracy and have thousands of people working on this. And I don't think that's the way we get this out the door as fast as possible.

There are some infrastructures in place that we can use. Obviously, the servicers themselves have folks. It's just, there has to be a new day because they're not doing a really great job at this point. So there would have to be an agreement about setting aside, for example, "Okay, we're going to do this with you, servicer, but you have to appoint a group of people to work on this, and that's all they work on." Otherwise, if it just gets lost in the million people that are in trouble in California, I think this program gets lost.

So it's an issue of, you know, of do you set up the state bureaucracy that parallels everything else that's out there, or do you try to work with the system that's there now and try to make it work better than it is now?

MS. PETERS: Steve, I know this is going to sound self-serving. But since CalHFA has its own servicing operation that we have 100 percent control over and since Treasury has set up this program as a pilot -- they've wanted creative ideas, with the idea that they were going to roll it out maybe someday to other states or with greater financial backing, and we have two weeks to design a program, essentially, would it be possible for us to say, "Okay, we're running this through our servicing on our portfolio because we have the greatest amount of control over it?" Or does it need to be moved out to all these different servicers with varying levels of commitment to try and learn a new program when Treasury is coming up with their own thing, apparently, we learned yesterday, at the same time, and the servicers are going to be revamping HAMP and everything together.

I'd hate to get lost in the shuffle because this is only $700 million.

MR. SPEARS: Right, right.

MR. SHINE: If you do the servicing in-house, are you then saying that the market for the utilization of those funds are only to the people in-house?

MS. PETERS: That's why I said, it sounds self-serving.

MR. SHINE: That's true.

CHAIR CAREY: Okay, Ms. Macri-Ortiz?

MS. MACRI-ORTIZ: Yes, the question I have, you're referencing people that are underwater. What is your definition of being underwater? Because there's two things. One, they are people concerned because their house is no longer worth the market, and there's people that are like trying to make that payment every month.

And one of the things I'm seeing, is that the people who are trying the hardest and just kind of hanging on but making that mortgage payment but really need some help are all getting turned down by all of these programs because they're not, you know, six months behind. And then the people that just kind of shine it on, then they get help.

And in terms of ultimately solving somebody's problem that's sustainable, the person maybe that's just barely hanging on that really needs some help to sustain might be a better risk than the people that are just sort of -- you know, what is that line of, you're too far down, you know?

And we're looking at all the down, but we're not looking at the marginal ones that we really realistically might be able to save long-term.

And I don't know, I mean, it's -- I get a lot of calls from people that are in that situation. They say, "I just didn't qualify because I wasn't six months behind on my mortgage," you know.

MR. SPEARS: Let me answer Heather's question first about the "Can we use this money for ourselves?"

A lot of our borrowers will fit this

definition. They're owner-occupied. It's their first and only home, and they are low and moderate, and they are in trouble.

So there is no prohibition using it for ourselves. There has been pushback. I didn't suggest this, but on one of the Treasury calls, I just mentioned something about the characteristics of our own portfolio. And somebody on the other end of the line in apparently a giant, echoey Treasury Department office said, "You're not planning on using this all for yourself, are you?"

So that was just a -- I mean, that's almost an anecdotal reaction, but -- so we get a little pushback. But it's true, I mean, it will be easiest for us to deal with our own loan-servicing department. And we don't have to go and ask permission from anybody else. We're the investor. You know, we own the loans.

But one approach could be that we get approval for the program, we put a short-run pilot program, and we get the mechanics worked out and the bugs worked out, and then we roll it out for the rest.

It's just that people are -- we want to get this out as fast as possible because we want to intercept somebody who -- you know, if we help them out, could be in a sustainable homeownership situation, like we were talking about yesterday, and they can be helped. And we're trying to stop the bleeding, so…

MS. PETERS: I like the idea of starting it in-house and then rolling it out. I know we're trying to be fast; but we want to be --

MR. SPEARS: Good.

MS. PETERS: -- successful.

MR. SPEARS: Yes.

MS. PETERS: And if we do it right in-house and then we roll it out and the other servicers don't do it as well as we do, then Treasury's got something to talk to other servicers about; versus, if we try this shotgun approach where everyone's trying to implement it at the same time and other servicers aren't successful, then we're going to get targeted with the same brush, that it was our fault that we didn't get it done right. Just my thought.

CHAIR CAREY: Mr. Hunter?

MR. HUNTER: So, I'm just having a little problem trying to figure out how you decide what's sustainable for people who are unemployed.

MR. SPEARS: Well, there has been discussion about the difficulty of trying to underwrite a modification for an unemployed person that has no income. And I think it's been pretty well decided you can't do that.

Florida and some other states, and what we've talked about, is setting aside a pool of money, if you are unemployed and you need some help to hang on until you can get employed, the Mortgage Bankers Association, in mid-February, came out with a program called "Bridge to HAMP." If you're unemployed, you can't get a HAMP modification. They came out with a program to get you to the point where you're now employed again and you can qualify for HAMP. It's a, "We'll help you for three months, you can extend that twice." It's a total of nine months of just unemployment benefits. And it goes to help -- you write the check directly to the mortgage company, the servicer, and you get help while you're unemployed.

But the loan modification, the thing that Barbara was talking about, the helping the underwater borrower recast that loan and working out something with the servicer, I think you can only do that with somebody who now has a job.

So you can have somebody who was unemployed for a while, they got in trouble, they're behind 30 -- I mean, 60, 90, you know, or longer on their loan. The bank has been patient, they're trying to work something out, but they had this giant arrearage. Plus, they're now underemployed, they can't afford the payment that's there. That will probably be the most complicated situation that we find, where they're underemployed, they're underwater, they've got an arrearage. That would probably be the most complex thing.

CHAIR CAREY: It does strike me that one of the numbers we'll live with for a long time is the sustainability of what we do. Those numbers float out there already today for existing programs.

And if we are concerned about that number -- and I think we should be for a variety of reasons -- then that forms the design up-front, as Ms. Macri-Ortiz was saying. And the only time to influence that is in the design of programs. You can't do anything about it once the mods are made. It does seem to me that that success is going to be important, not just for this and for the homeowners, but in our future relationships with the Treasury in other things coming down the road.

I thought I saw another hand.

Ms. Jacobs?

MS. JACOBS: I think it would be helpful if we could look at BofA's new program and Wells Fargo's new program and see how we can do something better.

But it would be -- I think when we get further along toward the design, that might be interesting to do a chart of what those programs are doing, since they're big players in California.

MR. SPEARS: We happened to be on the conference call the day that Bank of America announced their program. And so what we'd really rather not do is pay for their program. We'd like to get them -- if they get people to a certain point --

MS. JACOBS: Exactly.

MR. SPEARS: -- maybe we can get people beyond that. But if they get them to the point where it's sustainable with their program --

MS. JACOBS: You don't need to do those deals.

MR. SPEARS: -- then that's --

MS. JACOBS: They don't need us.

MR. SPEARS: -- they don't need us, right.

So I think it's a good idea. We'll do a little side-by-side of what all these different programs are.

CHAIR CAREY: Do you have the sense that, by the 16th, when our proposal goes in, that we'll have a sense that it's on the right track, so we're not waiting for six to eight weeks to find out that it's not what they want?

MR. SPEARS: Yes, I do have the sense that we'll have a pretty good idea from Treasury that what we're submitting fits in TARP, that Treasury will most likely approve it, and they may have some comments about -- or questions, clarification, that sort of thing; because it's a very limited proposal.

I think the main thing that they'll have questions about are cost. And just for the record, I think any of you who have gotten Federal funds in the past know that the cost of administering the program will come out of the grant.

We asked if it could possibly come -- the costs come outside the 700. So all the 700 could go to benefits. That got turned down, but we did ask.

MS. PETERS: Just a question about the other four states.

I seem to remember from other Board meetings, that we were fairly unique in holding all the real-estate risk ourselves.

Do the other four states hold loans or are they holding MBS?

MR. SPEARS: Arizona is a whole-loan state, Florida is a big MBS state. And Michigan -- I think Bruce knows this, Michigan is MBS --

MR. GILBERTSON: A big FHA state.

MR. SPEARS: Oh, a big FHA state. So they don't have the issues that we have.

And even Arizona doesn't have the magnitude. I had a very long conversation with their executive director two days ago, and he freely admitted that they aren't anywhere close. But they also got a hundred and -- $152 million to our 700.

MS. PETERS: It might be a way for us to set ourselves apart with Treasury and say, "This is why we want to use it on our portfolio," because we have the ability as the holder of the note to make significant impact quickly.

MR. SPEARS: We've also had a conversation with them that our bond indentures, you know, box us in. So we're a little bit different than a private investor or private-sector bank, so -- and they understand that. They said, "We get that."

One of the reasons why HFAs were allocated this money is because they -- and Treasury was very explicit about this up-front -- I'm hurting my arm, patting us on the back -- but the program that came out last year, even though it took them a long time to get there, we executed a $5.2 billion program in California, it was $25 billion nationally. That got done in eight weeks. All the bonds were closed. All the liquidity facilities were closed. And that was very impressive to them. So, they decided that if we could do it quickly like that, then maybe we could do something quickly with this so we are under the microscope.

MS. CARROLL: How important is it to Treasury that we leverage the money? Because I'm just wondering in our own portfolio, because of the bond indentures, we probably can't leverage that much at the Agency, because we hold the loan and can't write it down, so to speak.

Is that a factor?

MR. SPEARS: If I recall correctly, leveraging is not in the guidelines.

MS. CARROLL: Okay.

MR. SPEARS: But, obviously, they like the idea. And in the conversations, they have said if you can work out something where this is leveraged to a much bigger number and it makes the program more successful, then we like that. So it's not official.

I'm trying to remember -- I don't think it's in the guidelines or the press release. And those are the only two official documents that have come out on this so far.

MS. CARROLL: Thank you.

CHAIR CAREY: Ms. Macri-Ortiz?

MS. MACRI-ORTIZ: One thing, if we are going to do stuff with banks and unemployed, it seems like a partnership -- I mean, helping the unemployed, if we're talking about a temporary fix, it's getting some agreement from the banks to maybe take, okay, three months of this -- hold the loan for three months and put three months on it at the back end. It's not a hard thing to do a temporary thing for unemployed. And maybe some money can be used for something, I don't know.

But that is not -- see, I see it -- if we get into a temporary thing, where we're giving money to banks, paying people's mortgage for three months, okay, the way I look at it, we're just helping the banks. Because the chances of the person actually succeeding are going to be very tough in our market. You know, it's, what, 12 and a half percent was the unemployment today. It's not going to be easy.

And it's going to get worse because we're going to see the counties now and the school districts; and, you know, we're going to start seeing government unemployment.

So if we do anything with unemployed and banks where we are partnering, I think we need to be pushing them to extend the mortgage term by the three months or something as a way -- kind of a safe area that they have for people to get on their feet. Otherwise, we're just giving away money to the banks, I think, ultimately. So we're going to have to do that.

CHAIR CAREY: Other comments on this?

(No response)

Item 10. Public Testimony

CHAIR CAREY: Okay, what we're going to do, I understand that we have some folks that would like to make comments perhaps on this or on other items to the Board. And just in respect to them, so that they don't have to sit while we're in closed session, I'm going to go ahead and open the public-comment period, and then we will adjourn to closed session.

I open the public-comment period early in consideration for those who are here to speak. And, in return, I'd ask that you be as concise and to the point as possible because we do have an agenda ahead of us. And this is our second-day meeting, and many of us have other things that we need to get back to.

So with that, I'm going to open up for public comment if there are people here who would like to address an item on the agenda or off the agenda, recognizing that the Board cannot take any action on any items that are not agendized.

I see -- okay, first and then second.

MS. JIMENEZ: Good morning, distinguished Members of this Board.

I am Yvonne Maria Jimenez. I'm the deputy director of Neighborhood Legal Services of Los Angeles County. It's a private nonprofit law firm funded to work and represent low- and moderate-income families residing in the County of Los Angeles in civil matters.

Our law firm is a member of One LA, an affiliate of the Industrial Areas Foundation. The Industrial Areas Foundation is an organization of organizations here in Los Angeles. We have about 75 county-wide. The organization consists of institutions such as faith-based institutions, schools, unions, and nonprofits.

One LA-IAF has been working on a strategy to effectively address the foreclosure crisis. And we are working with our affiliates in the states of Nevada and Arizona and our sister organization in Northern California.

And we have designed a strategy that meaningfully addresses the needs of homeowners, investors, and main street at large.

As Mr. Spears indicated this morning, we're fortunate to have the $700 million allocated to California. However, it's a drop in the bucket to address the magnitude of the crisis facing California.

There is a tension and challenge that we face now, and that is the challenge of just getting the money out and using it, and really looking at effective, innovative programs that are shovel-ready to go, to really address this crisis.

What we need is a principal-reduction program, strategy that is uniform and transparent, that is sustainable and permanent, and goes to stabilizing our housing market and our economy.

The One LA-IAF program is a principal-reduction pilot project that is shovel-ready. It has been adopted and endorsed by the City of Los Angeles. The City of Los Angeles has allocated a million dollars to implement a very tiny project in a hard-hit area in the City of Los Angeles to demonstrate that the project works.

One LA-IAF has been in serious negotiations with four of the major banks: Bank of America, Wells Fargo, JPMorgan Chase, and OneWest, formerly IndyMac. Bank of America has committed to participate in this strategy.

Ms. Jacobs just indicated this morning that we need to work with proposals such as Bank of America, but to improve upon them. And this is what this proposal does. It also brings together to the table the banks and servicers, the community main street, and the City of Los Angeles.

The City of Los Angeles, the Los Angeles Housing Department is ready, willing, and able, and has the competency to administer this project.

The Obama proposal, while it is well-structured -- while it is well-intentioned and incorporates principal reduction, it's doomed to failure because it's overly bureaucratic. It's unilateral. It's by invitation only. Bank of America will administer it. The earned forgiveness is over time and it's fraught with problems. Because to date, servicers and banks have shown and demonstrate that they cannot administer these programs.

The HAMP program is just fraught with problems. Our homeowners' documents are lost.

We are a law firm. We're overseeing the modifications coming in. They represent them to be HAMP modifications when, in fact, they're not. And it's not until they're challenged on it that they come back with the HAMP modifications.

So I urge you to seriously consider innovative projects that are shovel-ready and will effectively assist main street, meet the interest of investors, and begin seriously stabilizing our housing market in our community.

I'd like my colleague, Stephanie Haffner, to give you a little more detail about how it works.

MS. HAFFNER: Good morning. My name is Stephanie Haffner. I'm the supervision attorney for housing and consumer law with Neighborhood Legal Services, working with Yvonne Maria Jimenez at Neighborhood Legal Services.

The loan-modification pilot that Yvonne has described uses a silent second lien as leverage for far greater immediate principal reduction for homeowners who have severe negative equity. And the City of Los Angeles, as you know, has a small pilot, ready to go for support on a larger scale.

Under this pilot, the City will make a small, silent loan to a borrower -- give them one -- payable to the bank in exchange for the bank's reduction of principal toward current market value.

The pilot is an improvement on the Home Affordable Modification Program for loan modification.

Under the current Home Affordable loan-modification program, the President's -- Obama plan, the current process is to first reduce interest, then extend the term of the loan. And then if a borrower still needs additional assistance to get to an affordable payment, to defer a portion of principal.

What this pilot does, is it addresses the portion of deferred principal while still keeping a homeowner at an affordable payment.

The deferred principal is addressed through an immediate payment in the form of a silent lien, and that immediate payment is in the amount of the present value of that deferred principal.

And all of you deal in housing finance, so you know that that $100,000, $200,000 deferred principal amount, which is what we see in current HAMP modifications, that the present value of that, as opposed to the value of it 40 years out, is quite minimal. And so we think that a silent lien can help homeowners in the amount of between $15,000 and $25,000; and while still being in the financial interest of investors in mortgages, get the homeowners to an affordable payment and to a reasonable principal amount.

When their home is at a reasonable principal value, then they are likely to be able to stay in their home long-term, unlike under current policies.

Under current policies, current modifications, homeowners are extremely likely to redefault in the future. And the California Housing Finance Agency has an opportunity to demonstrate by lowering principal and using leverage by paying for that principal at the current value, that homeowners can stay in their homes long-term; or if they get into trouble, they can sell, they can move without having to go to foreclosure.

Also here today is Doug Swoger from the

Los Angeles Housing Department, which has been working with One LA and Neighborhood Legal Services on design of the program.

MR. SWOGER: Good morning, everyone. And thanks for the opportunity to address you on this topic. My name is Doug Swoger, and I work for the City of Los Angeles Housing Department. And I just want to say a couple things with respect to the program that One LA is describing.

The City is in support of it. The City Council has allocated a million dollars to implement a pilot that does result in the principal reduction for borrowers that are underwater, upside-down, that go through the HAMP process.

And I think, you know, where we can be helpful at CalHFA, is that we have staff at the City in place. We've got loan underwriting staff, we've been operating first-time home-buyer programs successfully using federal funds, using CalHome funds and others over the years. And that staff is already in place. So we have the infrastructure in place to implement something like this to, you know, underwrite these loans or these modifications.

And I think as CalHFA considers funding these type of local programs that may be innovative, that having the staff and the infrastructure in place is going to be important. Because rather than CalHFA doing it all over the state, locally, I think it will be important. And we've got that in the City of Los Angeles.

And I'd also speak a little bit to the leveraging question. You know, I think the leveraging is important. I think you guys are right to consider it.

And if you think about the leveraging, maybe not from the standpoint of dollar-for-dollar, how much are local governments or other agencies putting into this but, rather, how much are they investing in the communities for other programs that would leverage this.

So, for example, the City of Los Angeles has been allocated $132 million in Neighborhood Stabilization funding. And the NSP funding comes from HUD, and it's to purchase, rehabilitate, and put back on the market foreclosed homes, homes that have already gone through foreclosure. And those funds are already targeted into the neighborhoods most impacted by foreclosures.

And so when you think about leveraging this money, you can think about it in terms of what else is going on in those neighborhoods. And so we've identified those neighborhoods most impacted. That's where we're investing this federal money. And I think that's one way that you can count the leverage.

And I'd also speak to the assistance for the unemployed. We've got a very high unemployment rate in LA. And these programs that -- you know, we were speaking with OneWest Bank yesterday, and they told us of a program that they're rolling out to provide three to six months' assistance or, you know, allowing people to not make their payments for three to six months, I believe.

Those types of programs are also important as a temporary basis to help folks get through that -- you know, get through that time so that they can hold onto their home, and then we can consider sort of the more permanent programs that One LA and, you know, that the Obama Administration program is working on.

And so with that, I'll stop my comments. Thanks.

FATHER LASSEIGNE: Yes, my name is Father John Lasseigne. I'm pastor at Mary Immaculate Catholic Church in Pocoima, in District 7, within the area that the One LA pilot project would serve. I'm also a leader with One LA.

My parish has over 5,000 registered families, mostly Hispanic, many of them -- most of them Spanish-speaking. They're hard-working, faithful families that contribute to their communities in many, many different ways.

Over the course of the past year and a half, my parish and I have taken part in this foreclosure prevention campaign of One LA, and we've investigated many of their cases. We've discovered that many of our parishioners were targeted by brokers and by banks for these very treacherous types of mortgages. They were targeted because they're not -- many of them -- very proficient in English, they were targeted because they're financially unsophisticated. They were not qualified, many of them, either, by the banks and the brokers for the loans they were given.

As a result, many of them have felt trapped, abused, and are even to this day being given the runaround by the banks.

I literally get people in my office every week coming in, saying, "Father, I'm about to lose my home. What can I do?" And they come to me partly because we are a One LA parish. We've been promoting and talking about this issue throughout our parish for the past year and a half.

Just in January of last year, to let you know how long we've been working on this issue, we had over 1,500 One LA leaders, Catholics and non-Catholics from the Valley, from outside the Valley, at San Fernando High

School presenting this crisis that we were in to our local and state leaders, saying, "This is what the problem has arisen to. What can you do to help get us out of it?"

Our people have become financially sophisticated through their involvement in the One LA project. And they now know that what they need is principal reduction.

If the home values are not reduced to a more reasonable -- or if the loans are not reduced to a more reasonable level where they coincide more closely with the actual value, the present-day value of the homes, they're going to still feel like they're getting a raw deal. They're going to still feel like they're being taken advantage of. And they may very well -- might walk out of their homes.

We encourage you, we urge you -- the people of my parish and I urge you to invest in this wonderful innovative project described to you by my fellow -- by my colleagues here.

It's not a handout. It's an investment in the community. It's an assurance that these people who want to keep their homes, who want to make their payments will be able to do so long-term.

You can help make this project which has been, again, talked about for almost two years now, receive lots of attention from many sectors. You can ensure that it gets the hearing, or the chance it needs to actually succeed by expanding it, by dedicating a significant portion of these millions that you've been entrusted with to this particular pilot project.

Help turn the One LA City of Los Angeles pilot project from a tiny project to a medium-sized, even a larger project to show that principal reduction is really what's needed to help keep families in their homes and to protect our communities.

Thank you.

MS. JIMENEZ: We thank you for your time.

And we're available to address any questions, if you have any questions now of us.

CHAIR CAREY: Any questions that the Board would like to ask?

Ms. Peters?

MS. PETERS: Thank you, all, for taking the time to come and talk to us.

I'd like to give you each cards before you leave. My name is Heather Peters. I'm a Board member, but I'm also deputy secretary for Business Regulation. And in that capacity, I oversee the Department of Real Estate, the Department of Financial Institutions, the

Department of Corporations. So when you hear horror stories of people who have been taken advantage of, I'd encourage you to have them report them to the State, so that we can take disciplinary action against the brokers and realtors and loan originators who perpetrated misdeeds in your community.

I had one question about the One LA program. I know a million dollars is just a million dollars, but you always have to take one step along a journey.

So I'd like to know what commitments you've had to leverage that million dollars? Could you walk us through the math of how that program is working and what the banks have committed to do on principal reduction to leverage it for you?

MS. HAFFNER: I'll address that.

The commitment that we have from Bank of America to participate in the million-dollar pilot with the City of Los Angeles, is to address the portion of deferred principal that is part of a HAMP modification. And the leverage is at about 16 and a half percent, meaning, that for about $100,000 of principal that is being deferred in a HAMP modification, that the amount of City contribution is in the range of $16,000. And I would have to have it in front of me to know specifically.

But what they've said is that we're looking at -- what they've committed to is that the present value of the deferred principal balance would be part of a modification. And that would be layered on top of a HAMP modification. So it would be layered on top of what it takes to get a borrower to an affordable payment at 31 percent of their income.

First, go to 2 percent interest for five years, then it ticks up to 5 percent over time. Then extend the term to 40 years. And then after that, the remaining deferred principal would come down from $100,000 to a $16,000 silent second loan. That would then be repaid to the City of Los Angeles, so there would be no current payments on it. It would be repaid with an equity share to the City in the future, when the borrower sells or refinances.

In addition, there's a maximum loan-to-value ratio of 125 percent of the property value that is part of the pilot.

MS. PETERS: So for 16 cents on the dollar, you're turning deferred principal into forgiven principal?

MS. HAFFNER: Yes.

MS. PETERS: Thank you.

CHAIR CAREY: Any other questions?

(No response)

CHAIR CAREY: I want to thank you for being here, and we look forward to a successful program.

MS. JIMENEZ: Thank you for your time and consideration.

CHAIR CAREY: Thank you.

I think we have another speaker.

Have you given your speaker information to the reporter?

MR. ZAMORA: Yes, I have.

CHAIR CAREY: Thank you very much.

MR. ZAMORA: Honorable Board Members, my name is Robert Zamora with American Housing Partners.

I'm here before you today to bring to your attention an issue that I have been discussing with your senior staff, namely, Bob Deaner, head of your Multifamily programs for over a year now.

We are the general partner of the Victoria Woods Apartments in San Bernardino. This project was financed with Agency tax-exempt 1992 bond series, a 4 percent tax-credit allocation from TCAC, and equity from the sale of the tax credits to an investor group. This project was placed in service in October of 1994.

At the time we placed the financing on this project, a partnership agreement was formed, reviewed, and approved by your agency. The partnership requires that the general partner take out the investor limited partner via a sale of the property after the compliance period, which is 15 years after the place-in-service date. We're now in the 16th year.

Now, in order to accomplish this obligation, the project will require refinancing. Our loan documents do not allow for prepayment without Agency consent. Upon request of consent, we're quite shocked to find out that the Agency's policy is not to allow prepayment. In the past, the Agency has provided new financing which calls for rehab of projects and resyndication of tax credits. However, the Agency is not now, nor has it for almost two years now, been providing new financing due to its rating.

This dilemma places us, as general partners, in breach of our partnership obligation. We have been approached by numerous parties over the past two years that have had an interest in acquiring this project with the ability to rehab and resyndicate.

We therefore respectfully request that the Agency allow us to prepay the existing debt, and to allow us to seek other sources of that financing with the understanding that the project will remain affordable, thus, accomplishing the Agency's mission of providing affordability.

I thank you for your time. And I trust that this item can be placed as an agenda item for approval at your very next Board meeting.

Thank you again.

CHAIR CAREY: Thank you very much.

Does anybody have any questions of Mr. Zamora?

(No response)

CHAIR CAREY: I think it would be helpful, perhaps, if we could get an update memo about the policy and issue presented for future consideration.

MR. ZAMORA: Thank you.

CHAIR CAREY: Thank you.

Is there anyone else who wishes to address the Board at this point?

(No response)

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Item 4. Closed Session Pursuant to Government Code Sections 11126(e)(1) and 11126(e)(2)(B)(i)

CHAIR CAREY: Seeing none, we will then adjourn to closed session as provided under Government Code section 11126(e)(1) and 11126(e)(2)(B)(i).

(The Board met in closed session from 10:36 a.m. to 11:19 a.m.)

CHAIR CAREY: Okay, we are back in session.

And moving on to our presentation on the business plan, I believe.

MR. SPEARS: May I make a request?

CHAIR CAREY: You may.

MR. SPEARS: To do the building.

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Item 7. Update on New Building Lease

CHAIR CAREY: Okay, I'm going to ask that we shift the order and do the update on the building lease first.

MR. IWATA: Hello, Board Members and Chair. At the last Board meeting, it was decided that you would give the acting executive director the authority to make a decision on our new facility. The choices were to stay at our current location or to go to 2020 West El Camino or 500 Capitol Mall.

Our current location was ruled out because we're in two buildings and it would be good to consolidate. So the executive director, after considering the advantages, the constraints, and determining stakeholders, the issue of consolidation, fiscal constraints, location, our infrastructure, decided to go with 500 Capitol Mall. And so we are starting to enter into negotiations with 500 Capitol Mall, which is also known as Bank of the West Tower.

The Bank of the West Tower has 25 floors. And we're currently looking to negotiate for four floors: The third, fourth, ninth, and fourteenth, for approximately 65,000 square feet.

We're trying to pin down that square footage right now. We're going through our whole infrastructure and looking at the offices, cubicles, storage space, conference rooms, and so forth, trying to figure out the exact square footage so we can pin down a number.

We're also looking at a 12-year, ten-month lease at a rental rate of $2.65 for rent per square foot at full service, at an increase of 2 percent per year.

We have negotiated two more months of free rent, from eight months to ten months.

We have the option to add and reduce space.

We're also negotiating parking space. The parking space right now for reserved space is $195 a month. For nonreserved space, we've negotiated a rate of $130 a month, from $165 a month. And a nonreserved space is 1.5 spaces per thousand square feet. So it's approximately a little over a hundred spaces.

And then also a moving allowance of $2 per square feet.

In the meantime, in negotiating this space, we're also negotiating space -- an extension of our current space with the Senator Hotel and the Meridian, just in case the September 1st move date goes back -- gets moved back for some reason out of our control.

And we're also looking to add additional space in West Sacramento for storage. So we're in the process of negotiating space out there. So I think the storage space we're looking at is around 40 cents a square foot in West Sacramento, so it would be a lot cheaper than housing it in 500, at $2.65 a square foot.

So right now, as we're speaking, they're negotiating back and forth. And hopefully, we'll get something within the next couple of weeks to finalize this.

CHAIR CAREY: Good.

Any questions?

Ms. Carroll?

MS. CARROLL: Thank you.

First, I'd like to say that -- I'd like to ask some questions. And it's not singling out the CalHFA. These are questions we ask on every board that we sit on, just in sort of recognition of where the State is financially, where the Agency is financially; and just making sure that we're all stewards of public dollars, so to speak.

One question I do have, though, is the 12-year lease. Is that sort of a standard? Is that something that you consider to be optimal?

MR. IWATA: Well, in doing that, it's optimal in that we get a better rate. If we do a more short-term lease, the rates aren't as good. It won't be down to $2.65. I believe it would be more in the -- close to either $2.80's or close to $3 a square foot. Especially in the downtown area, which is prime location.

MR. HUGHES: Almost all commercial leases, the longer term allows the landlord to amortize many capital costs and other costs and other reductions they're giving us over a longer period. So if you opt for a shorter period, then there's no sufficient amortization, and you're going to pay a higher price.

MS. CARROLL: Yes, I was just trying to figure out the difference between 12 and 15 or 12 and 9, whatever it might be.

So I'm just assuming you just considered that to be optimal, the 12.

MR. IWATA: Yes.

MS. CARROLL: Okay. And the other thing, you did mention parking. You know, it's not something that we would have brought up in terms of where you chose because that's obviously not a big part of the lease cost. And you said that you were negotiating that down.

What we did see was $30,000 for -- it looked like staff parking.

Was that right? Or the Agency is paying? Or are you talking about negotiating down so that employees who want to purchase parking in the building --

MR. IWATA: Yes.

MS. CARROLL: -- can do that?

MR. IWATA: Yes, for employee parking.

MS. CARROLL: And so they would pay their own parking --

MR. IWATA: Correct.

MS. CARROLL: -- but that would reduce the amount they would have to pay?

MR. IWATA: Correct. We're doing studies from around the areas. And you could park around Macy's, that floor, you can park for about $110.

And other buildings around there -- in fact, I used to do work in one of the buildings adjacent to that and I was paying $165, and that was like a reduced rate.

MS. CARROLL: Okay, right. Yes, parking in downtown is very expensive.

MR. IWATA: Yes.

MS. CARROLL: So the $30,000, though, is in the original -- last month, I believe, that there was a $30,000 number that was -- and I don't remember --

MR. IWATA: Senior staff has their parking paid for them.

MS. CARROLL: Okay, so is that -- I haven't been on this board for a while, or for as long, and so I haven't been through the discussion of senior staff and sort of their compensation packages or anything.

I assume that's been something that has been in place for a very long time, the senior staff parking?

MR. SPEARS: Since I've been here. I don't know about -- that's not a very long time yet.

MS. CARROLL: Right, right.

And beyond the compensation package, is there some other reason that the Agency would pay for senior staff parking?

MR. SHINE: Well, sure. Why do people get paid? That's part of what goes on every time you discuss salaries and compensation with anybody. We don't do it here at a Board meeting. It gets done with the appropriate groups, whoever they are, you know, so…

MS. CARROLL: I'm just trying to understand the reasoning behind it, and so I'm understanding if that's part of the compensation package. It's just something that we like to say that people should be conscious of.

Now, obviously across the state, employees are suffering because of furloughs or agencies who can no longer promote, no raises, those kinds of things. So that's just a consciousness, awareness factor for us, that we need to be able to cut costs wherever possible.

And $30,000 seems like a lot, from our perspective.

So I just want to say, we just like to see which senior staff get parking, which -- and what that amounts to in terms of a compensation package. Just a request.

MR. SPEARS: Okay.

MS. CARROLL: Thank you.

MR. SHINE: At the -- I'm sorry.

CHAIR CAREY: Go ahead, Mr. Shine.

MR. SHINE: At the end of the day, there's two numbers I'd like to hear: How much a year in total dollars for the entire operation are we now paying per year? And when you're all done with all this, how much will it be?

MR. IWATA: For move costs, for lease costs, everything per year --

MR. SHINE: So you made out a check every month for rent, and you're doing the same thing now.

MR. IWATA: *(Nodding head.)*

MR. SHINE: When you move, what's going to be the difference annualized over that amount of money versus the money you're paying 12 times a year now?

MR. IWATA: Okay.

MR. SPEARS: We'll be happy to provide that. I mean, we're still in the midst of negotiations.

MR. SHINE: Okay, just…

CHAIR CAREY: And I think I'd suggest that the -- well, it surfaces in this conversation that the issue of compensation is a different discussion within the purview of the Board.

Okay, thank you for the update. And we look forward to successfully moving.

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Item 5. Progress Report on Development of the CalHFA Business plan

CHAIR CAREY: With that, let's move on to the business plan.

MR. SPEARS: All right, I'd like to ask Lori to come up at this point. Probably it's the best -- you probably need to unlock that computer.

MR. HUDSON: Is that you racing?

MS. PETERS: Nice outfit.

MR. SPEARS: No, that's not me racing.

That racer was Chris Horner from Team Astana. The team went bankrupt about two years ago, so it's a dated picture.

CHAIR CAREY: Was there something symbolic about that?

MR. SPEARS: Just in case somebody's wondering why I have that picture. People were asking a lot of questions.

All right, again, this -- I realize we're presenting this, and some of this has been tweaked recently by our conversation yesterday.

But we'd like to present this to you, get your comments here. I realize, again, that you're seeing this for the first time.

I'd encourage you to continue to provide observations and comments as we go. But the goal is to present to you a finalized business plan at the May Board meeting with an operating budget to go along with that plan.

Let's move to the first item, major assumptions.

And Bruce and I will sort of trade back and forth here. But these are assumptions that we are putting into our business plan for next year, that any recovery in the economy would be either flat to modest. If it's modest, it will be modest in the fourth quarter and on. And so we're trying to be concerned about that.

The unemployment will, of course, lag, as usual, as it's doing now. That will affect us a great deal, because if you go back and look at our delinquencies, whereas other lenders and servicers that had subprime products and other things, they were seeing vast increases in delinquencies earlier last year. Our delinquencies took off right along with the unemployment rate. Those curves very closely match.

So we're hoping to see a slight improvement but not until the fourth quarter or perhaps the first quarter of 2011.

Interest rates, despite this morning's Wall Street Journal headlines about Treasuries not doing well, will drift upwards through 2010 just generally as a recovery begins to materialize. But mortgage rates, we believe, will increase after the Fed purchases end at the end of March, which there are a number of divergent opinions about how much that impact is going to be, how quickly that would happen.

No one expects rates to jump up immediately. They expect rates to drift up on the mortgage side because the ending of the purchases by the Fed.

Home sales demand increasing during the third and fourth quarter of 2010-11. But with home prices and in consultation with Milliman, I think the Case-Shiller study shows the same thing, that we'll probably see a drop in prices before we begin to see them turn around in the fourth quarter of 2010.

But on out into the future, I think we're going to see a very, very shallow recovery in home prices. So it's good news for our borrowers. It means affordability will be there for a very long time.

For our own borrowers that exist now, it's not great news. And as far as REO management, it's not great news.

MR. HUDSON: This budget is for what period of time?

MR. SPEARS: This will be for fiscal year 2010-2011. So July 1, 2010, to June 30, 2011.

MR. HUDSON: Because it doesn't seem this data goes to the end of the fiscal year, right? It just goes to the first quarter of 2011?

MS. MACRI-ORTIZ: The projection --

MR. SPEARS: Those are just our projections.

MS. MACRI-ORTIZ: The economy isn't going to improve until then.

MR. HUDSON: So everything's going to improve after the first quarter of 2011?

MR. SPEARS: We don't see a lot of improvement across the board until the fourth quarter 2010, and on into 2011.

And even whatever economic, unemployment, interest rate, home sales -- all we see is modest.

MR. HUDSON: So this year -- so the coming year is better than -- the same as 2009-10?

MR. SPEARS: The 2011, the first six months?

MR. HUDSON: 2010-11 is the same as 2009-10?

MR. SPEARS: No --

MR. HUDSON: Or better?

MR. SPEARS: -- I would say better, but only modestly so, and only in the latter half of that 2010-2011 year.

MR. GILBERTSON: Right. And the other thing that will change the Agency's production is, of course, that New Issue Bond Program that we completed at the end of December.

The one thing I wanted to mention on the interest rates related to that, that we locked in our interest rate on these program bonds. It's a spread to the ten-year Treasury back in December. So we locked in when the ten-year Treasury bond was at 3.49 percent. I notice today, ten-year Treasury closed yesterday at 3.89. So certainly -- we're hopeful that that continues, that trend, and so that we'll have a lot of production under these programs as we get into the Homeownership and Multifamily discussion.

It certainly can't hurt. We have capital now, which was the issue last year. We had no capital. We didn't even have access to the market, primarily because of the cloud over our bond ratings. It's hard to go to the market when you have everything on CreditWatch.

MR. SPEARS: Let's go to the next slide. I think we're going to get to that in a minute.

Other major assumptions -- these are more -- relate to us internally. And these were assumptions that we provided last July. We think they're still appropriate, that there is adequate -- that the Agency's fund balances in a private bank would be our equity and retained earnings, or adequate to fund cap reserve requirements, sufficient to meet real-estate losses, credit adjustments and general obligations of the Agency.

The tax-exempt bond market, which is somewhat irrelevant to us this year because we have the New Issue Bond Program capital, but just for future reference, when we start planning into the next year and this Treasury money begins to run out, that we see it improving in the third and fourth quarter of 2010 and on into 2011. And if it improves enough, when the Treasury capital runs out, the best of all worlds would be that then the bond market is working again, and we can go back to the private bond market -- the tax-exempt bond market for capital at that point.

If it does not improve sufficiently, then we will be in a situation that we were discussing yesterday, where we might not be able to lend.

MS. PETERS: A quick question.

If we go back into the private market again, we're doing that under a new indenture, not under HMRB?

MR. SPEARS: Correct.

MS. PETERS: So we're not constrained by those outdated terms?

MR. SPEARS: Right. Well, we'll talk about this in a little bit; but part of the risk management -- all these new loans all go into a new indenture on the Homeownership side and the Multifamily side.

MR. GILBERTSON: There's one other thing to mention. On these, the Federal programs, we do have to do a market component for the single-family program. 40 percent of the total debt will be new bonds issued in the public markets or private investors. So we will go out and do serial bonds, primarily, working together with Katie's office.

MR. SPEARS: Then in Agency liquidity, that we have sufficient amounts, I would point out that we're talking about the fiscal year 2010-11 to fund Agency operations -- that is, to pay the bills. Something that

Paul asked about yesterday.

And also insurance-claim payments. Now, again, that's in the short-run. The insurance fund's liquidity is limited at this point. And so for the fiscal year 2010-2011 there is adequate liquidity.

There are no HAT funds available for down-payment assistance, special lending, Multifamily or Asset Management. That was the same, exact assumption last July. That hasn't changed. We need those funds to enhance our internal liquidity.

And we do have some G.O. Bond funds available for down-payment assistance through the CHDAP program.

MR. GUNNING: What's "HAT"?

MR. SPEARS: Housing Assistance Trust funds, general funds available for use in various internally funded Agency programs.

CHAIR CAREY: As it's gained over the years through operations, right, the HAT fund?

MR. SPEARS: Right. Internally generated funds from --

MR. HUDSON: The "P" word.

MR. GILBERTSON: Yes, it's in that spread that we have on our core programs. The "flywheel," remember from yesterday?

MR. HUDSON: Right.

MR. GILBERTSON: But I think it's important to remember, it's too bad that we don't have any of these.

Ten years prior to this crisis, we invested $750 million in affordable housing finance programs in the state. So it's been, you know, a cliff. We just can't have any. And these are the HELP loan programs you've heard some about and down-payment assistance programs, that kind of thing.

MR. SPEARS: Okay, let's go to the next slide.

With those assumptions, we believe we'll have this capital to work with this year. And, again, to Heather's point, all of the lending on the Homeownership side and the Multifamily side will all be done in new indentures, with new ratings. They will not be subject to the pressure in the other indentures.

They will have, in the Homeownership area, the New Issue Bond Program, a billion dollars that Treasury has agreed to purchase.

Now, the mechanics of that, again, is, we've sold these bonds, if you will, provided them in an escrow that we have the ability to draw on. That's the way it works mechanically. And we can do that only up to 12/31/2010. That really means the last draw would have to occur sometime in mid-December. And we could only do three of those types of draws. So they'll have to be very strategically picked during December.

If we get out there and get loan reservations going and the loan program going, it will be easy. It will have, you know, one draw and it will be next December. But we want to get these programs up and running and out there so that we can start drawing on those funds.

There is a catch, however, a second sub-bullet there, the private market sales. For every $3 that we draw from Treasury, we have to go to the private market with another $2. So that's the balancing act that we have to do.

The combined capital from the Treasury and the private would support a total of about $1.7 billion in lending at a 3-to-2 ratio if we are able to do that. And we'll get to that when we get to Gary's presentation. But that's the maximum amount that would be available under the New Issue Bond Program.

The cost of funds should support competitive interest rates as mortgage rates rise over 2010 and 2011. So if, as those -- because we locked rates in December of 2009, as rates drift upward, it will make whatever product we have more competitive on the interest-rate basis.

So that's the capital for the Homeownership side.

On the Multifamily lending side, we also have New Issue Bond Program money available, but only $380 million. But that also ends 12/11. It also has the three-draws requirement, and we also locked the rates on that in December.

The only thing is, the term sheet for this program took a very long time to negotiate, and it went right up into late December of 2009, and it became very restrictive.

So, unfortunately, this isn't available to start off a project that's going to take three years to develop and build because we have to have it done.

And so we're quite restricted in the way you can spend this. And again, when we get to Bob's presentation on exactly what the lending activity is going to be, he can talk about what kinds of things we can do there.

But, again, the rate lock, I think Bob will tell you, if we can go out today lending on projects that are out there, we could be very competitive today. So we're trying to get that money out as soon as possible.

The final category -- and here again, I don't -- Heather, your comment about appearing self-serving with this, I want to put this in here as a resource to us, a capital resource that we can use. And again, I don't think it would be acceptable to Treasury to use all of this and write us ourselves a check for $700 million. But we're assuming that a number of CalHFA borrowers will be able to benefit from the program that we develop in this. And if we do a pilot program to test the waters and see what works and work out the bugs of the program on our own portfolio, that makes a lot of sense. And so that's our capital.

The way the bond market is working now, with the bond market in the revive stage, from Heather's rhetoric yesterday, we would not have access to the bond market for any additional capital beyond this. If we went with a completely private-sector, tax-exempt bond, market-funded program, I don't think it would work. It would be very, very tough to make that work.

MS. CARROLL: Steve, can I ask? I'm still -- I know I've asked this before, I'm still trying to wrap my arms around what the billion-dollar and the Treasury purchase versus the private-market sales.

When do you have to --

MR. SPEARS: When you do your draw, you have to go out with a sale.

MS. CARROLL: Okay. And that doesn't have to -- obviously, that hasn't -- that rate hasn't been locked? So you'll have to blend the two rates?

MR. SPEARS: Right. So the blended cost, we think, still works because of the rate.

MS. CARROLL: Right, because of --

MR. SPEARS: Whatever the blended cost is going to be, that's 60/40.

MS. CARROLL: Right, because the Treasury piece is going to be so low compared to --

MR. SPEARS: Right, right.

Is that fair to say, Bruce?

MR. GILBERTSON: Yes. We did an estimate just a week or so ago with investment bankers, and we think that our all-in blended bond yield would be 4 percent.

You know, in our program, we simply -- it's easy to just add 1 percent and say, "That's a full-spread loan rate that we would offer." So we would be at about 5 percent today.

MR. GUNNING: Bruce, in those conversations, do you expect there to be private capital participation? Was there any difficulty --

MR. GILBERTSON: I think we'll do just fine. Remember, we're going to -- we're collateralizing these bonds with mortgage-backed securities, so people are pretty familiar with this. And I just can't imagine -- it's tax-exempt interest to them. And the other benefit that we sometimes forget, in 2008 we now issue only non-AMT bonds. Historically, most of our debt was subject to alternative minimum tax. So we weren't attracting all the investors in state that would get the double tax-exempt benefit.

MR. GUNNING: No skittishness out there?

MR. GILBERTSON: Right.

MR. SPEARS: Okay, the next slide.

So I'd like to get it to the risk-management aspect of this. And I thought I would use this opportunity to show you the latest version -- and this is the reason why Lori is here at the table is, this is our balance sheet as of December 31. We just completed this. Six months of data is included in this.

So the thing we have to remember is that we're not just lending. That's not the only activity. One of our main focuses -- one of the five things that I had mentioned yesterday is, a lot of activity will be used this year to manage the loans-receivable portion of that, $8 billion on the left-hand side there. $6 billion of that is single-family. $2 billion is multifamily. And that's going to take up a lot of energy, time.

As far as operating expenses, far more is being spent on that as a share of the operating budget in the coming year than in the past, because we've expanded the number of people there. We're using outside specialized counsel where we have foreclosures and bankruptcy. And the cost of managing that two years ago was loan-servicing staff, they processed checks, they calculated payoffs. It was a pretty simple operation. And now, we have far more people, more experts, more cost -- until unemployment rates improve and performance of that -- the $6 billion of that, that relates to single-family improves, we're going to have a substantial amount of money being invested to manage that.

And the major -- I'm sorry, Heather?

MS. PETERS: Obviously, outside counsel with special knowledge of bankruptcy and whatnot is a piece of that.

As far as the actual Asset Management defaults and REOs, is that being handled all inside, or are you using special outside consultants for that as well?

MR. SPEARS: Most of it's inside, with our own REO. But we do have contracts with real-estate companies, with outside contractors who help with cleanup, repair, getting properties ready for sale.

MS. PETERS: Has anybody looked at the cost of having our in-house folks get up to speed on this versus just contracting out a lot of it to private industry that deals with it every day?

MR. SPEARS: On the legal side?

MS. PETERS: No, on the Asset Management side. Just the moving things through listings, moving things through REO sales, is there any economies of scale to be gained by going outside?

MR. SPEARS: Let me have Chuck comment on that.

I know this -- one of the problems we have, is that these -- if we had these properties concentrated in areas of the state, they're scattered all over the place. The operation would be a little bit difficult.

But let me ask Chuck to…

MR. McMANUS: We do contract with two master brokers who manage the individual real-estate agents that are assigned to the various properties. They manage the people that do the clean-out, they get broker-price opinions, we order independent appraisals.

The functions that are inside -- and I have an REO officer and five REO managers -- they review every property and recommend a price. And it goes through an approval process. Depending on the loss to the Agency, to the indenture, we have approval authorities.

We tend to do an initial price at 10 percent above appraised value as a starting point, and then the market determines the final price.

We've been selling at or above that price. I mean, there's some below and some way above. So it's just competitive. It's just what's the market price out there.

There's a well-developed market right now in California for recently foreclosed properties. And so we do the pricing. My concern -- and I've done this for 30 years -- is that we have the pricing pen. That we make that decision. We don't have one brother-in-law selling it to another, and all the problems you have in a foreclosure environment.

So we control pricing, we control the decision to fix up and repair or not. After that, it's pretty much in the hands of our master broker.

The master broker does all of the billings and accumulates them. We review and approve them and pay them. So I'm trying to control the cash, I'm trying to control the pricing. And if we're going to take a mark-down, losing Agency money or indenture money, I want an employee of the Agency making that decision.

Now, that's where I am on it; and I've used outside property managers. I ran a relocation company. If we can't handle it, we might have to do that, but I hate to give up the control of the pricing.

MS. PETERS: So other than the small handful of folks that are doing pricing and the servicing folks that do the traditional collections work, what else is in there as far as staff?

MR. McMANUS: There is modification, loan modification, which is a separate function from the REO. And we have -- again, the servicers do most of the work. We set up the program, and then they do the work and submit packages.

Then we have a review team inside, which is evaluating to modify or not to modify under the guidelines of the modification program. So we have another in-house, maybe we've got eight people dedicated to reviewing the loan mods under our terms and conditions. We do not have a lot of people.

MS. PETERS: Great. Thank you.

CHAIR CAREY: Thanks.

MR. SPEARS: Okay, let's go to the next slide, if you will, and talk about risk-management activities for the next year.

The first two bullets -- let's just ignore what's on the balance sheet. Let's talk about going forward, how we're going to manage risk. And, again, the main way we see doing that on the homeownership side is to use an MBS model. It doesn't completely eliminate risk. It substantially reduces it. It gives us a little bit more manageable portfolio.

Going forward, it will eat into the profitability structure because it costs more money to do that. It costs us a G-fee, a guarantee fee from Fannie, Freddie, Ginnie Mae.

The new lending on the Multifamily side, again, we're probably going to be forced to use some conduit financing on the capital that we do have this year because of the limitations of the New Issue Bond Program. But on a going-forward basis, any other -- we have talked to you before about a risk-share basis for Multifamily. And Bob will talk to you about that in a little more detail when we get to the actual lending activity. But those are the risk-management measures we're going to use going forward.

With your permission and with Mr. Hudson's permission, I'm going to work with him on developing some more specific metrics, which you'll see in the May written plan, so that we can have some specific targets in this area, and measure asset quality and measure risk management.

If we make some assumptions and put together some strategies and have a goal and if we review it at the end of the year, and if you're not there, we can go back and look at the reasons why, and have some discussion, rather than say -- or not even know at the end of year.

MR. HUDSON: Steve, I recommend that you reformat this into the five yesterday, the five --

MR. SPEARS: Well, that's why it took me a little time to jot those five down.

The five are activities -- one of them is risk management.

MR. HUDSON: I know, I've got them right here.

"Manage credit risk," which goes to this risk management, right?

MR. SPEARS: It's on the bottom.

The credit ratings management?

MR. HUDSON: No, no, no, no. You said manage credit, or manage credit --

MR. SPEARS: Credit rating.

MS. PETERS: Credit rating, that's --

MR. HUDSON: Where does manage credit risk come in here? You're not managing -- what about manage credit risk? I thought --

MS. JACOBS: That's the MBS model that does that to some extent.

MR. HUDSON: I know, but why isn't that one of the five -- now, that I realize I didn't understand the first one?

MR. SPEARS: Manage the credit ratings by the credit rating agencies.

MR. HUDSON: Yes, but why -- I understand that.

So now my question is, why isn't managing credit risk one of the priorities?

MR. SPEARS: If I remember my list correctly -- and I don't have it right here in front of me, I think that --

MR. HUDSON: But loss mitigation --

MR. SPEARS: Right.

MR. HUDSON: You have new lending, new biz opportunities, and reengage with partners.

MR. SPEARS: I would say what you're talking about is managing credit risk on new lending would be subsumed in the new lending activities.

MR. HUDSON: Okay, all right.

MR. SPEARS: Because when we get to that discussion -- and Gary has a nice matrix -- we'll show you the underwriting and credit-risk elements of the products that we're proposing.

MR. HUDSON: Okay, so now that I understand you're talking about managed credit rating, how do you manage credit rating?

MS. PETERS: That's what we were discussing in closed session.

MR. HUDSON: I know, but you really don't control -- I mean, you don't control it. And so you're -- like, you have a bullet point here that says, "Credit ratings management." That involves -- because I wasn't listening closely enough before -- that involves what, specifically? What is the three things you have to do under credit ratings management?

MR. SPEARS: Well, if I may, I've dealt with rating agencies for a long time now. They have their own methodologies. Those methodologies change from time to time.

One of the things that you have to do is follow the bouncing ball.

When they change their methodologies and their criteria for credit, we have the ability to change the way we do things. Manage our liquidity differently based on revised methodology.

Some of those things we talked about in closed session were a direct result of changes in the methodologies and policies of the rating agencies themselves.

MR. HUDSON: Right, but that's not under our control.

How do we manage credit ratings? I guess --

MS. MACRI-ORTIZ: We respond to that, maybe.

CHAIR CAREY: One example might be that two years ago, when we stripped the counterparties out of some of that --

MR. GILBERTSON: Yes, I think it's even as simple as deciding not to issue variable-rate debt, which we haven't issued for a long time, that that helps from a credit-management perspective because we're not taking interest-rate risk or we're not dependent on counterparty exposure on an interest-rate swap or something like that.

MR. HUDSON: So when we talk about quantitative metrics, are we talking about -- and when you say "manage credit-rating risk" -- I mean, "manage credit rating" -- I only think of "risk," so risk keeps coming to my head -- are we talking about actually the goal is to move the rating up or keep it where it is? Or what is it?

MS. PETERS: Avoid downgrades.

MR. SPEARS: At present, we want to avoid going down as the general industry is headed that direction. And over the long-term, in the revive and thrive mode, we want to get back to a higher rating than we are now.

MR. HUDSON: Right. So we want to keep it from going down. And management believes that that's a realistic goal for this fiscal year?

MR. SPEARS: We do.

MR. HUDSON: Okay.

MR. SPEARS: And, again, back to my

illustration yesterday about a certain unnamed eastern HFA which proudly goes on about their AAA rating, they managed to a AAA rating.

We've managed this place -- minus --

MR. HUDSON: To a lower rating.

MR. SPEARS: -- to a AA-minus rating for a very long time, long before any of the current situation. And the way we did that, we did more lending, operated with fewer reserves than a AAA-rated housing finance agency.

And you can manage that and dial that up and down, depending on your lending activities, the asset quality, and the amount of reserves that you have on hand. The rating agencies will tell you, "If you want to be AAA, you must have this much capital."

MR. HUDSON: I understand. I understand.

MR. SPEARS: If you want to, if we could back off and meet those demands, and be AAA in, you know, ten years.

MS. JACOBS: And do nothing.

MR. SHINE: But that would mean you have to do less activity, right?

MR. SPEARS: What I didn't mean to imply, Paul, was that we are going to somehow manipulate the credit-rating agencies to do something.

What we're trying to do is manage to a

particular rating. We're struggling with that right now because of the economy, the bond market, our asset quality and all that sort of thing. There are things that we can do to manage the Agency back up to a higher rating, which we -- that's our long-run goal, to get back to managing to a AA-type rating.

MR. GILBERTSON: Yes, I think one other example, Paul, might be, I think when Bob comes up to talk about Multifamily -- and he mentioned it yesterday -- is he likes to come down to my office weekly, almost, and ask for some capital to run his loan programs. And so we have to manage the capital base of the Agency so that we don't have a lower rating. You know, and it's that interplay. It's going to drive some programs, in some cases.

MR. HUDSON: When you say he's asking for capital…

MR. GILBERTSON: There's a process with the bond-rating agencies that directly relates to our general-obligation rating, where they do an analysis called "capital adequacy."

MR. HUDSON: Well, that part I know.

But is there money to do Multifamily? Does the Agency have money to do Multifamily?

MR. GILBERTSON: We have the New Issue Bond

Program. That's capital in the bank that we can use to buy a loan or fund a loan.

MR. HUDSON: But --

MR. GILBERTSON: But what Bob is asking for is something even higher than that.

Can I have part of the balance sheet and pledge it for a programmatic purpose because that loan has risk embedded in it from the rating agency's perspective?

And, for example, let's say that loan might have a 15 percent capital haircut or a capital charge of 15 percent of the loan amount. So then they look to our balance sheet to absorb that until that loan runs its cycle. And so they're looking at debt-service coverage ratios and things like that on an affordable rental housing project.

MR. HUDSON: Jesus. So --

MR. GILBERTSON: I'm more than willing to share more information with you at a later date, if you'd like. But it gets very, very technical.

MR. HUDSON: And this is your number-one priority because the risk of the downgrade is so dramatic?

MR. GILBERTSON: Especially on the G.O, as we've talked.

MR. HUDSON: The ramifications of them.

MR. GILBERTSON: Yes, the ramifications are tremendous.

CHAIR CAREY: We have a question from Ms. Jacobs.

MS. JACOBS: Thank you. I want to go back to the new lending, the MBS business model. And you said that it might eat into our profits because it's expensive to buy the guarantee.

I think what we have to look at, is the fact that at the first -- when we make a loan to a low- or moderate-income buyer, we are in control of having people meet those requirements when we make the loan. And so I think this is a really good part of the program to have that be insured. Because I think there's no value into making a risky loan and then foreclosing and having the property go to an investor. So, I mean, I think this is a worthy expense. That's all I wanted to say.

MR. SPEARS: I didn't mean to imply that it's really, really expensive, because we do have an affinity agreement amongst the HFAs, with Fannie Mae, for a really reasonable cost.

MS. JACOBS: Yes.

MR. SPEARS: But incrementally, though, it adds a little bit of cost.

MS. JACOBS: It's a cost. But you put it on there so I figure I'd comment on it.

I think it's a valuable cost because that means that we can keep our borrowers in there.

MR. HUDSON: But I'm not sure I get that. How does that mean, you can keep the borrowers in?

MR. SHINE: If you lose, you're insured.

MR. HUDSON: What?

MR. SHINE: If you lose, you're insured.

MR. HUDSON: No, but that just helps the Agency. I mean, I don't understand how it helps the borrower.

MS. JACOBS: I think you're going to work with the borrowers more on that program.

MR. HUDSON: Why? Because we sold the loan to Fannie Mae?

MS. JACOBS: Yes, because Fannie Mae is going to be flexible with you on the back end when you have a problem.

MR. HUDSON: But Fannie Mae controls that?

MS. JACOBS: Right. But I would rather have Fannie Mae in there than --

MS. PETERS: Than a partner.

MS. JACOBS: -- than UBS.

MR. HUDSON: No, but what you're saying is, you have Fannie Mae instead of us. This says Fannie Mae instead of us. So it's really not as good for the borrowers, but it's better for us.

MS. PETERS: It's our bondholders.

MR. HUDSON: Yes, yes, yes. I just don't want to fool ourselves to thinking we're doing -- this is really a risk decision for the Agency.

MS. JACOBS: It's a risk strategy, I understand that; but I think that kind of a risk strategy is better than a private --

MR. HUDSON: Yes, to sell it to a European or a Japanese --

MS. JACOBS: Yes, exactly.

MR. HUDSON: Okay. Got it.

MS. JACOBS: Exactly.

MR. SPEARS: We are ready for the next slide.

I will say before we leave that slide, that not only am I going to develop some metrics on the top two bullets, but the loss-mitigation claims management delinquencies, I want to put some very specific goals for reducing delinquencies over a period of time at -- and fill in the blank.

And I really think that a lot of that has to do with what's going to happen with the unemployment; but we have done some things with our new operations call center and with the $700 million, I really would like to put some goals out there for some strengthening.

MR. HUDSON: Even though I misunderstood this first one, I still think the plan ought to be oriented around these five things, instead of us trying to figure out --

MS. JACOBS: Yes, which one you meant by that, yes.

MR. HUDSON: Yes, exactly.

MR. SPEARS: Say again?

MS. JACOBS: You could take those items, and some might fit in, in goal number one, and some might fit in, in goal number three of the five -- and I'm just using those numbers, those might be the wrong numbers -- of the five. So everything should be organized according to the five goals yesterday.

MR. HUDSON: You put three different goals under risk management, you've got new lending, you've got loss mitigation, and you've got ratings management all under "risk management."

MR. SPEARS: Right.

MR. HUDSON: And there may be, under another sector, there maybe another three more goals that are loss mitigation -- instead of all the loss mitigations being together, is what we're saying. Do you get that?

MR. SPEARS: Yes.

MR. HUDSON: Okay.

MR. SPEARS: No, I can see that I canonized the five list yesterday.

And when I did that was, think about what was in here and pull out five things that were in this presentation.

MR. HUDSON: Yes. Since I'll be helping you, now I'm saying take all this and push it into the five things. You've got the five things out in there, now we need to organize it.

MR. SPEARS: I did pour the concrete on that. Okay --

MS. JACOBS: Steve, on the next page, it doesn't say for what period this is.

MR. SHINE: As of December 31?

MS. JACOBS: But it's income and expense.

MR. GILBERTSON: It's for fiscal year-to-date.

MR. SPEARS: It's for the first six months. This is something that we need to change.

MS. JACOBS: Okay, just tell us what period this is for.

MR. SPEARS: It's for the first six months of the fiscal year, July the 1st, 2009, to December 31st, 2009.

MS. JACOBS: Okay.

MR. SHINE: So we're going to lose a hundred thousand dollars? A million dollars?

MR. HUDSON: We're losing a lot of money pretty fast.

MS. JACOBS: A hundred thousand dollars.

MR. SPEARS: Let me -- we sort of jumped into this page. I wanted to --

MS. JACOBS: Sorry. I cheated. I looked ahead.

MR. SPEARS: No, that's okay.

A number of you have asked me about our profitability structure with this.

The only --

MR. HUDSON: That's not a profitability structure.

MR. SHINE: It's a structure.

MR. HUDSON: It's a structure, yes.

CHAIR CAREY: Just remember, we're on the record here.

MR. SPEARS: I would like to present this first opportunity to take a look at how the first six months went.

I would direct your attention to the other expenses line item, because in that line item, there are two major items that are extraordinary. One is

$69 million -- almost $70 million for loan-loss expenses, and another $39 million of basis mismatch in the first item. With increasing interest rates, the $39 million number has virtually vanished. So in the last six months of the year, that expense will not be present under the current interest-rate levels.

MR. GILBERTSON: And just one more comment on that. The TCLF, remember the Federal initiative, helped us tremendously. Because basis mismatch is the difference between the interest rate we pay a bondholder on a variable-rate bond and the interest payment we receive from a swap counterparty, the variable leg of the interest-rate swap contract.

The TCLF has really stabilized that. Since January, when those went into effect, we've averaged about a weekly reset of 20 or 22 basis points. I think this last week, it went as high as 30 basis points.

So what Steve is alluding to is prior to that, the first six months of this fiscal year, we had some bonds that were called "bank bonds." We're tired of talking about that, you're probably tired about hearing of bank bonds. But we talked a lot to the Board about that, and that's where we paid a penalty rate of interest on the variable-rate bond, sometimes 3 or 4 percent rather than 30 basis points. So we've really mitigated a lot of that. And we would think, going forward, that that will, you know, improve rather dramatically.

MR. HUDSON: How does this number compare to the budget?

What was the budget number?

MR. SPEARS: Well, the budget is for operating-expense number.

MR. HUDSON: Only?

MR. SPEARS: We did not provide you with a pro forma income statement for the year.

MR. HUDSON: You never do that?

MR. SPEARS: No.

MR. HUDSON: Is it a law or something?

MR. SPEARS: No, it is not.

MR. HUDSON: But so is there a reason then?

MR. SPEARS: Bruce and I have had this conversation over and over again about developing the ability to do pro forma statements.

MR. GILBERTSON: Yes, and we hope to work in that direction.

This agency has never, for over 35 years, done pro forma financials. The Board authorizes the budget for the operating-expense line. You can see here it's $18.9 million for six months. The operating budget was about forty-two --

MR. SPEARS: Forty-seven.

MR. GILBERTSON: -- $47 million for the year.

So under budget, from that perspective, but there has never been -- I think the pro forma financial statement concept is the right one, Paul.

MR. SPEARS: It is something that I'd like to change.

MR. HUDSON: One final question. It's not a big thing to do; is it?

MR. GILBERTSON: It gets complicated from a couple perspectives. One is, you have a number of different bond indentures, and each one is kind of a separate set contained. And you've got to do a financial statement for each of those, and then you're projecting a lot of different variables.

And then you have several different subsets of what I would -- it's easiest to think of it as the general capital reserves of the Agency. And you'd have to pull together --

MR. HUDSON: So it's a lot of moving parts, is what makes it --

MR. GILBERTSON: Yes. And if you take a look at our audited financials someday, you'll look at the supplemental schedules. And it goes on for pages with columns and columns of different kind of accounting entities.

MR. SPEARS: Paul, when we get to the strategic project, you'll see that we are in the process of completely revising our financial information system, starting with a platform that we run off of for -- in the past, I think there's been an emphasis on recording information for that information to be filed with the government agency, the Controller's office; and -- it's in the past.

There's been less emphasis on forecasting, looking to the future, pro forma statements, that sort of thing.

I mean, I know there are a lot of moving parts, but I think we can do this.

MR. HUDSON: And your new system will make it easier to do that?

MR. SPEARS: Yes, that's the goal.

It's going to have to come in several stages because we have to make sure that we transfer over from what we're doing now to the new. But it will allow us to build in the ability to do forecasting, and cost accounting and several other features.

MR. HUDSON: And so this agency has been conflicted from its beginning between this being a business and being an agency, and it's making this slow transition to some cause by external factors and some internal to try and get more businesslike?

MR. SPEARS: Yes, and I think --

MR. HUDSON: No business would do this without a pro forma. I mean, there's no way you would do that without a pro forma.

MR. SPEARS: I completely agree.

And in the past, I think there's been an emphasis not on balance-sheet management, necessarily, but on the operating budget, because that's what other state agencies do.

MR. HUDSON: Yes, that's my point.

MR. SPEARS: And volume lending and everything else fell into place because the Agency made forty, fifty, sixty, sometimes eighty million dollars in the days when there were large spreads and lots of demand for the product. And those days are probably over.

MR. HUDSON: Yes, you met your mandate, you made money. So nothing else, really -- why improve upon something that works that well? Got it.

MR. SPEARS: What's not to like?

MR. HUDSON: I got it.

MR. SPEARS: So I would just say, again, that in that large number called -- under the phrase "Other Expenses," there is $109 million of that that's funded essentially out of our reserves -- the loan-loss reserves and the basis mismatch number.

And so I guess my point is this: That our basic portfolio of assets or performing portion of portfolio of assets is, at present right now, with the basis mismatch and loan losses in there, you know, it produces a loss. But with the reserves, I think we're at a break-even at the present time.

MR. HUDSON: Yes. From listening to you, I'm assuming that the second six months you will have a smaller operating loss?

MR. SPEARS: Yes, that would be my --

MR. HUDSON: Because the $49 million goes away, right?

MR. SPEARS: It goes away.

MR. HUDSON: Because interest rates aren't going to go back down, most likely?

MR. SPEARS: Most likely.

MR. HUDSON: So that's one big chunk that you won't have in the second half.

MR. SPEARS: Right. And, in fact, the first quarter of this year was a $75 million loss. This was whatever the difference is --

MR. HUDSON: Oh, yes. So it's already gone down.

MR. SPEARS: It had already gone down some.

MR. HUDSON: And so my point -- and so it looks like it's going to be smaller in the second half.

And then the final statement you made, that reserves would cover the loss, therefore, it's a break-even.

I have a definitional thing with reserves. I consider reserves like taking money out of your savings account to cover your negative operating. That's not a break-even for me.

But that's what you're saying?

MR. SPEARS: If you consider that, for example, HMRB has $360 million of earned equity in that indenture, and over time, that's been earned through lending operations, going back to your comment yesterday, the spread is not enough to cover loan losses unless you make loans over a very long period of time and reserve -- don't spend it all, then your reserves build up, your equity builds up, and you have the ability to withstand losses.

MR. HUDSON: Yes, so from a business perspective, you'd say, you're right, you have the ability to sustain losses, but you don't have a break-even? Each year stands on its own?

MR. SPEARS: No, no. Each year stands on its own. This is not break-even, obviously.

MR. HUDSON: And it won't be a break-even -- what I mean, you'll have the ability to cover whatever the operating loss is from retained earnings from previous years?

MR. SPEARS: Correct.

MR. HUDSON: Okay, got it.

MR. SPEARS: Okay, next slide.

All right. I'll --

CHAIR CAREY: I'm sorry, it's about 20 after 12:00. My assumption is, we want to press on through this? Is that correct?

MR. HUDSON: This is it, right?

CHAIR CAREY: Yes.

MR. SPEARS: Okay, why don't we bring up Gary, Bob, and Margaret, all three, and probably Liane, too. And we can just go through this.

Gary, what I would suggest, if we go to that next slide, punch the page-down button.

This is something that I would encourage you to look through. It is a much more detailed view of how the MBS program and our new business model would work in getting reps and warranties from our lenders, how we can protect ourselves. Lots more detail about this idea of managing risk in the homeownership portfolio on a going-forward basis.

MR. HUDSON: You don't have a slide like this for managing credit rating, right?

MR. SPEARS: No, no. What we're doing now is moving away from that and getting to a specific lending activity of the --

MR. HUDSON: I understand.

MR. SPEARS: Right.

MR. HUDSON: As a Board member, I now understand I need to know the credit-rating management as well as I know this stuff.

So maybe you could do a "credit-rating management slide for dummies." That would work for me.

MR. SPEARS: Okay.

MR. HUDSON: Great, thanks.

MR. SPEARS: So, Gary, what we might want to do is jump to the next slide and talk about the products that we're proposing.

MR. BRAUNSTEIN: If you don't mind, Steve, I'd rather maybe --

MR. SPEARS: I think we need to move on. I think we've talked about the risk-management part of it. And we should probably just start talking about the products part of it and then we can --

MR. BRAUNSTEIN: And let the Board members read this at their leisure, the risk management component piece?

MR. SPEARS: Yes.

MR. BRAUNSTEIN: Okay. Good afternoon, Board Members.

With that segue, this page will provide you what our proposed loan products are. Again, keeping in mind the previous page, identifying some of the risk-management components that will be incorporated in going forward on our loan programs.

You heard from Bruce the capital base that we have access to now is primarily from the federal government on the New Bond Issue, and that provides us a capital source going forward in looking at the products that we can offer, that being an FHA product and a conventional product. However, the conventional product is geared towards the GSE, Fannie Mae.

And this matrix breaks down on the left side. You'll see, as I've spoken about many times in the past, the meeting of the needs Homeownership has for our customer base. And you can see that our borrowers are typically in need of a high loan-to-value -- we talked about that yesterday -- because they have limited cash, typically, from the low- and moderate-income family base.

And at that same time, if we're serving the unserved, that these borrowers can get loan programs from the capital market.

We always need to keep in mind that we need to develop a loan product or a loan program that has features that would be different than the capital market lenders loan programs; that the borrower and the lender that they're working with can do themselves.

So by using a high loan-to-value, FHA and VA obviously offer a loan-to-value of 96.5 percent. FHA is currently a FICO score of actually 620 and below. We're imposing a minimum FICO score of 620.

The Fannie Mae product, for an example -- and, again, we mentioned many times that it's an exclusive loan product to just HFAs that was designed in a consortium of other HFAs across the country to help balance the needs of our borrowers to a product that would be suitable to specifically attend to their needs.

And this product, as we mentioned before, has a 100 percent loan-to-value, that the mortgage insurance is included in the product and it's incorporated by the paying of a G-fee.

The Fannie Mae product is, in itself, a minimum FICO score of 620, using a decision engine by Fannie Mae, and a 680 FICO score, with the loan being manually underwritten.

We go to the next row, again, we speak often about our borrowers typically having a need for down-payment assistance or closing-cost assistance because of their minimum cash available. We do offer a down-payment assistance program today, which is CHDAP. It is proposition-funded. We do have some limitations to the amount that we can lend. But in both products, the availability of down-payment assistance would be accessible to our borrowers.

On the next row, it talks about cumulative loan-to-value, CLTV. Again, keeping in mind, we reach out to localities and nonprofits for their down-payment and closing costs, accessibility to the borrower; and allowing a slightly higher cumulative loan-to-value allows the localities to layer their down-payment assistance and closing-cost assistance on our first-mortgage products.

MS. PETERS: Can I interrupt you and ask which column heading here?

MR. BRAUNSTEIN: I'm sorry?

MS. PETERS: We're looking at an FHA loan on the left and 100 percent LTV, Fannie Mae, on the right?

MR. BRAUNSTEIN: Yes. I'm sorry, that had gotten cut out. I appreciate that, Heather. Thank you very much.

The middle column is an FHA product.

The third column is conventional, which is the Fannie Mae product that's been proposed.

MS. PETERS: So on the second line of the right-hand column, it wouldn't really be down-payment, it would be closing-cost assistance? Because it's 100 percent LTV?

MR. BRAUNSTEIN: On the FHA product?

MS. PETERS: No, on the --

MR. SPEARS: On the Fannie Mae product.

MS. PETERS: -- on the right-hand column, the second box down.

MR. BRAUNSTEIN: Yes.

MS. PETERS: We've got DPA listed there. But it wouldn't be DPA, it would be closing costs?

MR. BRAUNSTEIN: Right, correct, thank you. It wouldn't be down-payment assistance because there wouldn't need to be a down payment of 100 percent loan-to-value. It would be closing costs.

The last row that's referencing the borrower typically has limited cash for down-payment or closing costs. And we've spoken about, hence, the need to the borrower's contribution.

The FHA does not have a minimum borrower contribution. Their down payment can also be a gift of funds as well as government-sponsored down-payment and closing costs.

On the Fannie Mae product, on the right side, that product does have a minimum $1,000 borrower contribution.

What I've attempted to do here is just simply highlight the fact that our source of money currently is determined by FHA and the Fannie Mae product. And what we're showing here is just simply mirroring those programs, those products and those available features. And we can internally, at senior staff, vet out any changes we want to impose in these product minimums as we go forward.

Any questions on that?

(No response)

MR. BRAUNSTEIN: Should we turn to the next page? Okay.

The next page highlights what we are forecasting based on these two product proposals.

On the right side, it lists the assumptions that we're making. Obviously, as Bruce had mentioned, we've locked in our rate at the end of the year. And as we've spoken before, our borrowers will obviously look at our loan programs either for a rate differential, closing costs, borrower contribution, and loan-to-value, as we've spoken before.

So the assumption that we're making right now is our rate differential to what our lenders are offering on similar products. We'd be ramping up an eighth to a hundred basis points during the fiscal year.

MR. HUDSON: Excuse me, can you explain that to me? I'm not sure.

So your Fannie Mae product would be priced at a different than everybody else's Fannie Mae rate -- I mean, Fannie Mae product?

MR. BRAUNSTEIN: Well, the Fannie Mae product that we're talking about, was a product designed by Fannie Mae exclusive for HFAs; and it's a product that's designed for HFAs for which the capital-market lenders don't have access to today.

MR. HUDSON: What about FHA?

MR. BRAUNSTEIN: Well, FHA would be a standard FHA loan. And the example of our value benefit in the loan feature would be a reduced interest rate that our lender would -- our borrowers would not be able to get directly through the capital-market lenders program.

MR. HUDSON: So we would price our FHA differently than everybody else's FHA? Lower?

MR. BRAUNSTEIN: Well, yes, because of the capital source that Bruce had mentioned, and the locked-in rate that we did on the bond issuance sets our rate going forward.

So the assumption is that the capital-market lenders' interest rates will increase as our rate has locked in. So down the road, although we don't have a large rate differential on our HFA product today, going forward, as those rates increase during the fiscal year, the fact that we locked in our rate would stay static and provide a rate differential for our lenders to choose CalHFA and our FHA loan program than them doing FHA themselves.

MS. PETERS: For as long as the Treasury money lasts.

MR. BRAUNSTEIN: For as long as the Treasury money lasts.

And to that point, assumption number --

MR. HUDSON: Why would we do that? Just to gain market share?

MS. PETERS: Because we have the Treasury money available to us that the private market doesn't have.

MR. HUDSON: I know, but why would we price under the market? Just to gain market share? Are we --

MS. MACRI-ORTIZ: To help the people that need the lower payments.

MR. HUDSON: But they're the same borrowers;

it's just we're taking a borrower that can't -- we get a 100 percent loan, we've got 620 FICO scores, and we still need to have lower monthly payments for our borrowers?

We're getting a different borrower than Bank of America's FHA program?

MR. GILBERTSON: No, the FHA -- but I think, Paul --

MS. MACRI-ORTIZ: I don't think so. I mean, FHA goes up to $750,000. Those are not our people.

MR. GILBERTSON: The big thing, though, remember, we're financing these loans or purchasing these loans with tax-exempt bond money. So the tax exemption, historically, has been the engine that makes this agency work, because we've traditionally had lower cost of capital for the amount of the tax-exempt bond proceeds.

In this case, what we did is, it's a tax-exempt bond that we locked in in December. And if rates rise, then we'll have a rate differential, as Gary's pointing out.

MR. HUDSON: And so we're distinguishing our -- so the people that will qualify for this are different than the -- so we're taking a segment out of the market that, and giving this price advantage to, that may or may not qualify under the FHA, Fannie Mae guidelines for other lenders?

MR. GILBERTSON: In general, because they have to meet federal tax-law requirements for these programs that the federal governments created.

MR. HUDSON: Okay.

MR. GILBERTSON: So there's income limits for the borrower, sales-price limits, they have to be a first-time home buyer. All of that criteria is what defines our borrower.

MR. HUDSON: Okay.

MR. BRAUNSTEIN: But just to add a distinction for you, Paul, is that today, using FHA just as an example, the rate that we locked in, compared to the FHA rates today that our lenders can access themselves, there is not a rate differential.

So we wouldn't anticipate, when we roll out an FHA product here shortly, that we would be anticipating much volume for an FHA product because our lenders wouldn't have the rate advantage in doing our FHA than doing it themselves.

The assumption is that as the FHA rate increases in the capital market and those lenders' rates start increasing for FHA, the fact that we locked in our interest rate at the end of the year, there will start being a rate differential gap where our rate will be at a lesser rate for the same borrower, and our lenders having then a purpose and need to look at CalHFA for an FHA product to be able to serve those borrowers at a lower rate, that's typically our borrower.

MS. JACOBS: Right.

MS. PETERS: And harkening back to yesterday then, they can't poach our leads anymore because we have a pricing advantage.

MR. BRAUNSTEIN: That's right. That lead program would cause them to look back to CalHFA at a rate advantage to offer their borrower our FHA loan product than doing FHA themselves.

So this slight difference on the FHA and the Fannie product, is the Fannie product is an exclusive product that has loan features that are different than the capital market provides today. A high loan-to-value, 100 percent, no M.I., a thousand-dollar borrower contribution, et cetera.

The FHA is a product that is not loan-feature unique to us. It will be just simply a rate differential that will be an advantage for our lenders to use our FHA products.

So the forecasting here is showing a slighter roll-up from an FHA loan volume compared to a Fannie product that has loan features that, regardless of the rate, serves our borrower needs.

MS. MACRI-ORTIZ: Theoretically also, wouldn't it be that the rates that are going to be charged by the regular lenders are going to take our customers out of their range because they won't be eligible for the loan if they're not doing it correctly? Because their costs will be prohibitive. The borrower's costs.

MR. BRAUNSTEIN: From a rate standpoint?

MS. MACRI-ORTIZ: Yes.

MR. BRAUNSTEIN: Yes, absolutely.

MS. MACRI-ORTIZ: Yes. Because you are cutting -- you're lowering the payment, which maybe makes them eligible, where they wouldn't on this other product because then you take them out of their range.

MR. BRAUNSTEIN: Right. Again, as the capital market interest rates increase for an FHA product, our lenders will still be able to serve our borrower base because the capital market will almost price them out from a monthly payment standpoint because of an increase in rate. Hence, they'd look at CalHFA to serve our customer's needs at that time because of our rate differential based on locking in our rate at the end of the year.

So the distinction, again, is from a Fannie Mae product, it's more loan-feature driven because that rate is actually higher but doesn't exist in the capital market.

CHAIR CAREY: Okay. Are there further questions on this?

(No response)

CHAIR CAREY: Can we move to Multifamily?

MR. DEANER: Certainly. As Bruce indicated, I am in his office weekly to ask for money. Because the way my world works is, I need the general obligation of the Agency to enhance the bonds that we sell to finance our projects. And when we do that, we typically underwrite to a debt-service coverage that might be a 1.20 debt-service coverage or 1.15. And the rating agencies look to a minimum of 1.40 within your indentures. They give you exactly -- they give you a haircut and say, "Okay, if you do $100 million of permanent loans, we're going to probably haircut you $15 million of capital we want to see."

And if we do the construction loan, which we've been primarily the construction and perm lender, on the construction loans, if I did $100 million, they'd look at us to have $50 million of equity in that, they'd give a 50 percent haircut.

So, yes, I'm quite often in Bruce's office bugging him to say, "I've got programs I can run. But I know that the rating agencies are going to give us a haircut. What do we have for me to create a program around that?" And that's part of the discussion as we get a little bit farther down.

One avenue, obviously, is the New Issue Bond program that the Federal government put together through Treasury. That program was created really quickly for Multifamily. And even though we have $380 million -- and I'm a very optimistic guy, and my hourglass is always half full -- it's going to be very difficult to put that much money out because the way that it is structured and our ability of not being able to put our general obligation on the loans, we cannot be the direct lender with this particular money. So we can only act as an issuer.

Purely renting our tax-exempt status to folks that we've got these bonds, we can deliver these bonds, we get a fee for it. But purely as a conduit, which means we take no real-estate risk, we take no bond risk, there's no risk in the deal for CalHFA because we are not the lender. We are purely utilizing these funds to pass through the Treasury through Fannie Mae, Freddie Mac, or FHA.

The way the program was established is, Treasury will buy these bonds with a AAA rating or better from the credit enhancer. Well, that's only Fannie Mae, Freddie Mac, and FHA.

And there's challenges within that because the program is a pretty expensive program to the borrower. An example would be if somebody gets a Fannie Mae or Freddie Mac credit enhancement, that's only on the perm piece. They still need to get a letter of credit during construction, and those are very difficult to get these days. Banks do not want to provide letters of credit. That's not to say that they're not, I don't want to say that. But there's very few letters of credits that are being provided on a deal.

So if you have a $20 million deal, Fannie and Freddie are only the permanent lender, they'll take no construction risk. So a bank becomes your construction lender and posts a letter of credit against the amount of the bonds in the event that it doesn't convert. And it's in favor of Fannie and Freddie.

The cost, I'm hearing, of those letters of credit is two points up-front and two points per annum. So if you do a two-year construction deal, it's six points.

And then you've got the cost of the long-term credit enhancement through Fannie and Freddie, and the locked rate that we've talked about is beneficial on the Homeownership side and it's beneficial on the Multifamily side, but it does create negative arbitrage. Because if the rate is locked at 3.49 and then Treasury is taking another 60 basis points to them, when we close the loans and we deliver the bonds during construction -- because remember, we're going to build this project -- if we're taking $20 million out, that's a locked yield that has to go to Treasury at 4.09.

Those funds at $20 million is going to go into some type of secure escrow -- and they usually call it a GIC -- that can only be reinvested at maybe a half a percent today. So you're going to have three and a half percent of negative carry on the funds that you're not using as you're building the project, because you're not going to use all that money on day one. So you can have another three to six points of negative arbitrage in that deal.

So the program, although they want to do the right thing and put it out, it could cost you ten, 12 points to do this deal through a particular credit enhancement.

The other option is that FHA, which is a little less expensive, through that process, but the timing to get those done is -- the lag time is a little longer.

And what I'm hearing is -- I talked to an investment banker, he has nine deals, and they're all

2008 deals. Most of the deals that are getting done under this program, are deals that had trouble finding financing in '08 and maybe at the beginning of '09. New deals -- new construction deals, folks really aren't looking at this avenue because of the cost.

So if you look at the '08-09 deals they are trying to get them done, almost all of them are going FHA. The investment banker -- I know a number of them, but the one I talked to has nine deals, eight of them are FHA deals. And FHA's pipeline, obviously, it's a big funnel, and it's just getting bigger and bigger. And we have a short fuse on this particular program. We only have the money until the end of the year. So some of those deals may get done and some may not.

So our plan is to try to get as much of this done as we can, put out as much as we can as a conduit issuer only, no risk to the Agency.

My plan is that as these deals come in -- there is a timing issue when we have to break escrow to fund these, because we actually do it. That means all the deals close at the same time. So I could have four different borrowers with three different lenders, Fannie, Freddie, FHA, they all have to close the same day because we can only break escrow three times.

So there's timing challenges.

MS. MACRI-ORTIZ: Oh, it drives the builders --

MR. DEANER: In the end, my plan was, since we have no risk -- and we typically would bring the Multifamily loans to the Board because we would be the lender, and we would be taking risk.

In this, we're not taking any risk. We have timing issues, that I was going to take these deals to senior loan committee and then have the executive director sign off on them. So we would tell them who the lender is, what the deal is.

I think that's an appropriate way to go because of the timing issues we have. We only have six months left to really get these done. I mean, people need to be lined up by probably October with their lenders because they've got to have firm commitments to get this out.

We do have some projects in the pipeline that we will get done. We're thinking in May, we might have six projects for $50 million that maybe in May or June, we may be able to take down, that we've been working on for a while. That would be the largest break of that escrow to date.

So far, there's -- in the country -- there's only been two breaks: One for $11 million and one for $6 million in the entire country. So that would be good if we could get that done.

We do have a pipeline of about another $100 million that we're looking at. But, again, there's the challenges of getting the credit enhancement and timing of getting it done.

My goal and my hope is to at least put out $200 million, if I can, of this. But, again, that's out of my control because we're not the direct lender, we're the conduit issuer. So I think they tried to do the right thing; but for us as an agency, it doesn't kind of fit our wheelhouse that we've been talking about.

So that's a New Issue Bond Program. That's how we'll perceive it back.

The second is our FHA risk share. We've had that for 25 years. We used to be primarily a risk-share lender, meaning, we share 50 percent risk with FHA, they accept our underwriting. But they do review and approve it. And the piece that takes a little longer is, there is an environmental requirement through the federal government called NEPA. They have to approve that. That process takes longer.

We got away from doing risk share and putting our own general obligation on the bonds because there is timing constraints with CDLAC. When you get your allocation, you had to close in 120 days, and we couldn't meet that with the risk share. But we are going to relook at that. We are talking to CDLAC, of expanding that time of closing risk share and loans and talking to them. But, again, it's something we haven't done in ten years. So I'm digging up old files and looking back to what we did ten, 12 years ago. But it is something we're going to look into, to share that risk.

The one lending program I see that makes sense -- if I ever walk into Bruce's office and he actually gives me a "yes" versus a "no" -- is, really looking at the portfolio, CalHFA's portfolio, we have 52 deals in the next five years that are all Section 8 preservation deals that will roll off our balance sheet. And what better if we preserved them.

It's called our "Preservation Program." We've done it for years. We've done new loans -- this is what our previous borrower was talking about on prepay. In that particular situation, we would allow him to prepay because we're doing a new loan and a bond indenture where we're getting extended affordability, deeper affordability, and rehab. And we get two of the three. And in that case, that would help him.

I haven't been able to do that preservation program because I haven't been able to sell bonds -- or Bruce hasn't been able to sell bonds.

So that would be, to me, the first and foremost program that we should look at because it will help our portfolio, it will help our borrowers, and we'll keep the Section 8. We typically want them to extend the Section 8 contracts, the new buyers for 20 years, up to 20 years, do the rehab. So it's an important program.

I've done some analysis for Bruce, and the capital charge wouldn't be as great as a new deal, because we've already got somewhat of a haircut over here from the old deals. So I'm kind of washing it out.

The deals are going to be bigger -- the new deals are going to be bigger. They are going to be a little larger. But it's not going to be if I do $100 million and it's $15 million, it's going to be I do $100 million and maybe it's five of additional. So we're kind of washing that out.

So to me, I've done some analysis for Steve and Bruce that makes sense when we decide that we are able to do that, we can go back to the portfolio --

MR. HUDSON: Does this have any impact on credit-rating management?

MR. DEANER: For me it does, yes, because I need -- to get the yield to make the project work, the better the rating we have, the better the yield we get, the better --

MR. HUDSON: Yes, but I'm saying, if we do this, does it enhance our rating, or does it not affect our rating, or does it diminish our rating?

MR. GILBERTSON: Well, we have to be careful with the amount of capital that we provide Bob, to use for this purpose.

Think of that G.O. --

MR. HUDSON: Yes, so the more capital we have, the better our rating, right?

MR. GILBERTSON: Right, exactly. And making sure that we're not overcommitting to Bob for this program. The whole capital-adequacy analysis.

MR. HUDSON: It gets back to what Steve was saying. If we just let this stuff roll off, it would improve our credit rating but not our mission.

MR. SPEARS: Exactly.

MR. DEANER: Correct.

MR. GILBERTSON: That's the constant conflict that we have.

MR. DEANER: Correct.

MR. HUDSON: So there may be a 12-month strategy and a 24-month strategy? Got it.

CHAIR CAREY: *(Nodding head.)*

MR. DEANER: And this was when we were up and operational, it was a very successful program for us.

MS. PETERS: It's a thrive thing.

MR. HUDSON: So we ought to --

MR. DEANER: Okay. So that is number one on my list, when we can start lending again, is to take care of portfolio.

And, of course, we'd like to go back -- what borrowers are asking for us today at CalHFA is, can you be our -- because we were the construction lender and perm lender, and borrowers cannot really get construction lending today on bond deals. It's just next to impossible. And that's what they'd love us to do, I'd love to do it, but that's just not what we can do today until things change for us for that. So we should start within our portfolio and do preservation.

The last is, pursue a seller servicer, what is called a "DUS license" or an "FHA license" with Fannie Mae. I did that for 15 years. I know how they underwrite. I know their DUS guidelines.

Actually, eight, nine months ago we went through the credit process -- my group, Multifamily -- and got approved by Fannie Mae internally to be what they considered a DUS seller servicer. What that provides is a credit enhancement on the bonds and they share in the risk with us on a *pari passu* basis in the deal. They get a G-fee, we get part of the fee.

The part that we never came to a conclusion on is the counterparty risk, which is the credit risk to CalHFA, the G.O., not to the Multifamily.

And so from an underwriting standpoint, we got approved, but we never came to a conclusion on what risk Fannie Mae would take and agree to with CalHFA. And we still need to go through that process. But that's something that would help us in the future to do deals, if I became what I'm calling an FHA seller servicer for Fannie Mae. And that would help us share off the risk. And then I can do -- but that's only going to be on a permanent loan product basis, not on the construction to perm like we've done in the past.

And in these two programs, are programs I've talked about before but continue to be very beneficial to the Agency and to our group, the MSHA program for fiscal year 2010-2011, we're anticipating another 30 to 50 projects.

MS. JACOBS: I have a question on that.

MR. DEANER: Yes?

MS. JACOBS: With the Prop. 63 money being used for General Fund backstop, how are you going to do this program?

MR. DEANER: Well, we have -- we currently --

MR. SPEARS: It's prefunded.

MS. JACOBS: You already have the funds for that project?

MR. DEANER: We have the funds.

MR. SPEARS: We had $400 million transferred over about a year and a half ago.

MR. DEANER: Two years ago, yes.

MR. SPEARS: So it's already prefunded.

MR. DEANER: It's prefunded, yes. It's prefunded. So we have 30 to 50 projects where we may generate a million-plus.

MS. MACRI-ORTIZ: Are those projects that are already in the pipeline?

MR. DEANER: Yes. They are either going to be committed. I think about 20 of these will be committed, and there's about another 20 or 30 that are in the process.

MS. MACRI-ORTIZ: Okay.

MR. DEANER: So it's been a very successful program for us.

The second is our consulting role with TCAC. They got awarded a billion dollars what they call ARRA Funds, both for exchange money for tax credits to put into affordable projects and gap money for folks that could get investors that needed a small gap for a tax-credit equity.

We have now closed, I believe, 15 projects.

We've been paid -- we average a fee of ten to -- $10,000 to $12,000 per deal that we've been asked -- or we collect for our underwriting. We've got another 90 projects anticipated. So we're anticipating about another $1.3 million in fee income we'll generate off of that.

We were asked last Friday to expand our underwriting capabilities with them, so we're going to get paid maybe another 3,000 additional deals to help them with their backlog on the TCAC side to help them close the loans. So we'll redo our agreement with them going forward.

Bill Pavao will be at the May meeting. He told me he wants to come in and tell them how successful the program has been with our relationship, CalHFA and Multifamily with TCAC, and how many projects that it's helped, because Ed has gotten a lot of projects off the ground that were shovel-ready, and now have gotten the equity they need to get going.

MS. MACRI-ORTIZ: So it's when they get the credits, then you jump in and --

MR. DEANER: Yes, they typically get credits through TCAC. And then what happened was, is that the investor market also shut down. So the Federal government said, "Well, we'll buy in lieu" -- what's called "in lieu of," they'll buy the credits. So they gave TCAC X-amount of money.

And so what they were before was just approving credits and the investor was a limited partner. Now, you don't have that. So TCAC came to us and said, "With your underwriting experience, can you help us craft loan documents and look at these projects that they make sense? Because you're not going to have a limited partner in the deal now."

And so we've taken that role for them --

MS. MACRI-ORTIZ: I like that.

MR. DEANER: -- and helped them establish to get the money -- yes -- to get the money into the projects. And it's been very successful to date.

So those are two ongoing projects that I've got my staff running around like crazy, while I try to create other stuff.

MS. MACRI-ORTIZ: So when somebody gets a tax credit award, they don't have to go out and market it, where they're getting like --

MR. DEANER: Well, part of --

MS. MACRI-ORTIZ: -- seven cents on the dollar, is that going to change in terms of --

MR. DEANER: Well, part of it is, they have to go in good faith to go out and try to find a tax-credit investor. And if they can't get one, then they can come back and exchange in their credits for cash.

MS. MACRI-ORTIZ: Okay.

MR. DEANER: So really, they come in and apply and then they have to go out and try to find a tax-credit investor. And if they can't, then they can bring it back in and exchange it in for cash so the project will work.

MR. HUNTER: And it's a year-to-year thing in terms of Federal government.

MR. DEANER: Right. And I just talked to Bill, and I heard that there was a bill that was approved that they were going to renew it for one more year. So we'll probably do this either through 2011 or maybe 2012, to assist them to get this money out.

MS. MACRI-ORTIZ: Does that also assist in terms of protecting, I guess, these projects from the tax-credit investors who kind of want to low-ball the credits now?

MR. DEANER: Well, exactly, exactly. So they couldn't come in and try to do a gap, right. They'll come in and say, "Oh, I'll give you 60 cents," and then you gap 40, and so their yield is higher.

Bill set up minimums, that it's got to be at least -- and if it's not, we'll do a cash in lieu. But our role is to help TCAC make sure that the deals make sense.

We did the loan documents that, in the end, the dollars go in. And we're kind of the second set of eyes. We have no risk in these deals, but we have the second set of eyes. For him, these deals make sense because you no longer have the limited partner in there --

MS. MACRI-ORTIZ: Right.

MR. DEANER: -- that can kind of hold the screwdriver to the developers, that they're supposed to do what they're supposed to do. So that's been a very successful role for us.

CHAIR CAREY: Okay, any further questions?

(No response)

CHAIR CAREY: Moving on to Asset Management.

MS. ALVAREZ: Okay, mine is going to be very quick, which I'm sure everyone will appreciate.

MR. HUDSON: That's what they all say.

MS. ALVAREZ: You know, Asset Management has been sort of the steady-Eddie of the Agency. Like we said yesterday, we have 500 loans, we've had those, we've got to keep going.

So I'm not going to talk about my first few bullets. We discussed that yesterday. But the role of Asset Management is kind of expanding. Bob creates new business that generates more work for our unit. But we also will be closing soon a Citibank loan to the Agency, where our properties were used as collateral for that loan, which will require some new servicing roles for Asset Management, with Citi as one partner.

The federal money we got requires some new partnerships with them as far as reporting and servicing on the loans that get made with the money for that.

As Bob was saying, with TCAC on those ARRA funds, he's helping on the front end with the underwriting. We are under negotiations with TCAC to help on the back end for up to a 15-year period, providing the asset management services.

And then also under consideration still is the performance-based contract administration, which I've discussed a couple of times with you all.

HUD has changed how they're going to do that contract. We're still waiting to see the final result of that. So we've kind of been slowed down and stopped. But I'm hoping by the next Board meeting I have some more news for you on that.

MR. HUNTER: I have one question.

The $6.3 million on the MHSA, that's just on the loans that have closed so far; is that correct? So, for instance, if we do another 20 or 30 deals, that number is going to grow substantially?

MR. DEANER: Yes, I think he's right.

MS. ALVAREZ: Yes.

MR. DEANER: Yes. You're right, yes. It will grow over -- because I think -- they did -- what was it, a 60/40 split of the money, and 40 was to go to that. Yes, something like that. It's been modified a little, yes.

MS. ALVAREZ: I'm sorry, I didn't realize that slide was up. I have a different slide. So I should have paid attention. That was yesterday's slide that you've already seen.

MR. DEANER: Yes, that will grow as we close more deals. Yes.

CHAIR CAREY: Okay, the last piece.

MS. MORGAN: Okay, and I'll make mine even quicker, I think, than Margaret.

So the Agency is supporting many strategic initiatives at this time to help support all of our program areas, with the idea being we're trying to gather more information and have that information more easily accessible for analysis and for management information.

So we have three of our projects going online in the next three months and we have some that are going out farther. But we're trying to get more information and make it easily accessible.

MR. SPEARS: The time-line for all these is on the next page, and it might be useful to put it up.

As Liane said, several of these are being wrapped up that were smaller projects. The Homeownership and Fiscal Services, both the second and the third lines, that's, Paul, what we were talking about before, the complete revamping. We really need a financial and management-information system, a better one than we have now.

And, of course, the Homeownership system is really important at present. If we make any changes at all to the product, we have to have a programmer come in from I.T. and literally break code down and recode programs instead of just going in, in a Windows-based kind of a setting and changing a couple of settings on a window. It really needs changing badly. So we're hoping that will be completed early next year.

Gary will be a happier guy.

MR. HUDSON: Yesterday, you talked about new business opportunities.

Did you talk about that and I missed it? Or is that not going to happen?

MR. SPEARS: It's scattered all throughout, but mainly in Margaret's presentation about the performance-based contract administration.

MR. HUDSON: Okay.

MR. SPEARS: Also, what I would consider not a new opportunity but an expanded opportunity in loan servicing, so as we revive and thrive down the road, to do more and more of our own loan servicing instead of paying out servicing to others.

If you go back to the income statement -- you don't have to do it now, but if you go back, there's a pretty big number, eight or nine million dollars that we pay other people to service our loans. So that's two examples.

MS. PETERS: Before we close out, I'd like to echo Paul's comments that it would be helpful when we see the final business plan, to have everything gathered under the five priorities the Board set yesterday. And also along the different time-line, the revive-survive time-line, so that we can see that the program we were talking about, using balance sheet 4, is really in the third category, but bond-rating management is in the first category.

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Item 8. Reports

CHAIR CAREY: Okay, are there any reports that need to be mentioned?

MR. SPEARS: There's only one report, and it was delivered this morning. It's the delinquency report.

There is some improvement. But I would just mention very quickly, we had a very steep increase in delinquencies from April of last year until September. In October, November, December, we saw some reduction in some categories, and then it jumped back up again in January. It has gone back down again on an unreconciled basis. And that means we haven't tied out every loan payment to every bond indenture on every dime. But I started asking for that information because I get it much sooner. And that tells us that delinquencies have gone down again in February.

So I do not want to unrealistically raise any expectations. But at the very least, on an unreconciled basis, things in the delinquency world have flattened out for us. They're not going up at the rate they were.

CHAIR CAREY: Great.

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Item 10. Public Testimony *continued*

CHAIR CAREY: With that, just to cover our bases, I want to reopen public comment, if there's anyone here from the public who wishes to address the Board at this time.

(No response)

Item 9. Discussion of Other Board Matters

CHAIR CAREY: Seeing none, two quick items.

First, it has just surfaced that several of us are going to have a conflict on May 13th. So JoJo will have the delightful task of finding an alternate date for that.

The other thing I want to mention is, that I think on behalf of all of us, I know that the staff has been extremely busy. We are also extremely busy in our own lives; but I know that the pressures on the Agency have been great. And it's clear that a lot of work has gone into getting ready for these two days. And I think we really appreciate that and your willingness to do that, and I think it was fruitful.

With that, we are adjourned.

(The meeting concluded at 1:00 p.m.)

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REPORTER'S CERTIFICATE

I hereby certify that the foregoing proceedings were duly reported by me at the time and place herein specified;

That the testimony of said witnesses was reported by me, a duly certified shorthand reporter and a disinterested person, and was thereafter transcribed into typewriting.

I further certify that I am not of counsel or attorney for either or any of the parties to said deposition, nor in any way interested in the outcome of the cause named in said caption.

IN WITNESS WHEREOF, I have hereunto set my hand on the 14th day of April 2010.

DANIEL P. FELDHAUS
California CSR #6949
Registered Diplomate Reporter
Certified Realtime Reporter

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