# BOARD OF DIRECTORS

***California Housing Finance Agency***
***Board of Directors***

Wednesday, September 12, 2007

Burbank Airport Marriott Hotel
& Convention Center
Burbank, California
(818) 843-6000

9:30 a.m.

****8:00 a.m. to 9:30 a.m.: BOARD PICTURES FOR 2006/07 ANNUAL REPORT.***

1. Roll Call.

2. Approval of the minutes of the August 9, 2007 Board of Directors meeting.

3. Chairman/Executive Director comments.

4. Discussion, recommendation and possible action regarding final loan commitments for the following projects: (Laura Whittall-Scherfee/Margaret Alvarez)

| NUMBER | DEVELOPMENT | LOCALITY | UNITS |
|---|---|---|---|
| 07-002-A/N | La Vista Apartments | Concord/ Contra Costa | 75 |
| **Resolution 07-23……101** | | | |
| 07-007-A/N | Ridgewood Apartments | Sacramento/ Sacramento | 41 |
| | La Loma Apartments | Rancho Cordova/ Sacramento | 34 |
| **Resolution 07-24……123** | | | |
| 07-009-A/S | Casa de Las Hermanitas Apartments | Los Angeles/ Los Angeles | 88 |
| **Resolution 07-25……147** | | | |

5. Discussion, recommendation and possible action regarding a loan increase from the original loan commitment for the following project: (Laura Whittall-Scherfee)

| NUMBER | DEVELOPMENT | LOCALITY | UNITS |
|---|---|---|---|
| 04-012-N | Lion Creek Phase II | Oakland/ Alameda | 146 |

**Resolution 07-26……169**

6. Report of the Chairman of the Audit Committee regarding the review by outside counsel of issues relating to contracting authority and letters to the Board, and discussion and possible action by Board regarding the review. (Jack Shine)

7. Closed session pursuant to Government Code section 11126 (a) (1) to hear complaints or charges against an employee.

8. Discussion and possible action to repeal Resolution 06-16 and to dissolve the Compensation Committee. (John Courson)
**Resolution 07-20……213**

9. Discussion, recommendation and possible action to modify the salary caps for the positions of Director of Multifamily Programs and Director of Homeownership Programs. (Terri Parker)
**Resolution 07-21……221**

10. Closed session to consider the appointment of a Director of Multifamily Programs. (Government Code section 11126(a)(1))

11. Discussion, recommendation and possible action to appoint a Director of Multifamily Programs, and to set the compensation for such position. (Terri Parker)
**Resolution 07-22……229**

12. Discussion, recommendation and possible action regarding the Agency's administration of the Mental Health Services Act Housing Program. (Kathy Weremiuk; Edwin Gipson; Bruce Gilbertson; Tim Hsu)
**Resolution 07-27……231**

13. Update on Bay Area Housing Plan Financing. (Kathy Weremiuk/Edwin Gipson)

14. Discussion, recommendation and possible action regarding the amendment of Agency Resolution No. 06-06 authorizing the issuance of the Agency's bonds, short and long term credit facilities, and related financial agreements and contracts of services for the purpose of financing loans in connection with the Bay Area Housing Plan. (Bruce Gilbertson)
**Resolution 07-28……275**

15. Report to Board on status to date of the new building strategic project, and possible action regarding such project. (Terri Parker/Steve Spears)

16. Report on Agency's homeownership subordinate lending requirements.

17. Reports **.....341**

18. Discussion of other Board matters.

19. Public testimony: Discussion only of other matters to be brought to the Board's attention.

## **NOTES**

HOTEL PARKING: Day Guest Parking Rate: Guests not registered with the hotel will receive discounted parking at $7.00 inclusive of tax, per car, with no in and out privileges.

FUTURE MEETING DATE: Next CalHFA Board of Directors Meeting will be November 15, 2007, at the Burbank Airport Marriott Hotel & Convention Center, Burbank, California.

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# STATE OF CALIFORNIA

# CALIFORNIA HOUSING FINANCE AGENCY

# BOARD OF DIRECTORS

# PUBLIC MEETING

**Hyatt Regency Sacramento**
**1209 L Street**
**Sacramento, California**

**Thursday, August 9, 2007**
**1:03 p.m. to 3:00 p.m.**

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**

JOHN A. COURSON
*(CalHFA Board Chair)*
President/CEO
Central Pacific Mortgage

CYNTHIA BRYANT
Director
Office of Planning and Research
State of California

JEFF DAVI
for Dale E. Bonner, Secretary
Business, Transportation and Housing Agency
State of California

CAROL GALANTE
President
BRIDGE Housing Corporation

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

CARLA I. JAVITS
President, REDF
(formerly Roberts Enterprise Development Fund)

THERESA A. PARKER
Executive Director
California Housing Finance Agency
State of California

WILLIAM J. PAVAO
for State Treasurer Bill Lockyer
State of California

JACK SHINE
*(CalHFA Board Vice Chair)*
Chairman
American Beauty Development Co.

**A P P E A R A N C E S**

**Participating CalHFA Staff:**

BRUCE D. GILBERTSON
Director of Financing

EDWIN C. GIPSON II
Housing Finance Chief - Culver City
Multifamily Programs

THOMAS C. HUGHES
General Counsel

JOJO OJIMA
Office of the General Counsel

KATHY WEREMIUK
Housing Finance Officer
Multifamily Programs

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1 BE IT REMEMBERED that on Thursday, August 9,
2 2007, commencing at the hour of 1:03 p.m. at the Hyatt
3 Regency Sacramento, 1209 L Street, Sacramento,
4 California, before me, DANIEL P. FELDHAUS, CSR #6949, RDR
5 and CRR, the following proceedings were held:
6 --oOo--
7 *(The following proceedings commenced with*
8 *Mr. Davi absent from the hearing room.)*
9 CHAIR COURSON: I'll call the meeting to order.
10 --oOo--
11 **Item 1. Roll Call**
12 CHAIR COURSON: And if we may, we will call the
13 roll.
14 MS. OJIMA: Mr. Davi?
15 *(No audible response)*
16 MS. OJIMA: Mr. Carey?
17 *(No audible response)*
18 MS. OJIMA: Mr. Czuker?
19 *(No audible response)*
20 MS. OJIMA: Ms. Galante?
21 MS. GALANTE: Here.
22 MS. OJIMA: Ms. Jacobs?
23 MS. JACOBS: Here.
24 MS. OJIMA: Ms. Javits?
25 MS. JAVITS: Here.

MS. OJIMA: Mr. Pavao?

MR. PAVAO: Here.

MS. OJIMA: Mr. Morris?

*(No audible response)*

MS. OJIMA: Mr. Shine?

MR. SHINE: Here.

MS. OJIMA: Ms. Bryant?

MS. BRYANT: Here.

MS. OJIMA: Mr. Genest?

*(No audible response)*

MS. OJIMA: Ms. Parker?

MS. PARKER: Here.

MS. OJIMA: Mr. Courson?

CHAIR COURSON: Here.

MS. OJIMA: We have a quorum.

CHAIR COURSON: Thank you.

--o0o--

**Item 2. Approval of the minutes of the July 5, 2007, Board of Directors Meeting**

CHAIR COURSON: The next item on the agenda is in your board books. You have the minutes from the July 5th meeting, our last meeting here in Sacramento.

Is there a motion to approve those minutes?

MS. JACOBS: So moved.

CHAIR COURSON: Ms. Jacobs moved.

1 Is there a second?
2 MS. JAVITS: Second.
3 CHAIR COURSON: Ms. Javits seconds.
4 Are there any discussions on the minutes?
5 *(No audible response)*
6 CHAIR COURSON: If not, let's call the roll.
7 MS. OJIMA: Thank you.
8 Ms. Galante?
9 MS. GALANTE: Yes.
10 MS. OJIMA: Ms. Jacobs?
11 MS. JACOBS: Yes.
12 MS. OJIMA: Ms. Javits?
13 MS. JAVITS: Yes.
14 MS. OJIMA: Mr. Pavao?
15 MR. PAVAO: Yes.
16 MS. OJIMA: Mr. Shine?
17 MR. SHINE: Abstain.
18 MS. OJIMA: Mr. Courson?
19 CHAIR COURSON: Yes.
20 MS. OJIMA: We don't have enough votes.
21 CHAIR COURSON: We'll hold the minutes, the
22 approval of the July 5th minutes over until either a
23 quorum arrives or until the September meeting.
24 Okay. If a quorum arrives, we can ask for the
25 vote of -- Mr. Davi, I think will be here - we will ask

for his vote. And if he doesn't arrive, then we'll hold those minutes over, and we'll approve those plus the minutes of this board meeting at our September 12th meeting.

MS. OJIMA: Very good.

--o0o--

**Item 3. Chairman/Executive Director comments**

CHAIR COURSON: Chairman/executive director comments. I have really one, and that is that -- and I'll explain why -- but items on your agenda that was mailed out, Items 7, 8, and 9 will not be discussed during our meeting today. And let me put an explanation in behind the reason for that. As you all know, there has been a candidate for the director of multifamily housing identified, and that résumé was sent to you in your board book.

And let me say, while I'm thinking about that, that résumé, albeit obviously the Board book and so on is public, I would ask, out of consideration, that the candidate's name not be bandied about any more than necessary in the public. He still is employed, and still has obviously to go through a process of vetting here, in terms of being interviewed and discussed and approved or not approved. And I think it's obviously appropriate that we allow him to hopefully continue on in his

1 position until we make that decision.
2 So albeit it is public, from the same
3 standpoint, I think the less discussion in the public or
4 among ourselves or with others would be appropriate. And
5 I'm sure he'd appreciate that consideration.
6 Having said that, as we've talked about, the
7 Multifamily position is the one position that is a
8 Board-appointed position along with the compensation for
9 that job, as we have discussed in the past.
10 However, I will tell you, within the last
11 probably no more than 24 to 48 hours, in discussions with
12 folks from the Governor's office and BT&H, there is a
13 request that the Board not move forward with the director
14 of Multifamily discussion or compensation until such time
15 as the report and the review being done by the Audit
16 Committee is completed, and have asked so that we not get
17 a positioned director of Multifamily moving on a track
18 separate than what we're doing with the other pay letters
19 we're trying to get, that they have asked that for the --
20 and we'll talk about the anticipated receipt -- but the
21 fairly imminent receipt of the review, have asked that we
22 remove that from the agenda and consider it after the
23 report is received by the Board.
24 So in fairness to the candidate, the last thing
25 we want to do is find the right person, the right

1 candidate, and interview them, and have them also be
2 stalled in terms of pay letters and process. It's just
3 unfair to the candidate.
4 So we've talked to him about that -- Terri and
5 I have talked to him about that, he is aware of that.
6 And so you can anticipate that those three agenda items
7 will be on our regular September board agenda, and move
8 forward at that point.
9 The other is that, clearly, in looking today,
10 this is a special meeting. And as you can see, in
11 particular, Peter -- this is the first board meeting
12 Peter has missed, but Mr. Czuker and Mr. Morris aren't
13 here. And clearly, there is a very important decision.
14 And hopefully in September, we'll have a full complement
15 as opposed to squeaking by with a quorum because this is
16 probably one of the more important decisions that we as
17 a board will make as part of our fiduciary
18 responsibilities. So hopefully the attendance in Burbank
19 will be more robust as we have that discussion.
20 So those items happened so quickly over the
21 last, as I said, 24 to 48 hours, we did not communicate
22 back. And we do have, frankly, a couple, three items
23 that we do need to consider, and so that's why we moved
24 ahead with the meeting today. And I appreciate all of
25 you coming.

1 That's the end of my report.
2 Cynthia, I'm sorry. I've been accused of being
3 rude before, Cynthia.
4 Once again, Cynthia Bryant joins us today.
5 We're pleased to have her here and participate in our
6 deliberations. And contrary to when she walked in, the
7 sign outside said the meeting said from 1:00 to 6:00,
8 which gave her a little pause to reflect.
9 I assure you, Cynthia, the meeting will not run
10 until six o'clock.
11 MS. BRYANT: That will be most excellent.
12 CHAIR COURSON: Executive director?
13 MS. PARKER: Thank you.
14 This thing sounds like it's really cranked up.
15 Just sort of newsy notes with respect to --
16 and housekeeping, not in any particular order of
17 significance. But I want to give you all a heads-up. I
18 have been instructed to do so by the director of
19 Marketing, that at the September 12th Board, you will all
20 have your Board photos taken. And so you need to dress
21 appropriately. And Mr. Giebel promises me that, although
22 he will need a couple extra minutes of your time, that it
23 won't be much. And he also promises that any photos
24 taken will be cleared by all of you so that you have a
25 say in which photo you want to represent yourself with

1 in our annual report.
2 The second thing I wanted to talk about, we've
3 got, I think, some really exciting news that's passed
4 even in the last month since we met. Some things that we
5 have been working on, staff have been working on, and
6 we've informed you of for really the last year and a half
7 to two years.
8 And the first item is that we initiated -- we
9 had signed the documents and selected a seller/servicer
10 to start a mortgage-backed security program with
11 Fannie Mae. And as we have talked with you about this
12 since the inception of the idea, we last week actually
13 rolled this program out to the public.
14 *(Mr. Davi entered the meeting room.)*
15 MS. PARKER: Right now, we've got a separate
16 indenture that these loans will go through that we will
17 then sell to Fannie Mae. Obviously, the advantage of
18 that is, from a credit standpoint, all those loans that
19 are bought by Fannie Mae helps from the standpoint of the
20 rating agencies' view of our portfolio and our credit.
21 And the other benefit of doing this is that
22 since the requirement of Fannie Mae is that we have a
23 mortgage insurance coverage of 20 percent as opposed to
24 the 35 percent that's our other indenture, it allows us
25 to essentially reduce the cost of the total loan to the

1 borrower.
2 And I've given you all a chart that Chuck put
3 together yesterday because we actually have a little rate
4 committee, and decided that we were going to tweak things
5 a little bit to try to incentivize our lending in that
6 regard. But if you look at the loan comparison, right
7 now, our loan products out there, we have a 30-year with
8 an interest rate for moderate income, we have a 30-year
9 with an interest rate for low income, and obviously that
10 is the one that we subsidized the greatest.
11 The 5/35 -- and this is the program that is now
12 under the new indenture with Fannie Mae -- and a 40-year
13 product. And we essentially, in order to try to take
14 advantage of offering our borrowers, particularly in
15 high-cost areas, as much benefit that we possibly can,
16 we've changed our rates just a tad to have the 5/35
17 match what we're doing for the moderate income to help
18 drive production in that category, which we then can sell
19 to Fannie Mae.
20 And the benefit then to the borrower, if you
21 look at the bottom, is that the incomes that now will
22 allow somebody to qualify. You know, if you could find a
23 $260,000 house -- we've used that for an example -- but
24 it essentially lowered the income from the loan -- the
25 30-year loan by, you know, roughly $3,000 or $4,000. And

1 just the mortgage-insurance benefit alone to the borrower
2 is somewhere around $60 a month.
3 So this project that we have spent two years
4 on, particularly in the market today, we're excited about
5 being able to help with our borrowers. Particularly,
6 these are not -- again, these are prime loans, not
7 subprime. And there's something that we have to offer to
8 first-time home buyers in the marketplace that they can
9 have some confidence in, as opposed to being, you know,
10 quote, unquote, maybe perhaps "victimized" by subprime or
11 with the tightening credit markets, that they still have
12 an avenue to be able to become a home buyer. So the
13 staff are very excited to announce this, and you can see
14 the actual results. And we'll be keeping you apprised as
15 we watch this roll out and see how our distribution of
16 lending goes.
17 As you all know, we are capped by the amount
18 that we have in our business plan this year of doing
19 the 1.5 billion of lending, even though we did in excess
20 of 1.7 billion last year. And that is a problem because
21 of the amount of access we have to tax-exempt financing
22 through the Treasurer's office. And that will be our
23 biggest issue, to try to see if there are ways that we
24 can stretch our creativity further to create some
25 liquidity, because we could certainly do substantially

1 greater borrowing than $1.5 billion.
2 The next thing I want to talk a little bit
3 about is, you've had in your Board book the fact that
4 I believe I have a successful candidate to offer the
5 Board for the director of Multifamily. I have talked to
6 this particular individual about the Board's interest in
7 wanting to really have that program be a phoenix rising,
8 and bring somebody in who can essentially take that on,
9 work with the great staff that we have to date, and
10 continue to make improvements that we can take a market
11 share that we've had in the past.
12 Also, a very key position because of the
13 announcement of the implementation of the Governor's
14 initiative under the Prop. 63, the Mental Health Services
15 Act, for homeless and for chronically mentally ill and
16 that program hit the street Monday. The application is
17 now on the Web site for both the Department of Mental
18 Health and CalHFA. And Edwin and Kathy are going to talk
19 a little bit about that today, and will give you some
20 highlights of some of the things that we're going to be
21 talking to you about when we come to the Board in
22 September.
23 The last thing I want to just give you, again,
24 a report, is that we're continuing to work on with our
25 consultant on a location for a permanent place for the

1 co-joining of the two staffs in Sacramento. We hope to
2 bring you some more information in response to some of
3 the specific RFPs that have been sent out.
4 And in addition to that, we have been working
5 on developing a business continuity plan, which we are
6 going to take some initial steps to make sure that if
7 there's flooding in the Senator Hotel, where all of our
8 computers are, that we don't lose everything, including
9 our ability to serve our customers.
10 But our long-term continuity plan will be
11 focused around where our move is going to be, since
12 that's likely to happen in the next three years or so.
13 So that when we do make that move, our business
14 continuity plan for our business recovery of probably
15 somewhere around a three- to five-day period is set in
16 motion at that same time.
17 So with that, Mr. Chairman, that concludes my
18 remarks.
19 CHAIR COURSON: Thank you.
20 I will mention in the loan comparison sheet
21 that Terri talked about and the cost, as everybody is
22 obviously well aware -- and I have been in Washington
23 over a week and dealing with the lack of liquidity now
24 that is just pervasive throughout not only the
25 single-family, but multifamily market, and what's

1 happening to market yields, and the pricing now of a
2 credit in the real estate business is incredibly dear.
3 And so our role becomes even more important in serving
4 particularly the first-time home buyers. And it is
5 difficult these days for any lender making a loan that is
6 making it with the idea of selling it into a secondary
7 market -- that is, yields are up and cash is dear -- our
8 role becomes even more important. So our partnership
9 with Fannie Mae comes at a particularly interesting time,
10 where we can go out and not only serve the market, but at
11 a lower cost also.
12 So, Terri, very good work.
13 Mr. Shine?
14 MR. SHINE: In that regard, I'm glad you
15 brought it up because I was going to ask later, what
16 impact -- let me put it this way: Do you think that
17 there is going to be any negative impact on our
18 operations as a result of the fallout and spill-over
19 from this melt-down that you've been observing and that
20 you're talking about, the changes that are happening in
21 the lending community?
22 CHAIR COURSON: I don't sense so. I guess the
23 question would be -- I mean, clearly our portfolio runs
24 in very good shape, as we've seen as we get the reports,
25 and our delinquency factors clearly are not a factor.

1 And I will say, too, that some of the issue --
2 and you really have to parse out some of the numbers you
3 look at, which I spent last week working with some
4 economic folks. And there's a certain part of this
5 higher delinquency level, even in the prime market, that
6 would be there even if it weren't for what is being
7 blamed on the non-traditional loan products. And that's
8 just because of the -- I'll call it, since I'm not there
9 now -- last week, when I was in Ohio -- but the Rust Belt
10 has some very severe economic problems that we don't see
11 here, that they have just a growing amount of
12 unemployment and economic distress that is causing a
13 higher level, anyway. The non-traditional home products
14 ironically do tend to focus more on the Sunbelt and the
15 coastal areas. And I guess the question would be the
16 effect to us. And Bruce might be able to answer, but is
17 there an effect on the market? In other words, for our
18 securities that we are issuing, obviously, to provide
19 liquidity to fund the loans, are they caught up in the
20 same liquidity crunch for other mortgage-backed taxable
21 or tax-exempt securities?
22 Bruce, I didn't mean to give you a pop quiz.
23 But I think that's -- Jack, if there's an impact on us,
24 it's an impact on the securities market and our ability
25 to continue to issue our tax-exempts.

1 MR. GILBERTSON: Well, I think my answer is
2 twofold.
3 The good news is yesterday we closed a
4 350-million-dollar financing for a single-family program.
5 So the timing of that was excellent.
6 You know, I put three calls in to bankers this
7 morning because the markets have been very volatile
8 recently. Just overnight there was a tremendous movement
9 in the taxable market. LIBOR, one-month LIBOR moved from
10 5.30. It had been at about 5.30 for the last year, to
11 5.50. There's a lot of concern with European banks that
12 had played in the subprime mortgage market as well.
13 I think the word that I would use is "cautious"
14 right now. Spreads are widening, you know, especially on
15 taxable debt that we would try to issue to expand our
16 program.
17 We have plans to try to be in the market with a
18 taxable issuance later this month or the first part of
19 September. We're watching all of this very, very
20 carefully.
21 I pitched the question to the banker that I did
22 get ahold of on the phone: Are the bond investors not
23 there that had been there before? The answer that I
24 received is that there certainly is interest in housing
25 bonds from state HFAs, like CalHFA, but the number of

1 participants is not as great as it has been.
2 And again, I think, Jack, you're right by
3 asking the question, is all of the mortgage marketplace
4 going to be affected in some way? It's too early to
5 tell. We're certainly watching this very, very carefully
6 and closely.
7 MS. PARKER: Mr. Chairman, I might also add, we
8 have asked at least two of our bankers to continue to do
9 some additional research for us on subprime loans. And
10 to the extent of that, not just tracking from a national
11 standpoint, but trying to get as much California-specific
12 data as we can, we just had a briefing the day before
13 yesterday on some additional information, and we were
14 asking them, to the extent that they can, to track some
15 of this information on California on a month-by-month
16 reporting basis or continuous reporting basis.
17 I think the material that we have looked at
18 continues to sort of express, for California, the concern
19 will be what happens to some of the loans that were
20 really issued in the 2006 period when credit became
21 probably even at its loosest. But since some of the HFAs
22 across the country -- Massachusetts, Ohio, Connecticut is
23 involved in looking at doing something, New York,
24 Pennsylvania -- some of the HFAs are actively -- either
25 they've started doing it or they're looking at rescue

1 programs, we wanted to try to make sure that we are
2 educating ourselves as much as we possibly can about what
3 the circumstances might be in California. And even to
4 the extent of having the information on county-by-county
5 and within counties, pockets, that have significant high
6 foreclosures.
7 So I just wanted to let you all know that we
8 are -- you know, we have been asked by legislative
9 committees to come to hearings and talk about this. And
10 we've essentially said we don't really have anything to
11 add.
12 But from the standpoint of just keeping
13 ourselves educated, we're trying to watch the marketplace
14 and -- because, you know, my colleague in Massachusetts,
15 just for what they're doing, they expect that maybe they
16 will be able to hit 20 percent of the people who will be
17 impacted by losing or foreclosure. And they're kicking
18 in $40 million to do so. And I asked them to do a
19 computation what would California's contribution be, if
20 it was going to do just 20 percent of those foreclosures.
21 So the number is huge.
22 And from our standpoint, we want to see what
23 the financial market does to address these problems,
24 which is what we think is appropriate at this point in
25 time. But I wanted to alert you all that we are trying

1 to continue to be educated for you.
2 MR. SHINE: And I think it's great that before
3 it's even mentioned, you're already on it. And that's
4 terrific.
5 The other piece of the pie is, do you think
6 there is a possibility of a series of mini bail-outs by
7 HFAs and others across the country to try and foreclose
8 the spread? Because every time we have a crisis, it
9 seems to spread beyond the boundary we think that's been
10 set, whereby we or other organizations could set up a
11 sinking fund or some kind of a fund to help people that
12 are in trouble and secure it through some subordination
13 of existing debt or whatever, to keep this from melting
14 down to the point where ultimately it affects everybody.
15 MS. PARKER: Yes, that's the $64 million
16 question.
17 MR. SHINE: I know, I know.
18 MS. PARKER: And I think what we've said, part
19 of the problem is to understand who is impacted and what
20 are the reasons why they are impacted, and whether or not
21 government should play a role in it.
22 The dilemma is that for many of these people,
23 they have two problems; and one of them is the way that
24 the securities are sold, that there's really not the
25 ability to go back in and, you know, restructure them

1 with who they've been sold to. So normally, if a banker
2 does a mortgage with you and you're going south, they
3 might have a conversation about perhaps changing your
4 interest rate so they don't have an REO that they have to
5 take on their hands.
6 The big dilemma about subprime is from a
7 national standpoint because of how they were handled in
8 the investment market, whether there's any ability to do
9 this. So the problem for the borrower is when they have
10 these resets from these teaser rates after two years,
11 how much their mortgage jumps up to and their ability to
12 pay it or not pay it and particularly get out of it. And
13 if the market where they are at has turned down, they
14 don't have any ability to sell their house. And so
15 that's when they're stuck. And also, if they have, in
16 order to get out of that house, prepayment penalties,
17 which in some cases are huge. And so my colleagues, we
18 have talked about this, the discussion really becomes
19 whether or not you want to come in. And the kinds of
20 rescue things would really involve somebody allowing
21 people to have a hundred-and-some-odd percent of the
22 value of the house, and who would take that risk and how
23 you would finance it.
24 And if you financed it from the standpoint of
25 the private equity market, would the cost of those funds

1 be so great that it would really provide any value for
2 that borrower?
3 MR. SHINE: Well, the big funds that have
4 bought these that really take a hit, at some point, are
5 going to be aware, if they're not already, that this is
6 headed toward a resolution-trust kind of situation. And
7 maybe we can't do it in the state, maybe we can lobby for
8 the feds to do it, to either extend the adjustable
9 period, so the higher rate doesn't kick in right away, or
10 as you suggested, accommodate a different rate or make a
11 sliding scale of rates that would go up much more easily,
12 that would jump from 1 to 6, or whatever it is --
13 MS. PARKER: I think if the Board is interested
14 in this issue, I think perhaps we might ask our bankers
15 to come and do a presentation for you. It is fascinating
16 data. And I think, for California, we're going to be
17 through this for the next couple of years.
18 And, you know, it's interesting because each of
19 the HFAs that are involved are all approaching this from
20 different ways. Some of them are using their trust
21 funds, some of them are going to be using their mortgage
22 insurance fund to do something.
23 One of them that's really looking to try to do
24 something that would be perhaps a moratorium on the
25 ability to -- that obviously would require legislation,

1 and this state has the Governor's workforce on this --
2 but perhaps legislation that would have put a moratorium
3 on the rising rates to kick in; and at the same time,
4 perhaps looking at whether or not buying those loans from
5 the private market at some really deep, deep, discount in
6 order to essentially share that burden and problem with
7 the financial markets that essentially gained for it.
8 So there are a number of things. And if the
9 Board is interested, I'm sure we could ask -- we have
10 two of our bankers who have been doing a lot of work for
11 us on this. So, as I said, to -- and we'll keep in touch
12 with this. I was in Vermont with my colleagues a couple
13 of weeks ago, and this is one of the big things that we
14 talked about, because you know that HFAs are the likely
15 place within the state that might be used -- and even
16 with that, though, I think that there's -- certainly not
17 our resources -- if something is going to be happening
18 in California, it will have to take financing from
19 somewhere, and where will that come from, and how does
20 that compete?
21 And certainly Cynthia can talk about this,
22 given the state budget, how does that compete in the
23 environment we're in with many other things.
24 CHAIR COURSON: Mr. Shine, let me -- I've spent
25 actually 60 days in D.C. working on just this issue, as

1 a matter of fact. And let me -- not to add to what Terri
2 said -- first of all, the good news is last week I was
3 involved and we've been involved for the last couple
4 months, we got a favorable statement, letter from the
5 Federal Accounting Standards Board, FASB, because there
6 was a question about if you modify loans inside the
7 securities, does it change the accounting treatment?
8 And we got a favorable ruling that this does not change
9 the accounting treatment. So that was a big hindrance
10 of lenders reluctant to go inside already-issued
11 securities and change the character of the loans in there
12 and have to give a different accounting treatment on
13 their balance sheet. So that will remove a huge obstacle
14 to many of those indentures that are out there.
15 The other, more and more of the new indentures
16 actually don't have a prohibition as some of the older
17 ones have. Many of these 2/28 loans, as they've been
18 called, can still be modified. So that was good news.
19 The other thing that you have to be aware of
20 is -- Terri's right, there's a number of states that are
21 doing their own thing. Unfortunately, all those
22 states -- not to be indelicate about it -- but it's sort
23 of like spitting in the Sacramento River in terms of what
24 it's going to cover versus what the needs are out there.
25 And unfortunately from an HFA standpoint, obviously we

1 all know how dear our ratings are -- our bond ratings are
2 for all of our business. And as a fiduciary, many of
3 these loans that are already in default, particularly in
4 areas of stagnant or falling market values, will not meet
5 the underwriting criteria that we would have for any
6 other loan. And to expose yourself to a lesser credit
7 standard that could ultimately bring in additional loans
8 that would affect the performance that we're very proud
9 of, of our servicing portfolio, which then becomes a
10 circular argument, that goes back to our rating. It's a
11 very, very difficult issue. So in some respects, those
12 loans that are already in default need to be dealt with
13 with the lenders.
14 One of the things I've been working on
15 diligently -- in fact, I will actually spend the day
16 tomorrow on it -- is trying to see if there is a
17 mechanism on a federal level to access the capital
18 markets, for those HFAs that choose to access the capital
19 markets -- every state will make their own decision --
20 to allow the refinancing of some of these loans.
21 And these in my mind and what we've talked
22 about -- and I've met with the ten largest servicers --
23 is the ability to parse out in their portfolios who is
24 going to be the next one in default. If you're a
25 servicer today, what they're doing is, they now are going

1 into their servicing portfolios and they know who is
2 going to adjust from a 2/28 to another level of
3 adjustment in the next 90, 120 days, and going
4 proactively to those people, talking to them about the
5 impending adjustment. Obviously, good for the lender,
6 good for the borrower. What is -- you know, sort of
7 requalifying or finding out their capability of absorbing
8 that enhancement. And those are the ones that I think
9 you have an opportunity if you can get enough financing.
10 As Terri said, we're not going to find it
11 inside the state some place. Get some access to capital
12 markets to deal with those folks before they get into
13 default. And I think that's where the initiative --
14 that’s the initiative we've been working on.
15 MR. SHINE: That's why I asked the question,
16 because there's two things going on. The first thing is,
17 as you so adroitly said, how would a fallout like this
18 impact our HFA in the capital markets.
19 CHAIR COURSON: Right.
20 MR. SHINE: And then notwithstanding that, can
21 we then do something that would just be nice to do to
22 help out and not end up in a FIRREA resolution-trust
23 fiasco that would cost three times what it should cost.
24 CHAIR COURSON: And, I don't know, I had
25 meetings on Capitol Hill last week. I'm in the process

1 of putting a proposal together, working with NCSHA and
2 the mortgage bankers and some of the groups back there,
3 to see if there is a way to access those markets without
4 debilitating or negating anything we're doing in our,
5 quote, "normal bond cap business." Because we all know,
6 we've talked about how dear our bond cap is. And you
7 can't use -- when we don't have it for our existing
8 programs, to use it for something that would take even a
9 change in the tax code to do, is something that I don't
10 think would be very tasteful for us and not the right
11 thing for the citizens of California. But if you could
12 get some additional cap, get some additional financing
13 capability for a limited period of time to deal with this
14 limited circumstance, then it may be attractive.
15 MR. SHINE: If the feds could spit in the
16 Sacramento River and get a little bigger impact, it
17 wouldn't mean very much to them, but it would mean a
18 great deal to us in terms of taxing our capabilities.
19 And it could be done so easily.
20 I'm wondering, have you, in your dealings in
21 Washington and through the association, thought about
22 setting up a presidential or some kind of task force of
23 people who really know how to make things happen and
24 suggest some interim steps that could avoid the -- I hate
25 to say it -- potential catastrophe that we're looking at

1 right now?
2 CHAIR COURSON: I have not -- we have not
3 discussed a presidential task force. I think this
4 problem needs to be solved faster than the two years that
5 it would take a presidential task force to come up with a
6 solution, to be very candid. However, having said that,
7 there is work, there is a group that's actually meeting
8 with Senator Dodd, chair of the Senate Banking Committee,
9 that is doing that, that is working forward on that. And
10 that's one of the places where this project I'm working
11 on -- we're vetting that through them to gather their
12 support.
13 MR. SHINE: There is a possibility to do a lot
14 of things if the right people get together and actually
15 go from conversant into commencing.
16 CHAIR COURSON: Right. And I think that's why
17 the HFAs -- and, frankly, I went to the meeting in
18 Florida in May and talked about this concept we're
19 working on at MBA to see if it can be a joint partnership
20 between multiple lending associations and the NCSHA.
21 They've got to be a key to this if we're going to open up
22 and create some additional bond cap. Because, frankly,
23 for the lenders -- be it the American bankers or the
24 American community bankers or mortgage bankers and so on
25 do this -- it would well be looked on as the lenders'

1 bail-out fund. And albeit you're still helping
2 borrowers, I think that you have to have the actual HFAs
3 participate if it's going to gain any traction on Capitol
4 Hill. And I think that based on where that is, that the
5 answer is, the viability of that should be known in the
6 next 30 days.
7 MS. PARKER: Mr. Chairman, I look at the
8 incentive for some of these programs to be formed in
9 Ohio. This was a proactive effort on the Governor's part
10 early this spring.
11 Mass housing, that was a proactive activity on
12 the part of the Governor.
13 Connecticut has got their governor proactively
14 leading their task force on this.
15 And clearly, in New York, the New York HFA, the
16 new governor just appointed the new chair and my
17 colleague there. Very strong ties to the Governor's
18 office. So this may be a situation that, too, comes from
19 governors in states where they can speak to their own
20 unique situation, but how they all fit -- how it all fits
21 in totality, and, you know, the recognition of the impact
22 on the credit market, which clearly, you know, the
23 federal government needs to be aware of.
24 I wanted to say, though, I think what we have
25 tried to do as your staff -- we did this in the business

1 plan -- is try to take a position of making ourselves as
2 educated as we can about what's happening with this
3 market but trying to gear our efforts internally and our
4 resources internally to help the first-time home buyer
5 on a prospective basis that is impacted by the credit
6 crunch, the ability to handle or help the people who are
7 impacted by the subprime market.
8 Really, since we can't use tax-exempt financing
9 to help them, because if they're not first-time home
10 buyers, it clearly becomes more of a question about what
11 do you do and how can you do it unless you put liquidity
12 into that. And then that becomes a discussion among all
13 of you about how does that fit in with the priorities of
14 liquidity for that group relative to homeless, relative
15 to our new Multifamily Program, relative to housing for
16 first-time home buyers and some of our other programs.
17 So we want to keep you -- I really appreciate
18 you having this discussion because, frankly, we are
19 trying to educate ourselves so that we can bring this
20 back to you as the professional board to help give us
21 some guidance about, you know, given the fact that the
22 market is changing, how should we try to position
23 ourselves and what should we be doing to keep ourselves
24 as informed, and for you all informed if we want to get
25 in there and do something.

1 So, again, I would say, if you want us to be
2 something more targeted, you know, we'll take care of
3 that.
4 CHAIR COURSON: Mr. Pavao?
5 MR. PAVAO: I guess if there are other state
6 models that you think would be of interest for us to look
7 at, I'd be curious to hear more about them. So if there
8 are other states that have intervened in some way that
9 you think is effective, I would love to hear about that
10 and see if we might pursue something like that here.
11 CHAIR COURSON: One of the things that we could
12 probably do -- and Terri and I could work together
13 because I think we can get the information -- would be to
14 look at those states and sort of do a matrix as to what
15 are they doing, where is the funding coming from, how
16 much is it, what are the specs as to -- I'm trying to
17 find out what borrowers are eligible, what are the
18 programs they are eligible under, and so on. And we
19 could probably put together a matrix of the five or six
20 states that are --
21 MR. GILBERTSON: Just one more update on this.
22 Just before I came over to this meeting this afternoon,
23 I had received a news brief that the Ohio State Housing
24 Finance Agency program has been terminated.
25 MS. PARKER: Oh, my goodness.

1 MR. GILBERTSON: They had planned to do
2 $100 million. They're going to limit it to $25 million.
3 And that was a short story on Bloomberg.
4 CHAIR COURSON: Unfortunately, most of those --
5 the programs that are out there -- although they say in
6 the press release in terms of governor, legislature,
7 et cetera, release $100 million and so on, are a little
8 deceiving in that they're talking about $100 million
9 programs, but it's all contingent on being able to
10 enter into secondary-marketing agreements with Fannie
11 Mae or Freddie Mac or someone else. They don't have the
12 funds laying around. So they make the announcement of
13 the program. And I think part of that has been some of
14 the issues with Fannie Mae, which is where they get
15 their --
16 MS. PARKER: Right. Again, this goes back to
17 my colleague in Ohio. They essentially announced this
18 program assuming that Fannie Mae was going to give them
19 certain waivers on credit quality and financing. And
20 when they came back, when we looked at what the product
21 was, I think a lot of us were concerned about whether it
22 would actually help.
23 I mean, it's not enough to have a product; the
24 product has to work. And that, as you all know, is
25 really our biggest challenge. And so that's the

1 dilemma -- I'm not surprised, but I am surprised --
2 because the fact of the matter is that even with their
3 commitment, the interest rates that people were going to
4 have to pay, they probably couldn't make it.
5 CHAIR COURSON: Right.
6 Ms. Javits?
7 MS. JAVITS: Yes, just a couple thoughts.
8 I appreciated what you said about what are the
9 private financial markets going to do, what's Fannie
10 going to do. You know, we have a certain role. We're
11 going to have relatively limited resources: Where are we
12 going to target those?
13 I know we heard some information at the last
14 Fannie Mae advisory meeting -- Terri and I both are on
15 that board -- about the percentage overall of loans that
16 are actually at risk, you know, that aren't going to be
17 able to be worked out. I think a good half of them they
18 thought might be able to be worked out, and then sort of
19 smaller percentages.
20 So I'd be interested just for September or
21 maybe the meeting after that, what other states are
22 doing, but also, what is it uniquely that we might be
23 able to do and where would we really concentrate if we
24 were able to make resources available that will be
25 different than other sectors would be able to?

1 CHAIR COURSON: And, unfortunately, last week
2 I was in meetings. And one of the things that -- one of
3 the items on the table to address is to have the
4 Fannie Mae, Freddie Mac, the GSEs have their regulator,
5 OFHEO, raise their caps. They now have portfolio caps.
6 Freddie Mac has, I'm told, some room under their cap.
7 Fannie Mae is at their cap. And so there was an exchange
8 of letters and discussions with OFHEO, of letting them
9 raise their caps and, for a limited period of time, raise
10 the conforming loan limit above the 417,000 to
11 accommodate more of these loans.
12 Based upon the reaction and response I've
13 heard, and, frankly, in looking at the President's
14 economic talk and Q&A yesterday with the press, I'm not
15 very hopeful that those caps for Fannie Mae or
16 Freddie Mac are going to be raised. I think they are
17 pointing towards trying to -- there's a bill in Congress
18 that the Administration is looking at to modernize FHA.
19 And they're trying to use this to push that bill through,
20 which likely will go through the House and Senate by the
21 end of September. And if it does, to use that as a
22 vehicle as opposed to the GSEs.
23 Ms. Galante?
24 MS. GALANTE: You know, this conversation is
25 fascinating. And, frankly, I feel like just the average

1 citizen on the street because I know just enough, you
2 know, from reading the papers and watching news programs.
3 But this is not my area of expertise at all. And I would
4 just say that when I hear Terri articulate the limited
5 resources and what we can and can't do -- and it also
6 makes me want to articulate that there is a part of me,
7 Joe-citizen here, because that's all I can speak from,
8 that I would hate to see us get dragged into solving some
9 problems that frankly maybe some people need to take some
10 hits for what's been created here.
11 And this whole issue of when is it appropriate
12 for government to be bailing out certain situations,
13 whether it's the borrower or whether it's the lender or
14 whether it's lack of market discipline, there's kind of a
15 combination of all of that that's gone on here. And what
16 is the appropriate role of government, in general, and
17 what is the appropriate role of the housing finance
18 agency are really sticky, philosophical questions.
19 And, you know, I guess my knee-jerk
20 philosophical reaction that I just want to put out there
21 is, some of these borrowers may have been defrauded and
22 there needs to be regulations that take care of that.
23 And there are some borrowers who got into this because
24 they saw a rising housing market and they just wanted to
25 do whatever they could to grab in, and they knew what

1 they were doing, and it's sad, but it didn't work out
2 right. And some of the funds that bought these
3 mortgages, you know, they need to take their hits.
4 And philosophically, that's kind of where I am.
5 And I guess I want to just say, as we look at these
6 issues at where CalHFA should be, I'm going to be looking
7 at what we should do through a little bit of that lens.
8 MS. PARKER: Mr. Chairman, one other thing I
9 wanted to mention. My colleagues sitting here at the
10 table, Lynn from the Department of Housing and Community
11 Development and Jeff, we have certainly been talking
12 internally about this. And as we've been questioned by
13 everyone from the people within the administration to
14 people in the Legislature to the public; and I have to
15 say that I really am proud of the approach that we've
16 been taking. We've not had our Governor rush to
17 something that may be totally not thought-out, not
18 well-formulated to get the spin in Bloomberg, but to be
19 thoughtful in watching this and being educated. And so
20 I just want to say, there's a lot of, sitting at this
21 table, of trying to be thoughtful, educated, as opposed
22 to -- you know, really, my friend in Ohio, he got really
23 in a bad situation of being pressed to do something, and,
24 here, for his governor, it's going to be a big failure.
25 And that's, again, the reason why I appreciate

1 this conversation, because from our standpoint, from
2 staff's standpoint, we really, really like the idea of
3 having you all be educated as much as you can, to help,
4 you know, kind of sort through some of these things.
5 Because if it is something that's going to be done, most
6 of the discussions with people about these kinds of
7 products, their eyes totally glaze over, they don't have
8 a clue. It's kind of like: Just go make something up.
9 And the ramifications, depending on what you do, could be
10 hugely fiscal to the state or the entity or may or may
11 not help the individuals that you are trying to help at
12 the end of day.
13 CHAIR COURSON: I think that was a very
14 good discussion and if you'd like, certainly at the
15 September meeting, I think we could ask one of our
16 bankers, particularly as it affects our businesses that
17 exist today, both in terms of the Multifamily and the
18 taxables and non-taxables, to get a picture from them.
19 And clearly, every week that goes by, we get a little bit
20 more of the story, a little bit more of the landscape.
21 It might be instructive in September to have that.
22 MS. PARKER: Given that September is only a
23 couple of weeks away, I want to look and see what can
24 best fit your need.
25 The other thing, too, is that right after our

1 Board meeting, we're going to be meeting in New Orleans
2 with our sister state agencies and colleagues. And, you
3 know, as I did a couple weeks ago, have a discussion
4 around this, I may be able to come from that meeting that
5 will happen in mid September, you know, and bring that
6 information into it.
7 So with your -- let me just decide which --
8 and, you know, it's also a situation where we could --
9 this could be a subject that we talk a little bit about
10 at every meeting just to give you an update --
11 CHAIR COURSON: Right.
12 MS. PARKER: -- given the significance of what
13 this will be in the market for probably the next 12, 18,
14 24 months, Bruce.
15 MR. GILBERTSON: Yes.
16 MS. PARKER: So if you're interested, let us
17 think about that as an approach.
18 CHAIR COURSON: Thank you.
19 Any other comments?
20 *(No audible response)*
21 --o0o--
22 **Item 2. Approval of the minutes of the July 5, 2007,**
23 **Board of Directors Meeting - *continued***
24 CHAIR COURSON: Let the record show that
25 Mr. Davi is here.

1 And, Mr. Davi, now that you are here, we have
2 had a vote on the minutes. We did not have a quorum.
3 Would you care to vote?
4 MR. DAVI: Yes. I vote in favor of approval of
5 the minutes.
6 CHAIR COURSON: The minutes of July 5th are
7 approved.
8 Thank you.
9 MS. OJIMA: Thank you.
10 --o0o--
11 **Item 4. Resolution 07-19**
12 **Corporation for Supportive Housing**
13 CHAIR COURSON: Okay, moving on to agenda Item
14 Number 4 is the Corporation for Supportive Housing.
15 And, Edwin, there also is another document I
16 think at everybody's desk, which are the financial
17 statements of the organization.
18 MR. GIPSON: That is correct. That is what you
19 received this afternoon, was the 2006 financial audit so
20 it will reflect the 2005 and 2006 financials as of
21 December 31st.
22 What we are requesting today is approval of a
23 $10 million loan to the Corporation for Supportive
24 Housing to support special-needs support of housing
25 projects.

1 Set aside in our budget several years ago was
2 $10 million in a loan program to help work with
3 supportive housing projects. And we now have a request
4 for those funds. It's for a nonprofit entity who has
5 devised some type of loan program.
6 The Corporation for Supportive Housing is
7 putting together a loan fund. It's basically established
8 at this point. It will be a $30 million fund. And what
9 they're proposing is to borrow $10 million from us.
10 $8 million will go into the Los Angeles loan fund, and
11 then the other $2 million will be used in either
12 San Francisco Bay area or the San Diego area.
13 They propose to use those funds for
14 predevelopment/acquisition financing, which is currently
15 something we, as an agency, do not do in any great
16 expanse. We do have a few predevelopment loans, but
17 they're limited to either $500,000 or less. So their
18 intention is to go into projects early and help provide
19 the seed money that it takes to get supportive housing
20 projects off the ground, and get them up and running, so
21 later on, they can access programs like ours and others
22 who finance affordable housing in this manner.
23 The Corporation for Supportive Housing is a
24 national nonprofit that helps communities create
25 permanent housing, and basically prevent homelessness and

1 provide services. They provide a great deal of technical
2 support throughout the state. They are technical
3 advisers to the Department of Mental Health. They are
4 technical advisers to numerous nonprofit organizations
5 doing supportive housing.
6 Basically, the funds that they are requesting,
7 it will be $10 million. We are proposing to use Housing
8 Agency Trust funds here, so basically our savings. The
9 term would be five years, with the option of ours, as the
10 agency, to do a five-year extension.
11 The funds would be at 2.7 percent for the first
12 five years and 3.5 percent if extended for the additional
13 five years. We are not requesting any origination points
14 for making this loan into the fund. It will be
15 interest-only payments made to the Agency, and they would
16 be paid quarterly. And the projects would only be for
17 acquisition/predevelopment financing.
18 This loan would be full recourse to the
19 Corporation for Supportive Housing, so we will not have
20 any liens on any of the properties, just the position
21 inside the loan fund. And the borrower will provide
22 quarterly reporting to us on the loans being made and the
23 pipeline.
24 The Corporation for Supportive Housing proposes
25 to make loans ranging from $75,000, up to approximately

1 $2 million. We have put some limits at the very top end,
2 just to encapsulate where they'll be making loans, so we
3 will have no lack of clarity on where the limits are.
4 The maximum loan they will be payable to make
5 with these funds is $3 million. They will have terms up
6 to 36 months. Their intention is to reuse these funds as
7 many times as possible, particularly within the five-year
8 period. And if they get the extension, then that
9 additional five-year period as well.
10 They will be charging origination fees of
11 approximately 1½ percent, with a maximum of 2 percent.
12 The interest rate will range between 6 and 7 percent,
13 with a cap of 7½ percent inside the fund.
14 We expect them to be targeting communities that
15 at least the projects are 25 percent supportive housing
16 projects. We have a floor of no less than 20 percent.
17 And we are trying to make sure they have enough
18 flexibility to operate this program, so we're not trying
19 to be overly restrictive but recognize we're all trying
20 to reach the same goals.
21 The Los Angeles fund that will be the first one
22 funded with the first $8 million, coming out is going to
23 be approximately $30 million. Inside that fund, we'll be
24 joining the company of Fannie Mae, U.S. Trust, U.S. Bank,
25 HSBC, the Hilton Foundation, the Corporation for

1 Supportive Housing's national loan fund, and LAHD,
2 Los Angeles Housing Department.
3 The Los Angeles Housing Department is providing
4 a $5 million loan to the fund. That will also serve as
5 the loan loss reserve. We expect there to be a
6 10 percent loan loss reserve. So LAHD's monies are
7 forgivable. So if we have losses, LAHD will forgive
8 their loan amount in accordance with that. So that's
9 where we will be getting the loan loss fund for this
10 pool.
11 The Corporation for Supportive Housing was
12 established in 1991 by leading philanthropies.
13 Basically, they conduct their business through eight
14 geographic hubs, including California. And as I
15 mentioned before, they have provided technical advice to
16 the Department of Mental Health and numerous others. So
17 they have a great deal of expertise in this area.
18 Through their national fund, they have done
19 many, many loans. Currently, the national fund is
20 $37.5 million. They've done approximately $119 million
21 in loans and grants to date, supporting over 17,000
22 units.
23 With that, we are requesting approval based on
24 their experience, their background, the nature of these
25 funds, and the predevelopment and acquisition of how

1 they're going in. It's better-suited by them than it is
2 for us due to the technical risk involved and the higher
3 risk of these loans, and they're prepared and have the
4 technical expertise to execute this type of loan. And we
5 are prepared to support that.
6 MS. PARKER: Again, you all will remember that
7 this is money that has been in our business plan,
8 actually for the last two years. It's taken us that
9 amount of time to work through the development of the
10 total pool and the specificity of the loan itself. So we
11 talked a little bit about this a couple of years ago; but
12 for many of you, you weren't part of it. But I just want
13 to kind of -- this has been something that has kind of
14 been around, that we have been working on for quite some
15 time.
16 CHAIR COURSON: Is there discussion?
17 Ms. Javits?
18 MS. JAVITS: As much as I would like to vote on
19 this, I just left the employ of the Corporation for
20 Supportive Housing on December 31st. And although I have
21 no financial stake in the organization, and obviously
22 it's a not-for-profit organization, I'm going to recuse
23 myself from this vote.
24 CHAIR COURSON: Thank you.
25 MR. HUGHES: For the record, Mr. Chairman,

1 Ms. Javits and I discussed this prior to the meeting; and
2 we made it clear that there does not appear to be any
3 actual conflict of interest, any legal conflict of
4 interest. And this is a recusal based on just an
5 appearance.
6 CHAIR COURSON: Thank you. We appreciate that.
7 MS. JAVITS: Thank you.
8 CHAIR COURSON: Is there a discussion from the
9 Board on the proposal?
10 Ms. Galante?
11 MS. GALANTE: I just want to be reminded, the
12 Housing Assistance Trust Funds are the funds that are the
13 same pot of money that we use for the HELP loans?
14 MS. PARKER: Yes.
15 MS. GALANTE: So if, for example, there was a
16 problem with repayment of this $10 million, this is kind
17 of a pot of money that's not going to put CalHFA at any
18 serious risk if we didn't get it all back or all back in
19 the time frame in which we've proposed here?
20 MS. PARKER: Well, I think needless to say,
21 it's a loss of future opportunity. You know, one of
22 the -- obviously, the way we use the Housing Assistance
23 Trust Fund, for the most part, is, we don't do grants
24 with them. They are always some kind of loan, even if
25 it is a 1 percent interest loan, which we have do for

1 some homeless or special-needs housing. So the money
2 is returned, just like HELP or some of these other
3 programs.
4 So if some or all of this money is not
5 returned, then it is lost opportunity of up to
6 $10 million of future things that could be done through
7 the Housing Assistance Trust Fund.
8 And as you recall, when we do the business plan
9 every year, we bring that document with those funds,
10 because this is really the Agency's opportunity for
11 impacting the affordable housing business. It's the
12 funds that, because of the business we do, we create,
13 in that sense, for reinvestment opportunity. So it will
14 not cause a problem from the rating agencies' standpoint;
15 it will merely be a situation where this investment, we
16 are trying to manage the risk, and from the standpoint
17 of -- you know, to the extent that it will be a lost
18 opportunity, to do something in the future with those
19 funds.
20 CHAIR COURSON: I view this as really a letter
21 of credit, if you will, to the organization. That's why
22 I felt it was important that we have the financial
23 statements, because clearly that's where you're looking
24 at the financial wherewithal of this organization, their
25 operations, and their ability to move forward and pay

1 these loans back out of future operations.
2 But it's really a letter of credit, is what
3 we're extending.
4 MS. PARKER: I think the other part of that --
5 I'm sorry, Mr. Chairman -- is the timing of this. I
6 mean, we tried to, in the past, look at different ways
7 that we could help lift some of the special-needs
8 housing, and particularly the homeless issue, given the
9 Governor's two different initiatives in this area. And
10 to the extent that these funds are used by the
11 Corporation for Supportive Housing to help with
12 particular projects -- and, you know, we're expecting
13 that there is going to be a fair amount of them in
14 downtown Los Angeles because they're looking at trying to
15 frankly save a downtown corridor -- that this is a unique
16 opportunity because of the implementation of the MSHA
17 program, which is also going to provide these funds that,
18 while alone, they are so low in the repayment structure,
19 that it's going to allow some of these projects that
20 can't carry, really, any debt, to happen; that without
21 these things, there would never be a chance. So this
22 provides, to some extent, some of the leveraging that
23 we're going to be talking about with the MSA dollars in
24 totality.
25 CHAIR COURSON: Any other discussion?

1 Mr. Pavao?
2 MR. PAVAO: Just a couple of questions. One,
3 this sounds terrific, and we endorse it.
4 I'm just curious, how did we arrive at the
5 2.7 percent interest rate?
6 MR. GIPSON: Back when we started, it was
7 approximately a 3 percent interest rate, and ever
8 inclining up to 3 and a half, which is what it would be
9 today.
10 In discussions with the Corporation for
11 Supportive Housing, we were finding the numbers. They
12 were hoping for 2 percent because of the pure
13 special-needs nature of this project. And we went back
14 and forth in discussions.
15 I will say that Terri led some of the
16 negotiations. And basically, if you see the Fannie Mae
17 dollars, their interest rate is rather high. And so in
18 accordance with that, we said if Fannie Mae kicks in some
19 more money and brings it in, we'll lower ours to help
20 further your cause.
21 Well, Fannie Mae is not inclined to lower their
22 interest rate in a public setting so they made
23 contributions. And according to those contributions,
24 we lowered our rate accordingly to the same type
25 percentage. So we ended up at 2.7, and Fannie Mae kicked

in operational money and stuff on the other side that doesn't show up in the fund pool but helps support the loan.

MR. PAVAO: All right, and then the terms that the corporation is going to extend to their borrowers, do those pretty much replicate what they currently do with their funds?

MR. GIPSON: Yes, it does. Yes, it does. It's very similar. We have their current lending operating policy guidelines, and it very much mirrors just -- the true differences are the adjustments in rates at the moment. Rates are varying. But even between 6 percent and 7 percent interest rate for predevelopment/acquisition money, that is a good price. That is a very good rate.

MR. PAVAO: All right, thanks.

CHAIR COURSON: Other discussion?

Ms. Galante?

MS. GALANTE: I just want to make one other comment.

I think this is great. I think this is the organization to make this kind of leap with. I do want to say that it appears to me that this is a sizable augmentation to the loan fund work that CSH is doing in California. I mean, this says they have made 46 loans

1 totaling $15 million. So, you know, we're contributing
2 to a pool that is doubling their capacity, which is
3 great, it's needed. There's these programs coming out
4 that they're going to help sponsors leverage.
5 At the same time, it's a very large leap for
6 the organization, I would imagine, to kind of step up to
7 this level of loan fund. And I just think we -- why I
8 asked the first question I asked, which is, there are
9 times when, you know, CalHFA is one of the few lending
10 organizations that can make this kind of leap. And I
11 certainly support us doing it. But I think we also need
12 to go into it, kind of eyes wide open that this is
13 essentially an unsecured loan to a rather large loan pool
14 that is doubling the capacity of the organization.
15 That's my kind of 30,000-foot view of what I just read.
16 MR. GIPSON: And even with a little more
17 clarity, the loans that have been made in the past in the
18 state were from the national fund, not this local fund.
19 But you are correct, it is a sizable leap. If you take
20 a look even further in the memo, you see that we will
21 only fund $5 million.
22 MS. GALANTE: I missed that.
23 MR. GIPSON: And before we put in the next part
24 of the commitment, as one of the safeguards, there's also
25 that we put other security items in there, a deposit

1 control agreement, so that our money is actually sitting
2 in a separate account so we're able to monitor and have a
3 direct lien on it, if necessary.
4 So I agree with you, it is a large leap. I
5 believe it to be a very good leap with a good partner.
6 But we are watching it without a doubt.
7 MS. GALANTE: Great. Thank you.
8 CHAIR COURSON: Thank you, Edwin.
9 There is on page 165, there is a resolution.
10 Is there a motion?
11 MR. SHINE: I'll move it.
12 CHAIR COURSON: Mr. Shine moves the approval of
13 the resolution.
14 MR. PAVAO: Second.
15 CHAIR COURSON: Mr. Pavao seconds?
16 MR. PAVAO: Yes.
17 CHAIR COURSON: Is there any further
18 discussion?
19 *(No audible response)*
20 CHAIR COURSON: Is there any discussion or
21 comment from the public?
22 *(No audible response)*
23 CHAIR COURSON: Seeing none, then let's call
24 the roll.
25 MS. OJIMA: Mr. Davi?

MR. DAVI: Yes.

MS. OJIMA: Ms. Galante?

MS. GALANTE: Yes.

MS. OJIMA: Ms. Jacobs?

MS. JACOBS: Yes.

MS. OJIMA: Ms. Javits?

MS. JAVITS: I'll abstain.

MS. OJIMA: Thank you.

Mr. Pavao?

MR. PAVAO: Yes.

MS. OJIMA: Mr. Shine?

MR. SHINE: Yes.

MS. OJIMA: Mr. Courson?

CHAIR COURSON: Yes.

MS. OJIMA: Thank you.

Resolution 07-19 has been approved.

CHAIR COURSON: Okay, thank you.

That's an exciting project. Certainly a first for us. And, obviously, I know that -- and Edwin will, I'm sure, from time to time -- it is a big commitment, and we'll look forward to some periodic reports. Maybe not with the frequency of the Bay Area Housing Plan but periodic reports.

MR. GIPSON: Very good.

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1 **Item 5. Mental Health Services Act Housing Program**
2 CHAIR COURSON: The next agenda item is
3 discussion on the Mental Health Services Project that
4 you've all heard about and staff and Terri have spent an
5 incredible amount of time on. And you have some
6 information. And I think the executive director is going
7 to take us through a discussion of this project.
8 MS. PARKER: Thank you, Mr. Chairman.
9 I think this is one that, although we've talked
10 about this at almost every board meeting, the complexity
11 of it is so great that I'm probably going to -- and staff
12 are going to be giving you spoonsful of this as we move
13 along.
14 While we have made the next step, starting out
15 with an announcement by the Governor, in an executive
16 order in May of last year, that the Department of Mental
17 Health, the Department of Housing and Community
18 Development, and CalHFA will be working together with the
19 local mental health directors to develop a program for
20 housing chronically mentally ill homeless with Prop. 63
21 funds. The idea being that up to $75 million could be
22 provided on an annual basis for maybe as long as
23 20 years, which could create as many as 10,000 units.
24 It was, as I said -- we've brought the director
25 of Mental Health and the author of the initiative in to

1 speak with you last year, this has been a work in
2 progress.
3 We did not come together with a program when
4 it was initiated in the executive order but, rather, took
5 the time to work through with the counties and the
6 various state agencies besides ourselves involved in
7 this, to see if we could put a program together that
8 would provide as much flexibility to develop this kind of
9 housing, because it is so unique and so difficult and the
10 needs are different in every county.
11 A work group was formed in the fall. We
12 thought it would be a relatively short time the working
13 group would be meeting. However, you know, it's like
14 building a house: I guess it always takes twice as long.
15 But it was a very, very good working group.
16 And we started with having public input to the
17 design of a program, a term sheet, and an application
18 through the early months of this year, and have gotten to
19 the point in time where we have worked out an
20 application. We are in the process of completing an
21 interagency agreement with the Department of Mental
22 Health, as our sister state agency, because CalHFA, for
23 all intents and purposes, is really running this program,
24 doing the underwriting for the Department of Mental
25 Health. And then the ability, because of our knowledge

1 in these programs to work with our sister state agencies,
2 the Department of Housing and Community Development,
3 Tax Credit Committee, Bond Cap Committee, to put a
4 program together that essentially doesn't make project
5 developers have to choose between different funding
6 sources, that could mean that these products not get
7 developed.
8 One of the significant -- and I reported
9 this -- successes that came out of those work groups, is
10 that the initial commitment was to be $75 million a year
11 of Prop. 63 funds, primarily for bricks and mortar. But
12 as we worked through that, it became very clear that what
13 was really needed was rental subsidies for these projects
14 to be really effective over any long-term affordability
15 commitment.
16 And so the counties stepped up and essentially
17 agreed to take $40 million out of their own MSHA
18 allocations to have a combined, what would have been on
19 an annual basis, $115 million for MSHA housing for both
20 bricks and mortar and rental subsidies. So that is where
21 we are at today.
22 I've asked Kathy and Edwin, who have done the
23 yeoman's work on this, to give you some insights. As I
24 said, this is an incredibly complex program. There are
25 still so many nuances that we don't know. It will take a

1 significant amount of training. We have this program
2 with special caveats for the small counties that we know
3 will be much more difficult for them to do this than it
4 will be for some of the large counties. We're aware that
5 some counties are probably filling out this application
6 when it hit the Web on Monday, and we're kind of
7 expecting anything and everything.
8 We are, and have committed, though, because of
9 wanting to get started with this and get this money put
10 out on the street, that we -- and we see it as a dynamic
11 process -- that we want to have some kind of a mechanism
12 built in as issues come as a result to the various state
13 entities and the counties that would allow us to deal
14 with this. And because, as a state agency, we operate
15 not through the typical regulatory process, we have the
16 flexibility, in that sense as we do with our loans, to
17 sort of monitor the market.
18 So a working group will be formed to continue
19 to be available as issues arise, so that if there is a
20 major roadblock from how the program is currently
21 constructed that is really providing a disincentive for
22 this housing to take place, there will be an opportunity
23 for a work group to talk about that, to see if changes
24 need to be made; and then for consideration, obviously,
25 through the Department of Mental Health, to see whether

1 or not that fits in with the MSHA guidelines.
2 So with that, I want to turn it over to Edwin
3 and Kathy because we will be bringing back to you at the
4 next board meeting a structure. We don't expect that we
5 will necessarily have any loans by the next board meeting
6 because, if nothing else, even if somebody was ready,
7 there is at least a 30-day local requirement for any
8 project that would be applying for funding. And then
9 when it does come to the state, it will go through the
10 Department of Mental Health and the California Housing
11 Finance Agency -- if those are the only two funding
12 sources -- and we will have to have an opportunity at the
13 time for underwriting.
14 We probably don't really expect any loans, the
15 earliest to happen until perhaps December. But we want
16 to start getting a structure in place with the Board of
17 how, in a sense, we are the entity that will recommend
18 funding of these funds. And the first commitment that
19 the Department of Mental Health plans to give to us is
20 probably going to be about three and a half years' worth
21 of funding, or $400 million. So we want to be ready to
22 go.
23 Kathy?
24 MS. WEREMIUK: Hi. It's a pleasure to be able
25 to talk to you about this.

1 The first $400 million will fund approximately
2 2,600 units of housing for people who are seriously
3 mentally ill and they're also homeless, or at risk of
4 homelessness in a very special definition put together by
5 the counties and DMH.
6 There will also be funds for rental subsidies
7 for approximately half of those units. And the rental
8 subsidy funds will be in an operating -- they'll be put
9 together in an operating subsidy that will be prefunded.
10 It will be up to a $100,000 per unit, with the intention
11 of those rental subsidies lasting at least the 18-year
12 compliance period required by tax credits.
13 The funds will be loaned for a couple of
14 different types of housing:
15 One would be traditional rental housing. The
16 loan limits for that are $100,000 per unit.
17 The second type would be shared housing. And
18 the loan limits on that are $100,000 per bedroom.
19 Shared housing is new for us. It was a
20 specific request by the small counties. And it would
21 encompass everything from a two-bedroom condo to a
22 four-plex. And because we don't expect to leverage that
23 money, the loan limits are higher and they're on a
24 per-bedroom basis.
25 The funds will be loaned as residual -- they

1 will be residual-receipts loans. The terms will range
2 from 20 to 55 years, depending on the loan terms of the
3 other funding sources.
4 There will also be predevelopment funding.
5 That predevelopment funding will come after the project
6 gets a final commitment. And it will range between
7 $200,000 for the shared housing and $500,000 per project
8 for the rental housing.
9 It's really money that's meant to help the
10 projects take their projects through from commitment of
11 our funds, which would be early -- or the Mental Health
12 funds to construction loan close, which would occur
13 later, and give them some funds to meet all the due
14 diligence of the other funding sources.
15 The subsidies, as I'd mentioned, would cover
16 only half of the projects. And because of that, there is
17 going to be a requirement that projects apply for other
18 funding sources as they're available, and be turned down
19 in at least one round.
20 The goal of that is to encourage localities to
21 consider to continue to provide Shelter Plus Care, for
22 federal Shelter Plus Care funding, and project-based
23 Section 8 for these projects. But we know that there
24 isn't enough of that money in the state to meet the kind
25 of demand and to ramp up this program. So that the

1 rental subsidies for this program, I think, will be a
2 huge benefit to getting the projects underway.
3 In our partnership with the Department of
4 Mental Health, they will get the original -- the counties
5 will -- because it's the counties' money and I think
6 that's something that's important to mention, money comes
7 to them through the proposition. And they're contracting
8 with the Department of Mental Health to transfer the
9 funds to us, that $400 million will come in county by
10 county. There's a county allocation that's set, based on
11 a formula that the Department of Mental Health has. Once
12 the funds are transferred to us, we'll invest them. The
13 interest will belong to the counties. The counties
14 themselves will be the applicants, along with the
15 developers; and they will sign the application. They
16 will make a commitment at the point that they recommend
17 the project to us of supportive services for that project
18 for the term of the loan, to the extent that they can do
19 that. And Prop. 63 gives them the funds to be able to
20 make that kind of commitment.
21 The Department of Mental Health will review the
22 supportive service plans; and we will implement and
23 administer the program once we have gotten that review
24 from the Department of Mental Health that they're
25 comfortable that the target population is appropriate and

1 the services are appropriate.
2 We have been working with this, with both HCD
3 and tax credits to work -- the Treasurer's Office to work
4 out differences between our programs, and are very
5 hopeful that these funds will be able to work in sync
6 with the tax credit program and also with 1-C, and
7 especially the 1-C Supportive Housing Funds.
8 The percentages on this are different than the
9 supportive housing programs the Agency has. This program
10 was specifically designed with a requirement that only
11 five units in rental housing -- only five units or
12 10 percent of the units be supportive, so that -- MHSA
13 units -- so that we would encourage developers who are
14 developing regular affordable rental housing to also
15 include some of these units in their developments, and
16 see this as an additional funding source, so that it
17 would be an opportunity to disperse housing for people
18 with mental illness and not just have concentrated
19 buildings.
20 We don't know right now what the housing types
21 will look like that we're going to see; but we anticipate
22 a number of smaller buildings, maybe 25 units that will
23 have 100 percent units for people who are mentally ill,
24 some larger buildings with 10 percent of the units, and
25 then a large number of shared housing units.

1 Edwin, do you have anything?
2 MR. GIPSON: You're doing great.
3 MS. PARKER: Kathy, I have just one thing.
4 Again, since we're doing this for the counties -- this is
5 the counties' money -- the Agency, you know, two
6 different roles. Clearly the underwriting, but we will
7 have the ongoing role from the Asset Management
8 standpoint, and that's going to be Margaret's task. So
9 it really falls in CalHFA in two areas: our Asset
10 Management group will have a very active role, and also
11 our underwriting staff.
12 But the other thing that I wanted to point out
13 is that we're going to have to have a very complex
14 accounting system to deal with this, because we will be
15 tracking these dollars, both on the bricks-and-mortar
16 side and on the rental-subsidy side for every different
17 county per project. So that's our commitment to them so
18 they will know where they are at.
19 I did talk to the director of Mental Health the
20 other day when we signed this, and he was going to be
21 having a discussion with the counties that might add to
22 this funding source. There's a requirement currently
23 where county funds after a period of time, if they're not
24 used, they are swept. The Department of Mental Health is
25 looking at perhaps a policy decision about whether or

1 not, rather than having them be swept, they could go into
2 their account for homeless housing.
3 So that may be a way to even increase more
4 units with this very -- not only volatile funding source,
5 but prolific funding source at this particular point in
6 time.
7 It's a policy discussion that hasn't been dealt
8 with, but it is a possibility of a way -- that there will
9 be a significant amount of contribution for this type of
10 housing that will be unmatched, certainly, in any part
11 of the country.
12 So much as Kathy and Edwin have been doing at
13 almost every board meeting, where we come in and give you
14 a little bit of a tidbit on the Bay Area, they've saved
15 you from that today. But we will be coming back on
16 homeless and Bay Area in the future.
17 There is no action today, Mr. Chairman, but
18 we're here to answer any questions that we should be
19 taking into consideration, and, again, just to prep you
20 for next month.
21 CHAIR COURSON: I have a question.
22 So the processing, underwriting, approval and,
23 obviously, what sounds like fairly extensive and ongoing
24 loan administration responsibilities, I note also that
25 the only fee I see in here is a 1 percent origination

1 fee.
2 Is that designed to compensate CalHFA for
3 obviously what's going to be an extensive amount of
4 resources we're going to commit to this over the years,
5 or is there other funding available, other expense
6 reimbursements available?
7 MS. WEREMIUK: There is currently one other
8 funding source, which is a fee on the outstanding loans
9 under the MHSA program, which is .42 percent of those
10 loans. It's a similar fee to the interest charge that
11 HCD charges. And we believe that would pay us for the
12 ongoing asset management and accounting functions during
13 the life of the loans.
14 We haven't yet fully -- the fee is the only
15 payment for underwriting, very typical to what we
16 normally do in terms of charging a fee; but we have had
17 some discussions with the Department of Mental Health
18 about that, and it's an open item, because we haven't yet
19 determined what staffing we're going to need, we don't
20 know the volume of the program, what the volumes will
21 look like, and the staffing will look like in the early
22 years. And so in the interagency agreement, that issue
23 is an open issue.
24 CHAIR COURSON: But does the interagency
25 agreement, is it clear that the 42 basis points is, in

1 fact, payable to us to compensate us for our ongoing
2 administration? Or is that what's still under
3 discussion?
4 MR. GIPSON: The .42 is in there already. And
5 that will be -- it's the 1 point that we're discussing on
6 there now.
7 MS. PARKER: That is in there for now. That is
8 the way that we'll be compensated. This is the fee
9 structure that we have set up for compensation since we
10 started this discussion almost a year ago with the
11 counties.
12 Since then, we've begun to look at what might
13 be the production, the resources that we might be needing
14 to do. Clearly, when we were first looking at this, we
15 weren't assuming necessarily the asset management
16 functions because initially the idea of the rental
17 subsidies wasn't included.
18 The discussions with the Department have -- we
19 have discussed this with the director, and we've seen a
20 couple of different possibilities of approach.
21 First of all, we've said, "CalHFA, we need to
22 put what we think is a budget together based on what we
23 anticipate might be program activity." Because right
24 now, it's an unknown. And that when we have a better
25 sense of that, we would be developing a

1 budget prospectively.
2 One possibility may be, since these dollars,
3 this $400 million, this corpus, would have been local
4 money, those counties would have been able to have pulled
5 off of that at least 5 percent for administrative cost.
6 So we have raised the issue to the Department of Mental
7 Health about whether or not CalHFA may be able to have
8 1 percent of that money to essentially administer.
9 And we would take that pitch to the counties,
10 too, for them to be involved. And for that 1 percent, we
11 would be doing everything from, you know, picking these
12 projects, managing these projects. We will be doing
13 investment -- and that's another thing that we'll be
14 bringing back to you -- we have been just talking about
15 doing internal investment strategy since these funds,
16 because they will come to us, we don't need to put them
17 in SMIF, and we have the opportunity to perhaps get, from
18 a fiduciary standpoint, a larger rate of return because
19 of, you know, holding them for a longer period of time
20 that SMIF might have to. All of those proceeds will then
21 continue to be in this fund.
22 So the services we'd be providing to them,
23 would be for everything from underwriting, asset
24 management, you know, debt financing or investment
25 strategies, so I think we can make our case that

1 percent is a bargain.

But we will look at that. Right now, we don't have enough data that we believe we can make a case. We would prefer to get that and then go prospectively.

CHAIR COURSON: Other discussion?

Mr. Pavao?

MR. PAVAO: Yes, just a couple of questions.

You mentioned this sweeping dynamic, that perhaps we could -- that there may be some alternative to that. But could you walk me through that a little more slowly?

So was it about $75 million a year available in the aggregate? And if in the given year there is not enough demand to exhaust that, is that what we're talking about?

MS. PARKER: No, no. What we have from the counties so far -- and, you know, this has been an evolution. When we first came up with the executive order and had a first meeting with the counties, I think the counties spent the first couple meetings that we were at, with where did 10,000 units come from and who said $75 million? Even though we had been at discussions with them, certainly Darrell Steinberg had public hearings on this dollar amount for almost eight to ten months previous.

1 So this is -- and the agreement on the money
2 that goes for the bricks and mortar, is it comes off the
3 top. It doesn't come out -- because they have separate
4 accounts that MHSA funds, training, infrastructure,
5 services. So that money comes out off the top, and all
6 the counties agreed to that.
7 What they've agreed to, at least so far, is a
8 five-year commitment, with an option for another five
9 years. We need to demonstrate that this is a viable
10 program.
11 And we've said to them, "You need to give, for
12 the community to be active in this, some assurances that
13 it's going to be there. Otherwise, nobody's going to go
14 through the work a couple of years it will take to bring
15 one of these projects together."
16 And as they've now learned more about these
17 projects -- how difficult they are -- I think they've
18 gotten that message loud and clear.
19 What I'm talking about with the sweeping is
20 that the counties' allocation that goes to them
21 separately from the Department of Mental Health -- and
22 I'm not an expert on MSHA funds, and I don't want to
23 be -- but it is that pot of money that, to the extent
24 that they are not used by counties, could be added to
25 this corpus that is talked about as part of the

1 commitment today.
2 MR. PAVAO: Okay, so it's not these funds that
3 if in any given year --
4 MS. PARKER: No.
5 MR. PAVAO: -- in the aggregate there was
6 something --
7 MS. PARKER: No. There is language in the
8 interagency agreement, and to some extent, there is a
9 reference that, you know, at some point in time the
10 Department of Mental Health needs to look at the funds
11 that we're going to keep very close track of by county,
12 to make sure that that they are used. But we have not
13 said anything, and it's really a policy issue with the
14 Department of Mental Health, to figure out, in working
15 with the county, what do you do with funds that are
16 sitting there, that are not used by any county?
17 You know, it's very likely, particularly for
18 some of the smaller counties, even though we are giving
19 them 8 percent of the funds, on a per-capita basis, they
20 would be only eligible really for about 6 percent.
21 Then in some counties, there is probably only
22 enough money for them to fund one unit. Well, you know,
23 that's not realistic. And so it's going to be a
24 situation for some of those counties to figure out kind
25 of how they're going to use those dollars, and that's why

1 there's going to be a whole 'nother discussion of how to
2 help the small counties with technical assistance,
3 bringing developers in, how could they use these funds,
4 et cetera, et cetera, et cetera.
5 Did I answer your question?
6 MR. PAVAO: We're getting there.
7 So the $75 million, that's the aggregate number
8 in a given year, is that --
9 MS. PARKER: Well, that was the plan. However,
10 because at the moment that there is this huge -- I mean,
11 the revenues that came in for Prop. 63 and the
12 $75 million, that number came from originally the author
13 of the initiative, his pitch was, "Let's take 10 percent
14 of what we expect to be on an annual basis for revenues."
15 The annual basis of revenues was projected to be
16 $750 million. So, hence, 10 percent equals $75 million.
17 But people liked the idea of, rather than
18 saying, you know, 10 percent, let's pick a dollar amount.
19 And we had done charts for you in the past that show,
20 with the revenue projection that is expected of Prop. 63
21 to grow, that over a period of time, particularly if you
22 looked at it for 20 years, that $75 million would
23 probably be about 5 percent as opposed to 10 percent.
24 So that's to start with.
25 But then when they were having this discussion

1 with counties, a big concern that counties had was
2 whether that was going to come out of their particular
3 pot for infrastructure. And that other pot has
4 everything that includes other kinds of bricks and mortar
5 that could be funded, structure for technology. And they
6 were concerned about, you know, how these funds would at
7 least initially compete with other things.
8 So they discussed in totality that since there
9 were more funds coming in than $750 million for the
10 first -- you know, remember this initiative passed
11 several years ago, so there have been funds and counties
12 that have been kind of slow to get their plans together,
13 so there's been funds sitting there. And so they said,
14 rather than bleed it from any of these particular
15 accounts, take it from the top. And that $400 million
16 will represent approximately three and a half years of
17 installments.
18 MS. WEREMIUK: The $400 million is the surplus
19 they had over the projections. So the $400 million
20 didn't come from any specific account. It's in excess
21 of what the counties thought they would get. And so
22 it's, in some ways, a bonus and it's a good place to
23 start the program.
24 MR. PAVAO: Okay, so then is that dollar
25 figure, in essence, apportioned among the counties?

1 MS. PARKER: Yes, yes.
2 MR. PAVAO: It is? Okay, so each county has a
3 portion of that that they can bring forward in the form
4 of apps?
5 MS. PARKER: Yes. And the documents that
6 essentially describe the plan and went out, and this is
7 part of what went back, if you remember in SB 257, there
8 was this substantial requirement on the Housing Finance
9 Agency to put a report to the Legislature, for the
10 Legislative Analyst to look at how the program would be
11 structured, how we would document, how we would track
12 what was accomplished out of it. And we sent all that.
13 And the Department of Mental Health, at that time, worked
14 through the counties. Every county knows specifically
15 what their dollar amount is. It is not a policy
16 discretion on CalHFA's part at all. We're merely going
17 to track those funds.
18 But as I said, now out of the regular
19 $750 million, what was projected, the monies have gone
20 to the counties. From what I'm understanding from the
21 director is that if there are leftover funds in those
22 amounts, that they're going to say that maybe the
23 counties can put them in their special account for
24 housing as a way to park it. Because if it's swept, they
25 may not lose the integrity of that for their specific

1 county.
2 MR. PAVAO: Okay, so we've announced that we're
3 open for business, and each county knows roughly how much
4 they have available to these deals?
5 MS. WEREMIUK: The chart is in the application.
6 It's one of the exhibits to the application as well.
7 MR. PAVAO: Okay. I actually just had one
8 additional question.
9 CHAIR COURSON: Sure.
10 MR. PAVAO: And that is the $100,000 per unit
11 cap, does that include the capitalized operating reserve?
12 It does not?
13 MS. WEREMIUK: No. That's the capitalized
14 operating reserve, it is an additional $100,000.
15 MR. PAVAO: Okay, thanks.
16 MS. PARKER: And we are looking forward to
17 continuing to work with our sister state agencies.
18 We've had extensive discussions with the
19 Department of Housing and Community Development, in
20 looking at how this program dovetails with MHP, so that
21 we are in a situation of creating additional reserves,
22 greater than what the project would need.
23 We've essentially settled on how any of the
24 funds coming back would be distributed, how any risk
25 would be shared, all of these things. And we'll

1 certainly be working with our partner because we presume
2 that hopefully some of these projects will get tax
3 credits so we can leverage all these funds.
4 So it's been an exciting time, a very
5 challenging time. And I think that we really have turned
6 around a lot of people's minds about the ability for the
7 state department with locals for, really, what will be a
8 national achievement.
9 CHAIR COURSON: Ms. Galante?
10 MS. GALANTE: Yes. I don't want to belabor
11 this discussion too much. It's a lot of information, and
12 we have been hearing about it as it's been evolving.
13 I just want to ask about the dispersion or
14 sprinkling of these funds into larger projects versus
15 developments that are exclusively for this targeted
16 population. And I guess I would just say that what I see
17 here is that there's a minimum number in projects of a
18 certain size, but I don't see a maximum.
19 And I'm just wondering, is that left to the
20 counties or --
21 MS. WEREMIUK: The maximum number per project
22 that you would be required to have is ten, if your
23 project was 100 units, and ten if it's 150. So if it's
24 over 100 units, it’s the maximum -- the minimum.
25 MS. GALANTE: The most you can have or the

1 minimum?
2 MS. WEREMIUK: Oh, no, the most you can have is
3 100 percent.
4 MS. GALANTE: Okay.
5 MS. WEREMIUK: People are being encouraged by
6 their consultants to go a little less than 100 percent if
7 they are using any federal source because of section 504.
8 MS. GALANTE: Okay. You know, I guess I will
9 just put out a philosophical concern as an owner and
10 manager of rental housing. The more you layer on these
11 special-needs programs, the more complex they are to
12 manage, the more specialized kind of staffing you need to
13 have, the more expensive it is.
14 And, you know, it's one thing to do a small
15 number, and it's another thing to do 100 percent, where
16 you're SWAT-teaming and you've got all the right
17 resources for 100 percent.
18 I will tell you from a practical perspective,
19 that my instinct, based on our limited operation, is when
20 you're at 35 percent, it's a disaster because you don't
21 have enough resources to really take care of the
22 specialized needs appropriately, but you've got a fairly
23 sizable, you know, frankly, population that's got lots of
24 needs that is affecting the balance of the unit. So I
25 don't know how other counties have looked at this, I

1 don't know who is consulting on this. But as all the
2 agencies look at structuring these programs, I think
3 there really needs to be a careful conversation about
4 what it means to own and manage and service, you know,
5 these kind of mixed-population developments.
6 MR. GIPSON: I will just add, I think that's a
7 good point, that discussion was not a quiet one. And
8 everybody had a side from, I believe, in the smaller and
9 the fewer, to I believe in the 100 percent. And they
10 were both passionate, detailed discussions as well.
11 MS. GALANTE: And I guess I'm personally
12 saying -- and I don't have enough experience and I would
13 love to hear Carla's view on this, and she can educate
14 us -- but, you know, I could see 100 percent -- you know,
15 not 100 units, necessarily, that are a hundred percent,
16 but some smaller developments that are 100 percent, and
17 I can see some larger developments with small numbers.
18 It's when you get in that almost no man's zone, where
19 you're not either/or, that I think you can run into
20 some problems. Or that's what I've seen, and the
21 conversations I've had with other sponsors.
22 CHAIR COURSON: Ms. Javits?
23 MS. JAVITS: Just a couple quick comments --
24 one in response to that -- and then a question.
25 First, you know, I just wanted to say, I think

1 this is just the kind of program, and having worked on
2 this a long time, that the HFAs should be involved with.
3 It's something for the very poorest people in the state,
4 unlikely to be taken care of by the private marketplace.
5 We know that it's a proven solution that
6 reduces costs, that is cost-effective, reduces costs for
7 hospitalization, jail, et cetera. And I want to commend
8 the Governor for having kind of put a stake in the ground
9 on this, Mr. Steinberg, and then really -- and I've heard
10 from a number of colleagues about this, very complicated
11 to implement all the way along -- I think this board
12 should be very proud of the director, Terri Parker.
13 She's been one of the shining stars in the state that's
14 really taken this home. And I think her leadership and
15 skill, working with the great staff here, has really
16 created a flexible program that can be administered
17 statewide, which is very difficult when you have
18 everything from Alpine to L.A. to deal with. So I just
19 think it's a remarkable achievement that, you know, we
20 can certainly be very proud of.
21 Just in response to this question. You know,
22 having worked on supportive housing a long time all over
23 the country, I think this is a big leap, I mean, for the
24 State of California to get into this at the level that
25 this program is mandating and, you know, this is kind of

1 a big opportunity here. And so it does need to be taken
2 carefully and seriously in terms of how these programs
3 are looked at. And I think I want to commend that the
4 Department of Mental Health is going to be looking at
5 these plans at the state level for services and support,
6 as well as the counties, because they're going to have a
7 stake in the ground, and the HFA. I think that's
8 important.
9 You know, just like with most things, if it's
10 carefully and well done by people who know what they're
11 doing and are thoughtful, you can have 100 percent of the
12 units, you can have 10 percent of the units, you can have
13 30 percent of the units.
14 New York City has run a very successful 60/40
15 program for years, with 60 percent affordable, 40 percent
16 mentally ill. Extremely successful, terrifically
17 well-run. It's really a question of good, solid partners
18 that know how to manage the building, know how to provide
19 the services, a willingness on the part of the developer
20 to take the time that it does take to work in partnership
21 across management and services, just doing these very
22 thoughtfully. So, yes, I think we'll be eager to hear on
23 an ongoing basis how things are going.
24 And I just wanted to ask, on that note -- or
25 maybe just -- it sounds like there's been a lot of

1 discussion with HCD, TCAC. I mean, obviously these
2 projects are going to have to be funded by multiple
3 agencies -- cities, counties, TCAC, HCD, and then DMH,
4 and then the local mental health agencies. So maybe just
5 to ask, is that an ongoing discussion that's happening,
6 and do you have a pretty decent level of confidence that
7 the different financing pieces will come together to
8 create 2,600 units out the chute here?
9 CHAIR COURSON: Mr. Pavao?
10 MR. PAVAO: Yes. I just want to mention that
11 we've been hearing at TCAC from lots of quadrants that,
12 you know, your demand for 9 percent credits for projects
13 serving these populations is really going to amp up, and
14 it's going to grossly exceed what we set aside in our
15 scheme for these kinds of projects. So we are very
16 seriously considering and are likely to propose this
17 fall, some changes to our programs, and, frankly,
18 enlarging the set-aside for these kinds of projects. And
19 we'll be working closely with CalHFA to see how we can
20 tailor our system to really facilitate these kinds of
21 projects in the volume that we're expecting. So it's
22 been very helpful to have that ongoing conversation.
23 MS. JAVITS: That's terrific.
24 CHAIR COURSON: Other discussions?
25 *(No audible response)*

1 CHAIR COURSON: If not, I guess then in
2 September we will anticipate an agenda item that will
3 bring some specificity down to process, and how we'll
4 move forward in the movement of these individual loan
5 projects through.
6 Thank you very much.
7 --o0o--
8 **Item 6. Resolution 07-20**
9 **Discussion and possible action to repeal**
10 **Resolution 06-16 and dissolve Compensation**
11 **Committee**
12 CHAIR COURSON: The next item on our agenda is
13 an item regarding the Compensation Committee. And let
14 me talk about it, and then Mr. Shine and I have had a
15 conversation, and he's going to make a suggestion, which
16 I certainly don't disagree with.
17 I thought it was important that we put on the
18 agenda for the Board discussion the concept of perhaps
19 abandoning the idea of a compensation committee of itself
20 and having the Board itself deal with all matters of
21 compensation. I have done it both ways, in my own
22 personal life. I have had entire boards -- boards bigger
23 than this actually deal with compensation as a whole, and
24 I've done it the other way. And, obviously, any who have
25 had any level of attention to what's been going on in our

1 board meetings over the last eight months knows that
2 we've spent a substantial amount of time talking about
3 compensation, much of which, frankly, having been on the
4 Compensation Committee, was duplicative of what went on
5 inside the committee. And with the importance
6 particularly where we are in this process now and going
7 forward, it just seemed to me that the Board -- I wanted
8 the Board to engage in a discussion of the potential of
9 having those matters, when it comes to setting salary
10 ranges, specific salaries and so on -- which are public,
11 anyway, as we know we come back and do that in a public
12 setting -- just have the discussion here as opposed to a
13 group of three or four, bringing it back, and having the
14 discussion again.
15 So I was looking for a reaction, I was looking
16 for some input from the Board as to your sense of that.
17 I think Mr. Shine has -- not a disagreement
18 with that, but a process issue.
19 And so, Mr. Shine, I'll let you speak for
20 yourself.
21 MR. SHINE: Mr. Chairman, thank you very much.
22 My first comment is that I would say that I
23 don't believe this is the time to address the issue.
24 I've spoken with counsel for the Audit Committee,
25 which, as you know, is going through a discussion and

1 investigation right now in connection with certain
2 allegations that have been made, going through a series
3 of interviews. And their opinion and mine is that we
4 should put this on the table until that report is done,
5 which will be August the 20th. And then at our
6 September 12th meeting, if we want to bring the subject
7 up again, we can discuss it in detail with respect to
8 whether we want to do it and, if so, how do we do it,
9 and more importantly, who is it going to be done by:
10 Board members, staff, who.
11 So I would request then in that vein that we
12 table this until our next meeting on the 12th,
13 Mr. Chairman.
14 CHAIR COURSON: Other questions or comments on
15 the concept?
16 *(No audible response)*
17 CHAIR COURSON: And that's certainly fine with
18 me. I mean, it doesn't -- it makes sense. I just --
19 does anyone have any comments? If not, we'll dispense of
20 that agenda item.
21 MS. JACOBS: I'm fine with tabling it until we
22 have a bigger quorum.
23 CHAIR COURSON: Yes, let's just do that.
24 I assume, Counsel, we don't have to take any
25 action? We can just move on to our next agenda item, and

1 we'll put this back on the agenda for the September
2 meeting?
3 MR. HUGHES: Yes, just put that the Chairman
4 moved to put it on the September agenda.
5 CHAIR COURSON: Okay. Thank you.
6 --o0o--
7 **Item 10. Report of Chairman of the Audit Committee**
8 CHAIR COURSON: The next item is -- it's still
9 your chance, Mr. Chairman -- is a report of the Audit
10 Committee.
11 Let me say, everybody received -- I think, Tom,
12 you have some extra copies in case they didn't.
13 Tom put together a sort of a -- I guess I'll
14 call it a project outline, if you would, of what's being
15 dealt with by the Audit Committee and counsel. And we
16 sent that out, so everybody had an idea of what was going
17 on.
18 But with that, I'll turn it over to the
19 chairman, Mr. Shine.
20 Pardon?
21 MR. SHINE: I'd like to see the memo.
22 CHAIR COURSON: Well, it was sent to all the
23 Board members.
24 MR. SHINE: Okay. The Audit Committee has had
25 several meetings. And as you know from prior reports,

1 since the first week in July, we have retained the firm
2 of Manatt Phelps in Los Angeles to assist the Audit
3 Committee in its investigation to determine what really
4 is happening in connection with allegations made by
5 certain people with respect to activities in this agency.
6 The report is on third base, about to come
7 home. The interviews are mostly done, but not all done.
8 The recommendations and conclusion will be presented to
9 us -- or is scheduled to be presented to us, I should
10 say, by Manatt Phelps on the 20th of this month. So it
11 should be easy at that point -- and, Tom, you'll have to
12 help me with this -- to schedule an Audit Committee
13 meeting before our board meeting, either immediately
14 before or maybe some time before to review with Manatt
15 Phelps the results of their investigation, and come up
16 with our conclusions and recommendations as a
17 presentation to this board on the 12th of September.
18 MR. HUGHES: We can schedule an Audit Committee
19 meeting before the September 12th, I believe, board. It
20 is not going -- unless we do it right now, it's not going
21 to be on August 20th, because we have a notice
22 requirement.
23 MR. SHINE: How much time do you require for
24 notice? I keep forgetting.
25 MR. HUGHES: There is statutorily a ten-day

1 requirement.
2 MR. SHINE: Ten days?
3 MR. HUGHES: We need to post it and serve it.
4 MR. SHINE: Well, that gives us the first week
5 and a half in September, if we wish, to deal with it,
6 after we get our report. Because if it doesn't come in
7 on the 20th and it comes in on the 21st --
8 MR. HUGHES: Correct, that was the concern.
9 MR. SHINE: So my recommendation is that we
10 schedule a meeting for some time the first week in
11 September. And hopefully -- and I believe it will happen
12 by that time -- we will have the report from Manatt
13 Phelps, and have a chance then to discuss it and come up
14 with recommendations, conclusions, and whatever other
15 comments the Audit Committee may choose to make to this
16 board.
17 CHAIR COURSON: I think that would be helpful,
18 particularly the fact that we know we're going to have a
19 very full agenda on September the 12th. And so to try to
20 have an Audit Committee meeting before that would push
21 back our start and pose us some other problems of
22 finishing, which we've talked about.
23 MR. SHINE: It will be in Los Angeles.
24 CHAIR COURSON: It will be in Los Angeles.
25 So I would urge the Audit Committee to meet

1 prior, so they don't do it before that meeting. That
2 way, we can get our meeting started on time since we have
3 a full agenda, without having to delay because of the
4 start of the Audit Committee meeting. So if you would do
5 it that week, that would be great.
6 MS. GALANTE: Mr. Chair?
7 CHAIR COURSON: Ms. Galante?
8 MS. GALANTE: I just want to say, I think
9 there's three members of the Audit Committee.
10 MR. SHINE: Four.
11 CHAIR COURSON: Four. Mr. Morris.
12 MS. GALANTE: Four? I just need you to know
13 that I am actually going to be out of the country from
14 September 6th through September 15th.
15 MR. SHINE: Well, then I suggest we have it
16 before September 6th, like the 4th or the 3rd.
17 CHAIR COURSON: Or maybe you could work on that
18 in the next day or so, so you can give everybody a
19 heads-up.
20 MR. SHINE: Well, I'm glad to know that, so
21 I'll then take that into account in trying to pick a date
22 that makes sense --
23 MS. GALANTE: Thank you.
24 MR. SHINE: -- and work with Tom on the
25 official required notifications, and so on and so forth.

1 CHAIR COURSON: Ms. Javits?
2 MS. JAVITS: I just had one question related to
3 the cost.
4 Is this an appropriate moment?
5 CHAIR COURSON: Yes, sure.
6 MS. JAVITS: Can I speak about the numbers
7 here?
8 CHAIR COURSON: Sure.
9 MS. JAVITS: Yes, so it appears that already
10 we've got an estimate of $107,000, that there's another
11 item that's unbudgeted at this point. So I mean, I
12 guess my question is, do we know what the outside
13 liability is -- I mean obviously, the trade-offs here are
14 significant. We're talking $100,000 for our support for
15 a unit of housing for a family forever, versus $100,000
16 to examine the questions that have been raised by, as
17 now, an anonymous group of employees, as I understand it.
18 And so I'm just trying to -- do we have an outside limit
19 on the amount that we're going to spend, or we are
20 prepared to spend here? Or where are we with that?
21 CHAIR COURSON: Let me see if I understand.
22 I think what you're -- the figures that we have
23 specified in here are the figures that deal with the work
24 that counsel is doing on, I'd call it, on the letter, the
25 anonymous letter.

1 MR. SHINE: Certain items.
2 CHAIR COURSON: In the letter, correct.
3 MR. SHINE: Certain accusations made against
4 this agency.
5 CHAIR COURSON: Correct.
6 And then the second piece, which is the other
7 piece you're talking about, I think is the piece -- are
8 you talking about the piece dealing with the contract?
9 MS. JAVITS: Yes.
10 CHAIR COURSON: Right. Just so that
11 everybody --
12 MS. JAVITS: Well, I guess I'm asking, in
13 total -- I mean, I understand there have been serious
14 allegations made, they need to be investigated, and we
15 need the answers. But I'm just asking, how much are we
16 prepared to spend to assess that?
17 MR. SHINE: Well, we're not prepared to
18 spend -- I would never recommend we spend a million
19 dollars. And I don't think you can do it for less than
20 $100,000 or $125,000, personally.
21 He had spent, in the memo, which generated this
22 memo here that I sent you from the law firm, that they
23 spent $70,000 or $75,000 through the date that I received
24 the memo, which is some weeks ago; and that there was
25 $20,000 or $30,000 or $40,000, in round numbers, to go in

his best guesstimate.

I know that that they're not --

MS. JAVITS: Exclusive of the last piece of the investigation; is that correct?

MR. SHINE: Two parts: That which has occurred and that which is to occur.

MS. GALANTE: And the third part is the contracting authority, which there's no money budgeted for that?

MR. SHINE: And that is a much more Jell-O-grabbing-like investigation to get your hands around what is really appropriate.

And there, we're talking about it, but they wanted to get these first three allegations dealt with, which are very specific and very -- I won't say easy, but they know how to go about finding out the answers to those questions.

The authority will end up being, in my opinion, their summary of similar situations and our best guesstimate and judgment because there's no specificity that you'll be able to find anywhere that is totally comparable, in my opinion. And they will work on that, too.

CHAIR COURSON: And so the report that's going to be delivered on August 20th will deal with those items

1 specified in --
2 MR. SHINE: 1, 2, and 3.
3 CHAIR COURSON: -- in the letter?
4 MR. SHINE: Right, right. And we're trying --
5 we're trying to deal with the issue of the authority
6 also. I'm not absolutely certain that will be ready in
7 time for that one issue.
8 CHAIR COURSON: Mr. Hughes?
9 MR. HUGHES: Perhaps this would be a helpful
10 time to interject here. I've just gotten back from
11 vacation; and when I got back yesterday, I sent
12 Mr. Nissen an e-mail asking some of these very questions.
13 And, in fact, I just got a reply a few minutes ago,
14 through the miracle of BlackBerry. I think it bears on
15 the discussion the Board is having, so I'll read it.
16 I asked whether the report that he believes --
17 the target date is August 20th, but I asked him whether
18 that included only the first three items or all four
19 items. I'll simply read to you his response.
20 He indicated, "*Only for the first three items.*
21 *As I said in my budget communications on this, number 4*
22 *should be the subject of a separate discussion because*
23 *of, A, the Audit Committee's desire to prioritize the*
24 *first three; and, B, the fact that I want to avoid any*
25 *sticker shock on the possible cost of number 4. And I*

1 *want the committee to consider exactly what it wants*
2 *before we fully attack that project.*"
3 So it goes directly to the question that was
4 just asked, I think.
5 MR. SHINE: And that's the amorphous nature of
6 that item.
7 He can go and spend lots of money and go do a
8 lot of investigations and research all over the country,
9 or he can take his best guess and talk to people he knows
10 throughout state government where he has served, and
11 other places, and give us an assessment that isn't
12 hundreds and hundreds and hundreds of hours worth of
13 detailed research.
14 MS. JAVITS: So what is the process for
15 determining what the cap is going to be?
16 MR. SHINE: We'll meet with Mr. Nissen, and
17 he'll give us what his best guess is for the: "You want
18 the A, the B, or the C investigation, and here's about
19 what I think it may cost." My assessment is we're not
20 going to want to spend the money it takes to really do
21 this like a congressional investigation or something.
22 MS. JAVITS: Is the committee going to make the
23 decision or the -- I just wondered on the process.
24 CHAIR COURSON: I would assume you bring that
25 to the Board as a recommendation?

1 MR. SHINE: Well, we'll meet with him in the
2 Audit Committee, come up with a recommendation, and
3 present the recommendation and how we got to it to the
4 Board.
5 CHAIR COURSON: In other words, I think the
6 Audit Committee will -- they're going to have the first
7 report, which we've got pretty well.
8 MS. JAVITS: Yes.
9 CHAIR COURSON: And then my understanding of
10 what you're saying is in the second piece, the
11 contracting piece, you'll talk to him about that, get the
12 scope of that, and bring a recommendation to the Board.
13 MR. SHINE: Our job is to take a 25-hour
14 discussion and make it possible in a half hour or an
15 hour.
16 CHAIR COURSON: But I guess the point is then
17 you'll bring a recommendation to the Board --
18 MR. SHINE: Yes.
19 CHAIR COURSON: -- as to the scope of that and
20 the cost?
21 MR. SHINE: Yes. Absolutely.
22 MS. JAVITS: Thank you.
23 CHAIR COURSON: Ms. Galante?
24 MS. GALANTE: I don't think there's anything to
25 add to that. I was just going to say, I think the Audit

1 Committee was concerned about getting into this number 4.
2 And there are policy issues there, frankly. And so how
3 much outside investigation one needs to do to review our
4 own policies; I think we had enough conversation about,
5 I believe, to know that when we come back together and
6 we talk about a scope for this, we're very sensitive to
7 the cost. I can recall Mr. Carey kind of having sticker
8 shock at some of these legal rates as well at the last
9 board meeting. So I think the Audit Committee really
10 will hone in on that issue.
11 MS. JAVITS: Yes. And, obviously, I'd just
12 urge you to stay closely on top of whether we need
13 somebody at $685 or $280 to do particular aspects of the
14 investigation.
15 MR. HUGHES: It might be helpful. I know I
16 indicated at a previous board meeting that I've not
17 handled this as a typical matter because of the unusual
18 nature of this use of outside counsel. Normally, I hire
19 the outside counsel, and I do have those type of
20 discussions.
21 But here, given the dynamics that they're
22 conducting this type of review, I've been very sensitive
23 to not trying to negotiate them down and put limits on
24 what they can do, out of a concern that it might be
25 viewed as limiting somehow the scope of the review

1 improperly. So I have essentially, although I've
2 monitored this and I've talked to Mr. Nissen repeatedly,
3 I've not tried to dictate what they should be doing or
4 how much they should be spending. I think that's
5 fundamentally the job of the Audit Committee.
6 MS. JAVITS: Okay, thank you.
7 MS. JACOBS: Mr. Chair, I'm sorry, I have to
8 excuse myself.
9 CHAIR COURSON: Yes, Ms. Jacobs already sent me
10 a note that she has to leave. She's off to Ontario.
11 Thank you, and we'll see you in September.
12 *(Ms. Jacobs left the meeting room for the day.)*
13 CHAIR COURSON: Ms. Bryant?
14 MS. BRYANT: I'm sure it's in my materials
15 somewhere, but who is on the Audit Committee?
16 CHAIR COURSON: Mr. Shine is the chair,
17 Ms. Galante, Mr. Carey, and Mr. Morris.
18 MS. BRYANT: Thank you.
19 CHAIR COURSON: Other questions on Audit?
20 *(No audible response)*
21 CHAIR COURSON: Jack, I think we're pretty good
22 to go and lined out what our next steps will be then.
23 Having said that, we clearly don't need a
24 closed session.
25 **Item 12. Reports**

1 CHAIR COURSON: And the reports, I think -- I
2 don't know if there are reports. If there are, they're
3 in your book.
4 --o0o--
5 **Item 13. Discussion of other Board matters**
6 CHAIR COURSON: Are there any other matters to
7 come before the Board?
8 *(No audible response)*
9 --o0o--
10 **Item 14. Public Testimony**
11 CHAIR COURSON: Is there any public comment or
12 testimony?
13 *(No audible response)*
14 CHAIR COURSON: Seeing none, then as we've
15 talked about, our next meeting will be in Burbank, and
16 I think as is our normal practice -- is it 9:00 or 9:30?
17 MS. PARKER: 9:30.
18 CHAIR COURSON: As our normal practice, we'll
19 start at 9:30. And we will have a big agenda, but I
20 think we're going to try to work right through it. It is
21 the eve of Rosh Hashanah, and so to accommodate those of
22 the Jewish faith, we'll get out in time so they can fight
23 the L.A. traffic and go home, Mr. Shine.
24 MR. SHINE: Thank you.
25 CHAIR COURSON: Seeing nothing else to come

1 before the Board, we'll stand adjourned.
2 *(The meeting concluded at 3:00 p.m.)*
3 --oOo--
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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 of August 2007.

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

# CALIFORNIA HOUSING FINANCE AGENCY
# Final Commitment
# La Vista Apartments
# Concord, Contra Costa County, CA
# CalHFA # 07-002-A/N

## SUMMARY

This is a Final Commitment request for the acquisition/rehabilitation loan and the permanent financing loan, both in the amount of $5,545,000. Security will be a 75-unit family apartment complex known as La Vista Apartments, located at 3838 Clayton Road, Concord, California. La Vista Preservation, L.P., ("Borrower") whose managing general partners are AIMCO La Vista, LLC, a Delaware limited liability company and Affordable Housing Access, Inc., a California nonprofit corporation, will own the project.

La Vista Apartments is an existing portfolio loan currently owned by La Vista Associates, Ltd, a limited partnership, whose general partner is a real estate investment trust known as Apartment Investment & Management Company (AIMCO). The project was constructed in 1982 and is a 75-unit, two- and three-story 9 building, family apartment complex. The project is 100% Section 8 and the initial 5-year Housing Assistance Payment ("HAP") contract plus five (5) additional 5-year renewals expires on January 15, 2012. The Borrower will seek a new HAP contract upon expiration. CalHFA loan terms and conditions may be modified by staff in the event that said approvals impact the transaction.

## LOAN TERMS

### Acquisition/Rehabilitation

| | |
|---|---|
| **First Mortgage** | $5,545,000 |
| Interest Rate | 5.20%, variable |
| Term | 12 Months, interest only |
| Financing | Tax-Exempt |

### Permanent

| | |
|---|---|
| **First Mortgage** | $5,545,000 |
| Interest Rate | 5.20% |
| Term | 30 year fixed, fully amortized |
| Prepayment Term | After year 15 |
| Financing | Tax-Exempt |

CalHFA acquisition/rehabilitation financing is subject to the assignment by the borrower of tax credit equity and all rights under non-CalHFA financing commitments.

## OTHER FINANCING

There is no other financing involved in this transaction.

## HOUSING ASSISTANCE PAYMENT ("HAP") CONTRACT

The original HAP contract was executed on January 28, 1982, for a term of 5 years. The HAP contract expired on January 28, 1987, and by its terms, was extended for the first of five (5) additional 5-year terms (30 years total). The contract is in the fifth 5-year renewal period. CalHFA is the Section 8 Contract Administrator.

Assignment of the HAP contract to the Borrower, any required modification to the HAP contract, and the general plan of financing, are all subject to the approval of the Department of Housing and Urban Development ("HUD").

CalHFA is currently seeking approval from the San Francisco HUD office recommending that the existing 5-year HAP contract remain in place. A response from HUD is still pending.

The borrower will be required to seek and accept any renewals of the project based Section 8 contract or other HUD subsidies.

This project is a post-1980 HAP contract with limited distribution to the project sponsor. The existing replacement reserve will be transferred with the property at the time of sale to La Vista Preservation, L.P.

## PROJECT DESCRIPTION

### Project Location

- The City of Concord is in northern California, 29 miles east of San Francisco, 22 miles east of Oakland 65 miles south of Sacramento.
- Interstate 680 runs north past Concord to the Benicia Bridge and beyond and south into eastern Alameda County. Highway 4 lies along Concord's northern boundaries and provides east-west transport. Route 242 serves as a highway connector that skirts Concord's business hub and provides access to I-680 and Highway 4.
- Concord is surrounded by the cities of Walnut Creek to the south, Martinez to the north and west, and Antioch and Oakley to the east.
- The project is bordered to the north by two condominium projects, a church and several single family homes. To the east are single family homes and the Salvation Army Community Church. Windsor Manor Rehabilitation Center for senior citizens borders the property to the south, followed by single family homes. A daycare center borders the site to the west.
- The property is close to shopping, employment, recreation, entertainment, and education opportunities. Social Services, public transportation, and public safety services are all within close proximity.

### Site

- The site is a slightly oblong shaped parcel and is 3.65 acres in size.
- The site is zoned Medium Density Multiple Residential District (M-1.8)), which allows for development of no more than 24 units per acre. The site and its use are legally conforming.

**Improvements**

- This 75-unit project was built in 1982 and consists of 9 free standing two- and three-story buildings, surrounded by mature landscaping and large deciduous trees, a children's play area, with a single story manager's office/community center. The basic structure is wood frame with stucco exterior siding, on concrete slabs on grade, and pitched composition shingle roofs. All units are accessible from Clayton Road frontage and parking lot entrances. There are no fences or gates along the Clayton Road but the property is surrounded by perimeter fences. Exterior walkways lead to each of the units.
- There are 15 three-bedrooms, 30 two-bedrooms, and 15 one-bedrooms. Each unit has a slide-in electric range with oven, frost-free refrigerator, garbage disposal, single and double bowl sinks, and a patio or balcony. All the three bedrooms have laundry hook-ups. Each unit also contains electric baseboard, wall air-conditioning.
- The common area amenities include a laundry room, a central office building that houses a manager's office, and mail facilities. The central office building contains a community room with kitchen and toilet facilities.
- The project offers 135 uncovered, open parking spaces.

**PHYSICAL NEEDS ASSESSMENT/SCOPE OF WORK**

- The project is in average overall condition for a development of this type when compared to other developments of similar type and age in the southern portion of the City of Concord and surrounding areas.
- The scope of rehabilitation work totals $2,155,825 or $28,744 per unit and includes:
- **Site work, $487,500** – walkways/asphalt repair, seal coat, and concrete repairs ($65,000), landscaping and fencing upgrades ($138,000), installation of security camera system and signage ($80,000), and additional site lighting and replacement of retaining walls ($204,500).
- **Building, $904,900** – roofing for remaining buildings ($128,000), windows ($90,000), paint ($132,000), new wood stair railings, balcony decks and miscellaneous ($554,900).
- **Residential Units, $482,925**– new cabinets ($157,500), kitchen/bathroom sinks and faucets ($87,750), appliances ($38,000), interior painting ($12,000), doors ($63,000), flooring ($92,250), and miscellaneous fixtures and accessories ($32,425).
- **Mechanical systems, $280,500** – replace and install baseboard heater, air conditioners ($67,500), install smoke detectors ($33,750), and new water heaters, sliding glass doors and miscellaneous ($179,250).

  Work is scheduled to commence in late fall 2007 and is projected to be completed within 12 months.

**Off-site improvements**

- No off-site improvements and/or costs are required.

**Relocation**

- There is approximately $225,000 in relocation expense allocated for this project. Most of the renovation will take place around the occupied units. The rehabilitation plan does not assume invasive construction activity. However, specific interior unit renovation such as window replacement, vinyl flooring, and cabinet replacement is going to take place on a cluster basis (groups of units) and is scheduled to be completed within 3 days and two nights. The residents will be offered a hotel voucher or cash equivalent for the period of their displacement. The Borrower will provide transportation and moving arrangements. In addition, these temporary displaced residents shall be entitled to compensation for all reasonable out of pocket expenses incurred in connection with temporary relocation.

  The Borrower will conduct tenant orientation meetings prior to the purchase of the property and before and during the rehabilitation period regarding the scope of work and timelines, and address any tenant issue or concerns regarding the project.

## MARKET

### Market Overview

The Primary Market Area (PMA) is defined as bound by Route 4 to the north, Willow Pass Road, Lincoln Drive and Myrtle Drive to the east, Kirker Pass Road and Ygnacio Valley Road to the south, and I-680 and Route 242 to the west.

The subject's immediate area is experiencing economic growth, and many employment opportunities exist within a short distance of the subject. Demographic projections indicate positive growth of population and households in the PMA between 2006 and 2011. In 2006, 35.8 percent of households in the PMA and 32.0 percent of households in the Secondary Market Area earned less than $50,000 annually. This data suggests strong support for affordable rental housing in the subject's PMA. In addition, approximately 33.5 percent of renters in the PMA will make less than $50,000 at the time rehabilitation is completed in 2008. The demographic data suggests a strong demand for affordable rental housing in the PMA.

Housing Supply and Demand

### Housing Supply and Demand

- The rental housing stock in the PMA is primarily comprised of market rate apartments (1970-1997) in average to good condition.
- Occupancy rates for market rate units as of June 2006 is 96.5% LIHTC properties have an average occupancy rate of 100%, with waiting list ranging from six months to several years long. The subject has a 12 month waiting list.
- No new conventional apartment projects have been built within one mile of the subject in at least the past 20 years.
- The Housing Authority of the Country of Contra Costa which administers the Section 8 program for the entire county indicated an extensive waiting list.
- There are no new LIHTC/bond projects or market rate housing currently planned within the PMA. Tax credits were not issued to any properties in the subject's PMA during the 2004, 2005, and 2006 allocation cycles. 2007 First Round indicated no recommendations in the PMA.

## PROJECT FEASIBILITY

### Estimated Lease-up Period

- The project is currently 100% leased and the proposed rehabilitation will not interfere with occupancy.

## ENVIRONMENTAL

Blackstone Consulting completed a Phase I Environmental Assessment report on February 9, 2007. The report concludes that there are no adverse environmental conditions that warrant further investigation or remedial action.

## SEISMIC

URS Corporation performed a seismic review assessment on August 23, 20074 The damage ratio met the Agency's seismic risk criteria and no further review is needed.

## DEVELOPMENT TEAM

### Borrower

La Vista Preservation, L.P.

- The non-profit Managing General Partner will be Affordable Housing Access, Inc., located in Newport Beach, Ca. William W. Hirsch and Jonathan B. Webb are the President and Executive Director respectively. They have a combined total of over 40 years of experience in affordable multifamily development.
  The co-general partner and sponsor/developer, AIMCO La Vista, LLC, a Delaware limited liability company will be an initial general partner in the LP. AIMCO Equity Services Inc. ("AESI") is a subsidiary of AIMCO that specializes in finance and development services. AIMCO and AESI have been actively involved as a developer of affordable housing developments for over seven years

### Management Agent

NHP Management, an AIMCO Affiliate

AIMCO's property management subsidiaries provide a full range of management and related services to approximately 790 affordable housing properties comprised of over 93,000 units. AIMCO is the nation's largest manger of affordable housing properties.

**Architect**

Berger Detmer Ennis, Inc.

- Berger Detmer Ennis, Inc., ("BDE") located in San Francisco has provided planning and design services for over 30 years. The Borrower has engaged BDE to assist them in project design, renovation, and construction management during the rehabilitation process. BDE has designed many affordable housing projects throughout the Northern California, Bay Area.

**Contractor**

SD Deacon General Commercial Contractor

- SD Deacon has been a general contractor over 20-plus years. Their work includes primarily multi-family, government assisted (Low Income Housing and Tax Credit assisted) and commercial properties. They specialize in all aspects of construction and development in primarily California, Oregon, and Washington.

## PROJECT SUMMARY

**PROJECT NUMBER: 07-002N**

**Final Commitment**

| | | | | |
|---|---|---|---|---|
| ***Project:*** | **La Vista Apartments** | | | |
| ***Location:*** | 3838 Clayton Road | ***Developer:*** | **AIMCO** | |
| ***City:*** | Concord | ***Partner:*** | 0 | |
| ***County:*** | Contra Costa | ***Investor:*** | AIMCO | |
| ***Zip Code:*** | 94521 | | | |
| | | *No. of Buildings:* | 9 | |
| *Project Type:* | Existing | *No. of Stories:* | 2 & 3 | |
| *Occupancy:* | Family | *Residential Space* | 70,164 | sq. ft. |
| *Total Units:* | 75 | *Community/Leasing Spac* | 0 | sq. ft. |
| *Style Units:* | Flats | *Commercial Space* | 0 | sq. ft. |
| *Elevators:* | No | *Gross Area* | 69,780 | sq. ft. |
| *Total Parking* | 135 | *Land Area* | 158,994 | sq. ft. |
| *Covered* | 0 | *Units per acre* | 21 | |

| CalHFA Acquisition/Rehab Financing | Amount | Rate | Term (Mths) |
|---|---|---|---|
| CalHFA Acquisition Financing | $5,545,000 | 6.100% | 12 |
| Existing Reserves | $110,000 | | |
| Tax Credit Equity | $2,813,532 | | |
| AIMCO Ownership 5% | $125,525 | | |
| Disposition Fee to AIMCO | $565,000 | | |

| Permanent Sources of Funds | Amount | Rate | Years |
|---|---|---|---|
| **CalHFA First Mortgage*** | **$5,545,000** | **5.20%** | **30** |
| **CalHFA Bridge Loan** | **$0** | **0.00%** | **0** |
| **CalHFA Second Mortgage*** **(funded at acquisition)** | **$0** | **0.00%** | **0** |
| Source 4 | $0 | 0.00% | 0 |
| Source 5 | $0 | 0.00% | 0 |
| Source 6 | $0 | 0.00% | 0 |
| Source 7 | $0 | 0.00% | 0 |
| Source 8 | $0 | 0.00% | 0 |
| Source 9 | $0 | 0.00% | 0 |
| Source 10 | $0 | 0.00% | 0 |
| Source 11 | $0 | 0.00% | 0 |
| Source 12 | $0 | 0.00% | 0 |
| Income from Operations | $117,852 | | |
| Developer Contribution - Mezz.Loan | $0 | | |
| Deferred Dev. Fee | $53,463 | | |
| Tax Credit Equity **(_____ funded at acquisition)** | $598,441 | | |

| Construction Valuation | | Appraisal | | Value Upon Completion | |
|---|---|---|---|---|---|
| **Investment Value** | $9,200,000 | **Appraisal Date:** | **6/5/07** | **Restricted Value** | $6,550,000 |
| **Loan / Cost** | 54% | **Cap Rate:** | **6.00%** | **Perm. Loan / Cost** | 50% |
| **Loan / Value** | 60% | | | **Perm. Loan / Value** | 85% |

### CalHFA Fees and Reserve Requirements

| **CalHFA Loan Fees** | **Amount** | **Required Reserves** | **Amount** |
|---|---|---|---|
| CalHFA Acquisition Loan Fee | $41,588 | Other Reserve | $0 |
| CalHFA Permanent Loan Fees | $27,725 | Replacement Resv. Initial Deposit | $180,000 |
| Other Fee | $0 | Repl. Reserve - Per Unit/ Per Yr | $500 |
| | | | |
| **Construction Loan - Guarantees and Fees** | | CalHFA Operating Expense Reserve | $84,179 |
| Completion Guarantee Fee | $0 | Rent Up Reserve | $0 |
| Contractors Payment/Perf. Bond | $2,155,825 | Transitional Operating Reserve | $350,000 |
| | $0 | Other Reserve | $0 |

**Date:** 8/28/2007 **Senior Staff Date:** 8/20/2007

## UNIT MIX AND RENT SUMMARY — La Vista Apartments

**07-002N**

### Total Unit Mix

| # of Units | Unit Type | # of Baths | Average Sq. Ft. |
|---|---|---|---|
| **30** | 1 Bedroom Flat | 1 | 815 |
| **30** | 2 Bedroom Flat | 1 | 1025-1050 |
| **15** | 3 Bedroom Flat | 1.5 | 1,386 |
| | 2 Bedroom Townhome | 2 | |
| | 3 Bedroom Townhome | 1.5 | |
| | 4 Bedroom Townhome | 2.5 | |
| **75** | | | |

### Number of Regulated Units By Agency

| Agency | 35% | 45% | 50% | 60% | 80% |
|---|---|---|---|---|---|
| ***CalHFA*** | | | 15 | | |
| ***Tax Credits*** | | | 74 | | |
| ***Locality*** | | | | | |
| ***HCD*** | | | | | |
| ***AHP*** | | | | | |
| ***Zoning*** | | | | | |
| ***Market Rate*** | | | 1 | | |

### Restricted Rents Compared to Average Market Rents

| Median Income Rent Levels | Units Restricted | Restricted Rents | Avg. Mkt Rate Rents | Sec. 8 Rate Rents | Dollars Difference | % of Market |
|---|---|---|---|---|---|---|
| **One Bedroom** | | | $975 | $903 | | |
| 35% | 0 | $0 | | | $0 | 0% |
| 45% | 0 | $0 | | | $0 | 0% |
| 50% | 6 | $717 | | | $258 | 74% |
| 60% | 24 | $874 | | | $101 | 90% |
| 80% | 0 | $0 | | | $0 | 0% |
| **Two Bedroom** | | | $1,150 | $1,015 | | |
| 35% | 0 | $0 | | | $0 | 0% |
| 45% | 0 | $0 | | | $0 | 0% |
| 50% | 6 | $817 | | | $333 | 71% |
| 60% | 24 | $1,006 | | | $144 | 87% |
| 80% | 0 | $0 | | | $0 | 0% |
| **Three Bedroom** | | | $1,250 | $1,143 | | |
| 35% | 0 | $0 | | | $0 | 0% |
| 45% | 0 | $0 | | | $0 | 0% |
| 50% | 3 | $896 | | | $354 | 72% |
| 60% | 11 | $1,106 | | | $144 | 88% |
| 80% | 0 | $0 | | | $0 | 0% |
| **Four Bedroom** | | | $0 | | | |
| 35% | 0 | $0 | | | $0 | 0% |
| 45% | 0 | $0 | | | $0 | 0% |
| 50% | 0 | $0 | | | $0 | 0% |
| 60% | 0 | $0 | | | $0 | 0% |
| 80% | 0 | $0 | | | $0 | 0% |

## Sources and Uses of Funds — La Vista Apartments

07-002N

Final Commitment

| SOURCES OF FUNDS: | Funds in during Acq/Rehab ($) | Funds in at Permanent ($) | Total Development Sources: Total Sources of Funds ($) | Sources per Unit | % |
|---|---|---|---|---|---|
| **CalHFA Acquisition Financing** | 5,545,000 | | | | |
| Construction Only Source 2 | - | | | | |
| Construction Only Source 3 | - | | | | |
| **CalHFA First Mortgage*** | | 5,545,000 | 5,545,000 | 73,933 | 50% |
| **CalHFA Second Mortgage*** | - | - | - | - | 0% |
| Existing Reserves | 110,000 | - | 110,000 | 1,467 | 1% |
| Disposition Fee to AIMCO | 565,000 | - | 565,000 | 7,533 | 5% |
| AIMCO Ownership 5% | 125,525 | - | 125,525 | 1,674 | 1% |
| Source 5 | - | - | - | - | 0% |
| Source 6 | - | - | - | - | 0% |
| Source 7 | - | - | - | - | 0% |
| Source 8 | - | - | - | - | 0% |
| Source 9 | - | - | - | - | 0% |
| Source 10 | - | - | - | - | 0% |
| Source 11 | - | - | - | - | 0% |
| Source 12 | - | - | - | - | 0% |
| Income from Operations | 117,852 | - | 117,852 | 1,571 | 1% |
| Developer Contribution - Mezz.Loan | - | - | - | - | 0% |
| Deferred Developer Fee | 1,085,807 | 53,463 | 1,139,270 | 15,190 | 10% |
| Tax Credit Equity | 2,813,532 | 598,441 | 3,411,973 | 45,493 | 31% |
| **Total Sources** | 10,362,716 | 6,196,904 | 11,014,620 | 146,862 | 100% |
| (Gap)/Surplus | (0) | 0 | 0 | | |

***Total Permanent Loans - $0, comprised of $0 T/E, $0 Agency Funds***

| USES OF FUNDS: | Acq/Rehab ($) | Permanent ($) | Total Development Costs: Total Uses of Funds ($) | Cost per Unit | % |
|---|---|---|---|---|---|
| ***LOAN PAYOFFS & ROLLOVERS*** | | | | | |
| Construction Loan payoffs | | **$5,545,000** | | | |
| ***ACQUISITION*** | | | | | |
| Lesser of Land Cost or Value | 1,100,000 | - | 1,100,000 | 14,667 | 10% |
| Seller's Prepayment Penalty | - | - | - | - | 0% |
| Legal - Acquisition Related Fees | - | - | - | - | 0% |
| **Subtotal - Land Cost / Value** | 1,100,000 | - | 1,100,000 | | |
| Existing Improvements Value | 4,235,000 | - | 4,235,000 | 56,467 | 38% |
| Off-Site Improvements | - | - | - | - | 0% |
| Other | - | - | - | - | 0% |
| **Total Acquisition** | **5,335,000** | **-** | **5,335,000** | **71,133** | **48%** |
| ***REHABILITATION*** | | | | | |
| Site Work | - | - | - | - | 0% |
| Rehab to Structures | 2,155,825 | - | 2,155,825 | 28,744 | 20% |
| General Requirements | 129,350 | - | 129,350 | 1,725 | 1% |
| Contractors Overhead | 43,117 | - | 43,117 | 575 | 0% |
| Contractors Profit | 129,350 | - | 129,350 | 1,725 | 1% |
| Contractor's Bond | 129,350 | - | 129,350 | 1,725 | 1% |
| General Liability Insurance | 30,702 | - | 30,702 | 409 | 0% |
| Environmental Mitigation Expense | - | - | - | - | 0% |
| Other | - | - | - | - | 0% |
| Other | - | - | - | - | 0% |
| **Total Rehabilitation** | **2,617,694** | **-** | **2,617,694** | **34,903** | **24%** |
| ***RELOCATION EXPENSES*** | | | | | |
| Relocation Expense | 225,000 | - | 225,000 | 3,000 | 2% |
| Relocation Compliance Monitoring | - | - | - | - | 0% |
| **Total Relocation** | **225,000** | **-** | **225,000** | **3,000** | **2%** |

(Continued on Next 2 Pages)

| USES OF FUNDS (Cont'd): | Acq/Rehab ($) | Permanent ($) | Total Development Costs | | |
|---|---|---|---|---|---|
| | | | Total Uses of Funds ($) | Cost per Unit per Unit | % |
| ***NEW CONSTRUCTION*** | | | | | |
| Site Work | - | - | - | - | 0% |
| Structures (Hard Costs) | - | - | - | - | 0% |
| General Requirements | - | - | - | - | 0% |
| Contractors Overhead | - | - | - | - | 0% |
| Contractors Profit | - | - | - | - | 0% |
| Contractor's Perf. & Pymt Bond | - | - | - | - | 0% |
| General Liability Insurance | - | - | - | - | 0% |
| Other | - | - | - | - | 0% |
| Other | - | - | - | - | 0% |
| **Total New Construction** | **-** | **-** | **-** | **-** | **0%** |
| ***ARCHITECTURAL & ENGINEERING*** | | | | | |
| Architectural Design | 100,000 | - | 100,000 | 1,333 | 1% |
| Architect's Supv during Construction | 25,000 | - | 25,000 | 333 | 0% |
| **Total Architectural** | **125,000** | **-** | **125,000** | **1,667** | **1%** |
| Engineering Expense | 30,000 | - | 30,000 | 400 | 0% |
| Engineers Supv. during Construction | - | - | - | - | 0% |
| ALTA Survey | - | - | - | - | 0% |
| **Total Engineering & Survey** | **30,000** | **-** | **30,000** | **400** | **0%** |
| ***ACQUISITION LOAN COSTS*** | | | | | |
| Construction Loan Interest | 186,035 | | 186,035 | 2,480 | 2% |
| CalHFA Acquisition Loan Fee | 41,588 | | 41,588 | 555 | 0% |
| Other Construction Loan Fees | - | | - | - | 0% |
| CalHFA Outside Legal Counsel Fees | - | | - | - | 0% |
| Other Lender Req'd Legal Fees | - | | - | - | 0% |
| Title and Recording fees | 10,000 | | 10,000 | 133 | 0% |
| CalHFA Req'd Inspection Fees | 18,000 | | 18,000 | 240 | 0% |
| Other Req'd Inspection Fees | - | | - | - | 0% |
| Prevailing Wage Monitoring Expense | 15,000 | | 15,000 | 200 | 0% |
| Taxes & Insurance during rehab | 30,000 | | 30,000 | 400 | 0% |
| Predevelopment Interest | - | | - | - | 0% |
| Cost for Completion Guarantee | - | | - | - | 0% |
| Other | - | | - | - | 0% |
| **Total Construction Loan Expense** | **300,622** | **-** | **300,622** | **4,008** | **3%** |
| ***PERMANENT LOAN COSTS*** | | | | | |
| CalHFA Perm Loan Fees | | 27,725 | 27,725 | 370 | 0% |
| CalHFA Bridge Loan Fees | - | - | - | - | 0% |
| CalHFA Loan Application Fee | 500 | - | 500 | 7 | 0% |
| Other Lender Perm. Loan Fees | - | - | - | - | 0% |
| Title and Recording | - | 10,000 | 10,000 | 133 | 0% |
| Perm. Bridge Loan Interest Expense | - | - | - | - | 0% |
| Bond Origination Guarantee Fee | - | - | - | - | 0% |
| Tax Exempt Bond Allocation Fee | 600 | - | 600 | 8 | 0% |
| Other | - | - | - | - | 0% |
| **Total Permanent Loan Expense** | **1,100** | **37,725** | **38,825** | **518** | **0%** |
| ***LEGAL FEES*** | | | | | |
| Borrower Legal Fee | 75,000 | - | 75,000 | 1,000 | 1% |
| Other-syndication | - | - | - | - | 0% |
| **Total Attorney Expense** | **75,000** | **-** | **75,000** | **1,000** | **1%** |

| USES OF FUNDS (Cont'd): | Acq/Rehab ($) | Permanent ($) | Total Development Costs | | |
|---|---|---|---|---|---|
| | | | Permanent of Funds ($) | Per Unit per Unit | % |
| ***CONTRACT / REPORT COSTS*** | | | | | |
| Appraisal | 15,000 | - | 15,000 | 200 | 0% |
| Market Study | 6,000 | - | 6,000 | 80 | 0% |
| Physical Needs Assessment | 4,500 | - | 4,500 | 60 | 0% |
| HUD Risk Share Environ. Review | - | - | - | - | 0% |
| CalHFA EQ Seismic Review Fee | 3,200 | - | 3,200 | 43 | 0% |
| Environmental Phase I / II Reports | 20,000 | - | 20,000 | 267 | 0% |
| Soils / Geotech Reports | - | - | - | - | 0% |
| Asbestos / Lead-based Paint Report | - | - | - | - | 0% |
| Noise/Acoustical/Traffic Study Report | - | - | - | - | 0% |
| Termite/dry rot | 1,000 | - | 1,000 | 13 | 0% |
| Other testing | 10,000 | - | 10,000 | 133 | 0% |
| **Total Contract Costs** | **59,700** | **-** | **59,700** | **796** | **1%** |
| ***CONTINGENCY*** | | | | | |
| Hard Cost Contingency | 323,374 | - | 323,374 | 4,312 | 3% |
| Soft Cost Contingency | - | - | - | - | 0% |
| **Total Contingency** | **323,374** | **-** | **323,374** | **4,312** | **3%** |
| ***RESERVES*** | | | | | |
| CalHFA Operating Expense Reserve | - | 84,179 | 84,179 | 1,122 | 1% |
| Construction Defects Reserve | - | - | - | - | 0% |
| Funded Replacement Reserve | - | 180,000 | 180,000 | 2,400 | 2% |
| Capitalized Investor Req'd Reserve | - | - | - | - | 0% |
| Transitional Operating Reserve | - | 350,000 | 350,000 | 4,667 | 3% |
| **Total Reserves** | **-** | **614,179** | **614,179** | **8,189** | **6%** |
| ***OTHER*** | | | | | |
| CTCAC App/Alloc/Monitor Fees | 36,541 | - | 36,541 | 487 | 0% |
| Local Permit Fees | 12,500 | - | 12,500 | 167 | 0% |
| Local Development Impact Fees | - | - | - | - | 0% |
| Other Local Fees | - | - | - | - | 0% |
| Advertising & Marketing Expenses | - | - | - | - | 0% |
| 1st Year Taxes & Insurance | - | - | - | - | 0% |
| Furnishings | 66,915 | - | 66,915 | 892 | 1% |
| Final Cost Audit Expense | 15,000 | - | 15,000 | 200 | 0% |
| Miscellaneous Admin Fees | - | - | - | - | 0% |
| Other | - | - | - | - | 0% |
| Other | - | - | - | - | 0% |
| Other | - | - | - | - | 0% |
| **Total Other Expenses** | **130,956** | **-** | **130,956** | **1,746** | **1%** |
| **SUBTOTAL PROJECT COSTS** | **9,223,446** | **6,196,904** | **9,875,350** | **131,671** | **90%** |
| ***DEVELOPER COSTS*** | | | | | |
| Developer Overhead/Profit (5% Acq.) | 1,139,270 | - | 1,139,270 | 15,190 | 10% |
| Developer Overhead/Profit (NC/Rehab) | - | - | - | - | 0% |
| Consultant / Processing Agent | - | - | - | - | 0% |
| Project Administration | - | - | - | - | 0% |
| Broker Fees to a related party | - | - | - | - | 0% |
| Construction Mgmt. Oversight | - | - | - | - | 0% |
| Other | - | - | - | - | 0% |
| **Total Developer Fee / Costs** | **1,139,270** | **-** | **1,139,270** | **15,190** | **10%** |
| **Total Costs** | **10,362,716** | **6,196,904** | **11,014,620** | **146862** | **100%** |

**Annual Operating Budget** **La Vista Apartments**

Final Commitment

| INCOME: | $ Amount | Per Unit | % of Total |
|---|---|---|---|
| Total Rental Income | $882,504 | $11,767 | 99.60% |
| Laundry | $3,588 | $48 | 0.40% |
| Other Income | $0 | $0 | 0.00% |
| **Gross Potential Income (GPI)** | **$886,092** | **$11,815** | 100.00% |
| **Less:** | | | |
| Vacancy Loss | $44,305 | $591 | 5.26% |
| **Effective Gross Income** | **$841,787** | **$11,224** | |

| EXPENSES: | Total Cost | Per Unit | % of Total |
|---|---|---|---|
| Payroll | $102,000 | $1,360 | 24.85% |
| Administrative | $39,262 | $523 | 9.56% |
| Management fee | $29,580 | $394 | 7.21% |
| Utilities | $44,400 | $592 | 10.82% |
| Operating and Maintenance | $78,715 | $1,050 | 19.17% |
| Insurance and Business Taxes | $59,075 | $788 | 14.39% |
| Locality Compliance Monitoring Fee | $0 | $0 | 0.00% |
| Other | $0 | $0 | 0.00% |
| **Subtotal Expenses** | **$353,032** | $4,707 | 85.99% |
| Replacement Reserves | $37,500 | $500 | 9.13% |
| Taxes & Assessments | $20,000 | $267 | 4.87% |
| **Total Expenses** | $410,532 | $5,474 | 100.00% |
| **Financial Expenses** | | | |
| CalHFA First Mortgage* | $338,245 | $4,510 | |
| CalHFA Second Mortgage* | $0 | $0 | |
| Other Required Debt Service | $0 | $0 | |
| **NET OPERATING INCOME** | **$93,010** | **$1,240** | |

| *Cash Flow* | Final Commitment | | | | | | | | CalHFA Project Number: | 07-002N | La Vista Apartments |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **RENTAL INCOME** | **Rehab Yr.1** | **Year 1** | **Year 2** | **Year 3** | **Year 4** | **Year 5** | **Year 6** | **Year 7** | **Year 8** | **Year 9** | **Year 10** |
| **Affordable Rents** | **830,136** | **850,889** | **872,162** | **893,966** | **916,315** | **939,223** | **962,703** | **986,771** | **1,011,440** | **1,036,726** | **1,062,644** |
| *Affordable Rent Increase* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* |
| **Rental Subsidies** | **52,368** | **52,892** | **53,421** | **53,955** | **54,494** | **55,039** | **0** | **0** | **0** | **0** | **0** |
| *Rental Subsidy Increases* | *1.00%* | *1.00%* | *1.00%* | *1.00%* | *1.00%* | *1.00%* | *1.00%* | *1.00%* | *1.00%* | *1.00%* | *1.00%* |
| **Unrestricted Units** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| *Unrestricted Unit Increases* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* |
| **TOTAL RENTAL INCOME** | **882,504** | **903,781** | **925,582** | **947,920** | **970,809** | **994,262** | **962,703** | **986,771** | **1,011,440** | **1,036,726** | **1,062,644** |
| **OTHER INCOME** | | | | | | | | | | | |
| **Laundry** | **3,588** | **3,678** | **3,770** | **3,864** | **3,960** | **4,059** | **4,161** | **4,265** | **4,372** | **4,481** | **4,593** |
| **Other Income** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| *Other Income Increase* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* |
| **TOTAL OTHER INCOME** | **3,588** | **3,678** | **3,770** | **3,864** | **3,960** | **4,059** | **4,161** | **4,265** | **4,372** | **4,481** | **4,593** |
| **GROSS POTENTIAL INCOME** | **886,092** | **907,459** | **929,352** | **951,784** | **974,770** | **998,321** | **966,864** | **991,036** | **1,015,812** | **1,041,207** | **1,067,237** |
| **VACANCY ASSUMPTIONS** | | | | | | | | | | | |
| *Affordable (Blended Average)* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* |
| *Rental Subsidy Income* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* |
| *Unrestricted Units* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* |
| *Laundry & Other Income* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* |
| **LESS: VACANCY LOSS** | **44,305** | **45,373** | **46,468** | **47,589** | **48,738** | **49,916** | **48,343** | **49,552** | **50,791** | **52,060** | **53,362** |
| **EFFECTIVE GROSS INCOME** | **841,787** | **862,086** | **882,884** | **904,195** | **926,031** | **948,405** | **918,521** | **941,484** | **965,021** | **989,147** | **1,013,875** |
| **OPERATING EXPENSES** | | | | | | | | | | | |
| **Expenses** | 353,032 | 365,388 | 378,177 | 391,413 | 405,112 | 419,291 | 433,966 | 449,155 | 464,876 | 481,146 | 497,987 |
| *Annual Expense Increase* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* |
| **Taxes and Assessments** | 20,000 | 20,400 | 20,808 | 21,224 | 21,649 | 22,082 | 22,523 | 22,974 | 23,433 | 23,902 | 24,380 |
| *Annual Tax Increase* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* |
| **Replacement Reserve** | 0 | 37,500 | 37,500 | 37,500 | 37,500 | 37,500 | 37,500 | 37,500 | 39,375 | 39,375 | 39,375 |
| *Percentage Increase Yearly* | *0.00%* | *0.00%* | *0.00%* | *0.00%* | *0.00%* | *0.00%* | *0.00%* | *5.00%* | *0.00%* | *0.00%* | *0.00%* |
| **TOTAL EXPENSES** | **373,032** | **423,288** | **436,485** | **450,137** | **464,261** | **478,873** | **493,990** | **509,629** | **527,684** | **544,423** | **561,741** |
| **NET OPERATING INCOME** | **468,755** | **438,798** | **446,400** | **454,058** | **461,770** | **469,533** | **424,531** | **431,855** | **437,337** | **444,723** | **452,134** |
| **DEBT SERVICE** | | | | | | | | | | | |
| CalHFA - 1st Mortgage | 338,245 | 365,378 | 365,378 | 365,378 | 365,378 | 365,378 | 365,378 | 365,378 | 365,378 | 365,378 | 365,378 |
| CalHFA - Bridge Loan | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | | | |
| CalHFA - 2nd Mortgage | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| None | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| None | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **DEBT COVERAGE RATIO** | **1.39** | **1.20** | **1.22** | **1.24** | **1.26** | **1.29** | **1.16** | **1.18** | **1.20** | **1.22** | **1.24** |
| **Cash Available for distribution** | **130,510** | **73,419** | **81,021** | **88,680** | **96,392** | **104,154** | **59,153** | **66,477** | **71,959** | **79,345** | **86,756** |

| *Cash Flow* | | | CalHFA Project Number: | 07-002N | | | | | La Vista Apartments | |
|---|---|---|---|---|---|---|---|---|---|---|
| **RENTAL INCOME** | **Year 11** | **Year 12** | **Year 13** | **Year 14** | **Year 15** | **Year 16** | **Year 17** | **Year 18** | **Year 19** | **Year 20** |
| **Affordable Rents** | **1,089,210** | **1,116,441** | **1,144,352** | **1,172,960** | **1,202,284** | **1,232,342** | **1,263,150** | **1,294,729** | **1,327,097** | **1,360,274** |
| *Affordable Rent Increase* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* |
| **Rental Subsidies** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| *Rental Subsidy Increases* | *1.00%* | *1.00%* | *1.00%* | *1.00%* | *1.00%* | *1.00%* | *1.00%* | *1.00%* | *1.00%* | *1.00%* |
| **Unrestricted Units** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| *Unrestricted Unit Increases* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* |
| **TOTAL RENTAL INCOME** | **1,089,210** | **1,116,441** | **1,144,352** | **1,172,960** | **1,202,284** | **1,232,342** | **1,263,150** | **1,294,729** | **1,327,097** | **1,360,274** |
| **OTHER INCOME** | | | | | | | | | | |
| **Laundry** | **4,708** | **4,825** | **4,946** | **5,070** | **5,196** | **5,326** | **5,460** | **5,596** | **5,736** | **5,879** |
| **Other Income** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| *Other Income Increase* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* |
| **TOTAL OTHER INCOME** | **4,708** | **4,825** | **4,946** | **5,070** | **5,196** | **5,326** | **5,460** | **5,596** | **5,736** | **5,879** |
| **GROSS POTENTIAL INCOME** | **1,093,918** | **1,121,266** | **1,149,298** | **1,178,030** | **1,207,481** | **1,237,668** | **1,268,610** | **1,300,325** | **1,332,833** | **1,366,154** |
| **VACANCY ASSUMPTIONS** | | | | | | | | | | |
| *Affordable (Blended Average)* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* |
| *Rental Subsidy Income* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* |
| *Unrestricted Units* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* |
| *Laundry & Other Income* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* |
| **LESS: VACANCY LOSS** | **54,696** | **56,063** | **57,465** | **58,902** | **60,374** | **61,883** | **63,430** | **65,016** | **66,642** | **68,308** |
| **EFFECTIVE GROSS INCOME** | **1,039,222** | **1,065,203** | **1,091,833** | **1,119,129** | **1,147,107** | **1,175,785** | **1,205,179** | **1,235,309** | **1,266,191** | **1,297,846** |
| **OPERATING EXPENSES** | | | | | | | | | | |
| **Expenses** | 515,416 | 533,456 | 552,127 | 571,451 | 591,452 | 612,153 | 633,578 | 655,753 | 678,704 | 702,459 |
| *Annual Expense Increase* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* |
| **Taxes and Assessments** | 24,867 | 25,365 | 25,872 | 26,390 | 26,917 | 27,456 | 28,005 | 28,565 | 29,136 | 29,719 |
| *Annual Tax Increase* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* |
| **Replacement Reserve** | 39,375 | 39,375 | 41,344 | 41,344 | 41,344 | 41,344 | 41,344 | 43,411 | 43,411 | 43,411 |
| *Percentage Increase Yearly* | *0.00%* | *5.00%* | *0.00%* | *0.00%* | *0.00%* | *0.00%* | *5.00%* | *0.00%* | *0.00%* | *0.00%* |
| **TOTAL EXPENSES** | **579,659** | **598,195** | **619,342** | **639,184** | **659,713** | **680,952** | **702,926** | **727,729** | **751,252** | **775,589** |
| **NET OPERATING INCOME** | **459,564** | **467,007** | **472,490** | **479,944** | **487,394** | **494,833** | **502,253** | **507,580** | **514,940** | **522,257** |
| **DEBT SERVICE** | | | | | | | | | | |
| CalHFA - 1st Mortgage | 365,378 | 365,378 | 365,378 | 365,378 | 365,378 | 365,378 | 365,378 | 365,378 | 365,378 | 365,378 |
| CalHFA - Bridge Loan | | | | | | | | | | |
| CalHFA - 2nd Mortgage | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| None | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| None | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **DEBT COVERAGE RATIO** | **1.26** | **1.28** | **1.29** | **1.31** | **1.33** | **1.35** | **1.37** | **1.39** | **1.41** | **1.43** |
| **Cash Available for distribution** | **94,185** | **101,629** | **107,112** | **114,566** | **122,016** | **129,454** | **136,874** | **142,201** | **149,561** | **156,879** |

| *Cash Flow* | CalHFA Project Number: 07-002N | | | | | | | | | La Vista Apartments |
|---|---|---|---|---|---|---|---|---|---|---|
| **RENTAL INCOME** | **Year 21** | **Year 22** | **Year 23** | **Year 24** | **Year 25** | **Year 26** | **Year 27** | **Year 28** | **Year 29** | **Year 30** |
| **Affordable Rents** | **1,394,281** | **1,429,138** | **1,464,867** | **1,501,489** | **1,539,026** | **1,577,501** | **1,616,939** | **1,657,362** | **1,698,796** | **1,741,266** |
| *Affordable Rent Increase* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* |
| **Rental Subsidies** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| *Rental Subsidy Increases* | *1.00%* | *1.00%* | *1.00%* | *1.00%* | *1.00%* | *1.00%* | *1.00%* | *1.00%* | *1.00%* | *1.00%* |
| **Unrestricted Units** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| *Unrestricted Unit Increases* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* |
| **TOTAL RENTAL INCOME** | **1,394,281** | **1,429,138** | **1,464,867** | **1,501,489** | **1,539,026** | **1,577,501** | **1,616,939** | **1,657,362** | **1,698,796** | **1,741,266** |
| **OTHER INCOME** | | | | | | | | | | |
| **Laundry** | **6,026** | **6,177** | **6,331** | **6,490** | **6,652** | **6,818** | **6,989** | **7,163** | **7,343** | **7,526** |
| **Other Income** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| *Other Income Increase* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* |
| **TOTAL OTHER INCOME** | **6,026** | **6,177** | **6,331** | **6,490** | **6,652** | **6,818** | **6,989** | **7,163** | **7,343** | **7,526** |
| **GROSS POTENTIAL INCOME** | **1,400,308** | **1,435,315** | **1,471,198** | **1,507,978** | **1,545,678** | **1,584,320** | **1,623,928** | **1,664,526** | **1,706,139** | **1,748,792** |
| **VACANCY ASSUMPTIONS** | | | | | | | | | | |
| *Affordable (Blended Average)* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* |
| *Rental Subsidy Income* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* |
| *Unrestricted Units* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* |
| *Laundry & Other Income* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* |
| **LESS: VACANCY LOSS** | **70,015** | **71,766** | **73,560** | **75,399** | **77,284** | **79,216** | **81,196** | **83,226** | **85,307** | **87,440** |
| **EFFECTIVE GROSS INCOME** | **1,330,292** | **1,363,550** | **1,397,638** | **1,432,579** | **1,468,394** | **1,505,104** | **1,542,731** | **1,581,300** | **1,620,832** | **1,661,353** |
| **OPERATING EXPENSES** | | | | | | | | | | |
| **Expenses** | 727,045 | 752,492 | 778,829 | 806,088 | 834,301 | 863,502 | 893,724 | 925,005 | 957,380 | 990,888 |
| *Annual Expense Increase* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* |
| **Taxes and Assessments** | 30,313 | 30,920 | 31,538 | 32,169 | 32,812 | 33,468 | 34,138 | 34,820 | 35,517 | 36,227 |
| *Annual Tax Increase* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* |
| **Replacement Reserve** | 43,411 | 43,411 | 45,581 | 45,581 | 45,581 | 45,581 | 45,581 | 47,861 | 47,861 | 47,861 |
| *Percentage Increase Yearly* | *0.00%* | *5.00%* | *0.00%* | *0.00%* | *0.00%* | *0.00%* | *5.00%* | *0.00%* | *0.00%* | *0.00%* |
| **TOTAL EXPENSES** | **800,769** | **826,822** | **855,948** | **883,838** | **912,695** | **942,551** | **973,443** | **1,007,686** | **1,040,757** | **1,074,976** |
| **NET OPERATING INCOME** | **529,523** | **536,727** | **541,690** | **548,741** | **555,699** | **562,552** | **569,288** | **573,614** | **580,075** | **586,377** |
| **DEBT SERVICE** | | | | | | | | | | |
| CalHFA - 1st Mortgage | 365,378 | 365,378 | 365,378 | 365,378 | 365,378 | 365,378 | 365,378 | 365,378 | 365,378 | 365,378 |
| CalHFA - Bridge Loan | | | | | | | | | | |
| CalHFA - 2nd Mortgage | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| None | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| None | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **DEBT COVERAGE RATIO** | **1.45** | **1.47** | **1.48** | **1.50** | **1.52** | **1.54** | **1.56** | **1.57** | **1.59** | **1.60** |
| **Cash Available for distribution** | **164,144** | **171,349** | **176,312** | **183,363** | **190,321** | **197,174** | **203,909** | **208,236** | **214,696** | **220,999** |

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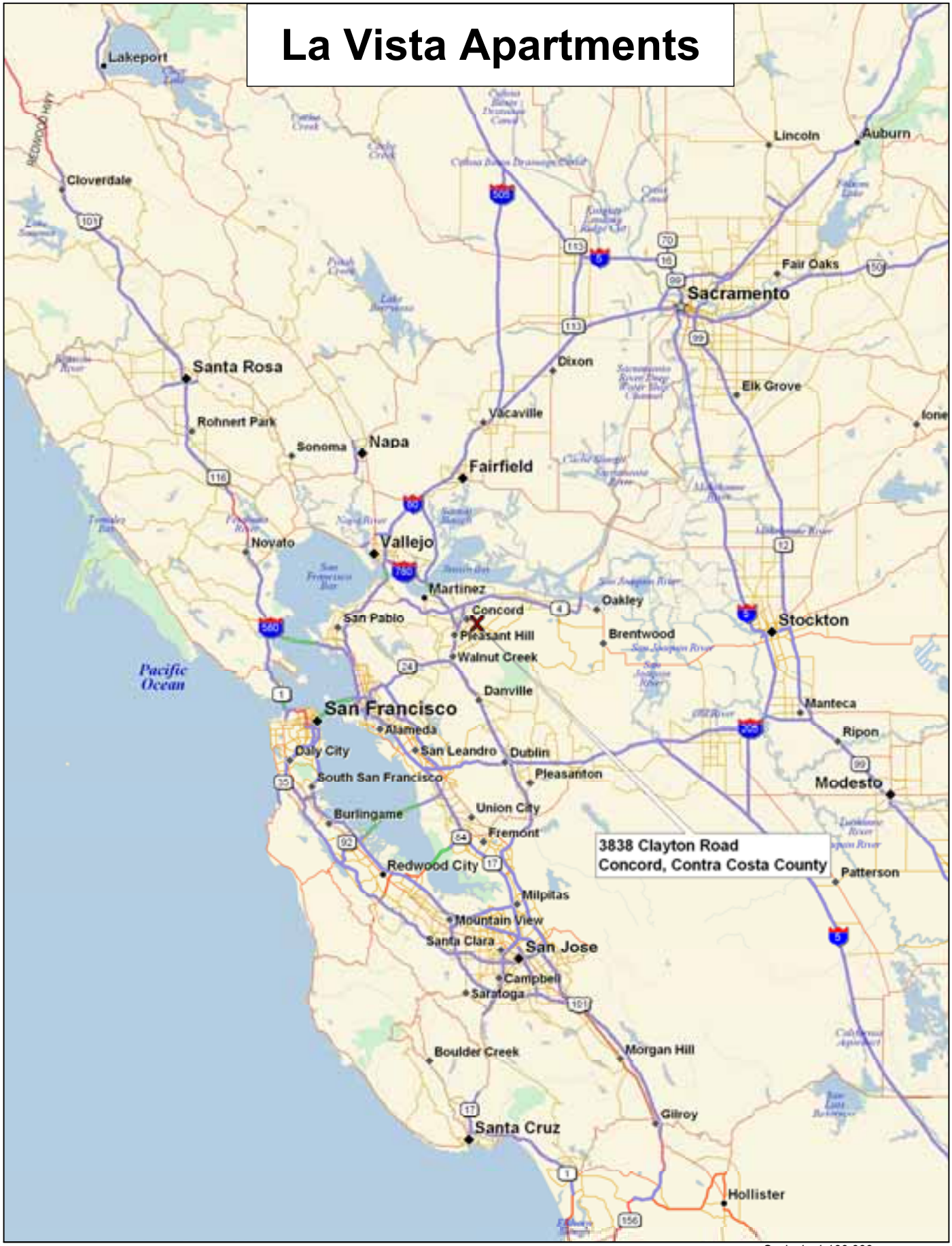
# La Vista Apartments

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TN
MN (14.6°E)

Scale 1 : 1,100,000
1" = 17.36 mi
Data Zoom 7-5

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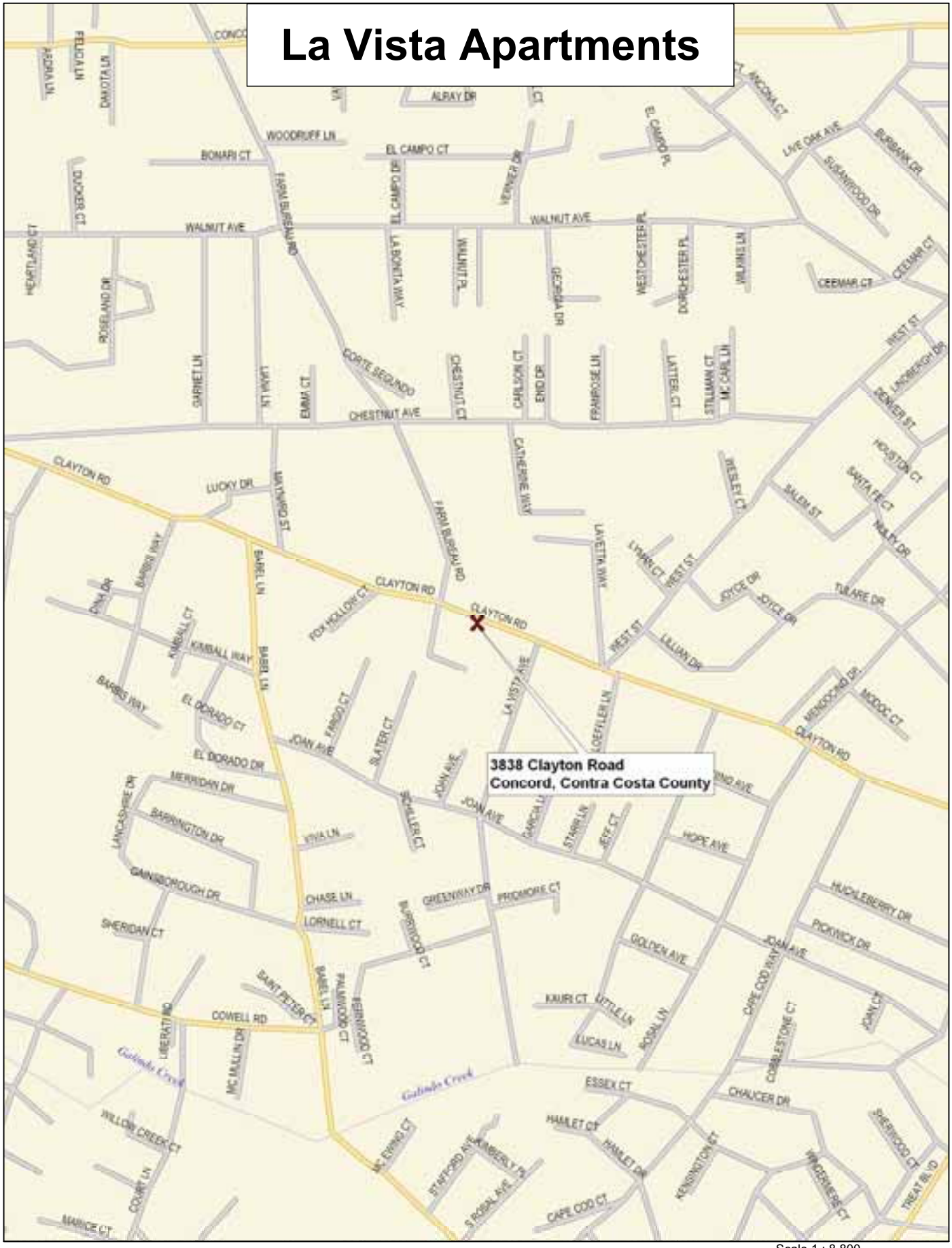
# La Vista Apartments

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TN
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Scale 1 : 8,800
1" = 733.3 ft
Data Zoom 14-5

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RESOLUTION 07-23

RESOLUTION AUTHORIZING A FINAL LOAN COMMITMENT

WHEREAS, the California Housing Finance Agency (the "Agency") has received a loan application on behalf of La Vista Preservation, L.P., a California limited partnership (the "Borrower"), seeking a loan commitment, the proceeds of which are to be used to provide financing for a multifamily housing development located in the city of Concord, Contra Costa County, California, to be known as La Vista Apartments (the "Development"); and

WHEREAS, the loan application has been reviewed by Agency staff which prepared a report presented to the Board on the meeting date recited below (the "Staff Report"), recommending Board approval subject to certain recommended terms and conditions; and

WHEREAS, Section 1.150-2 of the Treasury Regulations requires the Agency, as the issuer of tax-exempt bonds, to declare its reasonable official intent to reimburse prior expenditures for the Development with proceeds of a subsequent borrowing; and

WHEREAS, on July 16, 2007, the Executive Director exercised the authority delegated to her under Resolution 94-10 to declare the official intent of the Agency to reimburse such prior expenditures for the Development; and

WHEREAS, based upon the recommendation of staff and due deliberation by the Board, the Board has determined that a final loan commitment be made for the Development;

1. The Executive Director, or in his/her absence, either the Chief Deputy Director or the Director of Multifamily Programs of the Agency is hereby authorized to execute and deliver a final commitment letter, in a form acceptable to the Agency, and subject to recommended terms and conditions set forth in the Staff Report, in relation to the Development described above and as follows:

| PROJECT NUMBER | DEVELOPMENT NAME/ LOCALITY | NUMBER OF UNITS | MORTGAGE AMOUNT |
|---|---|---|---|
| 07-002-A/N | La Vista Apartments Concord, Contra Costa County | 75 | Acquisition/Rehab: $5,545,000<br>Permanent: $5,545,000 |

Resolution 07-23
Page 2

2. The Executive Director may modify the terms and conditions of the loans or loans as described in the Staff Report, provided that major modifications, as defined below, must be submitted to this Board for approval. "Major modifications" as used herein means modifications which either (i) increase the total aggregate amount of any loans made pursuant to the Resolution by more than 7%; or (ii) modifications which in the judgment of the Executive Director, or in his/her absence, either the Chief Deputy Director or the Director of Multifamily Programs of the Agency, adversely change the financial or public purpose aspects of the final commitment in a substantial way.

I hereby certify that this is a true and correct copy of Resolution 07-23 adopted at a duly constituted meeting of the Board of the Agency held on September 12, 2007 at Burbank, California.

ATTEST:_____
Secretary

# CALIFORNIA HOUSING FINANCE AGENCY
# Final Commitment
# Ridgewood Apartments/La Loma Apartments
# Sacramento, Sacramento County, CA
# CalHFA # 07-007-A/N

## SUMMARY

This is a Final Commitment request for acquisition and permanent financing. Security for the acquisition/rehabilitation and permanent loans will be a 41-unit family apartment complex known as Ridgewood Apartments, located at 5412 47th Avenue, Sacramento, California and a 34-unit apartment complex known as La Loma Apartments, located at 2088 West La Loma, Rancho Cordova, California. RL Affordable, L.P., ("Borrower") whose managing general partners are RL AGP, L.P. and Las Palmas Foundation, a California nonprofit corporation, will own the project.

Ridgewood Apartments and La Loma Apartments represent one existing portfolio loan currently owned by La Loma Associates, a limited partnership, whose general partner is a real estate investment trust known as Apartment Investment & Management Company (AIMCO). The Ridgewood project was constructed in 1980 and is a 41-unit, garden/low-rise, one and two-story 8 building, family apartment complex. The La Loma project was constructed in 1979 and is a 34-unit, garden/low-rise, one and two-story 6 building, family apartment complex. Both projects are 100% Section 8 and both have initial 5-year Housing Assistance Payments (HAP) contracts plus seven (7) additional 5-year renewals. The Ridgewood and La Loma HAP contracts expire on May 22, 2020. The Borrower will seek a new HAP contract upon expiration. CalHFA loan terms and conditions may be modified by staff in the event that said approvals impact the transaction.

## LOAN TERMS

### Acquisition/Rehabilitation

| | |
|---|---|
| **First Mortgage** | $3,075,000 |
| Interest Rate | 5.20%, variable |
| Term | 24 Months, interest only |
| Financing | Tax-Exempt |
| | |
| **Second Mortgage*** | $1,160,000 |
| Interest Rate | 5.20% |
| Term | 14 year fixed, fully amortized |
| Financing | Tax-Exempt |

*At the time of permanent loan funding, this loan will remain in place and will be subordinate to the CalHFA's Permanent First Mortgage.

**Permanent**

| | |
|---|---|
| **First Mortgage** | $3,165,000 |
| Interest Rate | 5.20% |
| Term | 30 year fixed, fully amortized |
| Prepayment | After year 15 |
| Financing | Tax-Exempt |

CalHFA acquisition/rehabilitation financing is subject to the assignment by the borrower of tax credit equity and all rights under non-CalHFA financing commitments.

## OTHER FINANCING

There is no other financing involved in this transaction.

## HOUSING ASSISTANCE PAYMENT ("HAP") CONTRACT

Both original HAP contracts were executed on May 22, 1980, for a term of 5 years. The HAP contracts expired on May 22, 1985, and by its terms, were extended for the first of seven (7) additional 5-year terms (35 years total). The contracts are in the fifth 5-year renewal period. CalHFA is the Section 8 Contract Administrator for both projects.

Assignments of the HAP contracts to the Borrower, any required modification to the HAP contracts, and the general plan of financing, are all subject to the approval of the Department of Housing and Urban Development ("HUD").

CalHFA is currently seeking approval from the Sacramento HUD office recommending that the existing 13-year HAP contracts remain in place. A response from HUD is still pending.

The borrower will be required to seek and accept any renewals of the project based Section 8 contracts or other HUD subsidies.

These projects have a pre-1980 HAP contract with limited distribution to the project sponsor. The existing replacement and operating reserves will be transferred with both properties at the time of sale to RL Affordable, L.P.

## PROJECT DESCRIPTIONS

### Project Locations

Ridgewood Apartments

- The project is located in the south area of Sacramento, approximately seven miles from downtown, and nineteen miles from Sacramento International Airport.
- The project is 0.9 miles east of Highway 99, and 5.5 miles east of Highway 5, both of which are major north/south routes through the region, and within 4 miles south of Business/Interstate 80 and Highway 50, both routes are west/east through the region.

- Sacramento is surrounded by the cities of Elk Grove to the south, Woodland to the north, Roseville to the east, and West Sacramento (Yolo County) to the west.
- The project has market rate apartments located to the north, single family homes and a elementary school to the south, single family homes and vacant land to the east, and various single family homes and private school to the west.
- Proximate amenities include a bus stop within 0.1 mile of the project, a Smart and Final grocery within 0.3 miles, a Wal-Mart within 1.1 mile, an elementary school and high school within 0.2 miles, Bank of America within 0.8, and Methodist Hospital (full service acute care facility/hospital) within 3.4 miles.

La Loma Apartments

- The project is located in the southeast region of Sacramento County, in the city or Rancho Cordova, approximately twelve miles east downtown.
- The project is 0.7 miles north of Highway 50, and 10.7 miles south of Interstate 80, both of which are major east/west routes through the region, and within 11 miles east of Highway 99 and Interstate 5, both routes are north/south routes through the region.
- Rancho Cordova is surrounded by the cities of Elk Grove to the south, Citrus Heights/Roseville to the north, Folsom/El Dorado Hills to the east, and Sacramento to the west.
- The project's surrounding neighborhood is mostly residential. Market rate multifamily uses are located to the north, south, and west with single family homes to the east.
- Proximate amenities include a bus stop within 0.3 miles of the project, Cordova Meadows Elementary School within 0.3 miles, a local market within 0.4 miles, a full service supermarket and pharmacy within 0.9 miles, parks and Folsom Lake State Recreation area within 0.4 miles and Casa Coloma Health Care (medical offices) within 1.2 miles.

**Site**

Ridgewood Apartments

- The 2.40 acre site is flat and slightly irregular.
- This site is zoned RD20, which allows for development of no more than 20 units per acre. The site and its use are legally conforming.

La Loma Apartments

- The 1.89 acre site is flat and rectangular.
- This site is zoned RD20, which allows for development of no more than 20 units per acre. The site and its use are legally conforming.

**Improvements**

- Ridgewood is a 41-unit project built in 1980 and consists of 8 one and two-story apartment buildings. La Loma was is a 34-unit project built in 1979 and consists of 6 one and two-story apartment buildings. Each site has its own leasing office and laundry room and each site has 60 parking spaces.
- Both buildings are conventional wood framed construction with painted T1-11 siding and wood trim. The foundations are continuous spread footings with concrete slabs on grade. The building roofs are pitched composition shingle roofs. Exterior walkways lead

to each of the units. There are no fences or gates along the frontage however, each property is surrounded by fences on three sides.

- At Ridgewood, there are 10 three-bedroom, 19 two-bedroom, and 12 one-bedroom units. All but 12 of the units are of townhome design. The remaining 12 units, all one-bedroom, are flat style units, with 4 accessible units. At La Loma, there are 8 three-bedroom, 20 two-bedroom, and 6 one-bedroom units. All but 7 units are of townhome design. The remaining 7 units are all of 6 one-bedroom and one two- bedroom, with 3 accessible units.
- Each unit is equipped with a fully functional kitchen that includes a slide-in electric range stove/oven, frost-free refrigerator, and garbage disposal. All the three bedroom units have laundry hook-ups. Each unit also contains central heat and air. All one story units have patios with wooden decks and all two story units have balconies with wooden fence surrounding.

**PHYSICAL NEEDS ASSESSMENT/SCOPE OF WORK**

- Ridgewood is in fair condition for a development of this type when compared to other developments of similar type and age in the southern portion of the City of Sacramento and La Loma is slightly below average when compared to other developments in the Rancho Cordova area.
- The scope of rehabilitation work totals $2,157,902 or $28,772 per unit and includes:
    - **Site work, $322,070** – walkways/asphalt repair, seal coat, and concrete repairs ($144,150), landscaping and playground upgrades ($109,000), fencing and enclosures ($105,350) sewer and irrigation ($28,570).
    - **Building, $1,020,000** – replace exterior siding ($650,000), windows and sliding doors ($214,340), roofing and downspouts/gutters for all buildings ($192,800), patio fencing, stair repair/replacement, balconies, and utility doors, ($82,860).
    - **Residential Units, $724,032** – flooring, sub-flooring, carpeting ($179,905), new cabinets ($182,055), kitchen/bathroom sinks, faucets, lights, and fixtures ($139,280), doors ($43,810), interior painting ($44,000), appliances ($34,496), and miscellaneous lighting, smoke detectors and accessories ($100,486).
    - **Mechanical systems, $91,800** – replace and install water heaters and heat pumps ($91,800).

  Work is scheduled to commence on both sites in late fall 2007 and is projected to be completed within 12 months.

**Off-site improvements**

- No off-site improvements and/or costs are required.

**Relocation**

- There is approximately $60,000 in relocation expense allocated for these projects. Most of the renovation will take place around the occupied units. The rehabilitation plan does not assume invasive construction activity which would result in the temporary displacement of tenants. However, specific interior unit renovation such as window replacement, vinyl flooring, and cabinet replacement is going to take place on a cluster

basis (groups of units) and is scheduled to be completed within 3 days and two nights. The residents will be offered a hotel voucher or cash equivalent for the period of their displacement. The Borrower's relocation staff will provide transportation and assist with moving arrangements. In addition, these temporary displaced residents shall be entitled to compensation for all reasonable out of pocket expenses incurred in connection with temporary relocation.

The Borrower will conduct tenant orientation meetings prior to the purchase of the property and before and during the rehabilitation period regarding the scope of work and timelines, to address any tenant issue or concerns regarding these projects.

## MARKET

### Market Overview

The Primary Market Area (PMA) for Ridgewood consists of Fruitridge Road to the north, Power Inn Road to the east, Mack Road to the south, and 24th Street to the west, all within a three-mile radius from the subject property and within the Sacramento city limits.

The PMA for La Loma consists of Marconi Avenue to the north, Eastern Avenue to the west, Highway 50/Mayhew Road and Goethe Road to the south, and Sunrise Boulevard to the east

The demographic data for both projects indicates that the PMA is projected to increase in population and in total number of households between 2006 and 2011. Over half of the population in the Ridgewood PMA earned below $35,000 in 2006. The median household income for the Sacramento MSA for 2006 was $56,558. The median household income in the PMA for 2006 was $34,523. Within the City of Sacramento over 36% of renters pay more than 35% of their income to rent. Given Ridgewood's continual 98-100% occupancy, the project will continue to perform well within the PMA as it maintains the need for affordable housing.

The same assumption applies to La Loma as well. Approximately 34% of the PMA population earned below $35,000 in 2006. Census data indicates 31.4% of renter households in the PMA are paying 35% or more of their income toward rent. The median household income in the PMA for 2006 was $49,075 as compared to $56,558 for the Sacramento MSA. Given the limited amount of affordable housing developments in the PMA and the project's 97% occupancy rate, La Loma will continue to be in strong demand.

Housing Supply and Demand

### Housing Supply and Demand

- The rental housing stock in the Ridgewood PMA is primarily comprised of LIHTC apartments (576 units), mostly constructed between 1970-1985, in average condition. Two other LIHTC apartments were remodeled in 1997 and one newly constructed in 2005. Rental housing stock in the La Loma PMA is primarily comprised of market rate apartments, constructed between 1970 and 1989, in average condition.
- Occupancy rate for market rate units in the Ridgewood PMA as of June 2006 is 95.1% and for La Loma PMA is 94.4%. All the LIHTC properties within both projects' PMA

have an average occupancy rate exceeding 97%, with waiting list ranging from six months to several years long. The waiting list for Ridgewood and La Loma is one year.

- At the time of rehabilitation completion in 2008, there will be a projected total demand for 1,668 rental units targeting households in the Ridgewood PMA and 2,649 rental units in the La Loma PMA with incomes between 50% and 60% of AMI.
- There are currently five newly allocated LIHTC developments, representing 323 units, under construction in the Ridgewood PMA and no new LIHTC/bond projects planned for the La Loma PMA. Out of the five planned developments in the Ridgewood PMA, only two (representing 142 units) will compete directly with the Ridgewood project. The other three are comprised of a senior project, a project for homeless individuals and/or families where at least one person has HIV/AIDS, and a special needs project with supportive services. Given the demand of affordable housing projects for families, the two proposed projects will not have an adverse affect on occupancy levels at Ridgewood.

## PROJECT FEASIBILITY

### Estimated Lease-up Period

- Ridgewood is currently 100% leased and La Loma is currently 97% leased. The proposed rehabilitation will not interfere with occupancy.

## ENVIRONMENTAL

Barr & Clark Environmental completed a Phase I Environmental Assessment report for both projects on August 10, 2007. The report concludes that there are no adverse environmental conditions that warrant further investigation or remedial action on either property.

## SEISMIC

URS Corporation performed a seismic review assessment at each location on August 30, 2007. The damage ratio met the Agency's seismic risk criteria and no further review is needed.

## DEVELOPMENT TEAM

### Borrower

RL Affordable, L.P.

- The non-profit Managing General Partner will be Las Palmas Foundation, located in Carlsbad, California. Las Palmas was found in 1992, and Joseph M. Michaels is the President and Executive Director. Mr. Michaels' has over 22 years of experience in affordable multifamily development.
- The co-general partner and sponsor/developer, RL AGP, L.P., a subsidiary of RL GP, LLC (Bentall Residential), will be an initial general partner in the LP. Bentall was founded in 2002 in Irvine, California to acquire and manage affordable and market rate

multifamily housing in the United States. Ken J. Reiner is the President and has over 25 years of real estate development experience. Bentall has over 20 years of experience developing affordable quality rental housing. In the past 5 years, Bentall has developed 10 senior/family facilities representing over 2,678 units, in San Jose, Oakland, and various cities throughout Southern California.

Bentall has developed 9 projects with CalHFA including Baywood (77-unit, senior facility), El Rancho Verde (700-unit, senior facility), Coronado Terrace (312-unit family facility), Summercrest (372-unit, family and senior facility), Vista Terrace Hills (262-unit, family facility,) Hemet Estates (80-unit family facility), Sterling Village (80-unit family facility), Palm Springs Senior Villa (116-unit senior), Indio Gardens (151-unit family) and Parkview Apartments (97-unit family facility)

**Management Agent**

The John Stewart Company

- The John Stewart Company will manage the property. The John Stewart Company was founded in 1978 and provides management, development and consulting services for non-profit and private sector clients throughout California. The John Stewart Company services approximately 200 housing developments representing 20,000 residential units for low-income to extremely low-income persons. The John Stewart Company manages various types of properties including senior communities, tax credit projects, HUD, and Section 8 properties.

**Architect**

Gelfand Partners Architects (Gelfand)

- Gelfand, located in San Francisco (with affiliates in San Diego and New York), has provided planning and design services since 1997. The Borrower has engaged Gelfand to assist them in project design, renovation, and construction management during the rehabilitation process. Gelfand has designed over 30 multifamily projects in the Northern California, Bay Area.

**Contractor**

Precision General Commercial Contractors (Precision GCC)

- Precision GCC has been a general contractor since 1987. Their work includes primarily multi-family, government assisted (Low Income Housing and Tax Credit assisted) and commercial properties. They specialize in all aspects of construction and development in over 16 states, primarily California, Arizona, Texas, Oklahoma and Washington, representing over 30,000 units.

## PROJECT SUMMARY

**PROJECT NUMBER: 07-007-A/N**

**Final Commitment**

| | | | | | |
|---|---|---|---|---|---|
| ***Project:*** | **Ridgewood/La Loma** | | | | |
| ***Location:*** | 5412 47th Avenue/2088 West La Loma | ***Developer:*** | **Bental Residential** | | |
| ***City:*** | Sacramento and Rancho Cordova | ***Partner:*** | Las Palmas | | |
| ***County:*** | Sacramento | ***Investor:*** | AIMCO | | |
| ***Zip Code:*** | 95824 and 95670 | | | | |
| | | *No. of Buildings:* | 14 | | |
| *Project Type:* | rehabilitation | *No. of Stories:* | 2 | | |
| *Occupancy:* | family | *Residential Space* | 64,065 | sq. ft. | |
| *Total Units:* | 75 | *Community/Leasing Space* | 770 | sq. ft. | |
| *Style Units:* | townhomes and flats | *Commercial Space* | 0 | sq. ft. | |
| *Elevators:* | no | *Gross Area* | 64,835 | sq. ft. | |
| *Total Parking* | 120 | *Land Area* | 186,872 | sq. ft. | |
| *Covered* | 0 | *Units per acre* | 17 | | |

| CalHFA Acquisition/Rehab Financing | Amount | Rate | Term (Mths) |
|---|---|---|---|
| CalHFA Acquisition Financing | $3,075,000 | 5.200% | 24 |
| Existing Operating Reserve | $40,745 | | |
| Existing Replacement Reserve | $171,922 | | |
| Developer Contribution - Mezz.Loan | $0 | | |

| Permanent Sources of Funds | Amount | Rate | Years |
|---|---|---|---|
| **CalHFA First Mortgage** | **$3,165,000** | **5.20%** | **30** |
| **CalHFA Bridge Loan** | **$0** | **0.00%** | **0** |
| **CalHFA Second Mortgage (funded at acquisition)** | **$1,160,000** | **5.20%** | **14** |
| Source 4 | $0 | 0.00% | 0 |
| Source 5 | $0 | 0.00% | 0 |
| Source 6 | $0 | 0.00% | 0 |
| Source 7 | $0 | 0.00% | 0 |
| Source 8 | $0 | 0.00% | 0 |
| Source 9 | $0 | 0.00% | 0 |
| Source 10 | $0 | 0.00% | 0 |
| Source 11 | $0 | 0.00% | 0 |
| Source 12 | $0 | 0.00% | 0 |
| Income from Operations **(during acquisition period)** | $215,000 | | |
| Developer Contribution - Mezz.Loan | $0 | | |
| Deferred Dev. Fee | $668,410 | | |
| Tax Credit Equity **(2,012,101 funded at acquisition)** | $2,235,667 | | |

| Construction Valuation | | Appraisal | | Value Upon Completion | |
|---|---|---|---|---|---|
| **Investment Value** | $8,240,000 | **Appraisal Date:** | **4/18/07** | **Restricted Value** | $5,550,000 |
| **Loan / Cost** | 63% | **Cap Rate:** | **6.25%** | **Perm. Loan / Cost** | 56% |
| **Loan / Value** | 51% | | | **Perm. Loan / Value** | 78% |

### CalHFA Fees and Reserve Requirements

| **CalHFA Loan Fees** | **Amount** | **Required Reserves** | **Amount** |
|---|---|---|---|
| CalHFA Acquisition Loan Fee | $42,350 | Other Reserve | $0 |
| CalHFA Permanent Loan Fees | $15,825 | Replacement Resv. Initial Deposit | $75,000 |
| Other Fee | $0 | Repl. Reserve - Per Unit/ Per Yr | $450 |
| | | | |
| **Construction Loan - Guarantees and Fees** | | CalHFA Operating Expense Reserve | $70,996 |
| Completion Guarantee Fee | $0 | Rent Up Reserve | $0 |
| Contractors Payment/Perf. Bond | $2,486,982 | Transitional Operating Reserve | $159,000 |
| | | Other Reserve | $0 |

**Date:** 8/28/2007 **Senior Staff Date:** 8/20/2007

## UNIT MIX AND RENT SUMMARY — Ridgewood/La Loma

**07-007-A/N**

### Total Unit Mix - both locations

| # of Units | Unit Type | # of Baths | Average Sq. Ft. |
|---|---|---|---|
| 12 | 1 Bedroom Flat | 1 | 540 |
| 6 | 1 Bedroom Flat | 1 | 670 |
| 1 | 2 Bedroom Flat | 1 | 880 |
| 33 | 2 Bedroom Townhome | 1.5 | 865 |
| 5 | 2 Bedroom Townhome | 1.5 | 1,050 |
| 18 | 3 Bedroom Townhome | 1.5 | 1,085 |
| 75 | | | |

### Number of Regulated Units By Agency

| Agency | 35% | 45% | 50% | 60% | 80% |
|---|---|---|---|---|---|
| *CalHFA* | | | 23 | | |
| *Tax Credits* | | | | 75 | |
| *Locality* | | | | | |
| *HCD* | | | | | |
| *AHP* | | | | | |
| *Zoning* | | | | | |
| *Other* | | | | | |

### Restricted Rents Compared to Average Market Rents (for both sites)

| Median Income Rent Levels | Units Restricted | Restricted Rents | Avg. Market Rate Rents | Section 8 Rents | Dollars Difference | % of Market |
|---|---|---|---|---|---|---|
| **One Bedroom** | | | $670 | $754 | | |
| 35% | 0 | $0 | | | $0 | 0% |
| 45% | 0 | $0 | | | $0 | 0% |
| 50% | 6 | $586 | | | $84 | 87% |
| 60% | 12 | $603 | | | $67 | 90% |
| 80% | 0 | $0 | | | $0 | 0% |
| **Two Bedroom** | | | $800 | $849 | | |
| 35% | 0 | $0 | | | $0 | 0% |
| 45% | 0 | $0 | | | $0 | 0% |
| 50% | 12 | $647 | | | $153 | 81% |
| 60% | 25 | $720 | | | $80 | 90% |
| 80% | 0 | $0 | | | $0 | 0% |
| **Three Bedroom** | | | $880 | $956 | | |
| 35% | 0 | $0 | | | $0 | 0% |
| 45% | 0 | $0 | | | $0 | 0% |
| 50% | 5 | $708 | | | $172 | 80% |
| 60% | 13 | $792 | | | $88 | 90% |
| 80% | 0 | $0 | | | $0 | 0% |
| **Four Bedroom** | | | $0 | | | |
| 35% | 0 | $0 | | | $0 | 0% |
| 45% | 0 | $0 | | | $0 | 0% |
| 50% | 0 | $0 | | | $0 | 0% |
| 60% | 0 | $0 | | | $0 | 0% |
| 80% | 0 | $0 | | | $0 | 0% |

## Sources and Uses of Funds — Ridgewood/La Loma

07-007-A/N

Final Commitment

| SOURCES OF FUNDS: | Funds in during Acq/Rehab ($) | Funds in at Permanent ($) | Total Development Sources: Total Sources of Funds ($) | Sources per Unit | % |
|---|---|---|---|---|---|
| **CalHFA Acquisition Financing** | 3,075,000 | | | | |
| Construction Only Source 2 | - | | | | |
| Construction Only Source 3 | - | | | | |
| **CalHFA First Mortgage** | | 3,165,000 | 3,165,000 | 42,200 | 41% |
| **CalHFA Second Mortgage** | 1,160,000 | - | 1,160,000 | 15,467 | 15% |
| Existing Replacement Reserve | 171,922 | - | 171,922 | 2,292 | 2% |
| Earned Surplus | - | - | - | - | 0% |
| Existing Operating Reserve | 40,745 | - | 40,745 | 543 | 1% |
| Source 5 | - | - | - | - | 0% |
| Source 6 | - | - | - | - | 0% |
| Source 7 | - | - | - | - | 0% |
| Source 8 | - | - | - | - | 0% |
| Source 9 | - | - | - | - | 0% |
| Source 10 | - | - | - | - | 0% |
| Source 11 | - | - | - | - | 0% |
| Source 12 | - | - | - | - | 0% |
| Income from Operations | 215,000 | - | 215,000 | 2,867 | 3% |
| Developer Contribution - Mezz.Loan | - | - | - | - | 0% |
| Deferred Developer Fee | - | 668,410 | 668,410 | 8,912 | 9% |
| Tax Credit Equity | 2,012,101 | 223,566 | 2,235,667 | 29,809 | 29% |
| **Total Sources** | 6,674,768 | 4,056,976 | 7,656,744 | 102,090 | 100% |
| (Gap)/Surplus | (0) | - | (0) | | |

***Total Permanent Loans - $0, comprised of $0 T/E, $0 Agency Funds** 2,750

| USES OF FUNDS: | Acq/Rehab ($) | Permanent ($) | Total Development Costs: Total Uses of Funds ($) | Cost per Unit | % |
|---|---|---|---|---|---|
| ***LOAN PAYOFFS & ROLLOVERS*** | | | | | |
| Construction Loan payoffs | | **$3,075,000** | | | |
| ***ACQUISITION*** | | | | | |
| Lesser of Land Cost or Value | 1,140,000 | - | 1,140,000 | 15,200 | 15% |
| Seller's Prepayment Penalty | 439,957 | - | 439,957 | 5,866 | 6% |
| Legal - Acquisition Related Fees | 15,000 | - | 15,000 | 200 | 0% |
| **Subtotal - Land Cost / Value** | 1,594,957 | - | 1,594,957 | | |
| Existing Improvements Value | 1,678,043 | - | 1,678,043 | 22,374 | 22% |
| Off-Site Improvements | - | - | - | - | 0% |
| Other | - | - | - | - | 0% |
| **Total Acquisition** | **3,273,000** | **-** | **3,273,000** | **43,640** | **43%** |
| ***REHABILITATION*** | | | | | |
| Site Work | - | - | - | - | 0% |
| Rehab to Structures | 2,157,902 | - | 2,157,902 | 28,772 | 28% |
| General Requirements | 129,474 | - | 129,474 | 1,726 | 2% |
| Contractors Overhead | 43,158 | - | 43,158 | 575 | 1% |
| Contractors Profit | 107,895 | - | 107,895 | 1,439 | 1% |
| Contractor's Bond | 21,579 | - | 21,579 | 288 | 0% |
| General Liability Insurance | 26,974 | - | 26,974 | 360 | 0% |
| Environmental Mitigation Expense | - | - | - | - | 0% |
| Other | - | - | - | - | 0% |
| Other | - | - | - | - | 0% |
| **Total Rehabilitation** | **2,486,982** | **-** | **2,486,982** | **33,160** | **32%** |
| ***RELOCATION EXPENSES*** | | | | | |
| Relocation Expense | 60,000 | - | 60,000 | 800 | 1% |
| Relocation Compliance Monitoring | - | - | - | - | 0% |
| **Total Relocation** | **60,000** | **-** | **60,000** | **800** | **1%** |

(Continued on Next 2 Pages)

| USES OF FUNDS (Cont'd): | Acq/Rehab ($) | Permanent ($) | Total Development Costs | | |
|---|---|---|---|---|---|
| | | | Total Uses of Funds ($) | Cost per Unit per Unit | % |
| ***NEW CONSTRUCTION*** | | | | | |
| Site Work | - | - | - | - | 0% |
| Structures (Hard Costs) | - | - | - | - | 0% |
| General Requirements | - | - | - | - | 0% |
| Contractors Overhead | - | - | - | - | 0% |
| Contractors Profit | - | - | - | - | 0% |
| Contractor's Perf. & Pymt Bond | - | - | - | - | 0% |
| General Liability Insurance | - | - | - | - | 0% |
| Other | - | - | - | - | 0% |
| Other | - | - | - | - | 0% |
| **Total New Construction** | **-** | **-** | **-** | **-** | **0%** |
| ***ARCHITECTURAL & ENGINEERING*** | | | | | |
| Architectural Design | 40,000 | - | 40,000 | 533 | 1% |
| Architect's Supv during Construction | - | - | - | - | 0% |
| **Total Architectural** | **40,000** | **-** | **40,000** | **533** | **1%** |
| Engineering Expense | - | - | - | - | 0% |
| Engineers Supv. during Construction | - | - | - | - | 0% |
| ALTA Survey | 9,000 | - | 9,000 | 120 | 0% |
| **Total Engineering & Survey** | **9,000** | **-** | **9,000** | **120** | **0%** |
| ***ACQUISITION LOAN COSTS*** | | | | | |
| Acquisition Loan Interest | - | | - | - | 0% |
| CalHFA Acquisition Loan Fee | 42,350 | | 42,350 | 565 | 1% |
| Other Acquisition Loan Fees | - | | - | - | 0% |
| CalHFA Outside Legal Counsel Fees | - | | - | - | 0% |
| Other Lender Req'd Legal Fees | - | | - | - | 0% |
| Title and Recording fees | 10,000 | | 10,000 | 133 | 0% |
| CalHFA Req'd Inspection Fees | 18,000 | | 18,000 | 240 | 0% |
| Other Req'd Inspection Fees | - | | - | - | 0% |
| Prevailing Wage Monitoring Expense | - | | - | - | 0% |
| Taxes & Insurance during rehab | - | | - | - | 0% |
| Predevelopment Interest | - | | - | - | 0% |
| Cost for Completion Guarantee | - | | - | - | 0% |
| Other | - | | - | - | 0% |
| **Total Acquisition Loan Expense** | **70,350** | **-** | **70,350** | **938** | **1%** |
| ***PERMANENT LOAN COSTS*** | | | | | |
| CalHFA Perm Loan Fees | 15,825 | - | 15,825 | 211 | 0% |
| CalHFA Bridge Loan Fees | - | - | - | - | 0% |
| CalHFA Loan Application Fee | 500 | - | 500 | 7 | 0% |
| Other Lender Perm. Loan Fees | - | - | - | - | 0% |
| Title and Recording | - | 5,000 | 5,000 | 67 | 0% |
| Perm. Bridge Loan Interest Expense | - | - | - | - | 0% |
| Bond Origination Guarantee Fee | - | - | - | - | 0% |
| Tax Exempt Bond Allocation Fee | 600 | - | 600 | 8 | 0% |
| Other | - | - | - | - | 0% |
| **Total Permanent Loan Expense** | **16,925** | **5,000** | **21,925** | **292** | **0%** |
| ***LEGAL FEES*** | | | | | |
| Borrower Legal Fee | 75,000 | - | 75,000 | 1,000 | 1% |
| Other | - | - | - | - | 0% |
| **Total Attorney Expense** | **75,000** | **-** | **75,000** | **1,000** | **1%** |

| USES OF FUNDS (Cont'd): | Acq/Rehab ($) | Permanent ($) | Total Development Costs | | |
|---|---|---|---|---|---|
| | | | Permanent of Funds ($) | Per Unit per Unit | % |
| ***CONTRACT / REPORT COSTS*** | | | | | |
| Appraisal | 18,200 | - | 18,200 | 243 | 0% |
| Market Study | 21,000 | - | 21,000 | 280 | 0% |
| Physical Needs Assessment | 8,000 | - | 8,000 | 107 | 0% |
| HUD Risk Share Environ. Review | - | - | - | - | 0% |
| CalHFA EQ Seismic Review Fee | 6,000 | - | 6,000 | 80 | 0% |
| Environmental Phase I / II Reports | 10,000 | - | 10,000 | 133 | 0% |
| Soils / Geotech Reports | - | - | - | - | 0% |
| Asbestos / Lead-based Paint Report | - | - | - | - | 0% |
| Noise/Acoustical/Traffic Study Report | - | - | - | - | 0% |
| Termite/dry rot | - | - | - | - | 0% |
| Other | 6,000 | - | 6,000 | 80 | 0% |
| **Total Contract Costs** | **69,200** | **-** | **69,200** | **923** | **1%** |
| ***CONTINGENCY*** | | | | | |
| Hard Cost Contingency | 246,001 | - | 246,001 | 3,280 | 3% |
| Soft Cost Contingency | 20,000 | - | 20,000 | 267 | 0% |
| **Total Contingency** | **266,001** | **-** | **266,001** | **3,547** | **3%** |
| ***RESERVES*** | | | | | |
| CalHFA Operating Expense Reserve | 70,996 | - | 70,996 | 947 | 1% |
| Construction Defects Reserve | - | - | - | - | 0% |
| Funded Replacement Reserve | 75,000 | - | 75,000 | 1,000 | 1% |
| Capitalized Investor Req'd Reserve | - | - | - | - | 0% |
| Transitional Operating Reserve | - | 159,000 | 159,000 | 2,120 | 2% |
| **Total Reserves** | **145,996** | **159,000** | **304,996** | **4,067** | **4%** |
| ***OTHER*** | | | | | |
| CTCAC App/Alloc/Monitor Fees | 35,373 | - | 35,373 | 472 | 0% |
| Local Permit Fees | - | - | - | - | 0% |
| Local Development Impact Fees | - | - | - | - | 0% |
| Other Local Fees | - | - | - | - | 0% |
| Advertising & Marketing Expenses | - | - | - | - | 0% |
| 1st Year Taxes & Insurance | 69,142 | - | 69,142 | 922 | 1% |
| Furnishings | 50,000 | - | 50,000 | 667 | 1% |
| Final Cost Audit Expense | 7,799 | - | 7,799 | 104 | 0% |
| Miscellaneous Admin Fees | - | - | - | - | 0% |
| Other | - | - | - | - | 0% |
| Other | - | - | - | - | 0% |
| Other | - | - | - | - | 0% |
| **Total Other Expenses** | **162,314** | **-** | **162,314** | **2,164** | **2%** |
| **SUBTOTAL PROJECT COSTS** | **6,674,768** | **3,239,000** | **6,838,768** | **91,184** | **89%** |
| ***DEVELOPER COSTS*** | | | | | |
| Developer Overhead/Profit (5% Acq.) | - | 409,929 | 409,929 | 5,466 | 5% |
| Developer Overhead/Profit (NC/Rehab) | - | 408,047 | 408,047 | 5,441 | 5% |
| Consultant / Processing Agent | - | - | - | - | 0% |
| Project Administration | - | - | - | - | 0% |
| Broker Fees to a related party | - | - | - | - | 0% |
| Construction Mgmt. Oversight | - | - | - | - | 0% |
| Other | - | - | - | - | 0% |
| **Total Developer Fee / Costs** | **-** | **817,976** | **817,976** | **10,906** | **11%** |
| **Total Costs** | **6,674,768** | **4,056,976** | **7,656,744** | **102,090** | **100%** |

**Annual Operating Budget** **Ridgewood/La Loma**

Final Commitment

| INCOME: | $ Amount | Per Unit | % of Total |
|---|---|---|---|
| Total Rental Income | $746,160 | $9,949 | 99.84% |
| Laundry | $1,170 | $16 | 0.16% |
| Other Income | $0 | $0 | 0.00% |
| **Gross Potential Income (GPI)** | **$747,330** | **$9,964** | 100.00% |
| **Less:** | | | |
| Vacancy Loss | $37,367 | $498 | 5.26% |
| **Effective Gross Income** | **$709,964** | **$9,466** | |

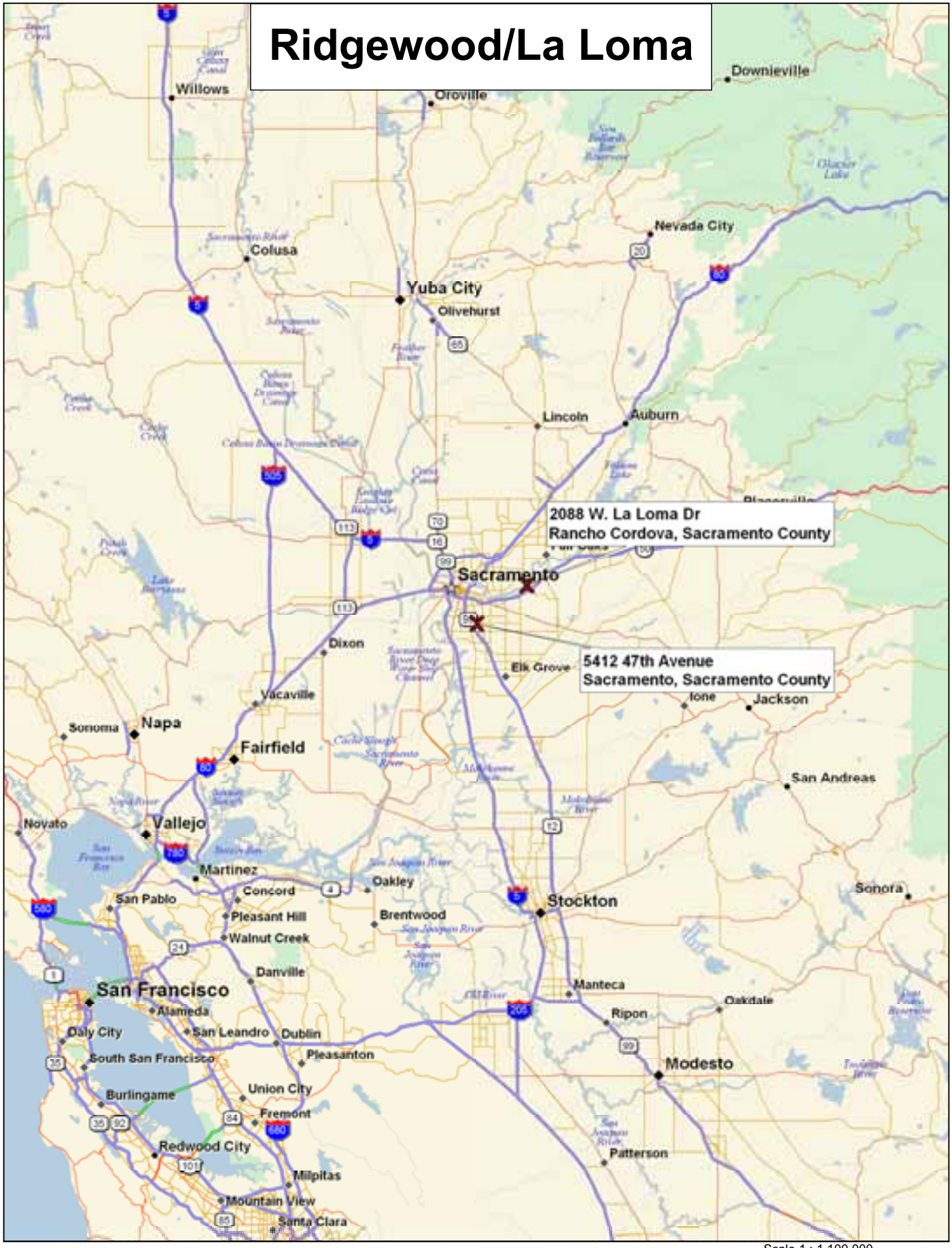
| EXPENSES: | Total Cost | Per Unit | % of Total |
|---|---|---|---|
| Payroll | $81,617 | $1,088 | 23.85% |
| Administrative | $33,372 | $445 | 9.75% |
| Management fee | $40,050 | $534 | 11.71% |
| Utilities | $54,962 | $733 | 16.06% |
| Operating and Maintenance | $64,069 | $854 | 18.72% |
| Insurance and Business Taxes | $34,339 | $458 | 10.04% |
| Locality Compliance Monitoring Fee | $0 | $0 | 0.00% |
| Other | $0 | $0 | 0.00% |
| **Subtotal Expenses** | **$308,409** | $4,112 | 90.14% |
| Replacement Reserves | $33,750 | $450 | 9.86% |
| Taxes & Assessments | $0 | $0 | 0.00% |
| **Total Expenses** | $342,159 | $4,562 | 100.00% |
| **Financial Expenses** | | | |
| CalHFA First Mortgage | $159,900 | $2,132 | |
| CalHFA Second Mortgage | $116,816 | $1,558 | |
| Other Required Debt Service | $0 | $0 | |
| **NET OPERATING INCOME** | **$91,088** | **$1,215** | |

| *Cash Flow* | Final Commitment | | | | | | | | CalHFA Project Number: 07-007-A/N Ridgewood/La Loma | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **RENTAL INCOME** | **Rehab Yr.1** | **Rehab Yr.2** | **Year 1** | **Year 2** | **Year 3** | **Year 4** | **Year 5** | **Year 6** | **Year 7** | **Year 8** | **Year 9** | **Year 10** |
| **Affordable Rents** | **604,224** | **619,330** | **634,813** | **650,683** | **666,950** | **683,624** | **700,715** | **718,232** | **736,188** | **754,593** | **773,458** | **792,794** |
| *Affordable Rent Increase* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* |
| **Rental Subsidies** | **141,936** | **141,936** | **141,936** | **141,936** | **141,936** | **141,936** | **141,936** | **141,936** | **141,936** | **144,775** | **147,670** | **150,624** |
| *Rental Subsidy Increases* | *0.00%* | *0.00%* | *0.00%* | *0.00%* | *0.00%* | *0.00%* | *0.00%* | *0.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* |
| **Unrestricted Units** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| *Unrestricted Unit Increases* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* |
| **TOTAL RENTAL INCOME** | **746,160** | **761,266** | **776,749** | **792,619** | **808,886** | **825,560** | **842,651** | **860,168** | **878,124** | **899,368** | **921,128** | **943,418** |
| **OTHER INCOME** | | | | | | | | | | | | |
| **Laundry** | **1,170** | **1,199** | **1,229** | **1,260** | **1,291** | **1,324** | **1,357** | **1,391** | **1,426** | **1,461** | **1,498** | **1,535** |
| **Other Income** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| *Other Income Increase* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* |
| **TOTAL OTHER INCOME** | **1,170** | **1,199** | **1,229** | **1,260** | **1,291** | **1,324** | **1,357** | **1,391** | **1,426** | **1,461** | **1,498** | **1,535** |
| **GROSS POTENTIAL INCOME** | **747,330** | **762,465** | **777,978** | **793,879** | **810,178** | **826,884** | **844,007** | **861,559** | **879,550** | **900,829** | **922,626** | **944,953** |
| **VACANCY ASSUMPTIONS** | | | | | | | | | | | | |
| *Affordable (Blended Average)* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* |
| *Rental Subsidy Income* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* |
| *Unrestricted Units* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* |
| *Laundry & Other Income* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* |
| **LESS: VACANCY LOSS** | **37,367** | **38,123** | **38,899** | **39,694** | **40,509** | **41,344** | **42,200** | **43,078** | **43,977** | **45,041** | **46,131** | **47,248** |
| **EFFECTIVE GROSS INCOME** | **709,964** | **724,342** | **739,079** | **754,185** | **769,669** | **785,540** | **801,807** | **818,481** | **835,572** | **855,787** | **876,494** | **897,705** |
| **OPERATING EXPENSES** | | | | | | | | | | | | |
| **Expenses** | 311,717 | 322,627 | 333,919 | 345,607 | 357,703 | 370,222 | 383,180 | 396,592 | 410,472 | 424,839 | 439,708 | 455,098 |
| *Annual Expense Increase* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* |
| **Taxes and Assessments** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| *Annual Tax Increase* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* |
| **Replacement Reserve** | 0 | 0 | 33,750 | 33,750 | 33,750 | 33,750 | 33,750 | 33,750 | 35,438 | 35,438 | 35,438 | 35,438 |
| *Percentage Increase Yearly* | *0.00%* | *0.00%* | *0.00%* | *0.00%* | *0.00%* | *0.00%* | *0.00%* | *5.00%* | *0.00%* | *0.00%* | *0.00%* | *0.00%* |
| **TOTAL EXPENSES** | **311,717** | **322,627** | **367,669** | **379,357** | **391,453** | **403,972** | **416,930** | **430,342** | **445,910** | **460,276** | **475,146** | **490,535** |
| **NET OPERATING INCOME** | **398,246** | **401,714** | **371,410** | **374,829** | **378,216** | **381,567** | **384,877** | **388,140** | **389,663** | **395,511** | **401,349** | **407,170** |
| **DEBT SERVICE** | | | | | | | | | | | | |
| CalHFA - 1st Mortgage | 159,900 | 159,900 | 208,552 | 208,552 | 208,552 | 208,552 | 208,552 | 208,552 | 208,552 | 208,552 | 208,552 | 208,552 |
| CalHFA - Bridge Loan | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | | | | |
| CalHFA - 2nd Mortgage | 116,816 | 116,816 | 116,816 | 116,816 | 116,816 | 116,816 | 116,816 | 116,816 | 116,816 | 116,816 | 116,816 | 116,816 |
| None | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| None | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **DEBT COVERAGE RATIO** | **1.44** | **1.45** | **1.14** | **1.15** | **1.16** | **1.17** | **1.18** | **1.19** | **1.20** | **1.22** | **1.23** | **1.25** |
| **Cash Available for distribution** | **121,530** | **124,998** | **46,041** | **49,460** | **52,847** | **56,198** | **59,508** | **62,771** | **64,294** | **70,142** | **75,980** | **81,801** |

| *Cash Flow* | CalHFA Project Number: 07-007-A/N | | | | | | | Ridgewood/La Loma | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **RENTAL INCOME** | **Year 11** | **Year 12** | **Year 13** | **Year 14** | **Year 15** | **Year 16** | **Year 17** | **Year 18** | **Year 19** | **Year 20** |
| **Affordable Rents** | **812,614** | **832,929** | **853,753** | **875,097** | **896,974** | **919,398** | **942,383** | **965,943** | **990,091** | **1,014,844** |
| *Affordable Rent Increase* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* |
| **Rental Subsidies** | **153,636** | **156,709** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| *Rental Subsidy Increases* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* |
| **Unrestricted Units** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| *Unrestricted Unit Increases* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* |
| **TOTAL RENTAL INCOME** | **966,250** | **989,638** | **853,753** | **875,097** | **896,974** | **919,398** | **942,383** | **965,943** | **990,091** | **1,014,844** |
| **OTHER INCOME** | | | | | | | | | | |
| **Laundry** | **1,574** | **1,613** | **1,653** | **1,695** | **1,737** | **1,780** | **1,825** | **1,870** | **1,917** | **1,965** |
| **Other Income** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| *Other Income Increase* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* |
| **TOTAL OTHER INCOME** | **1,574** | **1,613** | **1,653** | **1,695** | **1,737** | **1,780** | **1,825** | **1,870** | **1,917** | **1,965** |
| **GROSS POTENTIAL INCOME** | **967,824** | **991,251** | **855,406** | **876,791** | **898,711** | **921,179** | **944,208** | **967,813** | **992,009** | **1,016,809** |
| **VACANCY ASSUMPTIONS** | | | | | | | | | | |
| *Affordable (Blended Average)* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* |
| *Rental Subsidy Income* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* |
| *Unrestricted Units* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* |
| *Laundry & Other Income* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* |
| **LESS: VACANCY LOSS** | **48,391** | **49,563** | **42,770** | **43,840** | **44,936** | **46,059** | **47,210** | **48,391** | **49,600** | **50,840** |
| **EFFECTIVE GROSS INCOME** | **919,433** | **941,689** | **812,636** | **832,951** | **853,775** | **875,120** | **896,998** | **919,423** | **942,408** | **965,968** |
| **OPERATING EXPENSES** | | | | | | | | | | |
| **Expenses** | 471,026 | 487,512 | 504,575 | 522,235 | 540,514 | 559,432 | 579,012 | 599,277 | 620,252 | 641,961 |
| *Annual Expense Increase* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* |
| **Taxes and Assessments** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| *Annual Tax Increase* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* |
| **Replacement Reserve** | 35,438 | 37,209 | 37,209 | 37,209 | 37,209 | 37,209 | 39,070 | 39,070 | 39,070 | 39,070 |
| *Percentage Increase Yearly* | *5.00%* | *0.00%* | *0.00%* | *0.00%* | *0.00%* | *5.00%* | *0.00%* | *0.00%* | *0.00%* | *0.00%* |
| **TOTAL EXPENSES** | **506,464** | **524,722** | **541,785** | **559,445** | **577,723** | **596,641** | **618,082** | **638,347** | **659,322** | **681,030** |
| **NET OPERATING INCOME** | **412,969** | **416,967** | **270,851** | **273,507** | **276,052** | **278,479** | **278,916** | **281,076** | **283,087** | **284,938** |
| **DEBT SERVICE** | | | | | | | | | | |
| CalHFA - 1st Mortgage | 208,552 | 208,552 | 208,552 | 208,552 | 208,552 | 208,552 | 208,552 | 208,552 | 208,552 | 208,552 |
| CalHFA - Bridge Loan | | | | | | | | | | |
| CalHFA - 2nd Mortgage | 116,816 | 116,816 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| None | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| None | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **DEBT COVERAGE RATIO** | **1.27** | **1.28** | **1.30** | **1.31** | **1.32** | **1.34** | **1.34** | **1.35** | **1.36** | **1.37** |
| **Cash Available for distribution** | **87,600** | **91,598** | **62,299** | **64,954** | **67,500** | **69,926** | **70,364** | **72,523** | **74,534** | **76,386** |

| *Cash Flow* | CalHFA Project Number: 07-007-A/N | | | | | | | | | Ridgewood/La Loma |
|---|---|---|---|---|---|---|---|---|---|---|
| **RENTAL INCOME** | **Year 21** | **Year 22** | **Year 23** | **Year 24** | **Year 25** | **Year 26** | **Year 27** | **Year 28** | **Year 29** | **Year 30** |
| **Affordable Rents** | **1,040,215** | **1,066,220** | **1,092,876** | **1,120,198** | **1,148,202** | **1,176,908** | **1,206,330** | **1,236,488** | **1,267,401** | **1,299,086** |
| *Affordable Rent Increase* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* |
| **Rental Subsidies** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| *Rental Subsidy Increases* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* |
| **Unrestricted Units** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| *Unrestricted Unit Increases* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* |
| **TOTAL RENTAL INCOME** | **1,040,215** | **1,066,220** | **1,092,876** | **1,120,198** | **1,148,202** | **1,176,908** | **1,206,330** | **1,236,488** | **1,267,401** | **1,299,086** |
| **OTHER INCOME** | | | | | | | | | | |
| **Laundry** | **2,014** | **2,065** | **2,116** | **2,169** | **2,223** | **2,279** | **2,336** | **2,394** | **2,454** | **2,516** |
| **Other Income** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| *Other Income Increase* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* |
| **TOTAL OTHER INCOME** | **2,014** | **2,065** | **2,116** | **2,169** | **2,223** | **2,279** | **2,336** | **2,394** | **2,454** | **2,516** |
| **GROSS POTENTIAL INCOME** | **1,042,229** | **1,068,285** | **1,094,992** | **1,122,367** | **1,150,426** | **1,179,186** | **1,208,666** | **1,238,883** | **1,269,855** | **1,301,601** |
| **VACANCY ASSUMPTIONS** | | | | | | | | | | |
| *Affordable (Blended Average)* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* |
| *Rental Subsidy Income* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* |
| *Unrestricted Units* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* |
| *Laundry & Other Income* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* |
| **LESS: VACANCY LOSS** | **52,111** | **53,414** | **54,750** | **56,118** | **57,521** | **58,959** | **60,433** | **61,944** | **63,493** | **65,080** |
| **EFFECTIVE GROSS INCOME** | **990,118** | **1,014,870** | **1,040,242** | **1,066,248** | **1,092,905** | **1,120,227** | **1,148,233** | **1,176,939** | **1,206,362** | **1,236,521** |
| **OPERATING EXPENSES** | | | | | | | | | | |
| **Expenses** | 664,429 | 687,684 | 711,753 | 736,665 | 762,448 | 789,133 | 816,753 | 845,340 | 874,926 | 905,549 |
| *Annual Expense Increase* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* |
| **Taxes and Assessments** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| *Annual Tax Increase* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* |
| **Replacement Reserve** | 39,070 | 41,023 | 41,023 | 41,023 | 41,023 | 41,023 | 43,075 | 43,075 | 43,075 | 43,075 |
| *Percentage Increase Yearly* | *5.00%* | *0.00%* | *0.00%* | *0.00%* | *0.00%* | *5.00%* | *0.00%* | *0.00%* | *0.00%* | *0.00%* |
| **TOTAL EXPENSES** | **703,499** | **728,708** | **752,777** | **777,688** | **803,471** | **830,157** | **859,828** | **888,414** | **918,001** | **948,623** |
| **NET OPERATING INCOME** | **286,618** | **286,163** | **287,466** | **288,560** | **289,433** | **290,070** | **288,405** | **288,525** | **288,361** | **287,898** |
| **DEBT SERVICE** | | | | | | | | | | |
| CalHFA - 1st Mortgage | 208,552 | 208,552 | 208,552 | 208,552 | 208,552 | 208,552 | 208,552 | 208,552 | 208,552 | 208,552 |
| CalHFA - Bridge Loan | | | | | | | | | | |
| CalHFA - 2nd Mortgage | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| None | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| None | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **DEBT COVERAGE RATIO** | **1.37** | **1.37** | **1.38** | **1.38** | **1.39** | **1.39** | **1.38** | **1.38** | **1.38** | **1.38** |
| **Cash Available for distribution** | **78,066** | **77,611** | **78,913** | **80,008** | **80,881** | **81,518** | **79,853** | **79,972** | **79,809** | **79,346** |

# Ridgewood/La Loma

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TN
MN (14.6°E)

Scale 1 : 1,100,000
1" = 17.36 mi
Data Zoom 7-5

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# Ridgewood/La Loma Ridgewood Property

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TN
MN (14.6°E)

Scale 1 : 8,800
1" = 733.3 ft
Data Zoom 14-5

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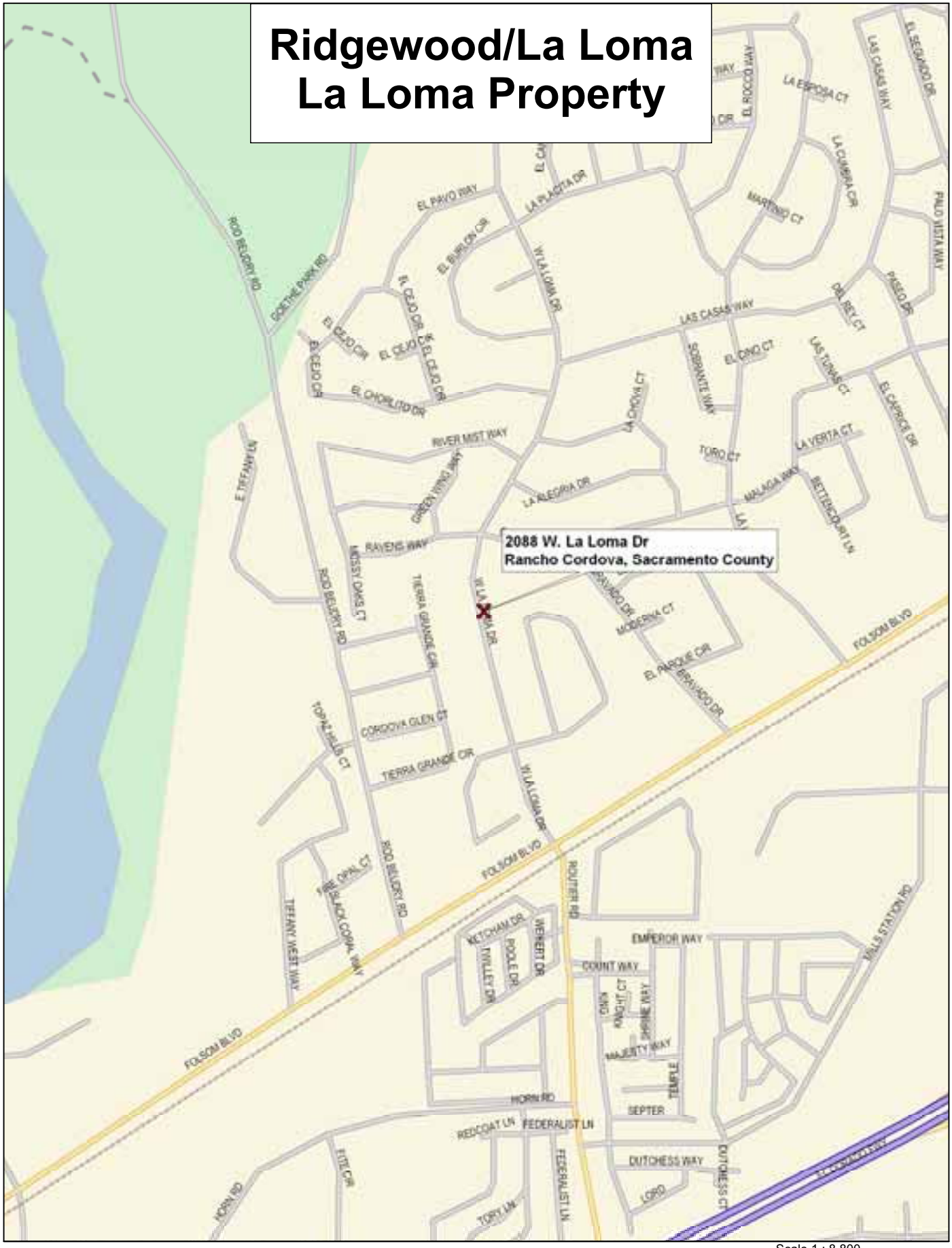
# Ridgewood/La Loma
# La Loma Property

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TN
MN (14.6°E)

Scale 1 : 8,800
1" = 733.3 ft
Data Zoom 14-5

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RESOLUTION 07-24

RESOLUTION AUTHORIZING A FINAL LOAN COMMITMENT

WHEREAS, the California Housing Finance Agency (the "Agency") has received a loan application on behalf of RL Affordable, L.P., a California limited partnership (the "Borrower"), seeking a loan commitment, the proceeds of which are to be used to provide financing for a multifamily housing development located in the city of Sacramento, Sacramento County, California, to be known as Ridgewood Apartments and La Loma Apartments located in the city of Rancho Cordova, Sacramento County, California (the "Developments"); and

WHEREAS, the loan application has been reviewed by Agency staff which prepared a report presented to the Board on the meeting date recited below (the "Staff Report"), recommending Board approval subject to certain recommended terms and conditions; and

WHEREAS, Section 1.150-2 of the Treasury Regulations requires the Agency, as the issuer of tax-exempt bonds, to declare its reasonable official intent to reimburse prior expenditures for the Development with proceeds of a subsequent borrowing; and

WHEREAS, on July 16, 2007, the Executive Director exercised the authority delegated to her under Resolution 94-10 to declare the official intent of the Agency to reimburse such prior expenditures for the Development; and

WHEREAS, based upon the recommendation of staff and due deliberation by the Board, the Board has determined that a final loan commitment be made for the Development;

1. The Executive Director, or in his/her absence, either the Chief Deputy Director or the Director of Multifamily Programs of the Agency is hereby authorized to execute and deliver a final commitment letter, in a form acceptable to the Agency, and subject to recommended terms and conditions set forth in the Staff Report, in relation to the Development described above and as follows:

| PROJECT NUMBER | DEVELOPMENTS NAMES/ LOCALITY | NUMBER OF UNITS | MORTGAGE AMOUNT |
|---|---|---|---|
| 07-007-A/N | Ridgewood Apartments<br>Sacramento, Sacramento County | 41 | Acq/Rehab 1st Mort: $3,075,000<br>2nd Mort: $1,160,000<br>Permanent 1st Mort: $3,165,000 |
| | La Loma Apartments<br>Rancho Cordova, Sacramento County | 34 | |

Resolution 07-24
Page 2

2. The Executive Director may modify the terms and conditions of the loans or loans as described in the Staff Report, provided that major modifications, as defined below, must be submitted to this Board for approval. "Major modifications" as used herein means modifications which either (i) increase the total aggregate amount of any loans made pursuant to the Resolution by more than 7%; or (ii) modifications which in the judgment of the Executive Director, or in his/her absence, either the Chief Deputy Director or the Director of Multifamily Programs of the Agency, adversely change the financial or public purpose aspects of the final commitment in a substantial way.

I hereby certify that this is a true and correct copy of Resolution 07-24 adopted at a duly constituted meeting of the Board of the Agency held on September 12, 2007 at Burbank, California.

ATTEST:_____
Secretary

# CALIFORNIA HOUSING FINANCE AGENCY
# Final Commitment
# Casa de las Hermanitas Apartments
# Los Angeles (Boyle Heights), Los Angeles County, CA
# CalHFA # 07-009-A/S

## SUMMARY

This is a Final Commitment request for acquisition and permanent financing. Security for the acquisition/rehabilitation and permanent loans will be an 88-unit senior apartment complex known as Casa de las Hermanitas Apartments, located at 2801 East 2nd Street, Los Angeles (Boyle Heights), California. CDLH Affordable, L.P., ("Borrower") whose managing general partners are CDLH AGP, L.P. and Las Palmas Housing and Development Corporation Foundation, a California nonprofit corporation, will own the project.

Casa de las Hermanitas Apartments is an existing portfolio loan currently owned by Casa de las Hermanitas, a limited partnership, whose general partner is a real estate investment trust known as Apartment Investment & Management Company (AIMCO). The project was constructed in 1981 and is an 88-unit, single three-story building, senior apartment complex. The project is 100% Section 8 and the initial 20-year Housing Assistance Payments (HAP) contract plus two (2) additional 5-year renewals expires on January 21, 2012. The Borrower will seek a new HAP contract upon expiration. CalHFA loan terms and conditions may be modified by staff in the event that said approvals impact the transaction.

## LOAN TERMS

### Acquisition/Rehabilitation

| | |
|---|---|
| **First Mortgage** | $4,265,000 |
| Interest Rate | 5.20%, variable |
| Term | 24 Months, interest only |
| Financing | Tax-Exempt |
| | |
| **Second Mortgage*** | $1,035,000 |
| Interest Rate | 5.20% |
| Term | 7 year fixed, fully amortized |
| Financing | Tax-Exempt |

*At the time of permanent loan funding, this loan will remain in place and will be subordinate to the CalHFA's Permanent First Mortgage.

### Permanent

| | |
|---|---|
| **First Mortgage** | $4,490,000 |
| Interest Rate | 5.20% |
| Term | 30 year fixed, fully amortized |
| Prepayment | After year 15 |
| Financing | Tax-Exempt |

CalHFA acquisition/rehabilitation financing is subject to the assignment by the borrower of tax credit equity and all rights under non-CalHFA financing commitments.

## OTHER FINANCING

There is no other financing involved in this transaction.

## HOUSING ASSISTANCE PAYMENT ("HAP") CONTRACT

The original HAP contract was executed on January 22, 1982, for a term of 20 years. The HAP contract expired on January 21, 2002, and by its terms, was extended for the first of two (2) additional 5-year terms (30 years total). The contract is in its final renewal period. CalHFA is the Section 8 Contract Administrator.

Assignment of the HAP contract to the Borrower, any required modification to the HAP contract, and the general plan of financing, are all subject to the approval of the Department of Housing and Urban Development ("HUD").

CalHFA is currently seeking approval from the Los Angeles HUD office recommending that the existing 5-year HAP contract remain in place. A response from HUD is still pending.

The borrower will be required to seek and accept any renewals of the project based Section 8 contract or other HUD subsidies.

This project is a pre-1980 HAP contract with limited distribution to the project sponsor. The existing replacement and operating reserves will be transferred with the property at the time of sale to CDLH Affordable, L.P.

## PROJECT DESCRIPTION

### Project Location

- The project is located approximately three miles east of downtown Los Angeles in the Boyle Heights neighborhood.
- The project is approximately one mile east of Interstate 5 (Golden State Freeway) and two miles west of Interstate 710 (Long Beach Freeway), both routes are north/south route through the region, one mile north of Highway 60 (Pomona Freeway) and 1 mile south of Interstate 10 (San Bernardino Freeway) both routes are west/east through the region. The Los Angeles International airport is located 20 miles to the southwest.
- The Boyle Heights neighborhood is surrounded by the cities of Huntington Park to the south, Lincoln Heights to the north, East Los Angeles/Monterey Park to the east, and Little Tokyo (downtown Los Angeles) to the west.
- The project is proximate to retail uses to the north that include a grocery store. Adjoining land uses to the east include First Street Elementary School and various single family homes and multifamily fourplexes are located to the west and the south.

- A Food 4 Less grocery is within 0.1 mile of the project, the Boyle Heights Senior Center is within 0.1 mile, a US Bank is within 0.1 mile, a bus stop is within 0.1 miles, the Promise Hospital is within 0.4 miles, a pharmacy is within 0.5 miles, and a Target Department Store is within 3.5 miles of the project.

**Site**

- The 1.69 acre site is a flat, rectangular shaped parcel.
- The site is zoned Low Medium II Residential (RD1.5), which allows for development of no more than 39 units per acre. The site and its use are legal non conforming.

**Improvements**

- This 88-unit project was built in 1981 and consists of one three-story residential building, surrounded by mature landscaping and iron fences on three sides, and an outdoor picnic area. The building is wood framed with stucco exterior siding and wood trim, on a concrete slab on grade. The majority of the roof is flat with some areas that are pitched with asphalt shingles. Interior walkways lead to each of the units. All units are accessible through a secured front entrance on East 2nd Street. There are two elevators. In addition there are two secured parking areas, one is located in the rear and the other is located at the end of the building.
- There are eighty-eight (88) one bedroom units, seven (7) of which are handicap accessible units. Each unit has a gas stove with an oven, a frost-free refrigerator, a garbage disposal, single bowl sinks, emergency pull cords, and a patio or balcony. Each unit also contains a wall unit air conditioner and wall unit gas heating.
- The common area amenities include two laundry rooms, a leasing office, a small library, and a community room with kitchen and toilet facilities.
- The project offers 44 parking spaces, 5 of which are covered.

**PHYSICAL NEEDS ASSESSMENT/SCOPE OF WORK**

- The project is in fair condition for a development of this type and age.
- The scope of rehabilitation work totals $2,498,000 or $28,386 per unit and includes:
-
    - **Site work, $107,500** – landscaping, replace property line fence, and outdoor furnishings ($50,000), new site and common area lighting, ($45,000), and signage ($12,500).
    - **Building, $1,638,215** – seismic retrofit ($650,000), windows and sliding glass doors ($318,000), roofing ($202,000), corridor drywall, painting, and tiles ($134,000), office, common area, and community room repairs and upgrades ($105,215),exterior painting and stucco repairs ($103,000), elevator upgrades ($78,000), and intercom security ($48,000).
    - **Residential Units, $702,135** – replace and install new living room and bedroom flooring, electrical upgrades, smoke detectors and nurses call stations ($146,270), new bathroom sinks, counters, cabinets, lighting, exhausts, fixture, repairs and upgrades, ($132,565), new kitchen cabinets ($127,000), heat pumps and in-wall furnaces ($112,600) kitchen counters, sinks, faucets, lights, electrical upgrades ($80,200), interior painting ($61,000), and appliances ($42,500).

- **Mechanical systems, $50,150** – replace and install common area HVAC ($40,000), boiler room systems ($10,150).

Work is scheduled to commence by December 2007 and is projected to be completed within 12 months.

**Off-site improvements**

- No off-site improvements and/or costs are required.

**Relocation**

- There is $61,400 in relocation expense allocated for this project. Most of the renovation will take place around the occupied units. The rehabilitation plan does not assume invasive construction activity which would result in the temporary displacement of tenants. However, specific interior unit renovation such as window replacement, vinyl flooring, and cabinet replacement is going to take place on a cluster basis (groups of units) and is scheduled to be completed within 3 days and two nights. The residents will be offered a hotel voucher or cash equivalent for the period of their displacement. The Borrower's relocation staff will provide transportation and assist with moving arrangements. In addition, these temporarily displaced residents shall be entitled to compensation for all reasonable out of pocket expenses incurred in connection with temporary relocation.

  The Borrower will conduct tenant orientation meetings prior to the purchase of the property and before and during the rehabilitation period regarding the scope of work and timelines, to address any tenant issue or concerns regarding the project.

**MARKET**

**Market Overview**

The Primary Market Area (PMA) for the property is defined as the area bound by North Mission Road, Huntington Drive, and Interstate 5 Golden State Freeway to the north, Interstate 710 (Long Beach Freeway) and South Freemont Avenue to the east, East Manchester Avenue and Firestone Boulevard to the south and Interstate 110 to the west. The Secondary Market Area (SMA) is considered to be Los Angeles-Long Beach-Santa Ana MSA.

The PMA senior population in 2006 was 40,227 persons and in the SMA was 1,279,306, with an annual growth rate of 1.0% since 2000. The projected PMA senior population for June 2009 is 43,048, and 1,396,412 in the SMA, representing a 1.8% increase per year. Growth in the senior population in the MA is projected to increase at a faster rate from 2006 to 2011 than the general PMA population.

Of the 23,078 households within the PMA population, 54.6% are renters and 45.4% are owners. Within the PMA, approximately 68.1% of senior households earned below $35,000, while 42.3% of senior households earned below $15,000 in 2006. As a comparison, 56.8% of the all households in the PMA earned less than $35,000 and 25.2% earned less than $15,000. The demographic data implies a strong demand for senior affordable rental housing in the PMA.

### Housing Supply and Demand

- The rental housing stock in the PMA is primarily comprised of market rate apartments (1966-2008) in average to good condition.
- Occupancy rate for market rate units as of June 2006 is 96.5%. LIHTC properties have an average occupancy rate of 99%, with a waiting list ranging from one year to several years long. The property's occupancy rate is 98% with a three year waiting list.
- The Housing Authority of the County of Los Angeles, which administers the Section 8 program for the entire county, stated that there are 3,282 Housing Choice Vouchers designated for Los Angeles County with 2,880 in current use for a usage rate of 87.8%. The waiting list contains 1,382 households with approximately 6% of the households are seniors. Given the extensive waiting list for the subject property, the LIHTC properties, and housing authority vouchers, there is a significant demand for affordable senior housing in Los Angeles County.
- There are no new LIHTC/bond projects or market rate housing currently planned within the PMA. There were LIHTC issued to seven properties in the PMA during the 2004, 2005, 2006, and 2007 allocated cycles. However, none of the allocated properties target senior population.

## PROJECT FEASIBILITY

### Estimated Lease-up Period

- The project is currently 100% leased and the proposed rehabilitation will not interfere with occupancy.

## ENVIRONMENTAL

Barr & Clark Environmental completed a Phase I Environmental Assessment report on August 10, 2007. The report concludes that there are no adverse environmental conditions that warrant further investigation or remedial action.

## SEISMIC

URS Corporation performed a seismic review assessment on August 7, 2007. The damage ratio for an existing building exceeded the Agency's seismic risk criteria.

A seismic retrofit is recommended by URS. The most conservative cost estimate, as indicated by URS, would $750,000. The retrofit costs are included in the construction budget.

## DEVELOPMENT TEAM

### Borrower

CDLH Affordable, L.P.

- The non-profit Managing General Partner will be Las Palmas Housing and Development Corporation (LPHDC), located in Carlsbad, California. LPHDC is a subsidiary of Las Palmas Foundation, which was founded in 1992, and Joseph M. Michaels is the President and Executive Director. Mr. Michaels' has over 22 years of experience in affordable multifamily development.

- The co-general partner and sponsor/developer, CDLH AGP, L.P., a subsidiary of CDLH GP, LLC (Bentall Residential), will be an initial general partner in the LP. Bentall was founded in 2002 in Irvine, California to acquire and manage affordable and market rate multifamily housing in the United States. Ken J. Reiner is the President and has over 25 years of real estate development experience. Bentall has over 20 years of experience developing affordable quality rental housing. In the past 5 years, Bentall has developed 10 senior/family facilities representing over 2,678 units, in San Jose, Oakland, and various cities throughout Southern California.

  Bentall has developed 9 projects with CalHFA including Baywood (77-unit, senior facility), El Rancho Verde (700-unit, senior facility), Coronado Terrace (312-unit family facility), Summercrest (372-unit, family and senior facility), Vista Terrace Hills (262-unit, family facility,) Hemet Estates (80-unit family facility), Sterling Village (80-unit family facility), Palm Springs Senior Villa (116-unit senior), Indio Gardens (151-unit family) and Parkview Apartments (97-unit family facility).

### Management Agent

The John Stewart Company

- The John Stewart Company will manage the property. The John Stewart Company was founded in 1978 and provides management, development and consulting services for non-profit and private sector clients throughout California. The John Stewart Company services approximately 200 housing developments representing 20,000 residential units for low-income to extremely low-income persons. The John Stewart Company manages various types of properties including senior communities, tax credit projects, HUD, and Section 8 properties.

### Architect

Gelfand Partners Architects (Gelfand)

- Gelfand, located in San Francisco (with affiliates in San Diego and New York), has provided planning and design services since 1997. The Borrower has engaged Gelfand to assist them in project design, renovation, and construction management during the rehabilitation process. Gelfand has designed over 30 multifamily projects in the Northern California, Bay Area.

**Contractor**

Precision General Commercial Contractors (Precision GCC)

- Precision GCC has been a general contractor since 1987. Their work includes primarily multi-family, government assisted (Low Income Housing and Tax Credit assisted) and commercial properties. They specialize in all aspects of construction and development in over 16 states, primarily California, Arizona, Texas, Oklahoma and Washington, representing over 30,000 units.

## PROJECT SUMMARY

**Project No. 07-009-A/S**

**Final Commitment**

| | | | | |
|---|---|---|---|---|
| ***Project:*** | **Casa de las Hermanitas** | | | |
| ***Location:*** | 2801 East 2nd Street | ***Developer:*** | **Bentall Residential** | |
| ***City:*** | Los Angeles (Boyle Heights) | ***Partner:*** | Las Palmas | |
| ***County:*** | Los Angeles | ***Investor:*** | AIMCO | |
| ***Zip Code:*** | 90033-4144 | | | |
| | | *No. of Buildings:* | 1 | |
| *Project Type:* | Rehabilitation | *No. of Stories:* | 3 | |
| *Occupancy:* | Senior | *Residential Space* | 59,019 | sq. ft. |
| *Total Units:* | 88 | *Community/Leasing Space* | 0 | sq. ft. |
| *Style Units:* | Flats | *Commercial Space* | 0 | sq. ft. |
| *Elevators:* | yes | *Gross Area* | 59,019 | sq. ft. |
| *Total Parking* | 44 | *Land Area* | 73,747 | sq. ft. |
| *Covered* | 5 | *Units per acre* | 52 | |

| CalHFA Acquisition/Rehab Financing | Amount | Rate | Term (Mths) |
|---|---|---|---|
| CalHFA Acquisition Financing | $4,265,000 | 5.200% | 24 |
| Existing Operating Reserve | $51,001 | | |
| Existing Replacement Reserve | $705,416 | | |
| Earned Surplus | $0 | | |

| Permanent Sources of Funds | Amount | Rate | Years |
|---|---|---|---|
| **CalHFA First Mortgage*** | **$4,490,000** | **5.20%** | **30** |
| **CalHFA Bridge Loan** | **$0** | **0.00%** | **0** |
| **CalHFA Second Mortgage* (funded at acquisition)** | **$1,035,000** | **5.20%** | **7** |
| Source 4 | $0 | 0.00% | 0 |
| Source 5 | $0 | 0.00% | 0 |
| Source 6 | $0 | 0.00% | 0 |
| Source 7 | $0 | 0.00% | 0 |
| Source 8 | $0 | 0.00% | 0 |
| Source 9 | $0 | 0.00% | 0 |
| Source 10 | $0 | 0.00% | 0 |
| Source 11 | $0 | 0.00% | 0 |
| Source 12 | $0 | 0.00% | 0 |
| Income from Operations | $380,000 | | |
| Developer Contribution | $225,000 | | |
| Deferred Dev. Fee | $120,578 | | |
| Tax Credit Equity **($2,621,112 funded at acquisition)** | $290,000 | | |

**0**

| Construction Valuation | | Appraisal | | Value Upon Completion | |
|---|---|---|---|---|---|
| **Investment Value** | $10,660,000 | **Appraisal Date:** | **8/8/07** | **Restricted Value** | $6,620,000 |
| **Loan / Cost** | 54% | **Cap Rate:** | **6.00%** | **Perm. Loan / Cost** | 53% |
| **Loan / Value** | 50% | | | **Perm. Loan / Value** | 83% |

### CalHFA Fees and Reserve Requirements

| CalHFA Loan Fees | Amount | Required Reserves | Amount |
|---|---|---|---|
| CalHFA Acquisition Loan Fee | $53,000 | Other Reserve | $0 |
| CalHFA Permanent Loan Fees | $22,450 | Replacement Resv. Initial Deposit | $132,000 |
| Other Fee | $0 | Repl. Reserve - Per Unit/ Per Yr | $500 |
| **Construction Loan - Guarantees and Fees** | | CalHFA Operating Expense Reserve | $0 |
| Completion Guarantee Fee | $0 | Rent Up Reserve | $0 |
| Contractors Payment/Perf. Bond | $2,878,945 | Transitional Operating Reserve | $290,000 |
| | $0 | Other Reserve | $0 |

**Date:** 8/28/2007 **Senior Staff Date:** 8/22/2007

## UNIT MIX AND RENT SUMMARY — Casa de las Hermanitas

**07-009-A/S**

### Total Unit Mix

| # of Units | Unit Type | # of Baths | Average Sq. Ft. |
|---|---|---|---|
| 79 | 1 Bedroom Flat | 1 | 645 |
| 9 | 1 Bedroom Flat | 1 | 893 |
| | 2 Bedroom Flat | 1 | |
| | 2 Bedroom Townhome | 2 | |
| | 3 Bedroom Townhome | 1.5 | |
| | 4 Bedroom Townhome | 2.5 | |
| 88 | | | |

### Number of Regulated Units By Agency

| Agency | 35% | 50% | 50% | 60% | 80% |
|---|---|---|---|---|---|
| *CalHFA* | | | 18 | | |
| *Tax Credits* | | | | 87 | |
| *Locality* | | | | | |
| *HCD* | | | | | |
| *AHP* | | | | | |
| *Zoning* | | | | | |
| *Other* | | | | | |

### Restricted Rents Compared to Average Market Rents

| Median Income Rent Levels | Units Restricted | Restricted Rents | Avg. Mkt Rate Rents | Section 8 Rents | Dollars Difference | % of Market |
|---|---|---|---|---|---|---|
| **One Bedroom** | | | $900 | $1,014 | | |
| 35% | 0 | $0 | | | $0 | 0% |
| 50% | 9 | $659 | | | $241 | 73% |
| 50% | 18 | $567 | | | $333 | 63% |
| 60% | 60 | $798 | | | $102 | 89% |
| 80% | 0 | $0 | | | $0 | 0% |
| **Two Bedroom** | | | $0 | | | |
| 35% | 0 | $0 | | | $0 | 0% |
| 50% | 0 | $0 | | | $0 | 0% |
| 50% | 0 | $0 | | | $0 | 0% |
| 60% | 0 | $0 | | | $0 | 0% |
| 80% | 0 | $0 | | | $0 | 0% |
| **Three Bedroom** | | | $0 | | | |
| 35% | 0 | $0 | | | $0 | 0% |
| 50% | 0 | $0 | | | $0 | 0% |
| 50% | 0 | $0 | | | $0 | 0% |
| 60% | 0 | $0 | | | $0 | 0% |
| 80% | 0 | $0 | | | $0 | 0% |
| **Four Bedroom** | | | $0 | | | |
| 35% | 0 | $0 | | | $0 | 0% |
| 50% | 0 | $0 | | | $0 | 0% |
| 50% | 0 | $0 | | | $0 | 0% |
| 60% | 0 | $0 | | | $0 | 0% |
| 80% | 0 | $0 | | | $0 | 0% |

## Sources and Uses of Funds — Casa de las Hermanitas

07-009-A/S

Final Commitment

| SOURCES OF FUNDS: | Funds in during Acq/Rehab ($) | Funds in at Permanent ($) | Total Sources of Funds ($) | Sources per Unit | % |
|---|---|---|---|---|---|
| **CalHFA Acquisition Financing** | 4,265,000 | | | | |
| Construction Only Source 2 | - | | | | |
| Construction Only Source 3 | - | | | | |
| **CalHFA First Mortgage*** | | 4,490,000 | 4,490,000 | 51,023 | 43% |
| **CalHFA Second Mortgage*** | 1,035,000 | - | 1,035,000 | 11,761 | 10% |
| Existing Replacement Reserve | 705,416 | - | 705,416 | 8,016 | 7% |
| Earned Surplus | - | - | - | - | 0% |
| Existing Operating Reserve | 51,001 | - | 51,001 | 580 | 0% |
| Source 5 | - | - | - | - | 0% |
| Source 6 | - | - | - | - | 0% |
| Source 7 | - | - | - | - | 0% |
| Source 8 | - | - | - | - | 0% |
| Source 9 | - | - | - | - | 0% |
| Source 10 | - | - | - | - | 0% |
| Source 11 | - | - | - | - | 0% |
| Source 12 | - | - | - | - | 0% |
| Income from Operations | 380,000 | - | 380,000 | 4,318 | 4% |
| Developer Contribution | 225,000 | - | 225,000 | 2,557 | 2% |
| Deferred Developer Fee | 453,555 | 120,578 | 574,133 | 6,524 | 6% |
| Tax Credit Equity | 2,621,112 | 290,000 | 2,911,112 | 33,081 | 28% |
| **Total Sources** | 9,736,084 | 4,900,578 | 10,371,662 | 117,860 | 100% |
| (Gap)/Surplus | - | - | - | | |

Total Development Sources

| USES OF FUNDS: | Acq/Rehab ($) | Permanent ($) | Total Uses of Funds ($) | Cost per Unit | % |
|---|---|---|---|---|---|
| ***LOAN PAYOFFS & ROLLOVERS*** | | | | | |
| Construction Loan payoffs | | **$4,265,000** | | | |
| ***ACQUISITION*** | | | | | |
| Lesser of Land Cost or Value | 1,000,000 | - | 1,000,000 | 11,364 | 10% |
| Seller's Prepayment Penalty | 227,046 | - | 227,046 | 2,580 | 2% |
| Legal - Acquisition Related Fees | 7,500 | - | 7,500 | 85 | 0% |
| **Subtotal - Land Cost / Value** | 1,234,546 | - | 1,234,546 | | |
| Existing Improvements Value | 3,772,954 | - | 3,772,954 | 42,874 | 36% |
| Off-Site Improvements | - | - | - | - | 0% |
| Other | - | - | - | - | 0% |
| **Total Acquisition** | **5,007,500** | **-** | **5,007,500** | **56,903** | **48%** |
| ***REHABILITATION*** | | | | | |
| Site Work | - | - | - | - | 0% |
| Rehab to Structures | 2,498,000 | - | 2,498,000 | 28,386 | 24% |
| General Requirements | 149,880 | - | 149,880 | 1,703 | 1% |
| Contractors Overhead | 49,960 | - | 49,960 | 568 | 0% |
| Contractors Profit | 124,900 | - | 124,900 | 1,419 | 1% |
| Contractor's Bond | 24,980 | - | 24,980 | 284 | 0% |
| General Liability Insurance | 31,225 | - | 31,225 | 355 | 0% |
| Environmental Mitigation Expense | - | - | - | - | 0% |
| Other | - | - | - | - | 0% |
| Other | - | - | - | - | 0% |
| **Total Rehabilitation** | **2,878,945** | **-** | **2,878,945** | **32,715** | **28%** |
| ***RELOCATION EXPENSES*** | | | | | |
| Relocation Expense | 61,400 | - | 61,400 | 698 | 1% |
| Relocation Compliance Monitoring | - | - | - | - | 0% |
| **Total Relocation** | **61,400** | **-** | **61,400** | **698** | **1%** |

Total Development Costs

(Continued on Next 2 Pages)

| USES OF FUNDS (Cont'd): | Acq/Rehab ($) | Permanent ($) | Total Development Costs | | |
|---|---|---|---|---|---|
| | | | Total Uses of Funds ($) | Cost per Unit per Unit | % |
| ***NEW CONSTRUCTION*** | | | | | |
| Site Work | - | - | - | - | 0% |
| Structures (Hard Costs) | - | - | - | - | 0% |
| General Requirements | - | - | - | - | 0% |
| Contractors Overhead | - | - | - | - | 0% |
| Contractors Profit | - | - | - | - | 0% |
| Contractor's Perf. & Pymt Bond | - | - | - | - | 0% |
| General Liability Insurance | - | - | - | - | 0% |
| Other | - | - | - | - | 0% |
| Other | - | - | - | - | 0% |
| **Total New Construction** | **-** | **-** | **-** | **-** | **0%** |
| ***ARCHITECTURAL & ENGINEERING*** | | | | | |
| Architectural Design | 40,000 | - | 40,000 | 455 | 0% |
| Architect's Supv during Construction | - | - | - | - | 0% |
| **Total Architectural** | **40,000** | **-** | **40,000** | **455** | **0%** |
| Engineering Expense | - | - | - | - | 0% |
| Engineers Supv. during Construction | - | - | - | - | 0% |
| ALTA Survey | 4,000 | - | 4,000 | 45 | 0% |
| **Total Engineering & Survey** | **4,000** | **-** | **4,000** | **45** | **0%** |
| ***ACQUISITION LOAN COSTS*** | | | | | |
| Acquisition Loan Interest | - | | - | - | 0% |
| CalHFA Acquisition Loan Fee | 53,000 | | 53,000 | 602 | 1% |
| Other Acquisition Loan Fees | - | | - | - | 0% |
| CalHFA Outside Legal Counsel Fees | - | | - | - | 0% |
| Other Lender Req'd Legal Fees | - | | - | - | 0% |
| Title and Recording fees | 15,000 | | 15,000 | 170 | 0% |
| CalHFA Req'd Inspection Fees | 18,000 | | 18,000 | 205 | 0% |
| Other Req'd Inspection Fees | - | | - | - | 0% |
| Prevailing Wage Monitoring Expense | - | | - | - | 0% |
| Taxes & Insurance during rehab | 105,797 | | 105,797 | 1,202 | 1% |
| Predevelopment Interest | - | | - | - | 0% |
| Cost for Completion Guarantee | - | | - | - | 0% |
| Other | - | | - | - | 0% |
| **Total Acquisition Loan Expense** | **191,797** | **-** | **191,797** | **2,180** | **2%** |
| ***PERMANENT LOAN COSTS*** | | | | | |
| CalHFA Perm Loan Fees | 22,450 | - | 22,450 | 255 | 0% |
| CalHFA Bridge Loan Fees | - | - | - | - | 0% |
| CalHFA Loan Application Fee | 500 | - | 500 | 6 | 0% |
| Other Lender Perm. Loan Fees | - | - | - | - | 0% |
| Title and Recording | - | 5,000 | 5,000 | 57 | 0% |
| Perm. Bridge Loan Interest Expense | - | - | - | - | 0% |
| Bond Origination Guarantee Fee | - | - | - | - | 0% |
| Tax Exempt Bond Allocation Fee | 600 | - | 600 | 7 | 0% |
| Other | - | - | - | - | 0% |
| **Total Permanent Loan Expense** | **23,550** | **5,000** | **28,550** | **324** | **0%** |
| ***LEGAL FEES*** | | | | | |
| Borrower Legal Fee | 75,000 | - | 75,000 | 852 | 1% |
| Other | - | - | - | - | 0% |
| **Total Attorney Expense** | **75,000** | **-** | **75,000** | **852** | **1%** |

| USES OF FUNDS (Cont'd): | Acq/Rehab ($) | Permanent ($) | Total Development Costs | | |
|---|---|---|---|---|---|
| | | | Permanent of Funds ($) | Per Unit per Unit | % |
| ***CONTRACT / REPORT COSTS*** | | | | | |
| Appraisal | 10,000 | - | 10,000 | 114 | 0% |
| Market Study | 6,500 | - | 6,500 | 74 | 0% |
| Physical Needs Assessment | 5,500 | - | 5,500 | 63 | 0% |
| HUD Risk Share Environ. Review | - | - | - | - | 0% |
| CalHFA EQ Seismic Review Fee | 2,700 | - | 2,700 | 31 | 0% |
| Environmental Phase I / II Reports | 5,000 | - | 5,000 | 57 | 0% |
| Soils / Geotech Reports | - | - | - | - | 0% |
| Asbestos / Lead-based Paint Report | - | - | - | - | 0% |
| Noise/Acoustical/Traffic Study Report | - | - | - | - | 0% |
| Termite/dry rot | 1,800 | - | 1,800 | 20 | 0% |
| Other | 11,000 | - | 11,000 | 125 | 0% |
| **Total Contract Costs** | **42,500** | **-** | **42,500** | **483** | **0%** |
| ***CONTINGENCY*** | | | | | |
| Hard Cost Contingency | 284,772 | - | 284,772 | 3,236 | 3% |
| Soft Cost Contingency | 20,000 | - | 20,000 | 227 | 0% |
| **Total Contingency** | **304,772** | **-** | **304,772** | **3,463** | **3%** |
| ***RESERVES*** | | | | | |
| CalHFA Operating Expense Reserve | - | - | - | - | 0% |
| Construction Defects Reserve | - | - | - | - | 0% |
| Funded Replacement Reserve | 132,000 | - | 132,000 | 1,500 | 1% |
| Capitalized Investor Req'd Reserve | - | - | - | - | 0% |
| Transitional Operating Reserve | 290,000 | - | 290,000 | 3,295 | 3% |
| **Total Reserves** | **422,000** | **-** | **422,000** | **4,795** | **4%** |
| ***OTHER*** | | | | | |
| CTCAC App/Alloc/Monitor Fees | 41,505 | - | 41,505 | 472 | 0% |
| Local Permit Fees | 20,000 | - | 20,000 | 227 | 0% |
| Local Development Impact Fees | - | - | - | - | 0% |
| Other Local Fees | - | - | - | - | 0% |
| Advertising & Marketing Expenses | - | - | - | - | 0% |
| 1st Year Taxes & Insurance | 56,825 | - | 56,825 | 646 | 1% |
| Furnishings | 75,000 | - | 75,000 | 852 | 1% |
| Final Cost Audit Expense | - | - | - | - | 0% |
| Miscellaneous Admin Fees | - | - | - | - | 0% |
| Other | - | - | - | - | 0% |
| Other | - | - | - | - | 0% |
| Other | - | - | - | - | 0% |
| **Total Other Expenses** | **193,330** | **-** | **193,330** | **2,197** | **2%** |
| **SUBTOTAL PROJECT COSTS** | **9,244,794** | **4,270,000** | **9,249,794** | **105,111** | **89%** |
| | 115,235 | | | | |
| ***DEVELOPER COSTS*** | | | | | |
| Developer Overhead/Profit (5% Acq.) | - | - | - | - | 0% |
| Developer Overhead/Profit (NC/Rehab) | 491,290 | 630,578 | 1,121,868 | 12,749 | 11% |
| Consultant / Processing Agent | - | - | - | - | 0% |
| Project Administration | - | - | - | - | 0% |
| Broker Fees to a related party | - | - | - | - | 0% |
| Construction Mgmt. Oversight | - | - | - | - | 0% |
| Other | - | - | - | - | 0% |
| **Total Developer Fee / Costs** | **491,290** | **630,578** | **1,121,868** | **12,749** | **11%** |
| **Total Costs** | **9,736,084** | **4,900,578** | **10,371,662** | **117,860** | **100%** |

**Annual Operating Budget** **Casa de las Hermanitas**

Final Commitment

| INCOME: | $ Amount | Per Unit | % of Total |
|---|---|---|---|
| Total Rental Income | $1,058,724 | $12,031 | 99.68% |
| Laundry | $3,432 | $39 | 0.32% |
| Other Income | $0 | $0 | 0.00% |
| **Gross Potential Income (GPI)** | **$1,062,156** | **$12,070** | 100.00% |
| **Less:** | | | |
| Vacancy Loss | $53,108 | $603 | 5.26% |
| **Effective Gross Income** | **$1,009,048** | **$11,466** | |

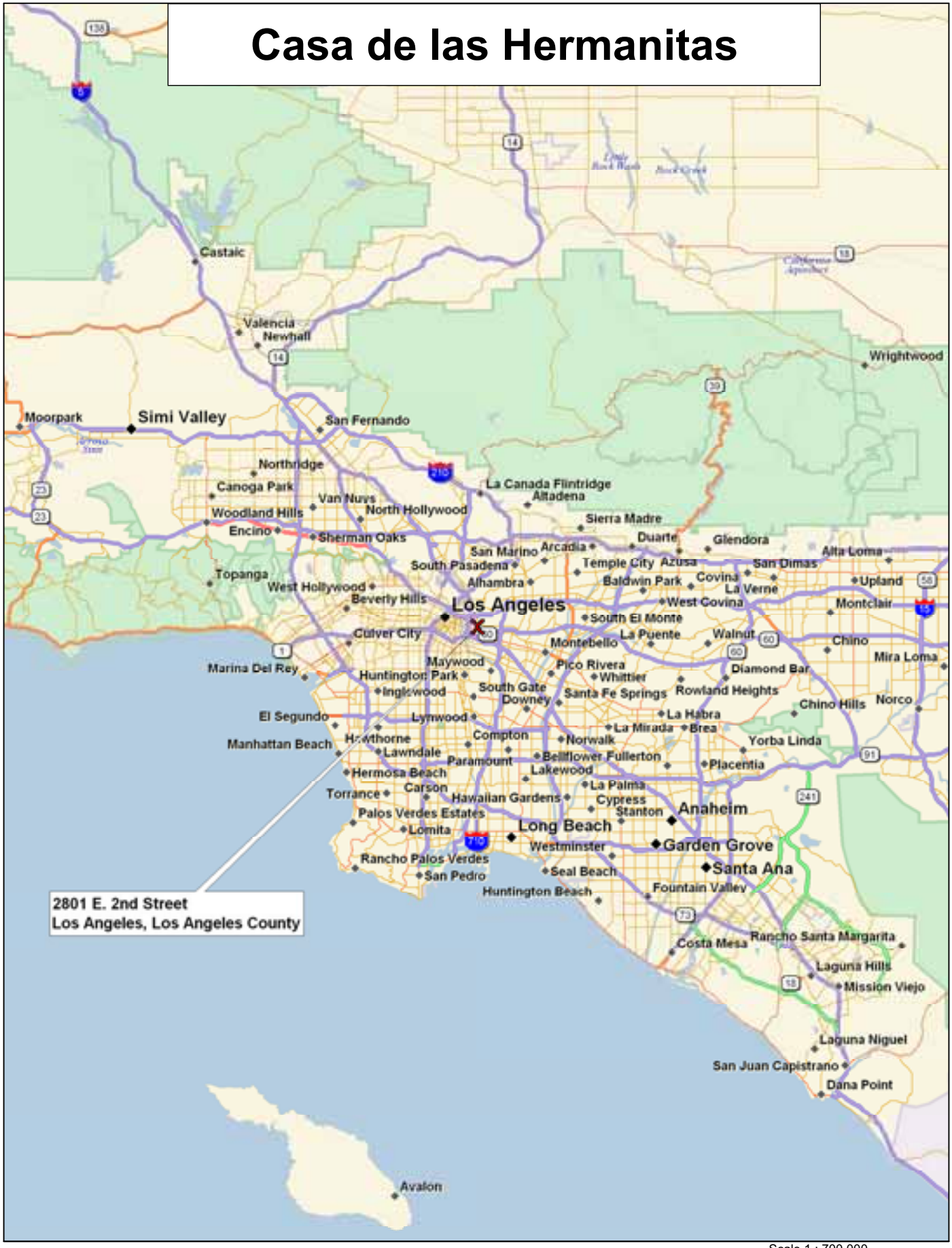
| EXPENSES: | Total Cost | Per Unit | % of Total |
|---|---|---|---|
| Payroll | $86,592 | $984 | 18.90% |
| Administrative | $32,529 | $370 | 7.10% |
| Management fee | $46,992 | $534 | 10.26% |
| Utilities | $60,849 | $691 | 13.28% |
| Operating and Maintenance | $144,805 | $1,646 | 31.61% |
| Insurance and Business Taxes | $42,300 | $481 | 9.23% |
| Locality Compliance Monitoring Fee | $0 | $0 | 0.00% |
| Other | $0 | $0 | 0.00% |
| **Subtotal Expenses** | **$414,067** | $4,705 | 90.39% |
| Replacement Reserves | $44,000 | $500 | 9.61% |
| Taxes & Assessments | $0 | $0 | 0.00% |
| **Total Expenses** | $458,067 | $5,205 | 100.00% |
| **Financial Expenses** | | | |
| CalHFA First Mortgage* | $221,780 | $2,520 | |
| CalHFA Second Mortgage* | $176,713 | $2,008 | |
| Other Required Debt Service | $0 | $0 | |
| **NET OPERATING INCOME** | **$152,489** | **$1,733** | |

| *Cash Flow* | 0 | | | | | | | | CalHFA Project Number: 07-009-A/S | Casa de las Hermanitas | | |
|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **RENTAL INCOME** | **Rehab Yr.1** | **Rehab Yr.2** | **Year 1** | **Year 2** | **Year 3** | **Year 4** | **Year 5** | **Year 6** | **Year 7** | **Year 8** | **Year 9** | **Year 10** |
| **Affordable Rents** | **768,204** | **787,409** | **807,094** | **827,272** | **847,953** | **869,152** | **890,881** | **913,153** | **935,982** | **959,382** | **983,366** | **1,007,950** |
| *Affordable Rent Increase* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* |
| **Rental Subsidies** | **290,520** | **290,520** | **290,520** | **290,520** | **290,520** | **290,520** | **290,520** | **0** | **0** | **0** | **0** | **0** |
| *Rental Subsidy Increases* | *0.00%* | *0.00%* | *0.00%* | *0.00%* | *0.00%* | *0.00%* | *0.00%* | *0.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* |
| **Unrestricted Units** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| *Unrestricted Unit Increases* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* |
| **TOTAL RENTAL INCOME** | **1,058,724** | **1,077,929** | **1,097,614** | **1,117,792** | **1,138,473** | **1,159,672** | **1,181,401** | **913,153** | **935,982** | **959,382** | **983,366** | **1,007,950** |
| **OTHER INCOME** | | | | | | | | | | | | |
| **Laundry** | **3,432** | **3,518** | **3,606** | **3,696** | **3,788** | **3,883** | **3,980** | **4,080** | **4,182** | **4,286** | **4,393** | **4,503** |
| **Other Income** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| *Other Income Increase* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* |
| **TOTAL OTHER INCOME** | **3,432** | **3,518** | **3,606** | **3,696** | **3,788** | **3,883** | **3,980** | **4,080** | **4,182** | **4,286** | **4,393** | **4,503** |
| **GROSS POTENTIAL INCOME** | **1,062,156** | **1,081,447** | **1,101,220** | **1,121,488** | **1,142,262** | **1,163,555** | **1,185,381** | **917,233** | **940,164** | **963,668** | **987,759** | **1,012,453** |
| **VACANCY ASSUMPTIONS** | | | | | | | | | | | | |
| *Affordable* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* |
| *Rental Subsidy Income* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* |
| *Unrestricted Units* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* |
| *Laundry & Other Income* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* |
| **LESS: VACANCY LOSS** | **53,108** | **54,072** | **55,061** | **56,074** | **57,113** | **58,178** | **59,269** | **45,862** | **47,008** | **48,183** | **49,388** | **50,623** |
| **EFFECTIVE GROSS INCOME** | **1,009,048** | **1,027,375** | **1,046,159** | **1,065,413** | **1,085,149** | **1,105,378** | **1,126,112** | **871,371** | **893,155** | **915,484** | **938,371** | **961,831** |
| **OPERATING EXPENSES** | | | | | | | | | | | | |
| **Expenses** | 414,067 | 428,559 | 443,558 | 459,083 | 475,151 | 491,781 | 508,994 | 526,808 | 545,247 | 564,330 | 584,082 | 604,525 |
| *Annual Expense Increase* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* |
| **Taxes and Assessments** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| *Annual Tax Increase* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* |
| **Replacement Reserve** | 0 | 0 | 44,000 | 44,440 | 44,884 | 45,333 | 45,787 | 46,244 | 46,707 | 47,174 | 47,646 | 48,122 |
| *Percentage Increase Yearly* | *0.00%* | *0.00%* | *1.00%* | *1.00%* | *1.00%* | *1.00%* | *1.00%* | *1.00%* | *1.00%* | *1.00%* | *1.00%* | *1.00%* |
| **TOTAL EXPENSES** | **414,067** | **428,559** | **487,558** | **503,523** | **520,035** | **537,114** | **554,780** | **573,053** | **591,953** | **611,504** | **631,727** | **652,647** |
| **NET OPERATING INCOME** | **594,982** | **598,816** | **558,601** | **561,890** | **565,113** | **568,263** | **571,332** | **298,318** | **301,202** | **303,980** | **306,644** | **309,184** |
| **DEBT SERVICE** | | | | | | | | | | | | |
| CalHFA - 1st Mortgage | 221,780 | 221,780 | 295,861 | 295,861 | 295,861 | 295,861 | 295,861 | 295,861 | 295,861 | 295,861 | 295,861 | 295,861 |
| CalHFA - Bridge Loan | 0 | 0 | 0 | 0 | 0 | 0 | 0 | | | | | |
| CalHFA - 2nd Mortgage | 176,713 | 176,713 | 176,713 | 176,713 | 176,713 | 176,713 | 176,713 | 0 | 0 | 0 | 0 | 0 |
| None | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| None | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **DEBT COVERAGE RATIO** | **1.49** | **1.50** | **1.18** | **1.19** | **1.20** | **1.20** | **1.21** | **1.01** | **1.02** | **1.03** | **1.04** | **1.05** |
| **Cash Available for distribution** | **196,489** | **200,323** | **86,027** | **89,317** | **92,540** | **95,689** | **98,758** | **2,457** | **5,341** | **8,119** | **10,783** | **13,323** |

| *Cash Flow* | CalHFA Project Number: 07-009-A/S | | | | | | Casa de las Hermanitas | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **RENTAL INCOME** | **Year 11** | **Year 12** | **Year 13** | **Year 14** | **Year 15** | **Year 16** | **Year 17** | **Year 18** | **Year 19** | **Year 20** |
| **Affordable Rents** | **1,033,149** | **1,058,978** | **1,085,452** | **1,112,588** | **1,140,403** | **1,168,913** | **1,198,136** | **1,228,089** | **1,258,792** | **1,290,261** |
| *Affordable Rent Increase* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* |
| **Rental Subsidies** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| *Rental Subsidy Increases* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* |
| **Unrestricted Units** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| *Unrestricted Unit Increases* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* |
| **TOTAL RENTAL INCOME** | **1,033,149** | **1,058,978** | **1,085,452** | **1,112,588** | **1,140,403** | **1,168,913** | **1,198,136** | **1,228,089** | **1,258,792** | **1,290,261** |
| **OTHER INCOME** | | | | | | | | | | |
| **Laundry** | **4,616** | **4,731** | **4,849** | **4,971** | **5,095** | **5,222** | **5,353** | **5,487** | **5,624** | **5,764** |
| **Other Income** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| *Other Income Increase* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* |
| **TOTAL OTHER INCOME** | **4,616** | **4,731** | **4,849** | **4,971** | **5,095** | **5,222** | **5,353** | **5,487** | **5,624** | **5,764** |
| **GROSS POTENTIAL INCOME** | **1,037,765** | **1,063,709** | **1,090,301** | **1,117,559** | **1,145,498** | **1,174,135** | **1,203,489** | **1,233,576** | **1,264,415** | **1,296,026** |
| **VACANCY ASSUMPTIONS** | | | | | | | | | | |
| *Affordable* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* |
| *Rental Subsidy Income* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* |
| *Unrestricted Units* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* |
| *Laundry & Other Income* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* |
| **LESS: VACANCY LOSS** | **51,888** | **53,185** | **54,515** | **55,878** | **57,275** | **58,707** | **60,174** | **61,679** | **63,221** | **64,801** |
| **EFFECTIVE GROSS INCOME** | **985,876** | **1,010,523** | **1,035,786** | **1,061,681** | **1,088,223** | **1,115,429** | **1,143,314** | **1,171,897** | **1,201,195** | **1,231,225** |
| **OPERATING EXPENSES** | | | | | | | | | | |
| **Expenses** | 625,683 | 647,582 | 670,247 | 693,706 | 717,986 | 743,115 | 769,124 | 796,044 | 823,905 | 852,742 |
| *Annual Expense Increase* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* |
| **Taxes and Assessments** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| *Annual Tax Increase* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* |
| **Replacement Reserve** | 48,603 | 49,089 | 49,580 | 50,076 | 50,577 | 51,083 | 51,593 | 52,109 | 52,630 | 53,157 |
| *Percentage Increase Yearly* | *1.00%* | *1.00%* | *1.00%* | *1.00%* | *1.00%* | *1.00%* | *1.00%* | *1.00%* | *1.00%* | *1.00%* |
| **TOTAL EXPENSES** | **674,286** | **696,671** | **719,828** | **743,782** | **768,563** | **794,198** | **820,718** | **848,153** | **876,536** | **905,899** |
| **NET OPERATING INCOME** | **311,590** | **313,852** | **315,959** | **317,899** | **319,661** | **321,231** | **322,597** | **323,744** | **324,659** | **325,326** |
| **DEBT SERVICE** | | | | | | | | | | |
| CalHFA - 1st Mortgage | 295,861 | 295,861 | 295,861 | 295,861 | 295,861 | 295,861 | 295,861 | 295,861 | 295,861 | 295,861 |
| CalHFA - Bridge Loan | | | | | | | | | | |
| CalHFA - 2nd Mortgage | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| None | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| None | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **DEBT COVERAGE RATIO** | **1.05** | **1.06** | **1.07** | **1.07** | **1.08** | **1.09** | **1.09** | **1.09** | **1.10** | **1.10** |
| **Cash Available for distribution** | **15,729** | **17,991** | **20,098** | **22,038** | **23,800** | **25,370** | **26,736** | **27,883** | **28,798** | **29,465** |

| *Cash Flow* | CalHFA Project Number: 07-009-A/S | | | | | | | | | Casa de las Hermanitas |
|---|---|---|---|---|---|---|---|---|---|---|
| **RENTAL INCOME** | **Year 21** | **Year 22** | **Year 23** | **Year 24** | **Year 25** | **Year 26** | **Year 27** | **Year 28** | **Year 29** | **Year 30** |
| **Affordable Rents** | **1,322,518** | **1,355,581** | **1,389,471** | **1,424,207** | **1,459,812** | **1,496,308** | **1,533,715** | **1,572,058** | **1,611,360** | **1,651,644** |
| *Affordable Rent Increase* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* |
| **Rental Subsidies** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| *Rental Subsidy Increases* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* |
| **Unrestricted Units** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| *Unrestricted Unit Increases* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* |
| **TOTAL RENTAL INCOME** | **1,322,518** | **1,355,581** | **1,389,471** | **1,424,207** | **1,459,812** | **1,496,308** | **1,533,715** | **1,572,058** | **1,611,360** | **1,651,644** |
| **OTHER INCOME** | | | | | | | | | | |
| **Laundry** | **5,908** | **6,056** | **6,208** | **6,363** | **6,522** | **6,685** | **6,852** | **7,023** | **7,199** | **7,379** |
| **Other Income** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** | **0** |
| *Other Income Increase* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* |
| **TOTAL OTHER INCOME** | **5,908** | **6,056** | **6,208** | **6,363** | **6,522** | **6,685** | **6,852** | **7,023** | **7,199** | **7,379** |
| **GROSS POTENTIAL INCOME** | **1,328,426** | **1,361,637** | **1,395,678** | **1,430,570** | **1,466,334** | **1,502,993** | **1,540,567** | **1,579,082** | **1,618,559** | **1,659,023** |
| **VACANCY ASSUMPTIONS** | | | | | | | | | | |
| *Affordable* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* |
| *Rental Subsidy Income* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* |
| *Unrestricted Units* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* | *0%* |
| *Laundry & Other Income* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* |
| **LESS: VACANCY LOSS** | **66,421** | **68,082** | **69,784** | **71,529** | **73,317** | **75,150** | **77,028** | **78,954** | **80,928** | **82,951** |
| **EFFECTIVE GROSS INCOME** | **1,262,005** | **1,293,555** | **1,325,894** | **1,359,042** | **1,393,018** | **1,427,843** | **1,463,539** | **1,500,128** | **1,537,631** | **1,576,071** |
| **OPERATING EXPENSES** | | | | | | | | | | |
| **Expenses** | 882,588 | 913,478 | 945,450 | 978,541 | 1,012,790 | 1,048,237 | 1,084,926 | 1,122,898 | 1,162,199 | 1,202,876 |
| *Annual Expense Increase* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* |
| **Taxes and Assessments** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| *Annual Tax Increase* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* |
| **Replacement Reserve** | 53,688 | 54,225 | 54,767 | 55,315 | 55,868 | 56,427 | 56,991 | 57,561 | 58,137 | 58,718 |
| *Percentage Increase Yearly* | *1.00%* | *1.00%* | *1.00%* | *1.00%* | *1.00%* | *1.00%* | *1.00%* | *1.00%* | *1.00%* | *1.00%* |
| **TOTAL EXPENSES** | **936,276** | **967,703** | **1,000,217** | **1,033,856** | **1,068,658** | **1,104,664** | **1,141,917** | **1,180,459** | **1,220,336** | **1,261,595** |
| **NET OPERATING INCOME** | **325,729** | **325,852** | **325,677** | **325,186** | **324,360** | **323,179** | **321,622** | **319,668** | **317,294** | **314,477** |
| **DEBT SERVICE** | | | | | | | | | | |
| CalHFA - 1st Mortgage | 295,861 | 295,861 | 295,861 | 295,861 | 295,861 | 295,861 | 295,861 | 295,861 | 295,861 | 295,861 |
| CalHFA - Bridge Loan | | | | | | | | | | |
| CalHFA - 2nd Mortgage | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| None | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| None | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **DEBT COVERAGE RATIO** | **1.10** | **1.10** | **1.10** | **1.10** | **1.10** | **1.09** | **1.09** | **1.08** | **1.07** | **1.06** |
| **Cash Available for distribution** | **29,868** | **29,991** | **29,816** | **29,325** | **28,499** | **27,318** | **25,761** | **23,807** | **21,434** | **18,616** |

# Casa de las Hermanitas

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TN
MN (13.0°E)

Scale 1 : 700,000
1" = 11.05 mi
Data Zoom 8-2

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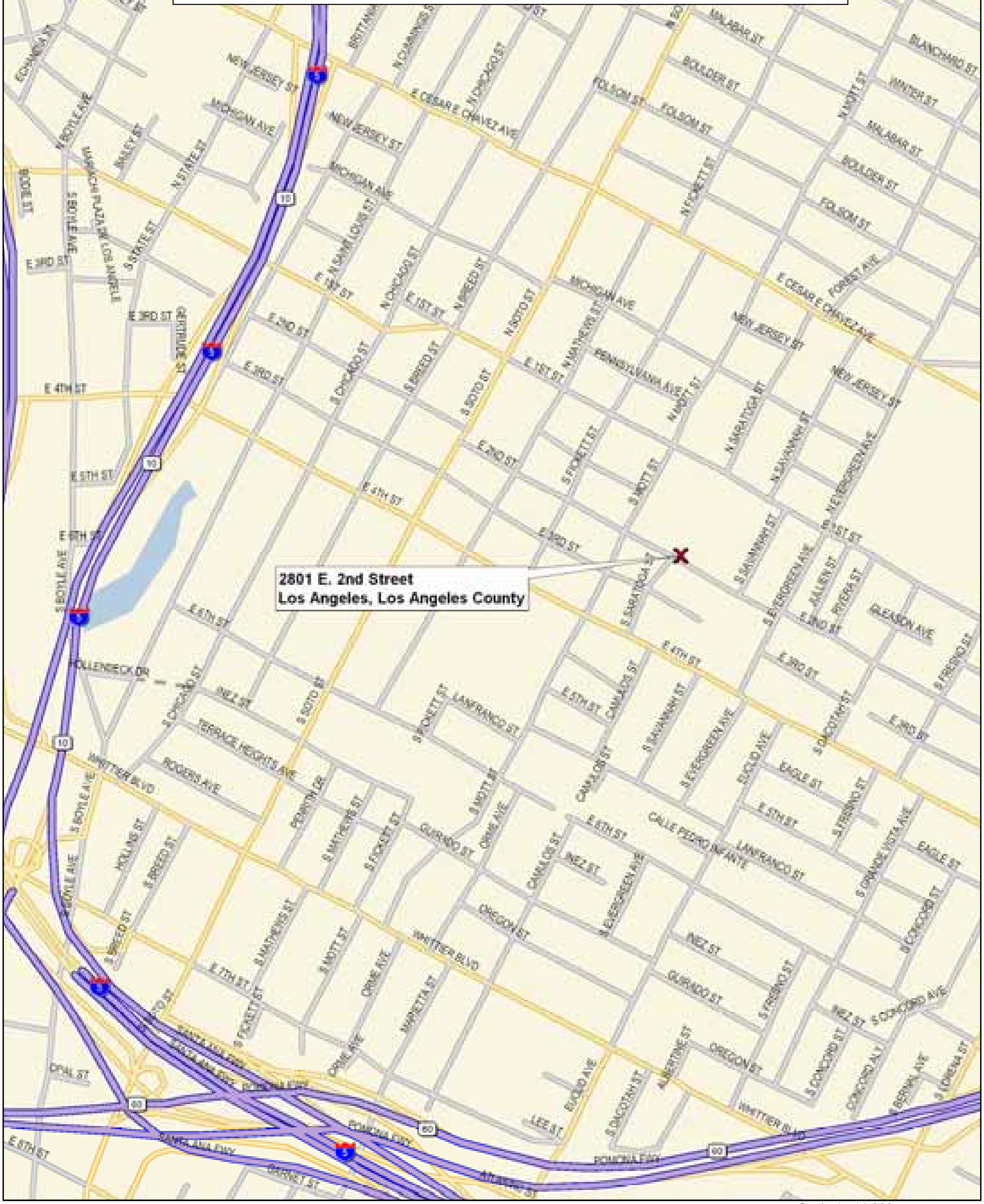
# Casa de las Hermanitas




Scale 1 : 11,200

1" = 933.3 ft     Data Zoom 14-2

TN  MN (13.0°E)

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RESOLUTION 07-25

RESOLUTION AUTHORIZING A FINAL LOAN COMMITMENT

WHEREAS, the California Housing Finance Agency (the "Agency") has received a loan application on behalf of CDLH Affordable, L.P., a California limited partnership (the "Borrower"), seeking a loan commitment, the proceeds of which are to be used to provide financing for a multifamily housing development located in city of Los Angeles (Boyle Heights), Los Angeles County, California, to be known as Casa de las Hermanitas Apartments (the "Development"); and

WHEREAS, the loan application has been reviewed by Agency staff which prepared a report presented to the Board on the meeting date recited below (the "Staff Report"), recommending Board approval subject to certain recommended terms and conditions; and

WHEREAS, Section 1.150-2 of the Treasury Regulations requires the Agency, as the issuer of tax-exempt bonds, to declare its reasonable official intent to reimburse prior expenditures for the Development with proceeds of a subsequent borrowing; and

WHEREAS, on July 23, 2007, the Executive Director exercised the authority delegated to her under Resolution 94-10 to declare the official intent of the Agency to reimburse such prior expenditures for the Development; and

WHEREAS, based upon the recommendation of staff and due deliberation by the Board, the Board has determined that a final loan commitment be made for the Development;

1. The Executive Director, or in his/her absence, either the Chief Deputy Director or the Director of Multifamily Programs of the Agency is hereby authorized to execute and deliver a final commitment letter, in a form acceptable to the Agency, and subject to recommended terms and conditions set forth in the Staff Report, in relation to the Development described above and as follows:

| PROJECT NUMBER | DEVELOPMENT NAME/ LOCALITY | NUMBER OF UNITS | MORTGAGE AMOUNT |
|---|---|---|---|
| 07-009-A/S | Casa de las Hermanitas<br>Los Angeles (Boyle Heights)<br>Los Angeles County | 88 | Acquisition/Rehab:<br>1st Mortgage: $4,265,000<br>2nd Mortgage: $1,035,000<br>Permanent :1st $4,490,000 |

Resolution 07-25
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2. The Executive Director may modify the terms and conditions of the loans or loans as described in the Staff Report, provided that major modifications, as defined below, must be submitted to this Board for approval. "Major modifications" as used herein means modifications which either (i) increase the total aggregate amount of any loans made pursuant to the Resolution by more than 7%; or (ii) modifications which in the judgment of the Executive Director, or in his/her absence, either the Chief Deputy Director or the Director of Multifamily Programs of the Agency, adversely change the financial or public purpose aspects of the final commitment in a substantial way.

I hereby certify that this is a true and correct copy of Resolution 07-25 adopted at a duly constituted meeting of the Board of the Agency held on September 12, 2007 at Burbank, California.

ATTEST:_____
Secretary

# CALIFORNIA HOUSING FINANCE AGENCY

Loan Modification to Final Commitment
Lion Creek Phase II, FKA Coliseum Gardens Phase II
Oakland, Alameda County, CA
CalHFA Loan #04-012N

**SUMMARY**

This Loan Modification is a request for approval of a new $620,000 Section 8 Increment Loan, which will be a third mortgage behind CalHFA's tax-exempt, first mortgage in the amount of $4,040,000 and a taxable FAF second mortgage in the amount of $730,000. The CalHFA Board of Directors previously approved the project financing at its July 7, 2005 meeting, a copy of which is attached for reference.

Lion Creek Phase II is a newly constructed 146-unit family project located at 69th Avenue and Leona Creek Drive in the City of Oakland and is the second phase of a three-phase project known as the Lion Creek Crossings HOPE VI Master Plan development (formerly known as Coliseum Gardens). Lion Way Housing Partners, L.P. will own the improvements and Lion Creek II LLC and Related/Oakland Coliseum II Development Co. LLC are its General Partners.

| LOAN TERMS | ORIGINAL | MODIFIED |
|---|---|---|
| First Mortgage Amount | $4,040,000 | |
| Interest Rate: | 5.90% | |
| Term: | 40 year fixed, Fully amortized | |
| Financing: | Tax-Exempt | |
| Prepayment: | No | |
| Second Mortgage Amount | $730,000 | |
| Interest Rate: | 3% | |
| Term: | 40 year fixed, Fully amortized | |
| Financing: | Taxable-FAF Funds | |
| Prepayment: | Yes | |
| Third Mortgage Amount | | $620,000 |
| Interest Rate: | | 5.25% |
| Term: | | 10 years, Fully Amortized |
| Financing: | | Tax-Exempt |
| Prepayment: | | Yes |

**BACKGROUND**

This is a bond refunding, with the Oakland Housing Authority as the tax-exempt bond issuer and Wells Fargo as the construction lender. CalHFA will refinance the bonds as a part of the permanent loan closing transaction.

The project began construction in November 2005 and was completed in June 2007. Occupancy began in July 2007 and the project is currently 45% occupied and full occupancy is expected by the end of September. The permanent loan is expected to close by the end of September as well. If the project has not achieved 95% lease-up by the time the permanent loan closes, a rent up reserve will be sized to cover the operating shortfall that exists at the time of closing.

**SECTION 8 THIRD MORTGAGE**

The Borrower executed a Housing Assistance Payment (HAP) Contract in July 2007 for 18 project based Section 8 vouchers.

The HAP Contract is for a term of 10 years with 2 five-year renewal options. The term of the CalHFA third mortgage coincides with the initial term of the HAP Contract.

The borrower will be required to seek and accept any renewals of the project based Section 8 contract or other HUD subsidies.

Prior to closing, an agreement is required between the Oakland Housing Authority (OHA) and CalHFA guaranteeing Section 8 vouchers will not be eliminated on units that are vacant for 120 days and guaranteeing the continuance of HAP payments for up to 60 days on vacant units.

**OTHER FINANCING**

There are 54 Public Housing Units which are subsidized under the terms of an Annual Contribution Contract between HUD and OHA. Net rents have been established at $386 per unit for all units within the 20% and 30% AMI levels. The HUD Utility Expense reimbursement has been established for FY 2007 and is restated annually based the 54 units' pro-rata share of actual common area utility costs.

## PROJECT SUMMARY

**PROJECT NUMBER: 04-012-N**

**Final Commitment Modification**

| | | | | |
|---|---|---|---|---|
| ***Project:*** | **Lion Creek HOPE VI, Phase II** | | | |
| ***Location:*** | 69th Avenue & Leona Creek Drive | ***Developer:*** | **The Related Companies California** | |
| ***City:*** | Oakland | ***Partner:*** | East Bay Asian Local Development | |
| ***County:*** | Alameda | ***Investor:*** | MMA Financial | |
| ***Zip Code:*** | 94621 | | | |
| | | *No. of Buildings:* | 13 | |
| *Project Type:* | New Construction | *No. of Stories:* | 37654 | |
| *Occupancy:* | Family | *Residential Space* | 141,644 | sq. ft. |
| *Total Units:* | 146 | *Office Space* | 7,500 | sq. ft. |
| *Style Units:* | Townhomes & Flats | *Commercial Space* | 0 | sq. ft. |
| *Elevators:* | Yes | *Gross Area* | 149,144 | sq. ft. |
| *Total Parking* | 146 | *Land Area* | 174,240 | sq. ft. |
| *Covered* | 146 | *Units per acre* | 37 | |

| Permanent Sources of Funds | Original | Update | Rate | Years |
|---|---|---|---|---|
| **CalHFA First Mortgage** | **$4,040,000** | **$4,040,000** | **5.90%** | **40** |
| **CalHFA Section 8 Loan** | **$0** | **$620,000** | **5.25%** | **10** |
| **CalHFA FAF Second Mortgage** | **$730,000** | **$730,000** | **3.00%** | **40** |
| MHP | $9,815,000 | $9,815,000 | 3.00% | 55 |
| MHP NSSS | $500,000 | $500,000 | 3.00% | 55 |
| Oakland Housing Authority HOPE VI | $7,430,139 | $7,430,139 | 0.00% | 0 |
| Oakland Housing Authority | $703,620 | $925,402 | 0.00% | 55 |
| AHP | $645,000 | $645,000 | 0.00% | 35 |
| Income during Construction | $0 | | | |
| GP Equity | $1,085,986 | $993,939 | | |
| Deferred Developer Fee | $244,739 | $356,061 | | |
| Tax Credit Equity | $20,004,285 | $21,538,970 | | |

| Construction Valuation | | Appraisal | | Value Upon Completion | |
|---|---|---|---|---|---|
| **Investment Value** | $0 | **Appraisal Date** | **5/25/2006**** | **Est. Restricted Value*** | $6,000,000 |
| **Loan / Cost** | $0 | **Cap Rate*** | **6.25%** | **Perm. Loan / Cost*** | 11% |
| **Loan / Value** | $0 | **Appraisal update is pending | | **Perm. Loan / Value*** | 90% |

### CalHFA Fees and Reserve Requirements

| CalHFA Loan Fees | Amount | Required Reserves | Amount |
|---|---|---|---|
| CalHFA First Mortgage Loan Fee | $60,600 | CalHFA Operating Expense Reserve | $75,643 |
| CalHFA Second Mortgage Loan Fe | $10,950 | Rent Up Reserve | $65,000 |
| CalHFA Third Mortgage Loan Fee | $3,100 | Section 8 Transitional Operating Reserve | $39,913 |
| Construction Inspection Fee | $27,000 | Repl. Reserve - Per Unit/ Per Yr | $400 |

**Date:** 8/14/2007 **Senior Staff Date:** 8/20/2007

**UNIT MIX AND RENT SUMMARY** **Lion Creek HOPE VI, Phase II**

**04-012-N**

## Total Unit Mix

| # of Units | Unit Type | # of Baths | Average Sq. Ft. |
|---|---|---|---|
| **28** | 1 Bedroom Flat | 1 | 600 |
| **63** | 2 Bedroom Flat | 1 | 841 |
| | 2 Bedroom Townhome | 1.5 | |
| **43** | 3 Bedroom Townhome | 1.5 & 2 | 1,237 |
| **5** | 4 Bedroom Townhome | 2 | 1,634 |
| **7** | 5 Bedroom Townhome | 2 | 1,500 |
| **146** | | | |

## Occupany Restrictions

| Agency | 20% | 30% | 40% | 50% | 60% | | Total |
|---|---|---|---|---|---|---|---|
| *CalHFA* | | | | 29 | | | **29** |
| *Tax Credits* | | | | | 145 | | **145** |
| *OHA HOPE VI* | | 54 | | | | | **54** |
| *HCD* | 13 | 41 | 32 | 31 | 28 | | **145** |
| *AHP* | | | | | | | |
| *Zoning* | | | | | | | |
| *Other* | | | | | | | |

## Restricted Rents Compared to Average Market Rents

| Median Income Rent Levels | Units Restricted | Restricted Rents | Avg. Market Rate Rents | Dollars Difference | | % of Market |
|---|---|---|---|---|---|---|
| **One Bedroom** | | | $1,184 | | | |
| 20% | 0 | $0 | | $0 | | 0% |
| 30% | 8 | $386 | | $798 | | 33% |
| 40% | 7 | $595 | | $589 | | 50% |
| 50% | 7 | $752 | | $432 | | 64% |
| 60% | 6 | $752 | | $432 | | 64% |
| **Two Bedroom** | | | $1,345 | | | |
| 20% | 0 | $0 | | $0 | | 0% |
| 30% | 4 | $386 | | $959 | | 29% |
| 40% | 20 | $715 | | $630 | | 53% |
| 50% | 19 | $903 | | $442 | | 67% |
| 60% | 19 | $903 | | $442 | | 67% |
| **Three Bedroom** | | | $1,534 | | | |
| 20% | 9 | $386 | | $1,148 | | 25% |
| 30% | 23 | $386 | | $1,148 | | 25% |
| 40% | 4 | $822 | | $712 | | 54% |
| 50% | 4 | $1,040 | | $494 | | 68% |
| 60% | 3 | $1,040 | | $494 | | 68% |
| **Four Bedroom** | | | $1,774 | | | |
| 20% | 3 | $386 | | $1,388 | | 22% |
| 30% | 2 | $386 | | $1,388 | | 22% |
| 40% | 0 | $0 | | $0 | | 0% |
| 50% | 0 | $0 | | $0 | | 0% |
| 60% | 0 | $0 | | $0 | | 0% |
| **Five Bedroom** | | | $1,905 | | | |
| 20% | 1 | $453 | | $1,519 | $0 | 20% |
| 30% | 4 | $453 | | $1,519 | $0 | 20% |
| 40% | 1 | $1,072 | | $900 | $0 | 53% |
| 50% | 1 | $1,340 | | $632 | $0 | 67% |
| 60% | 1 | $1,325 | | $1,905 | $0 | 0% |

## Sources and Uses of Funds — Lion Creek HOPE VI, Phase II

04-012-N

**Final Commitment Modification**

| SOURCES OF FUNDS: | Original Budget | Updated Budget | Updated Cost/Unit | Updated % per unit |
|---|---|---|---|---|
| **CalHFA First Mortgage** | 4,040,000 | 4,040,000 | 27,671 | 8.5% |
| **CalHFA FAF Second Mortgage** | 730,000 | 730,000 | 5,000 | 1.5% |
| **CalHFA Section 8 Loan** | - | 620,000 | 4,247 | 1.3% |
| MHP | 9,815,000 | 9,815,000 | 67,226 | 20.6% |
| MHP NSSS | 500,000 | 500,000 | 3,425 | 1.1% |
| Oakland Housing Authority HOPE VI | 7,430,139 | 7,430,139 | 50,891 | 15.6% |
| Oakland Housing Authority | 703,620 | 925,402 | 6,338 | 1.9% |
| AHP | 645,000 | 645,000 | 4,418 | 1.4% |
| Income during Construction | - | 0 | - | 0.0% |
| GP Equity | 1,085,986 | 993,939 | 6,808 | 2.1% |
| Deferred Developer Fee | 244,739 | 356,061 | 2,439 | 0.7% |
| Tax Credit Equity | 20,004,285 | 21,538,970 | 147,527 | 45.3% |
| **Total Sources** | **45,198,769** | **47,594,511** | **325,990** | **100.0%** |
| (Gap)/Surplus | - | 0 | | |

| USES OF FUNDS: | Original Budget | Updated Budget | Cost/Unit | %/Unit |
|---|---|---|---|---|
| ***ACQUISITION*** | | | | |
| Ground Lease Prepayment | 880,000 | 880,000 | 6,027 | 1.8% |
| Demolition | - | | - | 0.0% |
| Legal - Acquisition Related Fees | - | 0 | - | 0.0% |
| **Subtotal - Land Cost / Value** | 880,000 | 880,000 | 6,027 | 1.8% |
| Existing Improvements Value | - | | - | 0.0% |
| Off-Site Improvements | - | | - | 0.0% |
| **Total Acquisition** | **880,000** | **880,000** | **6,027** | **1.8%** |
| ***REHABILITATION*** | | | | |
| Site Work | - | | - | 0.0% |
| Rehab to Structures | - | | - | 0.0% |
| General Requirements | - | | - | 0.0% |
| Contractors Overhead | - | | - | 0.0% |
| Contractors Profit | - | | - | 0.0% |
| Contractor's Bond | - | | - | 0.0% |
| General Liability Insurance | - | | - | 0.0% |
| Environmental Mitigation Expense | - | | - | 0.0% |
| **Total Rehabilitation** | **-** | | **-** | **0.0%** |
| ***RELOCATION EXPENSES*** | | | | |
| Relocation Expense | - | | - | 0.0% |
| Relocation Compliance Monitoring | - | | - | 0.0% |
| **Total Relocation** | **-** | | **-** | **0.0%** |
| ***NEW CONSTRUCTION*** | | | | |
| Site Work | 1,582,924 | 2,316,540 | 15,867 | 4.9% |
| Structures (Hard Costs) | 24,818,674 | 29,246,211 | 200,317 | 61.4% |
| General Requirements | 1,651,230 | 1,774,372 | 12,153 | 3.7% |
| Contractors Overhead | 574,382 | 660,539 | 4,524 | 1.4% |
| Contractors Profit | 1,651,230 | 1,898,915 | 13,006 | 4.0% |
| Contractor's Bond | 268,332 | 163,122 | 1,117 | 0.3% |
| Photovoltaics | 250,000 | 0 | - | 0.0% |
| Landscaping | 800,000 | 663,864 | 4,547 | 1.4% |
| Social / Community Space | 1,267,500 | 815,672 | 5,587 | 1.7% |
| **Total New Construction** | **32,864,272** | **37,539,235** | **257,118** | **78.9%** |

| USES OF FUNDS (Cont'd): | Total Cost ($) | | Cost/Unit | %/Unit |
|---|---|---|---|---|
| ***ARCHITECTURAL & ENGINEERING*** | | | | |
| Architectural Design | 950,000 | 1,131,766 | 7,752 | 2.4% |
| Other Architect & Engineers | 100,000 | 264,245 | 1,810 | 0.6% |
| **Total Architectural** | **1,050,000** | **1,396,011** | **9,562** | **2.9%** |
| | | | | |
| Engineering Expense | 300,000 | 300,000 | 2,055 | 0.6% |
| Engineers Supv. during Construction | - | | - | 0.0% |
| ALTA Survey | 25,000 | 25,000 | 171 | 0.1% |
| **Total Engineering & Survey** | **325,000** | **325,000** | **2,226** | **0.7%** |
| | | | | |
| ***CONSTRUCTION LOAN COSTS*** | | | | |
| Construction Loan Interest | 1,349,660 | 1,175,000 | 8,048 | 2.5% |
| Construction Loan Fee | 191,274 | 254,885 | 1,746 | 0.5% |
| Bond Issuer Costs | 115,000 | | - | 0.0% |
| Construction Lender Costs | 75,000 | 87,900 | 602 | 0.2% |
| Other Lender Req'd Legal Fees | - | | - | 0.0% |
| Title and Recording fees | 40,000 | 40,000 | 274 | 0.1% |
| CalHFA Req'd Inspection Fees | 27,000 | 27,000 | 185 | 0.1% |
| Testing & Inspection Fees | 50,000 | 50,000 | 342 | 0.1% |
| Prevailing Wage Monitoring Expense | - | | - | 0.0% |
| Taxes & Insurance during construction | - | | - | 0.0% |
| Predevelopment Interest | 50,000 | 37,931 | 260 | 0.1% |
| Other | - | | - | 0.0% |
| **Total Construction Loan Expense** | **1,897,934** | **1,672,716** | **11,457** | **3.5%** |
| | | | | |
| ***PERMANENT LOAN COSTS*** | | | | |
| CalHFA Perm Loan Fees | 71,550 | 74,650 | 511 | 0.2% |
| CalHFA Bridge Loan Fees | - | | - | 0.0% |
| CalHFA Loan Application Fee | 500 | 500 | 3 | 0.0% |
| OHA Loan Fee - HOPE VI | 60,000 | 60,000 | 411 | 0.1% |
| Title and Recording | 20,000 | 20,000 | 137 | 0.0% |
| Perm. Bridge Loan Interest Expense | - | | - | 0.0% |
| Bond Origination Guarantee Fee | - | | - | 0.0% |
| Tax Exempt Bond Refunding | 5,000 | 5,400 | 37 | 0.0% |
| Misc. Mortgage Loan Costs | 15,000 | 10,450 | 72 | 0.0% |
| **Total Permanent Loan Expense** | **157,050** | **171,000** | **1,171** | **0.4%** |
| | | | | |
| ***LEGAL FEES*** | | | | |
| Borrower Legal Fee | 200,000 | 125,000 | 856 | 0.3% |
| Other | - | | - | 0.0% |
| **Total Attorney Expense** | **200,000** | **125,000** | **856** | **0.3%** |
| | | | | |
| ***CONTRACT / REPORT COSTS*** | | | | |
| Appraisal | 20,000 | | - | 0.0% |
| Market Study | 10,000 | 2,500 | 17 | 0.0% |
| Physical Needs Assessment | - | | - | 0.0% |
| HUD Risk Share Environ. Review | - | | - | 0.0% |
| CalHFA EQ Waiver Seismic Review Fee | 10,000 | 10,000 | 68 | 0.0% |
| Environmental Phase I / II Reports | | | - | 0.0% |
| Soils / Geotech Reports | 85,000 | 85,000 | 582 | 0.2% |
| Asbestos / Lead-based Paint Report | - | | - | 0.0% |
| Noise/Acoustical/Traffic Study Report | 56,000 | 0 | - | 0.0% |
| Termit and Dryrot | - | | - | 0.0% |
| Other - Environmental | - | 0 | - | 0.0% |
| **Total Contract Costs** | **181,000** | **97,500** | **668** | **0.2%** |

| USES OF FUNDS (Cont'd): | Total Cost ($) | | Cost/Unit | %/Unit |
|---|---|---|---|---|
| ***CONTINGENCY*** | | | | |
| Hard Cost Contingency | 1,823,352 | 0 | - | 0.0% |
| Soft Cost Contingency | 100,000 | | - | 0.0% |
| **Total Contingency** | **1,923,352** | **0** | **-** | **0.0%** |
| | | | | |
| ***RESERVES*** | | | | |
| CalHFA Operating Expense Reserve | 112,765 | 75,643 | 518 | 0.2% |
| Section 8 TOR | - | 39,913 | 273 | 0.1% |
| Rent-Up Reserve - Investor | 193,120 | | - | 0.0% |
| ACC Reserves | 200,000 | 38,322 | 262 | 0.1% |
| Additional Operating Reserve | 246,329 | 200,000 | 1,370 | 0.4% |
| **Total Reserves** | **752,214** | **353,878** | **2,424** | **0.7%** |
| | | | | |
| ***OTHER*** | | | | |
| CTCAC App/Alloc/Monitor Fees | 79,947 | 80,227 | 550 | 0.2% |
| Local Permit Fees | 647,049 | 781,904 | 5,356 | 1.6% |
| Local Development Impact Fees | 520,951 | 0 | - | 0.0% |
| Other Consultants | 80,000 | | - | 0.0% |
| Advertising & Marketing Expenses | 115,000 | 426,951 | 2,924 | 0.9% |
| 1st Year Taxes & Insurance | 625,000 | 65,408 | 448 | 0.1% |
| Furnishings | 175,000 | 301,127 | 2,063 | 0.6% |
| Final Cost Audit Expense | 35,000 | 40,000 | 274 | 0.1% |
| Miscellaneous Admin Fees | 75,000 | 36,245 | 248 | 0.1% |
| Bond Issuance Costs - Issuer | 115,000 | 85,000 | 582 | 0.2% |
| Miscellaneous | | | - | 0.0% |
| Other | - | 677,309 | 4,639 | 1.4% |
| **Total Other Expenses** | **2,467,947** | **2,494,171** | **17,083** | **5.2%** |
| | | | | |
| **SUBTOTAL PROJECT COSTS** | **42,698,769** | **45,054,511** | **308,593** | **94.7%** |
| | | | | |
| ***DEVELOPER COSTS*** | | | | |
| Developer Overhead/Profit (5% Acq.) | - | | - | 0.0% |
| Developer Overhead/Profit (NC/Rehab) | 2,500,000 | 2,500,000 | 17,123 | 5.3% |
| Consultant / Processing Agent | - | 40,000 | 274 | 0.1% |
| Project Administration | - | | - | 0.0% |
| Broker Fees to a related party | - | | - | 0.0% |
| Construction Mgmt. Oversight | - | | - | 0.0% |
| **Total Developer Fee / Costs** | **2,500,000** | **2,540,000** | **17,397** | **5.3%** |
| | | | | |
| **Total Costs** | **45,198,769** | **47,594,511** | **325,990** | **100.0%** |

**Annual Operating Budget** **Lion Creek HOPE VI, Phase II**

Final Commitment Modification

| INCOME: | $ Amount | Per Unit | % of Total |
|---|---|---|---|
| Total Rental Income | $1,154,940 | $7,911 | 88.29% |
| Laundry | $10,512 | $72 | 0.80% |
| Other Income | $142,679 | $977 | 10.91% |
| **Gross Potential Income (GPI)** | **$1,308,131** | **$8,960** | 100.00% |
| **Less:** | | | |
| Vacancy Loss | $59,379 | $407 | 4.76% |
| **Effective Gross Income** | **$1,248,753** | **$8,553** | |

| EXPENSES: | Total Cost | Per Unit | % of Total |
|---|---|---|---|
| Payroll/Taxes/Worker's Comp. | $108,770 | $745 | 14.38% |
| Administrative | $63,656 | $436 | 8.42% |
| Management Fee | $58,400 | $400 | 7.72% |
| Utilities | $103,806 | $711 | 13.72% |
| Operating and Maintenance | $265,136 | $1,816 | 35.05% |
| Insurance and Taxes | $59,130 | $405 | 7.82% |
| Social Programs | $32,850 | $225 | 4.34% |
| Other | $0 | $0 | 0.00% |
| **Subtotal Expenses** | **$691,748** | $4,738 | 91.45% |
| Replacement Reserves | $58,400 | $400 | 7.72% |
| Taxes & Assessments | $6,278 | $43 | 0.83% |
| **Total Expenses** | $756,426 | $5,181 | 100.00% |
| **Financial Expenses** | | | |
| CalHFA First Mortgage | $263,372 | $1,804 | |
| CalHFA FAF Second Mortgage | $31,359 | $215 | |
| CalHFA Section 8 Third Mortgage | $79,825 | $547 | |
| MHP Annual Payment | $41,223 | $282 | |
| **NET OPERATING INCOME** | **$76,547** | **$524** | |

| *Cash Flow* | Final Commitment Modification | CalHFA Project Number: | 04-012-N | ion Creek HOPE VI, Phase II | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **INCOME** | **Year 1** | **Year 2** | **Year 3** | **Year 4** | **Year 5** | **Year 6** | **Year 7** | **Year 8** | **Year 9** | **Year 10** |
| *ACC Units Rent Increase* | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| ACC Units Rents | 250,128 | 257,632 | 265,361 | 273,322 | 281,521 | 289,967 | 298,666 | 307,626 | 316,855 | 326,360 |
| **TOTAL RENTAL INCOME** | 250,128 | 257,632 | 265,361 | 273,322 | 281,521 | 289,967 | 298,666 | 307,626 | 316,855 | 326,360 |
| **OTHER INCOME** | | | | | | | | | | |
| *Laundry Income Increase* | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| Laundry | 3,888 | 4,005 | 4,125 | 4,249 | 4,376 | 4,507 | 4,642 | 4,782 | 4,925 | 5,073 |
| *Other Income Increase* | *3.00%* | *3.00%* | *3.00%* | *3.00%* | *3.00%* | *3.00%* | *3.00%* | *3.00%* | *3.00%* | *3.00%* |
| Utility Expense Reimbursement | 47,375 | 48,797 | 50,260 | 51,768 | 53,321 | 54,921 | 56,569 | 58,266 | 60,014 | 61,814 |
| **TOTAL OTHER INCOME** | **51,263** | **52,801** | **54,385** | **56,017** | **57,697** | **59,428** | **61,211** | **63,047** | **64,939** | **66,887** |
| **EFFECTIVE GROSS INCOME-ACC** | **301,391** | **310,433** | **319,746** | **329,338** | **339,219** | **349,395** | **359,877** | **370,673** | **381,793** | **393,247** |
| *Vacancy Rate : ACC units* | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| Less: Vacancy Loss | 9,042 | 9,313 | 9,592 | 9,880 | 10,177 | 10,482 | 10,796 | 11,120 | 11,454 | 11,797 |
| **EFFECTIVE GROSS INCOME** | **292,350** | **301,120** | **310,154** | **319,458** | **329,042** | **338,913** | **349,081** | **359,553** | **370,340** | **381,450** |
| **OPERATING EXPENSES-ACC UNITS** | | | | | | | | | | |
| *Annual Expense Increase* | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| Expenses | 255,852 | 263,528 | 271,433 | 279,576 | 287,964 | 296,603 | 305,501 | 314,666 | 324,106 | 333,829 |
| Replacement Reserve | 21,600 | 21,600 | 21,600 | 21,600 | 21,600 | 22,680 | 22,680 | 22,680 | 22,680 | 22,680 |
| *Annual Tax Increase* | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| Taxes and Assessments | 2,322 | 2,368 | 2,416 | 2,464 | 2,513 | 2,564 | 2,615 | 2,667 | 2,721 | 2,775 |
| **TOTAL EXPENSES** | **279,774** | **287,496** | **295,449** | **303,641** | **312,077** | **321,846** | **330,796** | **340,013** | **349,506** | **359,284** |
| **ACC - NET OPERATING INCOME** | **12,576** | **13,624** | **14,704** | **15,818** | **16,965** | **17,067** | **18,285** | **19,540** | **20,833** | **22,166** |
| **TAX CREDIT RENTAL INCOME** | **904,812** | **927,432** | **950,618** | **974,384** | **998,743** | **1,023,712** | **1,049,305** | **1,075,537** | **1,102,426** | **1,129,986** |
| *Affordable Rent Increase* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* |
| Section 8 Income | 95,304 | 95,304 | 95,304 | 95,304 | 95,304 | 95,304 | 95,304 | 95,304 | 95,304 | 95,304 |
| **TOTAL RENTAL INCOME** | **1,000,116** | **1,022,736** | **1,045,922** | **1,069,688** | **1,094,047** | **1,119,016** | **1,144,609** | **1,170,841** | **1,197,730** | **1,225,290** |
| **OTHER INCOME** | | | | | | | | | | |
| Laundry | 6,624 | 6,756 | 6,892 | 7,029 | 7,170 | 7,313 | 7,460 | 7,609 | 7,761 | 7,916 |
| Other Income | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| *Other Income Increase* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* |
| **TOTAL OTHER INCOME** | **6,624** | **6,756** | **6,892** | **7,029** | **7,170** | **7,313** | **7,460** | **7,609** | **7,761** | **7,916** |
| **GROSS POTENTIAL INCOME** | **1,006,740** | **1,029,493** | **1,052,814** | **1,076,717** | **1,101,217** | **1,126,329** | **1,152,068** | **1,178,450** | **1,205,491** | **1,233,206** |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **VACANCY ASSUMPTIONS** | | | | | | | | | | |
| *Affordable (Blended Average)* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* |
| *Laundry & Other Income* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* |
| **LESS: VACANCY LOSS** | **50,337** | **51,475** | **52,641** | **53,836** | **55,061** | **56,316** | **57,603** | **58,923** | **60,275** | **61,660** |
| **EFFECTIVE GROSS INCOME - T/C** | **956,403** | **978,018** | **1,000,173** | **1,022,881** | **1,046,156** | **1,070,013** | **1,094,465** | **1,119,528** | **1,145,216** | **1,171,546** |
| **OPERATING EXPENSES** | | | | | | | | | | |
| **Expenses** | 435,896 | 451,152 | 466,943 | 483,286 | 500,201 | 517,708 | 535,827 | 554,581 | 573,992 | 594,082 |
| *Annual Expense Increase* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* |
| **Taxes and Assessments** | 3,956 | 4,035 | 4,116 | 4,198 | 4,282 | 4,368 | 4,455 | 4,544 | 4,635 | 4,728 |
| *Annual Tax Increase* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* |
| **Replacement Reserve** | 36,800 | 36,800 | 36,800 | 36,800 | 36,800 | 38,640 | 38,640 | 38,640 | 38,640 | 38,640 |
| *Percentage Increase Yearly* | *0.00%* | *0.00%* | *0.00%* | *0.00%* | *5.00%* | *0.00%* | *0.00%* | *0.00%* | *0.00%* | *5.00%* |
| **TOTAL EXPENSES** | **476,652** | **491,987** | **507,859** | **524,284** | **541,283** | **560,715** | **578,923** | **597,766** | **617,267** | **637,449** |
| **T/C NET OPERATING INCOME** | **479,751** | **486,031** | **492,315** | **498,597** | **504,874** | **509,297** | **515,542** | **521,762** | **527,949** | **534,097** |
| **TOTAL NET OPERATING INCOME** | **492,327** | **499,655** | **507,019** | **514,415** | **521,838** | **526,364** | **533,827** | **541,302** | **548,783** | **556,263** |
| CalHFA - 1st Mortgage | 263,372 | 263,372 | 263,372 | 263,372 | 263,372 | 263,372 | 263,372 | 263,372 | 263,372 | 263,372 |
| CalHFA - FAF Loan | 31,359 | 31,359 | 31,359 | 31,359 | 31,359 | 31,359 | 31,359 | 31,359 | 31,359 | 31,359 |
| CalHFA - Section 8 Loan | 79,825 | 79,825 | 79,825 | 79,825 | 79,825 | 79,825 | 79,825 | 79,825 | 79,825 | 79,825 |
| MHP | 41,223 | 41,223 | 41,223 | 41,223 | 41,223 | 41,223 | 41,223 | 41,223 | 41,223 | 41,223 |
| Sum of all req'd debt service | 415,779 | 415,779 | 415,779 | 415,779 | 415,779 | 415,779 | 415,779 | 415,779 | 415,779 | 415,779 |
| Cash flow after CalHFA debt service | **117,770** | **125,098** | **132,463** | **139,859** | **147,282** | **151,808** | **159,271** | **166,746** | **174,226** | **181,707** |
| **CASH FLOW after all debt service** | **76,547** | **83,875** | **91,240** | **98,636** | **106,059** | **110,585** | **118,048** | **125,523** | **133,003** | **140,484** |
| **DEBT COVERAGE RATIO** | **1.18** | **1.20** | **1.22** | **1.24** | **1.26** | **1.27** | **1.28** | **1.30** | **1.32** | **1.34** |

| *Cash Flow* | CalHFA Project Number: 04-012-N | | | | | | | | Lion Creek HOPE VI, Phase II | |
|---|---|---|---|---|---|---|---|---|---|---|
| **INCOME** | **Year 11** | **Year 12** | **Year 13** | **Year 14** | **Year 15** | **Year 16** | **Year 17** | **Year 18** | **Year 19** | **Year 20** |
| *ACC Units Rent Increase* | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| ACC Units Rents | 336,151 | 346,236 | 356,623 | 367,321 | 378,341 | 389,691 | 401,382 | 413,423 | 425,826 | 438,601 |
| **TOTAL RENTAL INCOME** | 336,151 | 346,236 | 356,623 | 367,321 | 378,341 | 389,691 | 401,382 | 413,423 | 425,826 | 438,601 |
| **OTHER INCOME** | | | | | | | | | | |
| *Laundry Income Increase* | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| Laundry | 5,225 | 5,382 | 5,543 | 5,710 | 5,881 | 6,057 | 6,239 | 6,426 | 6,619 | 6,818 |
| *Other Income Increase* | *3.00%* | *3.00%* | *3.00%* | *3.00%* | *3.00%* | *3.00%* | *3.00%* | *3.00%* | *3.00%* | *3.00%* |
| Utility Expense Reimbursement | 63,668 | 65,578 | 67,546 | 69,572 | 71,659 | 73,809 | 76,023 | 78,304 | 80,653 | 83,073 |
| **TOTAL OTHER INCOME** | **68,894** | **70,960** | **73,089** | **75,282** | **77,540** | **79,867** | **82,263** | **84,730** | **87,272** | **89,891** |
| **EFFECTIVE GROSS INCOME-ACC** | **405,045** | **417,196** | **429,712** | **442,603** | **455,881** | **469,558** | **483,645** | **498,154** | **513,099** | **528,491** |
| *Vacancy Rate : ACC units* | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| Less: Vacancy Loss | 12,151 | 12,516 | 12,891 | 13,278 | 13,676 | 14,087 | 14,509 | 14,945 | 15,393 | 15,855 |
| **EFFECTIVE GROSS INCOME** | **392,893** | **404,680** | **416,821** | **429,325** | **442,205** | **455,471** | **469,135** | **483,209** | **497,706** | **512,637** |
| **OPERATING EXPENSES-ACC UNITS** | | | | | | | | | | |
| *Annual Expense Increase* | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| Expenses | 343,844 | 354,159 | 364,784 | 375,727 | 386,999 | 398,609 | 410,567 | 422,884 | 435,571 | 448,638 |
| Replacement Reserve | 23,814 | 23,814 | 23,814 | 23,814 | 23,814 | 25,005 | 25,005 | 25,005 | 25,005 | 25,005 |
| *Annual Tax Increase* | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| Taxes and Assessments | 2,831 | 2,887 | 2,945 | 3,004 | 3,064 | 3,125 | 3,188 | 3,251 | 3,316 | 3,383 |
| **TOTAL EXPENSES** | **370,488** | **380,860** | **391,543** | **402,545** | **413,877** | **426,739** | **438,760** | **451,140** | **463,892** | **477,025** |
| **ACC - NET OPERATING INCOME** | **22,405** | **23,820** | **25,278** | **26,780** | **28,328** | **28,732** | **30,376** | **32,069** | **33,814** | **35,611** |
| **TAX CREDIT RENTAL INCOME** | **1,158,236** | **1,187,192** | **1,216,872** | **1,247,293** | **1,278,476** | **1,310,438** | **1,343,198** | **1,376,778** | **1,411,198** | **1,446,478** |
| *Affordable Rent Increase* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* |
| Section 8 Income | **0** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **TOTAL RENTAL INCOME** | **1,158,236** | **1,187,192** | **1,216,872** | **1,247,293** | **1,278,476** | **1,310,438** | **1,343,198** | **1,376,778** | **1,411,198** | **1,446,478** |
| **OTHER INCOME** | | | | | | | | | | |
| Laundry | 8,075 | 8,236 | 8,401 | 8,569 | 8,740 | 8,915 | 9,093 | 9,275 | 9,461 | 9,650 |
| Other Income | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| *Other Income Increase* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* |
| **TOTAL OTHER INCOME** | **8,075** | **8,236** | **8,401** | **8,569** | **8,740** | **8,915** | **9,093** | **9,275** | **9,461** | **9,650** |
| **GROSS POTENTIAL INCOME** | **1,166,310** | **1,195,428** | **1,225,272** | **1,255,862** | **1,287,216** | **1,319,353** | **1,352,292** | **1,386,054** | **1,420,659** | **1,456,128** |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **VACANCY ASSUMPTIONS** | | | | | | | | | | |
| *Affordable (Blended Average)* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* |
| *Laundry & Other Income* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* |
| **LESS: VACANCY LOSS** | **58,316** | **59,771** | **61,264** | **62,793** | **64,361** | **65,968** | **67,615** | **69,303** | **71,033** | **72,806** |
| **EFFECTIVE GROSS INCOME - T/C** | **1,107,995** | **1,135,656** | **1,164,009** | **1,193,069** | **1,222,855** | **1,253,385** | **1,284,677** | **1,316,751** | **1,349,626** | **1,383,321** |
| **OPERATING EXPENSES** | | | | | | | | | | |
| **Expenses** | 614,874 | 636,395 | 658,669 | 681,722 | 705,582 | 730,278 | 755,838 | 782,292 | 809,672 | 838,011 |
| *Annual Expense Increase* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* |
| **Taxes and Assessments** | 4,822 | 4,919 | 5,017 | 5,118 | 5,220 | 5,324 | 5,431 | 5,539 | 5,650 | 5,763 |
| *Annual Tax Increase* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* |
| **Replacement Reserve** | 40,572 | 40,572 | 40,572 | 40,572 | 40,572 | 42,601 | 42,601 | 42,601 | 42,601 | 42,601 |
| *Percentage Increase Yearly* | *0.00%* | *0.00%* | *0.00%* | *0.00%* | *5.00%* | *0.00%* | *0.00%* | *0.00%* | *0.00%* | *5.00%* |
| **TOTAL EXPENSES** | **660,269** | **681,886** | **704,258** | **727,412** | **751,374** | **778,203** | **803,869** | **830,432** | **857,923** | **886,374** |
| **T/C NET OPERATING INCOME** | **447,726** | **453,771** | **459,751** | **465,657** | **471,481** | **475,182** | **480,808** | **486,319** | **491,703** | **496,947** |
| **TOTAL NET OPERATING INCOME** | **470,131** | **477,591** | **485,029** | **492,438** | **499,809** | **503,914** | **511,184** | **518,388** | **525,516** | **532,558** |
| CalHFA - 1st Mortgage | 263,372 | 263,372 | 263,372 | 263,372 | 263,372 | 263,372 | 263,372 | 263,372 | 263,372 | 263,372 |
| CalHFA - FAF Loan | 31,359 | 31,359 | 31,359 | 31,359 | 31,359 | 32,004 | 32,004 | 32,004 | 32,004 | 32,004 |
| CalHFA - Section 8 Loan | | | | | | | | | | |
| MHP | 41,223 | 41,223 | 41,223 | 41,223 | 41,223 | 41,223 | 41,223 | 41,223 | 41,223 | 41,223 |
| Sum of all req'd debt service | 335,954 | 335,954 | 335,954 | 335,954 | 335,954 | 336,599 | 336,599 | 336,599 | 336,599 | 336,599 |
| Cash flow after CalHFA debt service | **175,400** | **182,859** | **190,297** | **197,706** | **205,077** | **208,539** | **215,808** | **223,012** | **230,141** | **237,182** |
| **CASH FLOW after all debt service** | **134,177** | **141,636** | **149,074** | **156,483** | **163,854** | **167,316** | **174,585** | **181,789** | **188,918** | **195,959** |
| **DEBT COVERAGE RATIO** | **1.40** | **1.42** | **1.44** | **1.47** | **1.49** | **1.50** | **1.52** | **1.54** | **1.56** | **1.58** |

| *Cash Flow* | CalHFA Project Number: 04-012-N | | | | | | | | Lion Creek HOPE VI, Phase II | |
|---|---|---|---|---|---|---|---|---|---|---|
| **INCOME** | **Year 21** | **Year 22** | **Year 23** | **Year 24** | **Year 25** | **Year 26** | **Year 27** | **Year 28** | **Year 29** | **Year 30** |
| *ACC Units Rent Increase* | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| ACC Units Rents | 451,759 | 465,312 | 479,271 | 493,649 | 508,459 | 523,712 | 539,424 | 555,607 | 572,275 | 589,443 |
| **TOTAL RENTAL INCOME** | 451,759 | 465,312 | 479,271 | 493,649 | 508,459 | 523,712 | 539,424 | 555,607 | 572,275 | 589,443 |
| | | | | | | | | | | |
| **OTHER INCOME** | | | | | | | | | | |
| *Laundry Income Increase* | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| Laundry | 7,022 | 7,233 | 7,450 | 7,673 | 7,904 | 8,141 | 8,385 | 8,636 | 8,895 | 9,162 |
| *Other Income Increase* | *3.00%* | *3.00%* | *3.00%* | *3.00%* | *3.00%* | *3.00%* | *3.00%* | *3.00%* | *3.00%* | *3.00%* |
| Utility Expense Reimbursement | 85,565 | 88,132 | 90,776 | 93,499 | 96,304 | 99,193 | 102,169 | 105,234 | 108,391 | 111,643 |
| **TOTAL OTHER INCOME** | **92,587** | **95,365** | **98,226** | **101,173** | **104,208** | **107,334** | **110,554** | **113,871** | **117,287** | **120,805** |
| | | | | | | | | | | |
| **EFFECTIVE GROSS INCOME-ACC** | **544,346** | **560,677** | **577,497** | **594,822** | **612,666** | **631,046** | **649,978** | **669,477** | **689,561** | **710,248** |
| | | | | | | | | | | |
| *Vacancy Rate : ACC units* | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| Less: Vacancy Loss | 16,330 | 16,820 | 17,325 | 17,845 | 18,380 | 18,931 | 19,499 | 20,084 | 20,687 | 21,307 |
| **EFFECTIVE GROSS INCOME** | **528,016** | **543,856** | **560,172** | **576,977** | **594,286** | **612,115** | **630,478** | **649,393** | **668,875** | **688,941** |
| | | | | | | | | | | |
| **OPERATING EXPENSES-ACC UNITS** | | | | | | | | | | |
| *Annual Expense Increase* | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| Expenses | 462,097 | 475,960 | 490,239 | 504,946 | 520,094 | 535,697 | 551,768 | 568,321 | 585,371 | 602,932 |
| Replacement Reserve | 26,255 | 26,255 | 26,255 | 26,255 | 26,255 | 27,568 | 27,568 | 27,568 | 27,568 | 27,568 |
| *Annual Tax Increase* | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| Taxes and Assessments | 3,450 | 3,519 | 3,590 | 3,662 | 3,735 | 3,809 | 3,886 | 3,963 | 4,043 | 4,124 |
| **TOTAL EXPENSES** | **491,802** | **505,734** | **520,084** | **534,863** | **550,084** | **567,074** | **583,222** | **599,852** | **616,981** | **634,623** |
| | | | | | | | | | | |
| **ACC - NET OPERATING INCOME** | **36,213** | **38,122** | **40,088** | **42,115** | **44,202** | **45,041** | **47,257** | **49,541** | **51,893** | **54,318** |
| | | | | | | | | | | |
| **TAX CREDIT RENTAL INCOME** | **1,482,640** | **1,519,706** | **1,557,698** | **1,596,641** | **1,636,557** | **1,677,471** | **1,719,408** | **1,762,393** | **1,806,453** | **1,851,614** |
| *Affordable Rent Increase* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* |
| Section 8 Income | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **TOTAL RENTAL INCOME** | **1,482,640** | **1,519,706** | **1,557,698** | **1,596,641** | **1,636,557** | **1,677,471** | **1,719,408** | **1,762,393** | **1,806,453** | **1,851,614** |
| | | | | | | | | | | |
| **OTHER INCOME** | | | | | | | | | | |
| Laundry | 9,843 | 10,040 | 10,241 | 10,445 | 10,654 | 10,867 | 11,085 | 11,306 | 11,533 | 11,763 |
| Other Income | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| *Other Income Increase* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* |
| **TOTAL OTHER INCOME** | **9,843** | **10,040** | **10,241** | **10,445** | **10,654** | **10,867** | **11,085** | **11,306** | **11,533** | **11,763** |
| | | | | | | | | | | |
| **GROSS POTENTIAL INCOME** | **1,492,483** | **1,529,746** | **1,567,939** | **1,607,086** | **1,647,211** | **1,688,338** | **1,730,492** | **1,773,699** | **1,817,985** | **1,863,377** |

| | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **VACANCY ASSUMPTIONS** | | | | | | | | | | |
| *Affordable (Blended Average)* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* |
| *Laundry & Other Income* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* |
| **LESS: VACANCY LOSS** | **74,624** | **76,487** | **78,397** | **80,354** | **82,361** | **84,417** | **86,525** | **88,685** | **90,899** | **93,169** |
| **EFFECTIVE GROSS INCOME - T/C** | **1,417,859** | **1,453,258** | **1,489,542** | **1,526,732** | **1,564,851** | **1,603,921** | **1,643,968** | **1,685,014** | **1,727,086** | **1,770,208** |
| **OPERATING EXPENSES** | | | | | | | | | | |
| **Expenses** | 867,341 | 897,698 | 929,117 | 961,636 | 995,294 | 1,030,129 | 1,066,184 | 1,103,500 | 1,142,122 | 1,182,097 |
| *Annual Expense Increase* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* |
| **Taxes and Assessments** | 5,878 | 5,996 | 6,116 | 6,238 | 6,363 | 6,490 | 6,620 | 6,752 | 6,887 | 7,025 |
| *Annual Tax Increase* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* |
| **Replacement Reserve** | 44,731 | 44,731 | 44,731 | 44,731 | 44,731 | 46,967 | 46,967 | 46,967 | 46,967 | 46,967 |
| *Percentage Increase Yearly* | *0.00%* | *0.00%* | *0.00%* | *0.00%* | *5.00%* | *0.00%* | *0.00%* | *0.00%* | *0.00%* | *5.00%* |
| **TOTAL EXPENSES** | **917,950** | **948,425** | **979,964** | **1,012,605** | **1,046,387** | **1,083,586** | **1,119,771** | **1,157,220** | **1,195,977** | **1,236,089** |
| **T/C NET OPERATING INCOME** | **499,909** | **504,834** | **509,578** | **514,127** | **518,463** | **520,335** | **524,197** | **527,795** | **531,109** | **534,119** |
| **TOTAL NET OPERATING INCOME** | **536,122** | **542,956** | **549,667** | **556,241** | **562,666** | **565,376** | **571,454** | **577,335** | **583,002** | **588,437** |
| CalHFA - 1st Mortgage | 263,372 | 263,372 | 263,372 | 263,372 | 263,372 | 263,372 | 263,372 | 263,372 | 263,372 | 263,372 |
| CalHFA - FAF Loan | 32,004 | 32,004 | 32,004 | 32,004 | 32,004 | 32,004 | 32,004 | 32,004 | 32,004 | 32,004 |
| CalHFA - Section 8 Loan | | | | | | | | | | |
| MHP | 41,223 | 41,223 | 41,223 | 41,223 | 41,223 | 41,223 | 41,223 | 41,223 | 41,223 | 41,223 |
| Sum of all req'd debt service | 336,599 | 336,599 | 336,599 | 336,599 | 336,599 | 336,599 | 336,599 | 336,599 | 336,599 | 336,599 |
| Cash flow after CalHFA debt service | **240,746** | **247,580** | **254,291** | **260,865** | **267,290** | **270,000** | **276,078** | **281,959** | **287,626** | **293,061** |
| **CASH FLOW after all debt service** | **199,523** | **206,357** | **213,068** | **219,642** | **226,067** | **228,777** | **234,855** | **240,736** | **246,403** | **251,838** |
| **DEBT COVERAGE RATIO** | **1.59** | **1.61** | **1.63** | **1.65** | **1.67** | **1.68** | **1.70** | **1.72** | **1.73** | **1.75** |

| *Cash Flow* | CalHFA Project Number: 04-012-N | | | | | | | Lion Creek HOPE VI, | |
|---|---|---|---|---|---|---|---|---|---|
| **INCOME** | **Year 31** | **Year 32** | **Year 33** | **Year 34** | **Year 35** | **Year 36** | **Year 37** | **Year 38** | **Year 39** |
| *ACC Units Rent Increase* | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| ACC Units Rents | 607,126 | 625,340 | 644,100 | 663,423 | 683,326 | 703,826 | 724,941 | 746,689 | 769,089 |
| **TOTAL RENTAL INCOME** | 607,126 | 625,340 | 644,100 | 663,423 | 683,326 | 703,826 | 724,941 | 746,689 | 769,089 |
| | | | | | | | | | |
| **OTHER INCOME** | | | | | | | | | |
| *Laundry Income Increase* | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| Laundry | 9,437 | 9,720 | 10,012 | 10,312 | 10,622 | 10,940 | 11,269 | 11,607 | 11,955 |
| *Other Income Increase* | *3.00%* | *3.00%* | *3.00%* | *3.00%* | *3.00%* | *3.00%* | *3.00%* | *3.00%* | *3.00%* |
| Utility Expense Reimbursement | 114,992 | 118,442 | 121,995 | 125,655 | 129,425 | 133,308 | 137,307 | 141,426 | 145,669 |
| **TOTAL OTHER INCOME** | **124,429** | **128,162** | **132,007** | **135,967** | **140,046** | **144,248** | **148,575** | **153,033** | **157,624** |
| | | | | | | | | | |
| **EFFECTIVE GROSS INCOME-ACC** | **731,556** | **753,502** | **776,108** | **799,391** | **823,372** | **848,074** | **873,516** | **899,721** | **926,713** |
| | | | | | | | | | |
| *Vacancy Rate : ACC units* | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| Less: Vacancy Loss | 21,947 | 22,605 | 23,283 | 23,982 | 24,701 | 25,442 | 26,205 | 26,992 | 27,801 |
| **EFFECTIVE GROSS INCOME** | **709,609** | **730,897** | **752,824** | **775,409** | **798,671** | **822,631** | **847,310** | **872,730** | **898,912** |
| | | | | | | | | | |
| **OPERATING EXPENSES-ACC UNIT** | | | | | | | | | |
| *Annual Expense Increase* | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| Expenses | 621,020 | 639,651 | 658,840 | 678,605 | 698,963 | 719,932 | 741,530 | 763,776 | 786,690 |
| Replacement Reserve | 28,946 | 28,946 | 28,946 | 28,946 | 28,946 | 30,393 | 30,393 | 30,393 | 30,393 |
| *Annual Tax Increase* | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| Taxes and Assessments | 4,206 | 4,290 | 4,376 | 4,463 | 4,553 | 4,644 | 4,737 | 4,831 | 4,928 |
| **TOTAL EXPENSES** | **654,172** | **672,887** | **692,162** | **712,015** | **732,462** | **754,969** | **776,660** | **799,001** | **822,011** |
| | | | | | | | | | |
| **ACC - NET OPERATING INCOME** | **55,437** | **58,011** | **60,662** | **63,394** | **66,209** | **67,662** | **70,650** | **73,729** | **76,901** |
| | | | | | | | | | |
| **TAX CREDIT RENTAL INCOME** | **1,897,904** | **1,945,352** | **1,993,986** | **2,043,835** | **2,094,931** | **2,147,305** | **2,200,987** | **2,256,012** | **2,312,412** |
| *Affordable Rent Increase* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* | *2.50%* |
| Section 8 Income | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| **TOTAL RENTAL INCOME** | **1,897,904** | **1,945,352** | **1,993,986** | **2,043,835** | **2,094,931** | **2,147,305** | **2,200,987** | **2,256,012** | **2,312,412** |
| | | | | | | | | | |
| **OTHER INCOME** | | | | | | | | | |
| Laundry | 11,998 | 12,238 | 12,483 | 12,733 | 12,988 | 13,247 | 13,512 | 13,782 | 14,058 |
| Other Income | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| *Other Income Increase* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* |
| **TOTAL OTHER INCOME** | **11,998** | **12,238** | **12,483** | **12,733** | **12,988** | **13,247** | **13,512** | **13,782** | **14,058** |
| | | | | | | | | | |
| **GROSS POTENTIAL INCOME** | **1,909,903** | **1,957,590** | **2,006,469** | **2,056,568** | **2,107,919** | **2,160,552** | **2,214,499** | **2,269,794** | **2,326,470** |

| | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|
| **VACANCY ASSUMPTIONS** | | | | | | | | | |
| *Affordable (Blended Average)* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* |
| *Laundry & Other Income* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* | *5.00%* |
| **LESS: VACANCY LOSS** | **95,495** | **97,880** | **100,323** | **102,828** | **105,396** | **108,028** | **110,725** | **113,490** | **116,324** |
| **EFFECTIVE GROSS INCOME - T/C** | **1,814,408** | **1,859,711** | **1,906,145** | **1,953,740** | **2,002,523** | **2,052,524** | **2,103,774** | **2,156,305** | **2,210,147** |
| **OPERATING EXPENSES** | | | | | | | | | |
| **Expenses** | 1,223,470 | 1,266,292 | 1,310,612 | 1,356,483 | 1,403,960 | 1,453,099 | 1,503,957 | 1,556,596 | 1,611,077 |
| *Annual Expense Increase* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* | *3.50%* |
| **Taxes and Assessments** | 7,166 | 7,309 | 7,455 | 7,604 | 7,756 | 7,912 | 8,070 | 8,231 | 8,396 |
| *Annual Tax Increase* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* | *2.00%* |
| **Replacement Reserve** | 49,316 | 49,316 | 49,316 | 49,316 | 49,316 | 51,781 | 51,781 | 51,781 | 51,781 |
| *Percentage Increase Yearly* | *0.00%* | *0.00%* | *0.00%* | *0.00%* | *5.00%* | *0.00%* | *0.00%* | *0.00%* | *0.00%* |
| **TOTAL EXPENSES** | **1,279,951** | **1,322,916** | **1,367,383** | **1,413,403** | **1,461,032** | **1,512,792** | **1,563,808** | **1,616,608** | **1,671,254** |
| **T/C NET OPERATING INCOME** | **534,456** | **536,795** | **538,763** | **540,337** | **541,491** | **539,733** | **539,966** | **539,696** | **538,893** |
| **TOTAL NET OPERATING INCOME** | **589,893** | **594,805** | **599,425** | **603,731** | **607,700** | **607,395** | **610,616** | **613,425** | **615,794** |
| CalHFA - 1st Mortgage | 263,372 | 263,372 | 263,372 | 263,372 | 263,372 | 263,372 | 263,372 | 263,372 | 263,372 |
| CalHFA - FAF Loan | 32,004 | 32,004 | 32,004 | 32,004 | 32,004 | 32,004 | 32,004 | 32,004 | 32,004 |
| CalHFA - Section 8 Loan | | | | | | | | | |
| MHP | 41,223 | 41,223 | 41,223 | 41,223 | 41,223 | 41,223 | 41,223 | 41,223 | 41,223 |
| Sum of all req'd debt service | 336,599 | 336,599 | 336,599 | 336,599 | 336,599 | 336,599 | 336,599 | 336,599 | 336,599 |
| Cash flow after CalHFA debt service | **294,517** | **299,429** | **304,049** | **308,355** | **312,324** | **312,019** | **315,240** | **318,049** | **320,418** |
| **CASH FLOW after all debt service** | **253,294** | **258,206** | **262,826** | **267,132** | **271,101** | **270,796** | **274,017** | **276,826** | **279,195** |
| **DEBT COVERAGE RATIO** | **1.75** | **1.77** | **1.78** | **1.79** | **1.81** | **1.80** | **1.81** | **1.82** | **1.83** |

| *Cash Flow* | Phase II |
|---|---|
| **INCOME** | **Year 40** |
| *ACC Units Rent Increase* | 3.00% |
| ACC Units Rents | 792,162 |
| **TOTAL RENTAL INCOME** | 792,162 |
| | |
| **OTHER INCOME** | |
| *Laundry Income Increase* | 3.00% |
| Laundry | 12,313 |
| *Other Income Increase* | *3.00%* |
| Utility Expense Reimbursement | 150,039 |
| **TOTAL OTHER INCOME** | **162,352** |
| | |
| **EFFECTIVE GROSS INCOME-ACC** | **954,514** |
| | |
| *Vacancy Rate : ACC units* | 3.00% |
| Less: Vacancy Loss | 28,635 |
| **EFFECTIVE GROSS INCOME** | **925,879** |
| | |
| **OPERATING EXPENSES-ACC UNIT** | |
| *Annual Expense Increase* | 3.00% |
| Expenses | 810,290 |
| Replacement Reserve | 30,393 |
| *Annual Tax Increase* | 2.00% |
| Taxes and Assessments | 5,027 |
| **TOTAL EXPENSES** | **845,710** |
| | |
| **ACC - NET OPERATING INCOME** | **80,169** |
| | |
| **TAX CREDIT RENTAL INCOME** | **2,370,222** |
| *Affordable Rent Increase* | *2.50%* |
| Section 8 Income | 0 |
| **TOTAL RENTAL INCOME** | **2,370,222** |
| | |
| **OTHER INCOME** | |
| Laundry | 14,339 |
| Other Income | 0 |
| *Other Income Increase* | *2.00%* |
| **TOTAL OTHER INCOME** | **14,339** |
| | |
| **GROSS POTENTIAL INCOME** | **2,384,562** |

| | |
|---|---|
| **VACANCY ASSUMPTIONS** | |
| *Affordable (Blended Average)* | *5.00%* |
| *Laundry & Other Income* | *5.00%* |
| **LESS: VACANCY LOSS** | **119,228** |
| **EFFECTIVE GROSS INCOME - T/C** | **2,265,334** |
| **OPERATING EXPENSES** | |
| **Expenses** | 1,667,464 |
| *Annual Expense Increase* | *3.50%* |
| **Taxes and Assessments** | 8,564 |
| *Annual Tax Increase* | *2.00%* |
| **Replacement Reserve** | 51,781 |
| *Percentage Increase Yearly* | *5.00%* |
| **TOTAL EXPENSES** | **1,727,809** |
| **T/C NET OPERATING INCOME** | **537,524** |
| **TOTAL NET OPERATING INCOME** | **617,693** |
| CalHFA - 1st Mortgage | 263,372 |
| CalHFA - FAF Loan | 32,004 |
| CalHFA - Section 8 Loan | |
| MHP | 41,223 |
| Sum of all req'd debt service | 336,599 |
| Cash flow after CalHFA debt service | **322,317** |
| **CASH FLOW after all debt service** | **281,094** |
| **DEBT COVERAGE RATIO** | **1.84** |

# CALIFORNIA HOUSING FINANCE AGENCY
## Final Commitment
## Coliseum Gardens, Phase II
## Oakland, Alameda County
## CalHFA Loan #04-012-N

### SUMMARY

This is a Final Commitment request. Security for the loans will be a newly constructed, 146 unit family apartments located on 69th Avenue and Leona Creek Drive in Oakland, California. The project will be owned by Lion Way Housing Partners L.P., a California limited partnership whose managing general partners are Related\Oakland Coliseum II Development Co., LLC and Lion Creek II, LLC.

### LOAN TERMS

**Permanent**

| | |
|---|---|
| **First Mortgage** | $4,040,000 |
| Interest Rate: | 5.90% |
| Term: | 40 year fixed, fully amortized |
| Financing: | Tax-exempt |
| **Second Mortgage** | $730,000 |
| Interest Rate: | 3.00% |
| Term: | 40 year fixed fully amortized |
| Financing: | Taxable – FAF Funds |

This is a future bond refunding request. The Oakland Housing Authority will issue the tax-exempt bonds and Wells Fargo will provide the construction financing. Upon construction completion CalHFA will refinance the bonds to provide the permanent financing.

### OTHER FINANCING

| Source | Type | Loan Amount | Term | Interest Rate | Repayment |
|---|---|---|---|---|---|
| HCD-MHP | Loan | $9,815,000 | 55 | 3.00% | Residual Receipts |
| HCD-NSSS | Loan | $500,000 | 55 | 3.00% | Forgivable |
| OHA – HOPE VI | Loan | $7,430,139 | 55 | 0.00% | Residual Receipts |
| OHA – Local | Loan | $703,620 | 55 | 0.00% | Residual Receipts |
| AHP | Grant | $645,000 | 35 | 0.00% | |

The Oakland Housing Authority, (OHA), owns the land and will provide a ground lease to the partnership. The Ground Lease is not finalized, but the expected term is 85 years (75 years minimum) and will be subject to review and approval by CalHFA. The ground lease will be prepaid (with no annual lease payments). CalHFA's Regulatory Agreement and Deeds of Trust will be secured on the leasehold interest.

HUD, through the OHA, is providing a HOPE VI loan to the project. HUD will record a Regulatory and Operating Agreement on the fee interest, which will restrict 54 units as Public Housing Assisted Units. The HUD Regulatory and Operating Agreement will be senior in priority to CalHFA's Regulatory Agreement and Deeds of Trust.

The HUD Regulatory and Operating Agreement provides operating assistance to subsidize the 54 units, under the terms of the Annual Contribution Contract (ACC) between HUD and the OHA. The proposed rent/income of all the 54 ACC units will not exceed 30% of area median income.

The project has also received a commitment from the California Department of Housing and Community Development's Multi-Family Housing Program (MHP), and MHP's Nonresidential Space for Supportive Services Program (NSSS).

**PROJECT DESCRIPTION**

Coliseum Gardens Phase II is a 146 unit family project. It is the second of a four phase master plan, designed to replace a public housing project built in the 1940's. The proposed project is part of the Coliseum Transit Village that will ultimately involve the construction of 437 affordable housing units (including 157 public housing units), 28 affordable for sale town homes, a restored/expanded 5.7 acre city park, a restored creek, and market rate housing over retail at the Coliseum BART station.

Coliseum Gardens Phase I, currently under construction and financed by CalHFA, includes the replacement of 45 of the 178 public housing units previously on the site and the construction of an additional 70 units of rental housing. There will be a joint use agreement between the phases for overall management and maintenance.

**Project Location**

- The project is located at 69th Avenue and Leona Creek Drive in the City of Oakland, Alameda County within walking distance of the Coliseum Bart station and the Oakland Coliseum.
- San Leandro Avenue, a major north south thoroughfare, is two blocks to the west, and Interstate 880 is less than one-half mile to the west. The site is three and a half miles from downtown Oakland and Jack London Square. The City of San Leandro is two miles south and the City of Alameda is less than two miles to the northwest. The City of Emeryville is five miles north and the City of San Francisco is six miles to the west.
- Coliseum Gardens is located in a medium density residential neighborhood bordering commercial and industrial areas to the west and north and residential areas to the east and south. The Oakland Coliseum complex and the Oakland International Airport are located to the southwest.
- Adjacent to the north of the site is the proposed site for Coliseum Gardens Phase III and to the east is Coliseum Phase I, which is currently under construction.
- Surrounding amenities include a public elementary school and a middle school within one-quarter mile of the site, as well as a medical clinic and several alternatives for grocery shopping within a half mile radius. Two public parks which include baseball and soccer fields, basketball courts, picnic and barbeque areas, and walking trails are immediately adjacent to the site. These two parks will be consolidated into one larger 5.7 acre park in the center of the Coliseum Gardens multi-phase redevelopment area.

**Site**

- The site is an irregular L shaped, four acre parcel. The parcel is zoned R-70 high density residential, which is a conforming use and allows for the 146 unit development. The site is currently vacant land.

**Improvements**

- The project will consist of 1, 2, 3, 4, and 5 bedroom units. There will be 55 units located in one four-story podium building with secure parking beneath, and 10 town home units located over the 7,500 S.F. social service/ community space which will look out over a public park. The remaining 81 units are configured as two-story walk-up town homes and flats with tuck under garages. The controlled parking beneath the podium deck will provide direct secure access to the perimeter sidewalk town homes as well as to the deck units above. The two-story units will have secure access through a gated auto court.
- Construction will be wood-framed Type V construction atop one level of concrete Type I podium construction, and wood framed Type V construction atop slab on grade. The building exteriors will be stucco. The roof material will be asphalt shingle. The slab on grade buildings will have gas forced air heating and individual hot water heaters. The podium buildings will be equipped with a central boiler and the landlord will pay for hot water. Electric heat in the podium buildings will be provided by wall heaters. There is no air conditioning. A number of units will have individual private decks, patios or balconies.
- The project will have 7,500 square feet of social service/ community space. An extensive social service program is planned that will include a child care center, social service-counseling, referral and job training, and English as a second language (ESL). All of these amenities will be provided through service providers in the community. The project will budget ($225/ unit/ year) to pay for a social service coordinator who will be responsible for working with the wide variety of service providers. With the exception of the childcare center, other services will be provided to residents free of charge.

**Off-site Improvements**

- Offsites are being financed separately by the City of Oakland and the Oakland Housing Authority.

**Relocation**

- No relocation required. All relocation was completed prior to start Coliseum Gardens Phase I.

## MARKET

**Market Overview**

The project's Primary Market Area (PMA) is a polygon shaped area consisting of the southwestern portion of the City of Oakland. The market study completed by Laurin Associates, dated March 1, 2005, further defined the PMA as the area bordered by High Street to the

northwest, MacArthur Boulevard to the north, Interstate 580 to the east, 98th Avenue to the south, and Doolittle Drive to the west.

- The estimated population in the PMA is 94,716. From 1990 to 2000 the PMA population increased by 12.3%. Between 2000 and 2005, the PMA population increased at an annual rate of 0.1%.
- There are 29,955 households in the PMA. Fifty-four percent of the households make less than the CTCAC 50% area median income of $82,800 for Alameda County and 20% of the households make between 50% to 80% area median income.
- Based on 2000 Census 36.2% of renter households in the City of Oakland were paying over 35% of their income for rent.
- There are 15,127 renters in the PMA, representing approximately 50% of the households.
- Approximately 35% of the PMA population is under the age of twenty.
- As of 2005 the average household size in the City of Oakland is 2.5 persons. (Households by percentage are: 1-person 32.5%; 2-person 28.4%; 3-person 14.9%; 4-person 11.0%; and 5+ person 13.2%)
- The largest employers in the County of Alameda are the University of California at Berkeley, the County of Alameda, the Oakland Unified School District, Lawrence Livermore National Laboratory, the U.S. Post Office, Kaiser Permanente, New United Motor Manufacturing, Inc., and the City of Oakland.
- The unemployment rate in Alameda County was 6.8% in 2003 and 4.5% in 2004. The unemployment rate in Oakland was 10.6% in 2003 and 9% in 2004.

**Housing Supply and Demand**

- According to the 2000 Census, 49.6% of the housing units in the City of Oakland are single family and 50.2% of the units are multifamily.
- In the PMA 50.4% of the multi-family housing units were built before 1949, and 19.9% were built between 1950 and 1959. Only 7.5% of the housing units in the market area were built between 1980 and 2000.
- The vacancy rate in the PMA for income restricted housing is 1.3% and for market rate housing is 1.9% as of February 2005.
- In the City of Oakland 39.5% of all rental units (including single family) are one-bedroom units, 28.2% are two-bedroom units, 10.5% are three-bedroom units, and 2.6% are four-bedroom (or more) units.
- The Oakland Housing Authority states that there are 15,000 families on the waiting list for Public Housing and 3,137 families on the Section 8 waiting list. A separate list of families interested in Section 8 includes approximately 10,000 names. The majority of the City of Oakland's assisted housing projects have closed waiting lists with 12 to 24 month long waits for units.
- The City of Oakland's assisted housing stock consists of 3,308 public housing units, 9,686 households assisted with Section 8 vouchers and certificates, 803 units assisted with Section 8 project based subsidies, and 6,845 other assisted units. Assisted housing units represent approximately 12.9% of Oakland's housing stock.
- There are three multi-family affordable housing projects under development or pending in the PMA: Coliseum Gardens I (under construction), Coliseum Gardens III, and a LIHTC project targeting disabled persons.
- Upon project completion in 2007, there will be an estimated demand for 7,851 LIHTC units targeting households in the PMA with incomes between 40% and 60% AMI. (The overall capture rate is 1.2 %.)

- Upon project completion in 2007, there will be a total theoretical demand for 5,640 ACC units targeting households in the PMA with incomes less than 40% AMI. (The overall capture rate is 1.0 %.)

## PROJECT FEASIBILITY

### Estimated Lease-Up Period

The market study estimates the lease-up within six months.

### Appraisal

An appraisal has not been received. A joint appraisal will be ordered with Wells Fargo the Construction lender. The appraisal report is expected by the week of July 25, 2005. An appraisal prepared for the Oakland Housing Authority, dated April 2, 2004, valued the leasehold interest in the property at $2,850,000. (The appraisal assumed no improvements on the land.)

An estimated restricted value of $5,940,000 was calculated for the loan-to-value calculation used in the Cash Flow Project Summary section of this report. The value was calculated using the restricted cash flow and a 6.25% capitalization rate.

## ENVIRONMENTAL

CalHFA has received a Phase I and Phase II Environmental Site Assessment for the entire 22 acre Coliseum Gardens site completed by Environ International Corporation in October 2003 and January 2004, respectively and an update, dated March 5, 2005.

Issues of concern identified in the Phase I were further evaluated in the Phase II, including: 1) potential impact to ground water from possible perchlorate and volatile organic compounds (VOC) at the former Coast Manufacturing plant previously located on the site, and 2) potential impacts to the ground water beneath the property from an up gradient site with a reported leaking fuel UST.

Twenty-five borings were drilled throughout the 27 acre property to be redeveloped. Soil and ground water samples were collected and were analyzed for: 1) VOCs benzene, toluene, ethyl benzene, xylenes (BTEX) and methyl tert butyl ether (MTBE), 2) total petroleum hydrocarbons (TPH), as gasoline, diesel and motor oil, 3) oil and grease, 4) perchlorate, 5) metals, and 6) pH. Ground water, which flows generally west and southwest towards the bay, was encountered in all borings at relatively shallow depths ranging from 6 to 12 feet.

Nine ground water samples were collected at the Coast Manufacturing and Supply Company site for perchlorate analysis. Perchlorate salts are associated with explosives and fireworks manufacturing. Perchlorate was not detected and pH was within normal ranges for groundwater. Metals were not detected at levels above the federal or state MCLs, or above the EPA tap water PRGs. VOCs were located but appear to be associated with an up gradient source.

The Pacific Electric Motor Company site, located up gradient from the property is a leaking underground storage tank facility with identified fuel releases to the soil and groundwater. The ground water monitoring data from the site indicated the following constituents are present at

the site: TPH as gasoline, BTEX and MTBE. Both the BTEX and MTBE reported on the Pacific Electric Motor Company site were above the federal and state Maximum Contaminant Levels (MCL).

Several up gradient ground water samples were analyzed. TPH as gasoline and diesel was found at low concentrations in four of the six samples, below levels that would initiate significant regulatory agency concern or require significant remedial action. Trichloroethylene (TCE) was reported in four of the samples at levels above the EPA tap water Preliminary Remediation Goals (PRG) and above the federal and state MCL, but below the San Francisco Bay Area Regional Water Quality Control Board's Environmental Screening Level. The Regional screening level was determined to be more appropriate by Environ. The impacted ground water is not a drinking water supply and Environ concluded that there does not appear to be a significant health risk to future residents as a result of TCE in the groundwater.

The Oakland Housing Authority has been awarded three Brownfield grants totaling $600,000 for the three parcels that make up Coliseum Gardens II site. This money will be used for additional testing and environmental remediation of the project. The grants require a regulatory agency to provide oversight and eventually a closure letter. The California Department Toxic Substances Control has been engaged as the oversight agency.

CalHFA will have URS, its environmental consultant, review of all environmental reports. A condition of the final commitment will be satisfactory review of all of these documents and any additional reports or tests required as a result of the URS review. If additional remedial action is recommended, the work will be required to be completed during the course of construction. Should any additional toxics be found on the project site prior to loan closing, the Master Development Agreement provides that the Oakland Housing Authority is responsible for any removal or remediation efforts. In addition there is a 5 year, $10 million environmental insurance policy for the property for which CalHFA is named an additional insured party.

**NOISE STUDY**

A noise study dated February 10, 2005, was completed by Wilson, Ihrig & Associates. The project site's existing noise environment is formed by several local and distant sources. These include 1) BART and Union Pacific Railroad operation to the west; 2) vehicle traffic; and 3) truck loading/dumping operations at an industrial site to the north. The study has made recommendations for noise mitigation measures for both inter unit and outdoor areas. Those mitigation measures have been incorporated into the project design.

**SEISMIC**

The Borrower has requested an earthquake insurance waiver, and a seismic evaluation is underway. Any design modifications required as a condition of the earthquake insurance waiver shall be incorporated in the final plans and specifications approved by CalHFA. If the earthquake waiver is denied, the CalHFA permanent loan amount may decrease so that the earthquake insurance premium can be included in the approved operating budget.

**DEVELOPMENT TEAM:**

**Borrower**

Lion Way Housing Partners, L.P.

Lion Way Housing Partners is a limited partnership with its co-general partners Related\Oakland Coliseum II Development Co., LLC and Lion Creek II, LLC.

- Related\Oakland Coliseum II Development Co., a California limited liability company which is affiliated with the Related Companies. The Related Companies was established to focus on the acquisition and development of government assisted and market rate multi-family housing. In the last five years it has developed over 4,739 multifamily units in fifteen projects throughout California, including five projects with over 1,644 units financed with tax exempt bonds. The Related Companies LP, a privately held New York based development and financial services company has developed nationwide over 30,000 units of multifamily housing and 3.5 million square feet of office and retail space, and has financed the development of over 110,000 apartments.

- Lion Creek II, a California limited liability company which is an affiliation between the Oakland Housing Authority and East Bay Asian Local Development Corporation (EBALDC), a California nonprofit corporation. ELBDC, established in 1975 is the co-developer of Coliseum Gardens. EBALDC's mission is the betterment of the East Bay community particularly the low income populations. ELBADC has acquired and rehabilitated several historic properties such as Swan's Marketplace, the Asian Resource Center, and Madison Park Apartments, all in Oakland. EBALDC develops new construction affordable housing, mixed-used projects and community facilities. EBALDC has developed 784 units of rental housing, 97 for sale single family homes and co-housing condominiums, and over 133,000 square feet of retail and office space including two child-care centers. The Oakland Housing Authority will have a limited role in the LLC, as it pertains to rights necessary for the public/HOPE VI housing.

**Management Agent**

Related Management Company

- Related Management Company, (RMC), established in 1974, will be the property manager for the project. RMC currently manages 114 properties with over 18,500 units of rental housing throughout California, New York, New Jersey, Pennsylvania, Illinois, the east coast and the southern states. RMC's property management portfolio consists of mostly affordable housing projects in addition to several mixed-use properties. RMC currently manages ten projects that have been financed by CalHFA with over 2,800 units.

**Service Provider/Coordinator**

East Bay Asian Local Development Corporation (EBALDC)

- EBALDC's Neighborhood and Economic Development department will be the primary service provider/coordinator for project's residents. The department's program areas include 1) Individual Development Accounts, that provide strategies and information to help families stabilize their financial situations and develop plans for long term family economic self sufficiency; 2) Neighborhood Revitalization and Commercial Services,

which focuses on business development, merchant organizing, job creation, and technical assistance for businesses and residents; and 3) Social and Community Services, which develops strategies for bridging gaps in local supportive service delivery systems.

**Contractor**

Cahill Contractors, Inc. (Proposed)

Cahill Contractors, Inc. is the proposed builder for Coliseum Gardens, Phase II. Cahill is the contractor for Coliseum Gardens Phase I. Cahill Contractors, Inc., (Cahill), was incorporated in 1923. Cahill has been building affordable housing projects for the past 14 years and is currently constructing seven affordable housing projects totaling over 1000 units. Cahill has the ability to bond up to two hundred million dollars and is posting a 100% performance and payment bond for this project.

**Architect**

Kodama Diseno and Y.H. Lee Associates

Kodama Diseno is the principal architect. Steven Kodama, FAIA, Principal, has been in the practice of architecture and planning for over 40 years. Staffed with 38 architects and planners, the firm provides full architectural services including master planning, programming and conceptual design, and construction administration. It has won over 30 design awards starting in 1980, including six recent awards for achievement, innovation, and merit since 2001.

Kodama Diseno has designed several CalHFA projects including: Life Services Alternatives in Santa Clara, San Antonio Terrace in Oakland, The Winery Apartments in Fresno, Duchow Way Apartments in Folsom, and Highland Avenue Senior Housing, Casa Ramona Senior Housing, and Little Zion Manor Apartments all in San Bernardino. Kodama Diseno has designed two additional projects for EBALDC including: Hugh Taylor House and the Child Care Center at Frank G. Mar Housing Development, both in Oakland.

Y.H. Lee Associates (YHLA)

Yui Hay Lee founded YHLA Architects in 1981. YHLA has been recognized for its successful delivery of large-scale development projects ranging from resort complexes and multi-phased high-rise condominiums to retail center and professional sports facilities. Mr. Lee has over 35 years of professional architecture and planning experience. Mr. Lee received formal architectural training and holds architectural degrees from the Harvard Graduate School of Design, Miami University, and the Ecole des Beaux Arts, at the Fontainebleau, France.

## PROJECT SUMMARY

**PROJECT NUMBER: 04-012-N**

Final Commitment

| | | | | |
|---|---|---|---|---|
| ***Project:*** | **Coliseum Gardens HOPE VI, Phase II** | | | |
| ***Location:*** | 69th Avenue & Leona Creek Drive | ***Developer:*** | **The Related Companies California** | |
| ***City:*** | Oakland | ***Partner:*** | East Bay Asian Local Development | |
| ***County:*** | Alameda | ***Investor:*** | MMA Financial | |
| ***Zip Code:*** | 94621 | | | |
| | | *No of Buildings* | 13 | |
| *Project Type* | New Construction | *No of Stories* | 4 | |
| *Occupancy.* | Family | *Residential Space* | 141,644 | sq ft |
| *Total Units.* | 146 | *Office Space* | 7,500 | sq ft |
| *Style Units:* | Townhomes & Flats | *Commercial Space* | 0 | sq ft |
| *Elevators:* | Yes | *Gross Area* | 149,144 | sq ft |
| *Total Parking* | 146 | *Land Area* | 174,240 | sq ft |
| *Covered* | 146 | *Units per acre* | 37 | |

| Permanent Sources of Funds | Amount | Rate | Years |
|---|---|---|---|
| **CalHFA First Mortgage** | **$4,040,000** | **5.90%** | **40** |
| **CalHFA Bridge Loan** | **$0** | **4.50%** | **3** |
| **CalHFA FAF Second Mortgage** | **$730,000** | **3.00%** | **40** |
| MHP | $9,815,000 | 3 00% | 55 |
| MHP NSSS | $500,000 | 3 00% | 55 |
| Oakland Housing Authority HOPE VI | $7,430,139 | 0 00% | 0 |
| Oakland Housing Authority | $703,620 | 0 00% | 55 |
| AHP | $645,000 | 0 00% | 35 |
| Source 7 | $0 | 0.00% | 0 |
| Source 8 | $0 | 0 00% | 0 |
| Source 9 | $0 | 0 00% | 0 |
| Source 10 | $0 | 0 00% | 0 |
| Source 11 | $0 | 0 00% | 0 |
| Source 12 | $0 | 0 00% | 0 |
| Income during Construction | $0 | | |
| GP Equity | $1,085,986 | | |
| Deferred Developer Fee | $214,014 | | |
| Tax Credit Equity | $20,004,285 | | |

| Construction Valuation | | Appraisal | | Value Upon Completion | |
|---|---|---|---|---|---|
| **Investment Value** | **$0** | **Appraisal Date** | **0/0/0** | **Est. Restricted Value*** | **$5,940,000** |
| **Loan / Cost** | | **Cap Rate*** | **6.25%** | **Perm. Loan / Cost*** | 11% |
| **Loan / Value** | | | | **Perm. Loan / Value*** | 80% |

*Estimated Values

### CalHFA Fees and Reserve Requirements

| **CalHFA Loan Fees** | **Amount** | **Required Reserves** | **Amount** | |
|---|---|---|---|---|
| CalHFA Permanent Loan Fees | $60,600 | Other Reserve | $0 | |
| CalHFA Bridge Loan Fees | $0 | Replacement Resv Initial Deposit | $0 | |
| CalHFA 2nd Loan Fees | $10,950 | Repl. Reserve - Per Unit/ Per Yr | $400 | |
| Construction Inspection Fee | $27,000 | CalHFA Operating Expense Reserve | $112,765 | |
| | | Rent Up Reserve | $113,809 | LOC |

**Date:** 6/13/2005 **Senior Staff Date:** 6/15/2005

## UNIT MIX AND RENT SUMMARY — Coliseum Gardens HOPE VI, Phase II

04-012-N

### Total Unit Mix

| # of Units | Unit Type | # of Baths | Average Sq. Ft. |
|---|---|---|---|
| 28 | 1 Bedroom Flat | 1 | 600 |
| 63 | 2 Bedroom Flat | 1 | 841 |
| 43 | 3 Bedroom Townhome | 1.5 & 2 | 1,237 |
| 5 | 4 Bedroom Townhome | 2 | 1,634 |
| 7 | 5 Bedroom Townhome | 2 | 1,500 |
| 146 | | | |

### Occupany Restrictions

| Agency | 20% | 30% | 40% | 50% | 60% | | Total |
|---|---|---|---|---|---|---|---|
| *CalHFA* | | | | 29 | | | 29 |
| *Tax Credits* | | | | | 145 | | 145 |
| *OHA HOPE VI* | | 54 | | | | | 54 |
| *HCD* | 13 | 41 | 32 | 31 | 28 | | 145 |
| *AHP* | | | | | | | |

### Restricted Rents Compared to Average Market Rents

| Median Income Rent Levels | Units Restricted | Restricted Rents | Avg. Market Rate Rents | Dollars Difference | | % of Market |
|---|---|---|---|---|---|---|
| One Bedroom | | | $1,184 | | | |
| 20% | 0 | $0 | | $0 | | 0% |
| 30% | 8 | $397 | | $787 | | 34% |
| 40% | 7 | $580 | | $604 | | 49% |
| 50% | 7 | $735 | | $449 | | 62% |
| 60% | 6 | $735 | | $449 | | 62% |
| Two Bedroom | | | $1,345 | | | |
| 20% | 0 | $0 | | $0 | | 0% |
| 30% | 4 | $397 | | $948 | | 30% |
| 40% | 20 | $694 | | $651 | | 52% |
| 50% | 19 | $880 | | $465 | | 65% |
| 60% | 19 | $880 | | $465 | | 65% |
| Three Bedroom | | | $1,534 | | | |
| 20% | 9 | $397 | | $1,137 | | 26% |
| 30% | 23 | $397 | | $1,137 | | 26% |
| 40% | 4 | $796 | | $738 | | 52% |
| 50% | 4 | $1,011 | | $523 | | 66% |
| 60% | 3 | $1,011 | | $523 | | 66% |
| Four Bedroom | | | $1,774 | | | |
| 20% | 3 | $397 | | $1,377 | | 22% |
| 30% | 2 | $397 | | $1,377 | | 22% |
| 40% | 0 | $0 | | $0 | | 0% |
| 50% | 0 | $0 | | $0 | | 0% |
| 60% | 0 | $0 | | $0 | | 0% |
| Five Bedroom | | | $1,905 | | | |
| 20% | 1 | $486 | | $1,508 | $0 | 21% |
| 30% | 4 | $486 | | $1,508 | $0 | 21% |
| 40% | 1 | $1,060 | | $934 | $0 | 51% |
| 50% | 1 | $1,325 | | $669 | $0 | 65% |
| 60% | 0 | $1,325 | | $0 | $0 | 0% |

Sources and Uses of Funds — Coliseum Gardens HOPE VI, Phase II

04-012-N
Final Commitment

| SOURCES OF FUNDS: | Total Sources of Funds ($) | Sources per Unit | % |
|---|---|---|---|
| **CalHFA First Mortgage** | 4,040,000 | 27,671 | 9% |
| **CalHFA FAF Second Mortgage** | 730,000 | 5,000 | 2% |
| MHP | 9,815,000 | 67,226 | 22% |
| MHP NSSS | 500,000 | 3,425 | 1% |
| Oakland Housing Authority HOPE VI | 7,430,139 | 50,891 | 16% |
| Oakland Housing Authority | 703,620 | 4,819 | 2% |
| AHP | 645,000 | 4,418 | 1% |
| Source 7 | - | - | 0% |
| Source 8 | - | - | 0% |
| Source 9 | - | - | 0% |
| Source 10 | - | - | 0% |
| Source 11 | - | - | 0% |
| Source 12 | - | - | 0% |
| Income during Construction | | | |
| GP Equity | 1,085,986 | 7,438 | 2% |
| Deferred Developer Fee | 244,739 | 1,676 | 1% |
| Tax Credit Equity | 20,004,285 | 137,016 | 44% |
| **Total Sources** | 45,198,769 | 309,581 | 100% |
| (Gap)/Surplus | - | | |

| USES OF FUNDS: | Total Cost ($) | Cost per Unit ($) | % |
|---|---|---|---|
| ***ACQUISITION*** | | | |
| Ground Lease Prepayment | 880,000 | 6,027 | 2% |
| Demolition | - | - | 0% |
| Legal - Acquisition Related Fees | - | - | 0% |
| **Subtotal - Land Cost / Value** | 880,000 | | |
| Existing Improvements Value | - | - | 0% |
| Off-Site Improvements | - | - | 0% |
| Other | - | - | 0% |
| **Total Acquisition** | **880,000** | **6,027** | **2%** |
| ***REHABILITATION*** | | | |
| Site Work | - | - | 0% |
| Rehab to Structures | - | - | 0% |
| General Requirements | - | - | 0% |
| Contractors Overhead | - | - | 0% |
| Contractors Profit | - | - | 0% |
| Contractor's Bond | - | - | 0% |
| General Liability Insurance | - | - | 0% |
| Environmental Mitigation Expense | - | - | 0% |
| Other | - | - | 0% |
| Other | - | - | 0% |
| **Total Rehabilitation** | - | - | **0%** |
| ***RELOCATION EXPENSES*** | | | |
| Relocation Expense | - | - | 0% |
| Relocation Compliance Monitoring | - | - | 0% |
| **Total Relocation** | - | - | **0%** |

(Continued on Next 2 Pages)

| USES OF FUNDS (Cont'd): | Total Cost ($) | Cost per Unit ($) | % |
|---|---|---|---|
| ***NEW CONSTRUCTION*** | | | |
| Site Work | 1,582,924 | 10,842 | 4% |
| Structures (Hard Costs) | 24,818,674 | 169,991 | 55% |
| General Requirements | 1,651,230 | 11,310 | 4% |
| Contractors Overhead | 574,382 | 3,934 | 1% |
| Contractors Profit | 1,651,230 | 11,310 | 4% |
| Contractor's Bond | 268,332 | 1,838 | 1% |
| Photovoltaics | 250,000 | 1,712 | 1% |
| Landscaping | 800,000 | 5,479 | 2% |
| Social / Community Space | 1,267,500 | 8,682 | 3% |
| **Total New Construction** | **32,864,272** | **225,098** | **73%** |
| ***ARCHITECTURAL & ENGINEERING*** | | | |
| Architectural Design | 950,000 | 6,507 | 2% |
| Other Architect & Engineers | 100,000 | 685 | 0% |
| **Total Architectural** | **1,050,000** | **7,192** | **2%** |
| Engineering Expense | 300,000 | 2,055 | 1% |
| Engineers Supv. during Construction | - | - | 0% |
| ALTA Survey | 25,000 | 171 | 0% |
| **Total Engineering & Survey** | **325,000** | **2,226** | **1%** |
| ***CONSTRUCTION LOAN COSTS*** | | | |
| Construction Loan Interest | 1,349,660 | 9,244 | 3% |
| Construction Loan Fee | 191,274 | 1,310 | 0% |
| Bond Issuer Costs | 115,000 | 788 | 0% |
| Construction Lender Costs | 75,000 | 514 | 0% |
| Other Lender Req'd Legal Fees | - | - | 0% |
| Title and Recording fees | 40,000 | 274 | 0% |
| CalHFA Req'd Inspection Fees | 27,000 | 185 | 0% |
| Testing & Inspection Fees | 50,000 | 342 | 0% |
| Prevailing Wage Monitoring Expense | - | - | 0% |
| Taxes & Insurance during construction | - | - | 0% |
| Predevelopment Interest | 50,000 | 342 | 0% |
| Other | - | - | 0% |
| Other | - | - | 0% |
| **Total Construction Loan Expense** | **1,897,934** | **13,000** | **4%** |
| ***PERMANENT LOAN COSTS*** | | | |
| CalHFA Perm Loan Fees | 71,550 | 490 | 0% |
| CalHFA Bridge Loan Fees | - | - | 0% |
| CalHFA Loan Application Fee | 500 | 3 | 0% |
| OHA Loan Fee - HOPE VI | 60,000 | 411 | 0% |
| Title and Recording | 20,000 | 137 | 0% |
| Perm. Bridge Loan Interest Expense | - | - | 0% |
| Bond Origination Guarantee Fee | - | - | 0% |
| Tax Exempt Bond Refunding | 5,000 | 34 | 0% |
| Other | 15,000 | 103 | 0% |
| **Total Permanent Loan Expense** | **157,050** | **1,076** | **0%** |
| ***LEGAL FEES*** | | | |
| Borrower Legal Fee | 200,000 | 1,370 | 0% |
| Other | - | - | 0% |
| **Total Attorney Expense** | **200,000** | **1,370** | **0%** |

| USES OF FUNDS (Cont'd): | Total Cost ($) | Cost Per Unit ($) | % |
|---|---|---|---|
| ***CONTRACT / REPORT COSTS*** | | | |
| Appraisal | 20,000 | 137 | 0% |
| Market Study | 10,000 | 68 | 0% |
| Physical Needs Assessment | - | - | 0% |
| HUD Risk Share Environ. Review | - | - | 0% |
| CalHFA EQ Waiver Seismic Review Fee | 10,000 | 68 | 0% |
| Environmental Phase I / II Reports | | - | 0% |
| Soils / Geotech Reports | 85,000 | 582 | 0% |
| Asbestos / Lead-based Paint Report | - | - | 0% |
| Noise/Acoustical/Traffic Study Report | 56,000 | 384 | 0% |
| Termit and Dryrot | - | - | 0% |
| Other | - | - | 0% |
| **Total Contract Costs** | **181,000** | **1,240** | **0%** |
| ***CONTINGENCY*** | | | |
| Hard Cost Contingency | 1,823,352 | 12,489 | 4% |
| Soft Cost Contingency | 100,000 | 685 | 0% |
| **Total Contingency** | **1,923,352** | **13,174** | **4%** |
| ***RESERVES*** | | | |
| CalHFA Operating Expense Reserve | 112,765 | 772 | 0% |
| Construction Defects Reserve | - | - | 0% |
| Rent-Up Reserve - Investor | 193,120 | 1,323 | 0% |
| ACC Reserve | 200,000 | 1,370 | 0% |
| Additional Operating Reserve | 246,329 | 1,687 | 1% |
| **Total Reserves** | **752,214** | **5,152** | **2%** |
| ***OTHER*** | | | |
| CTCAC App/Alloc/Monitor Fees | 79,947 | 548 | 0% |
| Local Permit Fees | 647,049 | 4,432 | 1% |
| Local Development Impact Fees | 520,951 | 3,568 | 1% |
| Other Consultants | 80,000 | 548 | 0% |
| Advertising & Marketing Expenses | 115,000 | 788 | 0% |
| 1st Year Taxes & Insurance | 625,000 | 4,281 | 1% |
| Furnishings | 175,000 | 1,199 | 0% |
| Final Cost Audit Expense | 35,000 | 240 | 0% |
| Miscellaneous Admin Fees | 75,000 | 514 | 0% |
| Bond Issuance Costs - Issuer | 115,000 | 788 | 0% |
| Miscellaneous | | - | 0% |
| Other | - | - | 0% |
| **Total Other Expenses** | **2,467,947** | **16,904** | **5%** |
| **SUBTOTAL PROJECT COSTS** | **42,698,769** | **292,457** | **94%** |
| ***DEVELOPER COSTS*** | | | |
| Developer Overhead/Profit (5% Acq.) | - | - | 0% |
| Developer Overhead/Profit (NC/Rehab) | 2,500,000 | 17,123 | 6% |
| Consultant / Processing Agent | - | - | 0% |
| Project Administration | - | - | 0% |
| Broker Fees to a related party | - | - | 0% |
| Construction Mgmt. Oversight | - | - | 0% |
| Other | - | - | 0% |
| **Total Developer Fee / Costs** | **2,500,000** | **17,123** | **6%** |
| **Total Costs** | **45,198,769** | **309,581** | **100%** |

Annual Operating Budget — Coliseum Gardens HOPE VI, Phase II

Final Commitment

| INCOME: | $ Amount | Per Unit | % of Total |
|---|---|---|---|
| Total Rental income | $1,138,092 | $7,795 | 95.88% |
| Laundry | $10,512 | $72 | 0.89% |
| Other Income | $38,394 | $263 | 3.23% |
| **Gross Potential Income (GPI)** | **$1,186,998** | **$8,130** | 100.00% |
| **Less:** | | | |
| Vacancy Loss | $59,350 | $407 | 5.26% |
| **Effective Gross Income** | **$1,127,648** | **$7,724** | |

| EXPENSES: | Total Cost | Per Unit | % of Total |
|---|---|---|---|
| Payroll | $183,230 | $1,255 | 24.22% |
| Administrative | $63,656 | $436 | 8.42% |
| Management Fee | $58,400 | $400 | 7.72% |
| Utilities | $103,806 | $711 | 13.72% |
| Operating and Maintenance | $190,676 | $1,306 | 25.21% |
| Insurance and Business Taxes | $59,130 | $405 | 7.82% |
| Social Programs | $32,850 | $225 | 4.34% |
| Other | $0 | $0 | 0.00% |
| **Subtotal Expenses** | **$691,748** | $4,738 | 91.45% |
| Replacement Reserves | $58,400 | $400 | 7.72% |
| Taxes & Assessments | $6,278 | $43 | 0.83% |
| **Total Expenses** | $756,426 | $5,181 | 100.00% |
| **Financial Expenses** | | | |
| CalHFA First Mortgage | $263,372 | $1,804 | |
| CalHFA FAF Second Mortgage | $31,359 | $215 | |
| MHP Annual Payment | $41,223 | $282 | |
| **NET OPERATING INCOME** | **$35,268** | **$242** | |

| Cash Flow | Final Commitment | | | | CalHFA Project Number: 04-012-N n Gardens HOPE VI. Phase II | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **RENTAL INCOME** | **Year 1** | **Year 2** | **Year 3** | **Year 4** | **Year 5** | **Year 6** | **Year 7** | **Year 8** | **Year 9** | **Year 10** |
| **Affordable Rents** | 890,364 | 908,171 | 926,335 | 944,861 | 963,759 | 983,034 | 1,002,694 | 1,022,748 | 1,043,203 | 1,064,067 |
| *Affordable Rent Increase* | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| **Rental Subsidies** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| *Rental Subsidy Increases* | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| **ACC Units** | 247,728 | 255,160 | 262,815 | 270,699 | 278,820 | 287,185 | 295,800 | 304,674 | 313,814 | 323,229 |
| *ACC Unit Increases* | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| **TOTAL RENTAL INCOME** | 1,138,092 | 1,163,331 | 1,189,149 | 1,215,560 | 1,242,579 | 1,270,218 | 1,298,495 | 1,327,423 | 1,357,018 | 1,387,296 |
| **OTHER INCOME** | | | | | | | | | | |
| **Laundry** | 10,512 | 10,722 | 10,937 | 11,155 | 11,378 | 11,606 | 11,838 | 12,075 | 12,316 | 12,563 |
| **ACC Utility Reimbursement** | 38,394 | 39,162 | 39,945 | 40,744 | 41,559 | 42,390 | 43,238 | 44,103 | 44,985 | 45,884 |
| *Other Income Increase* | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| **TOTAL OTHER INCOME** | 48,906 | 49,884 | 50,882 | 51,899 | 52,937 | 53,996 | 55,076 | 56,177 | 57,301 | 58,447 |
| **GROSS POTENTIAL INCOME** | 1,186,998 | 1,213,215 | 1,240,031 | 1,267,460 | 1,295,516 | 1,324,214 | 1,353,571 | 1,383,600 | 1,414,319 | 1,445,743 |
| **VACANCY ASSUMPTIONS** | | | | | | | | | | |
| *Affordable (Blended Average)* | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% |
| *Rental Subsidy Income* | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| *ACC Units* | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% |
| *Laundry & Other Income* | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% |
| **LESS: VACANCY LOSS** | 59,350 | 60,661 | 62,002 | 63,373 | 64,776 | 66,211 | 67,679 | 69,180 | 70,716 | 72,287 |
| **EFFECTIVE GROSS INCOME** | 1,127,648 | 1,152,554 | 1,178,029 | 1,204,087 | 1,230,740 | 1,258,004 | 1,285,892 | 1,314,420 | 1,343,603 | 1,373,456 |
| **OPERATING EXPENSES** | | | | | | | | | | |
| **Expenses** | 691,748 | 712,500 | 733,875 | 755,892 | 778,568 | 801,926 | 825,983 | 850,763 | 876,286 | 902,574 |
| *Annual Expense Increase* | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| **Taxes and Assessments** | 6,278 | 6,404 | 6,532 | 6,662 | 6,796 | 6,931 | 7,070 | 7,211 | 7,356 | 7,503 |
| *Annual Tax Increase* | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| **Replacement Reserve** | 58,400 | 58,400 | 58,400 | 58,400 | 58,400 | 61,320 | 61,320 | 61,320 | 61,320 | 61,320 |
| *Percentage Increase Yearly* | 0.00% | 0.00% | 0.00% | 0.00% | 5.00% | 0.00% | 0.00% | 0.00% | 0.00% | 5.00% |
| **TOTAL EXPENSES** | 756,426 | 777,304 | 798,807 | 820,954 | 843,764 | 870,177 | 894,373 | 919,294 | 944,961 | 971,397 |
| **NET OPERATING INCOME** | 371,222 | 375,250 | 379,222 | 383,133 | 386,976 | 387,827 | 391,519 | 395,126 | 398,642 | 402,059 |
| **DEBT SERVICE** | | | | | | | | | | |
| CalHFA - 1st Mortgage | 263,372 | 263,372 | 263,372 | 263,372 | 263,372 | 263,372 | 263,372 | 263,372 | 263,372 | 263,372 |
| CalHFA FAF - 2nd Mortgage | 31,359 | 31,359 | 31,359 | 31,359 | 31,359 | 31,359 | 31,359 | 31,359 | 31,359 | 31,359 |
| MHP | 41,223 | 41,223 | 41,223 | 41,223 | 41,223 | 41,223 | 41,223 | 41,223 | 41,223 | 41,223 |
| Sum of all req'd debt service | 335,954 | 335,954 | 335,954 | 335,954 | 335,954 | 335,954 | 335,954 | 335,954 | 335,954 | 335,954 |
| **CASH FLOW after all debt service** | 35,268 | 80,519 | 84,491 | 88,402 | 92,245 | 93,096 | 96,787 | 100,395 | 103,910 | 107,328 |
| **DEBT COVERAGE RATIO** | 1.10 | 1.12 | 1.13 | 1.14 | 1.15 | 1.15 | 1.17 | 1.18 | 1.19 | 1.20 |

| Cash Flow | CalHFA Project Number: 04-012-N | | | | | | | Coliseum Gardens HOPE VI. Phase II | | |
|---|---|---|---|---|---|---|---|---|---|---|
| **RENTAL INCOME** | **Year 11** | **Year 12** | **Year 13** | **Year 14** | **Year 15** | **Year 16** | **Year 17** | **Year 18** | **Year 19** | **Year 20** |
| **Affordable Rents** | 1,085,349 | 1,107,056 | 1,129,197 | 1,151,781 | 1,174,816 | 1,198,313 | 1,222,279 | 1,246,725 | 1,271,659 | 1,297,092 |
| *Affordable Rent Increase* | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| **Rental Subsidies** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| *Rental Subsidy Increases* | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| **ACC Units** | 332,926 | 342,913 | 353,201 | 363,797 | 374,711 | 385,952 | 397,531 | 409,457 | 421,740 | 434,393 |
| *ACC Unit Increases* | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| **TOTAL RENTAL INCOME** | 1,418,274 | 1,449,969 | 1,482,398 | 1,515,578 | 1,549,527 | 1,584,265 | 1,619,810 | 1,656,181 | 1,693,399 | 1,731,485 |
| **OTHER INCOME** | | | | | | | | | | |
| **Laundry** | 12,814 | 13,070 | 13,332 | 13,598 | 13,870 | 14,148 | 14,431 | 14,719 | 15,014 | 15,314 |
| **ACC Utility Reimbursement** | 46,802 | 47,738 | 48,693 | 49,667 | 50,660 | 51,673 | 52,707 | 53,761 | 54,836 | 55,933 |
| *Other Income Increase* | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| **TOTAL OTHER INCOME** | 59,616 | 60,808 | 62,024 | 63,265 | 64,530 | 65,821 | 67,137 | 68,480 | 69,850 | 71,247 |
| **GROSS POTENTIAL INCOME** | 1,477,890 | 1,510,778 | 1,544,422 | 1,578,843 | 1,614,057 | 1,650,086 | 1,686,947 | 1,724,661 | 1,763,249 | 1,802,731 |
| **VACANCY ASSUMPTIONS** | | | | | | | | | | |
| *Affordable (Blended Average)* | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% |
| *Rental Subsidy Income* | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| *ACC Units* | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% |
| *Laundry & Other Income* | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% |
| **LESS: VACANCY LOSS** | 73,895 | 75,539 | 77,221 | 78,942 | 80,703 | 82,504 | 84,347 | 86,233 | 88,162 | 90,137 |
| **EFFECTIVE GROSS INCOME** | 1,403,996 | 1,435,239 | 1,467,201 | 1,499,901 | 1,533,355 | 1,567,581 | 1,602,600 | 1,638,428 | 1,675,087 | 1,712,595 |
| **OPERATING EXPENSES** | | | | | | | | | | |
| **Expenses** | 929,651 | 957,541 | 986,267 | 1,015,855 | 1,046,331 | 1,077,721 | 1,110,052 | 1,143,354 | 1,177,655 | 1,212,984 |
| *Annual Expense Increase* | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| **Taxes and Assessments** | 7,653 | 7,806 | 7,962 | 8,121 | 8,284 | 8,449 | 8,618 | 8,791 | 8,967 | 9,146 |
| *Annual Tax Increase* | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| **Replacement Reserve** | 64,386 | 64,386 | 64,386 | 64,386 | 64,386 | 67,605 | 67,605 | 67,605 | 67,605 | 67,605 |
| *Percentage Increase Yearly* | 0.00% | 0.00% | 0.00% | 0.00% | 5.00% | 0.00% | 0.00% | 0.00% | 0.00% | 5.00% |
| **TOTAL EXPENSES** | 1,001,690 | 1,029,733 | 1,058,615 | 1,088,363 | 1,119,001 | 1,153,776 | 1,186,276 | 1,219,750 | 1,254,226 | 1,289,735 |
| **NET OPERATING INCOME** | 402,306 | 405,506 | 408,586 | 411,538 | 414,354 | 413,806 | 416,324 | 418,678 | 420,860 | 422,859 |
| **DEBT SERVICE** | | | | | | | | | | |
| CalHFA - 1st Mortgage | 263,372 | 263,372 | 263,372 | 263,372 | 263,372 | 263,372 | 263,372 | 263,372 | 263,372 | 263,372 |
| CalHFA FAF - 2nd Mortgage | 31,359 | 31,359 | 31,359 | 31,359 | 31,359 | 32,004 | 32,004 | 32,004 | 32,004 | 32,004 |
| MHP | 41,223 | 41,223 | 41,223 | 41,223 | 41,223 | 41,223 | 41,223 | 41,223 | 41,223 | 41,223 |
| Sum of all req'd debt service | 335,954 | 335,954 | 335,954 | 335,954 | 335,954 | 336,599 | 336,599 | 336,599 | 336,599 | 336,599 |
| **CASH FLOW after all debt service** | 107,574 | 110,774 | 113,855 | 116,807 | 119,623 | 118,430 | 120,948 | 123,302 | 125,484 | 127,484 |
| **DEBT COVERAGE RATIO** | 1.20 | 1.21 | 1.22 | 1.22 | 1.23 | 1.23 | 1.24 | 1.24 | 1.25 | 1.26 |

| Cash Flow | CalHFA Project Number: 04-012-N | | | | | | | | Coliseum Gardens HOPE VI. Phase II | |
|---|---|---|---|---|---|---|---|---|---|---|
| **RENTAL INCOME** | **Year 21** | **Year 22** | **Year 23** | **Year 24** | **Year 25** | **Year 26** | **Year 27** | **Year 28** | **Year 29** | **Year 30** |
| **Affordable Rents** | 1,323,034 | 1,349,495 | 1,376,485 | 1,404,014 | 1,432,095 | 1,460,737 | 1,489,951 | 1,519,750 | 1,550,145 | 1,581,148 |
| *Affordable Rent Increase* | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| **Rental Subsidies** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| *Rental Subsidy Increases* | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| **ACC Units** | 447,424 | 460,847 | 474,672 | 488,913 | 503,580 | 518,687 | 534,248 | 550,275 | 566,784 | 583,787 |
| *ACC Unit Increases* | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| **TOTAL RENTAL INCOME** | 1,770,458 | 1,810,342 | 1,851,157 | 1,892,927 | 1,935,675 | 1,979,424 | 2,024,199 | 2,070,026 | 2,116,929 | 2,164,935 |
| **OTHER INCOME** | | | | | | | | | | |
| **Laundry** | 15,620 | 15,933 | 16,251 | 16,576 | 16,908 | 17,246 | 17,591 | 17,943 | 18,301 | 18,667 |
| **ACC Utility Reimbursement** | 57,051 | 58,192 | 59,356 | 60,543 | 61,754 | 62,989 | 64,249 | 65,534 | 66,845 | 68,182 |
| *Other Income Increase* | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| **TOTAL OTHER INCOME** | 72,672 | 74,125 | 75,608 | 77,120 | 78,662 | 80,235 | 81,840 | 83,477 | 85,146 | 86,849 |
| **GROSS POTENTIAL INCOME** | 1,843,130 | 1,884,467 | 1,926,765 | 1,970,047 | 2,014,337 | 2,059,659 | 2,106,039 | 2,153,503 | 2,202,075 | 2,251,785 |
| **VACANCY ASSUMPTIONS** | | | | | | | | | | |
| *Affordable (Blended Average)* | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% |
| *Rental Subsidy Income* | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| *ACC Units* | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% |
| *Laundry & Other Income* | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% |
| **LESS: VACANCY LOSS** | 92,156 | 94,223 | 96,338 | 98,502 | 100,717 | 102,983 | 105,302 | 107,675 | 110,104 | 112,589 |
| **EFFECTIVE GROSS INCOME** | 1,750,973 | 1,790,243 | 1,830,426 | 1,871,544 | 1,913,620 | 1,956,676 | 2,000,737 | 2,045,827 | 2,091,972 | 2,139,195 |
| **OPERATING EXPENSES** | | | | | | | | | | |
| **Expenses** | 1,249,374 | 1,286,855 | 1,325,461 | 1,365,225 | 1,406,181 | 1,448,367 | 1,491,818 | 1,536,572 | 1,582,669 | 1,630,149 |
| *Annual Expense Increase* | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| **Taxes and Assessments** | 9,329 | 9,515 | 9,706 | 9,900 | 10,098 | 10,300 | 10,506 | 10,716 | 10,930 | 11,149 |
| *Annual Tax Increase* | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| **Replacement Reserve** | 70,986 | 70,986 | 70,986 | 70,986 | 70,986 | 74,535 | 74,535 | 74,535 | 74,535 | 74,535 |
| *Percentage Increase Yearly* | 0.00% | 0.00% | 0.00% | 0.00% | 5.00% | 0.00% | 0.00% | 0.00% | 0.00% | 5.00% |
| **TOTAL EXPENSES** | 1,329,688 | 1,367,356 | 1,406,152 | 1,446,110 | 1,487,265 | 1,533,201 | 1,576,858 | 1,621,823 | 1,668,134 | 1,715,833 |
| **NET OPERATING INCOME** | 421,285 | 422,887 | 424,274 | 425,434 | 426,355 | 423,475 | 423,879 | 424,005 | 423,837 | 423,362 |
| **DEBT SERVICE** | | | | | | | | | | |
| CalHFA - 1st Mortgage | 263,372 | 263,372 | 263,372 | 263,372 | 263,372 | 263,372 | 263,372 | 263,372 | 263,372 | 263,372 |
| CalHFA FAF - 2nd Mortgage | 32,004 | 32,004 | 32,004 | 32,004 | 32,004 | 32,004 | 32,004 | 32,004 | 32,004 | 32,004 |
| MHP | 41,223 | 41,223 | 41,223 | 41,223 | 41,223 | 41,223 | 41,223 | 41,223 | 41,223 | 41,223 |
| Sum of all req'd debt service | 336,599 | 336,599 | 336,599 | 336,599 | 336,599 | 336,599 | 336,599 | 336,599 | 336,599 | 336,599 |
| **CASH FLOW after all debt service** | 125,909 | 127,512 | 128,899 | 130,059 | 130,979 | 128,099 | 128,503 | 128,629 | 128,461 | 127,987 |
| **DEBT COVERAGE RATIO** | 1.25 | 1.26 | 1.26 | 1.26 | 1.27 | 1.26 | 1.26 | 1.26 | 1.26 | 1.26 |

| Cash Flow | CalHFA Project Number: 04-012-N | | | | | | | | Coliseum Gardens HOPE VI, Phase II | |
|---|---|---|---|---|---|---|---|---|---|---|
| **RENTAL INCOME** | **Year 31** | **Year 32** | **Year 33** | **Year 34** | **Year 35** | **Year 36** | **Year 37** | **Year 38** | **Year 39** | **Year 40** |
| **Affordable Rents** | 1,612,771 | 1,645,027 | 1,677,927 | 1,711,486 | 1,745,715 | 1,780,630 | 1,816,242 | 1,852,567 | 1,889,618 | 1,927,411 |
| *Affordable Rent Increase* | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| **Rental Subsidies** | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 | 0 |
| *Rental Subsidy Increases* | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| **ACC Units** | 601,301 | 619,340 | 637,920 | 657,058 | 676,769 | 697,073 | 717,985 | 739,524 | 761,710 | 784,561 |
| *ACC Unit Increases* | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| **TOTAL RENTAL INCOME** | 2,214,072 | 2,264,366 | 2,315,847 | 2,368,543 | 2,422,485 | 2,477,702 | 2,534,227 | 2,592,091 | 2,651,328 | 2,711,972 |
| **OTHER INCOME** | | | | | | | | | | |
| **Laundry** | 19,041 | 19,422 | 19,810 | 20,206 | 20,610 | 21,023 | 21,443 | 21,872 | 22,309 | 22,756 |
| **ACC Utility Reimbursement** | 69,545 | 70,936 | 72,355 | 73,802 | 75,278 | 76,784 | 78,319 | 79,886 | 81,484 | 83,113 |
| *Other Income Increase* | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| **TOTAL OTHER INCOME** | 88,586 | 90,358 | 92,165 | 94,008 | 95,889 | 97,806 | 99,762 | 101,758 | 103,793 | 105,869 |
| **GROSS POTENTIAL INCOME** | 2,302,658 | 2,354,724 | 2,408,012 | 2,462,552 | 2,518,373 | 2,575,509 | 2,633,989 | 2,693,849 | 2,755,121 | 2,817,841 |
| **VACANCY ASSUMPTIONS** | | | | | | | | | | |
| *Affordable (Blended Average)* | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% |
| *Rental Subsidy Income* | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% | 0% |
| *ACC Units* | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% |
| *Laundry & Other Income* | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% | 5.00% |
| **LESS: VACANCY LOSS** | 115,133 | 117,736 | 120,401 | 123,128 | 125,919 | 128,775 | 131,699 | 134,692 | 137,756 | 140,892 |
| **EFFECTIVE GROSS INCOME** | 2,187,525 | 2,236,988 | 2,287,612 | 2,339,424 | 2,392,455 | 2,446,733 | 2,502,290 | 2,559,157 | 2,617,365 | 2,676,949 |
| **OPERATING EXPENSES** | | | | | | | | | | |
| **Expenses** | 1,679,054 | 1,729,426 | 1,781,308 | 1,834,748 | 1,889,790 | 1,946,484 | 2,004,878 | 2,065,025 | 2,126,975 | 2,190,785 |
| *Annual Expense Increase* | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% | 3.00% |
| **Taxes and Assessments** | 11,372 | 11,599 | 11,831 | 12,068 | 12,309 | 12,555 | 12,806 | 13,063 | 13,324 | 13,590 |
| *Annual Tax Increase* | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% | 2.00% |
| **Replacement Reserve** | 78,262 | 78,262 | 78,262 | 78,262 | 78,262 | 82,175 | 82,175 | 82,175 | 82,175 | 82,175 |
| *Percentage Increase Yearly* | 0.00% | 0.00% | 0.00% | 0.00% | 5.00% | 0.00% | 0.00% | 0.00% | 0.00% | 5.00% |
| **TOTAL EXPENSES** | 1,768,687 | 1,819,286 | 1,871,401 | 1,925,077 | 1,980,361 | 2,041,214 | 2,099,859 | 2,160,262 | 2,222,474 | 2,286,550 |
| **NET OPERATING INCOME** | 418,838 | 417,702 | 416,211 | 414,347 | 412,094 | 405,519 | 402,431 | 398,895 | 394,891 | 390,399 |
| **DEBT SERVICE** | | | | | | | | | | |
| CalHFA - 1st Mortgage | 263,372 | 263,372 | 263,372 | 263,372 | 263,372 | 263,372 | 263,372 | 263,372 | 263,372 | 263,372 |
| CalHFA FAF - 2nd Mortgage | 32,004 | 32,004 | 32,004 | 32,004 | 32,004 | 32,004 | 32,004 | 32,004 | 32,004 | 32,004 |
| MHP | 41,223 | 41,223 | 41,223 | 41,223 | 41,223 | 41,223 | 41,223 | 41,223 | 41,223 | 41,223 |
| Sum of all req'd debt service | 336,599 | 336,599 | 336,599 | 336,599 | 336,599 | 336,599 | 336,599 | 336,599 | 336,599 | 336,599 |
| **CASH FLOW after all debt service** | 123,462 | 122,326 | 120,835 | 118,971 | 116,718 | 110,144 | 107,055 | 103,519 | 99,516 | 95,023 |
| **DEBT COVERAGE RATIO** | 1.24 | 1.24 | 1.24 | 1.23 | 1.22 | 1.20 | 1.20 | 1.19 | 1.17 | 1.16 |

RESOLUTION 05-25

RESOLUTION AUTHORIZING A FINAL LOAN COMMITMENT

WHEREAS, the California Housing Finance Agency (the "Agency") has received a loan application on behalf of Lion Way Housing Partners, L.P., a California limited partnership (the "Borrower"), seeking a loan commitment, the proceeds of which are to be used to provide financing for a multifamily housing development located in Oakland, California, to be known as Coliseum Gardens Phase II (the "Development"); and

WHEREAS, the loan application has been reviewed by Agency staff which prepared a report presented to the Board on the meeting date recited below (the "Staff Report"), recommending Board approval subject to certain recommended terms and conditions; and

WHEREAS, Section 1.150-2 of the Treasury Regulations requires the Agency, as the issuer of tax-exempt bonds, to declare its reasonable official intent to reimburse prior expenditures for the Development with proceeds of a subsequent borrowing; and

WHEREAS, on June 15, 2005, the Executive Director exercised the authority delegated to her under Resolution 94-10 to declare the official intent of the Agency to reimburse such prior expenditures for the Development; and

WHEREAS, based upon the recommendation of staff and due deliberation by the Board, the Board has determined that a final loan commitment be made for the Development;

1. The Executive Director, or in his/her absence, either the Chief Deputy Director or the Director of Multifamily Programs of the Agency is hereby authorized to execute and deliver a final commitment letter, in a form acceptable to the Agency, and subject to recommended terms and conditions set forth in the Staff Report, in relation to the Development described above and as follows:

| PROJECT NUMBER | DEVELOPMENT NAME/ LOCALITY | MORTGAGE AMOUNT | |
|---|---|---|---|
| 04-012-N | Coliseum Gardens Phase II Oakland, California | First Permanent: | $ 4,040,000 |
| | | Second Permanent: | $ 730,000 |

2. The Executive Director may modify the terms and conditions of the loans or loans as described in the Staff Report, provided that major modifications, as defined below, must be submitted to this Board for approval. "Major modifications" as used herein means modifications which either (i) increase the total aggregate amount of any loans made pursuant to the Resolution by more than 7%; or (ii) modifications which in the judgment of the Executive Director, or in his/her absence, either the Chief Deputy Director or the Director of Multifamily Programs of the Agency, adversely change the financial or public purpose aspects of the final commitment in a substantial way.

I hereby certify that this is a true and correct copy of Resolution 05-25 adopted at a duly constituted meeting of the Board of the Agency held on July 7, 2005 at Sacramento, California.

ATTEST:_____
Secretary

DeLORME
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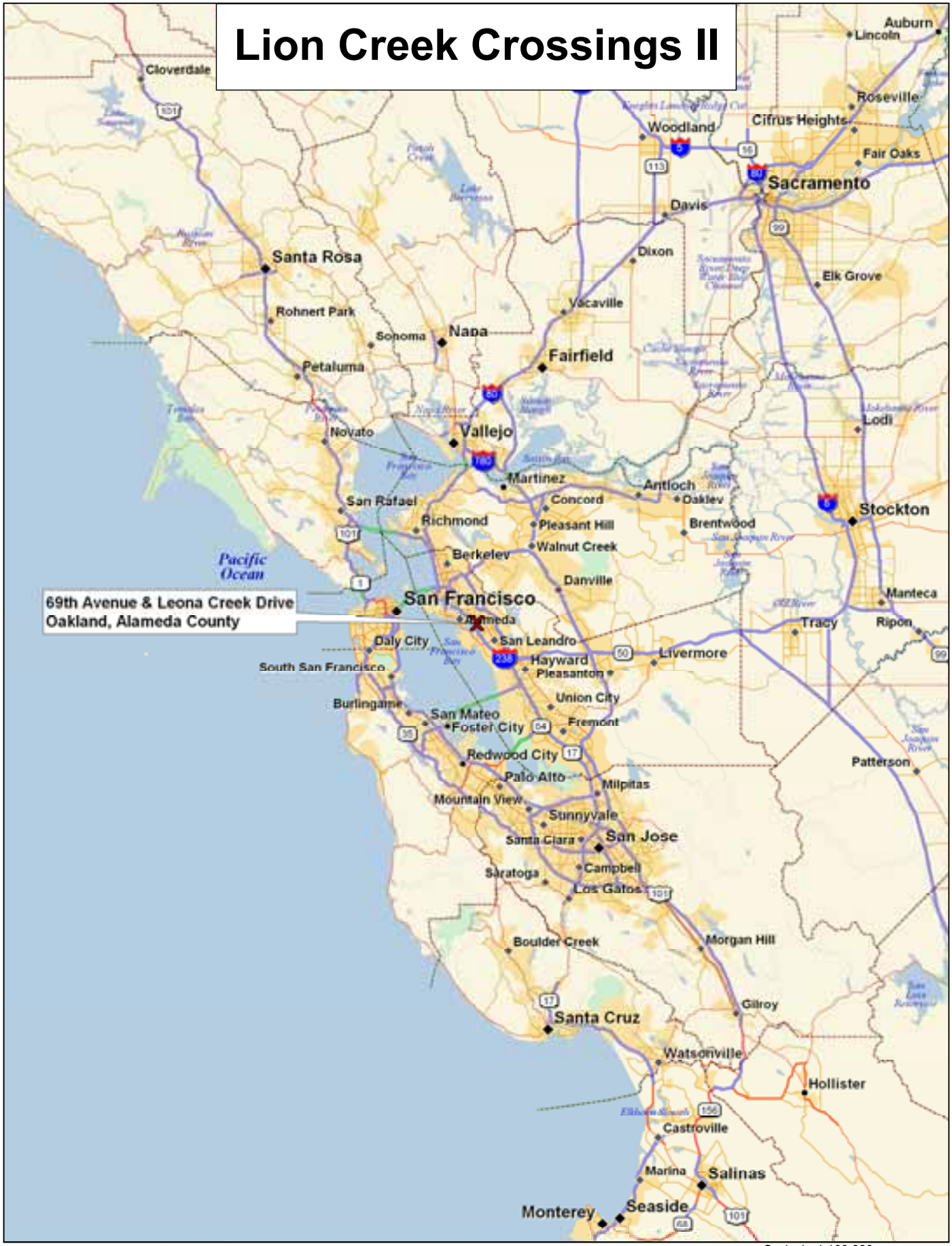
# Lion Creek Crossings II

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TN
MN (14.5°E)

Scale 1 : 1,100,000
1" = 17.36 mi
Data Zoom 7-5

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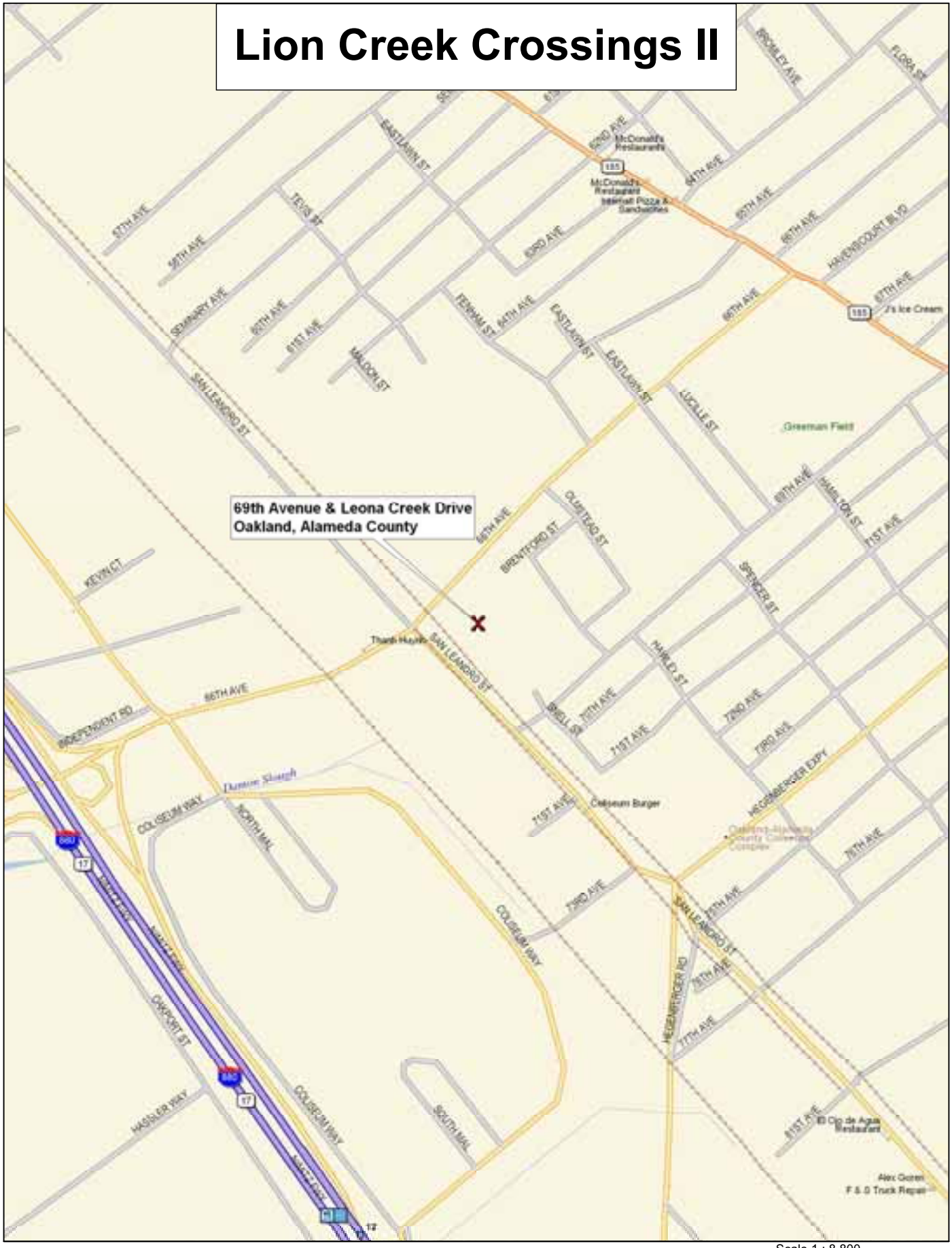
# Lion Creek Crossings II

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TN
MN (14.5°E)

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1" = 733.3 ft
Data Zoom 14-5

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RESOLUTION 07-26

RESOLUTION AUTHORIZING A FINAL LOAN COMMITMENT MODIFICATION

WHEREAS, the California Housing Finance Agency (the "Agency") has received a loan modification request on behalf of Lion Way Housing Partners, L.P., a California Limited Partnership (the "Borrower"), seeking a new third mortgage in the permanent loan commitment in the amount of $620,000, the proceeds of which are to be used to provide financing for a multifamily housing development located in the city of Oakland, Alameda County, California, to be known as Lion Creek Phase II, FKA Coliseum Gardens Phase II (the "Development"); and

WHEREAS, the loan application has been reviewed by Agency staff which prepared a report presented to the Board on the meeting date recited below (the "Staff Report"), recommending Board approval subject to certain recommended terms and conditions; and

WHEREAS, Section 1.150-2 of the Treasury Regulations requires the Agency, as the issuer of tax-exempt bonds, to declare its reasonable official intent to reimburse prior expenditures for the Development with proceeds of a subsequent borrowing; and

WHEREAS, on June 15, 2005, the Executive Director exercised the authority delegated to her under Resolution 94-10 to declare the official intent of the Agency to reimburse such prior expenditures for the Development; and

WHEREAS, on July 7, 2005, the Board approved the original final commitment in Resolution 05-25, and based upon the recommendation of staff and due deliberation by the Board, the Board has determined that a loan modification to the previously approved final loan commitment be made for the Development;

1. The Executive Director, or in his/her absence, either the Chief Deputy Director or the Director of Multifamily Programs of the Agency is hereby authorized to execute and deliver a final commitment letter, subject to his/her recommended terms and conditions set forth in the Staff Report, in relation to the Development described above and as follows:

| PROJECT NUMBER | DEVELOPMENT NAME/ LOCALITY | NUMBER OF UNITS | ORIGINAL MORTGAGE AMOUNT |
|---|---|---|---|
| 004-012N | Lion Creek Phase II<br>FKA Coliseum Gardens<br>Oakland, Alameda County | 146 | $4,040,000 Permanent 1st Mortgage<br>$730,000 Permanent 2nd Mortgage<br>$620,000 New Perm 3rd Mortgage |

Resolution 07-26
Page 2

2. The Executive Director may modify the terms and conditions of the loans or loans as described in the Staff Report, provided that major modifications, as defined below, must be submitted to this Board for approval. "Major modifications" as used herein means modifications which either (i) increase the total amount of any loans made pursuant to the Resolution by more than 7%; or (ii) modifications which in the judgment of the Executive Director, or in his/her absence, either the Chief Deputy Director or the Director of Multifamily Programs of the Agency, adversely change the financial or public purpose aspects of the final commitment in a substantial way.

I hereby certify that this is a true and correct copy of Resolution 07-26 adopted at a duly constituted meeting of the Board of the Agency held on September 12, 2007, at Burbank, California.

ATTEST:_____
Secretary

RESOLUTION 07-20

RESOLUTION APPROVING DISSOLUTION
OF THE COMPENSATION COMMITTEE

WHEREAS, on September 7, 2006, the Board of Directors of the California Housing Finance Agency enacted Resolution 06-16 establishing a Compensation Committee to advise the Board on matters related to the compensation of Agency employees, and

WHEREAS, the Board of Directors enacted a Compensation Committee Charter pursuant to such Resolution 06-16; and

WHEREAS, the Board of Directors now desires that the entire Board of Directors assume the responsibilities established for the Compensation Committee, and;

WHEREAS, the Board of Directors now wishes to dissolve the Compensation Committee;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors as follows:

1. Resolution 06-16, establishing a Compensation Committee and approving a charter for such committee, is hereby repealed, and the Compensation Committee is hereby dissolved.

2. Any and all functions previously delegated or assigned to the Compensation Committee shall be the responsibility of the full Board of Directors.

I hereby certify that this is a true and correct copy of Resolution 07-20 adopted at a duly constituted meeting of the Board of Directors of the Agency held on August 9, 2007, at Sacramento, California.

ATTEST: _____
Secretary

Comp.Com. Char.
#154138-1

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RESOLUTION 06-16

RESOLUTION APPROVING COMPENSATION COMMITTEE CHARTER

WHEREAS, the Board of Directors of the California Housing Finance Agency (the "Agency") desires to establish a Compensation Committee to advise the Board on matters related to the compensation of Agency employees, and

WHEREAS, the Chairman of the Board and the staff of the Agency have developed a proposed charter for the committee;

WHEREAS, the Board of Directors directs that any actions of the Board of Directors to set such compensation ,as may be authorized by current or future law, should be taken by the full Board sitting in open, public setting,

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors as follows:

1. The attached "Compensation Committee Charter-August 2006" is hereby adopted by the Board.

I hereby certify that this is a true and correct copy of Resolution 06-16 adopted at a duly constituted meeting of the Board of Directors of the Agency held on September 7, 2006, at Burbank, California.

ATTEST: _____
Secretary

Comp Com Char.
#145483-1

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# CALIFORNIA HOUSING FINANCE AGENCY
# COMPENSATION COMMITTEE CHARTER
# AUGUST, 2006

## MISSION

The Compensation Committee (the "Committee") is a committee of, and reports to, the Board of Directors of the California Housing Finance Agency (the "Board"). Through this Charter, the Board delegates certain responsibilities to assist the Board in fulfilling its oversight responsibilities in the compensation of key exempt management with the Agency. In performing its duties, the Committee will recommend to the Board compensation policies and procedures designed to attract and retain the best personnel to allow the Agency to achieve its goals and remain competitive in the marketplace.

## MEMBERSHIP

The Committee will be comprised of no fewer than three voting members of the Board, to be selected by the Chair of the Board to serve on a rotational basis with staggered terms. The Committee Chair will be designated by the Board Chair.

## AUTHORITY

The Committee is established by Board Resolution 06-16 and will act in an advisory capacity to the Board. Staff of the Agency will serve as a resource to Committee. In consultation with the Board Chairman and the Agency Executive Director, the Committee may direct the Agency to engage consultants and advisors to assist the Committee in the execution of its duties. The Committee has the authority to conduct any review appropriate to fulfilling its responsibilities. All employees of the Agency are directed to cooperate as requested by members of the Committee and the Committee will have complete access to Agency records and data.

## MEETINGS

The Committee will meet as often as its members determine is necessary, but not less frequently than twice each calendar year. The committee will report its proceedings and recommendations to the full Board, at the first regular meeting of the Board following a Committee meeting. All meetings of the Committee shall be open public meetings subject to the same notice and agenda procedures as are regular meetings of the Board. Any personnel evaluations may be held in closed session to the extent permitted or required by the Bagley-Keene Act; provided, however, that discussions of compensation issues shall take place in open session.

## MINUTES

Minutes of each meeting will be prepared and sent to all members of the Board. The Committee minutes need not be verbatim. Minutes of the Committee will be presented to the Committee for review and approval at the next meeting of the Committee. Minutes of Committee meetings are public records unless exempted under the California Public Records Act or other applicable law.

## DUTIES

The Committee will conduct the following activities:

1. Make recommendations to the full Board to enable the Board to carry out its duties and functions under Health and Safety Code section 50909;

2. Periodically cause to be conducted salary surveys that will form the basis of the design of a compensation plan that will attract and retain senior executive personnel qualified to lead the Agency in its mission and maintain its competitive posture in the marketplace. Such surveys will be conducted by independent outside advisors based on a comparison of compensation plans and compensation levels of other state and local housing finance agencies, other comparable agencies of the State of California, non-profit housing agencies, for-profit institutions and other relevant labor pools;

3. Periodically review and evaluate, with the assistance of Agency management, staff and outside advisors, the structure and level of Agency compensation of those senior executives whose salaries are established by the Board pursuant to section 50909;

4. Annually review the performance of the Executive Director;

5. Based on the annual review of the Executive Director's performance and the results of the salary surveys conducted by independent outside advisors, make a recommendation to the Board for the compensation level of the Executive Director;

6. Annually review that portion of the Agency's budget containing the compensation of key exempt management and recommend to the Board approval or amendments to those compensation levels. The Committee's recommendation will be based on a review of performance evaluations completed by the Executive Director and the results of the salary surveys conducted by outside advisors;

7. Review and discuss management succession at least annually;

8. Review legal and regulatory matters that may have a material impact on the Agency's compensation philosophy, structure and plans.

## OTHER COMMITTEE DUTIES

In addition to the duties outlined above, the Committee annually will also:

1. Conduct a review of its performance, including a review of its compliance with this Charter;

2. Review and assess the adequacy of this Charter taking into account all legislative, regulatory and contractual requirements applicable as well as any best practices, and, if appropriate, will recommend Charter amendments to the Board.

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**State of California**

# MEMORANDUM

**To:** Board of Directors
California Housing Finance Agency

**Date:** July 27, 2007

**From:** Theresa A. Parker, Executive Director TAP
California Housing Finance Agency

**Subject:** Salary Caps for the Directors of Multifamily & Homeownership

As I alerted you at our last Board Meeting on July 5th, after working on trying to recruit quality candidates for the position of Director of Multifamily and Homeownership I have not been successful at the current salary ranges approved by the Board as of March 2007. During previous discussions with the Board about compensation, it has been my understanding that the Board wanted me to bring back recommendations on compensation if it became a prohibition to successful recruitment. Therefore, to facilitate the discussion of Item 7 on the Board's agenda, I have included two items for your consideration.

- A letter from Wayne Lucias (our recruitment consultant from Management Advisors) discussing market conditions for recruitment of our CalHFA positions based on the Board's level of compensation approved to date.

- A chart depicting the actions taken by the Board to set compensation levels for the ten exempt positions; further action taken by the Board in March 2007 to revise salary ranges and impose a salary cap and my proposed recommendation to change the maximum salary cap for the positions of director of Multifamily and Homeownership to the maximum salary previously approved by the Board in January 2007.

I'm confident with this proposed change that I will be able to recruit candidates for these vacant positions within the maximum salary cap requested.

Attachments

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MANAGEMENTadvisors
international

EXECUTIVE SEARCH CONSULTANTS
5597 Trowbridge Dunwoody, GA 30338 (770) 673-0258 (305) 425-7626 Fax

Terri Parker
Executive Director
California Housing Finance Agency
1415 "L" Street Suite 500
Sacramento, CA 95814

July 20, 2007

Terri,

Based on my own experience, collaboration with my colleagues and feedback from candidates and others in the business, I would like to make some suggestions and observations about your compensation and benefits packages.

I know your goal is to attract quality candidates for the Director of Multifamily Housing and the Director of Home Ownership. You have also expressed an interest in these individuals having extensive lending experience and industry contacts in their respective fields. This type of talent is usually found in the private sector. These candidates are not usually looking to move from their current position into the government sector. They will need a good reason to make the move. The private sector has more variable compensation tied to performance. Most Senior Management Positions have a base salary plus bonus. Loan Officers and Sales Account Executives are paid minimal bases with large incentives. For example, the going rate for a comparable management position to the Director of Multifamily Housing is a base of $100,000 to $150,000 with a bonus potential of 75% to 100% based on performance. I have talked to many Commercial Account Executives that have made between $300,000 and $600,000 for the past several years and they are optimistic that this will hold true in the future. Additionally, I have talked to a person at Freddie Mac which is in a similar position and his total compensation is around $300,000 annually. As you know, I have two excellent candidates that meet your criteria but they are looking for a total compensation package of between $225,000 and $250,000 to start with the potential of growth.

In addition to the compensation plan, while the benefits at CalHFA are good, you need more flexibility to negotiate with specific candidates to meet their needs. Having some sort of signing bonus is a way to help when you can not buy a candidates home or he has to leave a bonus or stock options at his current position. In fact we just had a candidate that has passed on the Director of Homeownership because he feels that the additional expense to him above the reimbursement amounts would be too great. He feels he would have living expenses in two locations until his wife could sell the home and join him and of course he would want to go home every two weeks for a long weekend to be with his family.

As I have mentioned previously, I think you can attract a quality candidate for the Director of Homeownership with the $175,000 base. However, you may get more for your money if you use a base of around $140,000 and a bonus of 25% to 50%. The bonus should be tied to performance. The bonus criteria should cover such things as production goals, cost control, quality of business and overall profitability. This structure puts a cap on how much the person can make and still motivates him. The Director of Multifamily Housing would probably need to be in the base range of $150,000 with at least a 50% bonus structure.

I am not suggesting that you substantially change how much money you pay someone but I am suggesting that you have more flexibility in your plans to attract and motivate quality people. Again, a signing bonus of $15,000 to $25,000 would help relocation expenses. Many private companies gross up the home move so the candidate does not have to pay taxes on reimbursement expenses. They also pay for several months of temporary housing and commuting expenses until the home is sold.

We can discuss this further before your board meeting. Thanks for your consideration.

Sincerely,

Wayne Lucius

Wayne Lucius
Senior Vice President

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Current Salaries by Position, January 18, 2007 Maximum Salaries, March 8, 2007 Revised Caps and Proposed Caps

| Grade | Positions | Current Board Approved Salary | January 18, 2007 Maximum Salary | March 8, 2007 Salary Cap | Proposed Salary Cap Change |
|---|---|---|---|---|---|
| 1 | Executive Director | $175,000* | $250,000 | $210,000 | N/A |
| 2 | Chief Deputy Director | $175,000* | $220,000 | $190,000 | N/A |
| 2 | Director of Financing | $170,000 | $220,000 | $190,000 | N/A |
| 2 | Director of Multi-family Programs | Vacant | $220,000 | $190,000 | $220,000 |
| 2 | Director of Homeownership | Vacant | $220,000 | $190,000 | $220,000 |
| 3 | General Counsel | $170,000 | $190,000 | $170,000 | N/A |
| 3 | Director of Mortgage Insurance | $160,000 | $190,000 | $170,000 | N/A |
| 4 | Chief Information Officer | $125,000* | $150,000 | $137,500 | N/A |
| 4 | Risk Manager | $137,500 | $150,000 | $137,500 | N/A |
| 5 | Director of Legislation | $95,592 | $100,000 | $105,000 | N/A |

* Salary set as of January 1, 2007 but not yet implemented

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RESOLUTION 07-21

RESOLUTION MODIFYING PRIOR SALARY CAP RESOLUTION

WHEREAS, on January 1, 2007, amendments to Health & Safety Code section 50909 became effective, directing the Board of Directors of the California Housing Finance Agency (the "Board of Directors") to establish salaries for key exempt managers; and

WHEREAS, on January 18, 2007, the Board adopted Resolution 07-06, establishing salary ranges for certain exempt positions as an aid in setting specific salaries; and

WHEREAS, The Board of Directors thereafter adopted Resolution 07-07, establishing specific salaries for certain exempt managers; and

WHEREAS, on March 8, 2007, the Board adopted Resolution 07-10, amending the salary ranges previously adopted in Resolution 07-06, and establishing salary caps for such positions, and

WHEREAS, the Agency has for an extended time been in the process of recruiting to fill the vacant positions of the Director of Multifamily Programs and the Director of Homeownership Programs; and

WHEREAS, the salary caps previously adopted for the positions of Director of Multifamily Programs and the Director of Homeownership Programs appear to be insufficient to attract candidates of superior qualifications, as required by Health & Safety Code Section 50909,

WHEREAS, the salary survey conducted pursuant to Health & Safety Code Section 50909 permits the establishment of a higher salary cap than that enacted in Resolution 07-10,

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors as follows:

1. The Board of Directors modifies the permitted salary caps previously established in Resolution 07-10 for the positions of the Director of Multifamily Programs and the Director of Homeownership Programs, as described below.

2. The salary cap for the Director of Multifamily Programs shall be:

3. The salary cap for the Director of Homeownership Programs shall be:

I hereby certify that this is a true and correct copy of Resolution 07-21 adopted at a duly constituted meeting of the Board of Directors of the Agency held on August 9, 2007, at Sacramento, California.

ATTEST: _____
Secretary

RESOLUTION 07-22

RESOLUTION APPOINTING DIRECTOR OF MULTIFAMILY PROGRAMS

WHEREAS, the position of Director of Multifamily Programs of the California Housing Finance Agency ("Agency") is currently vacant; and

WHEREAS, the Agency Board of Directors is authorized to appoint an employee pursuant to California Constitution Article VI, Section 4(e); and

WHEREAS, Health & Safety Code Section 50909 authorizes the Board of Directors to set a salary for the position of Director of Multifamily Programs in an amount reasonably necessary to attract and hold a person of superior qualifications;

WHEREAS, Robert L. Deaner II is well qualified for the position of Director of Multifamily Programs; and

WHEREAS, the Board of Directors wishes to appoint Robert L. Deaner II to the position of Director of Multifamily Programs of the California Housing Finance Agency;

NOW, THEREFORE, BE IT RESOLVED by the Board of Directors as follows:

1. Robert L. Deaner II is hereby appointed to the position of Director of Multifamily Programs of the California Housing Finance Agency, at an annual salary of _____

I hereby certify that this is a true and correct copy of Resolution 07-22 adopted at a duly constituted meeting of the Board of Directors of the Agency held on August 9, 2007, at Sacramento, California.

ATTEST: _____
Secretary

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# CALIFORNIA HOUSING FINANCY AGENCY ("AGENCY") IMPLEMENTATION OF THE MENTAL HEALTH SERVICES PROGRAM

## PROPOSAL

This is a request for Board delegation of authority to the Agency, in particular, the Executive Director or his or her official designee, to administer the MHSA Housing Program ("MHSA Housing Program"), and to enter into all necessary agreements, including but not limited to, agreements with the California Department of Mental Health ("DMH"), local governments, and developers/borrowers regarding administration of the MHSA Housing Program. This authority would also include entering into all commitments, loan and subsidy agreements and any other agreements necessary to implement the Program. As with the Bay Area Housing Program, staff will provide on-going reports to the Board as to the progress of the Program and specific development details.

This delegation is limited to the commitment of funds which are MHSA Housing Program funds. In the event Agency funds (bond or otherwise) will also financially assist a MHSA housing development, normal Agency processing of approvals, thru Board or senior loan committee, would apply.

## PROGRAM OVERVIEW

The MHSA Housing Program is a collaborative effort to provide permanent supportive housing for the funding of development of rental and shared housing, along with customized supportive services, for persons who have serious mental illness and who are homeless, or at risk of homelessness (the "Target Population"). The collaboration may include all counties within the state, the Tax Credit Allocation Committee ("TCAC"), the California Department of Housing and Community Development ("HCD"), and various federal programs and other lenders. In particular, there is a fundamental partnership between the California Department of Mental Health ("DMH") and the Agency.

## BACKGROUND

In 2004, California voters passed Proposition 63, which created the Mental Health Services Fund ("Fund"), to provide dedicated funding for the expansion of county mental health programs. The money for this fund comes through an additional 1% tax on the adjusted gross income of persons making over $1,000,000.

Executive Order S-07-06, signed by Governor Schwarzenegger on May 12, 2006, called for a housing program (using monies from the Fund) to be developed by DMH and the Agency. The stated purpose of this Program is to create 10,000 additional units of permanent supportive housing for the Target

Population. A working group was organized and stakeholders from interested groups participated in the development of the MHSA Housing Program. This working group included representatives of the California Mental Health Directors Association, the Governor's Office, HCD, TCAC, the Corporation for Supportive Housing, as well as individual developers. As a result, the MHSA Housing Program ("Program") was developed.

**PROGRAM DETAILS**

The Agency shall provide the expertise related to the financing of housing using MHSA Housing funds, and DMH will in turn provide the expertise in assisting counties in the identification of criteria for the Target Population, and overseeing that the appropriate services are provided with the housing.

As it is envisioned, the participating local departments of mental health will advise their communities of the availability of these funds. Both DMH and Agency have a very detailed description of the Program on their respective websites, and have committed to training sessions in various regions of the State to assist localities in implementation of the Program. The details are also in a report to the Legislative Analyst's Office (attached) which reflects the current criteria of Target Population, project, and qualified developer criteria.

**PROCESS**

Qualified developers will work with the local agencies in identifying properties which could be developed or rehabilitated to permanently house the Target Population, and the local agency will identify the level of services which it would contribute. As a result, the locality (usually the county) and the developer will submit a joint application for funding. This application will be presented to, and must be approved by, both DMH and the Agency.

Each agency's respective responsibilities will be detailed in an Interagency Agreement to be executed by DMH and Agency. During the application and review process the Agency will underwrite requests for capital funds and capitalized operating subsidies, while DMH will evaluate each applicant's proposed Target Population and supportive services plan. Upon approval by both agencies, the Agency will facilitate loan closings with developers/borrowers and will oversee the housing and financial aspects of the development for the life of the loan. DMH will oversee the provision of supportive services, including continuing assessment as to whether the Target Population served continues to meet the MHSA Housing Program requirements.

DMH will determine how much money will be allocated to each county. Pursuant to agreements between DMH and the counties, DMH will transfer to the Agency monies for this Program. The Agency will account for these funds separately on a "county by county" basis, as identified by DMH, and will make loans to

Developers/Borrowers. These loans will generally be for a term of 20 years (although they may be longer) and will be paid back from residual receipts to the extent residual receipts are generated by the development. All loan pay downs shall be credited back to the county's sub account, as determined by DMH.

In some instances, developments will receive an operating subsidy funded from MHSA Housing Program funds and which will be capitalized at loan closing. It is intended that this money will provide operating subsidies, prospectively, on a quarterly prospective basis. This money will not be considered a loan, and if it is determined that it is not needed for the life of the MHSA Program loan, it may be reallocated, as required by DMH.

The regulatory requirements for these developments will, for the most part, be determined in accordance with DMH statutes and regulations, and in accordance with the Agency statutes regarding special needs housing.

**FUNDING**

The funding for this Program comes from special tax revenue. Initially DMH and the counties will make $575 million available for this Program of which $400 million will be available upon execution of the necessary documentation.

**INVESTMENT PLANS**

Of the $400 million available for this Program, approximately 65% is earmarked for construction and 35% for operating subsidy. It is anticipated that future fundings of the MHSA Housing Program will have approximately the same breakdown.

As mentioned above, the Agency will account for these funds separately on a "county by county" basis as identified by DMH. Initially, 100% of all funds will be invested in the State of California's Pooled Money Investment Account ("PMIA"), which is managed by the State Treasurer's Office. The key benefits of investing in the PMIA are: 1) principal protection; 2) complete liquidity with no withdrawal limitations; and 3) convenience of transfers. All these critical features will facilitate the introduction of the Program into the marketplace.

In addition to construction funding, it is expected that certain developments will only become viable if they also receive operating subsidies, which will be used to fund operating reserves. The key question for the investment strategy of the operating reserves is whether or not the investment returns will keep pace with the rate of inflation for operating expenses.

We plan to recommend to DMH and the counties that the best strategy to maintain the purchasing power of the operating reserve is to invest in Treasury Inflation Protection Securities ("TIPS"). The most notable feature of TIPS is that

the principal is adjusted by changes in the Consumer Price Index, so with a rise in the index – inflation – the principal of a security increases. However, as is with any marketable fixed-income security, an investment in TIPS will bear interest-rate risk, i.e. potential loss of principal. In the case of TIPS, increases in real interest rate, instead of nominal interest rate, can potentially decrease the value of the initial investment. On balance, we believe it is important to hedge a portion of MHSA Housing Program funds against the impact of inflation by investing in TIPS and manage the inherent interest-rate risk by carefully laddering the maturity schedule.

Financing staff will present at a later Board meeting a long term investment strategy, based upon its recommendations, in consultation with DMH.

# The Mental Health Services Act:
# A Report to the Legislative Analyst's Office

In 2004, California voters passed Proposition 63, which created the Mental Health Services Fund to provide dedicated funding for the expansion of county mental health services and programs. Proposition 63 became effective January 1, 2005, and is funded through an additional 1% tax on taxpayers' income above $1 million. The fund is administered by the Department of Mental Health (DMH).

Executive Order S-07-06, signed by Governor Schwarzenegger on May 12, 2006, called for the development of a Housing Program using Mental Health Services Act (MHSA) funds, with the stated goal of creating 10,000 additional units of permanent supportive housing for the population of homeless individuals with chronic mental illness. County mental health departments are in support of this stated goal and have agreed to participate in the program. The program is to be administered on behalf of county mental health departments, jointly by DMH and the California Housing Finance Agency (CalHFA), with the advice and assistance of an Implementation Working Group. DMH and CalHFA have worked closely with a MHSA Housing Program Work Group over a period of several months to develop the technical process for applying for the MHSA funds that have been set aside for the program. The work group included representatives of the California Mental Health Directors Association (CMHDA), the Governor's Office, the Department of Housing and Community Development (HCD), the Tax Credit Allocation Committee (TCAC), the Corporation for Supportive Housing (CSH), Housing California, as well as individual housing developers.

The work group has drafted a Program Description and Term Sheet that set out the funding guidelines for applicants, the application process, the type of housing units and target population to be served, and ongoing monitoring and oversight responsibilities of the agencies involved. Roles and responsibilities of county mental health departments, DMH and CalHFA are clearly specified, so that applicants have a clear understanding of the authorizing entities in order to reduce unnecessary duplication and time inefficiencies, all of which contributes to increasing costs. Producing this type of housing for special needs populations is the most costly to develop, as it cannot sustain any ongoing debt.

The draft documents have been presented and discussed at two MHS Oversight and Accountability Commission meetings, and DMH has distributed the documents to "stakeholder groups," providing them with 30 days to submit their comments and concerns. As a result of these efforts, a final draft has been completed.

SB 257, Chapter 748, Statutes of 2006, gave CalHFA the authority to create a new category of lending specifically for "special needs" housing, which includes housing for the homeless and the chronically mentally ill. This clarification in statute allows CalHFA to develop creative financing programs that leverage partnerships with other State and local agencies and providers of supportive services. In addition, SB 257 requires CalHFA to present a plan to the Legislature for the development, acquisition, construction, and rehabilitation of supportive housing projects utilizing MHSA funds pursuant to the Governor's Executive Order. The bill requires the Legislative Analyst's Office to review the plan. Comments are permitted but are not required.

This report is presented to the Legislature and the Legislative Analyst's Office in response to the requirements contained in SB 257 (Ch. 748, Stats. 2006).
The Plan, as described in SB 257 is requested to address the following components:

(1) How funding will be distributed, including any criteria to evaluate projects.
(2) How funding for the supportive housing program will be administered and the level of administrative costs.
(3) How effective coordination among CalHFA, DMH, and HCD will be assured for the duration of the program.
(4) The projected timetable for obtaining additional supportive housing units, and an explanation as to how the State agencies will regularly monitor the activities of the program on an ongoing basis to ensure that the goal of establishing 10,000 additional supportive housing units is being met.
(5) How State agencies will regularly monitor and audit expenditures on an ongoing basis to ensure that the funding for the program is spent in a cost-effective manner.
(6) How State agencies will ensure that the design of any housing developed under the program meets the needs for the special needs programs provided to its inhabitants.

To best address the components requested to be submitted in the Plan, we have included several documents that have been developed to answer these and many other questions that advocates, stakeholders, county administrators, housing developers, State and local entities and other interested parties have asked during the program's development.

Specifically included is Appendix 1, the Program Description, which contains an overview of the MHSA Housing Program, project requirements, community service and support plans, target population, housing options and definitions, eligible applicants/developers, funding limits, services and asset management, project oversight, reporting, regulatory agreements, small counties program and program implementation and evaluation.

Appendix 2 is the Program Term Sheet. This document contains the specifics that sponsors and developers of supportive housing projects need to know to successfully apply for MHSA Housing Program funds. The Term Sheet includes specific and detailed information regarding the type of permanent loans funded, rates and terms for funding, housing types eligible for funding, applicant qualifications, borrower qualifications, how MHSA funding will be allocated by county, small county program information, funding levels, allowable subordinate funding, rent and occupancy requirements, reserve requirements, allowable costs, capital for operating subsidies, asset management, services, target population, fees, application process, due diligence, and allowable predevelopment loans.

These two documents represent the most comprehensive information currently available related to implementation of Executive Order S-07-06. The working group has not yet completed development of policy and guidelines for every aspect of the program because there continue to be some nuances that are still under discussion. However, rather than delay the start of the program, as noted in Appendix 1, CMHDA/DMH/HCD/CalHFA are proposing to establish an ongoing Implementation Working Group that will provide input and guidance on the implementation of the MHSA

Housing Program. This group can operate in a dynamic environment to handle implementation issues that could create barriers to successfully creating the housing units described in the Plan.

The concepts and proposed funding for the MHSA Housing Program have evolved to some extent since of the program was introduced in the Governor's Executive Order. The most significant implementation decision to report is that DMH is initially making available $400 million to the counties participating in the MHSA, in the form of Planning Estimates to support implementation of the MHSA Housing Program from the Community Services and Supports (CSS) component. To receive MHSA Housing Program funding, counties must submit a MHSA Housing Program Application to DMH and CalHFA. Counties must also submit to DMH a signed MHSA Performance Contract amendment authorizing DMH and CalHFA to administer this program on the counties' behalf. Subject to State approval, MHSA funding for the MHSA Housing Program will be authorized up to the amount listed in Enclosure 1, entitled "Initial Planning Estimates for the Community Services and Supports (CSS) MHSA Housing Program." The Initial Planning Estimates represent $400 million of MHSA funding from the CSS component. Executive Order S-07-06 directed DMH, in consultation with CMHDA, to allocate up to $75 million per year to finance the capital costs associated with the development, acquisition, construction and/or rehabilitation of permanent supportive housing for individuals with mental illness and their families. The DMH, CalHFA and the county mental health directors (represented by CMHDA) have subsequently determined that an additional $40 million per year is required to finance the operating subsidies that are needed to make $75 million in capital projects successful. Thus, $115 million per year has been dedicated to fund the MHSA Housing Program. This initial $400 million represents approximately three and a half years of this funding.

The calculation of the amount available to each county (rounded to the nearest $100) is based on the methodology previously used for the FY 2007-08 Revised CSS Planning Estimate (DMH Letter No.: 06-09), with a different amount set aside for small counties. Based on the recommendation of CMHDA, DMH is setting aside 8 percent for small counties rather than the 5.3 percent that would have been made available to small counties through the Planning Estimate formula. The Planning Estimate for each small county is based on the relative Planning Estimate percentage of each individual county as compared to the total for all small counties, as shown in DMH Letter No.: 06-09. This same approach was used for the medium and large counties, whereby 92 percent of the funding is made available to such counties based on their relative Planning Estimate percentage as compared to the sum of the Planning Estimate percentage of all medium and large counties.

Enclosure 1 also identifies the maximum amount of funding that can be used as operating subsidies to support the capital costs of the MHSA Housing Program. The maximum amount of funding for MHSA Housing Program operating reserves is established at approximately one-third of the total funding available for the MHSA Housing Program. Additional guidelines regarding the use of operating subsidies will be provided in the MHSA Housing Program application instructions and in the forthcoming MHSA regulations related to the MHSA Housing Program.

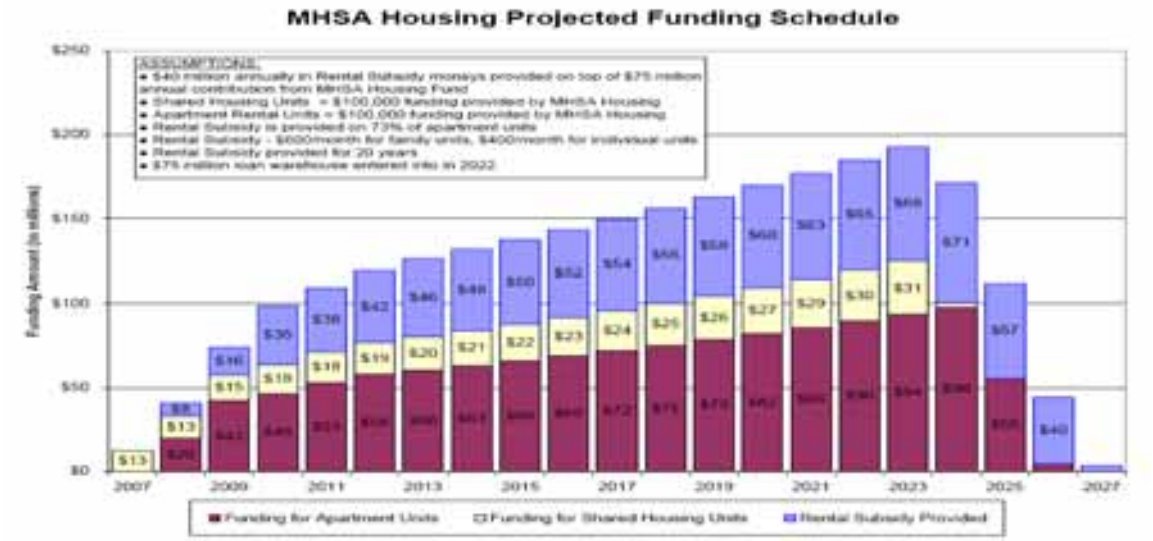
The $400 million shown in Enclosure 1 represents the initial funding amount for the MHSA Housing Program. It is anticipated that additional MHSA Housing Program funding will be identified from the CSS component in the future.

To address questions about how funds will be allocated and our original assumption of how up to 10,000 units of supportive housing could be created, Exhibit 1 provides a time line of how 10,000 units might be produced.

Exhibit 1

Exhibit 2 provides a schedule of projected funding for both capital costs and operating subsidies if, annually, up to $75 million were provided for capital and $40 million for operating subsidies from MHSA funds.

Exhibit 2




The assumptions underlying these exhibits are presented in Appendix 3.

Finally, the language in SB 257 requires CalHFA to include information on the criteria DMH will use to evaluate projects, in compliance with their regulations, as the administrator of the Mental Health Services Fund. Appendix 4 includes DMH's initial work on developing its project evaluation criteria. SB 257 also asks for information on how monitoring and auditing of expenditures for these housing units will be conducted to ensure that funding for the program is spent in a cost effective manner. CalHFA's Asset Management staff already performs these tasks as part of our current portfolio management activities. Appendix 5 provides more detailed information on how monitoring and review will be accomplished and on the tools and criteria that are used to achieve and monitor cost effectiveness for the MHSA Housing Program.

# Appendix 1

## MENTAL HEALTH SERVICES ACT HOUSING PROGRAM (DRAFT)

### *1.0 Introduction*

The California Department of Mental Health (DMH) and the California Housing Finance Agency (CalHFA) are pleased to announce a new housing program under which up to $75 million in Mental Health Services Act (MHSA) funds will be allocated each year to finance the capital costs associated with development, acquisition, construction and/or rehabilitation of permanent supportive housing for individuals with mental illness and their families, especially including homeless individuals with mental illness and their families. The MHSA Housing Program will also make available up to an additional $40 million per year in operating subsidies. Eight percent of both capital funds and operating subsidies will be set aside for small counties to ensure that the program addresses their unique needs.

Executive Order S-07-06, signed by the Governor on May 12, 2006, mandated development of the MHSA Housing Program, with the stated goal of creating 10,000 additional units of permanent supportive housing for this population. The program will be jointly administered by DMH and CalHFA, with the advice and assistance of an Implementation Working Group (see Section 3.0). DMH and CalHFA have worked closely with the MHSA Housing Program Work Group over a period of several months to develop the technical process for applying for the MHSA funds that have been set aside for the program. The work group includes representatives of the California Mental Health Directors Association (CMHDA), the Governor's Office, the Department of Housing and Community Development (HCD), the Tax Credit Allocation Committee (TCAC), the Corporation for Supportive Housing (CSH) and Housing California, as well as several housing developers.

Funds provided under this program must serve the MHSA Housing Program target population as specified in the Executive Order and defined in further detail below. Capital funds may be used for either Rental Housing Developments or Shared Housing Developments. For Rental Housing Developments, funds from this program may be used for one-third of the capital costs of the program; however, for Shared Housing Developments, funds from this new program may be used to cover all capital costs. Operating subsidy funds will also be available from this program.

The MHSA asks the State of California to transform the way in which it has delivered mental health services to individuals with serious mental illness. Over the past decade or more, this transformation had already begun through the implementation of several pilot

programs, each with the goal of moving beyond the mental health clinic setting to offering a much wider array of services and supports to consumers in community settings, enhancing their recovery efforts and their opportunities for independent living.

The MHSA Housing Program embodies both the individual and system transformational goals of the MHSA through a unique collaboration among government agencies at the local and State level. The partners in this system collaboration include CalHFA/HCD, with their housing and financial expertise; DMH, with responsibility for overseeing the mental health system and ensuring that consumers have access to an appropriate array of services and supports; the California Mental Health Planning Council, which serves as an advisor to DMH; and County Mental Health Departments, which have ultimate responsibility for the design and delivery of mental health services and supports throughout the State. Through this collaboration, the MHSA Housing Program will continue to transform the mental health system, offering consumers both housing and supportive services that will enable them to live more independently in our communities.

## *2.0 Project Requirements*

Projects must meet the following requirements in order to be considered for funding under this program.

### 2.1 MHSA Community Services and Supports Plan

In order for a project to be eligible for MHSA Housing Program funding, it must be consistent with the priorities identified in the Community Services and Supports (CSS) Plan for the county in which the project will be located. This requirement is designed to foster the goal of establishing and strengthening partnerships at the local/county level, resulting in project development that reflects local priorities while expanding safe, affordable housing options for individuals with serious mental illness receiving services through the MHSA.

### 2.2 MHSA Housing Program Target Population

The State of California recognizes that there is currently, and will continue to be for the foreseeable future, inadequate funding to provide permanent supportive housing for all those with serious mental illness who need it. The MHSA Housing Program is primarily intended to provide funding to create permanent supportive housing and services for individuals with serious mental illness who are homeless. Secondarily, and in keeping with the values of the MHSA, the State believes that individuals should not have to 'fail first' and become homeless in order to become eligible for supportive housing; rather, individuals identified as "at risk of homelessness" are eligible for the housing and supports available under this program.

The Department of Mental Health has defined the MHSA Housing Program target population as low-income adults, older adults, or transition-age youth with serious mental illness who at the time of assessment for housing services meet the criteria for MHSA Community Services and Support (CSS) services in their county of residence and are homeless or at risk for homelessness, as defined below. The county mental health

department, or its designee, will certify the target population eligibility of individuals and/or families. Funding applicants are encouraged to restrict MHSA Housing Program units to MHSA Housing Program target population households earning 30 percent or less of the county median income (as adjusted by family size), but must restrict these units to target population households earning 50 percent or less of county median income. Since the target population is low-income, funding applicants are encouraged to set rent limits at 30 percent of 30 percent or less of county median income. Occupancy of each "bedroom" unit in a Shared Housing Development must be restricted to a single adult who is a member of the target population and whose income is 50 percent of less of county median income for a studio unit. "Bedroom" unit rents in these developments must be restricted to 30 percent of 50 percent of county median income for a studio unit.

MHSA Housing Program projects must offer permanent supportive housing to the target population. Supportive housing means housing with no limit on length of stay that is occupied by the target population and that is linked to on-site or off-site services. These services must help the tenant to retain the housing, support recovery and resiliency, and maximize the ability to live and work in the community.

For the purposes of this program, the following definitions and criteria apply:

1. Adults or Older Adults means adults with serious mental illness as defined in Welfare and Institutions Code Section 5600.3 (b) (1).

2. "Homeless" means living on the streets, or lacking a fixed, regular, and adequate night-time residence. (This includes shelters, motels and living situations in which the individual has no tenant rights.)

3. Individuals who are "at risk of homelessness" include:

    - Transition-Age Youth exiting foster care or juvenile hall

    - Individuals discharged from institutional settings including:

        - Hospitals, including acute psychiatric hospitals, psychiatric health facilities (PHF), skilled nursing facilities (SNF) with a certified special treatment program for the mentally disordered (STP), and mental health rehabilitation centers (MHRC)

        - Crisis and transitional residential settings

    - Individuals released from local city or county jails

    - Individuals temporarily placed in Residential Care Facilities upon discharge from one of the institutional settings cited above

- Individuals who have been assessed and are receiving services at the county mental health department and who have been deemed to be at imminent risk of homelessness, as certified by the County Mental Health Director

## 2.3 Housing Options

The types of permanent supportive housing that may receive funding under the MHSA Housing Program include:

- Apartments
- Single-family homes, condominiums, duplexes, triplexes and four-plexes

These housing types fall into one of two categories of housing developments that may receive program funding—Rental Housing Developments and Shared Housing Developments. Each of these development categories is described in detail in the following paragraphs.

Rental Housing Developments are apartment buildings that include five or more separate apartments. Rental Housing Developments may include both general occupancy buildings and special occupancy buildings. Special occupancy buildings include either senior housing or housing for transition-age youth as defined by statute. Each apartment must include, at a minimum, a sleeping area, a kitchen area and a bathroom, in order to provide a dignified housing situation for the residents. All Rental Housing Developments must set aside adequate space for supportive services staff and programming.

In addition, in buildings with 5 to 100 units, at least 10 percent of the units, but no fewer that 5 units per building, must be set aside for members of the MHSA Housing Program target population. However, Rental Housing Developments smaller than five units may be considered on an exception basis. In this case, however, all of the units in the building must be set aside for the target population. In buildings with more than 100 units, at least 10 units must be set aside for members of the MHSA Housing Program target population.

MHSA Housing Program units in Rental Housing Developments are restricted to households with an adult member who is also a member of the target population and who can sign a lease. Each MHSA Housing Program targeted unit must have a lease signed by a qualifying member of the MHSA Housing Program target population as certified by the sponsoring county mental health department. For purposes of this program, an adult is defined as an individual who is either at least 18 years of age or someone who younger than 18 years of age and has been emancipated.

A Shared Housing Development is a residential building that contains one or more traditional apartment units. All bedrooms in a Shared Housing Development must be dedicated to shared housing for members of the MHSA Housing Program target population. All units in a Shared Housing Development must be rented to, and shared by, two or more unrelated adults, each of whom is a member of the MHSA Housing Program target population. While Shared Housing Developments are intended primarily to serve unrelated adult roommates, this definition does not exclude the spouse and/or child of a

member of the MHSA Housing Program target population from sharing the bedroom of that tenant.

To qualify for funding, a Shared Housing Development must provide a lease and a separate, lockable bedroom for each MHSA Housing Program tenant; the tenant must be responsible for paying rent; and the tenant must be a member of the MHSA Housing Program target population. All bedrooms in each residential unit must be targeted for occupancy by members of the MHSA Housing Program target population.

Shared Housing Developments consist of two- to four-unit buildings and include duplexes, triplexes and four-plexes. All units in the building must be targeted for use as Shared Housing, regardless of the size or configuration of the unit. Larger buildings may be permitted on an exception basis. Single-family homes and condominiums may also qualify as Shared Housing Developments, provided they have at least two bedrooms. One-bedroom or studio units in duplexes, triplexes and four-plexes may qualify as Shared Housing Development units, provided that all two-bedroom and larger units in the building are Shared Housing Development units. Shared Housing Development units cannot be located in Rental Housing Developments.

The project may be either a:

- **"Single Population" Development** ---Building in which all units are dedicated to housing the MHSA Housing Program target population, or a

- **"Mixed Use" Development**—Project has set aside a specific number of units within a building or complex to house the MHSA Housing Program target population. The other units are open to occupancy by persons who are not members of the MHSA Housing Program target population.

## 2.4 Eligible Applicants/Developers

An application for MHSA Housing Program funding must be submitted to the Department of Mental Health and the California Housing Finance Agency via a county mental health department, which must apply for funding on behalf of a qualified borrower. Applications will be accepted but will not be evaluated, nor funds awarded, until the county mental health department signs the required contract amendment with the Department of Mental Health. Funds may be distributed only to a qualified borrower in the form of a loan (and in some cases, as operating subsidies). Therefore, the application must be prepared and signed by both the county and the borrower, and will serve as the loan (and operating subsidy) application from borrower. In signing and submitting the application, the county will signify that it approves the use of its allotted MHSA Housing Program funds for the project described in the application, and that it commits to providing supportive services to the MHSA Housing Program target population for the full term of the MHSA Housing Program loan.

Qualified borrowers include:

1) Developers with a track record of successful housing development and a history of serving the target population,

2) Developers with a track record of successful housing development but with no history of serving the target population, but with a strong contract/Memorandum of Understanding with a qualified service provider and property manager, and the assistance of qualified consultants with a history of successfully working with developers to house the target population, and

3) A qualified supportive services provider with a joint venture developer partner with a history of successful development, who has entered into a strong contract/Memorandum of Understanding with a qualified property manager, and has the assistance of qualified consultants who have a history of successfully working with similar joint venture partners to house the target population.

The developer and its affiliate organizations will be evaluated both for their ability to successfully develop and manage the real estate component of the project, and for their ability to partner with a service provider or lead service provider to deliver high-quality services to the MHSA Housing Program target population.

The ultimate borrower must be one of the following:

- a limited partnership (LP) (the managing general partner of the LP must be a 501(c)(3) corporation or a limited liability company (LLC) whose sole member or members are 501(c)(3) corporations),
- a 501(c)(3) corporation,
- a LLC whose sole member or members are 501(c)(3) corporations,
- a county mental health department,
- a local housing authority or local redevelopment agency,
- an affiliate of the county mental health department created to hold properties financed with MHSA Housing Program funding, or
- an affiliate of a local housing authority created to hold properties.

The borrower also must be organized as either a single asset entity (in the case of a LP or LLC), or as a separate legal entity that only holds properties that have MHSA Housing Program funding, as appropriate.

## 2.5 Funding Limits

Funding available under the MHSA Housing Program will be subject to two separate limits—an overall county limit and a per-project limit. It should be noted that the manner in which these funding limits will be applied for small counties whose funds are included in the eight percent set-aside are still under development.

*County Limits*
DMH will apportion a specific amount of MHSA Housing Program capital (loan) and operating subsidy funds to each county on an approximate 3 ½ -year basis. Thus, the total amount of all loans and operating subsidy awards made under the program in a given county will be limited to the allotted amount provided to that county over the first 3 ½ years of the program under the DMH formula. The county may use other funding sources for this program in addition to their allotted MHSA Housing Program funds. While CalHFA will hold the MHSA Housing Program funds until they are distributed in the form of capital funds or operating subsidies, they will be awarded based strictly on the amounts apportioned to each county by DMH.

*Project Limits*
Funding will also be subject to a per-project limit, for both capital costs and operating subsidies. These funds will be made available based on the number of units restricted to the MHSA Housing Program target population, not on the total number of units in the proposed project.

A county may apply for up to one-third of the capital costs of the MHSA Housing Program restricted units in a Rental Housing Development (projects with five or more units) to a maximum of $100,000 per restricted unit. No MHSA funding will be provided for non-restricted units. At a county's request, amounts greater than $100,000, up to one-third of total development costs per restricted unit, will be considered on an exception basis. The remaining two-thirds of capital costs for MHSA Housing Program restricted units in Rental Housing Developments and non-MHSA Housing Program restricted units may be obtained from such sources as grants, tax credits, other deferred, forgivable or residual receipts loans from governmental and private loan sources, and other county mental health funds. This program has been designed to allow projects to be fully funded without reliance on local capital funding sources. It is anticipated that the remaining two-thirds of costs can be funded with a combination of Proposition 1C bond funds and 4 percent tax credits, or with only 9 percent tax credits. In smaller counties, the remaining capital costs may be funded with locality funds. In the largest counties, where costs have historically been much higher, local funds are usually available to fill extraordinary funding gaps. The new MHSA Housing Program funds will facilitate successful applications even if local capital funding is very limited or unavailable. This program will eliminate the pressure on developers to patch together the missing one-third of project costs from multiple smaller funding sources.

The MHSA Housing Program will funding all of the capital costs of Shared Housing Developments up to $100,000 per bedroom, provided that each bedroom is restricted for rental to a tenant who meets the MHSA Housing Program target population definition. Developers will be required to supplement MHSA Housing Program funds with other capital sources if Shared Housing Developments costs exceed $100,000 per bedroom.

The loan term for capital funds awarded under the MHSA Housing Program will be 20 years, or longer if required by other funding sources or if tax credits are involved. If tax credits are involved, upon the request of the borrower, the loan term may be extended to

up to 55 years if the applicant demonstrates that the longer term is necessary for tax-related reasons.

Operating subsidy funds may be provided to those developments that receive capital funds from the MHSA Housing Program, require operating subsidies to cover their operating costs, and have applied for but have been denied subsidies from all other available and appropriate sources, including Section 8 and all HUD McKinney programs such as Shelter Plus Care and the Supportive Housing Program. Priority in allocating operating subsidies will be given to Rental Housing Developments.

Operating subsidies are available for up to 20 years. A county may apply for an operating subsidy for the project. The amount of operating subsidy will be determined by CalHFA based on the development's first-year operating budget, a four percent annual cost escalator, and the amount of interest earned on the operating reserve account. Operating subsidies will be kept in reserve in an interest-bearing account and will be distributed quarterly to borrowers by CalHFA. Subsidies will be used solely to cover the operating costs of the MHSA Housing Program restricted units. Operating subsidy payments will be reconciled annually with actual operating costs. MHSA Housing Program operating subsidy funds will not be the property of the development until they have been disbursed. Unused subsidy reserves will be recaptured for other MHSA Housing Program developments.

## 2.6 Services and Asset Management

All applications must include a supportive services plan and budget that meets MHSA Housing Program requirements and is approved by DMH. The plan must describe each service to be provided and the service delivery system that will be in place. Further, CalHFA will require that the borrower have a commitment for service funding from the county mental health department before any funds are distributed.

The supportive services plan must include the following information:

- How the services have been designed to meet the specific needs of the MHSA Housing Program target population
- How the services offered support wellness, recovery and resiliency
- How the services will assist the tenant in obtaining or maintaining benefits to which they are, or may be, entitled, such as cash assistance and medical benefits
- Whether services will be delivered on-site or at other locations in the community
- Frequency of contact between supportive services staff and MHSA Housing Program tenants
- Staffing levels
- Daily or weekly schedule for making services available to tenants
- Process for assessing the supportive service needs of tenants
- Procedures for ongoing communication between the property management and supportive services staff to assist tenants in maintaining housing stability
- Strategies for engaging tenants in supportive services and in community life

- Plan for helping tenants maintain their housing and achieve self-sufficiency, including employment services, budgeting and financial training, educational opportunities, and other community services that will be made available to tenants

The borrower will be required to arrange for the provision of supportive services for the term of the MHSA Housing Program loan. All projects must have identified a qualified service provider who will provide supportive services to the tenants. If there are multiple service providers, the application must identify a primary service provider for the project.

The borrower must also provide a clearly articulated property management plan. Each project must provide a written Memorandum of Understanding between the borrower, the primary service provider and the property management agent documenting the procedures for ongoing communication and decision-making between the property management agent and the supportive services provider.

## 2.7 Project Oversight

CalHFA will be responsible for ongoing oversight of the "housing aspects" of the project during the 20-year loan term. DMH and the county mental health departments will be responsible for ensuring appropriate oversight and monitoring to ensure that the MHSA Housing Program target population is being served and that supportive services are appropriate, in terms of type, quantity and quality. DMH and CalHFA intend to adapt the current CalHFA Annual Self-Certification form for use in the MHSA Housing Program, and projects will be required to complete and submit this form to both agencies on an annual basis.

## 2.8 Reporting

Outcomes reporting will be required for all MHSA Housing Program tenants. For Full-Service Partnership (FSP) tenants, reporting requirements will be consistent with those established by DMH for individuals enrolled in the CSS category of FSP. For tenants not enrolled in a FSP, the outcomes reporting mechanism is still under development.

All developments will be required to submit quarterly financial reports to CalHFA. However, this requirement may be waived or more frequent reporting may be required at CalHFA's discretion. All developments will also be required to submit annual financial audits prepared by a certified public accountant.

## 2.9 Regulatory Agreement and Term Sheet

A Regulatory Agreement will be placed on the project for the term of the loan. The Annual Self-Certification form (see Section 2.7) will be appended to the Regulatory Agreement. See the attached MHSA Housing Program Term Sheet, which describes loan requirements, rates, etc.

## 2.10 Predevelopment Loans

Predevelopment loans will be available to all developments that have received a loan commitment for MHSA Housing Program capital funds and can demonstrate site control

and evidence of appropriate zoning. The loan limit for Rental Housing Developments is $500,000, while the loan limit for Shared Housing Developments is $200,000.

### 2.11 Small Counties

Small counties will be encouraged to submit applications in response to the application package for the MHSA Housing Program. Under the provisions of the program, contiguous small counties will be able to combine their funds to develop larger projects that meet regional needs. While it is anticipated that the MHSA Housing Program is sufficiently flexible to meet the needs of small counties, alternative program provisions may be developed in the future if they are needed to address the unique needs of small counties.

## *3.0 Program Implementation and Evaluation*

An Implementation Working Group will be established to provide input and guidance on implementation of the MHSA Housing Program, evaluate the program on an ongoing basis to identify strengths and weaknesses, and make suggestions for change to DMH and CalHFA, with the goal of ensuring that the program continues to meet the goals of the Governor's Executive Order.

As a part of its responsibilities, the Working Group will serve as a forum where counties facing unique situations not addressed in the program requirements may request exceptions to those requirements for specific projects. This exception process will also assist the Working Group and the agencies administering the program in their ongoing program evaluation efforts, by identifying issues or problems that might best be addressed through program changes.

# Appendix 2

**DRAFT MENTAL HEALTH SERVICES ACT HOUSING PROGRAM**
**Term Sheet**

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| **Program Description** | The **Mental Health Services Act Housing Program (MHSA Housing Program)** offers permanent financing and capitalized operating subsidies for the development of permanent supportive housing, including both rental housing and shared housing, to serve persons with serious mental illness who are homeless, or at risk of homelessness (as defined by the MHSA Housing Program), and who otherwise meet the MHSA Housing Program target population description. |
| **Permanent Loans** | • The MHSA Housing Program will fund one-third of the costs of a Rental Housing Development up to a maximum of $100,000 per targeted unit. Amounts over $100,000 up to one-third of total development costs per targeted unit will be considered on an exception basis, if requested by the county.<br>• The MHSA Housing Program will fund all of the costs of a Shared Housing unit up $100,000 per bedroom provided that each bedroom restricted for rental to a tenant who meets the MHSA Housing Program target population definition. Developers will not need to supplement MHSA Housing Program funds with other capital sources if Shared Housing Developments unless the costs exceed $100,000 per bedroom.<br>• The payments of interest and principal on permanent loans will be deferred for the term of the loan, provided that the development continues to meet the programmatic requirements of the MHSA Housing Program.<br>• Permanent loan proceeds will be available at construction loan closing or permanent loan closing, at the election of the borrower.<br>• Permanent loan proceeds may be used for all costs associated with the acquisition and development of the property including reimbursing the developer for predevelopment costs and acquisition costs. Permanent loans will be secured against the property and the improvements.<br>• MHSA Housing Program permanent loan limits will be based on the number of units restricted to the target population (and not the total number of units in the proposed project).<br>• MHSA loan funds may trigger prevailing wage requirements if used to fund construction. Applicants are advised to consult their attorney on this issue. |
| **Rates and Terms** | • An administrative fee of 0.42% of the outstanding principal |

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| | balance shall be due and payable annually. This payment shall be paid to CalHFA for administrative services.<br>• The interest rate on Rental Housing Developments will be fixed at 3% but may differ if tax credits are involved. When tax credits are involved, interest rates may be set as low as 0.42% provided that the applicant demonstrates that an interest rate reduction is necessary for tax-related reasons.<br>• Interest rates on Shared Housing Developments will be fixed at 3 %.<br>• The loan term for both Rental Housing Developments and Shared Housing shall be 20 years, or longer if required by other funding sources or if tax credits are involved. If tax credits are involved, upon the request of the borrower, the loan term may be extended to up to 55 years if the applicant demonstrates that the longer term is necessary for tax-related reasons. The borrower may request a loan term extension prior to the commencement of the term of the loan. The Regulatory Agreement shall be extended to match the longer loan term.<br>• Accrued interest and principal will not be forgivable at maturity for developments that have received an allocation of low income housing tax credits.<br>• Accrued interest, but not principal, may be forgiven at maturity for Shared Housing developments and Rental Housing developments that have not received an allocation of low income housing tax credits if 1) the property was used in accordance with the MHSA Housing Program Guidelines throughout the loan term; 2) the loan term is extended for a time period to be determined 3) the Regulatory Agreement is extended for the term of the loan and 4) adequate provisions are made for the continued use of the targeted units for the MHSA Housing Program target population. Alternately, accrued interest may be forgiven if the property is sold at maturity and the sale proceeds are invested in a property which has a like use and is encumbered by a MHSA Housing Program Regulatory Agreement, and new note/deed of trust in the amount of the original MHSA Housing Program permanent loan.<br>• Accrued interest will not be forgiven at maturity if the property is converted to a different use or if the property is sold and the proceeds of the sale are not reinvested in a property which has a like use and is encumbered by a MHSA Housing Program Regulatory Agreement, and new note/deed of trust in the amount of the original MHSA permanent loan.<br>• If applicable, the loan term for Rental Housing Developments with HUD 811 loans shall consistent with HUD requirements. The 0.42% administrative fee shall be due as a lump sum at |

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| | loan disbursement.<br>• Disbursed MHSA Housing Program capitalized operating subsidies may be either a grant or a deferred loan, at the election of the borrower. |
| **Approved Housing Types** | Both Rental Housing Developments and Shared Housing Developments are permitted as defined below. |
| **Shared Housing Developments** | • A Shared Housing Development is a residential building which contains one or more traditional apartment units. All bedrooms in a Shared Housing unit shall be targeted to members of the MHSA Housing Program target population.<br>• All units in a Shared Housing Development shall be rented to and shared by two or more unrelated adults, each of whom is a member of the MHSA Housing Program target population. While this program is intended primarily as a program for unrelated adult roommates, nothing in this definition excludes the spouse and or child of MHSA Housing Program qualified tenant from sharing the bedroom of that tenant<br>• To qualify for funding, a Shared Housing Development must provide a lease and a separate lockable bedroom for each MHSA Housing Program tenant; the tenant must be responsible for paying rent; and all bedrooms in each residential unit must be targeted for occupancy by members of the MHSA Housing Program target population.<br>• Each Shared Housing unit must also contain a kitchen and bathroom. A shared housing unit with 5 or more bedrooms must contain two bathrooms.<br>• A Shared Housing Development shall consist of a 2- to 4- unit building, provided that all units in the building are targeted for use as Shared Housing. Larger buildings may be permitted on an exception basis.<br>• Single-family homes and condominiums may also qualify as a Shared Housing Development provided that they have a minimum of two bedrooms.<br>• One-bedroom or studio units in duplexes, triplexes and four-plexes may qualify as Shared Housing units provided that all two-bedroom and larger units in the building are Shared Housing units. For example, a 4 unit building with 2 two-bedroom units, and 2 one bedroom units will qualify as a Shared Housing development provided that all 6 bedrooms are lockable, and intended for use by MHSA Housing Program qualified tenants.<br>• Shared Housing Developments cannot be located in Rental Housing Developments. |

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| | • One apartment/bedroom may be made available for a manager's apartment/bedroom, at the borrower's option, even if Shared Housing Development is not required by California law to have a mangers unit. |
| **Rental Housing Developments** | • Rental Housing Developments are apartment buildings with 5 or more apartments.<br>• Each apartment must have a lease.<br>• Each MHSA Housing Program targeted apartment must have a lease signed by a qualifying member of the MHSA Housing Program target population as determined by DMH and the sponsoring county. Adult is defined for these purposes as someone who is 18 of age or older, or someone who is younger than 18 who has been emancipated.<br>• Rental Housing Developments may include both general occupancy buildings and special occupancy buildings. Special occupancy buildings include both senior housing and housing for transition-age youth. A transition-age youth is someone who fits the definition of homeless youth as defined by California statute.<br>• All units shall include at a minimum, a sleeping area, a kitchen area and a bathroom. The kitchen area shall at a minimum consist of a sink, refrigerator, counter area, microwave or oven, and a two burner stove or built in cook top.<br>• All Rental Housing developments will be required to have adequate space for supportive service staff and service programs.<br>• In buildings with 5 to 100 units, at least 10% of the units, but no fewer that 5 units per development, shall be set aside for members of the MHSA target population. In buildings with more than 100 units, at least 10 units shall be set aside for members of the target population.<br>• One unit may be made available for a manager's unit, at the borrower's option, even if the Rental Housing Development is not required by California Law to have a managers unit. Additional managers units may be made available consistent with California Law.<br>• Rental Housing Developments smaller than 5 units may be considered on an exception basis. |
| **Applicant Qualifications** | • Applications shall be submitted to the Department of Mental Health and the California Housing Finance Agency via county mental health departments, which shall apply for funding on behalf of a qualified borrower. |

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| | • The submission by the county mental health department will signify the county's approval of all of the following;<br>1) The capital funding request for the development,<br>2) The operating subsidy funding request for the development, and<br>3) A commitment by the county to provide funding for supportive services for the residents of the development who are members of the target population for the term of the MHSA Housing Program loan. |
| **Qualified Borrowers** | • Qualified borrowers include;<br>4) Developers with a track record of successful housing development and a history of serving the target population,<br>5) Developers with a track record of successful housing development but with no history of serving the target population, but with a strong contract/Memorandum of Understanding with a qualified service provider and property manager, and the assistance of qualified consultants with a history of successfully working with developers to house the target population, and<br>6) A qualified supportive services provider with a joint venture developer partner with a history of successful development, who has entered into a strong contract/Memorandum of Understanding with a qualified property manager, and has the assistance of qualified consultants who have a history of successfully working with similar joint venture partners to house the target population.<br>• The developer and its affiliate organizations will be evaluated both for their ability to successfully develop and manage the real estate component of the project, and for their ability to partner with a service provider or lead service provider to deliver high-quality services to the target population.<br>• The borrower must one of the following:<br>1) A limited partnership (LP). The managing general partner of the LP must be a 501(c)(3) corporation or a limited liability company (LLC) whose sole member or members are 501(c)(3) corporations;<br>2) A 501(c)(3) corporation;<br>3) An LLC whose sole member or members are 501(c)(3) |

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| | corporations;<br><br>4) A county mental health department;<br><br>5) A local housing authority, or local redevelopment agency; or<br><br>6) An affiliate of the county mental health department created to hold properties financed with MHSA Housing Program funding.<br><br>7. An affiliate of a local housing authority created to hold properties.<br><br>• The borrower also must be organized as either<br><br>1) A single asset entity (in the case of a LP or LLC), or<br><br>2) A separate legal entity that only holds properties that have MHSA Housing Program funding, as appropriate. |
| **MHSA Loan Allocations Per County** | • Each county will have MHSA Housing Program capital and operating subsidy funds allocated to them by the California Department of Mental Health (DMH). The permanent (capital) loans and capitalized operating subsidy awards made under the MHSA Housing Program in a given county will be limited by the funds available to each county under the DMH allocation formula.<br><br>• The first allocation to the counties will be $400,000,000 which will cover approximately a three years and 5 month period.<br><br>• Nothing shall prohibit the county mental health departments from utilizing other available funds for this program to supplement their MHSA Housing Program allocations. |
| **Small Counties** | • Eight percent of the total funds allocated to the MHSA Housing Program by DMH will be allocated for small county applications under this program. The MHSA Housing Program funds set aside for small counties are currently estimated to be approximately $9,200,000 per year of the available $115,000,000 total annual allocation.<br><br>• To be identified as “small,” the county must have 200,000 or fewer residents in accordance with MHSA requirements based on the most recent census.<br><br>• The application process will be the same for large and small counties. However, CalHFA may waive some of the program requirements for small county applications. Requests for waivers will be reviewed on a case by case basis.<br>1. |

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| | • These funds may be combined by contiguous small counties to develop projects serving regional needs.<br><br>• While it is anticipated that the MHSA Housing Program is sufficiently flexible to meet the needs of small counties, alternate program provisions may be developed in the future if they are needed to address the unique needs of small counties. |
| **Funding Levels** | • The MHSA Housing Program will fund one-third of the costs of the MHSA Housing Program targeted units in a Rental Housing Development up to a maximum of $100,000 per targeted apartment. Amounts over $100,000 up to one-third of total development costs per targeted apartment will be considered on an exception basis, if requested by the sponsoring county.<br><br>• No MHSA Housing Program funding will be provided for non-targeted units in Rental Housing Developments, and the developer must provide 100% of the capital costs of the non-targeted units from other sources.<br><br>• 100% of the capital costs of Shared Housing Developments up to $100,000 per bedroom will be provided by this program, provided that each bedroom is targeted for rental to a tenant who meets the MHSA Housing Program target population definition.<br><br>• Capital costs above the MHSA Housing Program funding limits for Rental Housing Developments and Shared Housing Developments may be obtained from grants, tax credits, other deferred, forgivable or residual receipts loans from governmental and private loan sources, and other county mental health funds. Fully amortizing loans may also be used subject to the restrictions below.<br><br>❖ Fully amortizing loans will be allowed for those Rental Housing developments or Shared Housing developments that do not receive MHSA Housing Program operating subsidies.<br><br>❖ MHSA Housing Program capitalized operating subsidy funds may not be used to make amortized debt service payments, with the exception of the MHSA Housing Program Administrative Fee of 0.42% and HCD Prop 1C required interest payment of 0.42%.<br><br>❖ Fully amortizing loans will be allowed for Rental Housing developments that receive MHSA Housing Program operating subsidies on a exception basis if all of the following conditions are met:<br><br>• The rents on the non-targeted units are high enough to fully support amortizing debt, and<br><br>• The operating budgets are bifurcated sufficiently |

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| | to insure that the amortizing debt payments are not being paid from MHSA Housing Program operating subsidy funds.<br>• Developers are advised to consult their attorneys regarding potential legal conflicts between different housing funding sources. |
| **Subordinate Financing** | • Subordinate loans or grants are encouraged from local government and third parties to achieve project feasibility.<br>• The MHSA Housing Program Regulatory Agreement and Loan Documents will be subordinate to construction loan documents, fully amortizing permanent loans, and HUD 811 Use Agreements and loan documents. Subordination to other HUD documents will be considered on a case by case basis<br>• The MHSA Housing Program Regulatory Agreement and Permanent Loans may be subordinate, upon CalHFA approval, to other residual receipts/deferred permanent loans from federal, state and local sources provided that those loans are twice the amount of the MHSA Housing Program permanent loan or larger.<br>• All other loan documents, loans, leases, recorded use agreements, and recorded grant agreements must be subordinate to the MHSA Housing Program Permanent Loan Documents and Regulatory Agreements. |
| **Rent and Occupancy Requirements** | • All MHSA Housing Program units must be targeted for occupancy by MHSA Housing Program target population households.<br>• All MHSA Housing Program targeted bedrooms, up to 49% of the bedrooms, in Shared Housing Developments must be targeted to households earning 50% or less of the county median income (as adjusted by household size).<br>• All MHSA Housing Program targeted apartments in Rental Housing developments, up to a maximum of 49% of the apartments, must be targeted to households earning 50% or less of the county median income (as adjusted by household size).<br>• Rents in MHSA Housing Program targeted apartments in Rental Housing Developments must be restricted to 30% of 50% of the county median income (as adjusted by household size). Rents in MHSA Housing Program targeted bedrooms in Shared Housing Developments must be must be restricted to 30% of 50% of the county area median income (as adjusted by household size). |

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| | • Deeper targeting is encouraged. Applicants are encouraged to restrict occupancy in MHSA targeted apartments and units to MHSA Housing Program target population households earning 30% or less of the county median income and rents to 30% of 30% or less of area median income (adjusted by household size). |
| **Reserve Requirements** | • A minimum of 10% of the first year's operating cost must be capitalized as an operating reserve. This reserve will be held for the term of the MHSA Housing Program loan, and must be replenished if utilized.<br><br>• A minimum of 10% of the first year's operating cost must be reserved as a rent up reserve.<br><br>• A minimum replacement reserve deposit of $1000/unit must be capitalized on acquisition rehabilitation projects.<br><br>• Minimum annual replacement reserve deposits of $400/unit/year shall be required. These amounts may be revised from time to time by CalHFA. |
| **Allowable Costs** | • All costs normally allowed as development costs for supportive housing by CalHFA are allowable costs for MHSA Housing Program loans. Developer fees may be no higher than those allowed by TCAC and will be reviewed individually for appropriateness.<br><br>• Up to 100% of the first year's operating cost may be capitalized as a regular operating reserve.<br><br>• Up to $3,000 per unit of replacement reserves may be capitalized if funds are available in the development budget.<br><br>• Between three to six months of rent-up reserves may be capitalized, depending upon the tenant certification procedures required by the county for MHSA Housing Program targeted units.<br><br>• Ground lease payments must be capitalized in the development budget, and cannot be amortized over the term of the loan. |
| **Capitalized Operating Subsidies** | • The borrower and the county may apply for a reservation of operating subsidies for the MHSA Housing Program targeted units.<br><br>• Priority in allocating operating subsidies will be given to Rental Housing Developments.<br><br>• Only the operating costs of MHSA Housing Program targeted |

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| | units may be subsidized with operating subsidies. Non-targeted unit costs are not eligible costs and must be accounted for in a separate budget.<br><br>• Operating subsidies will be available for up to 20 years, to the extent that funds are available in the operating subsidy reserve set aside for the development.<br><br>• Operating subsidies will be capitalized at permanent loan conversion/closing and held by CalHFA in an interest-bearing reserve account for the benefit of the development.<br><br>• Operating subsidies will be disbursed quarterly, in advance. The first advance will have an additional 60-day cushion, which additional cushion may not to be spent unless authorized by CalHFA.<br><br>• Operating subsidy reserves will not be the property of the development. Operating subsidy reserves not needed by the development, as determined by CalHFA, will be recaptured for other MHSA Housing Program developments.<br><br>• The operating subsidy reserve will be sized based on a review of the development's first-year operating budget, and 4% annual cost escalators. Interest earnings on the reserve will be factored into the cost escalator calculation.<br><br>• The operating subsidy payments will be reconciled with actual operating costs every year or as required.<br><br>• Occupancy will be reviewed annually. Operating subsidies will be reduced or terminated for developments that do not rent their targeted units to members of the MHSA Housing Program target population. Operating subsidies may be reduced for MHSA Housing Program targeted units when the resident has a housing choice voucher (HCV), absent mitigating circumstances.<br><br>• Operating subsidies will not be available for projects that do not receive permanent loan funds from the MHSA Housing Program.<br><br>• Operating subsidy reserve awards will be made at loan commitment but will be conditioned upon a demonstration prior to permanent loan closing that the Developer has applied in good faith for other available rental housing subsidies for the project, and been unsuccessful in their application(s). Developers will be asked to identify in their applications the rental subsidy source or sources for which are applying and why they are pursuing that source or sources. The determination of |

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| | the appropriateness of the source or sources will be made during the underwriting process. Documentation of good faith application to the alternate source or sources will be required during the underwriting process. Developers will only be required to apply for other subsidies in one award cycle.<br><br>• Projects that receive rental or operating subsidy contracts from other sources that have a term of less than 20 years may also apply for a back-up award for MHSA Housing Program capitalized operating subsidies for the time period not covered by their other subsidy contract(s), provided that they agree to apply for all available extensions of subsidy contract(s) they receive. Back-up capitalized operating subsidy reserves not needed, by the development, as determined by CalHFA, will be recaptured for other MHSA Housing Program developments.<br><br>• Deferred developer fees (for tax credit projects) and asset management fees of $25/unit/month, or $15,000 per development, whichever is less, may be paid from operating cash flow.<br><br>• Ground lease payments will not be an allowable operating cost unless they are token payments.<br><br>• Replacement reserves may be paid from project cash flow.<br><br>• All developments will be required to apply for the "welfare tax exemption" (property tax exemption), and will be required to maintain that exemption for the term of the loan.<br><br>• Projects receiving MHSA Housing Program operating subsidy awards may be subject to limitations on distributions. |
| **Asset Management** | • Replacement reserves and regular operating reserves for the development will be held by CalHFA. This requirement may be waived at CalHFA's discretion. CalHFA will hold operating subsidies in a reserve.<br><br>• Taxes and insurance will be impounded by CalHFA. They will be deducted from operating subsidies paid to the development. This requirement may be waived at CalHFA's discretion. All developments will be required to submit quarterly financial reports. This requirement may be waived or more frequent reporting may be required at the CalHFA's discretion.<br><br>• All developments will be required to submit annual audits prepared by a certified public accountant to commonly accepted accounting standards. The audit requirement may be waived at CalHFA's discretion or alternately, CalHFA may, at their |

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| | discretion, substitute a different form of financial certification for Shared Housing Developments and very small Rental Housing Developments of 10 apartments or fewer. |
| **Services** | • The borrower must provide a clearly articulated service delivery program and property management plan.<br><br>• The services provided must be appropriate to the target population, and designed to assist the MHSA Housing Program target population residents to live independently.<br><br>• The borrower must have a commitment for service funding from the county at MHSA Housing Program loan application. All projects must identify a qualified service provider who will provide supportive services to the residents. In the event that there is not a single service provider, the application must identify a lead service provider for the project. The borrower will be required to arrange for the provision of services for the term of the MHSA Housing Program loan.<br><br>• All applications must include a supportive service plan and budget, which must meet MHSA Housing Program requirements and must be approved by DMH.<br><br>• All projects must provide an MOU between the borrower, service provider and property management agent. |
| **Target Population** | • The California Department of Mental Health has defined the MHSA Housing Program target population as low income adults, older adults, or transition-age youth with serious mental illness as defined in Welfare and Institutions Code Section 5600.3 (b) (1) who at time of assessment for housing services meet the criteria for MHSA Community Services and Supports services in their county of residence and are homeless or at risk of homelessness.<br><br>❖ Homeless is defined as living on the streets, or lacking a fixed, regular, and adequate night time residence. (This includes shelters, motels and living situations in which the individual has no tenant rights.), or<br><br>❖ At risk of homelessness includes the following: Transition-Age Youth exiting foster care or juvenile hall; individuals discharged from institutional settings, Individuals released from local city or county jails; individuals temporarily placed in Residential Care Facilities upon discharge from one of the institutional settings defined below, and individuals who have been assessed and are receiving services at the county mental health department, and who |

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| | have been deemed to be at imminent risk of homelessness, as certified by the County Mental Health Director.<br><br>❖ Institutional settings is defined as hospitals, including acute psychiatric hospitals, psychiatric health facilities (PHF), skilled nursing facilities (SNF) with a certified special treatment program for the mentally disordered (STP), and mental health rehabilitation centers (MHRC), and crisis and transitional residential settings<br><br>• To receive assistance under the MHSA Housing Program, the proposed project must serve the MHSA Housing Program target population and must ensure the provision of services necessary to allow members of the target population to live independently.<br><br>• CalHFA and DMH reserve the right to review and approve all applications and all supportive services plans for eligibility for the MHSA Housing Program. |
| **Fees (Subject to change)** | • Application Fee: $500, due at time of application submittal.<br>• Origination Fee: 1% of the loan amount, of which one-half will be due at Final Commitment and one-half at loan closing.<br>• All third party costs commissioned by CalHFA. Examples of possible third party costs include appraisal reports, physical need assessments, and construction inspection. |
| **Application Process** | All projects will be required to submit a completed application with all attachments. The application will be on the CalHFA web site. It will include MHSA Housing Program specific requirements and the joint CalHFA, TCAC, CDLAC, and HCD application ("the Universal Application"). |
| **Due Diligence** | All of the due-diligence reports listed below are required. Preparation of reports will be at the borrower's expense:<br>• A management contract with a qualified property manager.<br>• Plans and Specifications.<br>• Plans should provide for supportive service space, and office space for service staff as appropriate.<br>• For Rental Housing Developments, three years of audited financials for the developer.<br>• An MOU between the Developer, a qualified service provider and the property management company.<br>• A supportive service plan and budget.<br>• A commitment from the county mental health department for services funding.<br>• Qualifications and evidence of experience with similar projects from the developer and development team members, together with resumes for their key personnel.<br>• Property appraisal, market study, Phase I Report, and other studies as appropriate.<br>• Freddie Mac Form #70 (single family) or #72 (small rental) |

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| | appraisals, as appropriate, will be required for Shared Housing appraisals. MAI commercial appraisals will be required for Rental Housing Developments.<br>• Physical Needs Assessments, building inspection reports, sewer camera reports, roof reports, lead-paint, mold, asbestos, and structural (seismic) studies as appropriate for rehabilitation projects.<br>• Evidence of Article 34 compliance |
| **Predevelopment Loans** | • Predevelopment loans of up to $500,000 will be available to all Rental Housing Developments that have received an MHSA Housing Program loan commitment and can demonstrate site control and receipt of all required local entitlements.<br>• Predevelopment loans of up to $200,000 will be available to all Shared Housing Developments that have received an MHSA Housing Program loan commitment and can demonstrate site control and evidence of appropriate zoning.<br>• The predevelopment loan term will be two years or due at construction loan closing, whichever is sooner.<br>• Interest will be 3% fixed, and will be deferred until construction loan closing. It will be forgiven at construction loan closing.<br>• Predevelopment loan funds will be available for predevelopment costs required to secure other funding commitments, and to complete due diligence required for construction loan closing or permanent financing. Examples of eligible predevelopment costs include engineering studies, Phase 2 studies, and architectural and legal fees.<br>• Staffing costs, option costs, and all costs associated with site acquisition are not eligible costs for predevelopment loans.<br>• Predevelopment loans of less than $200,000 may be secured against the property at CalHFA's discretion. All predevelopment loans in excess of $200,000 must be secured against the property.<br>. |
| **Questions** | CalHFA will administer this housing program for the California Department of Mental Health under an interagency agreement between the two agencies in accordance with DMH regulations, which are currently being promulgated.<br>Questions regarding the MHSA Housing Program Financing Program may be directed to CalHFA's Multifamily Programs Division:<br><br>Edwin Gipson, Chief, Multifamily Programs<br>Phone: (310)-342-6899; Fax: (310) 342 1225 |

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| | Email: egipson@calhfa.ca.gov<br><br>Questions on the Mental Health Services Act and DMH Regulations should be directed to the DMH MHSA Special Projects Division:<br><br>Jane Laciste, Chief, MHSA & Special Projects<br>Phone: (916)-654-3529<br>Email: jane.laciste@dmh.ca.gov |

**IMPORTANT DISCLOSURE INFORMATION:**

The information provided in this program description is for guidance only. While we have taken care to provide accurate information, we cannot cover every circumstance or program nuance of the Mental Health Services Act, and the regulations enacted under it, and or housing law. This program description is subject to change from time to time without prior notice.

# Appendix 3

## MHSA Housing Projection Shared Assumptions

1) $75 million transferred annually from 2007-2026 for unit creation

2) Commitment schedule (in units): 500 in 2007, 500 in 2008, 550 in 2009, and 600 thereafter

3) Apartments represent 75% of annual units and start at $300,000 per unit

4) Shared housing (each bedroom and bathroom combo count as a unit) represents 25% of annual units and costs from $100,000 to $300,000 per unit

5) 50% of apartments will be new construction and 50% will be acquisition/rehabilitatic

6) 70% of apartments will be for individuals and 30% will be family apartments

7) Construction inflation: 6% in 2007, 6% in 2008, and 4.5% thereafter

8) MHSA Housing will cover 1/3 of the apartment unit construction or acquisition/rehabilitation costs

9) Rental subsidy inflation and reinvestment of rental reserve: 4%

10) Reinvestment of unexpended funds: 4.75%

11) Disbursement of funds for shared housing: same year as commitment

12) Disbursement of funds for all apartments: 50% one year after commitment and 50' two years after commitment

13) Rental subsidy for new construction will be funded three years after commitment

14) Rental subsidy for acquisition/rehabilitation projects will be funded the same year that the acquisition/rehabilitation is funded

15) Warehouse (if necessary) will cost 0.125% for undrawn funds and LIBOR for any drawn funds

# Appendix 4

Department of Mental Health
Project Evaluation Criteria

Service Plan Requirements

- Fundamental criteria for the evaluation of the supportive services plan is a well articulated understanding of the service needs of the MHSA Housing Program target population as defined as low income adults, older adults, and transition age youth with serious mental illness who are homeless or at risk of homelessness.
- The services plan must demonstrate how the supportive services delivery, in type, location, and frequency of contact, maximizes housing stability for this population
- The services plan must include a description of how the services support wellness, recovery, and resiliency. These are core values for the design and delivery of all services under the MHSA and of critical importance in supporting this population to stabilize their health and live in our communities. The plan must include a range services options that maximize independence, including employment services, budgeting and financial training, educational opportunities, assistance in obtaining or maintaining benefits to which they are, or may be, entitled, and other community services.
- The services plan must include strategies for tenant engagement in services and community life. Plans must demonstrate an understanding of the need for a vital engagement process with this population, and a range of opportunities should be offered that reflect the varying needs and interests of the target population.
- The services plan must demonstrate adequate staffing, in terms of number of staff, provider experience with the target population, and cultural competence expertise as it relates to the implementation of the proposed services plan.

County Commitment to the Project

- The County Mental Health Department must complete the County Mental Health Department Sponsorship and Services Verification Form demonstrating the county mental health department's intent to participate as a project partner and fund supportive services for the MHSA tenants. This form must be completed and signed by the County Director of Mental Health.

Conformance with county CSS Plan

- The county mental health department must describe how the proposed supportive housing project is consistent with the sponsoring county mental health department's MHSA Community Services and Supports (CSS) planning process and approved CSS plan.
- The county must provide specific information regarding how the project meets priorities and goals that were identified in the County CSS Plan.

MHSA Housing Program Target Population

- Projects must serve the target population as defined in the MHSA Housing Program Application; this definition clearly articulates criteria for both homelessness and at risk of homelessness status for adults, older adults, and transition age youth with serious mental illness.
- At risk of homelessness criteria has been developed to meet the critical issue of individuals exiting institutions and falling into homelessness. This criterion is consistent with the intention of the MHSA and well documented strategies for addressing the core causes of homelessness.

# Appendix 5

CalHFA Asset Management Roles and Responsibilities

CalHFA Asset management Staff will perform on going monitoring and review process by analyzing and approving quarterly operating subsidy requests, annual operating budgets and audited financial statements. The main focus of this monitoring will be to assist owners/management agents maintain projects in good financial and physical condition in a cost effective manner.

The following are some of the tools that will be utilized to achieve and monitor cost effectiveness

1) Operating Subsidy

CalHFA asset managers will be responsible for determining the need for the MHSA Operating Subsidy and authorizing the release of funds. CalHFA Asset Management staff will monitor the utilization of operating subsidy quarterly based on projected shortfalls during the fiscal year. The total amount of operating subsidy payments requested should be equal to CalHFA approved operating expenses for the project minus the tenant payments received on all the assisted units.. Staff will request from owner/agent the submission of financial statements as to project operation, financial condition and occupancy as CalHFA/DMH may require in administering this program. Staff will utilize the quarterly financial statements to ensure the subsidy allocated is properly utilized to meet the intended purposes of financing the subsidized MHSA units. The quarterly financial statements will be utilized to reconcile the annual approved (allocation) to the actual utilization of funds, and the annual operating subsidies may be reduced if the annual shortfall is less than projected feasibility.

2) Annual Operating Budget

Asset Management will request and review a bifurcated operating budget when applicable which provides a prorated breakdown of operating expenses split between assisted units and non-assisted units in each development. The operating budget submission should include a projected cash flow and a computation for the amount of subsidy requested. The submission should also include a rent schedule for assisted and non-assisted units in the development.

Staff will review the proposed operating budget and determine if the operating expenses defined in the operating budget qualify as allowable operating expenses under the program regulations and project regulatory agreement. The bifurcated budget should insure that the amortizing debt payments are not being paid from MHSA operating subsidy funds.

Only the operating costs of MHSA restricted units may be subsidized with operating subsidies. Operating subsidies will be capitalized at permanent loan conversion/closing and held by CalHFA in an interest bearing subsidy account for the benefit of the development. Operating subsidies will be dispersed no more than quarterly, in advance. The first advance will have a 60-day cushion that may not be spent unless authorized by CalHFA. The Operating Subsidies will be utilized to meet the intended purposes as

defined in the MHSA program guidelines, project regulatory agreement, and other CalHFA documents.

3) Annual Audited Financial Statements

All developments will be required to submit annual audited financial statements 60 days after the end of each fiscal year of project operations prepared by certified public accountants to commonly accepted accounting standards. This requirement may be waived at CalHFA's discretion for small projects with 25 or less units. The Asset manager shall review audited Balance Sheet, Statement of Operation, Statement of Cash Flow, and other pertinent schedules including a Schedule of Operating Subsidy. The Schedule of Operating Subsidy shall exhibit the beginning balance, withdrawals, and year end balance. A Note to the Financial Statement shall be included with regard to the use of the Operating Subsidy.

4) Physical Inspection

Finally, through asset management's annual inspection process, CalHFA inspectors will conduct annual inspections on rental units to assure safe, sanitary and decent housing for those the housing was intended for.

Through a combination of the above actions, CalHFA asset management staff will attempt to protect the cost effectiveness of the program, the physical security of the project, preserve the financial soundness of the project and assure that the residents have affordable, safe, sanitary and well maintained housing.

**Enclosure 1**
**Initial Planning Estimates for the Community Services and Supports (CSS)**
**MHSA Housing Program**

| | Total Initial MHSA Housing Program Planning Estimates (Including Operating Subsidies) | Maximum Available for MHSA Housing Program Operating Subsidies |
|---|---|---|
| Alameda | $14,619,200 | $4,873,100 |
| Alpine | $15,700 | $5,200 |
| Amador | $501,800 | $167,300 |
| Butte | $2,173,000 | $724,300 |
| Calaveras | $639,500 | $213,200 |
| Colusa | $312,200 | $104,100 |
| Contra Costa | $9,130,800 | $3,043,600 |
| Del Norte | $416,700 | $138,900 |
| El Dorado | $2,276,500 | $758,800 |
| Fresno | $9,248,900 | $3,083,000 |
| Glenn | $409,400 | $136,500 |
| Humboldt | $1,955,300 | $651,800 |
| Imperial | $2,660,000 | $886,700 |
| Inyo | $222,200 | $74,100 |
| Kern | $7,932,200 | $2,644,100 |
| Kings | $2,204,100 | $734,700 |
| Lake | $942,600 | $314,200 |
| Lassen | $413,600 | $137,900 |
| Los Angeles | $115,571,200 | $38,523,700 |
| Madera | $2,318,200 | $772,700 |
| Marin | $2,151,000 | $717,000 |
| Mariposa | $230,100 | $76,700 |
| Mendocino | $1,292,300 | $430,800 |
| Merced | $2,615,400 | $871,800 |
| Modoc | $124,400 | $41,500 |
| Mono | $189,000 | $63,000 |
| Monterey | $4,615,100 | $1,538,400 |
| Napa | $1,827,900 | $609,300 |
| Nevada | $1,387,000 | $462,300 |
| Orange | $33,158,300 | $11,052,800 |
| Placer | $2,383,900 | $794,600 |
| Plumas | $251,200 | $83,700 |
| Riverside | $19,077,100 | $6,359,000 |
| Sacramento | $12,340,100 | $4,113,400 |
| San Benito | $878,600 | $292,900 |
| San Bernardino | $20,178,200 | $6,726,100 |
| San Diego | $33,083,900 | $11,028,000 |
| San Francisco | $7,714,400 | $2,571,500 |
| San Joaquin | $6,339,500 | $2,113,200 |
| San Luis Obispo | $2,583,400 | $861,100 |
| San Mateo | $6,762,000 | $2,254,000 |
| Santa Barbara | $4,577,900 | $1,526,000 |
| Santa Clara | $19,249,300 | $6,416,400 |
| Santa Cruz | $2,914,600 | $971,500 |
| Shasta | $2,686,000 | $895,300 |
| Sierra | $40,400 | $13,500 |
| Siskiyou | $593,600 | $197,900 |
| Solano | $3,868,400 | $1,289,500 |
| Sonoma | $4,555,500 | $1,518,500 |
| Stanislaus | $4,807,900 | $1,602,600 |
| Sutter/Yuba | $2,365,900 | $788,600 |
| Tehama | $860,500 | $286,800 |
| Trinity | $173,300 | $57,800 |
| Tulare | $4,494,400 | $1,498,100 |
| Tuolumne | $797,700 | $265,900 |
| Ventura | $8,206,400 | $2,735,500 |
| Yolo | $3,014,300 | $1,004,800 |
| City of Berkeley | $1,258,600 | $419,500 |
| Tri-City | $2,389,400 | $796,500 |
| Total | $400,000,000 | $133,333,700 |

RESOLUTION 07-27

RESOLUTION AUTHORIZING THE AGENCY'S IMPLEMENTATION AND DELIVERY OF THE MENTAL HEALTH SERVICES HOUSING PROGRAM

WHEREAS, in 2004 Proposition 63 was passed by the voters of California authorizing the collection of an additional one percent tax on taxpayers' income above $1 Million Dollars to fund the Mental Health Services Fund ("Fund"), and

WHEREAS, this Fund is dedicated to the California Department of Mental Health ("DMH") to provide funding for the expansion of county mental health services and programs, and

WHEREAS, Executive Order S-07-06, signed by the Governor in 2006, called for a permanent supportive housing program (using money from this Fund) to be developed by DMH in consultation with the California Housing Finance Agency ("Agency") and the California Housing and Community Development ("HCD") specifically targeting persons who have mental illness, especially including homeless individuals and their families ("Special Needs Households"), and

WHEREAS, Senate Bill No. 257 was passed in 2006, clarifying the Agency's ability to make loans, using monies in whole or in part from the Fund, to assist in development of housing for these Special Needs Households, and

WHEREAS, a "work group" was created amongst DMH, the Agency, the Tax Credit Allocation Committee, HCD, the County Mental Health Directors Association, along and other interested parties, where a permanent supportive housing program has been formulated, and

WHEREAS, it is recognized that DMH has expertise in supportive services for persons who have a mental illness, and the Agency has expertise in real estate development and finance, and

WHEREAS, the Agency and DMH in consultation with the work group, have developed a plan ("MHSA Housing Program") for using monies from the Fund by which DMH will determine each county's share of supportive housing money to be allocated from the Fund, and enter into agreements with the counties that this money will be transferred to the Agency for administration of the MHSA Housing Program, and

WHEREAS, the MHSA Housing Program contemplates that the Agency will originate and administer loans ("Program Loans") using monies from the Fund, and DMH will approve and oversee the provision of supportive services to be provided in connection with the housing, and

WHEREAS, staff will be coming to the Board at a later date to propose a long range investment strategy in administration of monies from the Fund which are transferred to the Agency, and

WHEREAS, in order to implement the MHSA Housing Program, it is necessary that various agreements must be executed between DMH and the Agency, as well as Program Loan documents between the Agency and borrower/developers, along with other interested parties to any given Program Loan, and

WHEREAS, based upon the recommendation of staff and due deliberation by the Board, the Board has determined that 1) it is in the public interest that the proposed MHSA Housing Program be implemented in an expedient manner, 2) it will be necessary to enter into various agreements with DMH for implementation of the Program, and with borrowers and other interested parties in any given MHSA Housing Program Loan, and 3) in order to expeditiously administer the MHSA Housing Program, the Executive Director, or in his or her absence, other officers of the Agency, may execute all necessary agreements associated with the MHSA Housing Program,, including but not limited to, loan documents and interagency agreements.

NOW, THEREFORE IT BE RESOLVED by the Board of Directors of the California Housing Finance Agency as follows:

Section 1. **Authorization of Program-Related Agreements.** The Executive Director and the other officers of the Agency are hereby authorized to enter into, for and in the name and on behalf of the Agency, any and all agreements and documents designed to implement the MHSA Housing Program. Such agreements include, but are not limited to interagency agreements, including any amendments thereto, by and between the Agency and the Department of Mental Health, agreements with local departments of mental health, or other local jurisdictions as necessary in connection with the MHSA Housing Program, and Program-related agreements with other parties which, as the Executive Director determines, is necessary for implementation of the Program.

Section 2. **Authorization of Program Loan Documents.** The Executive Director and the other officers of the Agency are hereby authorized and directed to execute all documents deemed necessary or appropriate in connection with the Program Loans including, but not limited to, regulatory agreements, loan agreements, origination and servicing agreements, developer agreements, operating subsidy agreements, subordination agreements, loan commitments, intercreditor agreements, refunding and loan modification agreements, in each case with such other parties as may be necessary in furtherance of the objectives of the MHSA Housing Program.

This resolution shall constitute full, separate, complete and additional authority for the execution and delivery of all agreements and instruments described in this resolution, without regard to any limitation in the Agency's regulations and without regard to any other resolution of the Board that does not expressly amend and limit this resolution.

Section 3. **Other Delegation.** As it relates to "other officers" of the Agency, all actions by the Executive Director approved or authorized by this resolution may be taken by the Chief Deputy Director of the Agency, the Director of Financing of the Agency, the Director of Multifamily Programs or any other person specifically authorized in writing by the Executive Director.

I hereby certify that this is a true and correct copy of Resolution 07-27 adopted at a duly constituted meeting of the Board of the Agency held on September 12, 2007 at Burbank, California.

ATTEST: _____
Secretary

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**State of California**

**M E M O R A N D U M**

**To:** Board of Directors **Date:** August 28, 2007

Bruce D. Gilbertson, Director of Financing
**From:** **CALIFORNIA HOUSING FINANCE AGENCY**

**Subject:** RESOLUTION AMENDING BOND AUTHORIZATION FOR THE PURPOSE OF FINANCING LOANS IN CONNECTION WITH THE BAY AREA HOUSING PLAN RESOLUTION 07-28

On January 12, 2006 the Board of Directors adopted Resolution 06-06 authorizing, among other things, the sale and issuance of CalHFA bonds for the purpose of financing loans in connection with the Bay Area Housing Plan. The prior resolution authorized bonds to be issued in an aggregate amount not to exceed $120,000,000 on or before 30 days after the first Board meeting in the year 2008 at which there is a quorum.

Resolution 07-28 would authorize an extension for the issuance of bonds in connection with the Bay Area Housing Plan and would not expire until 30 days after the first Board meeting in the year 2009 at which there is a quorum. Our plans for bond issuance have been modified because the California Department of Developmental Services has extended the timeline for closure of the Agnews Development Center. It is now anticipated that acquisition and modification of the Bay Area Housing Plan properties will be completed in June 2008. As a result we anticipate two bond issuances; the first in December 2007 and the second in late spring or summer 2008.

Resolution 07-28 would also authorize the Bay Area Housing Program Bonds Indenture (attached) as an approved form of indenture for purposes of financing loans in connection with the Bay Area Housing Plan. This new indenture is intended to be used exclusively for purposes of the Bay Area Housing Program as a limited obligation credit not requiring support from the Agency's general obligation. We have submitted the indenture and related documents to the bond rating agencies for their review and hope to receive preliminary credit rating approval in the near future.

Attachments

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**CALIFORNIA HOUSING FINANCE AGENCY**

and

**U.S. BANK NATIONAL ASSOCIATION,**

as Trustee

# INDENTURE

Dated as of [December 1, 2007]

**CALIFORNIA HOUSING FINANCE AGENCY**

**BAY AREA HOUSING PROGRAM BONDS**

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THIS INDENTURE, made and entered into as of the first day of [December, 2007], by and between the California Housing Finance Agency, a public instrumentality and a political subdivision of the State of California (herein called the "Agency"), and U.S. Bank National Association, a national banking association duly organized and existing under the laws of the United States of America, having a corporate trust office in San Francisco, California, and being qualified to accept and administer the trusts hereby created, as trustee (herein called the "Trustee");

W I T N E S S E T H:

WHEREAS, the Agency has been created by the Zenovich-Moscone-Chacon Housing and Home Finance Act (constituting Division 31 of the Health and Safety Code of the State of California), as amended (Parts 1 through 4 of which are herein called the "Act");

WHEREAS, the Agency has determined to borrow money for the purpose of financing or refinancing the construction or development of special needs housing and to that end has duly authorized the issuance of its bonds hereunder, and to secure the payment of the principal thereof and of the interest and premium (if any) thereon, and the observance of the covenants and conditions herein contained, has authorized the execution and delivery of this Indenture;

WHEREAS, said bonds are to be issued hereunder and designated the "California Housing Finance Agency Bay Area Housing Program Bonds" (herein called the "Bonds"), from time to time, in an aggregate principal amount not limited except as hereinafter provided;

WHEREAS, the Agency has determined that it may provide supplemental credit or liquidity support for any Series of Bonds to the extent necessary to obtain, if desirable, a credit rating for such Series as hereinafter specified; and

WHEREAS, all acts and proceedings required by the Act and other applicable law, including all action requisite on the part of the Agency, its Board of Directors, its members and its officers necessary to make the Bonds, when executed by the Agency, authenticated and delivered by the Trustee and duly issued, the valid, legal and binding obligations of the Agency, and to constitute this Indenture a valid, legal and binding agreement for the uses and purposes herein set forth, in accordance with its terms, have been done and taken; and the execution and delivery of this Indenture have been in all respects duly authorized;

NOW, THEREFORE, THIS INDENTURE WITNESSETH, that in order to secure the Secured Obligations (as hereinafter defined), and to declare the terms and conditions upon and subject to which the Bonds are to be issued and received, and in consideration of the premises and of the purchase and acceptance of the Bonds by the holders thereof, and for other valuable consideration, the receipt whereof is hereby acknowledged, the Agency does hereby grant, bargain, sell, warrant, convey, confirm, assign, transfer in trust, grant a security interest in, pledge and set over unto the Trustee and to its successors in the trusts hereby created, all and singular, the property of the Agency, real and personal, hereinafter described (said property being herein sometimes referred to as the "trust estate"), in each case subject to the provisions of this Indenture permitting the use and application thereof for or to the purposes and on the terms and conditions set forth in this Indenture:

1. All of the right, title and interest of the Agency in, to and under the Loans (as hereinafter defined) financed pursuant to this Indenture;

2. All of the Revenues (as hereinafter defined, other than Rebatable Arbitrage);

3. All proceeds of the sale of Bonds;

4. All Accounts (as hereinafter defined, other than the Bond Purchase Account and the Rebate Account), and the moneys and securities therein; and

5. All property which is by the express provisions of this Indenture required to be subjected to the lien hereof; and any additional property that may, from time to time hereafter, by delivery or by writing of any kind, be subjected to the lien hereof, by the Agency or by anyone on its behalf, and the Trustee is hereby authorized to receive the same at any time as additional security hereunder;

TO HAVE AND TO HOLD, all and singular, the trust estate, including any and all additional property that by virtue of any provision hereof or of any Supplemental Indenture hereto shall hereafter become subject to this Indenture and to the trusts hereby created, unto the Trustee and its successors in the trusts hereby created;

IN TRUST, NEVERTHELESS, and, except as expressly provided herein, for the equal and proportionate benefit and security of the holders from time to time of any of the Secured Obligations, without preference, priority or distinction as to lien or otherwise of any one holder of Secured Obligations over any other holder of Secured Obligations by reason of priority in the issue, sale or negotiation thereof, or of any other cause, so that each holder of Secured Obligations shall have the same rights, privileges and lien under and by virtue of this Indenture, so that every holder of Secured Obligations shall, subject to the terms hereof, be equally and proportionately secured hereby, as if all such obligations had been duly issued and sold and negotiated simultaneously with the execution and delivery of this Indenture;

And it is hereby covenanted and agreed that all of the Bonds shall be issued, authenticated and delivered, and that the trust estate shall be held by the Trustee, subject only to the further covenants, conditions, uses, applications and trusts hereinafter set forth, and the Agency agrees and covenants with the Trustee and with the holders from time to time of the Bonds, as follows:

## ARTICLE I

## DEFINITIONS AND INTERPRETATION

Section 101. Definitions. Unless the context otherwise requires, the terms defined in this Section shall, for all purposes of this Indenture and of any Supplemental Indenture, have the meanings herein specified, the following definitions to be equally applicable to both the singular and plural forms of any of the terms herein defined:

"Account" means an account or fund created by or pursuant to this Indenture.

"Accreted Value" means, on any particular date of calculation with respect to any particular Bond the interest on which is not payable at least semiannually (except for an initial period not to exceed one year), an amount equal to the original reoffering price of such Bond compounded on each Interest Payment Date or Principal Installment Date for Bonds of the same Series at the Original Issue Yield for such Bond, less interest paid, as of the Interest Payment Date or Principal Installment Date next preceding such date of calculation.

"Acquired Residence" means a Residence constructed, owned, operated or administered by the Agency by reason of the Agency's obtaining possession thereof when the Borrower Loan with respect thereto is a Defaulted Loan.

"Acquired Residence Account" means the Account so designated which is created and established by Section 502.

"Acquired Residence Expense Requirement" means such amount of money as may, from time to time, be determined by an Officer's Certificate to be necessary for the payment or as a reserve for the payment of any costs and expenses incurred in connection with all Acquired Residences.

"Acquired Residence Receipts" means all moneys received by the Agency in connection with Acquired Residences.

"Act" means Parts 1 through 4 of Division 31 of the Health and Safety Code of the State, and all laws supplementary thereto and amendatory thereof.

"Agency" means the California Housing Finance Agency, a public instrumentality and a political subdivision of the State, created by and existing under the Act.

"Authorized Officer" means the Chairperson, the Executive Director, the Deputy Director or the Director of Financing, or any other person authorized by resolution of the Agency to act as an Authorized Officer hereunder.

"Bond" means any bond or bonds, as the case may be, authorized under, secured by, and issued pursuant to, this Indenture.

"Bond Account" means the account so designated which is established and created by Section 502.

"Bondholder" or "Holder" or "holder" or any similar term means the person in whose name a Bond is registered.

"Bond Purchase Account" means the account so designated which is established and created by Section 502.

"Bond Year" means the period of twelve consecutive months ending on August 1 in any year in which Bonds are or will be Outstanding.

"Borrower" means the owner of a Residence and the direct or indirect obligor on a Borrower Loan.

"Borrower Loan" means a loan, or a participation in a loan, made, purchased or otherwise acquired with the proceeds of Bonds, with the proceeds of a Lender Loan or through a Mortgage-Backed Security, for the construction or permanent financing of one or more Residences, and for which the obligation to repay is evidenced by a Note and secured by one or more Deeds of Trust.

"Business Day" means any day other than (i) a Saturday, a Sunday or another day on which banking institutions in the State of California or the State of Minnesota are authorized or obligated by law or executive order to be closed, (ii) a day on which the New York Stock Exchange is authorized or obligated by law or executive order to be closed and (iii) with respect to any Series, a day upon which commercial banks are authorized or obligated by law or executive order to be closed in the city in which demands for payment are to be presented to any Credit Provider for such Series.

"Capitalized Interest" means interest to be paid or reserved from the proceeds of the issuance of Bonds or other amounts deposited by the Agency in the Program Account.

"Capital Reserve Account" means the account so designated which is established and created by Section 502.

"Capital Reserve Account Requirement" means, as of any particular date of calculation, an amount equal to the sum for all outstanding Loans of the amount specified for each such Loan for such purpose by the Agency; *provided, however,* that the amount for each Loan shall not be less than the lesser of (i) Maximum Annual Debt Service on the Outstanding Bonds, the proceeds of which were applied to finance such Loan (assuming that such Bonds constitute a pro rata portion of each maturity of the related Series), or (ii) 10% of the amount of proceeds of the Bonds used to finance such Loan pursuant to Section 402. All or any portion of the Capital Reserve Account Requirement may be satisfied by a letter of credit, surety bond or other source of moneys if so provided in the related Series Indenture.

"Cash Flow Statement" has the meaning set forth in Section 616.

"Chairperson" means the Chairperson of the Board of Directors of the Agency.

"Costs of Issuance" means items of expense payable or reimbursable directly or indirectly by the Agency and related to the authorization, sale and issuance of Bonds.

"Counsel's Opinion" means a written opinion, including supplemental opinions thereto, addressed to the Agency and signed by an attorney or firm of attorneys (who may be counsel for the Agency) acceptable to the Agency and the Trustee.

"Credit Facility" means any supplemental credit support or supplemental liquidity support for a Series.

"Credit Provider" means any person, firm or entity designated in a Series Indenture or Supplemental Indenture as providing a Credit Facility.

"Deed of Trust" means a deed of trust or other instrument which constitutes a lien on real property and improvements thereon and secures the obligation to repay a Borrower Loan.

"Defaulted Loan" means any Loan described in an Officer's Certificate and stated to be in default in accordance with its terms.

"Deputy Director" means a Deputy Director of the Agency.

"Director of Financing" means the Director of Financing of the Agency.

"Escrow Payments" means any payments made with respect to any Borrower Loan in order to obtain or maintain loan insurance, any subsidy and any fire or other hazard insurance and any payments required to be made with respect to any Borrower Loan for reserves or escrows for operating expenses or replacements or for taxes or other governmental charges or similar charges to be paid by a Borrower and required to be escrowed pending their application.

"Executive Director" means the Executive Director of the Agency.

"Fiduciaries" means the Trustee and any Paying Agents and any other person identified as such by a Series Indenture.

"Fiscal Year" means any fiscal year (or other comparable period) of the Agency.

"Hedging Instrument" means any interest rate, currency or cash-flow swap agreement, interest rate cap, floor or option agreement, forward payment conversion agreement, put, call or other agreement or instrument to hedge payment, interest rate, spread or similar exposure; which in each case is designated by the Agency as a Hedging Instrument hereunder. Each Hedging Instrument shall meet the requirements of Section 606(E).

"HUD" means the United States Department of Housing and Urban Residence or its successor.

"Indenture" means this Indenture as it may from time to time be amended, modified or supplemented by Series Indentures or Supplemental Indentures.

"Interest Payment Date" means, with respect to any particular Bond, a date on which interest on such Bond is required to be paid.

"Interest Requirement" means, as of any particular date of calculation, with respect to any particular Series Outstanding on such date of calculation, an amount equal to the sum of (1) any previously unpaid interest then due on Outstanding Bonds of such Series (including any amount required to be reimbursed to any Credit Provider for payment of such interest), plus (2) an amount equal to the interest accrued and unpaid on Outstanding Bonds of such Series as of such date of calculation, but not including the interest portion of the Accreted Value. For purposes of this definition as applied to Bonds bearing interest at a variable rate, any assumptions made in the calculation of interest in connection with the issuance of such Bonds shall be as set forth in the related Series Indenture, and any assumptions made in the calculation of interest in connection with the other matters arising under this Indenture shall be as set forth in the related Series Indenture or as set forth in an Officer's Certificate consistent with the related Series Indenture.

"Investment Obligation" means any of the following which at the time are lawful investments under the laws of the State for the moneys held hereunder then proposed to be invested therein: (1) direct general obligations of the United States of America or of the State, or obligations the payment of the principal of and interest on which are unconditionally guaranteed by the United States of America, any federal agency of the United States of America, or the State; (2) bonds, consolidated bonds, collateral trust debentures, consolidated debentures, or other obligations issued by Federal Land Banks or Federal Intermediate Credit Banks established under the Federal Farm Loan Act, as amended, debentures and consolidated debentures issued by the Central Bank for Cooperatives and Banks for Cooperatives established under the Farm Credit Act of 1933, as amended, bonds or debentures of the Federal Home Loan Bank Board established under the Federal Home Loan Bank Act, stock, bonds, debentures and other obligations of Fannie Mae or of the Government National Mortgage Association, established under the National Housing Act, as amended, bonds of any Federal Home Loan Bank established under said act, bonds, debentures and other obligations of the Federal Home Loan Mortgage Corporation guaranteeing timely payment of principal and interest, bonds, notes, and other obligations issued by the Tennessee Valley Authority under the Tennessee Valley Authority Act, as amended, except, in each case, securities evidencing ownership interests in specified portions of the interest on or principal of such obligations; (3) commercial paper rated within the highest [two/three] Rating Categories of each Rating Agency and issued by corporations (a) organized and operating within the United States; and (b) having total assets in excess of five hundred million dollars ($500,000,000); (4) bills of exchange or time drafts drawn on and

accepted by a commercial bank the general obligations of which are rated within the highest [two/three] Rating Categories by each Rating Agency, otherwise known as bankers acceptances, which are eligible for purchase by the Federal Reserve System, and negotiable certificates of deposits issued by a nationally or state-chartered bank or savings and loan association which are insured by federal deposit insurance, or which are issued by an institution the general obligations of which are rated within the highest [two/three] Rating Categories by each Rating Agency; (5) bonds, debentures, and notes issued by corporations organized and operating within the United States and rated within the highest [two/three] Rating Categories by each Rating Agency; (6) repurchase agreements or reverse repurchase agreements, with nationally recognized broker-dealers which are agreements for the purchase or sale of Investment Obligations pursuant to which the seller or buyer agrees to repurchase or sell back such securities on or before a specified date and for a specified amount, which seller or buyer has outstanding long-term indebtedness which are rated within the highest [two/three] Rating Categories by each Rating Agency; (7) investment agreements with corporations, financial institutions or national associations within the United States the general obligations of which (or, if payment of such investment agreement is guaranteed, the general obligations of the guarantor) are rated within the highest [two/three] Rating Categories by each Rating Agency; (8) interest bearing accounts in State or national banks or other financial institutions having principal offices in the State (including those of the Trustee or its affiliates) which, to the extent they are not insured by federal deposit insurance, are issued by an institution the general obligations of which are rated within the highest [two/three] Rating Categories by each Rating Agency; (9) interests in any short term investment fund (including those of the Trustee or its affiliates) restricted to investment in obligations described in any of clauses (1) through (5) of this definition, which are rated within the highest [two/three] Rating Categories by each Rating Agency; (10) deposits in the Surplus Money Investment Fund referred to in Section 51003 of the Act; or (11) other investment securities which will not cause any Unenhanced Rating on any Bonds to be reduced or withdrawn.

"Issue Dates" means, with respect to any particular Series, the date or dates of the Bonds of such Series as specified and determined in accordance with Article II.

"Lender" means a financial institution which borrows money from the Agency in order to make, purchase or otherwise acquire a Borrower Loan.

"Lender Loan" means a loan made by the Agency to a Lender to finance one or more Borrower Loans, or a participation in such a loan made to a Lender.

"Liquidity Facility" means any Credit Facility, or that portion of any Credit Facility, under which amounts may be drawn or otherwise made available to provide moneys with which to purchase Bonds tendered pursuant to their terms by Bondholders prior to their respective maturity dates or dates fixed for redemption.

"Liquidity Provider" means any person, firm or entity designated in a Series Indenture or Supplemental Indenture as providing a Liquidity Facility.

"Loan" means a Borrower Loan or a Lender Loan or a Mortgage-Backed Security.

"Loan Documents" means, with respect to any particular Loan, the Note, Deed of Trust, any loan agreement, any regulatory agreement and all other agreements between the Agency and a Borrower or a Lender, or between a Lender and a Borrower, relating to a Loan, and any documents relating to a Mortgage-Backed Security and to which or of which the Agency or the Trustee is a party or a beneficiary.

"Loan Expenses" means the cost of real estate taxes, appraisal fees, insurance fees, legal fees and any other expenses which may be required to maintain the priority of the Agency's lien, to protect or enforce the Agency's rights, or to maintain in full force and effect or realize the benefits of any insurance or guarantee, on or with respect to any Loan.

"Loan Principal Prepayments" means any amounts received by the Agency or the Trustee representing recovery of the Principal Balance of any Loan (exclusive of amounts representing regularly scheduled principal payments) as a result of (1) any voluntary prepayment of all or part of the Principal Balance of a Loan, including any prepayment, fee, premium or other such additional charge; (2) the sale, assignment or other disposition of a Loan (including assignment of a Loan to collect upon mortgage insurance, if any); (3) the acceleration of a Loan (for default or any other cause) or the foreclosure or sale under a Deed of Trust or other proceedings taken in the event of default of such Loan; and (4) compensation for losses incurred with respect to such Loan from the proceeds of condemnation, eminent domain, title insurance or hazard insurance.

"Mortgage-Backed Security" means a pass-through certificate, mortgage participation certificate or other mortgage-backed security issued by or in the name of, and guaranteed as to timely payment of principal and interest by, the Federal Home Loan Mortgage Corporation or the Federal National Mortgage Association or the Government National Mortgage Association or, in each case, any successor federally sponsored association or agency, registered or recorded in book-entry form in the name of the Trustee or the Agency, and backed by or representing an undivided interest in one or more Borrower Loans, or a participation interest in any of the foregoing types of securities.

"Note" means an instrument evidencing a Borrower's obligation to repay a Borrower Loan.

"Officer's Certificate" means a certificate signed by an Authorized Officer.

"Original Issue Yield" means, with respect to any particular Bond, the original issue yield to maturity of such Bond from the initial date of delivery of such Bond, calculated on the basis of semiannual compounding on the Interest Payment Dates and Principal Installment Dates for Bonds of the same Series.

"Outstanding", when used with reference to bonds and as of any particular date, describes all Bonds theretofore and thereupon being delivered except (1) any Bond cancelled by the Trustee, or proved to the satisfaction of the Trustee to have been cancelled by the Agency or by any other Fiduciary at or before said date, (2) any bond paid or deemed to be paid within the meaning of Section 1201, and (3) any Bond in lieu of or in substitution for which another Bond shall have been delivered pursuant to Sections 307, 308, 310, 311, 705 or 906.

"Paying Agent" means any paying agent for Bonds appointed pursuant to or as provided in Section 1108, and its successor or successors and any other corporation or association which may at any time be substituted in its place pursuant to this Indenture.

"Permitted Encumbrances" means, with respect to any particular Loan, such liens, encumbrances, reservations, easements and other imperfections of title as are acceptable to the Agency.

"Principal Amount" means, as of any particular date of calculation with respect to any particular Bonds, the sum of (a) the principal amount as of such date of calculation of such Bonds not having an Accreted Value, plus (b) the Accreted Value as of such date of calculation of such Bonds having an Accreted Value.

"Principal Balance" means, with respect to each Loan, the unpaid principal balance thereof.

"Principal Installment" means, as of any particular date of calculation with respect to any particular Series Outstanding on such date of calculation and with respect to any particular future date, an amount equal to the sum of (1) the Principal Amount of Outstanding Bonds of such Series which mature on such future date, reduced by the aggregate Principal Amount of Outstanding Bonds of such Series which would at or before such future date cease to be Outstanding by reason of the application of Sinking Fund Installments at or before such future date, and (2) the amount of any Sinking Fund Installment payable on such Series on such future date.

"Principal Installment Date" means, with respect to any particular Series, any date on which a Principal Installment with respect to such Series is required to be made.

"Principal Office", when used with respect to a particular Fiduciary, means the office of such Fiduciary so designated herein or in any notice given by such Fiduciary to the Agency, and in the case of the Trustee, as of the date hereof, is at the applicable address set forth in Section 1209 hereof.

"Principal Payment Period" means, for any particular Bond, each period so designated by the Supplemental Indenture authorizing the issuance of such Bond. Generally, each Supplemental Indenture will provide that the Principal Payment Period for any particular Bond will be the period (i) ending on the day next preceding the earlier of the maturity date of such Bond or the date on which such Bond is to be redeemed with a Sinking Fund Installment and (ii) starting on the next preceding date on which any Bonds of the same Series were originally scheduled to mature or be redeemed with a Sinking Fund Installment. However, a Supplemental Indenture authorizing the issuance of a Series may provide for a different definition of this term for the Bonds of such Series.

"Principal Requirement" means, as of any particular date of calculation, with respect to any particular Series Outstanding on such date of calculation, an amount equal to the sum of (1) any previously unpaid Principal Installment of such Series then due (including any amount required to be reimbursed to any Credit Provider for payment of such Principal Installment), and (2) the portion of each Principal Installment for such Series that is to have been transferred to the Bond Account assuming ratable transfer (in proportion to the number of months elapsed) over the Principal Payment Period for such Bonds ending on the date such Principal Installment is due.

"Program Account" means the Account so designated which is established and created by Section 402.

"Qualified Program Expenses" means (1) the fees and charges of the Trustee, any co-trustee, Paying Agent, tender agent or other fiduciary for the Bonds, and any Credit Provider or remarketing agent for Bonds, and (2) any administrative fee payable to the Agency that is consistent with, and taken into account in, the most recentl Cash Flow Statement filed with the Trustee.

"Rating Agency" means, at any particular time with respect to any particular Series, any nationally recognized credit rating service designated by the Agency for such Series, if and to the extent such service has at the time one or more outstanding ratings of such Series. The Agency shall at all times have designated for each Series at least one such service as a Rating Agency for such Series.

"Rating Category" means one of the general rating categories of a Rating Agency (in the case of long-term securities only, without regard to any refinement or graduation of such rating category by numerical or symbolic modifier or otherwise).

"Rebatable Arbitrage" means the amount (determinable for each Tax-Exempt Series as of such times as may be specified by the related Series Indenture or Tax Certificate) of arbitrage profits earned from the investment of "gross proceeds" of a Series in "nonpurpose investments" described in Section 148(f)(2) of the Internal Revenue Code of 1986 and defined as "Rebatable Arbitrage" in Section 1148-2 of the Regulations, which are payable to the United States at the times and in the amounts specified in Section 148(f)(3) of the Internal Revenue Code of 1986 and Section 1148-1 of the Regulations, or any similar or successor provisions.

"Rebate Account" means the Account so designated which is established and created by Section 502, and in which subaccounts may be created by and applied in accordance with the related Series Indenture or Tax Certificate.

"Record Date" means, with respect to any particular Bond and for any particular Interest Payment Date, the date (determined in accordance with the related Series Indenture) upon which is established to whom interest payable on such Interest Payment Date on such Bond should be paid.

"Redemption Account" means the Account so designated which is established and created by Section 502.

"Redemption Price", when used with respect to a particular Bond or portion thereof, means the Principal Amount of such Bond or portion to be redeemed plus the applicable premium, if any, payable upon redemption thereof in accordance with its terms.

"Refunding Bonds" means any Bonds issued pursuant to Section 205.

"Related" (whether capitalized or not) means, with respect to any particular Bond, Series, Series Indenture, Supplemental Indenture, Account, Credit Facility, Liquidity Facility, Hedging Instrument, Loan, Loan Principal Prepayment or Capital Reserve Account Requirement, having been created or designated in connection with the issuance of, or having been derived from the proceeds of, or having been reallocated to, the same Series, as the case may be.

"Required Rebate Deposit" means the amount (determinable for each Tax-Exempt Series as of such times as may be specified by the related Series Indenture or Tax Certificate), which when added to amounts then on deposit in the related subaccount of the Rebate Account to be established pursuant to the related Tax Certificate, equals the aggregate amount of Rebatable Arbitrage for such Series less the amount of Rebatable Arbitrage theretofore paid to the United States with respect to such Series, if any. A Required Rebate Deposit may be negative; that is, may result in the transfer of excess amounts on deposit in the Rebate Account to the Revenue Account.

"Residence" means any "special needs housing," "housing development," "multifamily rental housing" or "residential structure" (as those terms are used in the Act), financed by one or more Loans made, purchased or otherwise acquired with the proceeds of Bonds.

"Resolution" means a resolution duly adopted by the Board of Directors of the Agency.

"Revenue Account" means an Account so designated which is established and created by Section 502.

"Revenues" means amounts received by the Agency or the Trustee (1) as or representing payment or recovery of the principal of or interest on any Loan, including, without limiting the generality of the foregoing, scheduled payments of principal and interest on any Loan and paid from any source

(including both timely and delinquent payments and any late charges) and Loan Principal Prepayments, (2) any fees paid with respect to any Loan and expressly designated for deposit under this Indenture, (3) amounts paid under any Deed of Trust or other Loan Document as damages or reimbursement of expenses or otherwise, (4) all Acquired Residence Receipts, (5) all amounts so designated by any Supplemental Indenture and required by such Supplemental Indenture to be deposited in the Revenue Account, (6) all interest, profits or other income derived from the investment of amounts in any Account, and (7) amounts received by the Agency or the Trustee under any Hedging Instrument; but "Revenues" shall not include (a) Escrow Payments, (b) any amounts representing reimbursement to the Agency of advances of principal or interest or expenses incurred by the Agency in connection with the collection or recovery of principal of, or interest on, or other amounts due under, any Loan, (c) the proceeds of hazard insurance to the extent used to repair or rebuild a damaged Residence, (d) servicing fees, insurance premiums, closing fees, finance charges, administrative fees, commitment fees or other similar fees, premiums or charges imposed by the Agency, or (e) amounts derived from any Credit Facility.

"Secured Obligations" means (a) the obligation of the Agency to pay the principal of, and the interest and premium, if any, on, all Bonds according to their tenor, and the performance and observance of all the Agency's covenants and conditions in the Bonds and the Indenture; (b) each obligation of the Agency to reimburse a Credit Provider for amounts drawn on or paid pursuant to a Credit Facility for the payment of obligations described in clause (a) of this definition, and the performance and observance of all the Agency's covenants and conditions in any documents executed by the Agency in connection with a Credit Facility; and (c) the payment and performance of all obligations of the Agency pursuant to any Hedging Instrument entered into with respect to all or any portion of the Bonds and specified as a Secured Obligation in a Supplemental Indenture; but "Secured Obligations" shall not include (x) any obligation of the Agency to purchase Bonds tendered prior to their maturity date or redemption date or to reimburse any Liquidity Provider for amounts drawn on or made available pursuant to a Liquidity Facility for the payment of any such purchase obligation, or (y) any obligation of the Agency to make any non-scheduled payment or termination payment on a Hedging Instrument.

"Serial Bonds" means the Bonds so designated in a Series Indenture.

"Series" or "Series of Bonds" means all Bonds of like designation authenticated and delivered on original issuance at the same time pursuant to a Series Indenture and any Bond or Bonds thereafter delivered in lieu of or as substitution for any of such Bonds pursuant to Sections 307, 308, 310, 311, 705 or 906.

"Series Indenture" means any Supplemental Indenture authorizing the issuance of a Series and entered into between the Agency and the Trustee in accordance with this Indenture.

"Sinking Fund Installment" means the amount of money required by or pursuant to this Indenture to be paid by the Agency on any single date toward the retirement of any particular Term Bonds of any particular Series on or prior to their respective stated maturities.

"State" means the State of California.

"Supplemental Indenture" or "indenture supplemental hereto" means any indenture entered into between the Agency and the Trustee amending or supplementing this Indenture in accordance with the provisions of this Indenture.

"Tax Certificate" means each Tax Certificate, if any, dated the date of issuance and delivery of a Tax-Exempt Series, executed and delivered by the Agency, as amended, supplemented or otherwise modified from time to time.

"Tax-Exempt Bonds" means Bonds the interest on which is intended to be excluded from gross income of the owner thereof for federal income tax purposes.

"Term Bonds" shall mean any Bonds of any Series so designated in the Series Indenture authorizing the issuance of such Series and for the retirement of which Sinking Fund Installments may be established.

"Trustee" means U.S. Bank National Association, in San Francisco, California, or its successor as Trustee hereunder as provided in Article XI.

"Unenhanced Rating" means with respect to any particular Bonds, the Agency's unsecured general obligation bond rating assigned by each Rating Agency for such Bonds, or, if the Agency does not have an unsecured general obligation bond rating, the long term credit rating assigned to such Bonds by each Rating Agency for such Bonds assuming that there were no Credit Facility for such Bonds.

Section 102. Construction. The following rules of construction shall govern this Indenture:

Words importing any particular gender include all other genders.

Words importing the maturity or coming due of a Bond do not include or connote the coming due of such Bond upon redemption thereof prior to maturity.

Words importing persons include natural persons, firms, associations, trusts, partnerships and corporations.

The terms "herein", "hereunder", "hereby", "hereto", "hereof" and any similar terms, refer to the Indenture as a whole; the term "heretofore" means before the date of the Indenture; and the term "hereafter" means after the date of the Indenture.

Articles and Sections mentioned by number only are the respective Articles and Sections of the Indenture so numbered.

Any captions, titles or headings preceding the text of any Article or Section herein and any table of contents or index attached to the Indenture or any copy thereof are solely for convenience of reference and shall not constitute part of the Indenture or affect its meaning, construction or effect.

Section 103. Parties Interested Herein. Nothing in the Indenture expressed or implied is intended or shall be construed to confer upon, or to give to, any person, other than the Agency, the Fiduciaries, the Bondholders, the Credit Providers and any other holders of Secured Obligations, including any subrogee or assignee of the Bondholders, the Credit Providers and such other holders of Secured Obligations, any right, remedy or claim under or by reason of the Indenture, and any covenants, stipulations, obligations, promises and agreements in the Indenture contained by and on behalf of the Agency shall be for the sole and exclusive benefit of the Agency, the Fiduciaries, the Bondholders, the Credit Providers and the holders of Secured Obligations, including any subrogee or assignee of the Bondholders, the Credit Providers and the holders of Secured Obligations.

Section 104. Governing Law. This Indenture shall be governed by and construed and interpreted in accordance with the laws of the State without regard to conflicts of laws principles.

Section 105. Severability of Invalid Provisions. If any one or more of the provisions, covenants or agreements in the Indenture on the part of the Agency or any Fiduciary to be performed should be contrary to law, then such provision or provisions, covenant or covenants, or agreement or agreements, shall be deemed severable from the remaining provisions, covenants and agreements, and shall in no way affect the validity of the other provisions of the Indenture or of the Bonds.

Section 106. Accounting Records. Any fund or account required by this Indenture to be established and maintained by the Trustee may be established and maintained in the accounting records of the Trustee, either as a fund or an account, and may, for the purposes of such records, any audits thereof and any reports or statements with respect thereto, be treated either as a fund or as an account; but all such records with respect to all such funds or accounts shall at all times be maintained in accordance with generally accepted accounting principles, to the extent practicable, and with due regard for the requirements of Section 603 and for the protection of the rights of every holder of Secured Obligations.

## ARTICLE II

## AUTHORIZATION OF BONDS

Section 201. Authorization of Bonds. In order to provide sufficient funds for the purposes of this Indenture, Bonds of the Agency, each to be entitled "California Housing Finance Agency Bay Area Housing Program Bonds," are hereby authorized to be issued from time to time without limitation as to amount, except as provided in the Indenture or as may be limited by law, and shall be issued subject to the terms, conditions and limitations established in this Indenture and in one or more Series Indentures as hereinafter provided.

Section 202. Authorization for Issuance of Bonds in Series. (A) From time to time when authorized by the Indenture and subject to the terms, limitations and conditions established in the Indenture, the Agency may authorize the issuance of a Series of Bonds by authorizing and entering into a Series Indenture; and the Bonds of any such Series may be issued and delivered to the Trustee for authentication upon compliance with provisions hereof. The Bonds of each Series, in addition to the title "California Housing Finance Agency Bay Area Housing Program Bonds," shall bear such letter or number Series designation as may be necessary to distinguish such Series from the Bonds of every other Series, and may also bear any parenthetical designation specified by the Agency in the related Series Indenture. Bonds of any Series may be authorized to be issued in the form of Serial Bonds or Term Bonds or both.

(B) Each Series Indenture shall include a determination or ratification of a previous determination by the Agency to the effect that the principal amount of the related Series is necessary to provide sufficient funds to be used and expended for the purposes of this Indenture, including costs incidental thereto, or the refunding of Bonds or other obligations of the Agency or other entity designated by the Agency and shall specify and determine:

(1) The authorized principal amount of said Series;

(2) The purposes for which such Series are being issued, which shall be to provide funds for one or more of the following:

(i) for deposits of amounts, if any, determined by or pursuant to the Indenture to be paid into one or more of the Accounts, and

(ii) for the payment of or redemption of Bonds or other obligations of the Agency or other entity designated by the Agency and related purposes as provided in and under the conditions and subject to the provisions and limitations of Section 205;

(3) The related Credit Provider, if any, for such Series and such provisions as are necessary to implement the related Credit Facility, including the creation of one or more subaccounts in the Bond Purchase Account, if necessary;

(4) The amount and sources of money, if any, to be credited, upon delivery of such Series, to the Bond Account, Capital Reserve Account and Program Account;

(5) The form, title and designation of, and the manner of numbering and lettering, such Bonds;

(6) The authorized denomination or denominations of the Bonds of such Series;

(7) The Issue Date or Issue Dates and the date or dates of maturity of the Bonds of such Series;

(8) The interest rate or rates or the manner of determining such rate or rates (which may be fixed or variable) borne by the Bonds of such Series and the Record Dates and Interest Payment Dates of such Bonds;

(9) The portion of the Series which are Term Bonds (if any) and the portion of the same which are Serial Bonds (if any);

(10) The Redemption Price or Redemption Prices and the redemption date or redemption dates and other terms of redemption (if any) of such Bonds;

(11) Any Paying Agent for such Bonds appointed by such Series Indenture, subject to Section 1108, and its Principal Office, and any tender agent, remarketing agent or other fiduciary with respect to such Bonds;

(12) The amount and date of each Sinking Fund Installment, if any, required by such Series Indenture to be paid by the Agency for the retirement of any such Bonds;

(13) The designation of any Accounts and subaccounts to be established pursuant to Article IV or Article V and the creation and designation of any other Accounts or subaccounts deemed advisable by the Agency;

(14) The designation of any related Hedging Instruments;

(15) The limitation, if any, on the amount of the administrative fee payable to the Agency with respect to such Bonds; and

(16) Any other provisions deemed advisable by the Agency that are either (A) not in conflict with the provisions hereof or (B) necessary in the opinion of Bond Counsel for such Bonds to be Tax-Exempt Bonds.

Section 203. Issuance and Delivery of Bonds. After their issuance has been provided for by a Series Indenture, any Series may be executed by or on behalf of the Agency, authenticated by the

Trustee and delivered or caused to be delivered by the Trustee to the purchasers thereof upon compliance by the Agency with the requirements, if any, set forth in such Series Indenture and with the requirements of Section 204.

Section 204. Conditions Precedent to Delivery of a Series. Except as provided in Sections 307, 308, 310, 311, 705 and 906, the Trustee shall deliver to the purchasers or underwriters thereof a Series authorized to be issued pursuant to this Indenture only upon receipt by the Trustee of:

(1) A Counsel's Opinion stating that in the opinion of such counsel the Indenture has been duly authorized by the Agency and is valid and binding upon the Agency;

(2) An Officer's Certificate stating the amount of the proceeds of such Series to be deposited in each Account; and

(3) An Officer's Certificate to the effect that the requirements of Section 611(B) are met with respect to the issuance of such Series.

Section 205. Refunding Bonds. (A) One or more Series of Refunding Bonds may be issued and delivered to the Trustee for authentication to refund any Outstanding Bonds of one or more Series or to refund any other obligations of the Agency or any other entity designated by the Agency. Bonds of such Series shall be issued in a Principal Amount sufficient, together with other moneys available therefor, to accomplish such refunding and make such deposits required by the provisions of the Act, this Section, the related Series Indenture and the indenture providing for the issuance of the obligations to be refunded.

(B) A Series of Refunding Bonds may be delivered only upon receipt by the Trustee or applicable fiduciary for other obligations to be refunded (in addition to the receipt by the Trustee of the documents required by Section 204) of:

(1) Irrevocable instructions to give due notice of redemption on the redemption date specified in such instructions;

(2) Irrevocable instructions to the Trustee to give written notice as provided for in Section 1201 to the Holders of Bonds being refunded, or instructions for the giving of notice of the defeasance of any other obligations to be refunded, as required in the indenture or other documents providing for the issuance of such obligations;

(3) Moneys and Investment Obligations in an amount and to be held under terms and conditions such that the Bonds or other obligations to be refunded are deemed to have been paid within the meaning of Section 1201 or the applicable provisions of the indenture or other document providing for the issuance of such obligations; and

(4) An Officer's Certificate to the effect that the requirements of this Section 205(B) are met with respect to the issuance of such Series.

(C) Any balance of the proceeds of the Bonds of each such Series shall be deposited in such Accounts as shall be specified in the Series Indenture authorizing such Series of Refunding Bonds.

## ARTICLE III

## GENERAL TERMS AND PROVISIONS OF BONDS

Section 301. Date of Bonds. Each Bond shall be dated as of and, except as provided in Section 304 for certain Bonds, bear interest from its Issue Date.

Section 302. Interest Payment Dates. Interest on each Bond shall be payable on the dates specified in the related Series Indenture.

Section 303. Principal Installment Dates. The date when each Principal Installment with respect to a Series is payable shall be as specified in the related Series Indenture.

Section 304. Payment, Form and Interest. (A) The Bonds shall be payable, with respect to interest, principal and redemption premium, if any, in lawful money of the United States of America.

(B) The Bonds of each Series may be issued only as fully registered Bonds in the denomination or denominations and in the form specified in the related Series Indenture. Notwithstanding the foregoing, any Series Indenture may provide that the related Bonds may be issued in bearer form, with or without coupons, subject to any applicable requirements of law. The Bonds may be printed, lithographed, typewritten or otherwise reproduced.

(C) Each Bond shall bear interest from the Interest Payment Date for such Bond next preceding the date of registration thereof unless it is registered on or before an Interest Payment Date for such Bond and after the Record Date for such Interest Payment Date, in which event it shall bear interest from such Interest Payment Date, or unless it is registered on or prior to the Record Date next preceding the first Interest Payment Date of such Bond, in which event it shall bear interest from its Issue Date; *provided, however,* that if at the time of registration of any Bond interest is in default on such Bond, such Bond shall bear interest from the Interest Payment Date to which interest has previously been paid or made available for payment on such Bond. Payment of the interest on any Bond shall be made to the person whose name appears on the bond registration books of the Trustee as the registered owner thereof as of the close of business on the Record Date next preceding the Interest Payment Date, whether or not such day is a Business Day, such interest to be paid by check mailed to such Bondholder at such Bondholder's address as it appears on such registration books.

Section 305. Legends. The Bonds may contain or have endorsed thereon such provisions, specifications and descriptive words not inconsistent with the provisions of the Indenture as may be necessary or desirable to comply with custom, or otherwise, as may be determined by the Agency prior to the delivery thereof.

Section 306. Execution. (A) The Bonds shall be executed in the name of the Agency by the manual or facsimile signature of an Authorized Officer, and its corporate seal (or a facsimile thereof) shall be thereunto affixed, imprinted, impressed, engraved or otherwise reproduced and attested by the manual or facsimile signature of another Authorized Officer of the Agency, or in such other manner as may be required by law. In case any one or more of the Authorized Officers who shall have signed, sealed or attested any of the Bonds or whose signature appears on any of the Bonds shall cease to be such Authorized Officers before the Bonds so signed and sealed shall have been actually authenticated by the Trustee or delivered or caused to be delivered by the Trustee or issued by the Agency, such Bonds may, nevertheless, be authenticated and issued and, upon such authentication, delivery and issue, shall be as binding upon the Agency as if the persons who signed or sealed such Bonds or whose signatures appear on any of the Bonds had not ceased to hold such offices or be so employed until such delivery. Any Bond

may be signed and sealed on behalf of the Agency by such persons as at the actual time of the execution of such Bond shall be duly authorized or hold the proper office in or employment by the Agency, although at the Issue Date of such Bond such persons may not have been so authorized or have held such office or employment.

(B) The Bonds shall bear thereon a certificate of authentication executed by the Trustee. Only such Bonds as shall bear thereon such certificate of authentication shall be entitled to any right or benefit under the Indenture, and no Bond shall be valid for any purpose under the Indenture until such certificate of authentication shall have been duly executed by the Trustee. Such certificate of authentication upon any Bond shall be conclusive evidence that the Bond so authenticated has been duly issued under the Indenture and that the holder thereof is entitled to the benefits of the Indenture.

Section 307. Transfer of Bonds. Any Bond may, in accordance with its terms, be transferred upon the books required to be kept pursuant to the provisions of Section 309, by the Bondholder in whose name it is registered, in person or by such Bondholder's duly authorized attorney, upon surrender of such Bond for cancellation, at the Principal Office of the Trustee, accompanied by a written, duly executed instrument of transfer in a form approved by the Trustee. Whenever any Bond or Bonds shall be surrendered for transfer, the Agency shall execute and the Trustee shall authenticate and deliver a new Bond or Bonds of the same Series, maturity and tenor and for a like aggregate principal amount.

The Trustee may charge a reasonable sum for each new Bond authenticated and delivered upon any transfer. The Trustee shall also require the payment by any Bondholder requesting any such transfer of any tax or other governmental charge required to be paid with respect to such transfer.

No transfer of any Bond shall be required during the five days next preceding any date established by the Trustee for the selection of Bonds of the same Series for redemption.

Section 308. Exchange of Bonds. Bonds may be exchanged at the Principal Office of the Trustee for a like aggregate principal amount of Bonds of other authorized denominations of the same Series, maturity and tenor. The Trustee may charge a reasonable sum for each new authenticated Bond delivered upon any exchange except in the case of any exchange of temporary Bonds for definitive Bonds. The Trustee shall also require the payment by the Bondholder requesting such exchange of any tax or other governmental charge required to be paid with respect to such exchange.

No exchange of any Bond shall be required during the five days next preceding any date established by the Trustee for the selection of Bonds of the same Series for redemption.

Section 309. Bond Register. The Trustee will keep or cause to be kept, at the Principal Office of the Trustee, sufficient books for the registration and transfer of the Bonds, which shall at all reasonable times be open to inspection by the Agency; and, upon presentation for such purpose, the Trustee shall, under such reasonable rules as it may prescribe, register or transfer or cause to be registered or transferred, on said books, Bonds as hereinbefore provided. The Agency and the Trustee may treat the registered owner of each Bond as the absolute owner thereof for all purposes, and the Agency and the Trustee shall not be affected by any notice to the contrary.

Section 310. Temporary Bonds. Bonds of any Series may be initially issued in temporary form exchangeable for definitive Bonds when ready for delivery. The temporary Bonds may be printed, lithographed, typewritten or otherwise reproduced, shall be of such denominations as may be determined by the Agency, shall be without coupons and may contain such reference to any of the provisions of this Indenture as may be appropriate. Every temporary Bond shall be executed by the

Agency and be authenticated by the Trustee upon the same conditions and in substantially the same manner as the definitive Bonds. If the Agency issues temporary Bonds it will execute and furnish definitive Bonds without delay upon the request of the purchaser of said Bonds, and thereupon the temporary Bonds may be surrendered for cancellation in exchange therefor at the Principal Office of the Trustee, and the Trustee shall authenticate and deliver in exchange for such temporary Bonds a like aggregate principal amount of definitive Bonds of authorized denominations of the same Series, maturity or maturities and tenor or tenors. Until so exchanged, the temporary Bonds shall be entitled to the same benefits under this Indenture as definitive Bonds authenticated and delivered hereunder.

Section 311. Bonds Mutilated, Lost, Destroyed or Stolen. If any Bond shall become mutilated, the Agency, at the expense of the holder of said Bond, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like Series, maturity, tenor and number in exchange and substitution for the Bond so mutilated, but only upon surrender of such Bond at the Principal Office of the Trustee. Every mutilated Bond so surrendered to the Trustee shall be cancelled by it and delivered to, or upon the order of, the Agency. If any Bond shall be lost, destroyed or stolen, evidence of such loss, destruction or theft may be submitted to the Trustee and, if such evidence be satisfactory to the Trustee and indemnity satisfactory to it shall be given, the Agency, at the expense of the Bondholder, shall execute, and the Trustee shall thereupon authenticate and deliver, a new Bond of like Series, maturity, tenor, number and principal amount. The Agency may require payment of a sum not exceeding the actual cost of preparing each new Bond authenticated and delivered under this Section and of the expenses which may be incurred by the Agency and the Trustee in the premises. Any Bond authenticated and delivered under the provisions of this Section in lieu of any Bond alleged to be lost, destroyed or stolen shall constitute an original additional contractual obligation on the part of the Agency whether or not the Bond so alleged to be lost, destroyed or stolen be at any time enforceable by anyone, and shall be equally and proportionately entitled to the benefits of this Indenture with all other Bonds secured by this Indenture.

Section 312. Numbering of Bonds. Each Series shall be numbered from 1 upward in the order of their issuance, preceded by the letter designation of such Series, unless otherwise provided in the related Series Indenture.

Section 313. Book-Entry System. Bonds may be issued as certified Bonds or as book-entry bonds under any book-entry system specified in the related Series Indenture.

## ARTICLE IV

## APPLICATION OF BOND PROCEEDS

Section 401. Application of Bond Proceeds. The proceeds of the sale of each Series and any other moneys provided by the Agency in connection with the issuance of such Series shall, as soon as practicable upon delivery of such Series, be delivered to the Trustee to be held in trust and credited to the following accounts in the following amounts:

(A) To the Bond Account, the amount, if any, of interest accrued from the Issue Date of such Bonds to the date of delivery of such Bonds;

(B) To the related Program Account, the amount, if any, as shall be specified by the related Series Indenture as necessary to pay or provide for the payment of Costs of Issuance;

(C) To the related Program Account, the amount, if any, as shall be specified by the related Series Indenture to be credited thereto for payment of or reservation for Capitalized Interest;

(D) To the extent of the issuance of Refunding Bonds pursuant to Section 205, to the fund or account to be held in accordance with Section 205(B)(3), the amount, if any, as shall be specified by the related Series Indenture; and

(E) To the related Program Account, the balance of such proceeds remaining after the foregoing deposits.

Section 402. Establishment and Application of Program Account. (A) The Agency hereby establishes and creates a separate trust account to be held in trust by the Trustee and designated the "Program Account". Unless a Series is issued as Refunding Bonds pursuant to Section 205, the Agency shall establish with respect to such Series a separate subaccount in the Program Account. Except as otherwise provided herein, moneys in subaccounts of the Program Account shall be used solely for (1) the financing of Loans (including accrued interest thereon), (2) redemption of Bonds by operation of the Redemption Account, (3) payment of Costs of Issuance to the extent provided by the related Series Indenture, and (4) payment of Capitalized Interest on the Bonds to the extent provided by the related Series Indenture.

(B) Each Loan may be financed, as specified by an Officer's Certificate, by application of amounts in one or more subaccounts of the Program Account and from other sources, and participations in a Loan may be proportionately or disproportionately allocated to the Series for which such subaccounts were established or such other sources, subject to any applicable covenants relating to Tax-Exempt Bonds. If a Loan is a participation, or is based upon a participation in a Borrower Loan, the Agency shall file with the Trustee at the time such Loan is financed the agreement that specifies the terms of such participation or, if there is no such agreement, an Officer's Certificate that describes the terms of such participation.

(C) Upon application of amounts in the Program Account to finance a Loan, the Agency shall deposit in the Capital Reserve Account, from the proceeds of the Loan or from other sources, an amount equal to the amount specified by Officer's Certificate as the portion of the Capital Reserve Account Requirement related to such Loan.

(D) Subject to the terms and conditions hereof, the Agency may refund Loans (including, without limitation, Loans financed with the proceeds of other obligations of the Agency) through the payment of other indebtedness from amounts on deposit in one or more subaccounts of the Program Account, and may provide that such Loans (including at the option of the Agency the amount of accrued interest, if any, on such Loans to the date of such transfer) be transferred to the applicable subaccount of the Program Account.

(E) Moneys credited to the Program Account shall be deemed to be a part of the Program Account until the check, draft or warrant issued by the Trustee is certified or otherwise paid. If for any reason the Agency should decide prior to the payment of any item in a requisition to stop payment of such item, the Agency shall file with the Trustee an Officer's Certificate giving notice of such decision and thereupon the Trustee shall reverse any steps taken prior to such notice toward payment of such items. The Agency shall maintain in the office of the Agency accurate records of all such requisitions, a description of the Loans financed or refinanced pursuant hereto and the purchase price and Principal Balance of such Loans.

(F) Upon receipt of an Officer's Certificate specifying that moneys in a subaccount of the Program Account are to be credited to the Redemption Account in order to effect the redemption of Bonds, the Trustee shall credit such moneys to the Redemption Account for said purpose.

(G) In the event that there are amounts remaining in a subaccount of the Program Account on the date three years after the date of issuance of the related Series, or such earlier or later date as may be provided herein or in the related Series Indenture, the Trustee shall transfer to the Redemption Account any such amounts, excluding amounts continuing to be reserved for the financing of Loans and for the payment of Capitalized Interest and Costs of Issuance; *provided, however,* that such transfer may be to a different account or subaccount specified by an Officer's Certificate or such date of transfer may be extended to such date as may be specified in an Officer's Certificate, if such Officer's Certificate states that such extension is consistent with, and taken into account in, the most recent Cash Flow Statement filed with the Trustee.

(H) Notwithstanding any of the foregoing provisions of this Section, upon receipt of an Officer's Certificate pursuant to Section 506(A)(3), the Trustee shall charge each subaccount of the Program Account and credit to the Bond Account the respective amount specified by such certificate.

(I) A Series Indenture may, but is not required to, provide that a portion of the Bond proceeds and other moneys credited to the related subaccount of the Program Account shall be expended for Costs of Issuance of the Bonds and for no other purpose, upon requisition signed by an Authorized Officer stating the amount and purpose of any such payment. On or after the receipt by the Trustee of an Officer's Certificate stating that all Costs of Issuance for a Series have been paid, the Trustee shall, as directed by such Officer's Certificate either retain the amount remaining, if any, in the related subaccount of the Program Account to be used to finance Loans or shall transfer such amount to the Agency.

(J) A Series Indenture may, but is not required to, provide that a portion of the Bond proceeds and other moneys in the related subaccount of the Program Account shall be charged to such subaccount and credited to the Bond Account for the payment of Capitalized Interest in the amounts and at the times specified in such Series Indenture. For the period and to the extent specified in such Series Indenture, the Trustee shall charge such subaccount of the Program Account and deposit in the Bond Account interest payable on such Series on such Interest Payment Date.

(K) No amount shall be charged against the Program Account except as expressly provided in this Article IV.

## ARTICLE V

## LIMITED OBLIGATIONS; PERFECTION OF PLEDGE; APPLICATION OF REVENUES AND OTHER MONEYS

Section 501. Limited Obligations; Perfection of Pledge. (A) Except as may be provided by any Series Indenture, the Principal Installments of and interest on the Bonds shall be limited obligations of the Agency payable solely out of the Revenues and assets pledged hereunder.

(B) The pledge hereby made and the security interest hereby granted shall attach, be perfected and be valid and binding from and after the time of the delivery by the Trustee of the initial Series without any further action on the part of the Agency. The proceeds of the sale of the Bonds, Revenues, Loans financed hereunder, and all Accounts and moneys and securities therein so pledged and then or thereafter received by the Agency or the Trustee shall immediately be subject to the lien of such pledge and security interest without any physical delivery thereof or further act, and the lien of such

pledge and security interest shall be valid and binding and prior to the claims of any and all parties having claims of any kind in tort, contract or otherwise against the Agency or any Fiduciary irrespective of whether such parties have notice thereof.

Section 502. Establishment of Accounts. (A) The Agency hereby establishes and creates the following Accounts:

(1) Revenue Account;

(2) Bond Account;

(3) Capital Reserve Account;

(4) Redemption Account;

(5) Acquired Residence Account;

(6) Rebate Account; and

(7) Bond Purchase Account.

(B) In addition, the Program Account is established and created as provided in Section 402, and other Accounts may be established by any Series Indenture or an Officer's Certificate as deemed advisable by the Agency.

(C) Subaccounts shall be created for each Series in each applicable Account. Except as otherwise provided in this Indenture, a Series or an Officer's Certificate, Bond proceeds, Loans, Revenues and other moneys relating to a Series shall be deposited in the related subaccounts created with respect to such Series.

Section 503. Deposit of Revenues. All Revenues collected or received by the Agency shall be deemed to be held, and to have been collected or received, by the Agency as the agent of the Trustee and shall forthwith be paid by the Agency to the Trustee; *provided, however,* that the Agency may transfer Revenues directly to any investment agreement provider for credit to an Investment Obligation held in the name of the Agency and the Trustee.

All Revenues shall be credited by the Trustee upon the receipt thereof to the Revenue Account; except that

(1) Loan Principal Prepayments shall be credited as provided in Section 510;

(2) income earned on amounts in the Capital Reserve Account shall be credited to the [Revenue Account], subject to the provisions of the Act in effect at the time;

(3) income earned on amounts in a subaccount of the Program Account may, upon the request of the Agency in an Officer's Certificate or if so provided in the related Series Indenture, be retained in such subaccount;

(4) Acquired Residence Receipts shall be credited to the Acquired Residence Account;

(5) an amount of interest received with respect to an Investment Obligation equal to the amount of accrued interest, if any, paid as part of the purchase price of such Investment Obligation shall be credited to the Account from which such accrued interest was paid; and

(6) amounts received in respect of any Hedging Instrument shall be credited as specified by the Agency in a Supplemental Indenture or an Officer's Certificate.

All Revenues deposited with the Trustee shall be held, disbursed, allocated and applied by the Trustee solely as provided in this Indenture.

Section 504. Periodic Application of Revenue Account. The Trustee, on or before each Interest Payment Date, shall, out of, and to the extent of, the moneys in the Revenue Account, credit the following Accounts or make the following payments, in the following order of priority, the requirements of each such Account or party (including the making up of any deficiencies in any such Account or payment resulting from lack of Revenues sufficient to make any earlier required deposit) at the time of credit or payment to be satisfied, and the results of such satisfaction being taken into account, before any credit or payment is made subsequent in priority:

First: To pay any Qualified Program Expenses then due and payable, and, as directed by an Officer's Certificate, to make each Required Rebate Deposit, if any.

Second: To the Bond Account, to the extent necessary to increase the amount therein so that it equals the sum on such day of (a) the Interest Requirements for all Series (when added to amounts to be charged to the Program Account to pay Capitalized Interest) and (b) the Principal Requirements for all Series.

Third: To the Capital Reserve Account, to the extent necessary to increase the amount therein to the Capital Reserve Account Requirement.

Fourth: To the Redemption Account or the Program Account, such amount as may be requested by an Officer's Certificate.

Fifth: To the Agency, free and clear of the lien of the Indenture, such amount as may be requested by an Officer's Certificate stating that the withdrawal of such amount is consistent with, and taken into account in, the most recent Cash Flow Statement filed with the Trustee.

Notwithstanding the foregoing, the Trustee shall pay from the Revenue Account to the counterparty of any Hedging Instrument such amount as shall be due from the Agency or the Trustee thereunder, as specified in the related Series Indenture or in an Officer's Certificate consistent with the related Series Indenture, in such order of priority in relation to clauses Second through Sixth above as may be specified in such Series Indenture or Officer's Certificate.

Section 505. Application of Bond Account. (A) The Trustee shall charge the Bond Account, on or prior to each Interest Payment Date, an amount equal to the unpaid Principal Installments and interest due on the Bonds on such Interest Payment Date, and shall cause the same to be applied to the payment of such interest and Principal Installments when due and to reimburse any Credit Provider which has advanced moneys to pay such interest and/or Principal Installments. The Trustee is hereby authorized to withdraw funds from the Bond Account and transmit funds to the Paying Agents in order to make such payments.

(B) When the amount in the Bond Account is greater than the amount required therein, any excess amount shall either be retained in such Account or, upon the request of the Agency in an Officer's Certificate, be credited to the Revenue Account.

(C) All charges to the Bond Account under the provisions of subsection (A) of this Section shall be made not earlier than three days prior to the Interest Payment Date to which they relate, and the amount so charged shall, for the purposes hereof, be deemed to remain in and be part of the Bond Account until such Interest Payment Date.

(D) On each Interest Payment Date, the Trustee shall apply the Sinking Fund Installments, if any, required on that date to the redemption (or payment at maturity, as the case may be) of the related Term Bonds (and to reimburse any Credit Provider which has advanced funds to make such redemption or payment) upon the notice and in the manner provided in Article VII. Upon the redemption of Term Bonds (or the reimbursement of advances made by Credit Providers to redeem or pay Term Bonds) with moneys in the Redemption Account, the Principal Amount of such Term Bonds shall be credited against remaining related Sinking Fund Installments as specified by the Agency in an Officer's Certificate or, in the event the Agency has not so specified the Sinking Fund Installments to be credited, as provided in Section 508(D), treating Sinking Fund Installments as if they were maturities. If at any date there shall be credited to the Bond Account any moneys set aside for the payment of a Sinking Fund Installment and there shall be Outstanding none of the Bonds for which such moneys were set aside, such moneys shall be charged to the Bond Account by the Trustee and credited to the Revenue Account.

(E) At any time prior to giving notice of redemption as provided in subsection (D) of this Section, the Trustee may, and upon the request of the Agency in an Officer's Certificate shall, apply moneys in the Bond Account or the Revenue Account, in an amount not in excess of such Sinking Fund Installments, if any, to the purchase of the related Term Bonds at public or private sale, as and when and at such prices (including brokerage and other charges) as the Trustee may in its discretion determine, except that the purchase price (excluding accrued interest) shall not exceed the Redemption Prices that would be payable for such Bonds upon redemption by application of such Sinking Fund Installments. Subject to applicable law, and notwithstanding the maximum purchase price set forth in the preceding sentence, if at any time the investment earnings on the moneys in the Revenue Account equal to the Redemption Price of Bonds to be redeemed on a given date shall be less than the interest accruing on the Bonds to be redeemed on such date, then the Trustee may pay a purchase price for any such Bond in excess of the Redemption Price which would be payable on the next redemption date to the owner of such Bond under the provisions of the related Series Indenture, if an Officer's Certificate is filed with the Trustee certifying that the amount paid in excess of said Redemption Price is expected to be less than the interest which is expected to accrue on said Bond less any investment earnings on such available moneys during the period from the settlement date of the proposed purchase to the redemption date.

If, (1) during the period preceding an Interest Payment Date the Trustee purchases Term Bonds with moneys in the Revenue Account or Bond Account, or (2) during said period and prior to giving the notice of redemption for Bonds to be redeemed from Sinking Fund Installments on such date the Agency otherwise deposits related Term Bonds with the Trustee (together with an Officer's Certificate requesting the Trustee to apply such Bonds so deposited to the related Sinking Fund Installments due on said date), the amount of Bonds so purchased or deposited shall be credited at the time of such purchase or deposit, to the extent of the full Principal Amount thereof, to reduce such Sinking Fund Installments.

(F) Any amounts advanced by any Credit Provider to pay interest and/or Principal Installments on Bonds shall be segregated from all other moneys held hereunder, and any amounts applied to reimburse such advances shall be from such other moneys.

(G) No amount shall be charged against the Bond Account except as expressly provided in this Article V.

Section 506. Deficiencies in Bond Account. In the event that the amount credited to the Bond Account on or before any Interest Payment Date is insufficient to pay the interest and Principal Installments on the Bonds due on such Interest Payment Date, the Trustee shall immediately notify the Agency of such insufficiency and give the Agency the option to immediately transfer moneys to the Bond Account (from sources other than Revenues and other assets pledged under this Indenture) all or any portion of the amount of such insufficiency. If all or any portion of the insufficiency remains after such notification, the Trustee shall credit to the Bond Account the amount of the insufficiency, after the charges and credits required by Section 504, by charging the following Accounts in the following order of priority: (1) the Revenue Account; (2) the Redemption Account, except that no such charge to the Redemption Account shall be made from moneys to be used to effect a redemption for which notice of redemption has been provided; (3) the Program Account if and to the extent requested by the Agency in an Officer's Certificate; and (4) the Capital Reserve Account, to the extent provided in Section 507.

Section 507. Application of Capital Reserve Account. (A) If at any time there shall not be a sufficient amount credited to the Bond Account to pay interest or Principal Installments then becoming due on the Bonds, and in the event that the amount credited from other Accounts in accordance with the priorities of Section 506 is not sufficient to make up such deficiency, the Trustee shall charge the Capital Reserve Account and credit the Bond Account the amount of the deficiency then remaining. The Trustee shall immediately notify the Agency in writing of any such charge of the Capital Reserve Account.

(B) Upon request of the Agency in an Officer's Certificate, if the amount in the Capital Reserve Account is greater than the Capital Reserve Account Requirement, any excess amount shall paid to or upon the order of the Agency, free and clear of the lien of this Indenture, *provided* that such payment is consistent with, and taken into account in, the most recent Cash Flow Statement filed with the Trustee.

(C) Upon request of the Agency in an Officer's Certificate or as may be provided in a Series Indenture, Revenues deposited in the Capital Reserve Account shall be used to reimburse draws on letters of credit, surety bonds or other facilities on deposit in the Capital Reserve Account, but only to the extent that such reimbursement results in a commensurate increase in the amount of available coverage provided under the respective letter of credit, surety bond or other facility. If the aggregate amount available at any given time under this subsection (C) is less than the aggregate amount due for such reimbursement with respect to more than one letter of credit, surety bond or other facility, the amount available under this subsection (C) shall be divided among the providers of such letters of credit, surety bonds or other facilities in proportion to the respective amounts due.

(D) No amount shall be charged against the Capital Reserve Account except as expressly provided in this Article V or to pay interest or Principal Installments on the Bonds in accordance with their terms as the same become due.

(E) The amount of available coverage provided under any letter of credit, surety bond or other facility on deposit in the Capital Reserve Account shall be included in calculating the amount credited to such Account.

Section 508. Application of Redemption Account. (A) Any moneys credited to the Redemption Account and not otherwise restricted shall be applied to the purchase or the redemption of Bonds as provided in this Section.

(B) Upon receipt of the Officer's Certificate referred to in paragraph (D) of this Section, the Trustee shall apply moneys in the Redemption Account to the purchase of the Bonds designated in such Officer's Certificate at the most advantageous price obtainable with due diligence, such price (calculated excluding accrued interest but including any brokerage or other charges) not to exceed the Redemption Price of such Bonds applicable on the next ensuing redemption date for such Bonds. Subject to applicable law, and notwithstanding the maximum purchase price set forth in the preceding sentence, if at any time the investment earnings on the moneys in the Revenue Account equal to the Redemption Price of Bonds to be redeemed on a given date shall be less than the interest accruing on the Bonds to be redeemed on such date, then the Trustee may pay a purchase price for any such Bond in excess of the Redemption Price which would be payable on the next redemption date to the owner of such Bond under the provisions of the related Series Indenture, if an Officer's Certificate is filed with the Trustee certifying that the amount paid in excess of said Redemption Price is expected to be less than the interest which is expected to accrue on said Bond less any investment earnings on such available moneys during the period from the settlement date of the proposed purchase to the redemption date. Bonds not so purchased may be redeemed at a Redemption Price designated at the time and in the manner provided in Article VII. Charges to the Redemption Account for Bonds purchased pursuant to this paragraph (B) may be made at any time except that no such charge to the Redemption Account shall be made from moneys to be used to effect a redemption for which notice of redemption has been provided for with respect to Bonds which are no longer Outstanding hereunder.

(C) If at any time there shall not be a sufficient amount credited to the Bond Account to pay interest or Principal Installments then becoming due on the Bonds, and in the event that the amount credited from other Accounts in accordance with the priorities of Section 506 is not sufficient to make up such deficiency, the Trustee shall charge the Redemption Account and credit the Bond Account the amount of the deficiency then remaining, except that no such charge to the Redemption Account shall be made from moneys to be used to effect a redemption for which notice of redemption has been provided for with respect to Bonds which are no longer Outstanding hereunder.

(D) Bonds shall be purchased or redeemed by the Trustee with moneys credited to the Redemption Account upon receipt by the Trustee of an Officer's Certificate determining or certifying the following:

(1) The Series to be purchased or redeemed;

(2) The maturities and tenors within such Series from which Bonds are to be purchased or redeemed;

(3) The Principal Amount of Bonds within such maturities and tenors to be purchased or redeemed;

(4) If any of the Bonds to be purchased or redeemed are Term Bonds, the years in which related Sinking Fund Installments are to be reduced and the amount by which the Sinking Fund Installments so determined are to be reduced, provided that the aggregate amount of such reductions in Sinking Fund Installments shall equal the aggregate Principal Amount of Term Bonds to be purchased or redeemed; and

(5) That upon purchase or redemption of Bonds pursuant to such Officer's Certificate, the Agency will be in compliance with its covenant contained in Section 604.

Any Bonds purchased or redeemed by the Trustee in accordance with the provisions hereof shall be cancelled by the Trustee.

(E) Notwithstanding paragraph (D) of this Section, any Loan Principal Prepayments that have been credited to the Redemption Account for a period exceeding six months shall be applied by the Trustee to purchase or redeem Bonds of the related Series. The Trustee shall determine the amount of each maturity and tenor of such Bonds to be so purchased or redeemed so that as nearly as practicable (given the authorized denominations of such Series) the same proportion of the amount Outstanding of each maturity of such Series shall be selected for redemption. The Trustee shall promptly notify the Agency in writing of the Bonds or portions thereof selected for redemption.

(F) No amount shall be charged against the Redemption Account except as expressly provided in this Article V.

Section 509. Application of Loan Principal Prepayments. Loan Principal Prepayments shall be credited to the Redemption Account, unless the Agency files with the Trustee an Officer's Certificate directing the Trustee to credit all or any specified portion of such Loan Principal Prepayments to another Account or subaccount and stating that such crediting to another account or subaccount is consistent with, and taken into account in, the most recent Cash Flow Statement filed with the Trustee.

Section 510. Application of Acquired Residence Account. (A) If at any time the Trustee shall receive an Officer's Certificate in the form required by paragraph (B) of this Section, the Trustee shall charge the Acquired Residence Account and pay the costs or expenses incurred in connection with an Acquired Residence as specified in such certificate.

(B) Payments from the Acquired Residence Account shall be made upon filing with the Trustee of an Officer's Certificate stating, with respect to each payment, (1) the item number of the payment, (2) the Acquired Residence with respect to which payment is being made, (3) the name of the person to whom payment is to be made, (4) the amount to be paid, and (5) that the amount of such payment, when added to the amount of all previous payments made with respect to the specified Acquired Residence during the current period for which an Acquired Residence Expense Requirement has been established by the Agency for that Acquired Residence, does not exceed such Acquired Residence Expense Requirement.

(C) When the amount in the Acquired Residence Account is greater than the Acquired Residence Expense Requirement, the excess amount shall be charged to such Account and credited to the Revenue Account.

Section 511. Application of Bond Purchase Account. A Series Indenture may create one or more subaccounts within the Bond Purchase Account for the purpose of holding amounts to be used to purchase related Bonds tendered by Bondholders pursuant to the terms of such Series Indenture. Such subaccounts shall be held in trust by the Fiduciary designated by such Series Indenture for the purposes specified by such Series Indenture. Amounts in the Bond Purchase Account are not pledged by this General Indenture as security for the payment of Secured Obligations; and the term "Secured Obligations" shall not include any obligation of the Agency to purchase Bonds tendered prior to their maturity date or redemption date or to reimburse any Liquidity Provider for amounts drawn on or made available pursuant to a Liquidity Facility for the payment of any such purchase obligation.

Section 512. Investment of Funds. (A) Subject to the provisions of any Series Indenture, the moneys held by a Fiduciary shall be a trust fund for the purposes hereof. Moneys attributable to each of the Accounts, on instructions confirmed in writing by an Authorized Officer, shall be invested by the Fiduciary holding the same in Investment Obligations.

(B) Amounts held in the Bond Account and the Redemption Account shall be invested in Investment Obligations maturing on or prior to the date when needed. Investment Obligations representing an investment of moneys attributable to any Account shall be deemed at all times to be a part of said Account. Such investments shall be sold at the best price obtainable whenever it shall be necessary to do so in order to provide moneys to make any transfer, withdrawal, payment or disbursement from said Account, or, in the case of any required transfer of moneys to another such Account, may be transferred to that Account in lieu of the required moneys if permitted hereby as an investment of moneys in that Account, and no Fiduciary shall be liable or responsible for any loss resulting from any investment made in accordance herewith.

In computing for any purpose hereunder the amount in any Account or subaccount (other than the Capital Reserve Account) on any date, obligations credited to such Account shall be valued at the lower of cost or face value exclusive of accrued interest, and may be so valued as of any time within four days prior to such date. In computing for any purpose hereunder the amount of the Capital Reserve Account, obligations credited to such Account shall be valued at par if purchased at par and shall be valued at amortized value if purchased at other than par. For purposes of this Section, the term "amortized value," when used with respect to obligations purchased at a premium above or a discount below par, shall mean the value as of any given date obtained by dividing the total amount of the premium or discount at which such obligations were purchased by the number of interest payments remaining to maturity on such obligations after such purchase and by multiplying the amount so calculated by the number of interest payment dates having passed since the date of such purchase; and (1) in the case of obligations purchased at a premium, by deducting the product thus obtained from the purchase price, and (2) in the case of obligations purchased at a discount, by adding the product thus obtained to the purchase price.

(C) The Agency acknowledges that regulations of the Comptroller of the Currency grant the Agency the right to receive brokerage confirmations of security transactions to be effected by the Trustee hereunder as they occur. The Agency specifically waives the right to receive such notification to the extent permitted by applicable law and agrees that it will instead receive periodic cash transaction statements which include detail for the investment transactions effected by the Trustee hereunder; *provided, however,* that the Agency retains its right to receive brokerage confirmation on any investment transaction requested by the Agency.

## ARTICLE VI

## PARTICULAR COVENANTS OF AGENCY

Section 601. Payment of Bonds; Limited Obligations. Subject to the other provisions of this Indenture, the Agency shall duly and punctually pay or cause to be paid the principal of and interest on the Bonds, at the dates and places and in the manner mentioned in the Bonds, according to the true intent and meaning thereof, and shall pay or cause to be paid to the Trustee any part of any Sinking Fund Installments payable to the Bond Account pursuant to any provision hereof.

Notwithstanding anything in this Indenture or in the Bonds contained, except as may be provided for a Series in the related Series Indenture, for a Credit Facility in the related Credit Facility agreement or for a Hedging Instrument in the related Hedging Instrument agreement, all obligations of the Agency incurred hereunder shall be limited obligations of the Agency and the Agency shall not be required to advance any moneys derived from any source other than the Revenues and other assets pledged under the Indenture for any of the purposes in the Indenture mentioned, whether for the payment of Secured Obligations or for any other purpose of the Indenture. Nevertheless, the Agency may, but

shall not be required to, advance for any of the purposes hereof any funds of the Agency which may be made available to it for such purposes.

Section 602. Payment of Lawful Charges. The Agency shall pay all taxes and assessments or other municipal or governmental charges, if any, lawfully levied or assessed upon the Agency with respect to its activities under this Indenture or upon any Revenues, when the same shall become due, and shall duly observe and comply with all valid requirements of any municipal or governmental authority relative to such activities, and shall not create or suffer to be created any lien or charge upon the Revenues or Loans or the Accounts created pursuant to this Indenture and the moneys and securities therein except the pledge, security interest and lien created hereby for the payment of the Secured Obligations.

Section 603. Tax Covenants. If and to the extent interest on the Bonds of any Series is intended to be excluded from gross income for federal income tax purposes, the Series Indenture for such Series may contain such covenants of the Agency and the Trustee as shall be appropriate to assure such exclusion from gross income.

Section 604. Purchase and Redemption of Bonds. The Agency shall not cause any Bonds to be purchased or redeemed with amounts in the Redemption Account unless either (1) such purchase or redemption will retire a pro rata amount of each Series, maturity and tenor of the Bonds related to the source of the amounts of the amounts in the Redemption Account, or (2) such purchase or redemption is consistent with the most recent Cash Flow Statement filed with the Trustee.

Section 605. Compliance with Conditions Precedent. Upon the date of issuance of any of the Bonds, all conditions, acts and things required by law to exist, to have happened or to have been performed precedent to or in the issuance of such Bonds shall exist, shall have happened and shall have been performed, and such Bonds, together with all other indebtedness of the Agency, shall be within every debt and other limit prescribed by law.

Section 606. Program Covenants; Hedging Instruments. (A) The Agency shall finance Loans, and shall do all acts and things necessary to obtain, receive and collect Revenues in such manner as is consistent with the Act and with sound lending practices and principles.

(B) No Loan shall be financed by the Agency from amounts in the Program Account unless it complies with the following terms, conditions, provisions and limitations and any additional terms, conditions, provisions and limitations specified by the related Series Indenture with respect to such Loan and the related Borrower, Residence and Loan Documents:

(1) The Borrower and the Residence must be eligible under the Act, and the Deed of Trust shall be executed and recorded in accordance with the requirements of existing laws.

(2) The Deed of Trust shall constitute and create a lien (subject to Permitted Encumbrances) on the real property or interest therein of the Residence.

(3) There shall be title insurance in the amount approved by the Agency insuring that the Deed of Trust constitutes and creates a lien (subject to Permitted Encumbrances) on the real property or interest therein of such Residence.

(4) The Borrower shall have provided evidence satisfactory to the Agency that the Borrower has an interest in the real property which is the site of the Residence sufficient for the creation thereon of the Residence.

(5) The Borrower shall have provided evidence satisfactory to the Agency that the Borrower has obtained all governmental approvals then required by law for the acquisition, construction, ownership and operation of the Residence as contemplated by the Loan Documents.

(6) The Borrower shall have entered into a lease with a service provider that has been approved by the applicable Regional Center to lease and operate the Residence and to provide services to persons eligible for services under Welfare and Institutions Code Section _____ or any equivalent provision approved by the Agency for this purpose.

(7) The Loan and the lease described in subparagraph (6) of this Section 606(B) gets the benefit of [the Regional Center lease assurance agreement].

(8) The amount deposited in the Capital Reserve Account from the proceeds of the Loan is equal to or greater than the portion of the Capital Reserve Account Requirement attributed to the Bonds, the proceeds of which are used to make or purchase such Loan.

(9) The making or purchase of such Loan is consistent with, and taken into account in, the most recent Cash Flow Statement filed with the Trustee.

(10) The Agency shall have available uncommitted moneys in one or more subaccounts of the Program Account sufficient to fund the portion of the Loan to be allocated to the Bonds.

(C) The Agency may consent to a modification of, or modify, the rate or rates of interest on, or the amount or time of payment of any installment of principal of or interest on, any Loan or the security for or any terms or provisions of any Note or Deed of Trust unless such modification materially adversely affects the ability of the Agency to pay all Secured Obligations when due or to realize the benefits of any applicable insurance.

(D) The Agency shall at all times appoint, retain and employ competent personnel for the purpose of carrying out its respective programs.

(E) No Hedging Instrument shall be entered into by the Agency with respect to all or any portion of the Bonds unless it complies with the following terms, conditions, provisions and limitations and any additional terms, conditions, provisions and limitations specified by the related Series Indenture with respect to such Hedging Instrument and the related Bonds:

(1) Each Hedging Instrument must be a general obligation of a counterparty whose general obligations at the time of execution of the Hedging Instrument are rated [“A”/ “AA”] or equivalent or better by each Rating Agency.

(2) No Hedging Instrument may be entered into by the Agency if the entry into such Hedging Instrument would cause any Unenhanced Rating on any Bonds to be reduced or withdrawn.

Section 607. Disposition of Defaulted Loans.

(A) In the event that a Loan becomes a Defaulted Loan, the Agency shall promptly certify to the Trustee the Agency loan number of such Defaulted Loan, the nature and duration of the Loan default(s), the amount of any payments with respect to such Loan then due and unpaid, the unpaid Principal Balance of the Loan, and any other information reasonably requested by the Trustee.

(B) The Agency shall take all steps, actions and proceedings reasonably necessary to recover the balance due and to become due on a Defaulted Loan or to realize the benefit of any insurance of such Loan or guarantee thereof.

Section 608. Disposition of Loans. Except as provided in Section 607, the Agency may not sell or otherwise transfer a Loan unless such sale or transfer is consistent with, and taken into account in, the most recent Cash Flow Statement filed with the Trustee. The Agency may exchange any Borrower Loan for a Mortgage-Backed Security relating to such Loan.

Section 609. Assignment of Loans upon Event of Default. Upon the happening of an Event of Default specified in Section 1002 and at the written request of the Trustee or of the Holders of not less than twenty-five percent (25%) in Principal Amount of the Outstanding Bonds, the Agency shall assign any or all of the Loans held by the Agency to the Trustee; *provided, however,* if the Trustee and the Bondholders are restored to their positions in accordance with Section 1015, the Trustee shall assign such Loans back to the Agency.

Section 610. Extension of Payment of Bonds. The Agency shall not directly or indirectly extend or assent to the extension of the maturity of any of the Bonds or the time of payment of any of the claims for interest by the purchase or funding of such Bonds, or claims for interest or by any other arrangement, and in case the maturity of any of the Bonds or the time for payment of any such claims for interest shall be extended, such Bonds or claims for interest shall not be entitled in case of any default hereunder to the benefit hereof or to any payment out of any assets of the Agency or the funds (except funds held in trust for the payment of particular Bonds or pursuant hereto) held by any Fiduciary, except subject to the prior payment of the principal of all Bonds issued and Outstanding the maturity of which has occurred and has not been extended and of such portion of the accrued interest on the Bonds as shall not be represented by such extended claims for interest.

Section 611. Issuance of Additional Obligations.

(A) The Agency shall not hereafter create or permit the creation of or issue any obligations or create any additional indebtedness which will be secured by a charge and lien on the Revenues, the trust estate or other security for the Secured Obligations, prior to or on a parity with the lien of this Indenture, except that additional Series may be issued from time to time pursuant to Series Indentures, on a parity with Secured Obligations previously issued and secured by an equal charge and lien on the trust estate, except as otherwise provided herein, and payable equally and ratably from the Accounts established and created pursuant hereto, except as otherwise provided herein, for one or more of the purposes set forth herein.

(B) No additional Series shall be issued unless:

(1) the Principal Amount of the additional Bonds then to be issued, together with the Principal Amount of the Bonds and other obligations of the Agency theretofore issued, will not exceed in aggregate Principal Amount any limitation thereon imposed by law;

(2) at the time of the issuance and delivery of the additional Series, other than Refunding Bonds, and the application of the proceeds thereof, there shall be no deficiency in the Bond Account or the Capital Reserve Account;

(3) the issuance of the additional Series and the use of the proceeds thereof are consistent with, and taken into account in, the most recent Cash Flow Statement filed with the Trustee; and

(4) the issuance of such Series will not result in the reduction, suspension or withdrawal of the Unenhanced Rating then assigned to any of the Series by each Rating Agency for such Series.

(C) The Agency expressly reserves the right to adopt one or more general or special bond resolutions or to enter into one or more other indentures for any of its corporate purposes and reserves the right to issue other obligations so long as the same are not a charge or lien prohibited by subsection (A) of this Section. Specifically, but without limiting the foregoing, the Agency expressly reserves the right to authorize and issue bonds, notes, warrants, certificates or other obligations or evidences of indebtedness which as to principal or interest, or both, (1) are payable from Revenues after and subordinate to the payment from Revenues of the Secured Obligations, or (2) are payable from moneys which are not Revenues as such term is defined in this Indenture.

Section 612. Further Assurance. At any time and all times the Agency shall, so far as it may be authorized by law, pass, make, do, execute, acknowledge and deliver, all and every such further resolutions, acts, deeds, conveyances, assignments, transfers and assurances and enter into such further agreements as may be necessary or desirable for the better assuring, conveying, granting, assigning or confirming all and singular the pledge of and grant of a security interest in the Revenues, the proceeds of the Bonds, the Loans and the Accounts hereby pledged or granted, or intended so to be, or which the Agency may hereafter become bound to pledge or grant.

Section 613. Powers as to Bonds and Pledge; General Obligation. The Agency is duly authorized pursuant to law to authorize and issue the Bonds, to enter into this Indenture and to pledge and grant a security interest in the Revenues, the proceeds of the Bonds, the Loans and the Accounts purported to be pledged hereby in the manner and to the extent provided herein. The Revenues, the proceeds of the sale of the Bonds, the Loans and the Accounts so pledged are and will be free and clear of any pledge, lien, charge or encumbrance thereon or with respect thereto prior to, or of equal rank with, the pledge and grant created hereby, and all corporate action on the part of the Agency to that end has been duly and validly taken. The Bonds and the provisions hereof are and will be the valid and binding general obligations of the Agency in accordance with their terms and the terms hereof. The Agency shall at all times, to the extent permitted by law, defend, preserve and protect the pledge of the Revenues, the proceeds of the sale of the Bonds, the Loans and the Accounts so pledged hereunder and all the rights of the Bondholders hereunder against all claims and demands of all persons whomsoever. The Bonds shall not be deemed to constitute a debt or liability of the State or any political subdivision thereof other than the Agency, or a pledge of the faith and credit or the taxing power of the State or of any political subdivision thereof, other than the Agency.

Section 614. State Pledge. In accordance with the Act, the following pledge is included herein:

The State pledges with the Holders of any Bonds issued under the Indenture that the State will not limit or alter the rights vested in the Agency to fulfill the terms of any agreements made with the Holders or in any way impair the rights and remedies of such Holders until such Bonds, together with the

interest thereon, with interest on any unpaid installments of interest, and all costs and expenses in connection with any action or proceeding by or on behalf of such Holders, are fully met and discharged.

Section 615. Books and Records. The Agency shall keep and maintain proper books of record and account in which complete and accurate entries will be made of all transactions relating to the Bonds, the Loans and the Accounts. Such books shall be open to inspection at reasonable times by the Trustee, any Credit Provider and any Holders of not less than five percent (5%) in Principal Amount of Bonds then Outstanding.

Section 616. Cash Flow Statements. The Agency will file a Cash Flow Statement with the Trustee upon or prior to each occasion required by this Indenture. A Cash Flow Statement shall consist of an Officer's Certificate giving effect to the action proposed to be taken and demonstrating the following in the current and each succeeding Bond Year in which Bonds are scheduled to be Outstanding:

(A) that pledged assets expected to be on deposit in the Accounts maintained hereunder, exclusive of rebatable amounts, in each such Bond Year will be at least equal to amounts required hereby to be on deposit in such Accounts for the payment of Secured Obligations and Qualified Program Expenses when due and all obligations to any Credit Provider and for the funding of the Capital Reserve Account to the Capital Reserve Account Requirement, except that, to the extent specified in a Series Indenture, an Account established in such Series Indenture shall not be taken into account when preparing the Cash Flow Statement; and

(B) that at the commencement of each such Bond Year (a) the sum of the amounts in (i) the Program Account (including the aggregate Principal Balance of all Loans but excluding amounts reserved to pay Costs of Issuance and Capitalized Interest), (ii) the Capital Reserve Account (including the amounts of any surety bonds), (iii) the Bond Account (to the extent to be used to pay Principal Installments), (iv) the Redemption Account (not including any amounts being held to pay Bonds that are to be paid but are no longer deemed Outstanding), (v) any supplementary reserve account created by a Supplemental Indenture (but only to the extent provided by such Supplemental Indenture), and (vi) the Revenue Account (not including any amounts necessary to pay interest or Principal Installments on the Bonds on the next Interest Payment Date), plus the present value (discounted on a semiannual basis at the composite yield of the then Outstanding related Bonds) of any additional Revenues pledged by the Agency under this Indenture, is equal to or greater than an amount equal to the sum of (x) the Principal Amount of all then Outstanding Bonds and (y) the Capital Reserve Account Requirement.

The Cash Flow Statement shall set forth the assumptions upon which the estimates therein are based, and, after filing any Cash Flow Statement, the Agency shall administer the Program and perform its obligations under this Indenture in accordance, in all material respects, with the assumptions set forth in such Cash Flow Statement.

## ARTICLE VII

## REDEMPTION OF BONDS

Section 701. Privileges of Redemption and Redemption Prices. The Bonds of any Series shall be subject to redemption by or on behalf of the Agency prior to maturity upon notice as provided in this Article and, with respect to redemption other than by means of Sinking Fund Installments, upon receipt by the Trustee of the Officer's Certificate described in Section 508, to such extent, through application of such moneys, at such time or times, in such order, and on such other terms and conditions as shall be specified in the related Series Indenture and referred to in said Bonds, in accordance with the

provisions hereof, and in all cases at a price equal to the Redemption Price of each Bond or portion thereof, together with interest accrued to the redemption date. If less than all of the Bonds of any Series of like maturity and tenor then Outstanding are to be redeemed, the particular Bonds to be redeemed shall be selected by lot in such manner as the Trustee may determine.

Section 702. Selection of Bonds to Be Redeemed by Lot. In the event of redemption by lot of Bonds of like Series, maturity and tenor, the Trustee shall assign to each Bond of such Series, maturity and tenor then Outstanding a distinctive number for each minimum denomination amount of the Principal Amount of such Bond and shall select by lot, using such method of selection as the Trustee shall deem proper in its sole discretion and from the numbers so assigned to such Bonds, as many numbers as, at the minimum denomination amount for each number, shall equal the Principal Amount of such Bonds to be redeemed. The Bonds to be redeemed shall be the Bonds to which were assigned numbers so selected, but only so much of the Principal Amount of each such Bond of a denomination of more than the minimum denomination amount shall be redeemed as shall equal the minimum denomination amount for each number assigned to it and so selected. For the purposes of this Section, Bonds which have theretofore been selected by lot for redemption shall not be deemed Outstanding.

Section 703. Notice of Redemption. When the Trustee shall be required or authorized, or shall receive notice from the Agency of its election to redeem Bonds, the Trustee shall, in accordance with the terms and provisions of the Bonds and hereof, select the Bonds to be redeemed and shall give notice, in the name of the Agency, of the redemption of Bonds. Each such notice shall state the date of such notice, the complete official name of the Bonds (including Series designation) to be redeemed, the Issue Date, maturity dates, interest rates and CUSIP numbers (if any) of such Bonds, the date fixed for redemption, the Redemption Price, the place or places of redemption (including the name and appropriate address or addresses of the Trustee or the Paying Agent) and, if less than all of the Bonds of any Series are being redeemed, the numbers of the Bonds to be redeemed and, in the case of Bonds to be redeemed in part only, the respective portions of the principal amount thereof to be redeemed. Each such notice shall further state that on the date fixed for redemption there shall become due and payable upon each Bond to be redeemed the Redemption Price thereof, or the Redemption Price of the portion of the principal thereof to be redeemed in the case of a Bond to be redeemed in part only, together with interest accrued to such date, and that from and after such date interest thereon shall cease to accrue and be payable. Each such notice may state that such notice may be rescinded.

Such notice shall be given by mailing a copy of such notice, postage prepaid, not less than fifteen (15) days nor more than sixty (60) days before such redemption date, (1) by first class mail to the registered owner of any Bond all or a portion of which is to be redeemed, at such owner's last address, if any, appearing upon the registry books; and (2) by certified mail, return receipt requested, (i) upon written request of any registered owner of one million dollars ($1,000,000) or more in aggregate principal amount of any Series, each such request directed to the Trustee, (ii) to two or more Information Services, as defined below, (iii) to the Securities Depositories, as defined below, and (iv) to each Credit Provider. A second notice shall be given by certified mail, return receipt requested, to any registered owner of Bonds being redeemed if such registered owner has not surrendered such bonds for redemption on or before the date sixty (60) days after the date fixed for redemption.

Failure by the Trustee to give any notice pursuant to this Section by certified mail as described above, or the insufficiency of any such notice, shall not affect the sufficiency of the proceedings for redemption.

As used in this Section, (a) "Information Services" means Financial Information, Inc.'s "Daily Called Bond Service," 30 Montgomery Street, 10th Floor, Jersey City, New Jersey 07302, Attention: Editor; Kenny Information Services' "Called Bond Service," 65 Broadway, 16th Floor, New

York, New York 10006; Moody's "Municipal and Government," 5250 77 Center Drive, Charlotte, North Carolina 28217, Attention: Municipal News Reports; and Standard and Poor's "Called Bond Record," 25 Broadway, 3rd Floor, New York, New York 10004; or such other addresses and/or such other services providing information with respect to called bonds as the Agency may designate; and (b) "Securities Depositories" means The Depository Trust Company, 711 Stewart Avenue, Garden City, New York 11530, Fax-(516) 277-4039 or 4190; Philadelphia Depository Trust Company, Reorganization Division, 1900 Market Street, Philadelphia, Pennsylvania 19103, Attention: Bond Department, Fax-(215) 496-5058; or such other addresses and/or such other securities depositories as the Agency may designate.

Notwithstanding the foregoing, any Series Indenture may provide for different notice requirements with respect to redemptions of Bonds of the Series issued pursuant to such Series Indenture.

Section 704. Agency's Election to Redeem. The Agency shall give written notice to the Trustee of its election to redeem Bonds which are subject to optional redemption and of the redemption date, which notice shall be given at least thirty (30) days prior to the redemption date or at such later date as shall be acceptable to the Trustee. In the event that the required notice of redemption shall have been given, the Agency shall, and hereby covenants that it will, prior to the redemption date, pay to the Trustee an amount in cash which, in addition to any other moneys available therefor held by the Trustee, will be sufficient to redeem at the Redemption Price thereof, plus interest accrued to the redemption date, all of the Bonds which are to be redeemed.

Section 705. Payment of Redeemed Bonds. Notice having been given in the manner provided in Section 703, the Bonds or portions thereof called for redemption and specified in said notice shall become due and payable on the redemption date specified in said notice at the Redemption Prices thereof applicable on such date, plus unpaid interest on said Bond or portions thereof accrued to such date, and, upon presentation and surrender thereof, at the place or places specified in said notice, together with a written instrument of transfer duly executed by the registered owner thereof or by attorney duly authorized in writing, said Bonds or portions thereof shall be paid at the Redemption Prices plus unpaid interest on said Bonds or portions thereof accrued to such date. If there shall be so called for redemption less than all of a Bond, the Agency shall execute and cause to be delivered, upon the surrender of such Bond to the Trustee, without charge by the Agency or the Trustee to the owner thereof, for the unredeemed balance of the Principal Amount of the Bond so surrendered, Bonds of like Series, maturity and tenor in any of the authorized denominations. If, on such redemption date, moneys for the redemption of all the Bonds or portions thereof of any like maturity to be redeemed, together with interest thereon accrued and unpaid to such date, shall be held by or on behalf of the Trustee so as to be available therefor on such date and if notice of redemption thereof shall have been given as aforesaid, then from and after such redemption date interest on the Bonds or portions thereof of such maturity so called for redemption shall cease to accrue and shall become payable, and said Bonds shall no longer be considered as Outstanding hereunder. All moneys held by or on behalf of the Trustee for the redemption of particular Bonds shall be held in trust for the account of the Holders of the Bonds so to be redeemed.

## ARTICLE VIII

## SERIES INDENTURES AND SUPPLEMENTAL INDENTURES

Section 801. Supplemental Indentures Effective upon Execution. For any one or more of the following purposes and at any time or from time to time, a Series Indenture or Supplemental Indenture may be entered into by the Agency and the Trustee which Series Indenture or Supplemental Indenture, upon the execution and delivery thereof by an Authorized Officer of the Agency and by the Trustee, and without the consent of any Credit Provider or of the Bondholders, shall be fully effective in accordance with its terms:

(A) To provide for the issuance of a Series and to prescribe the terms and conditions pursuant to which such Bonds may be issued, paid or redeemed which are not contrary to or inconsistent with the Indenture as theretofore in effect;

(B) To close this Indenture against, or provide limitations and restrictions in addition to the limitations and restrictions contained herein on, the issuance of future Bonds, or of other notes, bonds, obligations or evidences of indebtedness pursuant hereto;

(C) To add to the covenants or agreements of the Agency herein contained other covenants or agreements to be observed by the Agency which are not materially adverse to the interests of the Bondholders or any of the Credit Providers;

(D) To add to the limitations or restrictions herein contained other limitations or restrictions to be observed by the Agency which are not contrary to or inconsistent with the provisions hereof as theretofore in effect;

(E) To surrender any right, power or privilege reserved to or conferred upon the Agency herein, provided that the surrender of such right, power or privilege is not contrary to or inconsistent with the covenants and agreements of the Agency contained herein;

(F) To confirm, as further assurance, any pledge under, and the subjection to any lien or pledge created or to be created by, the Indenture, of the Revenues or any other moneys, securities or funds;

(G) To appoint a successor Fiduciary;

(H) To cure any ambiguity, supply any omission, or cure or correct any defect or inconsistent provision herein;

(I) To insert such provisions clarifying matters or questions arising hereunder as are necessary or desirable and are not materially adverse to the interests of the Bondholders or any of the Credit Providers;

(J) To provide for the issuance of bearer Bonds or coupon Bonds, registrable as to principal, subject to any applicable requirements of law;

(K) To provide for the issuance of book-entry form Bonds or to modify the provisions with respect thereto;

(L) To modify, amend or supplement this Indenture or any Supplemental Indenture in such manner as to permit the qualification hereof and thereof under the Trust Indenture Act of 1939, as amended or any similar federal statute hereafter in effect or under any state securities registration or "blue sky" law;

(M) To make any other change which does not materially adversely affect the interests of the Bondholders or any of the Credit Providers; or

(N) To make any other change in the Indenture, including any change otherwise requiring the consent of Bondholders as provided in Section 902, if such change affects only Bonds which are subject to mandatory or optional tender for purchase and if (i) with respect to Bonds subject to mandatory tender, such change is effective as of a date for such mandatory tender, and (ii) with respect to

Bonds subject to tender at the option of the holders thereof, notice of such change is given to such holders at least thirty (30) days before the effective date thereof.

Section 802. Supplemental Indentures Effective with Consent of Bondholders. Except as provided by Section 801 hereof, at any time or from time to time, a Supplemental Indenture amending or supplementing the Indenture may be entered into by the Agency and the Trustee modifying any of the provisions of the Indenture or releasing the Agency from any of the obligations, covenants, agreements, limitations, conditions or restrictions herein contained, but no such Supplemental Indenture shall be effective until the execution and delivery thereof by an Authorized Officer and by the Trustee and, unless no Bonds delivered by the Agency prior to the adoption of such Supplemental Indenture remain Outstanding at the time it becomes effective, such Supplemental Indenture is consented to by each Credit Provider and by or on behalf of Bondholders in accordance with and subject to the provisions of Article IX.

## ARTICLE IX

## AMENDMENTS

Section 901. Mailing of Notices. Any provision in this Article relative to the mailing of a notice or other paper to Bondholders shall be fully complied with if it is mailed, postage prepaid, only to the Trustee, to each Credit Provider and to each registered owner of any Bonds then Outstanding at its last address, if any, appearing upon the registry books. Notice of each amendment to this Indenture shall be promptly provided by the Trustee to each Rating Agency.

Section 902. Powers of Amendment. In addition to those amendments to the Indenture which are authorized by Article VIII hereof, any modification or amendment of the Indenture and of the rights and obligations of the Agency and of the Holders of the Bonds hereunder, in any particular, may be made by a Supplemental Indenture with the written consent of each Credit Provider and the written consent, given as hereinafter provided in Section 903, of the Holders of at least fifty percent (50%) in Principal Amount of the Bonds Outstanding at the time such consent is given; *provided, however,* that (1) if such modification or amendment will, by its terms, not take effect so long as any Bonds of any specified like Series, maturity and tenor remain Outstanding, the consent of the Holders of such Bonds shall not be required and such Bonds shall not be deemed to be Outstanding for the purpose of any calculation of Outstanding Bonds under this Section and (2) if so provided by the related Series Indenture, the consent of the Credit Provider for a Series shall be deemed to be the consent of the holders of one hundred percent (100%) in Principal Amount of the Bonds Outstanding of such Series; and *provided, further,* that no such modification or amendment (i) shall permit a change in the terms of redemption or maturity of the principal of any Outstanding Bonds or of any installment of interest thereon or a reduction in the Principal Amount or the Redemption Price thereof or the rate of interest thereon without the consent of the Holder of such Bond, or (ii) shall reduce the percentages of Bonds the consent of the Holders of which is required to effect any such modification or amendment, or permit the creation of a lien on the Revenues and other assets pledged under this Indenture prior to or on a parity with the lien of this Indenture, or deprive the Holders of the Bonds of the lien created by this Indenture upon such Revenues and other assets (except as expressly provided in this Indenture), without the consent of the Holders of all Bonds then Outstanding.

Section 903. Consent of Bondholders. The Agency and the Trustee may at any time, in accordance with the provisions of Section 802, execute and deliver a Supplemental Indenture making a modification or amendment permitted by the provisions of Section 902, to take effect when and as provided in this Section. A copy of such Supplemental Indenture (or brief summary thereof or reference thereto), together with a request to Bondholders for their consent thereto (in a form which shall include a

statement that any consent of the Bondholder, once filed with the Trustee, shall be irrevocable), shall be mailed by the Trustee to Bondholders (but failure to mail such copy and request shall not affect the validity of such Supplemental Indenture when consented to as in this Section provided). Such Supplemental Indenture shall not be effective unless and until, and shall take effect in accordance with its terms when, there shall have been filed with the Trustee (1) the written consents of Holders of the percentage of Outstanding Bonds specified in Section 902, and (2) a Counsel's Opinion or opinion of counsel to the Agency stating that such Supplemental Indenture has been duly and lawfully entered into by the Agency in accordance with the provisions of the Indenture, is authorized or permitted by the provisions of the Indenture and, when effective, will be valid and binding upon the Agency. Each such consent shall be effective only if accompanied by proof of the holding, at the date of such consent, of the Bonds with respect to which such consent is given, which proof shall be such as is permitted by Section 1202. A certificate or certificates by the Trustee that it has examined such proof and that such proof is sufficient under the provisions of Section 1202 shall be conclusive that the consents have been given by the Holders of the Bonds described in such certificate or certificates. Any such consent shall be binding upon the Holder of the Bonds giving such consent and upon any subsequent Holder of such Bonds and of any Bonds issued in exchange therefor (whether or not such subsequent Holder thereof has notice thereof). At any time after the Holders of the required percentage of Bonds shall have filed their consents to such Supplemental Indenture, the Trustee shall make and file with the Agency a written statement that the Holders of such required percentage of Bonds have filed and given such consents. Such written statement shall be conclusive that such consents have been so filed and have been given. At any time thereafter, notice, stating in substance that such Supplemental Indenture (which may be referred to as a Supplemental Indenture executed by the Agency on a stated date a copy of which is on file with the Trustee) has been consented to by the Holders of the required percentage of Bonds and will be effective as provided in this Section, shall be given to Bondholders by the Trustee by mailing such notice to Bondholders (but failure to mail such notice shall not prevent such Supplemental Indenture from becoming effective and binding as in this Section provided). A record, consisting of the papers required or permitted by this Section to be filed with the Trustee and the Agency, shall be proof of the matters therein stated. Such Supplemental Indenture making such modification or amendment shall be deemed conclusively binding upon the Agency, the Fiduciaries and the Holders of all Bonds on the date specified therein or, if no date is specified, on the date the Trustee has received all consents and the Counsel's Opinion referred to in clauses (1) and (2) above, except in the event of a final decree of a court of competent jurisdiction setting aside such Supplemental Indenture in a legal action or equitable proceeding for such purpose commenced prior to the date on which such Supplemental Indenture is conclusively binding.

Section 904. Modification by Unanimous Consent. Notwithstanding anything contained in Article VIII or in the foregoing provisions of this Article, the terms and provisions hereof and the rights and obligations of the Agency, the Trustee and the Holders of the Bonds thereunder, in any particular, may be modified or amended in any respect upon execution and delivery of a Supplemental Indenture by the Agency and the Trustee making such modification or amendment and upon receipt by the Trustee of the consent to such Supplemental Indenture of each Credit Provider and the Holders of all of the Bonds then Outstanding, such consent to be given and proved as provided in Section 903, except that no notice to Bondholders shall be required if a request to Bondholders for their consent to such Supplemental Indenture has been made as contemplated by Section 903.

Section 905. Exclusion of Bonds. Bonds owned or held by or for the account of the Agency shall be excluded and shall not be deemed Outstanding for the purpose of consent or other action or any calculation of Outstanding Bonds provided for in this Article, and the Agency shall not be entitled with respect to such Bonds to give any consent or take any other action provided for in this Article. At the time of any consent or other action under this Article, the Agency shall furnish the Trustee an Officer's Certificate, upon which the Trustee may rely, describing all Bonds so to be excluded.

Section 906. Notation on Bonds. Bonds delivered after the effective date of any action taken as in Article VIII or this Article provided may, and if the Trustee so determines shall, bear a notation by endorsement or otherwise in form approved by the Agency and the Trustee as to such action, and in that case upon demand of the Holder of any Bond Outstanding at such effective date and presentation of such Bond for such purpose at the Principal Office of the Trustee, suitable notation shall be made on such Bond by the Trustee as to any such action. If the Agency or the Trustee shall so determine, new Bonds so modified as in the opinion of the Trustee and the Agency conform to such action shall be prepared and delivered, and upon demand of the Holder of any Bond then Outstanding, shall be exchanged, without cost to such Bondholder, for Bonds of the same Series, designation, maturity and interest rate then Outstanding upon surrender of such Bonds.

Section 907. Additional Contracts or Indentures. The Agency, so far as it may be authorized by law, may and if requested by any Fiduciary shall enter into additional contracts or indentures with any Fiduciary giving effect to any modification or amendment of the Indenture as provided in Article VIII or in this Article.

Section 908. Modification of Individual Bonds. Nothing in Article VIII or this Article IX shall be interpreted as prohibiting the Agency from modifying or amending the terms of any Bond with the consent of the Owner of such Bond if such modification or amendment has no material adverse effect on the interests of any Credit Provider or of any other Bondholder.

## ARTICLE X

## EVENTS OF DEFAULT AND REMEDIES OF BONDHOLDERS

Section 1001. Powers of Trustee. The Agency hereby determines that there shall be, and there hereby are, vested in the Trustee, in addition to all its property, rights, powers and duties mentioned or referred to in any other provision of the Indenture, the rights, powers and duties in this Article provided in trust for the Bondholders.

Section 1002. Events of Default. Each of the following shall constitute an event of default under the Indenture and is herein called "Event of Default":

(1) if interest on any of the Bonds shall not be paid when due, or any Principal Installment or redemption premium, if any, of any of the Bonds shall not be paid when due, whether at maturity or upon call for redemption; or

(2) if a default shall be made in the observance or performance of any covenant, contract or other provision in the Bonds or this Indenture and such default shall continue for a period of ninety (90) days after written notice to the Agency from the Holders of at least five percent (5%) of the Principal Amount of the Bonds Outstanding at such time or from the Trustee specifying such default and requiring the same to be remedied; or

(3) if there shall have been entered an order or decree, by a court having jurisdiction in the premises, for relief against the Agency in an involuntary case under any applicable bankruptcy, insolvency or other similar law now or hereafter in effect, or appointing a receiver, liquidator, assignee, custodian, trustee, sequestrator (or other similar official) of the Agency or of any substantial part of its property, or ordering the winding up or liquidation of its affairs, and such order or decree shall have continued unstayed and in effect for a period of sixty (60) consecutive days; or

(4) if there shall have been instituted or commenced by the Agency a voluntary case under any applicable bankruptcy, insolvency, receivership or other similar law now or hereafter in effect, or the Agency shall have consented to the entry of an order for relief against it in any involuntary case under any such law, or to the appointment of a receiver, liquidator, assignee, custodian, trustee, sequestrator (or other similar official) of the Agency or of any substantial part of its property, or the Agency shall have made an assignment for the benefit of creditors, or failed generally to pay its debts as they become due, or admitted in writing such failure, or shall have taken any action in the furtherance of any such action; or

(5) if the State has limited or altered the rights of the Agency pursuant to the Act, as amended to the date of this Indenture, to fulfill the terms of any agreements made with the Holders of Bonds or in any way impaired the rights and remedies of Holders of Bonds prior to the time such Bonds, together with the interest thereon and with interest on any unpaid installments of interest, and all costs and expenses in connection with any action or proceeding by or on behalf of such Holders, are fully met and discharged.

The Trustee shall not be required to take notice or be deemed to have notice of any Event of Default hereunder except failure by the Agency to pay interest on any of the Bonds when due or to pay any Principal Installment or redemption premium when due as required pursuant to the Indenture or any Series Indenture or failure by the Agency to file with the Trustee any document required by the Indenture or any Series Indenture unless the Trustee shall be specifically notified in writing of such default by the Agency, any Credit Provider or the Holders of at least five percent (5%) in Principal Amount of the Bonds then Outstanding, and in the absence of such notice so delivered the Trustee may conclusively assume that there is no Event of Default except as aforesaid.

Section 1003. Enforcement by Trustee. Upon the happening and continuance of an Event of Default described in the preceding Section, the Trustee shall give notice of such Event of Default to each Credit Provider, and in its own name and as trustee of an express trust, on behalf and for the benefit and protection of the Holders of all Bonds may, after notice to the Agency, and upon the written request of any Credit Provider or of the Holders of not less than twenty-five percent (25%) in Principal Amount of the Bonds then Outstanding shall, proceed to protect and enforce any rights of the Trustee and, to the full extent that the Holders of such Bonds themselves might do, the rights of such Bondholders under the laws of the State or under this Indenture by such of the following remedies as the Trustee shall deem most effectual to protect and enforce such rights:

(1) by mandamus or other suit, action or proceeding at law or in equity, to enforce all rights of the Holders of Bonds, including the right to require the Agency to receive and collect Revenues adequate to carry out the pledge, the assignments in trust and the covenants and agreements made herein, and to require the Agency to carry out any other covenant or agreement with Bondholders and to perform its duties under the Act;

(2) by bringing suit upon the Bonds;

(3) by action or suit in equity, to require the Agency to account as if it were the trustee of an express trust for the Holders of Bonds;

(4) by realizing or causing to be realized through sale or otherwise upon the security pledged hereunder;

(5) by action or suit in equity, to enjoin any acts or things which may be unlawful or in violation of the rights of the Holders of Bonds; and

(6) by declaring all Bonds due and payable and, if all defaults shall be made good, then, with the written consent of the Holders of not less than twenty-five percent (25%) in Principal Amount of the Outstanding Bonds, to annul such declaration and its consequences.

In the enforcement of any rights and remedies hereunder, the Trustee, in its own name and as trustee of an express trust on behalf of and for the benefit of the Holders of all Bonds, shall be entitled to sue for, enforce payment on and receive any and all amounts then or during any default becoming, and at any time remaining, due from the Agency for principal, Redemption Price, interest or otherwise, under any provision hereof or of the Bonds, and unpaid, with interest on overdue payments at the rate or rates of interest specified in such Bonds, together with any and all costs and expenses of collection and of all proceedings hereunder and under such Bonds, without prejudice to any other right or remedy of the Trustee or of the Bondholders, and to recover and enforce a judgment or decree against the Agency for any portion of such amounts remaining unpaid, with interest, costs and expenses, and to collect from any moneys available for such purpose, in any manner provided by law, the moneys adjudged or decreed to be payable.

Section 1004. Representation of Bondholders by Trustee. The Trustee is hereby irrevocably appointed (and the Bondholders by accepting and holding the Bonds shall be conclusively deemed to have so appointed the Trustee and to have mutually covenanted and agreed, each with the other, not to revoke such appointment) the true and lawful attorney-in-fact of the Bondholders with power and authority, in addition to any other powers and rights heretofore granted the Trustee, at any time in its discretion to make and file in any proceeding in bankruptcy or judicial proceedings for reorganization or liquidation of the affairs of the Agency either in the respective names of the Bondholders or on behalf of all the Bondholders as a class, any proof of debt, amendment of proof of debt, petition or other document, to receive payment of any sums becoming distributable to the Bondholders, and to execute any other papers and documents and do and perform any and all such acts and things as may be necessary or advisable in the opinion of the Trustee in order to have the respective claims of the Bondholders against the Agency allowed in any bankruptcy or other proceeding.

Section 1005. Limitation on Powers of Trustee. Nothing in the Indenture shall be deemed to give power to the Trustee either as such or as attorney-in-fact of the Bondholders to vote the claims of the Bondholders in any bankruptcy proceeding or to accept or consent to any plan of reorganization, readjustment, arrangement or composition or other like plan, or by other action of any character to waive or change any right of any Bondholder or to give consent on behalf of any Bondholder to any modification or amendment hereof requiring such consent or to any Supplemental Indenture requiring such consent pursuant to the provisions of Article VIII or Article IX.

Section 1006. Action by Trustee. (A) All rights of action hereunder or upon any of the Bonds enforceable by the Trustee may be enforced by the Trustee without the possession of any of the Bonds or the production thereof at the trial or other proceedings relative thereto, and any such suit, action or proceeding instituted by the Trustee may be brought in its name for the ratable benefit of the Holders of said Bonds subject to the provisions hereof.

(B) In any action, suit or other proceeding by the Trustee, the fees, counsel fees and expenses of the Trustee shall constitute chargeable costs and disbursements, and all costs and disbursements allowed by the court shall be a first charge on the Revenues.

Section 1007. Accounting and Examination of Records after Default. The Agency covenants with the Trustee and the Bondholders that, if an Event of Default shall have happened and shall not have been remedied, (1) the books of record and accounts of the Agency and all records relating to the Bonds and the Loans shall at all times be subject to the inspection and use of the Trustee and of its agents

and attorneys, and (2) the Agency, whenever the Trustee shall demand, will account, as if it were the trustee of an express trust, for all Revenues and other moneys, securities and funds pledged or held under the Indenture for such period as shall be stated in such demand.

Section 1008. Restriction on Bondholder's Action. (A) No Holder of any Bond shall have any right to institute any suit, action or proceeding in equity or at law for the enforcement of any provision hereof or for the execution of any trust hereunder or for any other remedy hereunder, unless (1)(a) such Holder previously shall have given to the Agency and the Trustee written notice of the Event of Default on account of which such suit, action or proceeding is to be instituted, (b) after the occurrence of such Event of Default, written request shall have been made of the Trustee to institute such suit, action or proceeding by any Credit Provider or by the Holders of not less than twenty-five percent (25%) in Principal Amount of the Bonds then Outstanding and there shall have been offered to the Trustee security and indemnity satisfactory to it against the costs and liabilities to be incurred therein or thereby, and (c) the Trustee shall have refused or neglected to comply with such request within a reasonable time; or (2)(a) such Credit Provider or Holder previously shall have obtained the written consent of the Trustee to the institution of such suit, action or proceeding, and (b) such suit, action or proceeding is brought for the ratable benefit of all Holders of all Bonds subject to the provisions hereof.

(B) No Holder of any Bond shall have any right in any manner whatever by its, his or her action to affect, disturb or prejudice the pledge of Revenues and other assets hereunder, or, except in the manner and on the conditions in this Section provided, to enforce any right or duty hereunder.

Section 1009. Application of Moneys after Default.

(A) All moneys collected by the Trustee at any time pursuant to this Article shall, except to the extent, if any, otherwise directed by the court, be credited by the Trustee to the Revenue Account. Such moneys so credited to the Revenue Account, and all other moneys from time to time credited to the Revenue Account, shall at all times be held, transferred, withdrawn and applied as prescribed by the provisions of Article V.

(B) Subject in all instances to the provisions of Section 1013 hereof, in the event that at any time the moneys credited to the Bond Account and any other funds held by the Agency or Fiduciaries available for the payment of Secured Obligations then due shall be insufficient for such payment, such moneys and funds (other than funds held for the payment or redemption of particular Bonds as provided in Section 1203) shall be applied as follows:

(i) Unless the principal of all of the Bonds shall have become or have been declared due and payable:

First: To the payment of the fees, costs and expenses of the Trustee (including the fees and expenses of counsel) in declaring such Event of Default and pursuing remedies;

Second: To the payment of all installments of interest on Secured Obligations (including scheduled payments on any Hedging Instrument) then due in the order in which such installments have become due, and, if the amount available shall not be sufficient to pay in full any installment, then to the payment thereof ratably, according to the amounts due on such installment, without any discrimination or preference, and to reimburse any Credit Provider for amounts advanced for payment thereof; and

Third: To the payment of the unpaid principal or redemption price of any Secured Obligations which shall have become due, whether at maturity or by call for redemption, in the order in which they have become due and payable, and, if the amount available shall not be sufficient to pay in full all the Secured Obligations so due on any date, then to the payment thereof ratably, according to the amounts of principal or redemption price due on such date, to the persons entitled thereto, without any discrimination or preference, and to reimburse any Credit Provider for amounts advanced for payment thereof.

(ii) If the principal of all of the Bonds shall have become or have been declared due and payable:

First: To the payment of the fees, costs and expenses of the Trustee (including the fees and expenses of counsel) in declaring such Event of Default and pursuing remedies;

Second: To the payment of the principal or redemption price of and interest then due and unpaid upon all Secured Obligations without preference or priority of principal over interest or of interest over principal, or of any installment of interest over any other installment of interest, or of any Secured Obligation over any other Secured Obligation, ratably, according to the amounts due respectively for principal and interest, without any discrimination or preference except as to any difference in the respective rates of interest specified in the Secured Obligations.

Section 1010. Remedies Not Exclusive. No remedy by the terms of the Indenture conferred upon or reserved to the Trustee (or to Bondholders) is intended to be exclusive of any other remedy, but each and every such remedy shall be cumulative and shall be in addition to any other remedy given hereunder or now or hereafter existing at law or in equity or by statute.

Section 1011. Control of Proceedings. In the case of an Event of Default, the Holders of a majority in Principal Amount of the Bonds then Outstanding shall have the right, subject to the provisions of Sections 1008, 1009 and 1210, by an instrument in writing executed and delivered to the Trustee, to direct the time, method and place of conducting any proceeding for any remedy available to the Trustee, or exercising any trust or power conferred upon the Trustee; *provided, however,* that the Trustee shall have the right to decline to follow any direction if the Trustee shall be advised by counsel that the action or proceeding so directed may not lawfully be taken, or if the Trustee in good faith shall determine that the action or proceeding so directed would involve the Trustee in personal liability or be unjustly prejudicial to Bondholders not parties to such direction.

Section 1012. Effect of Waiver and Other Circumstances. No delay or omission of the Trustee or of any Holders of Bonds to exercise any right or power accruing upon any default shall impair any such right or power or shall be construed to be a waiver of any such default, or acquiescence therein, and every right, power and remedy granted or provided herein to them or any of them may be exercised from time to time and as often as may be deemed expedient by the Trustee or, in an appropriate case, by the Bondholders.

Section 1013. Subordination. No claim for interest appertaining to any of the Bonds which claim in any way at or after maturity shall have been transferred or pledged by or at the instance of the Agency separate and apart from the Bond to which it appertains shall, unless accompanied by such Bond, be entitled in case of an Event of Default hereunder to any benefit by or from this Indenture except after the prior payment in full of the principal and Redemption Price of all of the Bonds then due and of

all claims for interest then due not so transferred or pledged. The parties hereto agree and acknowledge that nothing herein is intended to or shall be interpreted to apply to claims for interest pertaining to any Bond arising pursuant to a payment made by a Credit Provider with respect to such Bond.

Section 1014. Right to Enforce Payment of Bonds Unimpaired. Nothing in this Article contained shall affect or impair the right of any Bondholder to enforce the payment of the principal of and interest on its Bonds, or the obligation of the Agency to pay the principal of and interest on each Bond to the Holder thereof, at the time and place expressed in such Bond.

Section 1015. Termination of Proceedings. In case any proceeding taken by the Trustee on account of any Event of Default shall have been discontinued or abandoned for any reason, then in every such case the Agency, the Trustee and the Bondholders shall be restored to their former positions and rights hereunder, respectively, and all rights, remedies, powers and duties of the Trustee shall continue as though no such proceeding had been taken.

## ARTICLE XI

## THE FIDUCIARIES

Section 1101. Appointment of Trustee. U.S. Bank National Association, is hereby appointed as Trustee hereunder for the purpose of receiving all moneys which the Agency is required to deposit or cause to be deposited with the Trustee hereunder, to hold in trust, allocate, use and apply the same as provided in this Indenture and otherwise to hold all the offices and to perform all the functions and duties provided in this Indenture to be held and performed by the Trustee. The Trustee shall, prior to an Event of Default, and after the curing of all Events of Default which may have occurred, perform such duties and only such duties as are specifically set forth in this Indenture. The Trustee shall, during the existence of any Event of Default (which has not been cured), exercise such of the rights and powers vested in it by this Indenture, and use the same degree of care and skill in their exercise, as a reasonable person would exercise or use under the circumstances in the conduct of such person's own affairs. The Trustee hereby signifies its acceptance of the duties and obligations imposed upon it by this Indenture by executing and delivering this Indenture; and by executing and delivering this Indenture, the Trustee is deemed to have accepted such duties and obligations, but only upon the terms and conditions set forth in this Indenture. No provision of this Indenture shall require the Trustee to expend or risk its own funds or otherwise incur any financial liability in the performance of any of its duties hereunder, or in the exercise of any of its rights and powers, if it shall have reasonable grounds for believing that repayment of such funds or adequate indemnity against such risk or liability is not reasonably assured to it. The Trustee shall perform its functions and duties hereunder on its own behalf as Trustee hereunder.

The Agency and the Trustee shall establish such accounting, notice and other relationships as are necessary to provide for the operation of the Accounts and sub-accounts created under or pursuant to Articles IV and V hereof, and the handling of the assets (including Loans) credited thereto in accordance herewith.

Section 1102. Term of Office of Trustee.

(A) The Agency may remove the Trustee upon thirty (30) days' prior written notice at any time unless an Event of Default shall have occurred and then be continuing, and shall remove the Trustee if at any time requested to do so by an instrument or concurrent instruments in writing signed by the Holders of not less than a majority in aggregate Principal Amount of the Bonds then Outstanding (or their attorneys duly authorized in writing) or if at any time the Trustee shall cease to be eligible in accordance with subsection (D) of this Section, or shall become incapable of acting, or shall be adjudged

a bankrupt or insolvent, or a receiver of the Trustee or its property shall be appointed, or any public officer shall take control or charge of the Trustee or of its property or affairs for the purpose of rehabilitation, conservation or liquidation, in each case by giving written notice of such removal to the Trustee, and thereupon shall appoint a successor Trustee by Supplemental Indenture. Notice of such removal shall be provided to each Credit Provider.

(B) The Trustee may at any time resign by giving written notice of such resignation to the Agency and each Credit Provider and by giving each Bondholder notice of such resignation by mail. Upon receiving such notice of resignation, the Agency shall promptly appoint a successor Trustee by Supplemental Indenture.

(C) Any removal or resignation of the Trustee and appointment of a successor Trustee shall not become effective until acceptance of appointment by the successor Trustee and each Credit Facility has been transferred to such successor Trustee. If no successor Trustee shall have been appointed and have accepted appointment within forty-five (45) days of giving notice of removal or notice of resignation as aforesaid, the Agency, the resigning Trustee, any Credit Provider or any Bondholder (on behalf of itself and all other Bondholders) may petition any court of competent jurisdiction for the appointment of a successor Trustee, and such court may thereupon, after such notice (if any) as it may deem proper, appoint such successor Trustee. Any successor Trustee appointed under this Indenture shall signify its acceptance of such appointment by executing and delivering to the Agency and to its predecessor Trustee a written acceptance thereof, and thereupon such successor Trustee, without any further act, deed or conveyance, shall become vested with all the moneys, estates, properties, rights, powers, trusts, duties and obligations of such predecessor Trustee, with like effect as if originally named Trustee herein; but, nevertheless on the request of the Agency or request of the successor Trustee, such predecessor Trustee shall execute and deliver any and all instruments of conveyance or further assurance and do such other things as may reasonably be required for more fully and certainly vesting in and confirming to such successor Trustee all the right, title and interest of such predecessor Trustee in and to any property held by it under this Indenture, and shall pay over, transfer, assign and deliver to the successor Trustee any money or other property subject to the trusts and conditions herein set forth. Upon request of the successor Trustee, the Agency shall execute and deliver any and all instruments as may be reasonably required for more fully and certainly vesting in and confirming to such successor Trustee all such moneys, estates, properties, rights, powers, trusts, duties and obligations. Any such successor Trustee shall promptly notify each Credit Provider and Paying Agent of its appointment as Trustee. Upon acceptance of appointment by a successor Trustee as provided in this subsection (C), the Agency shall mail to each Bondholder a notice of the succession of such Trustee to the trusts hereunder. If the Agency fails to mail such notice within ten (10) days after acceptance of appointment by the successor Trustee, the successor Trustee shall cause such notice to be mailed.

(D) Any Trustee appointed under the provisions of this Section in succession to the Trustee shall be a trust company or bank having the powers of a trust company doing business and having an office in California, having a combined capital and surplus of at least seventy-five million dollars ($75,000,000), and subject to supervision or examination by federal or state authority. If such bank or trust company publishes a report of condition at least annually, pursuant to law or to the requirements of any supervising or examining authority above referred to, then for the purpose of this Section the combined capital and surplus of such bank or trust company shall be deemed to be its combined capital and surplus as set forth in its most recent report of condition so published. In case at any time the Trustee shall cease to be eligible in accordance with the provisions of this subsection (D), the Trustee shall resign immediately in the manner and with the effect specified in this Section.

Section 1103. Merger or Consolidation. Any company into which the Trustee may be merged or converted or with which it may be consolidated or any company resulting from any merger,

conversion or consolidation to which it shall be a party or any company to which the Trustee may sell or transfer all or substantially all of its corporate trust business, provided such company shall be eligible under subsection (D) of Section 1102, shall be the successor to such Trustee without the execution or filing of any paper or any further act, anything herein to the contrary notwithstanding.

Section 1104. Compensation. Subject to the terms of any other contract between the Agency and the Trustee, the Agency shall pay to the Trustee from time to time reasonable compensation for all services rendered under this Indenture and reasonable expenses, charges, fees of counsel, accountants and consultants and other disbursements, including those of their attorneys, agents and employees, incurred in good faith in and about the performance of their powers and duties under this Indenture. The Agency further agrees, to the extent permitted by law, to indemnify and save the Trustee harmless against any liabilities (including, but not limited to, the fees and expenses of counsel) which it may incur in the exercise and performance of its powers, functions and duties under this Indenture, which are not due to the Trustee's own negligence or willful misconduct.

Section 1105. Liability of Trustee. The recitals of facts herein and in the Bonds contained shall be taken as statements of the Agency, and the Trustee assumes no responsibility for the correctness of the same, and makes no representation as to the validity or sufficiency of this Indenture or of the Bonds, and shall incur no responsibility in respect thereof, other than in connection with its duties or obligations herein or in the Bonds assigned or imposed. The Trustee shall, however, be responsible for its representations contained in its certificate of authentication on the Bonds. The Trustee shall not be liable in connection with the performance of its duties hereunder, except for its own negligence or willful misconduct. Any Fiduciary may become the owner of Bonds with the same rights it would have if it were not such Fiduciary, and, to the extent permitted by law, may act as depositary for and permit any of its officers or directors to act as a member of, or in any other capacity with respect to, any committee formed to protect the rights of Bondholders, whether or not such committee shall represent the Holders of a majority in Principal Amount of the Bonds then Outstanding.

Section 1106. Right of Trustee to Rely on Documents. The Trustee shall be protected in acting upon any notice, resolution, request, consent, order, certificate, report, opinion, bond or other paper or document believed by it to be genuine and to have been signed or presented by the proper party or parties. The Trustee may consult with counsel, who may be counsel of or to the Agency, with regard to legal questions, and the opinion of such counsel shall be full and complete authorization and protection in respect of any action taken or suffered by it hereunder in good faith and in accordance therewith.

Except as otherwise provided in a Series Indenture with respect to Bonds held or deemed held by a Credit Provider, the Trustee shall not be bound to recognize any person as the Holder of a Bond unless and until such Bond is submitted for inspection, if required, and such person's title thereto satisfactorily established if disputed.

Whenever in the administration of the trusts imposed upon it by this Indenture the Trustee shall deem it necessary or desirable that a matter be proved or established prior to taking or suffering any action hereunder, such matter (unless other evidence in respect thereof be herein specifically prescribed) may be deemed to be conclusively proved and established by a Certificate of the Agency, and such Certificate shall be full warrant to the Trustee for any action taken or suffered in good faith under the provisions of this Indenture in reliance upon such Certificate, but in its discretion the Trustee may, in lieu thereof, accept other evidence of such matter or may require such additional evidence as to it may seem reasonable.

Section 1107. Preservation and Inspection of Documents, Reports. All documents received by the Trustee under the provisions of this Indenture shall be retained in its possession and shall

be subject at all reasonable times to the inspection of the Agency, any Credit Provider and the holders of at least five percent (5%) in Principal Amount of the Bonds, and their agents and representatives duly authorized in writing, at reasonable hours and under reasonable conditions. Promptly after request therefor by the Agency, any Credit Provider or such Bondholders, or their agents and representatives duly authorized in writing, the Trustee shall furnish a written report in reasonable detail of the amount and description of any or all funds or investments held by it under this Indenture.

Section 1108. Paying Agents.

(A) The Trustee is hereby appointed to act as Paying Agent for the Bonds. The Agency may, at any time or from time to time, by Series Indenture or an Officer's Certificate, appoint one or more additional or replacement Paying Agents for one or more Series of the Bonds. Each Paying Agent shall be a bank, trust company or national banking association doing business and having its principal office in the States of California, Illinois or New York, having trust powers and having a capital and surplus aggregating at least fifty million dollars ($50,000,000), willing and able to accept the office on reasonable and customary terms and authorized by law to perform all the duties imposed upon it hereby. Each Paying Agent shall signify its acceptance of the duties and obligations imposed upon it hereby by executing and delivering to the Agency and the Trustee a written acceptance thereof. The Trustee shall enter into such arrangements with any such Paying Agent as shall be necessary and desirable to enable such Paying Agent to carry out the duties of its office. The Agency may remove any Paying Agent at any time by giving written notice of such removal to such Paying Agent and to the Trustee. Any Paying Agent may at any time resign by mailing notice of such resignation to the Agency, the Trustee, the Bondholders and any related Credit Provider. In the event of the resignation or removal of any Paying Agent, such Paying Agent shall pay over, transfer, assign and deliver any moneys held by it to its successor or, if there be no successor then appointed, to the Trustee. The Trustee shall mail prompt notice to the Bondholders and the Credit Providers of the acceptance of appointment by any successor Paying Agent. Any Paying Agent appointed under the provisions of this Section shall satisfy the criteria for eligibility set forth in this subsection (A) with respect to an original appointment as a Paying Agent.

(B) The Agency shall maintain Paying Agents for each Series in such places as may be specified by the related Series Indenture.

(C) Any company into which any Paying Agent may be merged or converted or with which it may be consolidated or any company resulting from any merger, conversion or consolidation to which any Paying Agent shall be a party or any company to which such Paying Agent may sell or transfer all or substantially all of its corporate trust business, provided such company is qualified to be a successor to such Paying Agent under subsection (A) of this Section and shall be authorized by law to perform all the duties imposed upon it hereby, shall be the successor to such Paying Agent without the execution or filing of any paper or the performance of any further act.

## ARTICLE XII

## MISCELLANEOUS

Section 1201. Defeasance. (A) If the Agency shall pay or cause to be paid to the Holders of the Bonds the principal and interest or Redemption Price, if any, to become due thereon, at the times and in the manner stipulated therein and herein, and shall pay or cause to be paid all other Secured Obligations hereunder (unless waived by the beneficiaries of such Secured Obligations), then the pledge of the Revenues, Loans, Accounts and moneys and securities therein hereby pledged and the covenants, agreements and other obligations of the Agency to the Bondholders hereunder shall be discharged and satisfied. In such event, the Trustee shall, upon the request of the Agency expressed in an Officer's

Certificate delivered to the Trustee, execute and deliver to the Agency all such instruments as may be desirable to evidence such discharge and satisfaction and the Fiduciaries shall pay over and deliver to the Agency all moneys or securities held by them pursuant hereto which are not required for the payment or redemption of Bonds not theretofore surrendered for such payment or redemption and shall reconvey to the applicable Credit Provider any credit facility or liquidity facility in accordance with its terms or as may be directed by the Credit Provider.

(B) Any Bonds or interest installments appertaining thereto for the payment or redemption of which moneys shall have been deposited with the Trustee by or on behalf of the Agency, whether at or prior to the maturity or the redemption date of such Bonds, shall be deemed to have been paid within the meaning of this Section; *provided, however,* that if any such Bonds are to be redeemed prior to maturity thereof, there shall have been taken all action necessary to call such Bonds for redemption and notice of such redemption shall have been duly given or provision satisfactory to the Trustee shall have been made as follows: (a) in case any of said Bonds are to be redeemed on any date prior to their maturity, the Agency shall have given to the Trustee in form satisfactory to it irrevocable instructions to provide, as provided in Article VII hereof, notice of redemption on said date of such Bonds, and (b) in the event said Bonds are not by their terms subject to redemption within the next succeeding thirty (30) days, the Agency shall have given the Trustee in form satisfactory to it irrevocable instructions to provide written notice to the Bondholders, as soon as practicable, that the deposit required by this Section has been made with the Trustee and that said Bonds are deemed to have been paid in accordance with this Section and stating such maturity or redemption date upon which moneys are to be available for the payment of the principal or Redemption Price, if applicable, of said Bonds. No moneys so deposited with the Trustee shall be withdrawn or used for any purpose other than, and all such moneys shall be held in trust for and be applied to, the payment, when due, of the principal or Redemption Price of the Bonds for the payment or redemption of which they were deposited and the interest accrued thereon to the date of maturity or redemption, excepting only that (a) any money so held by the Trustee for the payment of the Holders of any particular Bonds of principal or Redemption Price of, or interest on, such Bonds shall be invested by the Trustee, upon receipt of an Officer's Certificate of the Agency, authorizing such investment, only in Investment Obligations described in clause (i) of the definition thereof in Section 101 hereof as the Agency may approve; provided that any cash received from principal or interest payments on such Investment Obligations deposited with the Trustee, if not then needed for such purpose, shall, to the extent practicable, be reinvested in such Investment Obligations described in clause (i) of the definition thereof maturing at times and in amounts sufficient to pay when due the principal or Redemption Price, if applicable, and interest to become due on said Bonds on and prior to such redemption date or maturity date thereof, as the case may be, and interest earned from such reinvestments shall be paid over to the Agency, to the extent not needed for payment of the Bonds as aforesaid, as received by the Trustee, free and clear of any trust, lien, assignment in trust or pledge.

(C) As an alternative cumulative to and not excluding the provisions of subsection (B) of this Section, any Bonds or interest installments appertaining thereto, whether at or prior to the maturity or the redemption date of such Bonds, shall be deemed to have been paid within the meaning of this Section if (1) in case any such Bonds are to be redeemed prior to the maturity thereof, there shall have been taken all action necessary to call such Bonds for redemption and notice of such redemption shall have been duly given or provision satisfactory to the Trustee shall have been made as set forth in subsection (B) of this Section, and either (i) there shall have been deposited with the Trustee by or on behalf of the Agency either (a) moneys in an amount which shall be sufficient, or (b) Investment Obligations described in (i) of the definition thereof in Section 101 the principal of and the interest on which when due and without reinvestment will provide moneys which, together with the moneys, if any, deposited with the Trustee at the same time, shall be sufficient to pay when due the principal or Redemption Price, if applicable, and interest due and to become due on said Bonds on and prior to the redemption date or maturity date thereof, as the case may be; or (ii) the Credit Provider for such Bonds shall have consented to such

redemption and shall have agreed to advance amounts sufficient to provide the amount described in the preceding clause (i). Neither such Investment Obligations nor any moneys so deposited with the Trustee nor any moneys received by the Trustee on account of principal of or interest on said Investment Obligations shall be withdrawn or used for any purpose other than the payment, when due, of the principal or Redemption Price of the Bonds for the payment or redemption of which they were deposited and the interest accrued thereon to the date of maturity or redemption, and all such moneys shall be held in trust for and be applied to such payment until such payment is made.

(D) If, through the deposit of moneys by the Agency or otherwise, the Fiduciaries shall hold, pursuant hereto, moneys sufficient to pay the principal of and interest at maturity on all Outstanding Bonds or, in the case of Bonds which the Agency shall have taken all action necessary to redeem prior to maturity, sufficient to pay the Redemption Price and interest to such redemption date, then at the request of the Agency all moneys held by any Paying Agent shall be paid over to the Trustee and, together with other moneys held by it hereunder, shall be held by the Trustee for the payment or redemption of Outstanding Bonds.

(E) Anything herein to the contrary notwithstanding, any moneys, other than remarketing proceeds, held by a Fiduciary in trust for the payment and discharge of any of the Bonds which remain unclaimed for two years after the date when such Bonds have become due and payable, either at maturity or by call for redemption, if such moneys were held by the Fiduciary at said date, or for two years after the date of deposit of such moneys if deposited with the Fiduciary after the said date when such Bonds became due and payable, shall, at the request of the Agency expressed in one or more Officer's Certificates delivered to the Trustee, be paid by the Fiduciary to the Agency as its absolute property and free from trust, and the Fiduciary shall thereupon be released and discharged with respect thereto and the Holders of such Bonds shall look only to the Agency for the payment thereof; *provided, however,* that before being required to make any such payment to the Agency, the Fiduciary shall, at the expense of the Agency, cause written notice to be sent to the Holders of such Bonds, at the address shown on the registration books of the Trustee, that said moneys remain unclaimed and that, after a date named in said notice, the balance of such moneys then unclaimed will be paid to the Agency.

Section 1202. Evidence of Signatures of Bondholders and Ownership of Bonds. Any request, consent, revocation of consent or other instrument which this Indenture may require or permit to be signed and executed by Bondholders may be in one or more instruments of similar tenor, and shall be signed or executed by such Bondholders in person or by their attorneys duly authorized in writing. Proof of (1) the execution of any such instrument, or of an instrument appointing or authorizing any such attorney, or (2) the holding by any person of any Bonds shall be sufficient for any purpose hereof if made in the following manner, or in any other manner satisfactory to the Trustee, which may nevertheless in its discretion require further or other proof in cases where it deems the same desirable:

(A) The fact and date of the execution by any Bondholder or his or her attorney of any such instrument may be proved (1) by the certificate of a notary public or other officer authorized to take acknowledgments of deeds to be recorded in the state in which he or she purports to act that the person signing such instrument acknowledged to him or her the execution thereof, or by the affidavit of a witness of such execution, duly sworn to before such a notary public or other officer, or (2) by the certificate, which need not be acknowledged or verified, of an officer of a bank, trust company or duly licensed securities broker or dealer satisfactory to the Trustee that the person signing such instrument acknowledged to such bank, trust company, firm or broker or dealer the execution thereof.

(B) The authority of a person or persons to execute any such instrument on behalf of a corporate Bondholder may be established without further proof if such instrument is signed by a person

purporting to be the president or a vice-president of such corporation with a corporate seal affixed, and is attested by a person purporting to be its secretary or assistant secretary.

(C) The holding of Bonds, the amount, numbers and other identification thereof, and the date of holding the same, shall be proved by the Bond registration books of the Trustee.

Any request, consent or other instrument executed by the Holder or owner of any Bond shall bind all future Holders and owners of such Bond in respect of anything done or suffered to be done hereunder by the Agency or any Fiduciary in accordance therewith.

Section 1203. Moneys Held for Particular Bonds. The amounts held by any Fiduciary for the payment of the interest, principal or Redemption Price due on any date with respect to particular Bonds shall, pending such payment, be set aside and held in trust by it for the Holders of the Bonds entitled thereto, and for the purposes hereof such interest, principal or Redemption Price, after the due date thereof, shall no longer be considered to be unpaid.

Section 1204. Cancellation of Bonds. All Bonds purchased, redeemed or paid shall, if surrendered to the Agency or any Paying Agent, be cancelled by either of them and delivered to the Trustee, or if surrendered to the Trustee, be cancelled by it. No such Bonds shall be deemed Outstanding hereunder and no Bonds shall be issued in lieu thereof.

Section 1205. Preservation and Inspection of Documents. All reports, certificates, statements and other documents received by any Fiduciary under the provisions hereof shall be retained in its possession and shall be available at all reasonable times to the inspection of the Agency, any other Fiduciary, any Credit Provider or any Bondholder, and their agents and their representatives, any of whom may make copies thereof, but any such reports, certificates, statements or other documents may, at the election of such Fiduciary, be destroyed or otherwise disposed of at any time six years after such date as the pledge of the Revenues created hereby shall be discharged as provided in Section 1201.

Section 1206. No Recourse on Bonds. All covenants, stipulations, promises, agreements and obligations of the Agency contained in this Indenture shall be deemed to be the covenants, stipulations, promises, agreements and obligations of the Agency and not of any director, officer or employee of the Agency in his or her individual capacity, and no recourse shall be had for the payment of the principal or Redemption Price of or interest on the Bonds or for any claim based thereon or hereunder against any director, member, officer or employee of the Agency or any natural person executing the Bonds.

Section 1207. Waiver of Notice. Whenever in this Indenture the giving of notice by mail or otherwise is required, the giving of such notice may be waived in writing by the person entitled to receive such notice and in any such case the giving or receipt of such notice shall not be a condition precedent to the validity of any action taken in reliance upon such waiver.

Section 1208. Destruction of Bonds. Whenever in this Indenture provision is made for the cancellation by the Trustee and the delivery to the Agency of any Bonds the Trustee shall destroy such Bonds and deliver a certificate of such destruction to the Agency.

Section 1209. Notices. Unless otherwise specified herein or in a Series or Supplemental Indenture, it shall be sufficient service or giving of any notice, request, certificate, demand or other communication if the same shall be sent by registered or certified mail, return receipt requested, or by private courier service which provides evidence of delivery, postage or other charges prepaid, or sent by telecopy or other electronic means which produces evidence of transmission, confirmed by first class

mail, and in each case shall be deemed to have been given on the date evidenced by the postal or courier receipt or other written evidence of delivery or electronic transmission. Unless a different address is given by either party as provided in this Section, all such communications shall be addressed as follows:

If to the Trustee at its Principal Office:

U.S. Bank National Association
[One California Street, Suite 2550]
San Francisco, California 94111

or, with respect to payments on the Bonds and exchanges or transfers of any Bonds:

U.S. Bank National Association
[180 East 5th Street, 4th Floor--Bond Drop Window]
St. Paul, Minnesota, 55101

If to the Agency:

California Housing Finance Agency
1415 L Street, Suite 500
Sacramento, California 95814
Attention: Executive Director

The Agency and the Trustee, by notice given hereunder, may designate any different addresses to which subsequent notices, certificates, requests, demands or other communications shall be sent.

All written notices required under the Indenture shall be by hand delivery, by first class mail (postage prepaid), or by telegram (charges prepaid), by facsimile transmission, or by cablegram, telex or teletype, promptly confirmed by letter (postage prepaid), and any such notice shall be effective when received.

Section 1210. Credit Providers. (A) Any Series Indenture may provide, with respect to any consent, approval, direction or request to be given by any required percentage of Holders of Bonds (i) that the Credit Provider for such Bonds may give any such consent, approval, direction or request, and the same shall be deemed to have been given by the Holders of such Bonds, or (ii) that any Bonds purchased with the proceeds of advances made by a Credit Provider shall be deemed to be held by such Credit Provider, which shall be considered the Holder of such Bonds for all purposes of determining whether a sufficient percentage of Holders of Bonds have given any such consent, approval, direction or request; and specifically the Holders of such Series shall not be entitled to request action by the Trustee under Section 1003 if such Credit Provider does not request such action.

(B) Notwithstanding anything contained herein to the contrary, all provisions hereof regarding consents, approvals, directions, waivers, appointments, requests or other actions by any Credit Provider shall be deemed not to require or permit such consents, approvals, directions, waivers, appointments, requests or other actions and shall be read as if such Credit Provider were not mentioned therein (a) during any period during which there is a payment default under its Credit Facility, or (b) after the related Credit Facility shall at any time for any reason cease to be valid and binding on such Credit Provider, or shall be declared to be null and void by final judgment of a court of competent jurisdiction, or after such Credit Provider has rescinded, repudiated or terminated the related Credit Facility; *provided,*

*however,* that the payment of amounts due to such Credit Provider pursuant to the terms hereof shall continue in full force and effect. The foregoing shall not affect any other rights of such Credit Provider.

All provisions herein relating to the rights of any Credit Provider shall be of no force and effect if there is no Credit Facility in effect and there are no Bonds owned by such Credit Provider or in which the Credit Provider has a security interest and all amounts owing to the Credit Provider have been paid. In such event, all references to such Credit Provider shall have no force or effect.

Section 1211. Execution of Several Counterparts. This Indenture may be executed in any number of counterparts and each of such counterparts shall for all purposes be deemed to be an original; and all such counterparts, or as many of them as the Agency and the Trustee shall preserve undestroyed, shall together constitute but one and the same instrument.

IN WITNESS WHEREOF, the CALIFORNIA HOUSING FINANCE AGENCY has caused this Indenture to be signed in its name by its Director of Financing and its seal to be hereunto affixed and attested by the Secretary of the Board of Directors, and U.S. BANK NATIONAL ASSOCIATION, in token of its acceptance of the trusts created hereunder, has caused this Indenture to be signed in its corporate name by one of its authorized officers, all as of the day and year first above written.

CALIFORNIA HOUSING FINANCE AGENCY

[Seal] By: _____
[Director of Financing]

Attest:

_____
Secretary of the Board of Directors

U.S. BANK NATIONAL ASSOCIATION,
as Trustee

By: _____
Authorized Officer

Attest:

_____
Authorized Officer

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RESOLUTION NO. 07-28

RESOLUTION AMENDING RESOLUTION NO. 06-06
OF THE CALIFORNIA HOUSING FINANCE AGENCY
AUTHORIZING THE ISSUANCE OF THE AGENCY'S BONDS, SHORT- AND LONG-TERM CREDIT FACILITIES, AND RELATED FINANCIAL AGREEMENTS AND CONTRACTS OF SERVICES FOR THE PURPOSE OF FINANCING LOANS IN CONNECTION WITH THE BAY AREA HOUSING PLAN

WHEREAS, the Agnews Developmental Center is a residential medical facility in Santa Clara County, California, and houses a large population of severely developmentally disabled persons in need of care ranging from intermediate to skilled to acute care;

WHEREAS, the California Department of Developmental Services ("DDS") has adopted a plan to close the Agnews Developmental Center, pursuant to which plan approximately half of its residents are to be relocated to other existing residential facilities, and the remainder are to be relocated to residential facilities to be acquired, constructed and/or rehabilitated (the "New Facilities");

WHEREAS, under such plan (as more particularly described herein and in the staff reports relating to the Resolution Nos. 05-35, 06-02, 06-18 and 07-14, the "Bay Area Housing Plan"), the New Facilities are to consist of up to approximately 72 homes, including homes that may be hereafter approved for financing;

WHEREAS, under the Bay Area Housing Plan, each New Facility is to be permanently financed by a loan (each, a "Loan") made or purchased by the California Housing Finance Agency (the "Agency");

WHEREAS, on January 12, 2006, this Board of Directors (the "Board") of the Agency adopted Resolution No. 06-06 (the "BAHP Bond Resolution"), authorizing, among other things, the issuance of bonds (the "Bonds") and the execution and delivery of related financial agreements (including certain forms of the indentures to provide for the issuance of and securing the Bonds) for the purpose of financing Loans in connection with the Bay Area Housing Plan;

WHEREAS, the Agency has determined to amend Resolution No. 06-06 to authorize the execution and deliver of an alternative form of indenture that would provide for limited obligation Bonds, if appropriate, to finance the Loans to be made or purchased to provide permanent financing for the costs incurred to develop the New Facilities;

WHEREAS, the Agency has also determined to extend the period during which the Bonds are authorized to be issued;

NOW, THEREFORE, BE IT RESOLVED, by the California Housing Finance Agency as follows:

Section 1. **Extension of the Period for the Issuance of the Bonds.** Section 2 of the BAHP Bond Resolution is hereby amended and restated to read in its entirety as follows:

"Section 2. **Authorization and Timing.** The Bonds are hereby authorized to be issued at such time or times on or before the day 30 days after the date on which is held the first meeting in the year 2009 of the Board of Directors of the Agency at which a quorum is present, as the Executive Director deems appropriate, upon consultation with the Treasurer of the State of California (the "Treasurer") as to the timing of each such issuance; provided, however, that if the Bonds are sold at a time on or before the day 30 days after the date on which is held such meeting, pursuant to a forward purchase or drawdown agreement providing for the issuance of such Bonds on a later date on or before August 1, 2010, upon specified terms and conditions, such Bonds may be issued on such later date."

Section 2. **Addition of Alternative Form of Indenture.** Section 3 of the BAHP Bond Resolution is hereby amended and restated to read in its entirety as follows:

"Section 3. **Approval of Indentures, Supplemental Indentures and Certain Other Financing Documents.** (a) The Executive Director and the Secretary of the Board of Directors of the Agency (the "Secretary") are hereby authorized and directed, for and on behalf and in the name of the Agency in connection with the issuance of Bonds, to execute and acknowledge and to deliver to a duly qualified bank or trust company selected by the Executive Director to act, with the approval of the Treasurer, as trustee (the "Trustee"), one or more new indentures (the "New Indentures"), in one or more forms similar to one or more of the following (collectively, the "Prior Indentures"):

(1) the Multifamily Housing Revenue Bond III Indenture, dated as of March 1, 1997;

(2) the form of commercial paper note indenture presented to the May 11, 2000 meeting of the Agency;

(3) the Housing Program Bond Indenture, dated November 1, 2004; or

(4) the Bay Area Housing Program Bond Indenture presented to this meeting.

Each such New Indenture may be executed, acknowledged and delivered with such changes therein as the officers executing the same

approve upon consultation with the Agency's legal counsel, such approval to be conclusively evidenced by the execution and delivery thereof.

(b) For each series of Bonds, the Executive Director and the Secretary are hereby authorized and directed, for and on behalf and in the name of the Agency, if appropriate, to execute and acknowledge and to deliver with respect to each series of Bonds, a supplemental indenture (a "Supplemental Indenture") under either one of the Prior Indentures or a New Indenture and in substantially the form of any supplemental indenture or series indenture executed or approved in connection with any of the Prior Indentures, in each case, with such changes therein as the officers executing the same approve upon consultation with the Agency's legal counsel, such approval to be conclusively evidenced by the execution and delivery thereof.

The Executive Director is hereby expressly authorized and directed, for and on behalf and in the name of the Agency, to determine in furtherance of the objectives of the Program those matters required to be determined under the applicable Prior Indenture or the New Indenture, as appropriate, in connection with the issuance of each such series.

(c) For each series of Bonds, the Executive Director is hereby authorized and directed to execute, and the Secretary is hereby authorized to attest, for and in the name and on behalf of the Agency and under its seal, if and to the extent appropriate, a reimbursement agreement, a letter of credit agreement or any other arrangement with respect to credit or liquidity support in substantially the forms of the reimbursement agreements, letter of credit agreements or other such arrangements contemplated under the Prior Indentures or New Indentures or used in connection with the bonds issued under one or more of the Prior Indentures.

(d) Any New Indenture, Supplemental Indenture, reimbursement agreement, letter of credit agreement or other such arrangement as finally executed may include such modifications as the Executive Director may deem necessary or desirable in furtherance of the objectives of the Program, including, but not limited to, one or more of the following provisions:

(1) for the Agency's insured or uninsured, limited or general, obligation to pay any debt secured thereby,

(2) for a pledge of an amount of the Supplementary Bond Security Account to the extent necessary to obtain an appropriate credit rating or appropriate credit enhancement,

(3) for a pledge of additional revenues which may be released periodically to the Agency from the lien of one or more

indentures heretofore entered into by the Agency, including but not limited to one or more of the following:

(A) the Prior Indentures,

(B) the Home Mortgage Revenue Bond Indenture, dated as of September 1, 1982, as amended, and

(C) the indentures under which are issued the Single Family Mortgage Bonds,

(4) for a deposit of such other available assets of the Agency in an appropriate amount in furtherance of the Program,

(5) for a liquidity facility,

(6) for contingent or deferred interest, or

(7) for the use or application of payments or receipts under any arrangement entered into under Section 9 of this resolution."

Section 3. **Ratification of BAHP Bond Resolution.** As amended hereby, the BAHP Bond Resolution is in all respects confirmed, and Resolution No. 06-06 and this resolution shall be read, taken and considered as one instrument.

Section 4. **Resolution to Constitute Authorization For Purposes of Validation Statutes.** This resolution shall constitute the authorization of Bonds for purposes of California Government Code Section 17700 and California Code of Civil Procedure Title 10, Chapter 9 (Section 860 et seq.) with respect to any Bonds issued under any indenture described in Section 3(a)(4) of the BAHP Bond Resolution, as amended hereby. As a result, under California Code of Civil Procedure Section 863, any action by any interested person to challenge the validity of any such Bonds must be brought within 60 days of the adoption hereof.

SECRETARY'S CERTIFICATE

I, Thomas C. Hughes, Secretary of the Board of Directors of the California Housing Finance Agency, hereby certify that the foregoing is a full, true, and correct copy of Resolution No. 07-28 duly adopted at a regular meeting of the Board of Directors of the California Housing Finance Agency duly called and held on the 12th day of September, 2007, of which meeting all said directors had due notice; and that at said meeting said resolution was adopted by the following vote:

AYES:

NOES:

ABSTENTIONS:

ABSENT:

IN WITNESS WHEREOF, I have executed this certificate and affixed the seal of the Board of Directors of the California Housing Finance Agency hereto this 12th day of September, 2007.

[SEAL]

_____
Thomas C. Hughes
Secretary of the Board of Directors of the
California Housing Finance Agency

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SECRETARY'S CERTIFICATE

I, Thomas C. Hughes, Secretary of the Board of Directors of the California Housing Finance Agency, hereby certify that the foregoing is a full, true, and correct copy of the Resolution No. 07-28 duly adopted at a regular meeting of the Board of Directors of the California Housing Finance Agency duly called and held on the 12th day of September, 2007, of which meeting all said directors had due notice; and that at said meeting said resolution was adopted by the following vote:

AYES:

NOES:

ABSTENTIONS:

ABSENT:

I further certify that I have carefully compared the foregoing copy with the original minutes of said meeting on file and of record in my office; that said copy is a full, true, and correct copy of the original resolution adopted at said meeting and entered in said minutes; and that said resolution has not been amended, modified, or rescinded in any manner since the date of its adoption, and the same is now in full force and effect.

IN WITNESS WHEREOF, I have executed this certificate and affixed the seal of the Board of Directors of the California Housing Finance Agency hereto this ____ day of _____, _____.

[SEAL]

_____
Thomas C. Hughes
Secretary of the Board of Directors of the
California Housing Finance Agency

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# REPORTS

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**State of California**

# M E M O R A N D U M

**To:** Board of Directors Date: August 28, 2007

Bruce D. Gilbertson, Director of Financing
**From**: **CALIFORNIA HOUSING FINANCE AGENCY**

**Subject:** REPORT OF BOND SALE AND INTEREST RATE SWAP AGREEMENTS MULTIFAMILY HOUSING REVENUE BONDS III, 2007 SERIES B

On June 13th we set swap rates for $12,630,000 of $16,630,000 of multifamily variable rate bonds issued on July 12th. The Series B bonds were issued as tax-exempt auction rate bonds. The interest rates for the bonds are reset and interest is paid every 35 days. The Series B bonds are backed by our Aa3/AA- general obligation but are rated Aaa/AAA because of bond insurance provided by Financial Guaranty Insurance Company.

The Series B bonds have been issued to provide funds to finance new loans to four multifamily projects. Attached is a listing of the projects to be financed by the Series B bonds.

As shown in the table below, we have negotiated two interest rate swaps, together in an amount related to the new permanent loans. Consistent with our strategy for previous multifamily transactions, amounts related to acquisition/rehabilitation and construction loans are not being swapped due to the short term of these loans. As with previous transactions, we have chosen to delay the starting date for one swap. Delaying the effective start date enables us to minimize negative investment arbitrage during the period between the issuance of the bonds and the date new loans are funded.

| Amount of Swap | Start Dates | End Dates | Fixed Rates Paid to Counterparties | Floating Rate Index |
|---|---|---|---|---|
| $6,410,000 | 7/12/2007 | 2/1/2022 | 3.937% | 64% of LIBOR + 0.25% |
| $6,220,000 | 8/1/2009 | 2/1/2040 | 4.222% | 64% of LIBOR + 0.25% |

# Projects To Be Financed With The Proceeds of Multifamily Housing Revenue Bonds III 2007 Series B

| Project Name | Loan Type | Loan Amount | Interest Rate | | Actual/Projected Loan Origination Date |
|---|---|---|---|---|---|
| Diamond Aisle | Construction | $ 5,400,000 | variable | | August 28, 2007 |
| | Permanent | 770,000 | 1.00% | (1) | September 1, 2009 |
| Eureka Family | Acq/Rehab | $ 3,375,000 | 5.30% | | August 20, 2007 |
| | Permanent | 940,000 | 5.30% | | April 10, 2008 |
| | Second | 1,150,000 | 5.30% | | August 20, 2007 |
| Las Flores (2) | Lender | $ 300,000 | 3.00% | | June 30, 2005 |
| Parkview Apts. | Acq/Rehab | $ 4,295,000 | variable | | August 11, 2007 |
| | Permanent | 4,520,000 | 5.30% | | August 1, 2009 |
| | Second | 1,885,000 | 5.20% | | August 11, 2007 |

(1) The Agency expects to subsidize the interest rate on the permanent loan to 5.20%. The source of funds for this subsidy is expected to be the Agency's share of McKinney Act savings from certain FAF projects.
(2) This is a lender loan increase.

**State of California**

# M E M O R A N D U M

**To** Board of Directors **Date:** August 22, 2007

Bruce D. Gilbertson, Director of Financing
**From: CALIFORNIA HOUSING FINANCE AGENCY**

**Subject:** REPORT OF BOND SALE AND INTEREST RATE SWAP AGREEMENTS HOME MORTGAGE REVENUE BONDS 2007 SERIES F, 2007 SERIES G AND 2007 SERIES H

On August 8, 2007, the Agency delivered $350,000,000 of bonds (the "Bonds") under the Home Mortgage Revenue Bond Indenture (HMRB) to Merrill Lynch & Co. The Bonds were issued as both tax exempt fixed rate bonds and tax exempt variable rate demand obligations, with liquidity provided by KBC Bank N.V. ("KBC"). The Bonds were issued in three series, HMRB 2007 Series F, HMRB 2007 Series G and HMRB 2007 Series H. The 2007 Series F bonds are insured by FGIC and are rated Aaa/AAA by Moody's and Standard & Poor's respectively. The 2007 Series G and 2007 Series H bonds are not insured. Additional details of the Bonds are outlined in the attached summary.

The Bonds were issued to provide financing for eligible mortgage loans under the Agency's Home Mortgage Purchase Program. The Agency expects that $243 million of the loans purchased with the proceeds will bear interest at a weighted average rate of 5.764% per annum and will be amortized over 30 years, $3 million will bear interest at a weighted average rate of 6.042% and will be amortized over 40 years, $72 million will bear interest at a weighted average rate of 6.267% per annum and will be used to purchase Interest Only Plus (IOP) loans and $24 million of the proceeds will be used to make zeros that will be used in conjunction with the Agency's HMRB taxable issuances or the HMRB recycling program. The Agency expects to be able to provide homes for approximately 1,050 families, with the proceeds.

The Agency entered into two interest rate swap agreements to provide a fixed rate cost of funds for the 2007 Series H bonds. The swaps are structured with declining notional amounts that match the expected amortization of the corresponding variable rate bonds. For both of the swaps the Agency receives a variable rate of interest based on a percentage of one month LIBOR plus a spread. Merrill Lynch was award one of the swaps ($50 million notional) on a negotiated basis and Morgan Stanley was awarded the other swap ($50 million notional) through a competitive bidding process. By competitively bidding swaps on a selective basis the Agency is achieving greater diversification of swap counterparty exposure and better pricing. We estimate the savings in this instance to be approximately $135,000. Additional details of the Swaps are outlined in the attached summary.

## SUMMARY OF THE BONDS

| BOND SERIES | F | G | H |
|---|---|---|---|
| **Par Amount** | $48,260,000. | 201,740,000 | $100,000,000. |
| **Type of Bonds (Tax-exempt)** | FIXED (serial bonds) | Fixed (term bonds) | VRDO |
| **Tax Treatment** | AMT | AMT | AMT |
| **Maturities**<br>$48,260,000, on<br>$201,740,000, on<br>$100,000,000, on | 8/1/2008-8/1/2017 | 8/1/2023, 2/1/2029 & 8/1/2042 | 8/1/2033 & 2/1/2042 |
| **Credit Rating**<br>Moody's<br>S&P | Aaa<br>AAA | Aa2<br>AA- | Aa2/VMIG-1<br>AA-/A-1+ |
| **Interest Rates**<br>**Initial Interest Rate (VRDO)** | 3.80%-4.70% | 4.95%, 5.050% & *5.50% | 3.54% |
| **Liquidity Provider** | N/A | N/A | KBC |
| **Insurance Provider** | FGIC | N/A | NA |
| **Remarketing Agent** | N/A | N/A | Merrill Lynch & Co. |

## SUMMARY OF THE SWAPS

| SERIES | F | G | H |
|---|---|---|---|
| **Notional Amounts**<br>Swap #1<br>Swap #2 | N/A | N/A | $50,000,000.<br>$50,000,000. |
| **Counterparties**<br>Swap #1<br>Swap #2 | N/A | N/A | Merrill Lynch & Co.<br>Morgan Stanley |
| **Effective Dates**<br>Swap #1<br>Swap #2 | N/A | N/A | 8/08/07<br>8/08/07 |
| **Fixed Payor Rates**<br>Swap #1<br>Swap #2 | N/A | N/A | 4.236%<br>4.048% |
| **Floating Rate Basis**<br>Swap #1<br>Swap #2 | N/A | N/A | 62% of Libor + 25bps<br>62% of Libor + 25bps |
| **Reset Frequency**<br>Swap #1<br>Swap #2 | N/A | N/A | Daily<br>Daily |
| **Average Life (yrs)**<br>Swap #1<br>Swap #2 | N/A | N/A | 26.76<br>15.94 |
| **Maturities**<br>Swap #1<br>Swap #2 | N/A | N/A | 2/1/2038<br>2/1/2031 |

The 5.50% coupon relates to the premium term bond maturing on August 1, 2042. The yield to maturity on this bond is 4.40%.

**State of California**

# M E M O R A N D U M

**To:** Board of Directors **Date:** August 28, 2007

Bruce D. Gilbertson, Director of Financing
**From:** **CALIFORNIA HOUSING FINANCE AGENCY**

**Subject:** UPDATE ON VARIABLE RATE BONDS AND INTEREST RATE SWAPS

Over a number of years the Agency has integrated the use of variable rate debt as a primary issuance strategy in providing capital to support its programmatic goals. Most of our interest rate exposure from variable rate debt is hedged in the swap market. This strategy has enabled us to achieve a significantly lower cost of funds and a better match between assets and liabilities.

The following report describes our variable rate bond and interest rate swap positions as well as the related risks associated with this financing strategy. The report is divided into sections as follows:

- Variable Rate Debt Exposure
- Fixed-Payer Interest Rate Swaps
- Basis Risk and Basis Swaps
- Risk of Changes to Tax Law
- Amortization Risk
- Termination Risk
- Types of Variable Rate Debt
- Liquidity Providers
- Bond and Swap Terminology

## VARIABLE RATE DEBT EXPOSURE

This report describes the variable rate bonds and notes of CalHFA and is organized programmatically by indenture as follows: HMRB (Home Mortgage Revenue Bonds--CalHFA's largest single family indenture), MHRB (Multifamily Housing Revenue Bonds III--CalHFA's largest multifamily indenture), HPB (Housing Program Bonds--CalHFA's multipurpose indenture, used to finance a variety of loans including the Agency's downpayment assistance loans), and DDB (Draw Down Bonds used to preserve tax-exempt authority.) The total amount of CalHFA variable rate debt is $5.5 billion, 71% of our $7.7 billion of total indebtedness as of September 1, 2007.

VARIABLE RATE DEBT
*($ in millions)*

| | Tied Directly to Variable Rate Assets | Swapped to Fixed Rate | Not Swapped or Tied to Variable Rate Assets | Total Variable Rate Debt |
|---|---|---|---|---|
| HMRB | $2 | $3,713 | $527 | $4,242 |
| MHRB | 198 | 850 | 49 | 1,097 |
| HPB | 0 | 35 | 76 | 111 |
| DDB | 13 | 0 | 0 | 13 |
| Total | $213 | $4,597 | $652 | $5,463 |

As shown in the table above, our "net" variable rate exposure is $652 million, 8.43% of our indebtedness. The net amount of variable rate bonds is the amount that is neither swapped to fixed rates nor directly backed by complementary variable rate loans or investments The $652 million of net variable rate exposure ($496 million taxable and $156 million tax-exempt) is offset by the Agency's balance sheet and excess swap positions. While our current net exposure is not tied directly to variable rate assets, we have approximately $621 million (six month average balance as of 5/31/07) of other Agency funds invested in the State Treasurer's investment pool (SMIF) earning a variable rate of interest. From a risk management perspective, the $621 million is a balance sheet hedge for the $652 million of net variable rate exposure.

In order to maintain a certain level of confidence that the balance sheet hedge is effective, we have reviewed the historical interest rates earned on investments in the SMIF and LIBOR interest rate resets (most of our unhedged taxable bonds are index floaters that adjust at a spread to LIBOR). Using the data for the last ten years, we determined that there is a high degree of correlation between the two asset classes (SMIF and LIBOR) and that for every $1 invested in SMIF we can potentially hedge $1 of LIBOR-based debt.

The net variable rate exposure is further reduced by two other considerations: 1) as mentioned in the Amortization Risk section of this report, we have $86 million notional amount of interest rate

swaps in excess of the original bonds they were to hedge, and 2) a portion of our unhedged exposure is tax-exempt debt which resets at the theoretical ratio of 65% of Libor. These two considerations serve to reduce the net effective variable rate exposure to the equivalent of $540 million of LIBOR-based debt. As a result, the $621 million of other Agency funds invested in SMIF effectively hedges approximately 115% of our current net variable rate exposure.

In addition, taking unhedged variable rate exposure mitigates the amortization risk without the added cost of purchasing swap optionality. Our unhedged variable rate bonds are callable on any date and allow for bond redemption or loan recycling without the cost of par termination rights or special bond redemption provisions. In addition, taking unhedged variable rate exposure diversifies our interest rate risks by providing benefits when short-term interest rates rise slower than the market consensus. In a liability portfolio that is predominately hedged using long-dated swaps, the unhedged exposure balances the interest rate profile of the Agency's outstanding debt.

**FIXED-PAYER INTEREST RATE SWAPS**

Currently, we have a total of 134 "fixed-payer" swaps with twelve different counterparties for a combined notional amount of $4.7 billion. All of these fixed-payer swaps are intended to establish synthetic fixed rate debt by converting our variable rate payment obligations to fixed rates. These interest rate swaps generate significant debt service savings in comparison to our alternative of issuing fixed-rate bonds. This savings allows us to continue to offer loan products with exceptionally low interest rates to multifamily sponsors and to first-time homebuyers. The table below provides a summary of our notional swap amounts.

FIXED PAYER INTEREST RATE SWAPS
(notional amounts)
*($ in millions)*

| | Tax-Exempt | Taxable | Totals |
|---|---|---|---|
| HMRB | $3,100 | $697 | $3,797 |
| MHRB | 849 | 0 | 849 |
| HPB | 35 | 0 | 35 |
| TOTALS | $3,984 | $697 | $4,681 |

The following table shows the diversification of our fixed payer swaps among the twelve firms acting as our swap counterparties. Note that our swaps with Lehman Brothers, Bear Stearns, and Goldman Sachs are with highly-rated structured subsidiaries that are special purpose vehicles used only for derivative products. We have chosen to use these subsidiaries because the senior credit of those firms is not as strong as that of the other firms. Note also that our most recent swaps with Merrill Lynch are either with their highly-rated structured subsidiary or we are benefiting from the credit of this triple-A structured subsidiary through a guarantee.

SWAP COUNTERPARTIES

| Swap Counterparty | Credit Ratings Moody's | S & P | Fitch | Notional Amounts Swapped ($ in millions) | Number of Swaps |
|---|---|---|---|---|---|
| Merrill Lynch Capital Services Inc. | | | | | |
| Guaranteed by: | | | | | |
| Merrill Lynch & Co. | Aa3 | AA- | AA- | $ 665.9 | 18 |
| MLDP, AG | Aaa | AAA | AAA | 283.3 | 12 |
| Merrill Lynch Derivative Products, AG | Aaa | AAA | AAA | 340.7 | 15 |
| Bear Stearns Financial Products Inc. | Aaa | AAA | NR | 805.3 | 14 |
| | | | | 295.5 * | 8 * |
| Citigroup Financial Products Inc. | Aa1 | AA | AA+ | 721.0 | 20 |
| Lehman Brothers Derivative Products Inc. | Aaa | AAA[t] | NR | 500.4 | 21 |
| Goldman Sachs Mitsui Marine Derivative Products, L.P. | Aaa | AAA | NR | 344.2 | 7 |
| | | | | 318.7 * | 5 * |
| AIG Financial Products Corp. | Aa2 | AA | AA | 317.3 | 9 |
| JP Morgan Chase Bank | Aaa | AA | AA- | 213.0 | 7 |
| Bank of America, N.A. | Aaa | AA+ | AA+ | 208.8 | 5 |
| Morgan Stanley Capital Services Inc | Aa3 | A+ | AA- | 136.7 | 2 |
| BNP Paribas | Aa1 | AA | AA | 89.1 | 2 |
| UBS AG | Aa3 | AA+ | AA+ | 55.8 | 2 |
| | | | | $4,681.5 | 134 |

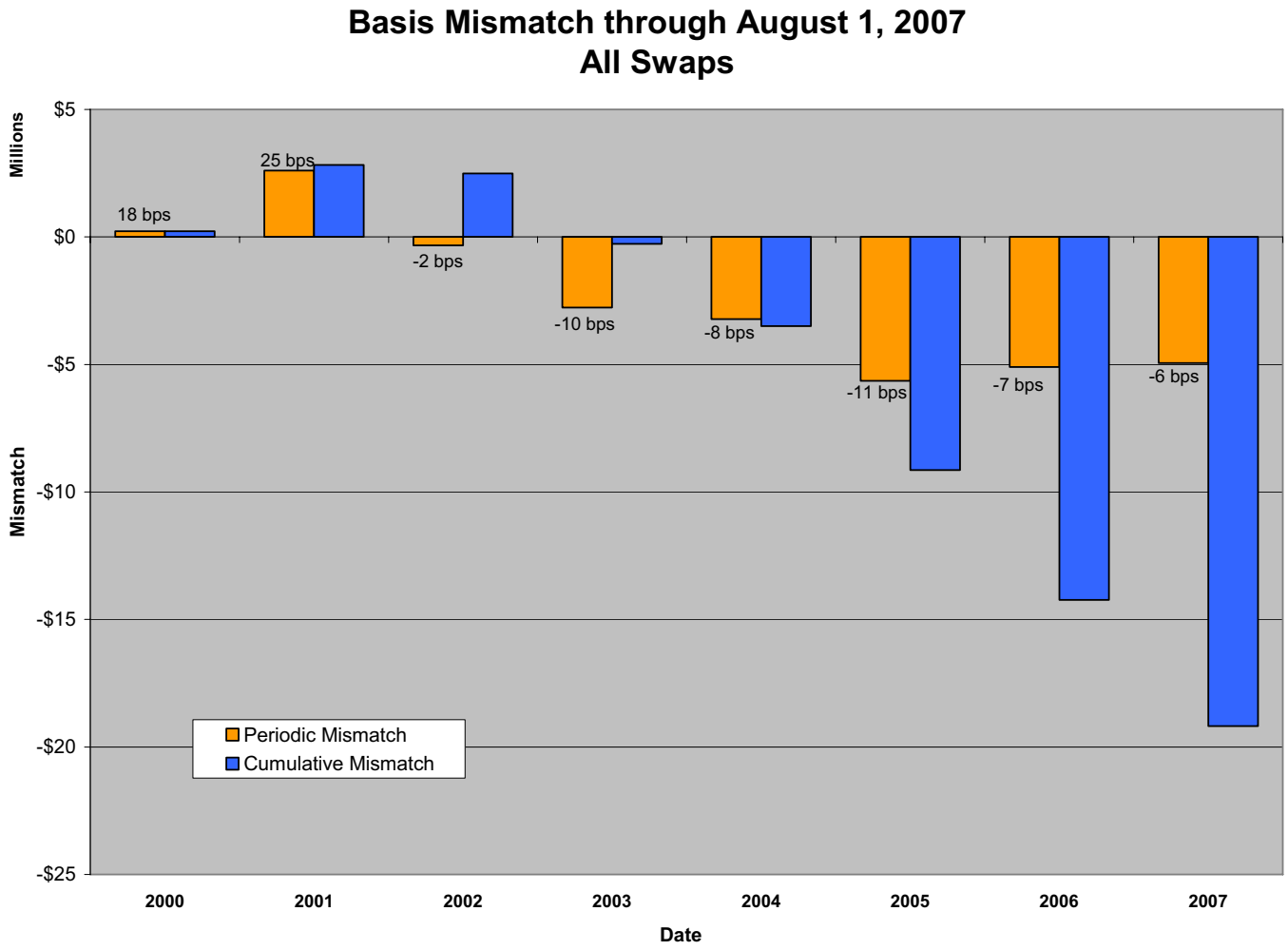
* *Basis Swaps (not included in totals)*

With interest rate swaps, the "notional amount" (equal to the principal amount of the swapped bonds) itself is not at risk. Instead, the risk is that a counterparty would default and, because of market changes, the terms of the original swap could not be replicated without additional cost.

For all of our fixed-payer swaps, we receive floating rate payments from our counterparties in exchange for a fixed-rate obligation on our part. In today's market, the net periodic payment owed under these swap agreements is from us to our counterparties. As an example, on our August 1, 2007 semiannual debt service payment date we made a total of $10.7 million of net payments to our counterparties. Conversely, if short-term rates were to rise above the fixed rates of our swap agreements, then the net payment would run in the opposite direction, and we would be on the receiving end.

## BASIS RISK AND BASIS SWAPS

Almost all of our swaps contain an element of what is referred to as "basis risk" – the risk that the floating rate component of the swap will not match the floating rate of the underlying bonds. This risk arises because our swap floating rates are based on indexes, which consist of market-wide averages, while our bond floating rates are specific to our individual bond issues. The only exception is where our taxable floating rate bonds are index-based, as is the case of the taxable floaters we have sold to the Federal Home Loan Banks. The chart below is a depiction of the basis mismatch that we have encountered since 2000 when we entered the swap market.




As the chart shows, the relationship between the two floating rates changes as market conditions change. Some periodic divergence was expected when we entered into the swaps. Over the lifetime of our swaps we have experienced nearly $18 million of additional interest expense due to this basis mismatch. However, we have since mitigated much of this risk by changing our swap formula in 2005, as explained below. The result of these changes has decreased the periodic mismatch from a high of 11 basis points in 2005 to 6 basis points in 2007.

In the past we entered into swaps at a ratio of 65% of LIBOR, the London Inter-Bank Offered Rate which is the index used to benchmark taxable floating rate debt. These percentage-of-LIBOR swaps have afforded us with excellent liquidity and great savings when the average SIFMA/LIBOR ratio was steady at 65%. As short-term rates fell to historic lows and with an increased market supply of tax-exempt variable rate bonds, the historic relationship between tax-exempt and taxable rates was not maintained. For example, the average SIFMA/LIBOR ratio was 84.3% in 2003, 81.5% in 2004, and 72.5% in 2005. Now that short-term rates have risen significantly, the ratio has begun to fall. In 2006, it averaged 67.7%, and the average for 2007 to date is 68.6%. The SIFMA (Securities Industry and Financial Markets Association) index is the index used to benchmark tax-exempt variable rates.

When the SIFMA/LIBOR ratio is very high the swap payment we receive falls short of our bond payment, and the all-in rate we experience is somewhat higher. The converse is true when the percentage is low. In response, we and our advisors looked for a better formula than a flat 65% of LIBOR. After considerable study of California tax-exempt variable rate history, we revised the formula in December of 2002 to 60% of LIBOR plus 0.26% which resulted in comparable fixed-rate economics but performed better when short-term rates were low and the SIFMA/LIBOR percentage was high. We have since amassed approximately $2.1 billion of LIBOR-based swaps using this revised formula. In December 2005 we looked at the formula again and after completing a statistical analysis of CalHFA variable rate bonds as compared to the SIFMA and LIBOR indexes and taking into consideration the changing market conditions, we've decided to utilize several different swap formulas for our different types of bonds: 64% of LIBOR plus 0.25% for AMT weekly resets; 62% of LIBOR plus 0.25% for AMT daily resets; 64% of LIBOR plus 0.17% for Non-AMT weekly resets; and 62% of LIBOR plus 0.17% for Non-AMT daily resets. We expect to use these new formulas for new swap transactions and we will continue to monitor the SIFMA/LIBOR relationship and the performance of the new swap formulas.

In addition, we currently have basis swaps for $614 million of the older 65% of LIBOR swaps. The basis swaps provide us with better economics in low-rate environments by exchanging the 65% of LIBOR formula for alternative formulas that alleviate the effects of high SIFMA/LIBOR ratios. The table on the next page shows the diversification of variable rate formulas used for determining the payments received from our interest rate swap counterparties.

BASIS FOR VARIABLE RATE PAYMENTS
RECEIVED FROM SWAP COUNTERPARTIES
(notional amounts)
*($ in millions)*

| | Tax-Exempt | Taxable | Totals |
|---|---|---|---|
| 60% of LIBOR + 26bps | $1,879 | $0 | $1,879 |
| 62% of LIBOR + 25bps | 570 | 0 | 570 |
| 3 mo. LIBOR + spread | 0 | 442 | 442 |
| SIFMA – 15bps | 435 | 0 | 435 |
| Enhanced LIBOR [1] | 319 | 0 | 319 |
| Stepped % of LIBOR [2] | 295 | 0 | 295 |
| 65% of LIBOR | 275 | 0 | 275 |
| 1 mo. LIBOR | 0 | 206 | 206 |
| 97% of SIFMA | 77 | 0 | 77 |
| SIFMA – 20bps | 60 | 0 | 60 |
| 6 mo. LIBOR | 0 | 48 | 48 |
| 60% of LIBOR + 21bps | 35 | 0 | 35 |
| 64$ of LIBOR | 27 | 0 | 27 |
| 64% of LIBOR + 25bps | 13 | 0 | 13 |
| TOTALS | $3.985 | $696 | $4,681 |

[1] Enhanced LIBOR – This formula is 50.6% of LIBOR plus 0.494% with the proviso that the end result can never be lower than 61.5% of LIBOR nor greater than 100% of LIBOR.

[2] Stepped % of LIBOR – This formula has seven incremental steps where at the low end of the spectrum the swap counterparty would pay us 85% of LIBOR if rates should fall below 1.25% and at the high end, they would pay 60% of LIBOR if rates are greater than 6.75%.

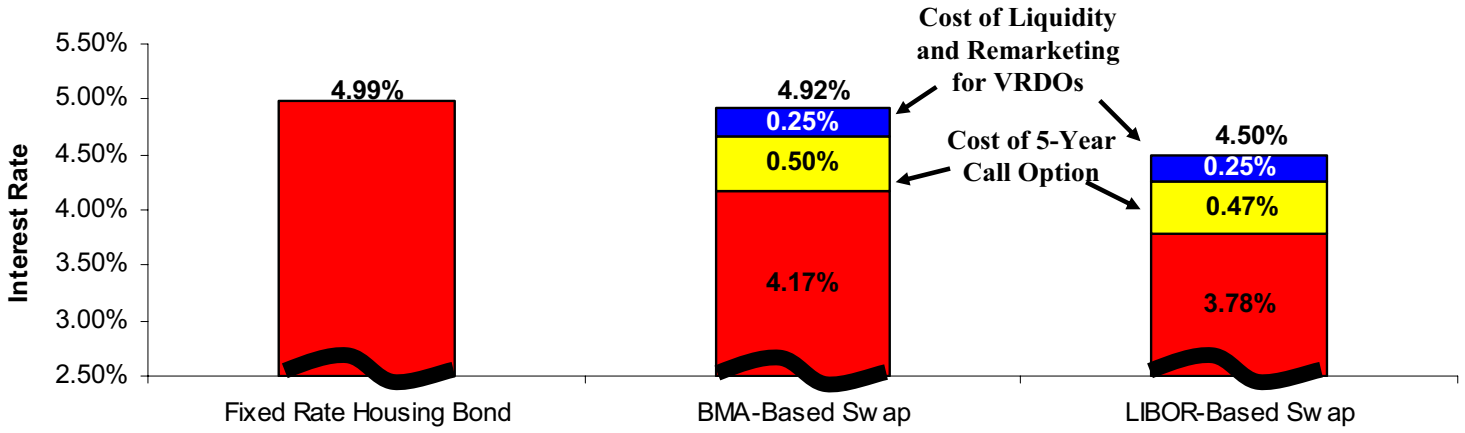
## RISK OF CHANGES TO TAX LAW

For an estimated $3.4 billion of the $4 billion of tax-exempt bonds swapped to a fixed rate, we remain exposed to certain tax-related risks, another form of basis risk. In return for significantly higher savings, we have chosen through these interest rate swaps to retain exposure to the risk of changes in tax laws that would lessen the advantage of tax-exempt bonds in comparison to taxable securities. In these cases, if a tax law change were to result in tax-exempt rates being more comparable to taxable rates, the swap provider's payment to us would be less than the rate we would be paying on our bonds, again resulting in our all-in rate being higher.

We bear this same risk for $277 million of our tax-exempt variable rate bonds which we have not swapped to a fixed rate. Together, these two categories of variable rate bonds total $3.6 billion, 47.5% of our $7.7 billion of bonds outstanding. This risk of tax law changes is the same risk that investors take when they purchase our fixed-rate tax-exempt bonds.

The following bar chart shows the current benefit of our ability to assume the risk of changes to tax laws. Over the last several years this benefit (the difference between the cost of fixed rate housing bonds and the cost of a LIBOR based interest rate swap financing) has been as great as 100 basis points, and was the engine that made our interest rate swap strategy effective. In today's market this benefit is 49 basis points. This reduced benefit has led to recent decisions to issue fixed rate housing bonds for our homeownership programs. As market conditions change we will alter our financing strategies to obtain the lowest cost of borrowing while balancing the associated risks and benefits of alternative structures.

Costs of Funds for Fixed-Rate Bonds and Synthetic Fixed-Rate Bonds
(Variable Rate Bonds Swapped to Fixed)
(All Rates as of August 21, 2007)




SIFMA-Based Swap: SIFMA Index x 101%
LIBOR-Based Swap: 64% LIBOR + 25 bps

**AMORTIZATION RISK**

Our bonds are generally paid down (redeemed or paid at maturity) as our loans are prepaid. Our interest rate swaps amortize over their lives based on assumptions about the receipt of prepayments, and the single family transactions which include swapped bonds have generally been designed to accommodate prepayment rates between two and three times the "normal" rate. In other words, our interest rate swaps generally have had fixed amortization schedules that can be met under what we have believed were sufficiently wide ranges of prepayment speeds. Unfortunately, when market rates fell to unprecedented levels, we started receiving more prepayments than we ever expected.

Since January 1, 2002, we have received over $6 billion of prepayments, including over $1.4 billion in 2004, $1.1 billion in calendar year 2005 and $504 million in 2006. Of this amount, approximately $2.03 billion is "excess" to swapped transactions we entered into. We have since recycled $1.94 billion of the $2.03 billion excess into new loans and have used $166 million to cross-call high interest rate bonds.

While these persistent high levels of prepayments have eased, we have modified the structuring of new swaps by widening the band of expected prepayments. In addition, with the introduction of our interest only loan product we are structuring swap amortization schedules and acquiring swap par termination rights to coincide with the loan characteristics and expectations of borrower prepayment.

Also of interest is a $86 million forced overswap mismatch between the notional amount of certain of our swaps and the outstanding amount of the related bonds. This mismatch has occurred as a result of the interplay between our phenomenally high incidence of prepayments and the "10-year rule" of federal tax law. Under this rule, prepayments received 10 or more years beyond the date of the original issuance of bonds cannot be recycled into new loans and must be used to redeem tax-exempt bonds. In the case of these recent bond issues, a portion of the authority to issue them on a tax-exempt basis was related to older bonds.

While this mismatch has occurred (and will show up in the tables of this report), the small semiannual cost of the mismatch will be more than offset by the large interest cost savings from our "net" variable rate debt. In other words, while some of our bonds are "over-swapped", there are significantly more than enough unswapped variable rate bonds to compensate for the mismatch. In addition, we will monitor the termination value of our "excess swap" position looking for opportunities to unwind these positions when market terminations would be at no cost or a positive value to us.

There are several strategies for dealing with excess prepayments: they may be reinvested, used for the redemption of other (unswapped) bonds, or recycled directly into new loans. Alternatively, we could make termination payments to our counterparties to reduce the notional amounts of the swaps, but this alternative appears to be the least attractive economically.

In consultation with our financial advisors, we have determined that the best long-term strategy is to recycle the excess prepayments into new CalHFA loans. Of course, for some financings this means that we will be bearing the economic consequences of replacing old 7% to 8% loans that have paid off with new loans at rates that will be current at the time we recycle. With our May 1, 2007 transfer of loans from our warehouse line we have recycled a total of $1.94 billion of excess prepayments since March 1999. This practice has resulted in reduced issuance activity over the last few years.

In addition we have begun a widespread strategy of reusing unrestricted loan prepayments to purchase new loans. We currently have more than $3 billion of swap notional having a fixed payer rate below the estimated net weighted average interest rate of 6.10% for new loans being reserved. In today's market, this tremendous recycling opportunity reduces transaction costs related to new issuance and preserves for future use our swap par termination rights.

## TERMINATION RISK

Termination risk is the risk that, for some reason, our interest rate swaps must be terminated prior to their scheduled maturity. Our swaps have a market value that is determined based on current interest rates. When current fixed rates are higher than the fixed rate of the swap, our swaps have a positive value to us (assuming, as is the case on all of our swaps today, that we are the payer of the fixed swap rate), and termination would result in a payment from the provider of the swap (our swap "counterparty") to us. Conversely, when current fixed rates are lower than the fixed rate of the swap, our swaps have a negative value to us, and termination would result in a payment from us to our counterparty.

Our swap documents allow for a number of termination "events", i.e., circumstances under which our swaps may be terminated early, or (to use the industry phrase) "unwound". One circumstance that would cause termination would be a payment default on the part of either counterparty. Another circumstance would be a sharp drop in either counterparty's credit ratings and, with it, an inability (or failure) of the troubled counterparty to post sufficient collateral to offset its credit problem. It should be noted that, if termination is required under the swap documents, the market determines the amount of the termination payment and who owes it to whom. Depending on the market, it may be that the party who has caused the termination is owed the termination payment.

As part of our strategy for protecting the agency when we entered the swap market in late 1999, we determined to choose only highly-creditworthy counterparties and to negotiate "asymmetrical" credit requirements in all of our swaps. These asymmetrical provisions impose higher credit standards on our counterparties than on the agency. For example, our counterparties may be required to collateralize their exposure to us when their credit ratings fall from double-A to the highest single-A category (A1/A+), whereas we need not collateralize until our ratings fall to the mid-single-A category (A2/A).

Monthly we monitor the termination value of our swap portfolio as it grows and as interest rates change. Because termination is an unlikely event, the fact that our swap portfolio has a negative value, while interesting, is not necessarily a matter of direct concern. We have no plans to terminate swaps early (except in cases where the swap notional is excess to the bonds being hedged or we negotiated "par" terminations when we entered into the swaps) and do not expect that credit events triggering termination will occur, either to us or to our counterparties.

Currently, the Government Accounting Standards Board only requires that our balance sheet and income statement be adjusted for the market value of our swaps in excess of the bonds being hedged. However, it does require that the market value be disclosed for all of our swaps in the notes to our financial statements.

The table below shows the history of the fluctuating negative value of our swap portfolio for the past year.

TERMINATION VALUE HISTORY

| Date | Termination Value ($ in millions) |
|---|---|
| 8/31/06 | ($112.9) |
| 9/30/06 | ($130.8) |
| 10/31/06 | ($141.0) |
| 11/30/06 | ($174.8) |
| 12/31/06 | ($132.7) |
| 1/31/07 | ($113.8) |
| 2/28/07 | ($155.7) |
| 3/31/07 | ($137.7) |
| 4/30/07 | ($129.3) |
| 5/31/07 | ($83.2) |
| 6/30/07 | ($40.4) |
| 7/31/07 | ($64.4) |

It should be noted that during this period, the notional amount of our fixed-payer swaps has been increasing. When viewing the termination value, one should consider both the change in market conditions and the increasing notional amount.

## TYPES OF VARIABLE RATE DEBT

The table below shows our variable rate debt sorted by type, i.e., whether auction rate, indexed rate, or variable rate demand obligations (VRDOs). Auction and indexed rate securities cannot be "put" back to us by investors; hence they typically bear higher rates of interest than do "putable" bonds such as VRDOs.

**TYPES OF VARIABLE RATE DEBT**
*($ in millions)*

| | Auction Rate & Similar Securities | Indexed Rate Bonds | Variable Rate Demand Obligations | Total Variable Rate Debt |
|---|---|---|---|---|
| HMRB | $156 | $959 | $3,127 | $4,242 |
| MHRB | 392 | 0 | 705 | 1,097 |
| HPB | 0 | 0 | 111 | 111 |
| DDB | 0 | 13 | 0 | 13 |
| Total | $548 | $972 | $3,943 | $5,463 |

## LIQUIDITY PROVIDERS

The table below shows the financial institutions providing liquidity in the form of standby bond purchase agreements for our VRDOs. Under these agreements, if our variable rate bonds are put back to our remarketing agents and cannot be remarketed, these institutions are obligated to buy the bonds.

LIQUIDITY PROVIDERS
(*$ in millions)*

| Financial Institution | $ Amount of Bonds | Indenture |
|---|---|---|
| Dexia Credit Local | $8126 | HMRB |
| Lloyds TSB | 436.7 | HMRB |
| Fannie Mae | 376.2 | HMRB/MHRB |
| BNP Paribas | 264.6 | HMRB |
| Bank of Nova Scotia | 211.9 | HMRB |
| DEPFA Bank | 210.5 | MHRB |
| KBC | 204.0 | HMRB |
| Calyon | 174.5 | HMRB |
| Bank of America | 164.9 | HMRB |
| JP Morgan Chase Bank | 156.5 | HMRB |
| Bayerische Landesbank | 153.9 | HMRB |
| Landesbank Hessen-Thuringen | 151.0 | MHRB |
| Westdeutsche Landesbank | 149.4 | HMRB/MHRB |
| Fortis | 120.0 | HMRB |
| State Street Bank | 91.4 | HMRB |
| Bank of New York | 86.9 | HMRB |
| CalSTRS | 66.8 | HMRB/MHRB |
| LBBW | 61.1 | HPB |
| Citibank N.A. | 50.0 | HPB |
| Total | $3.942.9 | |

Unlike our interest rate swap agreements, our liquidity agreements do not run for the life of the related bonds. Instead, they are seldom offered for terms in excess of five years, and a portion of our agreements require annual renewal. We expect all renewals to take place as a matter of course; however, changes in credit ratings or pricing may result in substitutions of one bank for another from time to time.

## BOND AND SWAP TERMINOLOGY

**COUNTERPARTY**
One of the participants in an interest rate swap

**DATED DATE**
Date from which first interest payment is calculated.

**DELAYED START SWAP**
A swap which delays the commencement of the exchange of interest rate payments until a later date.

**DELIVERY DATE, OR ISSUANCE DATE**
Date that bonds are actually delivered to the underwriters in exchange for the bond proceeds.

**GENERAL OBLIGATION BOND**
A type of security which is evidence of a debt secured by all revenues and assets of an organization.

**INDENTURE**
The legal instrument that describes the bonds and the pledge of assets and revenues to investors. The indenture often consists of a general indenture plus separate series indentures describing each issuance of bonds.

**INTEREST RATE CAP**
A financial instrument which pays the holder when market rates exceed the cap rate. The holder is paid the difference in rate between the cap rate and the market rate. Used to limit the interest rate exposure on variable rate debt.

**INTEREST RATE SWAP**
An exchange between two parties of interest rate exposures from floating to fixed rate or vice versa. A fixed-payer swap converts floating rate exposure to a fixed rate.

**LIBOR**
London Interbank Offered Rate. The interest rate highly rated international banks charge each other for borrowing U.S. dollars outside of the U.S. Taxable swaps often use LIBOR as a rate reference index. LIBOR swaps associated with tax-exempt bonds will use a percentage of LIBOR as a proxy for tax-exempt rates.

**MARK-TO-MARKET**
Valuation of securities or swaps to reflect the market values as of a certain date. Represents liquidation or termination value.

**MATURITY**
Date on which the principal amount of a bond is scheduled to be repaid.

**NOTIONAL AMOUNT**
The principal amount on which the exchanged swap interest payments are based.

**OFFICIAL STATEMENT**
The "prospectus" or disclosure document describing the bonds being offered to investors and the assets securing the bonds.

**PRICING DATE**

Date on which issuer agrees (orally) to sell the bonds to the underwriters at certain rates and terms.

**REDEMPTION**

Early repayment of the principal amount of the bond. Types of redemption: "special", "optional", and "sinking fund installment".

**REFUNDING**

Use of the proceeds of one bond issue to pay for the redemption or maturity of principal of another bond issue.

**REVENUE BOND (OR SPECIAL OBLIGATION BOND) (OR LIMITED OBLIGATION BOND)**

A type of security which is evidence of a debt secured by revenues from certain assets (loans) pledged to the payment of the debt.

**SIFMA INDEX**

Securities Industry and Financial Markets Association Municipal Swap Index. A weekly index of short-term tax-exempt rates.

**SALE DATE**

Date on which purchase contract is executed evidencing the oral agreement made on the pricing date.

**SERIAL BOND**

A bond with its entire principal amount due on a certain date, without scheduled sinking fund installment redemptions. Usually serial bonds are sold for any principal amounts to be repaid in early (10 or 15) years.

**SERIES OF BONDS**

An issuance of bonds under a general indenture with similar characteristics, such as delivery date or tax treatment. Example: "Name of Bonds", 1993 Series A. Each series of Bonds has its own series indenture.

**SWAP CALL OPTION**

The right (but not the obligation) to terminate a predetermined amount of swap notional amount, occurring or starting at a specific future date.

**SYNTHETIC FIXED RATE DEBT**

Converting variable rate debt into a fixed rate obligation through the use of fixed-payer interest rate swaps.

**SYNTHETIC FLOATING RATE DEBT**

Converting fixed rate debt into a floating rate obligation through the use of fixed-receiver interest rate swaps.

**TERM BOND**

A bond with a stated maturity, but which may be subject to redemption from sinking fund installments. Usually of longer maturity than serial bonds.

**VARIABLE RATE BOND**

A bond with periodic resets in its interest rate. Opposite of fixed rate bond.

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State of California

# M E M O R A N D U M

To: Terri Parker, Executive Director
Steve Spears, Chief Deputy Director
Chuck McManus, Director, Mortgage Insurance
Jerry Smart, Homeownership Housing Finance Chief
Laura Whittall-Scherfee, Multifamily Programs Housing Finance Chief
Edwin Gipson, Multifamily Programs Housing Finance Chief
Doug Smoot, Housing Finance Chief (Rental)

Date: July 13, 2007

From: Ken Giebel, Director of Marketing
CALIFORNIA HOUSING FINANCE AGENCY

Subject: 2006-07 CalHFA MEDIA RECAP REPORT

Attached please find the CalHFA media recap report for FY2006/07. As you will see we earned nearly $517,000 in free media and reached more than 14.3 million Californians (see attached report details). The dollar value and reach numbers are down from the previous two years, but the number of print stories is up considerably. The reason for the declines is that we didn't introduce any new Homeownership products as was the case the previous two years. The 2006/07 return on investment is 10 to 1 (e.g. what we pay Halldin in Association vs. what we receive in free media coverage).

Please let me know if you have any questions.

cc: Evan Gerberding, Assistant Director of Marketing
Todd Harnett, Alcone Marketing

# 2006-2007 Media Report for CalHFA

## Summary:

In the fiscal year, the California Housing Finance Agency's public relations efforts provided widespread exposure for the agency and its programs throughout California media. More than 375 stories appeared in daily, weekly and monthly newspapers, on television and radio, in trade publications, on online news sites and in blogs

During this period, CalHFA was featured every major print media outlet in the state, five television stories and numerous radio and trade outlets.

Together, these media placements **reached more than 14.3 million people** and delivered to CalHFA an **earned media value of nearly $517,000**.

## Awards & Honors:

An opinion piece about Proposition 46's impact on California's affordable housing won a CAPPIE award (presented by the Sacramento Public Relations Association) for Best Opinion/Editorial Writing. Also, CalHFA's website was a finalist for a 2006 Dottie Award.

## Highlights of CalHFA Media Coverage:

### *Television*

In 2006-2007, CalHFA was a part of five TV stories, including three Spanish language segments, in three different markets:

- Los Angeles
- Sacramento-Stockton-Modesto
- Fresno

### *Print*

In 2006-2007, CalHFA was featured or mentioned in more than 163 stories in newspapers, including the ***Los Angeles Times, San Francisco Chronicle, San Jose Mercury News, Sacramento Bee, Orange County Register, Contra Costa Times, Los Angeles Daily News, San Diego Union Tribune, Modesto Bee, Fresno Bee*** and ***Oakland Tribune.***

CalHFA was also featured in numerous trade publications, including three stories in ***California Real Estate Magazine, Mortgage Banking News, Affordable Housing Finance*** and ***Multi-Housing News***.

***Radio***

In addition to numerous radio mentions throughout the year, CalHFA was the focus of complete radio programs in Sacramento (KFBK's "The Real Estate Show with Terry Knight") and San Diego (KOGO's "Money in the Morning). CalHFA interviews were also featured on KGO-AM (San Francisco) and KNX's "Money 101" (Los Angeles).

***Latino Outreach***

Latino outreach resulted in the placement of six significant stories in Spanish-language newspapers, including three pieces in ***La Opinion***, the state's largest daily Spanish-language publication, with a circulation of nearly 125,000. Other markets reached by Latino print media are Bakersfield, San Diego and Santa Clara County. CalHFA was featured in interviews on two Spanish television stations, KUVS in Sacramento and KFTV in Fresno. A CalHFA representative was the guest on KGST, Spanish radio in San Jose. Also, an opinion piece by Theresa Parker ran in the Merced County Hispanic Chamber of Commerce newsletter.

**Community Forum**

A new facet of our outreach this year included a Community Forum targeted at – but not limited to – the Latino community of Sacramento. We reached out to a wide range of stakeholders, from community leaders and decision makers, to social service organizations and real estate professionals. The goal was to spread the word about all of CalHFA's options for homeownership. The April event in Sacramento was a first, but we will incorporate similar events throughout the state into next year's plan.

**Going Forward**

For the last three years, we have heavily marketed new homeownership products from CalHFA to the general media market. We will continue to market CalHFA's downpayment assistance programs with an emphaisis on ECTP and School Facility Fee as part of our complete plan to continually educate the media, leveraging any significant developments, key milestones or events. In addition, we plan to increase outreach to emerging markets print and broadcast media that serve the Latino and African-American markets to assist CalHFA in increasing awareness of products in those markets.

**CalHFA Media Report**
**Fiscal Year 2006 - 2007**
**Summary**

| | Circulation | $$ Value |
|---|---|---|
| Jul-06 | 702,920 | $29,380.40 |
| Aug-06 | 1,656,346 | $65,079.02 |
| Sep-06 | 952,736 | $22,188.78 |
| Oct-06 | 890,041 | $35,169.72 |
| Nov-06 | 2,121,192 | $51,646.50 |
| Dec-06 | 663,863 | $12,370.48 |
| Jan-07 | 590,087 | $22,344.73 |
| Feb-07 | 1,623,659 | $122,799.24 |
| Mar-07 | 2,142,580 | $95,204.12 |
| Apr-07 | 967,595 | $17,660.80 |
| May-07 | 621,004 | $12,121.15 |
| Jun-07 | 1,403,093 | $30,945.89 |
| Totals | 14,335,116 | $516,910.83 |

# Three Year Comparison for CalHFA Media Outreach

In the past three fiscal years, the California Housing Finance Agency's public relations efforts provided widespread exposure for the agency and its programs throughout California media.

The decrease in television segments is largely attributed to CalHFA not introducing a new product this fiscal year.

| | **2004 – 2005** | **2005 – 2006** | **2006 – 2007** |
|---|---|---|---|
| **People Reached** | 17 million | 19.7 million | 14.3 million |
| **Media Value** | $525,000 | $583,000 | $517,000 |
| **Total Stories*** | 287 | 242 | 375 |
| • *Print* | 158 | 150 | 185 |
| • *Television* | 30 | 19 | 5 |

* Total stories includes online stories and notable radio

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**State of California**

# M E M O R A N D U M

**To:** **CalHFA Board of Directors** **Date:** 27 August 2007

**From:** **Di Richardson, Director of Legislation**
**CALIFORNIA HOUSING FINANCE AGENCY**

**Subject:** Legislative Report

Not a lot has changed since last month. The Legislature is back from its Spring Recess, and a Budget has been signed. Hearings are back underway. Bills must be to the Floor by August 31, and the Legislature will have two more weeks (until September 14) to finish their business this legislative year. As always, if you have any questions, please feel free to contact me at 916.324.0801.

## CalHFA Sponsored

**AB 929 (Runner, Sharon) - California Housing Finance Agency: bonds**
**Last Amend:** 04/09/2007
**Status:** Passed Assembly 3 May 2007 (70-0); passed Senate Transportation and Housing Committee 19 June 2007 (9-1); passed Senate Appropriations 2 July 2007 (11-0); pending on the Senate Floor.

> **Summary:** This bill would increase the amount of debt CalHFA may have outstanding by $2 billion (from $11.15 billion to $13.15 billion).

## Bonds

**AB 927 (Saldana) - Multifamily Housing Program**
**Last Amend:** 06/26/2007
**Status:** Pending on the Senate Floor.

> **Summary:** This bill would require, effective January 1, 2008, that a portion of the assistance provided to a project under the Multifamily Housing Program to be expended for senior rental housing developments in the same proportion as the number of lower income elderly renter households in the state bears to the total number of lower income renter households in the state, as reported by the federal Department of Housing and Urban Development on the basis of the most recent decennial census conducted by the United States Census Bureau.

**AB 1053 (Nunez) - Housing and Emergency Shelter Trust Fund Act of 2006**

**Last Amend:** 7/17/2007
**Status:** Pending in Senate Appropriations Committee

**Summary:** This bill would divide the Regional Planning, Housing, and Infill Incentive Account ($850 million) from Proposition 46 as follows:

- $100 million to CalReUse, for Brownfield clean up that promotes infill housing development. The Center for Creative Land Recycling has administered this program statewide.
- $550 million to HCD for competitive grants to cities for infrastructure directly related or integral to mixed income infill housing.
- $100 million to MHP for the rehabilitation or construction of infill rental housing with a priority given to severely distressed public housing units.
- $100 million to HCD for the Workforce Housing Rewards Program to provide funds to local agencies that issue building permits for a housing development that conforms to certain residential and location requirements and includes elements likely to achieve a reduction in greenhouse gas emissions.

**AB 1091 (Bass) - Transit-Oriented Development Implementation Program**
**Last Amend:** 7/17/2007
**Status:** Pending in Senate Appropriations Committee.

**Summary:** Proposition 46 allocated $300 million to the Transit Oriented Development Account, administered by HCD. This bill would substantially revise the housing requirements for grants for the provision of infrastructure necessary to support a higher density development project within close proximity to a transit station. This bill would authorize the department to grant financial assistance, to local governments, redevelopment agencies, and transit agencies for providing the infrastructure necessary for the development of higher density uses, including residential uses, within 1/2 mile of the entrance to a transit station.

**AB 1252 (Caballero) - Housing Urban-Suburban-and-Rural Parks Account**
**Last Amend:** 7/17/2007
**Status:** Pending in Senate Appropriations Committee.

**Summary:** This bill would create the Housing-Related Parks Program within the HCD, using funds allocated, upon appropriation by the Legislature, from the Housing Urban-Suburban-and-Rural Parks Account within Prop 1C, to provide grants to cities and counties for the creation or rehabilitation of parks in conjunction with eligible housing projects. This bill would have originally allocated those funds the Department of Parks and Recreation, but the author agreed to take amendments proposed by the Administration that instead placed administration of those funds with HCD.

**AB 1460 (Saldana) - Multifamily Housing Program: project prioritization**
**Last Amend:** 7/18/2007
**Status:** Pending on the Senate Floor.

**Summary:** This bill would require the Department of Housing and Community Development to, with regard to the Multifamily Housing Program, award reasonable priority points for projects to prioritize sustainable building methods established in accordance with certain criteria listed under state regulations relating to federal and state low-income housing tax credits.

**SB 46 (Perata) - Housing and Emergency Shelter Trust Fund Act of 2006: Regional Planning, Housing, and Infill Incentive Account**
**Last Amend:** 7/16/2007
**Status:** Pending in Assembly Appropriations.

**Summary:** This bill would require the Department of Housing and Community Development, upon appropriation by the Legislature of the funds in the Regional Planning, Housing, and Infill Incentive Account ($850 million), to establish and administer a competitive grant program to allocate those funds to selected qualifying infill projects for capital outlay related to infill housing development and related infill infrastructure needs, in amounts of not less than an unspecified amount and not more than an unspecified amount per project per annual funding cycle. Simply put, this bill would establish the process to distribute funds from the $850 million Regional Planning, Housing and Infill Incentive Account contained in Proposition 1C, and is intended to provide incentives for efficient land-use policy that rejects sprawl in favor of urban infill development.

**SB 86 (Committee on Budget and Fiscal Review) - State government.**
**Last Amend:** 07/19/2007
**Status:** Signed by the Governor. Chapter 179, Statutes of 2007.

**Summary:** This is a "budget trailer bill" and contains several programmatic changes needed to implement the current budget. This bill currently contains language needed to implement the Regional Planning, Housing, and Infill Incentive Account ($850 million). This bill will likely contain a compromise between, and move in place of SB 46 and AB 1053.

**SB 546 (Ducheny) - Department of Housing and Community Development: bond fund expenditures: report**
**Last Amend:** 06/25/2007
**Status:** Pending Assembly Appropriations Suspense File.

**Summary:** This bill would require that cumulative information on programs funded under the Housing and Emergency Shelter Trust Fund Acts of 2002 and 2006 be included in the Department of Housing and Community Development's annual report.

**SB 586 (Dutton) - Affordable Housing Innovation Fund: California Affordable Housing Revolving Development and Acquisition Program**
**Last Amend:** 8/20/2007
**Status:** Pending in Assembly Appropriations Committee.

**Summary:** This bill would allocate the $100 million in the Affordable Housing Innovation Fund created by Prop 1C. It would appropriate $50 million to the

California Affordable Housing Revolving Development and Acquisition Program; $5 million for the Construction Liability Insurance Reform Pilot Program; $35 million for a local housing trust fund matching grant program; $5 million for the School Housing Program and $5 million for the Mobilehome Park Resident Ownership Program. The bill would require the department to grant certain preferences and priorities when awarding the $35 million under the local housing trust fund matching grant program.

## Homelessness

**ACR 61 (Lieber) – Joint Committee on Homelessness in California.**
**Last Amend:** Introduced
**Status:** Pending Committee assignment in Assembly.

**Summary:** This measure would establish the Joint Committee on Homelessness in California, to study and investigate issues relating to homelessness, which would consist of five Assembly Members appointed by the Speaker of the Assembly and five Senators appointed by the Senate Committee on Rules.

## Land Use

**AB 641 (Torrico) - Developer fees**
**Last Amend:** 06/28/2007
**Status:** Pending on the Senate Floor.

**Summary:** Prohibits local governments from requirement the payment of local school construction fees before the developer has received a certificate of occupancy, for any housing development in which at lest 49% of the units are affordable to low-or very low-income households.

**AB 987 (Jones) - Low and Moderate Income Housing Fund: affordability covenants and restrictions**
**Last Amend:** 7/3/2007
**Status:** Pending on the Senate Floor.

**Summary:** This bill would require the covenants and restrictions associated with the housing funded by a redevelopment agency using its low- and moderate-income housing funds, to be enforceable by any person or family of low or moderate income. Despite the existence of covenants currently recorded on these properties, the sponsors and other housing advocates contend that subsequent owners do not always abide by those covenants, and violations sometimes go unenforced. As part of an agreement between the sponsor and the California Redevelopment Association, the additional recording requirement required by this bill will only apply prospectively from the date of enactment. In response to the Governor's veto of a similar bill last year (AB 2922), the author's staff stated that this bill no longer grants standing to "any interested party." Instead, it more narrowly extends standing to low to moderate income persons with a direct interest in the housing, as actual or potential tenants or owners. This issue was discussed again in Senate Transportation and Housing Committee, and the author committed to amending the bill to limit standing to any low or moderate income person directly

impacted by the loss of those units. On June 19, 2007, AB 987 was amended to state that the covenants and restrictions could be enforceable by any of the following:

- The redevelopment agency.
- The community.
- A resident of a unit subject to this subdivision.
- A residents' association with members who reside in units subject to this subdivision.
- An applicant for a unit subject to this subdivision who is of low or moderate income and who is able and willing to occupy a unit.
- A person on an affordable housing waiting list who is of low or moderate income, and who is able and willing to occupy a unit.

**SB 303 (Ducheny) - Local government: housing.**
**Last Amend:** 6/25/2007
**Status:** Held under submission in Assembly Local Government.

**Summary:** This bill would require the general plan, and each of its elements to encompass a planning and projection period of at least 20 years, except for the housing and open-space elements, and would require each element, except for the housing and open-space elements, to be updated at least every five years. This bill would require the housing element to be updated, and would require the conservation element and the open-space element to be updated concurrently with the housing element.

## Misc

**AB 239 (DeSaulnier) - Recording fees: Contra Costa and San Mateo Counties.**
**Last Amend:** 04/30/2007
**Status:** Pending in Assembly Local Government Committee, no hearing date set.

**Summary:** This bill would authorize the Contra Costa County Board of Supervisors or the San Mateo Board of Supervisors to additionally charge a flat fee of not more than $25 for each document that is recorded, if the document is in excess of one page, for every real estate instrument, as defined, paper, or notice required or permitted by law to be recorded in Contra Costa County or San Mateo County. The bill would require the Contra Costa County Board of Supervisors or the San Mateo County Board of Supervisors, if it charges this fee, to establish a fund for deposit of the moneys raised by the increase, which shall be used to assist in the development of affordable housing for very low income households, lower income households, and moderate-income households. Opponents argue that it is inequitable to require only those individuals that record a document to fund affordable housing. If it is deemed necessary to implement some type of funding mechanism to general affordable housing funds, it should be as broad an application as possible.

**AB 793 (Strickland) - Property taxation: affordable housing assessments.**
**Last Amend:** 08/01/2007
**Status:** Pending hearing before Senate Revenue and Taxation Committee.

**Summary:** Existing law rebuttably presumes that the fair market value of real property, other than possessory interests, is the purchase price paid in the transaction for the property. For purposes of this presumption, existing law defines "purchase price" as the total consideration provided by the purchaser or on the purchasers behalf, valued in money, whether paid in money or otherwise. Existing law requires the county assessor to consider, when valuing real property for property taxation purposes, the effect of any enforceable restrictions to which the use of the land may be subjected. This bill would exclude from the meaning of purchase price, for purposes of the rebuttable presumption that the purchase price of real property is the fair market value of the property. This bill would also require the county assessor to consider, when valuing real property for property taxation purposes, restrictions on the resale price of real property in a recorded real property deed or other recorded real property transfer document for real property that was purchased by its occupant through an affordable housing program operated by a city, a county, the state, or a nonprofit organization.

**AB 1020 (Runner, Sharon) - Recordation: change of ownership.**
**Last Amend:** 7/17/2007
**Status:** Pending on the Senate Floor.

**Summary:** Existing property tax law specifies those circumstances in which the transfer of ownership interests results in a change in ownership of the real property, and provides that certain transfers do not result in a change of ownership. This bill would provide that the recordation of a certificate of sale pursuant to specified provisions of law relating to property sold subject to a right of redemption does not constitute a change of ownership. The author states that this bill is a technical bill that provides County Recorders with the legal tools necessary for effectively carrying out their duties with regard to public agencies, and it clarifies when a change in ownership occurs during a foreclosure proceeding.

**SB 707 (Ducheny) - Housing loan conversions.**
**Last Amend:** 6/21/2007
**Status:** Pending on the Assembly Appropriations Suspense File.

**Summary:** This bill would authorize HCD and CalHFA to modify and extend the term of existing multifamily housing loans made under older loan programs.

## Mortgage Lending

**SB 385 (Machado) - Real estate: mortgages: real estate brokers**
**Last Amend:** 6/21/2007
**Status:** Pending on the Assembly Appropriations Suspense File.

**Summary:** This bill would require the Commissioner of Financial Institutions to apply federal guidance to all state-regulated financial institutions, including, but not limited to, privately insured, state-chartered credit unions, and would authorize the commissioner to issue emergency and final regulations for clarification purposes . The bill would also require the Commissioner of Real Estate and the Commissioner of Corporations to apply that guidance to real estate brokers and licensees,

respectively, and would authorize those commissioners to adopt emergency and final regulations or rules for clarification purposes, as specified. The bill would require the Secretary of Business, Transportation and Housing to ensure that these commissioners coordinate their policymaking and rulemaking efforts.

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