BOARD OF DIRECTORS

California Housing Finance Agency
Board of Directors

Holiday Inn Capitol Plaza
300 “J” Street
Sacramento, California
(916) 446-0100

December 12, 2008

1:00 p.m.

9. Discussion of other Board matters.

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

****NOTES****

HOTEL PARKING: Parking is available as follows: (1) Limited valet parking is available at the hotel for $17.00; and (2) parking validation available at front desk for $12.00; or (3) city parking lot is next door at rates of $2.00 per hour for the first two hours, $1.25 per every ½ hour, thereafter, with a maximum of $16.00.

FUTURE MEETING DATES: Next CalHFA Board of Directors Meeting will be January 22, 2009, at The Westin Hotel, San Francisco Airport, Millbrae, California.

STATE OF CALIFORNIA

CALIFORNIA HOUSING FINANCE AGENCY

BOARD OF DIRECTORS

PUBLIC MEETING

Holiday Inn Capitol Plaza
Fresno Room
300 J Street
Sacramento, California

Thursday, November 13, 2008
9:38 a.m. to 12:50 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

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

CAROL GALANTE
President
BRIDGE Housing Corporation

LORI R. GAY
President/CEO
Los Angeles Neighborhood Housing Services, Incorporated

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

ELLIOTT MANDELL
for LYNN L. JACOBS, Director
Department of Housing and Community Development
State of California

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

BETTINA REDWAY
for State Treasurer BILL LOCKYER
State of California

BROOKS TAYLOR
for CYNTHIA BRYANT, Director
Office of Planning and Research
State of California

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A P P E A R A N C E S

Continued

Participating CalHFA Staff:

GARY BRAUNSTEIN
Acting Director &
Special Advisor to the Executive Director
Homeownership Lending

BRUCE D. GILBERTSON
Director
Financing Division

TIMOTHY HSU
Financing Risk Manager
Financing Division

THOMAS C. HUGHES
General Counsel

CHARLES K. McMANUS
Director
Mortgage Insurance Services

DENNIS MEIDINGER
Comptroller

JOJO OJIMA
Office of the General Counsel

Also Present

STANLEY J. DIRKS, Esq.
Orrick Herrington & Sutcliffe, LLP
(Bond counsel)

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Table of Contents

Table of Contents

continued

Item **Page**

--o0o--

BE IT REMEMBERED that on Thursday, November 13, 2008, commencing at the hour of 9:38 p.m., at Holiday Inn Capitol Plaza, Fresno Room, 300 J Street, Sacramento, California, before me, DANIEL P. FELDHAUS, CSR #6949, RDR and CRR, the following proceedings were held:

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CHAIR CAREY: This is the November 13th meeting of the California Housing Finance Agency Board of Directors.

Welcome, everybody.

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Item 1. Roll Call

CHAIR CAREY: Our first order of business is the *Roll Call*.

MS. OJIMA: Thank you.

Ms. Peters for Mr. Bonner?

MS. PETERS: Here.

MS. OJIMA: Ms. Galante?

MS. GALANTE: Here.

MS. OJIMA: Ms. Gay?

MS. GAY: Here.

MS. OJIMA: Mr. Mandell for Ms. Jacobs?

MR. MANDELL: Here.

MS. OJIMA: Thank you.

Ms. Javits?

MS. JAVITS: Here.
MS. OJIMA: Ms. Redway for Mr. Lockyer?
MS. REDWAY: Here.
MS. OJIMA: Mr. Shine?
(No response)
MS. OJIMA: Mr. Taylor for Ms. Bryant?
MR. TAYLOR: Here.
MS. OJIMA: Mr. Genest?
(No response)
MS. OJIMA: Ms. Parker?
MS. PARKER: Here.
MS. OJIMA: Mr. Carey?
CHAIR CAREY: Here.
MS. OJIMA: We have a quorum.
CHAIR CAREY: Thank you, JoJo.

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Item 2. Approval of the Minutes of the October 2, 2008, and October 20, 2008, Board of Directors Meetings

CHAIR CAREY: We have the minutes of the meetings of October 2nd and October 20th for approval or correction.
MS. GALANTE: I'll so move.
MS. PETERS: Second.
CHAIR CAREY: Any discussion?

(No response)

CHAIR CAREY: All in favor? Or are we doing that roll call?

MS. OJIMA: Roll call.

CHAIR CAREY: Roll call, sorry.

MS. OJIMA: Thank you.

Ms. Peters?

MS. PETERS: Aye.

MS. OJIMA: Ms. Galante?

MS. GALANTE: Aye.

MS. OJIMA: Ms. Gay?

MS. GAY: Aye.

MS. OJIMA: Mr. Mandell?

MR. MANDELL: Aye.

MS. OJIMA: Ms. Javits?

MS. JAVITS: Aye.

MS. OJIMA: Thank you.

Ms. Redway?

MS. REDWAY: Aye.

MS. OJIMA: Mr. Carey?

CHAIR CAREY: Aye.

MS. OJIMA: The minutes have been approved.

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Item 3. Chairman/Executive Director Comments

CHAIR CAREY: Okay, we have met frequently, but

I feel very confident that the Agency is moving forward, dealing with issues. It's frustrating to be facing some transitions in the process, but from everything I think we've seen, the Agency is well equipped to deal with the challenges, I think, facing it.

I would like to offer an opportunity for Ms. Javits to make a couple of comments.

MS. JAVITS: Thank you.

I think maybe in an attempt to represent the Board, but I will just represent myself, I just wanted to express my appreciation to Terri by saying a few things, as this is just the month before Terri's going to be departing.

And the first thing I guess I want to say is, Terri is, to me, the outstanding example of a public servant. She's smart. She's independent. Way before it was fashionable, Terri was all about balancing the social mission and the business mission of government, before people even sort of thought about it that way. She's been willing to stick her neck out to do what's right. There are too few people who are willing to do that, and certainly who are willing to do that through an entire career, as Terri has.

Life in the public spotlight is very hard. And Terri has lived there for a very lengthy career. She's done it with grace, with strength, and with 100 percent total integrity. And I just want to express my admiration and my appreciation on behalf of the Board to Terri for leading us, and providing leadership in this state for so many years in such an incredibly admirable way, through good times and bad.

Thank you so much.

MS. PARKER: Thank you, Carla.

CHAIR CAREY: I think all of us feel the same way. I know these are very challenging times. But I personally can't think of anyone who could have done better or who would have put more of themselves into the mission of the Housing Finance Agency. And I know we'll have additional opportunities to say "thank you," but it won't be enough to fully represent the feelings of the Board.

So thank you; and we will have more to say. With that, I know everybody's got schedules to meet, so we'll move forward.

And the first item is Item Number 4 on the agenda.

MS. PARKER: *(Shaking head.)*

CHAIR CAREY: No?

MS. PARKER: Number 3.

CHAIR CAREY: No.

MS. PARKER: I'm the Executive Director.

CHAIR CAREY: I'm sorry, Terri. See, I'm still -- that's why it says "*Interim*."

MS. PARKER: Thank you, Mr. Chairman. I actually have -- maybe if I didn't have good news, I might not just let you pass me by.

But I think we've got a good, prepared meeting for you today. Certainly, we have tried to -- we were working through late last night, making sure all the information that we are presenting to you today is as current as possible.

And one of the pieces -- and when we go through the presentation, we'll talk to you about the most recent meetings that Bruce and I were in Washington in the first part of the week talking to the conservators for the GSEs. We also met with Freddie, and we can tell you about the various steps that we were doing that we were trying to promote at the federal level as part of my colleagues across the country, housing finance agencies, the importance of continuing to have housing finance agencies act in their role of really trying to deal with affordable housing in this crisis when, you know, the market is so disrupted.

But the one thing I wanted to tell you, as we have talked over the last several weeks and months, we've had to suspend some of the programs that we've been running because of not having access to the bond market, and trying to preserve for those programs that are funded out of our Housing Assistance Trust funds those dollars to deal with the issues for the rating agencies.

But one of the programs that we have tried to continue to look for ways to keep it alive is the most recent program that we started about three months ago, the Community Stabilization Home Loan Program that is in a limited number of localities.

And as you will recall, that was a loan that -- a program that we are working in partnership with a number of -- four banks, and where they are providing a discount on those properties relative to the market. And in exchange, we're offering a 5.5 percent interest rate 100 percent loan, which we are covering through our own mortgage insurance company.

As we told you and reported to you at one of the last meetings we had attended, to sell debt to support the 5.5 percent interest rate through the generosity of Fannie Mae giving us $200 million of liquidity, which these days is about as scarce as -- well, think of some scarcity. I'll leave that to your imagination.

But we were challenged with the offer on

Fannie Mae's part for us to use that $200 million to solve some of our tainted-bond problems as we have presented to you. And we'll reiterate that again today in presentation.

So we have been trying to figure out what to do with the CSHLP, as we affectionately refer to the program.

Bruce, once again, has been the hero by finding $25 million that we can use in this interim to continue to provide 5.5 percent interest rate for these loans. We only have about $4 million that has come in so far. The program really sort of started to gain a little bit of momentum. We're doing two, three, four loans a week. So we think that this $25 million will be able to carry us for a couple of months; and we won't have to make any changes in the program.

We're very excited about that, particularly because we're hoping that when the committee for CDLAC meets next month, that we will be getting an allocation of these funds so that hopefully next year we can start expanding it to statewide.

The one last thing I'll report about, is that in the last week I have had conversations with Bank of America and Countrywide about participating in this program. And also, we chatted a little bit about it with

Freddie Mac when we were with them on Monday. So I think as the banks are beginning to deal with the impacts on foreclosures, I think that there will be more opportunity to see if they're interested in using this program to deal with some of their REO properties.

So with that, Mr. Chairman, I think that concludes my remarks.

CHAIR CAREY: Thank you, Terri.

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Item 4. Report, discussion, and possible action regarding the Agency's financing and program strategies and implementation, in light of financial marketplace disruptions

CHAIR CAREY: Now, we move on to Item 4.

Are you taking the lead on that?

MS. PARKER: Yes. I will come around and sit with Bruce, and we will walk you through.

I think from the staff's standpoint, this has worked very well for us. It seems like it's not our regular meeting because we've had meetings so much. But I can tell you for myself personally, it's been very helpful for us and the staff.

I spent this morning on a conference call with some of our partners in the mental-health community that have great concerns about one of our programs. And these are folks we haven't had a chance to talk with in the last three or four months.

And when you don't talk to people, it's just -- their imaginations of what's happening is far worse than what the facts are.

And I think it has served us really well to be able to meet as frequently as we have and communicate to you, and use that as an opportunity for us to be going out and having conversations with other people about the need to be coming back and giving information to our Board on an exceptional and more-often schedule than we've had in the past.

And I will just say that, again, that I thank all of you for being a board member to come. I know when you signed on, many of you thought this is kind of a more lower-key board. And you all have professional responsibilities. And to be coming on so regular a basis now is really a credit to the Board, to the Housing Finance Agency in totality, and well represents it to our state public holders and partners, not only here in California but across the country.

So with that, let's give you a financial market update and we'll tell you what we've been doing.

MR. MEIDINGER: Good morning, Board.

Some of the presentation this morning is going to look very familiar. We've gone through a similar format the last two board meetings. Some of the data -- all of the data has been updated, but it hasn't changed dramatically, in some cases.

So we still believe that we have limited market access for new financings in the primary municipal bond market. Again, as we've shared with you before, we are certainly not alone. This is impacting all municipal issuers.

New issuance activity is driven by the retail participation that's Mr. and Mrs. Smith and Mr. and Mrs. Gonzalez that are buying bonds as we go to market. It's not the institutional investors that would typically be the insurance companies, the municipal mutual-fund families, be they short-term or long-term bond funds. They just aren't there for us at this time.

Absolute rates are still high. I have a few updates even this morning to the slides that we've prepared last night. And I'll get to that in a moment. But the retail investors are really being asked to replace the institutional investors that traditionally have bought the 20-year, 25-year, and 30-year bonds in a financing structure.

Last week's municipal issuance included the Indiana Housing Finance Agency. They were out for a relatively small deal. They got their 30-year bond yields set at 6.45 percent. That is not great considering these are non-AMT bonds, fully tax-exempt. This week includes Connecticut, Florida, and South Dakota.

I did receive an e-mail a short while ago that the Connecticut and South Dakota transactions have actually been successfully issued, and the 30-year yield has come down a little bit. I believe Connecticut actually achieved something very close to 6 percent, and South Dakota was at 6¼ percent.

So, you know, all in all, some improvement, I think, is the take-away.

MS. PARKER: Bruce, are these primarily for single-family?

MR. GILBERTSON: Yes, I think Connecticut actually uses -- it's a triple-A indenture, and they were financing both the multifamily program and the single-family program from one indenture.

On the short-term market updates -- and these are updated as of last week -- four weeks ago we were telling you that our daily resets were ranging between 1.3 percent and 8.25 percent. Last week, it was down to 0.4 percent to 8 percent. This week, they've been 0.5 to 8 percent.

All of those are benchmarked. Again, our expectation -- our expectation, remember, is what the interest-rate swap contract would produce for us on a variable-rate payment.

Remember, we received the variable-rate payment from the swap counterparty. This is the variable rate payment that we're paying to the ultimate bondholders. To the extent that there's differences between the two, we have basis mismatch. And we'll give you an update on that in just a moment.

So the liquidity and credit concerns are still driving all of this. If you have good, clean issues without bond insurance, a good liquidity name, and if you have a strong long-term credit rating, the rates are being reset quite well. And those would be the ones that are 0.4, 0.5 percent on a daily basis.

Many bonds still remain with liquidity banks, although our total has come down somewhat, which is good news for us, there are still many, many banks that are holding tremendous amounts of bank bonds.

New draws on liquidity facilities have all but stopped, really. I could have changed that to more than slowing down. It's all but stopped at this point. And more, the bonds are being successfully remarketed so that our total is now down to the $648 million that we show at the bottom of this slide. Just looking back to where we were on October 20th, I think the update we were reporting to you, that we had over a billion dollars of bank bonds at that time.

Here's a picture of how the bank-bond portfolio has increased over time. Remember, starting in the middle of September, it peaked out the first or second week in October. It's just under $1.2 billion. And it has gradually come down from that point, and is in the $640-million, $650-million range today.

One more thing, we can certainly attribute some of this to the poorly performing credits, the short-term credits that the liquidity banks provide. I point out on this slide a couple of things: That we have total variable-rate demand obligations outstanding of $4,011,000,000. And of that, there's two that are prominently causing us some stress.

DEPFA Bank, $133 million, of $134 million issued, with their liquidity or 99 percent of all of the bonds have been returned to DEPFA.

And the other one that we've talked most about is Dexia. In large, part, it's our number-one, it is our largest liquidity bank, with $789 million in liquidity facility attached to our VRDOs. And 43 percent of those bonds, $338 million, have been returned to the bank as of yesterday.

So what's the impact on CalHFA? Again, this slide should look familiar. We quantify this in terms of the basis mismatch between the variable-rate payment we receive from swap counterparties and the variable-rate payments that we paid to the bondholders.

For the three-month period, from August 1, 2008, through the end of October, that has grown to $14.8 million.

You may remember at the last board meeting, we reported that that was $9.5 million for a two-month period.

Just referring back to this slide, you can see that during the October time-frame is when we had the majority of these bank bonds outstanding. Not a surprise that the basis mismatch has grown by over $5 million.

And to compare -- again, not that the one-year period from August 1, 2007, through July 31st of 2008, was a stellar year for us, because it actually was the year in which we had the highest basis mismatch ever to date, but that was $9.7 million for a full 12 months. And we've experienced $14.8 million in a three-month period.

So ongoing liquidity stress is placed on the Agency as a result of these things. Clearly, you've seen that we have increased debt service due to the elevated interest rates on $4.2 billion of bonds.

The term-out provisions for bank bonds require us to repay the loan to the bank sooner than we had anticipated. A general rule of thumb is that 10 percent of the outstanding bank bond balance will need to be repaid on a semiannual basis.

The last two numbers at the bottom of the page indicates the expected term-out payments that we're projecting on February 1, 2009, and the potential amount of term-out payments that would be due on August 1 of 2009: $12 million and $118 million, respectively.

MS. PARKER: Let me just say that I think what we had talked with you about at one of the previous meetings is to try to give you some kind of a time-line. And Tim has supplied that and will be walking you through that.

These numbers then tie to the time-line that Tim will be walking you through today. So while what Bruce has just said, because of the number of bank bonds that we've been able to remarket, on almost half of them, we're in an interest-rate mismatch situation but are not, at the moment -- the clock isn't ticking on those to go back in, have to start dealing with the amortization issues.

We are, for that balance amount, in a battle against time. And that is dependent upon the success of some of the strategies that we will be walking you through today. But we do want to make sure that you are aware, but I think many of you had asked. And, you know, we have to make some set of assumptions about whether these things trigger or don't trigger; and if they don't, then what is the impact to the Agency? And it will go back to the financial impact to basis mismatch which is, although certainly increasing, not as dramatic as if we had to start making those amortization payments.

MR. GILBERTSON: Terri, do you want me to cover this, or do you want to walk through this?

MS. PARKER: Yes.

MR. GILBERTSON: You mentioned some of this in your opening remarks as well.

MS. PARKER: Right. Let me sort of give you an update on some of the things that we have been working on.

When we met last time, I think we told you about the meetings and conversations that we had had in Washington particularly with Fannie Mae. We had met as a group, the National Council of State Housing Finance Agencies, with Fannie Mae staff that work on housing finance, to talk with them about, during the circumstances of the financial market, things that Fannie might be able to do to help housing finance agencies.

Then CalHFA met separately with one of their senior VPs, Ken Bacon, to go through a letter that we've all shared with you as far as our asks, which included everything from additional liquidity to giving us letters of credit, to buying our loans, to giving us basically access as to bridge amounts of funds, to essentially allow us to repackage and remarket some of these tainted bonds for the next 18 months.

We had, as part of those discussions, also always intended to go to Freddie Mac. We have not been as successful in the past of going to Freddie Mac and having any kind of partnerships or alliances with them that we have with Fannie. But since both of them under their authorizing legislation are responsible for dealing with housing finance agencies, we wanted to basically be responsible in sharing our asks.

So we had set up and had some initial contact with some of their staff. And through those contacts, as pointed out here, we have, in the interim, sent tapes, first to Fannie, of over $2 billion worth of single-family loans in our portfolio, and about $200 million of multifamily loans.

We recently, last week, also sent these to

Freddie. So we have both Freddie and Fannie doing evaluations of these loan sets to determine what they would offer us from a pricing standpoint to purchase them.

And then as Tim will show you later on, how we propose to use that capital to deal with our tainted-bond situation.

Fannie is far -- much further along in this process than Freddie is. I think at the meeting that we had on the second with my colleagues from Ohio, Massachusetts, Colorado, it was as much an education process as it was anything else.

We intend -- we had meetings set up, again, to go back -- and the meetings that we started out with on Monday morning were with the conservator's office of the Federal Home Financing Agency. Their number-two person, Mr. DeMarco and his staff. Where the HFAs went in and talked about our problems, essentially reiterated the same sort of a pitch that the housing finance agencies never did subprime loans, we're the good guys. They're impacted substantially because of the market that was really created by all of these alternative financial mortgage structures.

And even in the situation where now the federal government is assisting those same banks, the housing finance agencies are not assisted. And so we're really looking for the GSEs to see if they can be helpful, not only for the housing finance agencies, but to the extent that they could come in and, for example, start buying housing finance agency bonds, that that could be used as a vehicle to jump-start that market, to have it start writing itself to come back on-line, and, as Bruce has said, to hopefully start getting investors back into it, so they're not just retail investors for our bonds.

So the meeting on Monday for the staff of FHFA -- boy, it's hard to do that -- as an aside, they told us that they tried very hard to have that acronym changed to something else.

But the meetings that our national association has set up on the 8th and 9th, they've invited Mr. Lockhart, who is the conservator and has agreed to come and listen.

So this was an education process for staff that will then go on to a briefing for him to be prepared to meeting with us again on the 8th and 9th.

We've also asked Freddie to be available to respond to our requests and ask at that time again. So we'll hope that on the meeting on the 12th -- which we'll talk about -- we will have more information to give you on the status of those meetings.

So what we are waiting for now is to get prices back. And our biggest concern is, you know, particularly in the multifamily, these are our best loans. And, you know, we would hope that they would get preferential pricing.

On single-family, we would hope that we could get something close to par.

The dilemma will be is if the response back from Fannie is to give us a couple of haircuts, not only because of many of these loans that they're looking at are FHA loans, they don't buy FHA loans, they don't have an exit strategy for FHA loans, but also because of the real estate market in California.

So if it is a situation that they do agree to buy them, but they offer us pricing that is substantially out of whack from what our debt coverage is on them, then we would have to go back and look at another plan. So I'm giving you that context.

MR. GILBERTSON: So some of the other actions that we've taken since the last board meeting, Terri mentioned earlier that we -- you know, I found $25 million -- let me just explain a little bit. It's little complicated. I didn't find it out there in Capital Park or anything. But we had a situation -- and I think we've talked about this some before, where we have historically entered into investment contracts to invest bond proceeds, whether mortgage-loan payments that were received after making loans for periods of time to hold them until we meet debt service.

DEPFA Bank, we've talked a lot about that institution, was one of the providers of investment contracts. It was in the summer of 2007, when they were first downgraded, that we converted what were investment contracts into what are called "repurchase agreements." Fully collateralized obligations of the bank.

We elected -- because it seems to us that DEPFA is a downward spiral and won't ever come back -- why continue to have a relationship with them even if there's collateral posting? There are some risks that we could be presented with if there was a bankruptcy filing, and the collateral could be caught up in that court. We elected to just terminate these.

So by doing so, what we found ourselves with was about $25 million that are reserve-account investments under our large single-family indenture. An eligible investment of the reserve account is to buy mortgage-backed securities of Fannie Mae or Freddie Mac. The CSHOP program is a mortgage-backed security program that we're using the guarantees of Fannie Mae.

So that's how we've achieved that. And at least it's a start for that program. Hopefully as we get into 2009, the market might present other opportunities.

A couple other things we did. The SMART loan program, we modified it in a couple ways. One is to make it more publicly available, and it's going to be on our Web site, as I understand.

MS. PARKER: Just so you all know, the SMART loan program is CalHFA REOs. We named that after Jerry Smart, our -- because he made a pitch just before he left to have us do a special program for these REOs. And so much to the consternation of my staff, we named it the *"SMART Program."*

But these are, again, our attempts at dealing with our own REO portfolio which, as I mentioned in past meetings, that we moved some parts of our asset -- or portfolio management on the single-family side over to Chuck McManus in the risk group to essentially be able to put -- and with staff -- more efforts on dealing with our own REOs because the impact is on our balance sheets.

MR. GILBERTSON: Then the last bullet here is Terri, Steve, Bob Deaner, and myself have had several meetings now in the last week with the Department of Developmental Services. Some of these meetings have included the State Treasurer's office, as well as -- the Health and Human Services, is it? What was that?

MS. PARKER: Right. California Health and Human Services Agency.

MR. GILBERTSON: California Health and Human Services Agency, to discuss opportunities that we might have or other options to financing the Bay Area Housing Program loans.

I've listed several of the bullets. One is to seek potentially a legislative change to credit-enhance the bonds with perhaps a moral obligation of the State of California. We've had some preliminary -- very preliminary discussions with the State Treasurer's office about applying for a Pooled-Money Investment Board loan. It would allow us to warehouse the loans for up to one year or thereabouts, taking them off our balance sheet, effectively so we don't get the pain that Moody's is imposing on us as it relates to that lending program.

We continue to talk internally and with the developer about opportunities that maybe we could just sell the loans outright. At this point, we haven't seen a proposal that makes any sense or improves that in any way.

Then the last item would be that we might have to issue low-rated limited obligations of the Agency to finance the Bay Area Housing Program, consistent with the resolution that the Board is going to be asked to approve later in this board meeting. I'll save that for that time. That's Resolution 08-44.

So a lot of this is future action items that you've seen before. We're still working -- the single-family program, to implement program capability, to deliver loans to Fannie Mae's window.

We're trying to secure a secondary market to deliver FHA-insured loans.

In the Multifamily Program, Bob is working hard to develop a program to become an eligible DUS lender, "delegated underwriting lender" for the GSEs.

As we talked earlier, considering the sale of single-family and multifamily whole loans.

Just to add to that a little bit, we expect maybe next week to get the initial pricing from Fannie Mae. Certainly we want to wait to get the Freddie Mac pricing. We want to play them off one another. And it will then take us a period of time to really analyze that pricing and the impact on these large indentures; that if we were to accept pricing, especially if it was below par.

And so that's going to take us a period of time to do that. But we should have --

MS. PARKER: Yes, and again, you'll see that on our time-line.

MR. GILBERTSON: Yes.

Then the last bullet on here is, again, concepts that we've laid -- thrown out to the State Treasurer's office about perhaps a broader Pooled-Money Investment loan for a variety of purposes. We have not applied. We know the standard that we would have to meet before we would ever go forward with such an application.

MS. PARKER: And basically what we know as part of this, is to be able to demonstrate some sort of exit strategy. How, if we used some of these bridge loan credit structures, what would be our exit strategies for us to essentially pay back that?

And so, as we were talking about, everything that we are doing in these different discussions is to try to see if we can find ways to answer those questions that would, in that sense, document what would be necessary to have a credible application.

So I can also maybe just tell you that we continue to have -- Bruce continues to have weekly, multiple weekly conversations with the rating agency analyst at Moody's.

We have a meeting set with them in New York on December 4th, and where we're going to go back and talk with them and giving them a status of where we are on the three items that are in our letter. So when we come back again on the 12th, we will have a report on that.

We hope to be able to, at that meeting, have them finish their work that they are doing on the status and capabilities of our M.I. fund. We think that's, in some respects, the best way to address their concerns on the California real estate market.

Again, our strategies on our bank bonds, clearly what we're talking about today and what we're putting in place can address those issues on the part of the rating agencies. And then to the extent that we have this plan in place, for the Bay Area, irrespective of whether we've actually implemented, but that we have a strategy with a specific time-line. We can go forward.

We talked to Moody's -- I was in Bruce's office on Friday, where they continued to ask the very in-depth questions. It's almost, we feel like they are circular in their discussions. We know that they are never going to get to any comfortability on the Bay Area; and that is the reason why we were coming forward with this alternative strategy to you today.

And we think, again, that where we are at as of right now, with our ongoing and future actions, are as timely and as placed in the marketplace as we could think to be.

MR. GILBERTSON: So the last slide and then we'll turn it over to Tim.

But this list of bullets here are some of the tactical solutions that can help us in debt restructuring. Tim is going to cover this in more detail, and you will see it in kind of picture form. But we're continuing to work to try to convert liquidity-backed VRDOs, to letters of credit where it makes sense.

We're updating consolidated cash flows. In fact, for the large Home Mortgage Revenue Bond indenture, we have sent off all of the consolidated cash flows to Moody's, including the stressed ones, which are high prepayment and low-rate and low prepayment and high rate. And there's a variety of things that we have to go through, as well as some stress on term bonds -- term-outs on bank bonds.

Working with them, as Terri mentioned, on capital adequacy. That's an ongoing effort.

We're hopeful that we can strip bond insurance of some of the bond-insured VRDOs that continue to cause us pain.

We have transferred or reassigned remarketing agencies responsibilities on some of our bonds. That has actually proven to be a positive. We're seeing the better remarketing and lower interest expense.

With that, I think we'll just jump to the bottom.

Tim has developed a bond-redemption/bond-restructuring plan. I'll let him walk you through that. And it includes the time-line.

MR. HSU: I thought that it is instructive and perhaps good to create a context for all the things that we're talking about by stepping back and thinking about what exactly is our business flow. And on the left-hand side here is normally what we expect to happen. And I refer to this as sort of a virtual cycle. This is what used to happen. We issue bonds, and we normally take the bonds and we put it in through some sort of investment with -- I think Bruce mentioned earlier that we had some investment invested with DEPFA. Sometimes we put a little cash with the State's PMIA Board, and then we take the cash and we make them into loans.

And this upper part here is really the part, I guess, that gets the most headlines. If the new production is when we come to you with our business plan, we tell you how much we're going to do. And this is the part of the business plan that you approve.

But without the lower half of this virtual cycle, we wouldn't really be able to do this because as these loans repay, normally, we park it in cash flow a little bit, and then we pay back the bondholders. And as the bondholders get accustomed to getting paid back, they come back to buy more bonds. And this part is referred to as "*portfolio management*."

So this is normally what we expected to happen about six months ago. This is what used to happen.

And this is what's happening now. I think all these writings here are in red.

So Bruce had talked to you --

MS. PARKER: Tim is color-blind.

MR. HSU: Yes.

I think Bruce has mentioned to you about the high cost of the primary markets. So this is the box here in which we're talking about the current issuers are issuing bonds in the 6 percent to 6.25 percent range. So all of this is attempting to sort of put the various things we're talking about into these boxes. And you can see how they flow through the system, if you will.

We talked about DEPFA and AIG getting downgraded. An impact of that is that as they get downgraded, we are taking money out of those financial institutions and we're depositing with the State's PMIA. And you might say, "Well, what's wrong with that?" Well, what's wrong with that is that we're making some more interest-rate risk, because the PMIA Board runs the investment fund as if it were money markets. Meaning, that if interest rates go down, we earn less money; and if interest rates go up, we earn more money. But when we had money invested with these financial institutions, we had something called a GIC, which gave us a fixed rate of return over time.

And this upper half here, because of primarily things like this happening, and also the downturn in the real estate market is causing more stringent underwriting for new loans, so we are seeing less production as a result.

So the new productions are getting impacted. And then the portfolio management side -- the side that if we run well, have the investors coming back -- is also getting impacted, in that on the single-family side we're experiencing extremely high delinquency rates, which will come back -- I'll show you some historical charts on that later on.

But it's worthwhile to mention this is primarily the single-family side. On the multifamily side, I think our delinquency rates are -- they are no worse than what we had before, which is very, very good. I think we had something like two or three loans that are in some sort of fairly late delinquency. So this is primarily addressing the single-family side. And as we have high delinquencies, that means that we have fewer repayments.

And this side is doing the same thing as what is happening up there, meaning, that most of this cash now is -- a lot of cash is going -- more and more cash is going to the PMIA Board, meaning that we're taking more interest-rate risk. And these are the bank bonds that we talk about all the time. And since bank bonds carry a higher interest rate than what they used to carry than when they did money market funds, we now have higher debt service to meet and also we have the term-outs to meet that we talked about earlier.

So sort of simplistically, I think that we have less that's coming in and more that's going out, which is a squeeze, if you will.

I'll pause there.

I had presented this slide last time. And on the left-hand side here, I presented this as the DNA of the variable-rate financing. And I think I mentioned that if any of these layers go sour, if you will, it causes basis risk. So that $15 million -- roughly $15 million of basis that we talked about, that was experienced for the three months since 8/1/08, is because of various pieces of this stack has gone bad.

And as I looked at that stack, I thought that it might be instructive also to use that stack to illustrate to you how our portfolio stacks up on that stack. Because one of the things I mentioned last time was that while, for example, auction-rate securities, since the way that I stacked this up is that if the bottom is not performing well, it doesn't really matter what's on top. So in this case here, the auction-rate security market is not functioning; so it doesn't matter if we have, really, a fantastic hedge virtually halfway up there. It doesn't matter because the bonds are really not doing very well.

So from this illustration, you can see all the things that we've been talking about, auction-rate securities over here, and we still have almost $200 million of that.

We have insured bonds with the AMBACs and MBIAs and the FSAs of the world of $900 million, and then the Dexias and DEPFAs of the world up here.

So what this sort of filters into is that we have about $2.6 billion of bonds that are performing okay. They're doing fine. Except some of it does have some Lehman and AIG swaps on top of them. And they're actually doing fine, too, except that for rating purposes, because of the downgrades, they don't count when we do our stress cash flows. But nonetheless, you could think that $2.6 billion of bonds are still performing fine.

And that was sort of the 2008 view and this is sort of the microscope view, which I presented last time in two slides, sort of what we're doing now and the things we're proposing to do.

And this slide here puts the two of them together. And I also attempted to print this in a legal size for you so that you can see.

You can still see up here, but I think you can see it here.

MS. PARKER: Lori, you weren't here last time, so if you -- I don't think you were here last time.

MS. GAY: I wasn't, but I'm following this. I can see it.

MS. PARKER: Please, if you have any questions.

MR. HSU: I'm moving pretty fast because I think we want to get to the time-line because everybody's waiting for that.

So one of the things that we talked about doing last time -- we'll just go over it again -- is that stripping insurance. So these green boxes here, represented up here, are deals in which we're stripping insurance; and we're hoping that after we're stripping insurance, the bonds will continue to perform as they did once before.

These x'ed boxes that you see here, these weren't actually here last time. And that's my oversight. These have transactions in which the liquidity banks have not agreed to renew facilities. So what we need to do is that we need to take our own cash -- which I'll come back to at the end to give you some sense of where our cash is and what we're using our cash for -- take some of our own cash to either call down the bonds in their entirety or meet some of the term-outs that we're talking about.

So those are these three boxes.

And this box here, for example, is the Citi box. That was a facility that expired on November 3rd. So that actually went into bank bonds on November 3rd as well.

So those are the x'ed boxes.

And then the orange boxes, I think that is something that Bruce mentioned earlier as well, in which we're converting the standby purchase agreements into letters of credit. And, again, we're doing that because we're thinking that, well, if we were to get downgraded, these papers will continue to trade in the marketplace; and we wouldn't have to come back to convert them to LOC, after we get downgraded. Because just to refresh your memory, that these papers aren't insured so they trade on a long-term rating of double-A. If we get downgraded to single A, they'll become sort of debt-ineligible so the money market funds, we won't be able to buy them.

MR. GILBERTSON: Are you going to talk about the swaps, too?

MR. HSU: Oh, yes, I'm sorry.

And then the swaps on top. What the previous slide was showing when we talked about DNA, was that if the bottom layers are not really functioning, the swaps on top are basically irrelevant. And this is what we're showing in more detail, that some of these cases up here in which the swaps, on top of the red boxes, these are swaps that we need to terminate at some point.

And then we also have boxes that -- I think this is blue, but it looks gray to me -- blue boxes in which these are Lehman swaps which are going to be replaced because the bonds underneath these boxes are functioning just fine.

So in total, I think that you can see in the upper left-hand corner there, that of all these red boxes that you're looking at, which for now has no tactical solution, if you will, they amount to about $850 million in total. And of all the swaps that are in yellow, they amount to a notional amount of $366 million. And then the mark-to-market is about $33 million out of the money to us, meaning that if we terminate that $366 million of swap, we have to pay $33 million.

And, again, I'll show you where that cash is going to come from later on.

Okay, and this is the time-line. This time-line here is divided up into three sections. On the very top here -- the upper section here, the upper deck, if you will -- this represents the time-line of the tactical solutions that you see on the previous page. So you see that up here, where we're terminating swaps, we're replacing swaps. And we think that we can accomplish that in November.

And then these are the green boxes on the previous slide, and we're showing that we're stripping insurance. And we think that we can get those done in the December and January time-line.

And these are the orange boxes in which we're switching the standby purchase agreements into the LOCs with BofA and Fannie Mae.

So this represents, again, just the time-line of the tactical solutions from the previous slide.

And this middle section here, this is, it looks like, a lot of arrows and complicated; but this is the sale of the loans. And, actually, on the next slide I'll show you -- we'll talk a little bit why it's necessary to sell the loans, because I'm not sure if we have sort of shown you why that's necessary.

But in any case, this middle section is talking about the sale of the loans and what would we do with the cash when we sell the loans. So what we will do is that we would deal with the red boxes in the previous slide that really has no tactical solution.

So, for example -- let's take this case with less arrows. This here is representing the loans that we have in the single-family world and what we would do with the cash if you were to execute a sale. I think that we mentioned that we sent the tapes to Fannie Mae for $2 billion. But chances are, we won't be able to sell the entire $2 billion. So what I'm showing here, just for illustration purposes, is that if we were able to sell in the single-family world $590 million of those loans, it would be used to take care of the red boxes on the previous slide.

And again, I didn't see any tactical solution. So this, in some cases, the loan sale is being sized to dealing with the red boxes that we have.

And someone had asked me a question -- I believe it was Terri yesterday -- that, well, what if we sold more? If we sold, say, a billion dollars? Well, if you sell a billion dollars of single-family loans, then what I would do with that cash is that I would do this -- I mean, I think that we would proceed to do this. But if we did have more cash, then it just means that we can take care of these problems rather than stripping insurance, which actually is a complicated process. So this is the single-family world.

And the rest of these arrows are actually representing what's happening in the multifamily world. So these are the red boxes in the G.O. multifamily world in the previous slide that has not been addressed. And you can see that we have this row here is representing -- for example, this $17 million -- these are representing the conversion of multifamily loans from, let's say, a construction or acq. rehab into a permanent loan, as opposed to a construction loan is $10 million and a permanent loan is only $4 million. That $6 million piece that comes in during conversion, that's what's being represented in this row of conversion -- net proceeds, if you will, that can be used to call down these bonds.

So that's money that we'd expect to come in over this time frame.

And then down here, this number here, this number is representing that amount of multifamily loans that we need to sell to deal with these red boxes that are net of these payoffs from these conversions.

So I think that we mentioned that the tape that we sent to Fannie Mae on the multifamily world is roughly, as it turns out, very, very close to this number. And that was somewhat serendipitous. But I think that if we extract the premium price on those loans, it can certainly meet this number over here.

And lastly, not related to any sale of loans, I mentioned in the previous slide that we had banks that have not renewed liquidity facilities, and we have to take some of our own cash to, let's say, retire them. And that represents about $75 million of excess revenue from our single-family indenture that would deal with these two banks that have not renewed their facilities.

As the Citi facility is a G.O. obligation, so that would take care of that in the sale of the multifamily loans as well.

And the third section on here is an illustration using a time-line of the renewals that we have coming up this year, because one of the challenges that I think we face in this coming year is that some of these banks would have been more challenged to renew their facilities going forward.

The two that we have coming up, fortunately, we already have an agreement to renew them; but these, that are coming up for the rest of the year, are going to be a challenge to us. And one of the things that I calculate on here -- by the way, this time-line is a little bit truncated, just to save space and make it more legible -- this is the $4 million term-out that we talked about earlier, that Bruce had talked about earlier, that August 2009 we have to make a $12 million term-out. And this is primarily bonds associated with DEPFA at about $3.5 million associated with this term-out of CitiBank of $3.5 million.

This number here deserves a little bit more explanation. This number assumes if we have to meet all the term-out provisions of our existing bank bonds and these facilities do not renew, what our term-out obligation would be. So it's a substantial number of close to $120 million.

And the next slide you'll see how substantial that number is.

MR. GILBERTSON: But, Tim, is it fair to say at this point we believe at least some of those liquidity banks will renew their facility? We won't be facing cancellations on all of them?

MR. HSU: Yes.

MS. PARKER: I mean, I don't think we're saying definitively that is the number. Again, I think what we're trying to say is we've made a set of assumptions here to give, you know, a point-in-time picture. You know, if you look at the top -- the first and the second, these are the strategies that we've been putting in place for two months -- just two months, right, Tim -- to take care of these problems.

It's hard to say how creative and talented we'll be at continuing to address what is then this bottom, which is the next need to go to. But we also are trying to essentially say to you the real-hard impact, if we can't, is there.

CHAIR CAREY: At some risk, Tim, could you explain "*stripping insurance*," what that means?

MR. HSU: Can you go to the slide with the DNA? That one, the previous one, yes.

All bonds, no matter what kind of bonds it is, trades on at least a long-term rate. So, for example, if you were to buy a bond -- and this is part of sort of the issue with the current financial crisis -- is that most people rely on a rating that's issued by the rating agency.

So no matter what kind of bond you buy, it has to have a long-term rating, meaning, that it's a representation of the issuer's ability to pay you back. That's what the long-term rating really represents.

However, in our variable-rate world, there is also a short-term rating. Because, for example, like us, we have, let's say, one capability to pay you back that facility -- I mean, pay you back the money that you supposedly gave the insured -- gave the agency that's $100 million. And we have the ability to pay you back according to the schedules that's enumerated in the offering document. But variable-rate bonds are unique in the sense that you also have the option to demand your money back, let's say, overnight. You might say that, "Well, I need to spend $100 million on buying a country, and now I need the money back right away." And that short-term rating is being provided by the liquidity banks.

Now, when we strip insurance, what we're talking about is that the insurance company, like the AMBACs and FSAs and the MBIAs of the world, they're providing us a credit enhancement on the long-term rating. That's why they're over here.

So the process of stripping insurance was actually nonexistent until this year. Because everybody who got insurance, part of the reason why they got insurance on, let's say, their bonds was there was assurance that it was irrevocable.

So as the insurance companies started being downgraded, there were all these legal issues coming up. I was thinking that, well, what does it mean for us to even think about touching something that is meant to be irrevocable?

So what we're trying to do now is that we have to negotiate with insurers of basically taking their commitment -- irrevocable, what was once an irrevocable commitment on these bonds and take them away by revising the documents, by issuing a new offering document and, in many cases, actually creating a new queue set so that they are actually, after we strip the insurance, invisible to the new bondholders, so that their guarantee on the old bonds is no longer good.

And you might think it's really insane because it's almost like saying that, well, let's suppose that Terri and I borrow money from you, and then I became a criminal. And let's say my credit is now horrible. And you said to me that, "Well, you know what? The two of you together is actually worse than Terri by herself." In a sense, well, even though I am a criminal, I may still have assets; but you said because I am a criminal, you no longer want my assets, which seems really insane, but that's what people are asking for. People are asking that two somehow is less than one, no matter who the second person is.

So that's sort of, in a nutshell, the process that we are going through this sort of laborious legal process of documentation of saying, okay, here's all documents in which AMBAC, for example -- AMBAC needs all the documents, it's covered, it's in the documents, they're covenants in all the documents. And we're going through the process of basically removing them out of all the documents, so that a new buyer comes along and says, "You know what? I'm buying something that has no mention of AMBAC."

MS. PARKER: I think that's the reason why Tim was saying if we get additional cash from selling loans, we're just going to pay off these debt instruments.

MR. GILBERTSON: Very challenging. There's a lot of aspects to this.

And, of course, it opens up renegotiation with some of the parties as we try to go through this modification process.

MS. GAY: I can't help but note that this is how consumers feel when they want to modify their loans.

MR. HSU: Does that help?

CHAIR CAREY: Thank you.

MR. GILBERTSON: So we're going to go to this one, which is --

MR. HSU: Right.

I think at one of the presentations I made, I think the Board members wanted to see before and after. This is the same stack that I showed three or four slides ago, except this shows what things look like after we go through all our tactical solutions. But it does exclude the sale of the loan for now. And I'll discuss that in a second.

So basically, what this shows is that I think that a couple slides ago, we showed that the bonds that are performing well was only about $2.5 billion. But after we go through our tactical that we're dealing with -- the green and the oranges and all that, all those colorful things we're doing -- we actually gain about $700 million more bonds that are going to perform okay.

And I think I would also emphasize that if we were to sell the loans, what we would do in the time-line -- in the time-line I showed what we were doing -- is that we're addressing the red boxes. And these are the red boxes right here.

So if we were to sell the loans, what we would do is this box here that we're talking about here, it would just expand and become basically all of this. So these are the things that we deal with when we sell the loans, which is basically pay them off or redeem them.

And I thought that this slide is also instructive in the sense that I think it answers a very fundamental question, at least for me, of why are we selling the loans. Because I think that you may have heard more than once that we are a big agency with a big equity of more than a billion dollars. And, indeed, we have more than a billion dollars. And you can see that this is a tally of -- it's obviously a very high-level tally. If you look at the accounting standing, you see all sorts of items that are indecipherable to the average person.

So I basically filter all that stuff, and I said, "Okay, of that $1.1 billion of equity, how much cash did we have and how much of that is in loans? And what you can see is that at the very high level -- we'll come back to this in a second -- what you can see at the very high level is that of that $1.1 billion of equity we have, we only have about $470 million in unrestricted cash.

And you might ask what's in this unrestricted cash? We have reserves, for example; we have program accounts, we have covenants of principal. We have cash that hasn’t been spoken for through the contract or through the covenants, not cash that we can use to do anything we want.

And so this sort of -- I think that -- I hope what it does is answer your fundamental question, is that that's why we're selling the loan, because we need to convert some of the equity into cash so we can address some of these issues that we didn't quite expect in the past.

So looking at this amount of money that we have and looking at it from the credit point of view, if you look at the HMRB indenture, which is a single-family indenture -- and this is the indenture we're thinking about selling $2 billion loans -- that the situation seems to be quite extreme in the sense that we have $6.8 billion of bonds. But if you look at the cash to do what we want with, it only represents 2 percent of that liability and $171 million.

And with that $171 million, some of it has been spoken for from some of the things that I've shown you previously. For example, I talked about taking $75 million to deal with some of our standby purchase agreements that have not renewed. So that would bring you down to roughly $100 million.

And if that situation in terms of renewals for standby purchases for the rest of the year doesn't pan out, I think that on the previous slide, we showed you that we have about $112 million, I believe, that will term-out on 8/1. And what this does is that it divides it up by credit, so that of the 8/1 term-out with HMRB, that's a little bit more than $100 million.

So you might think that, well, if those situations were to pan out, this money would be wiped out at the end of next year.

On the G.O. side, we have nominally more cash -- well, let me step back and say that while this money will be wiped out by the $75 million in the term-out that we might have to make, it certainly doesn't come close to addressing these red boxes in the previous slides. And that's why it's necessary for us to sell the loans and address the red boxes, because we just don't have cash to deal with these red boxes. That's why, again, the sale of the loans are necessary.

And on the G.O. side, when I refer to "all other cash abatement," little pieces of other sort of old stand-alone single-family indentures, but they're not really important in the grand scheme of things.

On the single-family side, we do have nominally more cash of $298 million. But that $298 million is cash that we would use to, for example, run the Agency. About $238 million of that is sitting in our Agency account, and about $60 million is sitting in the Multifamily III indenture.

But, again, if we compare that number, though, while it seems large, to all the things that we have to do, related to the G.O. credit, it again sort of puts it in perspective and shows why we would sell loans again.

So the $33 million is swap terminations we talked about -- the yellow boxes. And what it costs for us to get out of those yellow boxes is $33 million, and term-outs is $28 million, that's about $60 million. So it would bring this number back down to about 230 or 240. And that number, again, is smaller than the red box that we had to deal with on the G.O. side.

MR. GILBERTSON: It’s probably a good time to pause, anyway, because the next slides are -- do you want to go to questions?

CHAIR CAREY: Questions?

MS. REDWAY: I think I actually followed everything, and it was a very good presentation. Thank you.

The cash analysis -- the way I understand it, you're going to sell good bonds in order to pay off some of the red boxes or the not-so-great ones. Can you talk a little bit about what the cash analysis would be when you're doing the selling and buying, what you want to have in those unrestricted balances? In other words, the analysis you'll do, about how much you should sell and how much you should buy and how much cash you should leave in those unrestricted balances?

Am I making sense?

MR. GILBERTSON: I think what you're asking is, have we done an analysis that says --

MS. REDWAY: Well, what would be the process for that? This is going to be very fluid.

MR. GILBERTSON: Right. So we have -- the way I would explain it -- and Terri, chime in -- we start a process every January, which is our business-planning process for the year. That leads to the Board adopting a business plan and an operating budget in the spring, in May of each year.

I think as we go through this, one of the things that we always look at is liquidity -- Agency liquidity, not liquidity in the form of standby bond purchase agreements.

I think we will be asking ourselves a lot of those questions that you're suggesting at this time, in January, as we look at all of the things we know. Hopefully, by then, we'll have clarity on what the price of some of these loans are worth, what the value is, what we can do with that as it relates to debt-restructuring;

and then how much should we hold back in reserve to keep the lights on is and pay the salaries?

I mean, our operating budget --

MS. REDWAY: Well, and just because we're in a credit crunch, it seems like liquidity is a pretty valuable resource --

MR. GILBERTSON: Cash is king.

MS. REDWAY: Yes.

MR. GILBERTSON: We've been saying that for a long time.

MS. REDWAY: So I was just wondering if you have any sense of what the proceeds should be --

MS. PARKER: Yes, I don't know that we have that yet. But it's a little -- hindsight is great. If the Board will remember, when we came back to them starting in January, we essentially said we need to start really conserving the use of our Housing Assistance Trust Funds. And we made recommendations that the Board approve to pull back substantial programs that we had for the use of those funds in order to be building up some of these reserves in these capacities going forward.

So the best way to answer your question is, I think the analysis at that point in time will look at what we think is reasonable percentages given the uncertainty in the market.

MS. REDWAY: I don’t know if you’ve had that yet, but that's kind of the --

MS. PARKER: No, I think it’s --

MS. REDWAY: No, you're doing a great job --

MS. PARKER: We’re trying to --

MS. REDWAY: -- so I'm just asking --

MS. PARKER: If I did, I would tell you right now it would be wrong for what it would be, what we'd know two months from now.

But the plan would be at that point in time to be giving you all of that, what would be our guess. And, again, that would be policy considerations for the Board, whether or not you feel that we should be more conservative or whatever. Because, again, that goes back to some of the things that we need to do.

You know, from a risk standpoint, moving forward, I thought when we go forward with the delinquency discussion on the loans, I would take a minute because I think it was something that Tim and Bruce mentioned earlier on, about there needs to be tightening of our underwriting criteria. And I thought I might ask Chuck -- Mr. McManus, our director of Mortgage Insurance, who, obviously, is the person who negotiates the relationship for reinsurance with Genworth. And, you know, Genworth is fighting its own battles in the financial market these days. And all of the mortgage-insurance entities have retreated significantly from where they are on their underwriting criteria.

And so Chuck has been involved in trying to negotiate with them what would be our reinsurance contracts for 2009. And they are substantially changing the parameters that we have been able to enjoy to the benefit of our stakeholder groups and customers from the standpoint of perhaps more flexibility in the underwriting.

So, Chuck, I don't know if you want to come and make some comments. But I think you can give them a sense of the kinds of things that Genworth has come back and been discussing with you about their preferences relative to what have been our underwriting criteria in the past year or so.

MR. McMANUS: I'll try and make this as simple as I can. Basically, Genworth is very negative on the State of California due to the drop in housing prices, which estimates are 30 to 40 percent decline in the housing prices the first half of this year. As a result, they've limited their loan-to-value in the general market 90 percent of loan-to-value. They require 10 percent down. They also have moved to appreciating borrower cash into the deal -- in other words, out of the borrower's own funds. And they're pretty much at a 5 percent minimum. Our borrowers average approximately 1.75 percent cash out of their pocket into the deals. So that puts us at a major conflict of being able to serve our audience. And so we will probably end up at 3 percent cash out-of-pocket. I'm not sure -- that's at their risk management committee, probably as we're sitting here right now. And they also will restrict our volume to maybe $300 million, and our LTV, our loan-to-value, to 95 percent.

That is still stepping out from where they are with the rest of the market. So they respect the fact that we have full document packages, we do serious review and underwriting, and we reenter D.U. findings. We reenter the data in order to get our own findings to check them out.

But it's very tight. And all the mortgage insurers have been downgraded significantly, and they continue to be downgraded more. Their stock prices have dropped to $1 to $2 per share.

So mortgage insurance, what's called "private mortgage insurance," is in great distress. And the availability of reinsurance for the insurance fund -- we retain 25 percent of the risk, and we reinsure 75 – it is not what it used to be -- is at a minimum, I should say.

So we will have to tighten our underwriting guidelines. It will involve increasing required credit scores, it will involve requiring borrower cash out-of-pocket, and it will involve restricting total loan-to-value to 95.

These, I know. I will know more tomorrow and tomorrow, but by next week, as to what we can do with reinsurance. And we need the reinsurance for rating purposes, because we are a single state fund. It's very good to have 75 percent of it reinsured.

If there's any questions, I'd be glad to share with you what I know.

Yes?

MS. GAY: Kind of standard business-protocol vision, what would you see? I mean, in my world, small-scale, we'd set up a pool, we do seconds, so we could avoid M.I. I don't see the State changing its whole business platform, but are there any discussions around ways to not have to be in the face of the M.I. community as aggressively as we have been?

MR. McMANUS: Well, the Agency, because we administer subordinate loan programs -- and we have a responsibility to try and keep the borrower in the home also. We have a conscience of not trying to overextend people, which is what happened in the subprime fiasco. So we underwrite the subordinate loans also. I mean, we underwrite the first mortgage, but we have the total debt, the total payments, and do all the ratio analysis and so forth.

So using a subordinate loan will get you maybe to 95 or 90, which will make it safer for the primary mortgage insurer, which is what we do.

MS. GAY: Right.

MR. McMANUS: But we will still underwrite based on total payments as a percentage of income and so forth.

To the extent you can find the subordinate loans, especially silent subordinate loans that don't require payments and are paid at the end, when the loan is paid off, that will help people qualify.

MS. GAY: Right.

MR. McMANUS: And I think that will be the trend for affordable housing. There will be more subordinate-loan programs making it possible. Because there will be no private mortgage insurers taking that risk. And even FHA is going to 3½ percent cash down.

MS. GAY: Absolutely.

MR. McMANUS: So it will get tighter. It's a tough market.

Any other questions?

MS. PARKER: Thanks, Chuck.

MR. McMANUS: Thank you.

MS. PARKER: Bruce, do you want to go through the last part of these just to give them some sense of loan delinquencies on our -- this is our total loan portfolio, so it's those loans that are both FHA and conventional, which Chuck insures the conventional loans.

MR. GILBERTSON: I wonder, if we should -- before we go there, are there any other questions on the restructuring plan and the whole time-line that Tim laid out?

(No response)

MR. GILBERTSON: Everybody's good? Okay, great.

The other thing I mentioned --

MS. PETERS: This is not a question. I just wanted to say that was an amazing presentation. I've never seen anything so complicated brought down to such an understandable level. So I'm happy to say, I don't have a single question. Great job.

MR. GILBERTSON: That's great.

Thank you, Ms. Peters.

The one other thing as we talk about these charts -- and Tim is going to walk you through it -- there is a report in the binder section of your report today, there's a four-pager that talks about delinquencies, it talks about some of the insured losses and uninsured losses as well.

MR. HSU: These are charts that we started developing when the investors all started inquiring about what's going on with the assets. I recall, there were days in which, when we used to make investor presentations, all we showed them is what is happening on the bond side. And because there was such an expectation that all these assets were performing well, real estate was going up, people really didn't ask any questions.

So when they started asking questions, we did a lot of work to try to establish as long of a history as we can of historical delinquency, because people were looking to the past as a guide for the future.

So here, what we're showing is ten years of delinquency information. And this is the total delinquent ratio. So this is any loan that's more than 30-days delinquent which, in some sense, is a ratio that exaggerates, if you will, the issue a little bit because there could be loans that go 30-days delinquent and then come back into current.

So we're showing four lines here. We are showing ourselves compared to the quarterly Mortgage Banker Association statistics that comes out quarterly. So what you have here is this line here, which I believe is in red, is the Mortgage Banker Association's California FHA fixed-rate loans. And what you can see is that, traditionally, we do better than that survey; but recently, we have sort of crossed over and are becoming worse than they are. But from a credit point of view, since all of these loans are insured by FHA, you might sort of make the strong argument -- and it's an accurate argument -- that the fact that it crosses over looks bad; but from a pure impact to the Agency, it's not very important because we get paid off by FHA.

What's more important is what's going on with the loans that we have, which are conventionally insured, which is predominantly insured by Chuck's M.I. fund. And here, it is a better story in the sense that this line here is the MBA's California prime index. And this line here, I would have to say, the prime, though, does include fixed-rate and bonds. So if we compare ourselves to that line, traditionally, we do -- I'm sorry, this line, I've got it wrong.

MS. GALANTE: The green line is the --

MR. HSU: I'm sorry, that's what happens when you're color-blind.

This line here is the MBA’s California prime. And, traditionally, we do worse in that. That's why we’re higher than them. But as you can see, recently we have sort of crossed over, in which we actually are doing better than they are.

And I mentioned earlier that these are quarterly statistics. That's why their dots don't extend out as far as ours, because we're now waiting for the third quarter to come out. So this is the line here that's making us a little bit more worried, because this is the direct impact to Chuck's insurance business, and Chuck's insurance business could potentially impact our G.O.

The one other thing I would add about the sale of loans, I know I explained the sale of loans in the context of dealing with other boxes that I have; but the other thing that's really important to remember is that if we raise cash and we deal with the boxes, that's fantastic. But what's also really great is that taking the loans off our books would mean that it would release pressure from our G.O. because when we hold loans on our books, they get marked down for rating purposes by haircuts. So we might be holding on to, let's say, a billion dollars of single-family loans. From their point of view, it's not worth a billion dollars.

So if we take a billion dollars of loans and we realize a billion dollars cash and we're dealing with a billion dollars of variable-rate bonds, we can also release, let's say, the amount of haircut that the rating agencies would place on that billion-dollar loan.

So suppose the haircut is 25 percent. It just means that we saved $250 million out of our G.O. capacity.

MR. MANDELL: I have a question for you. On the CalHFA conventional loans line, the lower of the red lines, August 2003, that level is where we're at now. Did the agency do anything at that time to address that? And if so, what?

MR. GILBERTSON: I think if you remember back to 2003, what really happened then is, that's when we fell to historic lows in interest rates. And I think if you took a poll of people in this room, you'd find that a pretty high percentage of people refinanced their mortgages in the summer of 2003. I know, I'm one of them.

So I think it was really more convenient that there was cheap access to refinancing capital in a vastly appreciating California housing market.

I don't know what led -- the more interesting question to me, Mr. Mandell, is what led to the higher delinquencies earlier in 2003.

I don't know if Chuck has any sense.

MR. McMANUS: I wasn't here in 2003.

MS. PARKER: Well, maybe one thing --

MR. GILBERTSON: But you can see it also occurred in the FHA portfolios.

MS. PARKER: Yes, but one of the things that I think might be interesting to point out is, this doesn't really give you a sense of the percentage of the portfolio that is FHA versus conventional.

MR. GILBERTSON: Right.

MS. PARKER: And while -- Chuck, correct me if I'm wrong -- while those delinquency rates are higher, the number of loans that we had, that were conventionally insured by the Agency, was probably less --

MR. McMANUS: Very small.

MR. GILBERTSON: Very small. Less than 20 percent, probably. Probably 15 to 20.

MS. PARKER: So if you look at those lines, while they were high, the number of loans that we had is nothing like the number of loans that are in our books now.

MR. McMANUS: It would almost be --

MR. MANDELL: So less exposure at the time.

MR. McMANUS: It would almost be an adverse selection that was still on the books, because everyone else, with the rising prices, refinanced.

MR. MANDELL: Okay.

MR. McMANUS: So what you were left with were people that didn't qualify for refinancing. They were delinquents, et cetera.

MS. PARKER: Right.

But from the standpoint -- the delinquency at that point in time, at FHA, was much more representative of what was happening with the loans. Although, in that sense, because we had FHA coverage, the Agency in and of itself wasn't impacted.

MR. MANDELL: Thank you.

MR. HSU: I will emphasize that these are total delinquent ratios.

So on the next slide what we show is basically that same information, except we now only show loans that are 90-days-plus delinquent.

So the scale is almost the same. On the previous slide, the scale went up to 15 percent. Here, it only goes up to 10 percent. But you can see a big sort of compression of these lines coming straight down. But though the nominal delinquency ratios are much lower, you can see sort of the relative relationships of these terrible rates is pretty similar.

Next slide.

MS. PARKER: The next slide is really --

MR. HSU: Yes, we have various breakdowns of these slides.

The previous two slides are sort of giving people sort of a fairly global view because we group all the FHAs together, we group all the conventionals together.

But these next two slides are some of the slides that we have to try to address what is the underlying cause or what is the underlying trend that makes some of these statistics rational or makes sense.

And one of the breakdowns that we do is by loan type. And you can see that -- and this slide does tell half the story but -- it doesn't tell the complete story, which I'll tell you -- this slide here, ostensibly what it shows is that these I.O. loans that we have are far more delinquent than any other loan types. And that would actually jibe very well with what you hear in the popular press that, oh, all these I.O, interest-only, and ARM stuff is what's getting people in trouble.

MS. PARKER: Although these were not adjustable rates.

MR. HSU: They were not. That’s right.

MS. PARKER: They were fixed rates.

MR. HSU: They were still all fixed-rate.

But part of it is that some of the things that truly matter to underlie some of these charts, which we can show you more, if it interests you, is things like vintage, for example. As it turns out, a lot of these I.O.'s that are showing delinquency are from the 2005 vintage or 2006 vintage, which is something that you also see in a conventional space, because that's basically when the market, the real estate market, peaked.

So a lot of this is vintage-driven, and some of it is also driven by LTV, for example. Some of the things that Chuck had talked about in terms of how much of the purchase price we financed.

So some, as we have done a very in-depth analysis to show that some of these loans that we've seen in the I.O. world, as it turns out, they have higher LTV ratio than these other loan types.

And some of it could be addressing the underlying, let's say, situation of the borrower: Someone that goes into I.O. perhaps is more inclined, more disposed to stretching his or her finances more. And that could be underlying some of these trends you see here.

Because you can see that the more traditional product that perhaps I like is the 30-year loans, it has the statistics that's sort of hitting the -- lower than all these other loan types.

And this, again, is the total delinquency, which shows that everything that's more than 30-days delinquent shows up on this chart.

And the next chart, we again look at the same chart, except this time we're looking at loans that are more than 90 days delinquent. So that shows that all these ratios, again, are getting compressed, so that they're much lower.

And these are the loans that we truly, truly worry about because these are the loans that perhaps are either already in foreclosure or they're headed for foreclosure. And these are sort of the population that we're most concerned about.

But it's still basically the same story, that the I.O., the 5/35 I.O. product that we have, is the loan product that's sort of, from this point of view, causing most of the pain on that. Because in the first two slides that I showed, basically those are the averages of these lines.

MS. GALANTE: So I was just trying to understand a question that Terri started to get to but I don't think we fully addressed.

So of the obviously higher-risk ones or the interest-only, what proportion of our portfolio is in that versus these other loan products that are, you know, still incredibly low delinquencies, actually, even, in this time.

MR. HSU: That's actually in the packet.

MR. GILBERTSON: Yes, I think if you look on page 215, it's in the report.

At the time we produced this report, for purposes of preparing your Board binder, we had July delinquencies.

I think this had August delinquencies.

But you'll see at the bottom of page 215 the interest-only. There's 5,300 loans for 1.5 -- almost $1.6 billion of principal balances.

MS. GALANTE: Thank you.

MR. GILBERTSON: 24 percent.

MS. PARKER: And, you know, as you're aware, that is a program that we suspended the first part of September.

MR. HSU: And the last thing --

MS. PARKER: If --

MS. HSU: I'm sorry, Terri -- the last thing I would say about these charts --

Bruce, can you go back to that chart with that circle?

MR. GILBERTSON: Which one?

MR. HSU: The circle.

MS. PARKER: The circles?

MS. REDWAY: There were circles?

MR. GILBERTSON: I can read his mind.

MR. HSU: Or should I say that this is a hexagon.

So the delinquencies -- I just want to kind of put things in these boxes. For me, the delinquencies that we're talking about on these last four charts are here, so that it's causing us to have fewer payments.

MS. PARKER: But I think that's -- let me just, sort of to summarize that, I think that if you keep this diagram in mind and look at the different things that we are trying to do to help on various fronts for the Agency to manage our way through this, that we are managing both above the line, from a new-production standpoint, but also very much below the line on portfolio management. Both, in the air, is the dealing with the investment instrument, the debt-management part, but also the portfolio management of the assets on our books. You know, trying to -- again, as I mentioned earlier with Chuck, add additional resources and staff to be selling our REO properties in this market. To be adding additional staff, to be working with the borrowers to try to have them be successful and being current on their loans.

So, you know, it is a multi-pronged approach that each and everyone of them can contribute to the bottom-line success of the Agency.

In closing, I did want to add one last comment. We have in the past, in our discussions as a group, there's been questions about, you know -- and I said some of what we have been doing on the Agency's part of going to the federal government and asking for assistance, particularly in the forms of the GSEs, but I wanted -- and I think a couple of you have asked the State in totality, are they doing anything with respect to making a pitch to the federal government around housing. And I don't really have any details to it.

But, obviously, the Governor spoke out yesterday about the impact to the State's municipal market of which we are part of. But the State Treasurer's office is also involved in asking issuers -- CalHFA is one -- around the state of California, Metropolitan Water District, there's a number of issuers -- to sign on to a letter to the leadership in Washington, the leadership of Pelosi and Senator Feinstein and Senator Boxer, Congressman Barney Frank --

to essentially point out the problems to issuers of municipal-type bonds and, you know, as far as doing our missions and our public service. So we will be signing on to that letter. It should be going out sometime next week.

So, again, I think we are across this state holding hands of looking at ways to have many voices in a choir to be preaching the same sort of mantra.

MS. GAY: Thank you. That's exciting to hear, too.

I guess the main thing that I take away from all of this is how important it is for all hands to be on deck. And I want to just encourage that, as you look at new, more expanded distribution strategies with your own REO, with vetting new types of buyers who are stronger -- which is what Chuck was describing -- that you don't leave out the people on the ground.

I think there's a huge opportunity, given all the conversations I'm in nationally as well for the not-for-profit sector to really stand on its best laurels through this process and help vet the best of the best of the best and the brightest and strongest candidates, whether it's in the new purchase market and/or in preserving homes for the families that can do it.

And so I put that out there, the Agency has been a leader already. But I think even on the REO distribution, there's huge ways that a lot of us can be more helpful. And it's just knowing exactly what the Agency wants to get done and how we bring that to bear. And that doesn't mean we do the work even, per se, but it may be pointing you to people who can help facilitate the distribution strategies you need on the ground.

MS. PARKER: I agree. I mean, the partnerships, particularly with the size of our state, and the ability to get at those impacted populations.

You know, when I've been back in Washington, I've said this a number of times to people, while they think about California as being just something that is so -- you know, the way they act, it would be like the properties that we have, have no value whatsoever and that it's just decimation. And I point out to them, even with what we are doing right now, which is higher FICO scores, lower loan-to-values, high interest rates even that we're charging, we're dealing with between a million and a half and two million dollars a day in business. That means that there are people out there that are taking advantage of the affordability that hasn't existed for well over a decade --

MS. GAY: Absolutely.

MS. PARKER: -- and want to be able to buy a house.

MS. GAY: Yes.

MS. PARKER: And so I keep saying, we need to be there to help take advantage of this point in time.

Ms. Javits?

MS. JAVITS: I had a few questions. Thank you for this outstanding presentation, and I agree with the comments that Lori made.

And it is still really complex, so forgive me if these are pretty simple-minded questions. But I just wanted to ask a couple things.

One: If I understood you correctly, there's outside potential liability of $118 million in 2009.

Is that fair?

MR. GILBERTSON: Yes, the term-out -- the projected term-out payments on August 1, 2009, are $118 million.

MS. JAVITS: Right, right.

MS. PARKER: Carla, but that doesn't include what we will be experiencing for continuation of basis mismatch that Bruce also gave you some numbers of what we know about to date.

MS. JAVITS: And that could be, roughly, up to…

MR. GILBERTSON: Well, based off October as a standard -- and I don't think that should be the standard we use -- we had a $5 million basis mismatch in a one-month period.

MS. JAVITS: So up to sixty?

MR. GILBERTSON: That would project to 60. That, I believe, would be on the high side.

MS. JAVITS: So I'm just trying to get some -- just as a Board member -- just some sense of the relative range of potential liability, and I guess in relation to our ability to deal with that. So I'm hearing the very highest end could be about $180 million, but you wouldn't anticipate that.

So, I mean, I'm just trying to get just some sense in terms of just trying to be a fiduciary steward of what the range of potential liability is and what the Agency's ability to deal with that is.

MR. GILBERTSON: Okay, I think that's fair from an outside range. I was hoping to avoid further complications.

MS. JAVITS: I’m sorry.

MR. GILBERTSON: But we spent the last week or so working with bond counsel, and they're both represented in the audience today.

To take a look -- we drafted -- we asked them to draft a memorandum on bank bonds. The primary purpose was to share it with the rating agencies, so that they had a sense of where the priority of payments lie. And it becomes very, very complicated, very, very quickly. But let me try to take a stab at it. And I would certainly ask for representation, if I'm incorrect, that you clarify -- Stan or Dan.

You know, the general-obligation credits of the Agency, the Multifamily Program, what we call the Housing Program Bond, pretty clear-cut. If we have bank bonds, we need to pay the interest, we need to pay the principal as it was scheduled originally or as it comes due over time.

If it becomes bank bond and is termed out more quickly, we need to do everything we can to make sure that happens. Bad, bad things happen if we don't.

You know, and for the much larger program, the HMRB program, which is where the majority of that $118 million resides, the priority of payments under that bond indenture and the related standby bond-purchase agreements is a little bit different.

What it really does within that indenture is that all of the cash that is in the indenture, that is either from prepayment of loans or excess revenues -- and Tim did walk you through that -- become caught up, and can effectively only be used to term-out these bank bonds.

It isn't a negative thing -- an incredibly negative thing for the Agency if we don't have the $118 million of cash on 8/1/2009. We aren't in an event of default by the big definition of an *"event of default"*; and it simply rolls forward to the next semiannual period. And they would effectively have a priority to have them termed out what would be 2/1/2010.

MS. JAVITS: Okay.

MR. GILBERTSON: Fairly accurate?

MR. DIRKS: Fair enough.

MS. JAVITS: That's helpful. Thank you.

MR. DIRKS: If I might?

MS. PARKER: Stan?

You all know Stan Dirks.

MR. DIRKS: Thank you.

The perspective on that $118 million number is that there may be a lot of money from the cash flows that Bruce was talking about that, on balance, would be just fine to put against that number, to use to pay that number. There are a fair number of uncertainties as to how much of that cash flow will be available, because we don't know how fast single-family loans will prepay over the next year.

If prepayment rates go up, that 118 million might be easy to pay. If prepayment rates stay low, it will be more difficult; but there still will be some money available, within the indenture, to pay that amount. So that $118 million is really a very outside number. I think that's --

MR. GILBERTSON: Correct.

MR. HSU: I think that if we were to do the sale of loans and get rid of these red boxes, this number would be about $70 million rather than $120 million. And so what that would represent, that $70 million represents, basically, is the term-out for the failure to renew these facilities here. Because that $120 million minus $70 million, or $50 million, represents the term-out of all these red boxes.

MS. JAVITS: Right. So if I could just ask two other quick questions.

CHAIR CAREY: Yes.

MS. JAVITS: One is, so I guess in relation to that -- and I appreciated how you showed in the circles kind of where the foreclosure issue kind of comes to play. Let's say foreclosure rates for us really continue to sort of -- or start ramping upward. Can you just give us some sense of what that means in terms of the scenario you just laid out?

MS. PARKER: Well, I'm going to start in a little bit. I mean, we would have to go back and look at, are the foreclosures FHA loans or are they conventional loans?

MS. JAVITS: Right.

MS. PARKER: If they're primarily FHA loans --

MS. JAVITS: Yes, but let's say they're not.

MS. PARKER: If they're conventional loans, then it is -- you know, it's a situation where if we go through and we start doing refinancing -- or, you know, those are REO and we sell them, we have to look at what is the return that we can get on those properties. And that's something that Chuck is doing some analysis on because it not only -- you know, how much is covered -- and that has several categories that can impact us, too. If it is -- if we have reinsurance on those loans, then we're going to get some amount from Genworth.

MS. JAVITS: Right.

MS. PARKER: If we do not, and it's covered out of our GAP policies, then there is a bigger hit to the Agency. And if the property is -- the return on the -- when we resell the property, if it is really low, then it could have an impact actually on our reserves that are against our indentures.

MS. JAVITS: Right. So thank you.

And so that leads to my last question, which is sort of on the positive side of the ledger, in terms of what business the Agency is now doing. I just wanted to, just at a high level, have some sense of that. If somebody were to ask me, you know, "So what's the Agency doing now?" I heard Terri say, "We're putting out $1½ million to $2 million a day in business." I heard you talk about the SMART program. I heard you talk about the C-S-H-L-P -- the "CSHLP" -- I love that name -- program. And then, obviously, we have something on the Multifamily --

I mean, can you just give us just a high-level sense of what positive business the Agency is doing now?

MS. PARKER: Okay. We are offering a 30-year fixed-rate loan that we have designed; and we are working through with Fannie Mae that is not, at this particular point, dependent upon our ability to sell bonds.

MS. JAVITS: Right.

MS. PARKER: So that we can essentially make these loans and then sell them directly to Fannie Mae. And I think the ratios of the loans that we are doing now are still primarily conventional-rate loans, although there are some FHA in there.

And so part of it, as we noted in our documents here, that we also need to work in as an exit strategy, either with Fannie or some other way, that we could sell those FHA loans because Fannie will buy the conventional.

And this is not an issue that's just unique to CalHFA. All of our housing finance agencies are talking to Fannie about a source for selling these FHA loans because of what has happened with the access to mortgage insurance. But we are only doing that as a first mortgage loan. And the only down-payment assistance that we are offering is that that is funded by bond funds. We are not -- any of the programs that we used to use, our Housing Trust funds, we have suspended those; and to preserve those funds to deal with our portfolio and debt-management problems.

We are continuing to offer this SMART program. It is also within a constraint. It has $25 million total to it. So the interest rates that are on that are part of, again, what Bruce has structured, you know, within the financial structure.

And the Housing Stabilization Program, now, that's the one program that I would say it's unique. That will all be on Chuck's M.I. It's all going to be conventional loans because we are offering 100 percent loan-to-value. So it won't qualify for reinsurance or it doesn't qualify for FHA.

So right now, at the moment, the one loan that probably has the most risks associated with it are those loans. But, again, you know, Chuck and his folks are going through and doing all the underwriting.

And the other part that we think is very key to why we still think this is a very successful model is, with the banks giving us those properties at 12 percent what is below current value, the concern is that, you know, if there was a need to refinance or for it to be given back, at least we have value built into that loan that we're making right now.

MS. JAVITS: So is that -- what's the volume there?

MS. PARKER: We've done about $4 million so far of those loans, and the majority of that has probably been done in the last month.

MS. JAVITS: And is that included? Is the $1½ million to $2 million a day just a 30-year fixed-rate?

MS. PARKER: No, that would include those loans. It includes all of our loans.

MS. JAVITS: Okay.

MS. PARKER: You know, I would say that we have some loans that we are doing that are under -- and we'll talk a little bit about this later in one of our issues, resolutions that we have -- or not resolutions, but one of the issues we want to bring forward -- we still have some loans under our agreements with, for example, the

Self-Help Builders, where they brought forward commitments at specific rates. And so those loans that are delivered then, we are honoring that commitment to them.

MS. JAVITS: Okay, thank you.

MS. PARKER: But there is, you know, nothing else.

And, you know, I think on the Multifamily side, I think you will remember the Board meeting that we had in September where we essentially talked about -- and really made some changes to the resolution -- that was a big change for you all from the standpoint of the resolutions that we had in the past. And there was really only one deal. And we are trying to go back and work on that because it doesn't sort of hold in the current environment. But those deals and the interest rates were predicated on what was happening with the marketplace.

So we are continuing to work on them, work with those partners. If those people have alternative ways for them to do this, we're assisting them in any way we possibly can.

MS. JAVITS: Thank you.

MR. MANDELL: I have just a quick question about what you were saying on the new program where we would be buying or doing the financing on the homes at a 12 percent reduction on the loan, the value of the property.

Wouldn't that, on the natural then, allow you to meet the test, Chuck, of a -- what did you say, 95 percent loan-to-value, or even 90 percent loan-to-value?

MR. McMANUS: The rule is the lower of the selling price, you know, or the appraised value. And, therefore, the selling price sets your 100 percent. So you still need the 5 percent reduction.

MR. MANDELL: Okay. Thank you.

MS. PARKER: Mr. Chairman, unless there's any questions, I might suggest that we give our scribe a break, and we'll get on with the other items that we have before you.

CHAIR CAREY: Okay, we will recess for about ten minutes.

(Recess taken from 11:27 a.m. to 11:45 a.m.)

CHAIR CAREY: We are back in session. And we are going to rearrange the agenda slightly and take up Item 6 next.

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Item 6. Discussion and possible action regarding loans under the Agency's Self Help Builder Assistance Program

CHAIR CAREY: Tom, do you want to give a preamble?

MR. HUGHES: Yes, Item 6, regarding Self Help Builders Assistance Program, raises a potential conflict of interest for Mr. Carey as he is employed by Self-Help Enterprises, which is one of the participants in that program.

We have discussed this and have concluded that under the provisions of the Government Code regarding conflicts of interest in contracts, and specifically Government Code section 1091(b)(1), that as an officer/employee of a nonprofit 501(c)(3), that that interest would be what is called a "*remote interest*." And so long as it's disclosed to the Board and that disclosure is put on the official records of the Agency and so long as Mr. Carey then basically doesn't participate, doesn't vote on that matter, that that's an acceptable process. So I believe Mr. Carey will put that on the record and will remove himself from participation in this matter.

CHAIR CAREY: Right. Thank you, Tom.

That being said, I'm going to recuse myself and actually leave the meeting. And I've asked Board Member Carla Javits if she would chair the discussion on this issue. And I will leave.

Thank you.

(Mr. Carey left the meeting room.)

ACTING CHAIR JAVITS: Very good.

Are we going to have a presentation?

MS. PARKER: Yes, we are.

I'm going to swing around here and ask Gary Braunstein to join me.

This item begins on page 211, and it should be behind Tab 6 -- no, that's not right.

197.

ACTING CHAIR JAVITS: But it does say Tab 6.

MS. PARKER: All right, it’s behind Tab 4.

I want to just give a little context for this item. And we've set it up for discussion and possible action. But I wanted to essentially give you some perspective on this issue.

As we've said earlier in our discussion, we have suspended a number of our programs. And one of the programs that we suspended also, on the 23rd of September, was our forward-commitment program to Self Help Builders. And I think we reported it at our last meeting that we found that the suspension that we had of the HomeChoice Program caught some people that had been involved in a contract for sale of a property, but the bank that they were dealing with, and in this case Guild Mortgage, had not put in a reservation for them. And so while they had been acting under the assumption of a program that would be in place, Guild Mortgage had not followed through. Really, there was no reason. But we were concerned about those individuals being impacted. And we went back and made them demonstrate for us that those people were in contracts and that we offered them a 5.5 percent interest rate.

Those loans are in the process -- there's about 25 of them -- of being reunderwritten, to see whether or not they will work. And we will make those loans accordingly.

This is a second example of programs that we have -- ongoing programs that we have with partners, that the window caught some unaware. And while the Self Help Builders, I think, would be the first to admit, and had been working with both CalHFA and HCD, recognizing the programs that they use of ours, that these things are available over-the-counter every day for them, they had some projects that they had started. They had actual Self Help families beginning to work on them, but they had not made reservations for forward commitments.

We did a survey, because they came to both HCD and CalHFA to see if we would help them. And because of -- and we've identified probably a number of projects that they are in the process -- and that goes back to the chart that we have -- projects that they have, that they are working on, and those projects of which they actually have people that are committed to the homes.

So for those that are not under construction, we are not offering them any waivers, assistance, or whatever. But for those -- and there's about approximately 60 homes that are caught in this window where they have started construction. And if they don't have some certainty about a mortgage and what the interest rates are, the Self Help Builders have really been in a quandary about whether or not they should just stop progress and, in that sense, leave those homes and those people kind of in limbo.

There are some projects that the homes are going to be completed as early as February, and then some others that will go through the spring and summer of next year. But we have done a full inventory of all of the Self Help nonprofits that we worked with, to find out how big a problem that this is so that we could figure out if there was something that we could propose, what the impact to the Agency would be.

We also looked at other, outside of Self Help, nonprofit contractors and for-profit contractors. We are only coming here and talking today about those that are nonprofit because of the special circumstances with that group.

Both HCD and CalHFA have had a number of discussions with these groups of people. We've asked them to try to find out -- because in the past, they have been reliant on a loan from CalHFA at 3 percent. And we had Bruce run the numbers; and if we were to give, as an exception basis, these 60 loans a 3 percent loan, the impact on the Housing Finance Agency in subsidy amount would be almost $10 million.

What HCD has been looking at is to the extent that either that the use of their funds of HOME or BEGIN, that they could be used to write down what would be the first mortgage loan. And then if that loan had a higher interest rate, that the individuals would be kept in somewhat the same financial impact on a monthly basis as they were presuming when they started their house.

In the give-and-take of the discussions, we came back and we thought the best thing to do would be to make the case that because of the unique situation of these people being caught, you know, really, I believe, it is analogous to the HomeChoice people, that the

Housing Finance Agency, rather than offering interest rates of 3 to 3¼, would offer them a 5.5 percent interest rate.

And we targeted this to what we're doing for HomeChoice. We targeted this to what we're doing for the CSHLP or the SMART program. This is kind of the best thing we're doing.

The other reason for doing that is it then gave a target, to some extent, for the Self Help Builders to go back and look at what are the ways that they could mitigate the impact to the borrower. Through HCD or, if that's not available, how much they might need to deal with between now and when these homes close. But by us coming in and giving an assurance, which would allow them to have a forward commitment just for these, gives them some predictability for these homes to continue and some certainty.

We have, as we've told you by our analysis, if all of these loans continue to materialize, relative to what we think our cost of funds are today, it would mean that we would have to use about $2½ million of our Housing Assistance Trust Funds to make up that subsidy cost.

We brought this for your consideration today. I guess I would say -- and I could ask Tom to jump in here because we've had discussions about whether we truly need a resolution -- I think one could say that this is certainly under the purview of my authority as the executive director to do this. But I think in these times, and particularly the significance of what we have walked through, that we thought it was really important to have the Board be aware of anything that was an exception, and to bring that and present it and talk with you about all of that, and give it all of the due consideration, public airing, so that there is no perceptions or anything else about what we are doing.

So we're here -- Gary has gone through, we've continued to do surveys. We have a number of Self Help developers that we have forward commitments that they're delivering on, that was done last year. And we will be monitoring as those come forward. And to the extent that we know of, that there is at least one Self Help developer that had purchased a forward commitment that is not going to be delivering within that time frame, one could say that there is probably some offsetting savings to these rates that we are proposing to subsidize here. So we're managing this, but it is an exception, and we believe that it is consistent with what you would want us to be bringing to you for your consideration.

ACTING CHAIR JAVITS: Thank you, and thank you for bringing it to us.

Are there questions from members of the Board?

Carol?

MS. GALANTE: I have a couple of questions.

There are some existing forward commitments. So some people did go out and get a forward commitment from CalHFA and others did not.

Could you talk about -- there must be a cost, I would assume, to getting a forward commitment. What's the rationale for some developers that have done this and some that haven't?

MS. PARKER: You know, I met and so did Lynn Jacobs, we both met with this group about two weeks ago at the Rural Housing Summit in Asilomar. And I think I'll try to convey what they said to me.

There was a lot of embarrassment on their part and recognition that they failed really doing what they should have done. I guess I would say what their reason was, that there's been so much certainty to this program for so long, that we have not changed the rates. You know, we've not -- this is not a program that changes and fluctuates a lot. And so I think for all intents and purposes, it's not that they weren't planning to get a forward commitment, they just hadn't done it. And they probably were planning to do it, but they didn't think that there was any urgency to be doing it when they did it. And then the window closed, like that. Because when we wrote that letter, it was effective the next day.

And I can tell you in the circumstances of one Self Help developer, they were in the process of going to one of the banks to get this and the person who did them was on vacation. And so they couldn't complete their transaction, or they would have met the date.

So they have, as a group, been great about saying that they recognized that they really didn't do what they should have done, kind of throwing themselves on -- I have to say, I understand their case more than I do the HomeChoice people because they were taking reservations on individual properties for individual people. But, you know, kind of, it is what it is. And I don't think that they didn't do it because they were trying to save the money on the forward commitments. I think it was more just the timing.

MS. GALANTE: So there is a charge for the forward commitment?

MS. PARKER: Yes.

MS. GALANTE: And were all these deals that -- the 60, I guess -- are they actually under construction already?

MS. PARKER: Yes, yes.

Those that are not -- because they gave us a list of all of the ones that they are currently involved in. And we went through each one of those and if it wasn't under construction, it got crossed off.

The number originally that they had, that they were dealing with, that they should have gotten forward commitments on, was approximately $25 million. And when we took that number and we went through for what was under construction and what wasn't, that got us down to the $14.7 million number.

ACTING CHAIR JAVITS: Other questions --

MS. PARKER: It involves pretty much all four of the Self Help developers, so…

ACTING CHAIR JAVITS: Other questions? Comments from the Board?

MS. PARKER: You know, I think Elliott might want to talk a little bit about what HCD is doing in partnership on this.

MR. MANDELL: And, actually, Terri, I had a question for you first. The $2.56 million, is that the entire problem, or is that assuming that each HCD handles a portion of the issue? Because I just have summary documents, and that's why --

MS. PARKER: No, I'll tell you what the number is. I can't tell you what the number is in totality that is a problem for them, because they needed to go back and do an assessment about how much they were getting -- almost back to each and every one of these houses of subsidy through the BEGIN Program and the HOME Program.

MR. MANDELL: Well, so simply, the HCD piece would be in addition to the $2.5 million?

MS. PARKER: Yes, right, because --

MR. MANDELL: Okay, that's all I was really asking.

MS. PARKER: Because this is our portion -- there is more problem beyond this. Because all we're doing is we're taking them from 3 to 5.5. And they're looking to you to see if you can help them between the 3 and 5.5.

MR. MANDELL: Okay. Well, the reason I ask that is because I do have some additional information.

Unfortunately without being able to ask the staff person what did they mean in the information that they sent in the e-mail, I want to kind of try to put it into context, whether or not it effectively changed any of the requests that is being discussed now -- or not the request, but the action that's being talked about.
But what I do know is that we have looked at -- HCD has looked at the issue and that there is an amount that is about $1.1 million that we think can be assisted through

our BEGIN Program. There was no mention of CalHome specifically or the federal HOME dollars so I'm not sure if there's some other opportunities on that.

We have a NOFA, Notice of Funding Availability, out right now on BEGIN that our legal staff has reviewed the documentation. They think that this can be used -- can be amended to assist these various projects. There is a limitation, however, for BEGIN, and that is, that there's a $60,000 per-unit cap. And it cannot -- and that's a new per-unit limit. It can't go retroactively back to 2007, so that's going to effectively limit some of the ability for us to assist.

What I'm not clear about is whether or not -- what the process is also in terms of for these particular projects to be assisted, if there is a full and complete application loan grant committee process or sort of on the natural, if they apply, that that money is made available. I was trying to get that information earlier, and just haven't gotten it back from staff yet.

It sounds like for the amount that we thought -- HCD thought we were being asked to assist with, based on the limitation that I had just mentioned, that we could help with all but about $12,000 of that problem.

So I hope that, I'm telling you --

MS. GAY: Per unit?

MR. MANDELL: No, in total.

MS. GAY: Oh, wow.

MR. MANDELL: Among the four entities that I understand that we've been asked to see if we could provide assistance for.

MS. PARKER: Unfortunately, we don't have -- the staff, when we were in this discussion, we proposed about two weeks ago moving to 5.5 so in that sense, HCD could look at what was the difference to see what they could do. So I don't know, but I'm presuming that that 1.1 that you're talking about then brings them back to being within $12,000 of taking - plus, at our 5.5 percent rate -- of taking the borrowers back to solve what would have been their mortgage payments if they had been able to get that loan at 3 percent.

MR. MANDELL: Well, basically, that's the question I was trying to get a better handle on by asking you a better question.

MS. PARKER: Yes, right.

MS. MANDELL: So I think at this point it is still important to go forward with the $2.5 million from CalHFA and for HCD to finalize what we can do to assist. But we're here to help.

MS. PARKER: Since it is costing us

$2.5 million to buy a rate from 3 to 5.5, my presumption is that the 1.1 that you're offering would be to take care of whatever segment is a cost on top of that.

MR. MANDELL: Yes. And, unfortunately, I can't -- I don't have the --

MS. PARKER: I don't think your 1.1 could --

MR. MANDELL: Drive down the 5.5.

MS. PARKER: -- would reduce the amount that we think would be needed to provide.

ACTING CHAIR JAVITS: Thank you.

Are there other questions or comments from the Board members?

(No response)

ACTING CHAIR JAVITS: Are there any -- is there any testimony from the public?

(No response)

ACTING CHAIR JAVITS: What is the Board's pleasure in terms of acting? Do we want to affirm Terri's authority to make the decision in this case, or is that -- I mean, I don't know, is there such a thing as an affirmation?

MS. PARKER: Tom?

MR. HUGHES: Well, what we did on this was to leave it wide open to what the Board wanted. We believe that this kind of action is within the executive director's authority, as is. But for the reasons that Terri articulated, we felt the Board should know about it. So we left it open that the Board could essentially take no action, could just simply not object or could affirm it, or could actually pass a resolution saying it is okay. It's really up to the Board.

ACTING CHAIR JAVITS: Does anyone -- yes?

MS. GAY: I don't know if it's a motion then, but I'd certainly like there to be some resolution that provides support to putting in the appropriate money to cover the gap as is noted on record that is needed.

ACTING CHAIR JAVITS: I guess maybe just one thought. Generally, I would think we'd want our director to have the authority that they have programmatically, so that we don't set precedent in terms of coming to us for approval on items that normally are under her purview.

And at the same time, I think in this case, you decided to come to us, give us the information, there's an interest in affirming the decisions that -- or at least the recommendation that you're making today.

So, I mean, is there maybe some -- just as perhaps something short of a resolution to approve -- perhaps a resolution to affirm Terri's recommendation?

MS. REDWAY: Could we just have the minutes reflect that the direction -- the sense of the direction of the Board is to support Terri's decision?

ACTING CHAIR JAVITS: Well, are all the Board members comfortable with that?

MS. PETERS: Yes.

ACTING CHAIR JAVITS: Are there any concerns about that? Any objections to that?

(No response)

ACTING CHAIR JAVITS: Okay.

MS. PARKER: Thank you. Thank you very much.

I do think you all are very aware of these developers. And seeing the faces of these individual people, they have been very much the victims of this. And you will make such a difference –- we'll all make such a difference in our lives about being able to help this particular group.

MS. GALANTE: And will this resolution -- this resolution of the issue, they feel good and would be satisfied with this?

MS. PARKER: I think it would be fair to say, they are very grateful. Again, they are -- they came, they recognized, to some extent, their role. They really looked for us to be helpful, if we could do anything. And, you know, we've gotten some great e-mails about being heroes so you all are heroes.

ACTING CHAIR JAVITS: We really appreciate the efforts of the Agency to keep putting people in homes, in affordable homes, in a really tough time.

MS. PARKER: Yes. I mean, we have heard so much -- and I think we've all seen these new slides -- how dynamic things are. And, you know, if you just weren't awake, it's like in a blink. And so, again, we thought that this was consistent with what we had heard before. We believe that this is the end of what are the exceptions. We've heard from everybody that we would be hearing from.

ACTING CHAIR JAVITS: Thank you.

Would someone ask Peter to come back in, please?

MR. HUGHES: And we'll just note for the record that Mr. Carey was absent during the consideration of this matter and is now returning to the meeting.

ACTING CHAIR JAVITS: Okay, excellent.

It looks like the next item is the *Bay Area Housing Program*, and that's under Tab 5.

MR. GILBERTSON: Actually, we have to back up to resolution 08- --

MS. PARKER: Let's do this one first, then I'll do that.

MR. GILBERTSON: Oh, okay.

(Mr. Carey returned to the meeting room.)

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Item 7. Discussion, recommendation, and possible action regarding amendments to Board resolutions relating to the Bay Area Housing Program

MS. PARKER: This is behind Tab 5. No, it's not.

MR. GILBERTSON: 08-44?

MS. PARKER: 08-44, yes. Page 201.

Let me just set the stage. I talked a little bit about this as we were going through the presentation.

As you are well aware, this is one of those three items that Moody's rating agency has pointed to and just agonized over. We have spent well over a year in trying to make them understand this transaction, to make them really understand that it is not a real estate risk transaction, that it is an appropriation risk transaction.

And I think much to our disappointment and the disappointment of our colleagues in the regional centers and the Department of Developmental Services and whatnot, we just have not been successful, and we're not going to be successful with Moody's. So the only thing that we can do right now, is to move forward and try to figure out a way to get this off of our G.O., in order to improve that situation so that we can get the rating agencies to lift this letter of possible downgrade.

This is just one item. We've given you what we are doing on all three of them. But this one is obviously very important.

We have been having a number of meetings, really, for months, trying to give the Department of Developmental Services centers, the regional centers, and the developer some idea about where the financial market was going on this as we essentially took in those loans, completed the rehab, and started filling up the 61 homes with what used to be developmental-center clients in institutional settings now moving into community settings.

And as we have -- as the market has progressed, Bruce has continued to meet with those individuals and given them some sense of what these costs of transactions would be. We gave them numbers in the summertime. We gave them numbers again early in September.

After the middle of September, we have continued to meet with them more aggressively and point out that we no longer can sit and have this be on our General Obligation until the market gets to a point in time where these individuals like what the interest rate might be. And we've actually had to get to the point of very candid conversations about what could be done.

And in doing that, there has been, you know, the recent review by other people, the Department of Developmental Services has brought in an advisor to look through, to see if there's other financing mechanisms. The Treasurer's office has come in and looked at this to see if there are other financing mechanisms. And many of these financing mechanisms were frankly looked at when we started this project in 2005. So that's how long ago we started doing it.

And at that point in time, the objective that we were really trying to solve was a way that we could have these new kind of facilities financed without using state dollars for their development, but also in a way that we could do it and continue to have the services provided for them be reimbursed by federal Medicaid dollars. So while we could have found ways to finance these projects, the real -- one of the relationship issues needed to be, is it needed to be done in a way that the Department of Developmental Services could continue to claim Medicaid dollars and, in that sense, get 50 percent reimbursement for every dollar spent.

So that there was savings to the State General Fund in two ways: One, closing the developmental centers, and, two, to the extent that we could make them these communities, have the continual influx of federal financial participation.

And then most importantly, that all of this could be done not on the State's ratings. In other words, their debt-structure ratings wouldn't have to take responsibility for this, which would limit for the State of California the capacity, that they could use their rating and their debt capacity for other state purposes.

So that was the plan. And we've been working through -- and we've been successful in getting these houses done, although it took much longer than anybody had intended.

Now, we're at a situation where bonds can be sold for these properties, but we can't get the kind of rating that we had anticipated and hoped for, and had been trying to do everything but set ourselves on fire to make them understand it.

We have been able to -- at the moment, if we were to sell bonds, they would be -- based on -- and without our General Obligation, because if we do that, then it is a direct hit to us -- it would mean $100 million of our General-Fund capacity, our G.O. capacity that's not available for any other things that we've talked about. And that's part of the problem, was that the rating agency is not even looking at -- they're looking at dollar-for-dollar, as if these properties and the land that they sit on and everything else has no value.

So we've taken this back to the developmental centers -- or to DDS, the regional centers, and said, "Absent anything else, we have the authority to sell bonds. And if it is a situation that we need to sell bonds and the interest rate is going to be increased or we can't use those proceeds to handle our other problem, we don't have any choice."

As Bruce said, we're looking at four different things right now. And one of them is to see if, during the special session, that there might be an opportunity for getting legislation that would put the State's moral obligation -- not full faith and credit, there's a difference -- moral obligation on these bonds.

We've had Stan Dirks work and prepare the language that's currently being reviewed. And that process is being considered, about people -- and even if it's possible to do in a special-session environment. If that were possible to do, it would allow the rating for these bonds to go from what would be technically --

MR. GILBERTSON: Yes, the double-B, or B, single-A --

MS. PARKER: Highly speculative to what would be a triple-B, which is an investment-grade rating. And we think that today's interest rates for these projects would be probably in the --

MR. GILBERTSON: Tax-exempt 8 to 10 percent range, if we had the moral obligation, as opposed to something in the high teens, approaching 20 or 20-plus.

MS. PARKER: As we mentioned, we're also having a discussion with the Treasurer's office about submitting an application to the PMIB, that either -- not assuming that we could get moral obligation with the PMIB, step in and give us some window while we put an exit strategy together to take out these. There always is the exit strategy to take them out at the speculative-grade rating.

We have tried every way to impress the developers that if they have opportunities -- and they have had in the past and they didn't take advantage of them -- terms from some of their own banks, that if they're better than these, to essentially go after and pursue those. And in that sense, it would take it off our G.O.

And then the fourth one -- and that really goes to the heart of the resolution today -- is for us to essentially have -- so we can go back and talk to the rating agencies on the 4th of December and say, our strategy, absent any of these other things happening, is to sell debt in January.

And right now, we have a resolution that has a cap on the interest that we could sell those bonds at, and the purpose of the resolution today is to come forward and ask to raise that cap to allow us -- clearly, we would continue to be as mindful as we can in mitigating these costs to the State of California; but that we would also have the option to take them off our G.O. rather than having the situation of the Agency perhaps be further penalized by having to cover this, that it was really not a responsibility of the California Housing Finance Agency but the State of California.

So we are here -- the resolution that we are asking for, the cap currently is --

MR. GILBERTSON: 15 percent.

MS. PARKER: -- 15 percent.

This is asking you to raise it to 25 percent.

What we know in the marketplace today, speculative grade, would probably be about, blended, 19 percent. But we put that as, you know, just a worst-case scenario.

MR. GILBERTSON: One other thing the resolution does, just more of a technicality than anything else: There's a whole series of resolutions on this. We would need to extend the time frame that the Agency has to issue bonds for this purpose so it extends it out by another full year, into early 2010.

MS. PARKER: Again, we are putting that in because we don't know when we're going to do it; but we thought we would bring both of them -- both of them together as an issue.

MR. MANDELL: Terri, I have a question. It's just a technical one.

When you talk about the interest rate and you talked previously about Medicaid covering costs, do the Feds also cover 50 percent of the interest rate?

MS. PARKER: Yes. In fact, I'm glad you asked me this question, Elliott, because I think it really puts it into perspective.

The developmental centers, when they first sort of did this and when they met and gave their projections with Finance as far as what are the costs, they were trying to assume at that point in time that the interest rates, including our spread, would be somewhere around 7½ percent.

They did an analysis the other day, based on the information that we've given them, that if it was as great as 20 percent, that over the 15-year life of the bonds, it would be a $75 million additional expenditure.

Half of that would be paid by federal financial participation.

So the costs in that sense to the General Fund, if it went out the entire 15 years, would be somewhere around thirty- -- excuse me, $70 million, not seventy-five -- $70 million. So it would be about $35 million over a 15-year period.

Many of you may or may not know the Developmental Services budget, but it's billions of dollars.

The other thing I want to add to you, we, in our meetings with the Health and Welfare Agency, the Treasurer's office, the regional centers, the developers of this, told them about this meeting today, we were very up-front about what we were doing. The director of the Department of Developmental Services last weekend -- again in a meeting we had yesterday -- said that this needs to move forward off our General Obligation.

We certainly said if you want to come and make a presentation to the Board or express any concerns or whatever, you know, here is when it’s at. And, you know, I'm pleased to say it, I don't think that there is anybody in the audience.

So we have made them fully aware, the Department of Finance; and we'll continue to see if there are ways to mitigate this. But we need to have an exit strategy to take to the rating agencies on the 4th of December.

MS. JAVITS: Can I just ask?

CHAIR CAREY: I didn't.

MS. JAVITS: Thank you for the options and the presentation.

Just one question: Is it possible, or do we -- I guess what's the potential that people will actually be displaced from their homes as a result of this?

MS. PARKER: Oh, there is no impact on that at all. You know, there's -- these facilities have to function. They will function. And, you know, there is this probably -- outside of education, there is the next-strongest entitlement for people who are developmentally disabled for the State of California to pay. This is what we have been trying to make this case under the Lanterman Act to the rating agencies, to Moody's in particular, and they just –- they just won't get it.

You know, this is -- from my old days, I used to have this budget when I was a little budget finance analyst. And, you know, you try to do your best guess of guessing what the costs will be. But the State is constitutionally required to make these payments. And so one way or the other, these people are guaranteed those services and then they have to be paid for.

MS. JAVITS: Thank you.

MR. HUGHES: One thing that might explain in a little more detail -- it goes really to both Mr. Mandell's question and your question, Ms. Javits -- is that the way it works, technically, is that the Medicaid waiver pays for services, and this housing is a component of that. And it doesn't pay interest, but the way we structured the transaction, the rent for those properties scales automatically to our debt service. So as the debt service goes up, so does the rent go up, and then the Medicaid comes in to reimburse a portion of that rent. So the transaction works exactly the same but for the fact that the State and, to a certain extent, the federal government is now responsible for a higher0rent cost.

MS. PARKER: Tom, thank you. That is correct.

MR. MANDELL: And, Terri, without getting into the specifics -- because I don't know that anyone in the room has those -- what I'm gathering or assuming is that the savings to the DDS budget from not having to operate Agnews is substantially greater than a $75 million cost over the life of these bonds.

MS. PARKER: I don't want to make a -- it’s

$70 million.

MR. MANDELL: $70 million? I'm sorry, okay.

MS. PARKER: I think that that's very fair to say, because --

MR. MANDELL: So maybe it won't be as good a deal for them if they have to have a higher interest rate, but it's still a much better deal for the State of California to move this and continue this forward.

MS. PARKER: And also because, frankly, the State of California is under court order for the depopulation of the State developmental centers. And so there would be penalties in addition to being assessed to the State that by having these facilities, the State is not incurring those on top of the benefit of being able to have this shared contributions by the feds through the Medicaid-waiver possibility.

So, you know, it sounds like a lot of money. But when you look at it on an annual year appropriation, depending on what interest rates we can get, it might mean another $2 million General Fund. And as I said, you know, a budget item that's -- we're obviously very concerned about General Fund these days. But I do think it's the balance of that perspective, relative to what it means to CalHFA. And, you know, what I've told these developers, that they're looking for, "Where is CalHFA willing to share the pain?" I've told them that we've got loans that we're selling, that we've got -- you know, some of our best multifamily properties that we're selling that have provided the Housing Assistance Trust Funds that allow us to do these things, that we're giving up. I think our share of pain is pretty apparent to you all.

MS. GALANTE: Are you ready for a motion?

CHAIR CAREY: Sure.

MS. GALANTE: I move approval.

MS. JAVITS: Second.

CHAIR CAREY: It's been moved and seconded. Is there further discussion?

(No response)

CHAIR CAREY: Is there anyone in the public that would like to comment on this action?

(No response)

CHAIR CAREY: Seeing none, we will call the roll.

MS. OJIMA: Thank you.

Ms. Peters?

MS. PETERS: Aye.

MS. OJIMA: Ms. Galante?

MS. GALANTE: Aye.

MS. OJIMA: Ms. Gay?

MS. GAY: Aye.

MS. OJIMA: Mr. Mandell?

MR. MANDELL: Aye.

MS. OJIMA: Ms. Javits?

MS. JAVITS: Aye.

MS. OJIMA: Ms. Redway?

MS. REDWAY: Aye.

MS. OJIMA: Mr. Carey?

CHAIR CAREY: Aye.

MS. OJIMA: Resolution 08-44 has been approved.

CHAIR CAREY: Thank you.

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Item 5. Discussion, recommendation, and possible action regarding authority to purchase bonds using Agency funds

CHAIR CAREY: Now, we will go back to Item 5 on the agenda, which is Tab 3 in the books.

MR. GILBERTSON: Great. Thank you.

One more resolution, it's resolution 08-42, that would allow the agency to purchase its own bonds. I'll just walk through this quickly.

At the last board meeting in October, the Board adopted resolution 08-36, allowing the Agency to borrow money to purchase our own bonds. That was part of our resolution where we asked for an increase in the short-term credit facilities that this Agency could have.

This one simply -- you know, as we thought about that one more, we thought, we have $400 million to $500 million of our own cash that we could use as part of this debt-restructuring that we talked about much earlier this morning, that we might want to make sure that we have board approval for that purpose as well. So that's really what it does.

Just to go back and summarize quickly, the authorized uses would be, as a part of our debt-restructuring and bond-redemption strategies, it may become apparent to us that the best alternative is to buy bonds, be them bank bonds or auction-rate securities or otherwise bonds that aren't performing well, directly hold them as an investment of the Agency for some short period of time until we complete the overall restructuring plan. Basically, that's what Resolution 08-42 authorizes us to do.

There is a technical section, I think, in the actual write-up. There's a reference to the Health and Safety Code section 51003, where the Board does have power to authorize certain investments of the Agency's idle cash.

And then lastly, there's a requirement that if we were to do something like this and to purchase bonds, that we report back to the Board at a subsequent meeting.

With that, I'd be willing to answer any questions, if there are any.

MS. GALANTE: I have a question that really relates to the conversation we were having before the break, and it was getting time to take a break and so I didn't ask it, and so it really only tangentially relates to the motion, which is, there has been a lot of press about restructuring existing -- this may be more for Chuck than for you, Bruce -- but restructuring existing -- modifying existing loans for home buyers. You know, there was just a big announcement about that.

I haven't heard any conversation about CalHFA doing that, whether that would be financially ultimately better or worse than the path that we're on, and whether it's legally possible under these various instruments.

So I just thought it was important to understand --

MS. PARKER: Let me answer it because I think what I have told the group is that we put together a working group with our sister state HFAs across the country, to see whether we could take advantage of the creation of a loan-refi -- not loan-modification -- program to use part of the $11 billion, or $1.1 billion given to California in additional bond cap, with the authority that would allow the housing finance agencies for the first time ever to use those bond finances to do loan refinancing. We have been prohibited from anything but a first-time home buyer in the past. Though, the qualifications for using that require that the bond cap be used for bonds that were subprime or, you know, Alt-A, technically, they had a variable-rate loan on them. So that's the first thing that we need to know.

And so we've been working to see if we can work with some of the banks, to see if the housing finance agencies across the country could play a role in helping them with their -- they will do loan modifications based on some of the things that Citi, Bank of America, and a number of them have come out with. And we're looking into that. But we're making a pitch to them, you know, if there are loans at the end of the day that fit in a bucket of the various things that they're looking at, whether they be loan modifications through changing interest rates or terms or getting as far down as principal reduction, if there's another bucket that's left, before they would go to foreclosure, to see if the housing finance agencies could play a role in preserving those people in their homes.

Now, let me switch to what I believe was your question about CalHFA. To the extent that there is a requirement that we cannot use those proceeds to do a refinance of our loan, then it would be a matter of us doing loan modifications. And we have had -- we're starting to have some internal discussions. That's part of the reason for the additional staff, is to look at if there are ways for us to do things on the front end with our borrowers to keep them in their homes.

What we have looked at so far are -- and we have -- it's been the history of the Agency -- is that we do do loan modifications, but within a certain time frame for ability for people to repay the loan. There's not been cases where the Agency has done principal reduction.

So if we continue down that path of looking to see if changes in terms of or changes in interest rates, how that impacts our return on our bond payments to our investors, but also how that goes fundamentally to our contract with our investors that's in our indentures, and particularly from the standpoint of getting into a situation where there would be principal forgiveness.

One of the differences that we have, from my standpoint, that we have that is different from the banks, the banks have the ability to go and look at every loan on an individual basis and make a decision on those loans on an individual basis. Whatever we do has to be for everyone. So if we start doing that, then the line forms, and everybody technically has to be sort of treated equally, whatever "*equally*" means. You know, do you then state some criteria for what is "*equally*" or "*not equally*"?

So I have said to you in the past that -- and I've been very public about it -- we're not doing those kinds of loan modifications. We are going to try to see if we can, first off, do the kinds of things that our sister state HFAs are doing, being more proactive and working with our borrowers, getting out there -- Massachusetts is talking about -- they start doing contacts with their borrowers at 15 days.

But, on the other hand, we need to look at what is the cost to us of foreclosures and, you know, is there some amount that we can look at that might be tolerable to keep people in their houses?

But I just -- I say to you that that -- you know, you guys, this will be your considerations well after I'm gone, but because we cannot do things on an individual basis like the banks can, we also didn't do subprime loans. They were fully underwritten. So if there are problems with the performance on these loans, it really comes back to more of the situation where there's been a catastrophic occurrence to people than it has been that they had their interest rate adjusted or that they had a situation where they -- you know, they didn't have the full documentation and really didn't have the finances to make the mortgage.

So I would suggest that when you have these further talks about this, that those things need to be taken into consideration, because this is very different than loans that were done by Countrywide and many other banks.

MS. GALANTE: That's helpful. Thank you.

CHAIR CAREY: Other questions?

MS. REDWAY: I don't have a question, but I've got kind of a -- I guess a question -- a statement.

The Treasurer's office is supportive. It's a good idea. It definitely makes sense maybe to buy back the bonds. I think we would like, just as a Board member, to see a little bit -- or have a better understanding of what you will ultimately decide in terms of your cash analysis. That percentage, or what you want to hold in reserve before there's a lot of this done, just because that is a pretty critical piece of this. We'll be generating cash and we will be spending it, but how much should we hold back.

MS. PARKER: Bruce and -- Tim, I don't see him. Maybe he went back to work.

MR. GILBERTSON: He might have gone back to the office.

MS. PARKER: I think what we have given you, at least in our own minds, depending on how much capacity that we had -- you know, what we're mostly worried about is those insured bonds.

MR. GILBERTSON: Yes. And I would give you some reassurance that we're going to be quite conservative, I think, in going at this.

The one thing that we do have in the mix right now is about a $17 million potential purchase of VRDOs that are backed by DEPFA. We started some discussions with that, and so that would be the initial, perhaps, foray into this.

I think that the broader implications of how much liquidity we should hold back for different purposes will become a conversation, I think, at future board meetings, especially the January and the March meetings, as we start formulating our business plan and as this whole market event kind of plays itself out.

MS. PARKER: But I think, you know, particularly in these kinds of meetings, as we move through this, we will do these kinds of documentations.

Part of the biggest added complexity is that as some of these cash -- the capital is freed up, that depending on where they came from, we are limited to what we can cash out. It's not -- you know, it's not green -- totally green money. So to some extent, if it came from single-family, we have to do single-family. If it's multifamily, we have to do multifamily.

CHAIR CAREY: Other comments? Questions?

(No response)

CHAIR CAREY: Do we have a motion?

MS. JAVITS: I'll move.

MS. PETERS: I'll second.

CHAIR CAREY: Moved and seconded.

Resolution 08-42, any further discussion?

(No response)

CHAIR CAREY: Does anyone from the public wish to comment?

(No response)

CHAIR CAREY: Seeing none, we'll call the roll.

MS. OJIMA: Ms. Peters?

MS. PETERS: Aye.

MS. OJIMA: Ms. Galante?

MS. GALANTE: Aye.

MS. OJIMA: Ms. Gay?

MS. GAY: Aye.

MS. OJIMA: Mr. Mandell?

MR. MANDELL: Aye.

MS. OJIMA: Ms. Javits?

MS. JAVITS: Aye.
MS. OJIMA: Ms. Redway?
MS. REDWAY: Aye.
MS. OJIMA: Mr. Carey?
CHAIR CAREY:: Aye.
MS. OJIMA: Resolution 08-42 has been approved.

Item 8. Report of the Chair of the Audit Committee

CHAIR CAREY: Okay, the next item on the agenda is the *Report of the Chair of the Audit Committee*.

I've taken the chair's prerogative to ask if Ms. Galante would be nice enough to make that report for us.

MS. GALANTE: It was so long ago, I'm not sure I remember it.

We had an Audit Committee meeting this morning where the audit for fiscal year ending June 2008 was discussed with the auditors, as well as our Finance staff. And I would say a couple of comments.

The first, is that the auditors were very complimentary of the staff, and let us know that in terms of the audit itself and the financial statements, there were no deficiencies, no audit adjustments. So they were very complimentary to the CalHFA staff in terms of getting the audit done and the presentation of the financial statements. So we should all feel very good about that, given the complexity of these financial statements.

A couple of comments. We got kind of the lowlights and highlights from what the actual financial statements mean, obviously by going over them on an audited basis. And I think the lowlight was that the operating income for the year ending June 2008 was $10 million, whereas it had been $85 million for 2007.

And that was based on a couple things. There was some extraordinary income in 2007, including the sale of some REO property. So there was an unusually high number in 2007. And there was also an unusually low number in 2008, relative to some esoteric tax situation, the federal government level that impacted these financial statements.

So I would say the Audit Committee did ask for kind of what the historical number has been. And I believe that we're going to get a revised chart which shows a couple extra years, so we have some sense of what would normally be expected, because that was a big swing.

The other question -- and we actually spent so much time on all these bonds and the loan portfolio -- there was a question about the financial statements. You know, the largest chunk of our assets are in the program loans, and trying to understand the loan-loss reserves against those assets, and how that's developed and, you know, what kind of auditing requirements we have.

There's obviously a fair amount of judgment that goes into creating that loan-loss reserve number. So we did get some answers to how that was valued.

So I would say the last comment that the Audit Committee had was given the volatility of all that we've been discussing in the full board meeting, these statements are, as of June 2008, which is a lifetime ago given where we are today. And we thought it would be important to actually get interim statements. I guess they're done on a quarterly basis. So the September statements are due fairly soon. And Dennis has said he will get those. I don't think we've got a date, but I think it is important for us to get those as quickly as possible, as well as I think the December statements are going to be incredibly telling. And so if we could get a schedule for when the December statements are done.

But all in all, in terms of the audit, a good job to both the auditors and staff.

That would be my report.

CHAIR CAREY: Thank you.

Questions or comments from -- do you have anything to add, Elliott?

MR. MANDELL: No, I think that Ms. Galante did a very fine job in encapsulating in the report the actions taken this morning.

CHAIR CAREY: Great.

Okay, we will move on --

MS. PARKER: Mr. Chairman, can I just ask one thing?

I'm not sure if it's in everybody's book. Would you turn to page 211, which should be after -- at least in my book, it's Tab 6.

And, Tom, could you remind me why this is in there?

MR. HUGHES: At the last Board meeting, when the Board considered the revised final commitment, there was a requirement that the staff come back for the next two meetings to report our progress or the status. And this is the first such report.

MS. PARKER: And we continue to work on that project. It's obviously difficult. At this point in time, there's issues with the tax-credit investor, there's issues on our ability to sell bonds. We had a conference call last Friday; we're having another one this week, on Friday. So this continues to be a difficult project to try to deal with. It is in our portfolio, though, so it's not like we think that somehow this is going to become market and everybody kicked out.

But we will keep you apprised of that.

MS. JAVITS: Great. Thank you.

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Item 9. Reports

CHAIR CAREY: *Reports*. We've covered most of the information.

Is there anything to be added from the reports?

MS. PARKER: No.

CHAIR CAREY: Great.

MS. PARKER: I think we've reported everything.

MS. GALANTE: We couldn't possibly absorb any more.

CHAIR CAREY: Yes, really.

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Item 10. Discussion of Other Board Matters

CHAIR CAREY: *Other Board Matters*?

(Ms. Peters left the hearing room for the day.)

MS. PARKER: Mr. Chair, page 2 of the agenda talks about the future meetings. The next one it shows is a date of January 22nd in Millbrae. I believe we've sent out notice that JoJo has contacted all of your offices and has proposed a meeting date of December 12th, at 1:00 p.m. in the afternoon. Based on the survey of all of you, that was the best chance we had to get a quorum to come to the meeting.

There are at least one, if not two items that we know that we would like to have your -- we need your approval on. One of them is an I.T. project that we have been working on and reporting through, it's been in our budget, you know, for many years.

But we also thought that given that these meetings have been very beneficial, and right after that period of time, we will have gone and talked to the rating agencies, we will have completed another set of meetings in Washington, we will know where we will be on the potential sale of loans, that we thought it would be a good time to come back -- it's my last day -- and give you one more report.

CHAIR CAREY: Carla?

MS. JAVITS: There was an article in the Los Angeles Times last week that I thought was, as a Board member, inflammatory and highly inaccurate in terms of actions that this Board has taken. And I would like to respond as a Board member in some way to that. I would welcome anyone else on the Board, at this time or any other time after this meeting, who would like to also respond. But as a member of this Board, I would like to respond. And I'm not certain yet if that will take the form of a letter to the editor or an attempt to write an op-ed piece. But I think that we really - as a Board member, I feel a responsibility to correct the record.

The statements made kind of harken back to a lot of conversation we had here, and findings from an extensive audit, that there was absolutely nothing that had been done that was inappropriate. And I just feel, as a Board member, that I want to provide some kind of response to that.

MS. GALANTE: I couldn't agree more, as someone who was part of the audit investigation of all those various claims, you know, to see that article was just more than disappointing. Clearly, no one read the record when they developed that article.

So I don't know whether -- maybe it's a question for Tom, whether we just respond to that as individual Board members or whether we can respond in some more formal fashion.

Is there any prohibition against the Board --

MR. HUGHES: No. I think that you phrased the question correctly, that the Board members could decide as individuals to respond or the Board as a group or as an entity could so decide if they chose. It's up to each member and to the Board.

MS. JAVITS: So I guess I'm going to make an attempt to respond, myself, within the next week. And if anyone would like to participate in that response, I would welcome that; and if not, I will certainly indicate that I am a member of this Board in my response.

CHAIR CAREY: I'd certainly like to participate.

As someone who spoke to the reporter who wrote that story, I was very frustrated. He misrepresented the current situation, he misrepresented the Board's actions, he misrepresented the goals of the Board and was clearly, in my conversations, looking for something. And I just think it's irresponsible, and to suggest that it's journalism is an overstatement.

I wanted to mention one more thing. The Board Search Committee and then the Board met yesterday to conclude the search process in advisory process to the Governor's office. And just because I need to say this to myself, and I'd like to say it for the Board -- both the Search Committee process and then the Board meeting yesterday was, of course, a closed-session meeting as provided under the law, which means that everything in that meeting was confidential, and not just as a responsibility as a board, but also our responsibility in our commitment to the Governor's office regarding confidentiality. So I'm just reminding myself and all of us that that was the result yesterday.

Item 11. Public Testimony

CHAIR CAREY: With that, we would open the meeting to *Public Testimony*, if there's anyone in the public who wishes to bring a matter to the Board's attention?

(No response)

CHAIR CAREY: Seeing none, we will adjourn.

(The meeting concluded at 12:50 p.m.)

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REPORTER'S CERTIFICATE

I hereby certify:

That the foregoing proceedings were duly reported by me at the time and place herein specified;

That the proceedings were reported by me, a duly certified shorthand reporter and a disinterested person, and was thereafter transcribed into typewriting, through computer-aided transcription.

IN WITNESS WHEREOF, I have hereunto set my hand on the 18th day of November 2008.

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

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State of California

M E M O R A N D U M

To: **Board of Directors** **Date:** 11-26-08

Tom Hughes, General Counsel

From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: Delegation of Operating Authority to Deputy Director

As you know, the term of Executive Director Terri Parker expired on October 14, 2008. By law, she is permitted to serve for additional period of 60 days, or until the earlier appointment of a new Executive Director by the Governor. The 60 days will expire at the end of the day on December 13, 2008. At that time, if no replacement has been appointed by the Governor, the office will become vacant.

If the position becomes vacant, it is critically important that an officer of the Agency have the power and authority to continue regular operations until a replacement is appointed. The Board does not have the authority to appoint an interim Executive Director. Only the Governor can make an appointment. The Board can, however, delegate operating authority to a CalHFA officer for the interim period. That officer will not be the Executive Director, but rather an officer who may exercise all of the powers that the Board may delegate.

The Board has certain statutory powers, including a general power of administration and oversight over the operations and activities of the Agency. Those powers may be delegated in a situation like that presented here. The effect of the delegation will be to permit the Deputy Director to exercise many of the powers and authorities which would normally be exercised by an Executive Director. It should be noted that the Executive Director position is imbued with certain powers and responsibilities which probably may not be delegated by the Board. One such example is that the Executive Director acts as an ex-offcio member of CDLAC and TCAC. Those seats will most likely be considered vacant until a replacement is appointed. However, we believe that the existing resolution will serve to effectively imbue the Deputy Director with sufficient authority to administer the day to day activities of the Agency and perform all normal operations on an interim basis.

As a historical note, the Board has taken similar actions at least twice in the past. In 1992, between the terms of Executive Directors Karney Hodge and John Seymour, and again in 1995 between the terms of John Seymour and Maureen Higgins, the Board enacted similar resolutions.

The resolution will expire without further action upon the appointment of a replacement by the Governor.

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RESOLUTION 08-45

RESOLUTION DELEGATING DAY TO DAY OPERATING AUTHORITY TO THE DEPUTY DIRECTOR

WHEREAS, Executive Director Theresa A. Parker is retiring at the end of her term of office; and

WHEREAS, the anticipated last day of her term will be December 13, 2008; and

WHEREAS, the position of Executive Director is appointed by the Governor of the State of California;

WHEREAS, the Board of Directors has statutory powers of administration and oversight over the Agency pursuant to Part 3 of Division 31 of the California Health & Safety Code; and

WHEREAS, it is essential that the Agency continue to operate and that the regular authority, duties and responsibilities of the Executive Director to be performed by an officer of the Agency during any period in which the position of Executive Director is vacant; and

WHEREAS, in the event that appointment of an Executive Director has not been made by the Governor as of the date the position of Executive Director becomes vacant, the Board needs to insure that an officer of the Agency has proper day-to-day operating authority until such an appointment has been made: and

WHEREAS, the Board wishes to delegate such authority to Deputy Director L. Steven Spears for such interim period;

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

1. Commencing immediately upon any vacancy in the office of Executive Director of the California Housing Finance Agency, the Board of Directors hereby delegates to Deputy Director L. Steven Spears, all necessary and proper powers and authorities to perform the administration and direction of the day to day operations

and activities of the Agency. The Deputy Director shall perform all of the duties and responsibilities normally accorded to an Executive Director of the Agency, subject to the supervision of the Board. Any prior or contemporaneous authorizations or delegations of authority made by the Board of Directors to the Executive Director may be exercised by the Deputy Director during the term of this resolution.

2. This delegation shall expire automatically upon an Executive Director appointed by the Governor taking office.

I hereby certify that this is a true and correct copy of Resolution 08-45 adopted at a duly constituted meeting of the Board of Directors of the Agency held on December 12, 2008, at Sacramento, California.

ATTEST: ________________________
Secretary

State of California

M E M O R A N D U M

To: Board of Directors **Date:** December 12, 2008

From: Steve Spears, Chief Deputy Director
CALIFORNIA HOUSING FINANCE AGENCY

Subject: AUTHORIZATION TO NEGOTIATE AND ENTER INTO A CONTRACT FOR FISCAL SERVICES SYSTEM RE-PLATFORMING SERVICES PER RESOLUTION 08-46

The Senior Management of the California Housing Finance Agency ("CalHFA") has determined the need for stabilizing and improving Fiscal Services' technical infrastructure. This technology is central to the Agency's processes of Homeownership, Multifamily, Mortgage Insurance and Operating accounting, payment processing and financial statements. The current technology is not meeting the current and changing business needs of critical CalHFA programs which depend on Fiscal Services activities and data to conduct their operations.

Senior Management has concluded that this stabilization and improvement can only be realized through strategic replacement of the current Fiscal Services technical infrastructure, resulting in a significantly reduced risk of catastrophic system failure, improved flexibility and enhanced access to timely financial information appropriate to a multi-billion dollar financial institution.

Fiscal Services is primarily supported by a set of custom-developed applications as well as numerous supporting spreadsheets. Most of this technology was developed more than ten years ago, prior to the explosion of new programming capabilities and the rapid evolution of web-based technology of the last decade. *The current Fiscal Services system is now fragile, at capacity, at risk for failure, and not supportive of the information analysis needs of management.*

As a result, CalHFA initiated the Fiscal Services Project ("Project") with the purpose of obtaining services necessary to replace the supporting applications, associated interfaces, and technical infrastructure as well as eventually reengineering all Fiscal Services accounting processes. With the successful completion of the Project, CalHFA expects to:

- Address the critical risk of existing system failure by providing a technical platform that is stable and current
- Migrate the existing system to a new platform which is both current and consistent with CalHFA's technology standards and operations
- Provide easier access to current financial data to better support Agency financial management
- Improve business operations and efficiencies

- Provide flexibility necessary to be responsive to changes in program areas
- Diminish the reliance on paper-driven processes

Through a careful analysis of CalHFA fiscal services business processes and requirements coupled with a detailed market analysis of "commercial off-the-shelf" (COTS) software and consideration of CalHFA resource constraints, CalHFA Senior Management determined that CalHFA should procure a COTS solution, implemented through a phased approach, to meet the needs of the CalHFA Fiscal Services Division.

Phase I, which is being conducted in two steps, includes the replacement of existing technical infrastructure with a stable and current platform. The first step, which has just been completed, was the selection and implementation of a COTS financial systems suite to replace CalHFA's current general ledger system. The second step, and the focus of this memo, is the selection of a systems integrator to reprogram and migrate the Agency's custom Legacy applications to a new technical platform and to integrate these applications with the COTS general ledger. Phase II will include identifying and modifying existing Fiscal Services business processes to utilize other core modules of the selected COTS financial suite. Phase III will include leveraging the Agency study conducted by Gartner and implementing Project/Cost Accounting.

The Project employed a best practices procurement process described in the Strategic Initiative Briefing Book provided to the Board of Directors at the March 19, 2008 meeting. A request for proposal ("RFP") was released to 17 prospective vendors which included .NET development vendors and application conversion vendors. The Agency received only one response which was considered not adequate due to significantly higher cost and time to complete than anticipated.

As a result, the Agency conducted a survey of vendors who did not respond and updated the RFP with a defined project budget and slightly modified warranty requirements. The Agency released the new RFP to four vendors, one of which decline to participate and three who responded with proposals. Following a rigorous evaluation process and the guidance of the CalHFA Strategic Project Governance structure, CalHFA selected Eclipse Solutions.

Eclipse Solutions offered the best and most comprehensive solution to meet the needs of CalHFA; appears capable of successfully completing the Project and providing the necessary warranty support; appears to be a financially stable company with more than 12 years in the consulting industry and a strong client list; and, offered significant value at a competitive price.

RECOMMENDATION OF RESOLUTION 08-46

Resolution 08-46 would authorize CalHFA to negotiate and enter into a contract with Eclipse Solutions for the design, development and implementation of software product for $1.72 million spread over two fiscal years. The Board of Directors has already approved $1.5 million for this Project as part of the Fiscal Year 08/09 budget.

RESOLUTION 08-46

APPROVAL TO NEGOTIATE AND ENTER INTO A CONTRACT FOR FISCAL SERVICES SYSTEM RE-PLATFORMING SERVICES

WHEREAS, the California Housing Finance Agency ("Agency") currently operates a computer-based fiscal services system to support Homeownership, Multifamily, Mortgage Insurance and Operating accounting and financial reporting; and

WHEREAS, the Agency's existing fiscal services system is obsolete, at capacity and must be replaced in order for the Agency to effectively meet the current and changing business needs supported by that system; and

WHEREAS, the replacement of the Fiscal Services system requires new industry –compatible software, and expertise in designing and implementing such software to best serve the Agency's needs; and

WHEREAS, the Agency's staff alone is unable to design and implement appropriate software necessary to replace the Agency's existing proprietary fiscal services system while continuing to meet the demands of the Agency's day-to-day operations; and

WHEREAS, Eclipse Solutions, Inc. ("Eclipse") has offered the best and most comprehensive solution, appears capable of successfully completing the project and providing the necessary warranty support, and staff believes that Eclipse is qualified to perform services to design, develop and implement software to meet the Agency's needs; and

WHEREAS, the Agency wishes to enter into a contract whereby Eclipse provide .NET development services, train Agency staff in its design, assist Agency in its implementation, deploy the software on the Agency's computer systems and provide related warranty and maintenance services to the Agency; and

WHEREAS, the Agency expects that the cost of the development services and implementation is approximately $1.72 million over two fiscal years, and that such cost is anticipated to exceed $1 million in one of those fiscal years: and

WHEREAS, Title 25 California Code of Regulations section 13302 requires Board approval of such vendor contracts in which costs are reasonably expected to exceed $1 million in any fiscal year;

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

1. The Executive Director is authorized to negotiate and execute a contract with Eclipse Solutions, Inc. for the design, development and implementation of software product meeting the needs of the Agency, and provide additional related services, on terms and conditions that the Executive Director deems reasonable and appropriate.

I hereby certify that this is a true and correct copy of Resolution 08-46 adopted at a duly constituted meeting of the Board of Directors of the Agency held on December 12, 2008, at Sacramento, California.

ATTEST: ____________________
Secretary

State of California

M E M O R A N D U M

To: Board of Directors **Date:** December 2, 2008

Bruce D. Gilbertson, Director of Financing

From: **CALIFORNIA HOUSING FINANCE AGENCY**

Subject: Homeownership Loan Portfolio Update

Attached for your information is a report summarizing the Agency's Homeownership loan portfolio:

- Delinquencies as of August 31, 2008 by insurance type,
- Delinquencies as of August 31, 2008 by product (loan) type,
- Real Estate Owned (REO) at October 31, 2008,
- Gains/ (Losses) on the Disposition of 1st Trust Deeds, January 1 through October 31, 2008,
- Write-Offs of subordinate loans, January 1 through October 31, 2008,
- Information on the MI portfolio delinquencies, and
- A comparison of the Agency's delinquencies to delinquencies reported by the Mortgage Banker Association

California Housing Finance Agency

CalHFA

HOMEOWNERSHIP LOAN PORTFOLIO DELINQUENCY, REO and LOSS REPORT

Reconciled Loan Delinquency Summary
All Active Loans
As of August 31st, 2008 By Insurance Type

	Loan Count	Balance	Percent	DELINQUENCY RATIOS 30-Day	60-Day	90(+) Day	Total
Federal Guaranty							
FHA	15,739	$ 2,243,134,326.32	34.15%	5.36%	2.01%	3.36%	10.73%
VA	474	76,373,656.58	1.16%	4.43%	0.63%	3.80%	8.86%
RHS	104	21,903,738.12	0.33%	1.92%	0.96%	5.77%	8.65%
Conventional loans							
with MI							
CalHFA MI Fund	9,915	2,738,161,016.55	41.69%	3.12%	1.43%	3.60%	8.15%
without MI							
Orig with no MI	5,933	1,269,347,880.10	19.33%	1.60%	0.47%	1.05%	3.12%
MI Cancelled*	1,697	218,653,213.56	3.33%	1.36%	0.77%	0.06%	2.18%
Total CalHFA	33,862	$ 6,567,573,831.23	100.00%	3.82%	1.49%	2.87%	8.18%

*Cancelled per Federal Homeowner Protection Act of 1998, which grants the option to cancel the MI with 20% equity.

Reconciled Loan Delinquency Summary
All Active Loans
As of August 31st, 2008 By Loan Type

	Loan Count	Balance	Percent	DELINQUENCY RATIOS 30-Day	60-Day	90(+) Day	Total
30-yr level amort							
FHA	15,739	$ 2,243,134,326.32	34.15%	5.36%	2.01%	3.36%	10.73%
VA	474	76,373,656.58	1.16%	4.43%	0.63%	3.80%	8.86%
RHS	104	21,903,738.12	0.33%	1.92%	0.96%	5.77%	8.65%
Conventional	11,151	2,390,708,468.67	36.40%	1.80%	0.69%	1.59%	4.08%
40-yr level amort							
Conventional	948	259,056,023.62	3.94%	2.64%	0.63%	1.90%	5.17%
5-yr IO, 30-yr amort							
Conventional	5,446	1,576,397,617.92	24.00%	3.69%	1.84%	4.13%	9.66%
Total CalHFA	33,862	$ 6,567,573,831.23	100.00%	3.82%	1.49%	2.87%	8.18%
	Weighted average of conventional loans:			2.43%	1.04%	2.39%	5.87%

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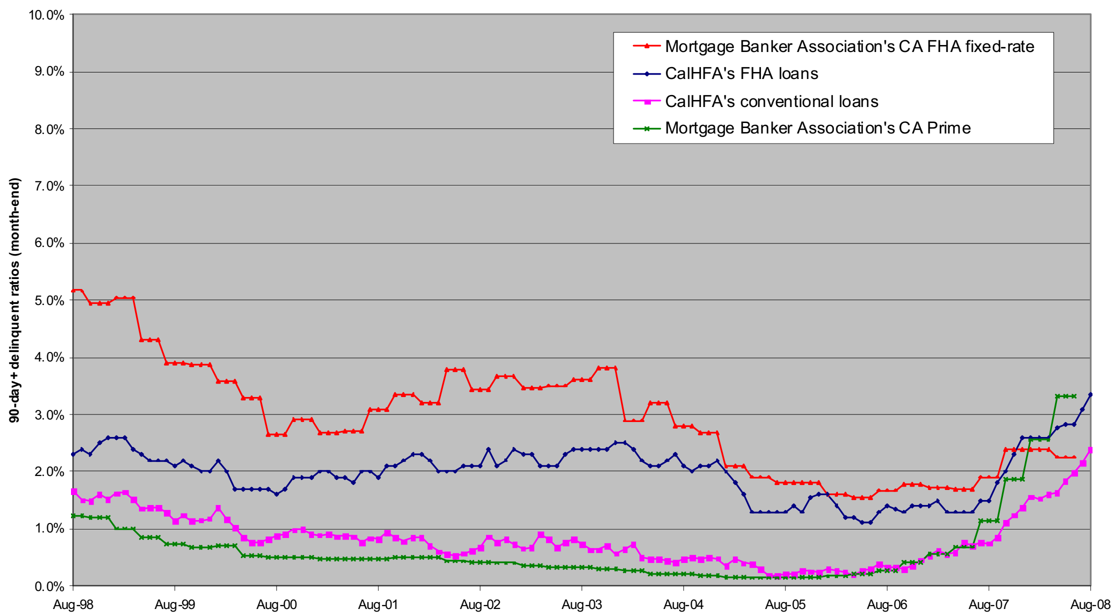
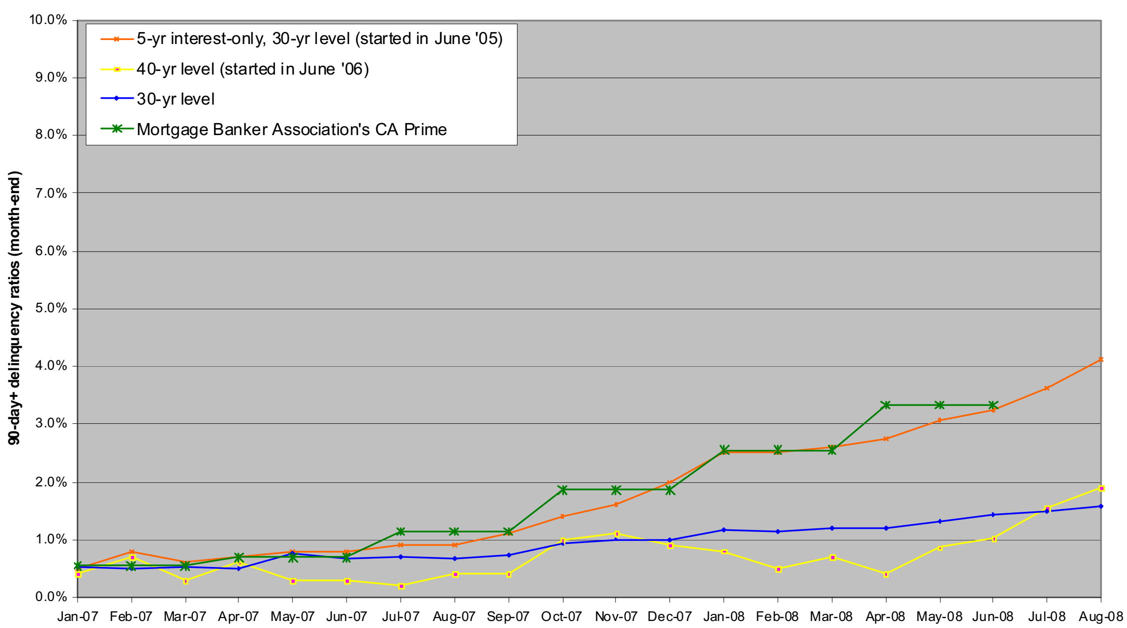
90-day+ delinquent ratios for CalHFA's FHA and weighted average of all conventional loans



90-day+ delinquent ratios for CalHFA's Three Conventional Loan Types



CalHFA Provided Mortgage Insurance

Primary Loan Portfolio Delinquency Summary (1)

(Information Submitted by Loan Servicers to CalHFA)

	Active Loans	Delinquent: Less than 120 Days (2)	Delinquent: 120+ Days	Loans in Foreclosure	Total	% of Portfolio
August Number of Loans	10,984	246	140	149	535	4.87%
August $ Amount	$ 3,040,451,604	$ 65,701,446	$ 37,996,144	$ 38,222,819	$ 141,920,409	4.67%
September Number of Loar	11,089	263	192	155	610	5.50%
September $ Amount	$ 3,067,303,276	$ 70,210,634	$ 51,726,024	$ 39,850,240	$ 161,786,898	5.27%
October Number of Loans	11,122	275	223	162	660	5.93%
October $ Amount	$ 3,076,165,655	$ 73,978,742	$ 58,891,648	$ 42,376,048	$ 175,246,438	5.70%

(1) Information does not correspond to fully reconciled data since loan servicers provide information on all loans in the pipeline as well as non-CalHFA insured loans.
(2) May not include all delinquencies since servicers are not required to report delinquencies less than 120 days.

Real Estate Owned

Calender Year 2008 (As of October 31st, 2008)

		*Trustee Sales			Disposition of REO(s)						
Loan Type	Beginning Balance # of Loans	Reverted to CalHFA Jan-Sept	Reverted to CalHFA October	Total Trustee Sales	Repurchased by Lender Jan-Sept	Market Sale(s) Jan-Sept	Repurchased by Lender October	Market Sale(s) October	Total Disposition of REO(s)	Ending Balance # of Loans	UPB of REO's Owned
FHA/RHS/VA	33	167	24	191	144	1	26		171	53	$ 11,175,238
Conventional	42	173	24	197		37		7	44	195	47,488,359
Total	75	340	48	388	144	38	26	7	215	248	$ 58,663,597

Calender Year 2007

		*Trustee Sales	Disposition of REO(s)			
Loan Type	Beginning Balance # of Loans	Reverted to CalHFA 2007	Repurchased by Lender 2007	Market Sale(s) 2007	Ending Balance # of Loans	UPB of REO's Owned
FHA/RHS/VA	8	57	32		33	$ 6,601,840
Conventional	2	42		2	42	$ 10,081,744
Total	10	99	32	2	75	$ 16,683,584

**3rd party trustee sales are not shown in the table (tltle to these loans were never transferred to CalHFA). There were twenty-one (21) 3rd party sales in calender year 2007 and there are six (7) 3rd party sales year to date for 2008.*

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2008 Year to Date REO Uninsured Losses[1] (As of October 31st, 2008)	
1st TD Sale Gain(Loss)	$ (142,664)
Subordinate Write-Off	(5,111,659)
Total Gain(Loss)/Write-Offs	$ (5,254,323)

(1) Includes both reconciled and unreconciled gains/losses to date.

2008 Year to Date Composition of 1st Trust Deed Gain/(Loss)
(As of October 31st, 2008)

	Disposition				
Loan Type	Repurchased by Lender	Market Sales	Loan Balance at Trustee Sale	Estimated Indenture Gain/(Loss)	[1] Estimated GAP Loss
FHA/RHS/VA	170	1	$ 36,347,898	$ (49,513)	
Conventional		44	11,219,095	(93,151)	$(1,135,112)
	170	45	$ 47,566,993	$ (142,664)	$(1,135,112)

(1) The MI Fund provides GAP Insurance as necessary to meet bond indenture requirements that all loans have a minimum of 50% mortgage insurance coverage for the life of the loan. The Agency has indemnified the the MI Fund for all GAP claim payments and will reimburse the MI Fund from general fund reserves.

2008 Year to Date Composition of Subordinate Write-Offs by Loan Type[1]
(As of October 31st, 2008)

	Active Loans		Write-Offs			
Loan Type	Active Loans	Dollar Amount	Number of Write-Offs	% (of Portfolio)	Dollar Amount	% (of Portfolio)
CHAP/HiCAP	13,047	$140,121,702	263	2.02%	$2,909,511	2.08%
CHDAP/ECTP/HiRAP	21,635	183,203,728	287	1.33%	2,167,148	1.18%
Other [2]	319	4,129,070	1	0.31%	35,000	0.85%
	35,001	$327,454,501	551	1.57%	$5,111,659	1.56%

(1) Does not include FNMA and CalSTRS subordinates (non-agency loans serviced by in house loan servicing)

(2) Includes HPA, MDP, OHPA, and SSLP.

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