CalHFA BOARD OF DIRECTORS

California Housing Finance Agency
Board of Directors

March 25, 2010

Burbank Airport Marriott Hotel
& Convention Center
2500 Hollywood Way
Burbank, California
(818) 843-6000

1:00 p.m.

1. Roll Call.

2. Chairman/Executive Director comments.

3. Discussion of CalHFA loan products and the "value added" to the marketplace by CalHFA lending. (Steve Spears) ……………………………………………………….1

4. Discussion of other Board matters.

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

NOTES**

HOTEL PARKING: Cash @ $10.00 per car, per entry, pay at gate with no in and out privileges.

FUTURE MEETING DATES: Next CalHFA Board of Directors Meeting will be March 26, 2010, at the Burbank Airport Marriott Hotel & Convention Center, Burbank, California.

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State of California

M E M O R A N D U M

To Board of Directors **Date:** March 18, 2010

From: L. Steven Spears, Acting Executive Director
CALIFORNIA HOUSING FINANCE AGENCY

Subject: Discussion of CalHFA's Products and Services in the Marketplace

At the January 2010 Board meeting, Board members expressed the desire to engage in a discussion of the value added in the marketplace by CalHFA products and services. The discussion was scheduled for the February 25 Board meeting but was delayed until the March 25 meeting.

To facilitate an informed discussion, I have included in your Board binder the PowerPoint presentation that was included in the February 25 Board binder. These slides outline the Agency's statutorily defined structure and mission and the business models the Agency has used successfully in the past to carry out its mission. The goal of this presentation is to bring all of the members to a common understanding of the basic elements of CalHFA's mission.

To begin the discussion, Senior Staff would like the opportunity to present the result of extensive discussions at two recent offsite meetings. At these meetings, Staff spent considerable time outlining a set of core values and expressing what they feel is CalHFA's unique place in the world of housing finance. The objective is to simply start the discussion among Board members. We have arranged for a facilitator to help guide our discussion. Lee Ann Buchanan is very familiar with CalHFA and has conducted a number of focus group meetings with lenders and CalHFA employees.

The discussion on March 25 will be followed by a presentation the following day of the Staff's proposed business plan for Fiscal Year 2010-11. It is conceivable that some of the discussion on March 25 could impact the proposal.

Please let me know if you have questions.

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The Structure and Historic Business Model of CalHFA

A. Structure of Agency

- CalHFA was created in 1975 as the State's affordable housing mortgage bank

- In the initial version of CalHFA's enabling legislation, CalHFA was intended to be a statutorily chartered corporation, largely independent of the State. That independence was intended to permit the Agency to operate as a business, while insulating the State from the Agency's risks and liabilities.

- In the enacted version of the legislation, CalHFA became a state agency, but retained almost all of the other key structural provisions from the original legislation. The Agency maintained its financial independence from the State, as well as significant operating independence.

- The Agency is governed by a Board of Directors, consisting of 11 voting and three non-voting members. Of the voting members, 6 are appointed by the Governor, three are ex-officio members, and two are appointed by the legislature.

- The statutory role of the Board is to approve the issuance of securities and major contractual obligations. The Board also enacts the Agency’s annual operating budget and general business plan.

- Day to day operational authority statutorily rests with the Executive Director, subject to the supervision of the Board.

- Historically, the primary functions of the Board have been (i) to approve multi-family loans; with the Board acting as a high level loan committee; (ii) enact financing resolutions at the beginning of each year permitting the issuance of bonds and related matters; and (ii) to annually adopt the Agency’s operating budget and business plan.

- Although a part of the BTH Agency, CalHFA has a unique statutory relationship with BTH which provides the BTH Secretary with a Board position, but recognizes that CalHFA is relatively free from regulation by other state agencies.

- The Agency's independence is designed to achieve several objectives that are mutually beneficial to the State and the Agency:
    - The Agency can operate as a business, and can make the business decisions that are needed, while being insulated from direct political authority.
    - Consistent with that operational independence, the State is by statute not liable for any of the Agency's bond obligations or policies of mortgage insurance.
    - By statute, the expenditures of the Agency are not subject to the supervision or approval of any other officer or division of state government. All of the Agency's funds are continuously appropriated to the Agency. CalHFA is thus not a part of the State budget process. CalHFA is not subject to traditional state contracting laws, and is exempt from many other state procedures.

- The balancing of operational and financial independence against the State's insulation from liability is manifested in a key statute. That statute contains a pledge by the state to CalHFA's bond investors that the State will not take any actions that would limit or impair the Agency's ability to meet its obligations to those investors.

- The State's pledge to investors is both statutory and contractual. Thus, so long as that operational and financial independence is preserved, the pledge will not be breached. The State will have no liability for CalHFA's bond and insurance risks and obligations.

- It is important to recognize that mortgage banking is an inherently risky business. Those risks can, in normal markets, can be managed and hedged, but some risk will always remain. In very bad markets, such as we are experiencing now, those risks can be very large. The insulation of the State from these risks, gained in part by granting the Agency operational independence, is a key principle in CalHFA's structure.

B. Historic Business Model

- The historic business model of CalHFA has been to operate a mortgage banking and mortgage insurance business, but one without shareholders. In the place of an obligation to shareholders, CalHFA has a public purpose and mission: to make single family and multi-family housing available to persons and families of low and moderate income.
- The Agency's mission philosophy has been to be active in the loan markets at all times and through all business cycles to meet the following long term objectives:
  - To provide alternative loan products benefitting low and moderate income persons
  - To keep the private marketplace "honest" by offering such non-predatory alternatives
  - Recognizing that the segments of the private market periodically enter and withdraw from the affordable housing market, to insure that the Agency will be there when those markets are underserved

- CalHFA is self-supporting. It does not receive taxpayer money or Legislative appropriations. It is required to act as a business and to generate its own revenue. By statute, the Agency funds itself on the spread between its costs of funds, and the rates on loans that it makes.

- The excess revenues within bond indentures may be withdrawn, subject to a variety of financial and legal tests. Those unrestricted earnings in excess of bond payments due investors are referred to as HAT (Housing Assistance Trust). Those earnings of the Agency are used in the following ways:

    - Payment of operating expenses and general obligations of the Agency
    - Creation of prudent financial reserves
    - Funding of high public purpose programs that are not candidates for bond funding, such as:
        - Special needs lending which requires deep subsidies
        - Loans to localities to support affordable housing (HELP)
        - Helping existing troubled multi-family rental projects through asset management lending
        - Down payment assistance to first time homebuyers

C. Programs and Effect of Tax Law

- The Agency has had five lines of business:
  - –Single family lending (bond funded)
  - –Multi-family lending (bond funded)
  - –Special Lending (HAT funded)
  - –Mortgage insurance (premium funded)
  - –Contract administered programs

- The structure of the Agency's mainline programs, single family and multi family lending, are largely dictated by provisions of federal tax and bond law. The business model of HFAs depends on the ability to issue tax exempt housing bonds.

- Tax exempt housing bonds used by HFAs are not government bonds; rather, they are "private activity bonds" because the homes or apartments which are financed by these bonds are owned by private persons.

- The federal government rations private activity bonds by allocating each state “volume cap”, which is the state’s limit for private activity bond issuance. Private activity bonds finance a wide variety of activities, including student loans, pollution control projects, and housing.

- Federal volume cap is allocated in California by the California Debt Limit Allocation Committee. Issuers must compete for volume cap. CalHFA competes with a variety of statewide and local issuers. The manner in which volume cap is awarded determines the amount of tax exempt bonds that the Agency can issue, and thus the loans that it is able to make.

- CDLAC allocates single family allocation and multi family allocation separately, and an allocation for one can not be used for the other. Single family allocation has been historically been made in a gross dollar amount for the year, while multi family has been historically awarded on a project by project basis.

- The effect is that a reduction in single family authority and lending does not increase the Agency’s funds available for multi family, and vice versa.

- The Agency has historically used various strategies to leverage the limited volume cap available. For single family lending, CalHFA has issued variable rate debt, which results in a lower cost of funds, and then has blended in taxable debt, which is not subject to volume cap limitations. This results in a higher amount to lend at a blended loan rate.

- In multi-family lending, the Agency has issued 501 (c) (3) bonds when those are legally available. Those bonds are also not subject to volume cap.

- Federal tax law contains many complex rules which must be followed. One such rule limits the amount of “spread”-the loan yield over bond yield-that the Agency is permitted to make. For single family bonds, that spread is 1.125%. For multi-family bonds, that spread is 1.5%.

- All of the Agency’s costs of the bonds, the bond financed programs, and other operations must be paid from within that spread. If the Agency earns more than the permitted spread, it may be required to rebate those monies to the IRS. The concept of permitted spread thus becomes vital to the design and economies of Agency programs. The Agency must operate on these razor thin margins.

- The effect of these arbitrage rules are that costs incurred by the Agency can often not be passed on to borrowers as they would in the private market. For example, if the Agency pays a fee to a lender to originate a loan, the amount of that fee effectively reduces the spread to the Agency. Incurring too many costs can reduce the yield to the Agency to a point where the Agency can not pay expenses, or even makes the loan unprofitable.

- These concepts are critical in designing loan competitive products, particularly in high cost states like California.

- California has historically had a large gap between average income and housing costs. Unlike banks, HFAs do not have a deposit base to use for lending. The key historic challenges for the Agency have thus been raising funds at a cost of capital low enough to provide competitive or below market interest rates, and structuring a product so that its costs can be recovered within spread and still provide earnings to the Agency sufficient to fund operations, reserves, and ideally, special lending programs.

- Some of the key historical decision points in creating loan programs have been:
  - For single family lending, the choice between holding whole loans or securitizing those loans into mortgage backed securities.
  - For multi family lending, the choice between being a portfolio lender, or a conduit lender
  - For both single and multi family lending, the choice between variable rate bonds, or fixed rate bonds.

- Each choice has had advantages and disadvantages. In some cases, one choice precludes creating a loan product at a rate that will be competitive.

- Whole Loans vs. MBS: Whole loans are loans held on the Agency's balance sheet. The Agency bears the credit and real estate risks. Those risks in a securitized MBS structure are largely borne by the securitizer, Fannie Mae, Freddie Mac, or Ginnie Mae. However, the trade-off is that the securitizers have charged very high "G fees", which are the premiums for the transfer of that risk. That fee was in many cases prohibitively expensive to the Agency, and had to be paid within spread.

- In 2005, tax law changed to permit mortgage insurance premiums, including G fees, to be recovered outside allowable spread.

- Fixed rate vs. variable rate bonds: For the last decade, CalHFA began to experience difficulty in raising capital at tax exempt fixed rates which were sufficiently low to permit a competitive mortgage product. Historically low interest rates also compressed the spread between taxable and tax exempt rates, reducing the competitiveness of tax exempt products. The same issues were experienced by other HFAs nationally. Some HFAs elected to withdraw from the lending market. Others, such as CalHFA, elected to stay in the markets by issuing tax exempt variable rate bonds, which permitted a lower cost of funds.

- Because all of the Agency's single family loans to borrowers are made at a fixed rate, variable rate bond debt exposes the Agency to interest rate risk- the risk that the rate paid by the Agency to bond investors can exceed the rates paid to the Agency by borrowers. Thus, that risk must be hedged through interest rate swap contracts. The use of these swaps creates a "synthetic" fixed cost of funds.

- Portfolio lender vs. conduit lender: Similar to single family lending, the Agency has always held multi-family whole loans in its portfolio. Some affordable housing lenders, typically local agencies or JPAs, are conduit lenders. In a conduit transaction, the issuer essentially "lends" its tax exemption to a deal; a bank or other lender is the true lender and bears the real estate and credit risks.

- A whole loan held in portfolio provides an annuity to the Agency over the life of the loan, thus permitting the Agency to implement its basic business model of supporting infrastructure, developing capital reserves, and creating funds for special lending.

- A conduit loan generally provides only a small one time fee to the Agency. That would result in a fundamentally different business model in which the Agency would not have been able to create significant reserves or equity, and not create funds for special lending. Conduit lenders typically have little or no equity, and do not have funds for high public purpose, subsidized special lending.

D. General and Limited Obligations

- The Agency has both general and limited obligations.
- Loans funded by bonds are held within a trust indenture for the benefit of bondholders. The indenture will typically hold undisbursed bond proceeds, loans made with bond proceeds, capital reserves, prepayments, REO, and other assets.
- The indenture itself may be a general obligation of the Agency, or a limited obligation.
- In a limited obligation revenue bond indenture, bondholders are looking solely to the credit worthiness of the indenture; i.e., the assets (collateral) held within the indenture, for repayment. The Agency is not liable for the payment of the bonds. The bond yield is priced to reflect that credit risk as reflected by the separate credit rating of the indenture.
- The Agency biggest single family indenture, HMRB, is a limited obligation indenture.
- In a general obligation indenture, the Agency has provided a credit enhancement to the rating of the bonds by essentially guaranteeing the payments to bondholders, in addition to the assets held within the indenture.

- The bondholders in such a credit enhanced obligation are looking to the creditworthiness of the Agency in evaluating and pricing that risk. Thus, the Agency has an issuer credit rating which reflects the creditworthiness of the Agency's general obligations.
- The Agency's Multi Family III indenture is an example of an indenture that has been credit enhanced by a pledge of the Agency's general obligation.
- The California Housing Loan Insurance Fund is an example of a limited obligation. By law, the Agency's mortgage insurance obligations are payable solely from the assets held within the insurance fund.
- The Agency has a wide variety of other general obligations.
- Even though the swaps may directly benefit a limited obligation indenture, all Agency swap contracts are general obligations of CalHFA. Swap settlements payments made by the Agency can be reimbursed by the appropriate indenture if the financial and legal tests for withdrawal of excess funds can be met.
- The Agency's line of credit from Bank of America is a general obligation.
- All of the Agency's normal operating expenses, such as salaries and overhead, are general obligations.

- The Agency may, in some cases, use general funds to support limited obligations. However, the Agency must carefully balance its support of limited obligations against its general obligation commitments.

E. Operating Budget

- The Agency’s operating budget is a very small component of its overall annual expenses. The operating budget has historically been well under 10% of overall Agency expenses. The operating budget is approved by the Board of Directors each year, typically in June for the fiscal year.
- The majority of the Agency’s expenses are outside the operating budget. They consist of debt service on bonds, swap settlement payments, costs of issuance in connection with bond transactions, and similar obligations associated with raising capital. The issuance of bonds and the payment of these expenditures is authorized by the Board in annual financing resolutions, typically in January, for the calendar year.
- The operating budget has historically been funded with administrative or commitment fees and withdrawals of excess revenues or other funds from bond indentures. The operating budget has been approved in May, before the commencement of a new fiscal year in July.
- Since the indentures constantly lose loan assets as loans mature, are prepaid, or default, the Agency must constantly operate profitable loan programs to generate sufficient capital.

CalHFA℠ BOARD OF DIRECTORS

California Housing Finance Agency
Board of Directors

March 26, 2010

Burbank Airport Marriott Hotel
& Convention Center
2500 Hollywood Way
Burbank, California
(818) 843-6000

9:30 a.m.

1. Roll Call.

2. Approval of the minutes of the February 25, 2010 Board of Directors meeting.

3. Chairman/Executive Director comments.

4. Closed session under Government Code §§ 11126 (e) (1) and 11126 (e) (2) (B) (i) to confer with and receive advice from counsel regarding litigation.

5. Progress report on development of the CalHFA business plan.
(Steve Spears/Senior Staff) …………………………………………………..…....77/[handout]

6. Update on development of federal TARP program. (Steve Spears) ……………………...79

7. Update on new building lease. (Howard Iwata) ………………………………………..95

8. Reports.

9. Discussion of other Board matters.

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

11. Handouts.

NOTES**

HOTEL PARKING: Cash @ $10.00 per car, per entry, pay at gate with no in and out privileges.

FUTURE MEETING DATES: Next CalHFA Board of Directors Meeting will be May 13, 2010, at the Holiday Inn Capitol Plaza, Sacramento, California.

STATE OF CALIFORNIA

CALIFORNIA HOUSING FINANCE AGENCY

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BOARD OF DIRECTORS

PUBLIC MEETING

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Hyatt Regency Sacramento
1209 L Street
Sacramento, California

Thursday, February 25, 2010
1:10 p.m. to 5:42 p.m.

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Reported By: YVONNE K. FENNER, CSR #10909, RPR

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A P P E A R A N C E S

Directors Present

PETER N. CAREY
President/CEO
Self-Help Enterprises

KATIE CARROLL
for Bill Lockyer
State Treasurer
State of California

MICHAEL A. GUNNING
Vice President
Personal Insurance Federation of California

JONATHAN HUNTER
Managing Partner, Region II
Corporation for Supportive Housing

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

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

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

JENNIFER ROCKWELL
For Ana J. Matosantos, Director
Department of Finance
State of California

L. STEVEN SPEARS
Acting Executive Director
California Housing Finance Agency

BROOKS TAYLOR
for CATHLEEN COX, Acting Director
Office of Planning & Research
State of California

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A P P E A R A N C E S

CalHFA Staff Present

GARY BRAUNSTEIN
Special Advisor to the Executive Director
and
Acting Director of Homeownership

BRUCE D. GILBERTSON
Director of Financing

THOMAS C. HUGHES
General Counsel

HOWARD IWATA
Director of Administration
and
Acting Director of Fiscal Services

JOJO OJIMA
Office of the General Counsel

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Public Presentations

THOMAS C. AGUER, CCIM, SIOR
President
Aguer Havelock Associates Commercial Real Estate

GREG KELLY
Bannon Investors

JAMES P. NIETHAMMER
Managing Principal
CresaPartners

CAROL PEPLEY
Coldwell Banker

MARC VICTOR
California Housing Finance Agency
State of California

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Board of Directors Meeting – February 25, 2010

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BE IT REMEMBERED that on Thursday, February 25, 2010, commencing at the hour of 1:10 p.m., at the Hyatt Regency Sacramento, 1209 L Street, Sacramento, California, before me, YVONNE K. FENNER, CSR #10909, RPR, the following proceedings were held:

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ACTING CHAIRMAN CAREY: I'd like to welcome everyone to the February 25th meeting of the California Housing Finance Agency Board of Directors.

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Item 1. Roll call

ACTING CHAIRMAN CAREY: Our first item of business is roll call.

MS. OJIMA: Thank you.

Ms. Peters for Mr. Bonner.

MS. PETERS: Here.

MS. OJIMA: Mr. Gunning.

MR. GUNNING: Present.

MS. OJIMA: Mr. Hudson.

(No audible response.)

MS. OJIMA: Mr. Hunter.

MR. HUNTER: Here.

MS. OJIMA: Ms. Jacobs.

MS. JACOBS: Here.

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

MS. CARROLL: Here.
MS. OJIMA: Ms. Macri-Ortiz.
MS. MACRI-ORTIZ: Here.
MS. OJIMA: Mr. Shine.
(No audible response.)
MS. OJIMA: Mr. Smith.
(No audible response.)
MS. OJIMA: Mr. Taylor for Ms. Cox.
MR. TAYLOR: Here.
MS. OJIMA: Ms. Rockwell for Ms. Matosantos.
MS. ROCKWELL: Here.
MS. OJIMA: Mr. Spears.
MR. SPEARS: Here.
MS. OJIMA: Mr. Carey.
ACTING CHAIRMAN CAREY: Here.
MS. OJIMA: We have a quorum.
ACTING CHAIRMAN CAREY: Thank you, JoJo.

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Item 2. Approval of the minutes of the January 21, 2010 Board of Directors meeting

ACTING CHAIRMAN CAREY: The next item of business is approval of the minutes of the January 21st Board meeting. Any corrections?
MS. JACOBS: Move approval.
ACTING CHAIRMAN CAREY: We have a motion.

MS. PETERS: Second.

ACTING CHAIRMAN CAREY: A second.

Roll call.

MS. OJIMA: Thank you.

Ms. Peters.

MS. PETERS: Yes.

MS. OJIMA: Mr. Gunning.

MR. GUNNING: Yes.

MS. OJIMA: Mr. Hunter.

MR. HUNTER: Yes.

MS. OJIMA: Ms. Jacobs.

MS. JACOBS: Yes.

MS. OJIMA: Ms. Carroll.

MS. CARROLL: Yes.

MS. OJIMA: Ms. Macri-Ortiz.

MS. MACRI-ORTIZ: Yes.

MS. OJIMA: Mr. Carey.

ACTING CHAIRMAN CAREY: Yes.

MS. OJIMA: The minutes have been approved.

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Item 3. Chairman/Executive Director comments

ACTING CHAIRMAN CAREY: Okay. The next item of business is Chairman/Executive Director comments. In the interests of the agenda today, I'll forego the opportunity and turn it over to Steve Spears.

MR. SPEARS: Thank you, Mr. Chairman.

Again, I'd like to get to the agenda as quickly as possible. There are a couple of housekeeping items. There is an updated item 8. This goes under tab 8, the updated building analysis, if you want to just put that in your binder. There are two other things that were just handed out by me. The typical CalHFA borrower profile goes in tab 7. And the structure and historic business model of CalHFA is also item 7, just for housekeeping.

One other thing with regard to your binders, there were two requests from Board members last time. Ms. Macri-Ortiz asked for a breakout of servicers and county and delinquencies, and that's provided as a report. And I can't remember which tab it is in the back, but at your convenience you can take a look at that. It's very interesting.

And the other is that Mr. Hunter asked for a trend analysis, and that's also back in the report section of your tabs, and we -- and so you don't have to pull all of -- bring all of your reports from previous months. You can just look at the one chart.

One other quick note before we get to the regular agenda, on Friday President Obama announced a five-state program for foreclosure prevention. We are fortunate to be one of those five states. It's a dubious honor, unfortunately, but -- we don't know how much we will be receiving, but the total amount for the five states to share is $1.5 billion.

The goals of the program are threefold -- and we're finding more and more details about this as we go along, to address unemployment. These states are states with high unemployment. The second is to deal with negative equity. These states have to have had peak to present value drop in homes of at least 20 percent, and we qualify on that scale. And then the other is to deal with subordinate loans, seconds, that are getting in the way of loan modifications.

And so what we're doing, I've spoken to Heather about this. She's been very involved in this. Lynn and I need to have a conversation about this as well because there may be some things that we can do with local governments and NSP money with REOs, and there may be some work that we can do there.

And Preston Dufauchard, who's the Commissioner of the Department of Corporations, is the regulator of servicers in the state of California. And he and I have spoken. We are going to try to meet with as many as possible counselors and servicers over the next couple of weeks because we'd like to get this program together.

The announcement of the allocation amount out of -- how much we'll get out of the $1.5 billion will be made within the next two weeks. So this could be very, very important to us, but obviously it's very, very important to borrowers around the state. I wish it were $15 billion not 1.5, but we will -- we will be very grateful for -- for the amount that we get.

So with that, Mr. Chairman, we'll try to weave that into the conversation as we go along and talk about helping borrowers, our portfolio performance, and that sort of thing. But it's a very, very important announcement.

ACTING CHAIRMAN CAREY: Great.

One other housekeeping item I want to mention. We do have parking passes for those who were somehow able to get into the parking structure here today. If there's anyone here, I want to know who they are.

MS. JACOBS: Peter.

ACTING CHAIRMAN CAREY: Really?

MS. JACOBS: I am on the top floor.

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Item 4. Closed session under Government Code sections 11126(e)(1) and 11126(e)(2)(B)(i) to confer with and receive advice from counsel regarding litigation

ACTING CHAIRMAN CAREY: With that, we are going to go into closed session under Government Code 11126(e)(1) and 11126(e)(2)(B)(i) to confer and receive -- confer with and receive advice from counsel regarding litigation.

I recognize this is a little bit complicated because of the room we're in, but the audience will have to exit the meeting room and most logically go down to the lobby. And when we are out of closed session, we will send someone down to the lobby to let you know that we're back, going back into public session.

(Whereupon the Board met in closed session from 1:16 p.m. to 4:15 p.m.)

ACTING CHAIRMAN CAREY: We are -- we are back in open session. I want to say I really appreciate the patience of our audience. It's never possible to know exactly how long the closed session is going to be, and I know you've been waiting patiently for us to come back into open session, and I appreciate your patience.

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Item 11. Public testimony

ACTING CHAIRMAN CAREY: We are going to -- I'd like to rearrange the agenda just slightly, recognizing that we have, I believe -- we've got two speaker slips, folks who would like to address the Board. We are going to go ahead and have public comment, which is item 11, at this point, recognizing that some folks have been waiting for some time.

I would like to say or point out that if you're speaking about something that is not on the agenda, the Board obviously cannot take action on anything that is not agenda-ed, so we will listen to any comments and anything that needed action would be deferred to a future meeting. We would ask, in recognition of the balance of business that the Board has today and the folks who are here for the agenda items, that comments be succinct and to the point, recognizing that we will give them full attention.

With that, if there's anyone who wishes to speak to the Board, please come forward and state your name and the issue you'd like to discuss.

MR. KELLY: My name is Greg Kelly. I represent Bannon Investors, owners/developers of the 2020 building project in South Natomas, which is on the agenda for today for discussion by your Board and decision.

I've taken the liberty of penciling my comments in the form of a few pages, and I'd like to be able to get through that rather quickly because I have some things that have important bearing and some feelings that I think have important bearing on the matter at hand. So with that said, I'll begin.

Good afternoon, Ladies and Gentlemen. My name is Greg Kelly. My father, Jon, and I are the developers behind the 2020 Gateway Towers project here in Sacramento. This is one of several projects your Board has under consideration today, and I would like to thank you, your acting director Steve Spears, and CresaPartners for your consideration of 2020 Gateway as the future home for CalHFA and its consolidation.

We current have a fully executed letter of intent with CalHFA outlining the terms and conditions of an agreement for lease of 65,000 square feet of space in our building beginning September 1st, 2010. This agreement was negotiated in good faith and executed on January 28th of this year. While nonbinding, both sides agreed to terms originally outlined by CalHFA and agreeable to us.

Last Friday afternoon we were asked to resubmit any adjustments to the terms of the letter of intent and/or any comments for inclusion in your Board package. We were given until Monday, February 22nd, at 12:00 noon to do so and complied with this request. In our response we elected to honor the terms of the original letter of intent and took the opportunity to highlight the additional economic benefits that occupancy of

2020 Gateway provides. I am not aware if the substance and rationale behind our response is included in the analysis prepared by Cresa for your package today.

However, I am aware that an analysis was compiled by Cresa on February 19th that was included in your original Board package. This analysis is incomplete and fails to take into account three significant economic factors that should have a direct bearing on your decision.

First, 2020 Gateway Tower is a fully accredited LEED Gold building and is the first privately funded building of its kind in our area. While on the surface this may appear to be an intangible benefit, I assure you it is not. It is an economic benefit that saves CalHFA almost $3,127,000 over the life of the CalHFA lease. This number is based on the productivity savings of a LEED Gold building as expressed in the State of California's report on the subject dated October 2003. I have a copy of this report here in my hand and will submit it to the Board for further documentation.

(Whereupon Exhibit 1 was marked for the record.)

MR. KELLY: This report quantifies a LEED Gold building's ability to provide a healthier, cleaner environment for your employees through the use of contemporary air filtration systems, modern water management systems and open floor plates with specially treated glass. These features combine to make a safer, healthier environment for your employees and will result in fewer sick days and more spent -- more time spent performing the duties you require. Savings resulting from the elimination of only one sick day per each CalHFA employee per year could potentially save $812,000 over the proposed -- over the life of the proposed lease.

In addition to the tangible benefits of increased productivity, the LEED accreditation guarantees long-term savings in operating expenses going forward through the use of a Smart HVAC system. This system, manufactured and installed by Siemens, constantly monitors and adjusts the mix of filtered outside air and conditions air to provide a consistent temperature throughout the working day. This efficiency combined with the use of solar panels and a renewable energy contract with SMUD reduces the demand on local power deliveries.

Another area of concern relates to the exclusion of any discussion of operating expenses in the Cresa analysis. We are confident that our building operates more efficiently than any competitor's due to the LEED Gold Core and Shell attributes. This translates into lower operating expense increases over the term of the lease. Cresa has provided you no detail or comparison of their operating expense assumptions for 2020 Gateway or its competitors. We estimate this number to represent two million, nine hundred -- $2,095,000 in savings over the 12-and-a-half-year term of the lease and is shared between Bannon and CalHFA on a pro rata basis.

In addition, CalHFA can meet 80 percent of its LEED Gold Commercial Interiors certification simply by choosing our building for its needs. This would be an almost impossible standard to reach using any existing building in this area.

That these efficiencies are not included in Cresa's analysis is unfortunate but understandable. The LEED concept is new and usually understood only in environmental terms. It should be proof enough that these benefits are tangible or else why -- why else would the State of California commission a report to study LEED's economic benefits and also institute a new set of regulations on future development requiring these efficiencies? These regulations, taking effect in 2011, mirror the efforts we have made in this building. It is incumbent on all of us to use every measure possible to accurately account for and understand the economic impacts these changes will have on our leasing activities.

The third area where the Cresa analysis falls short is parking. 2020 Gateway does not charge for parking of any kind. While the savings outlined in Cresa's analysis go directly to CalHFA's bottom line total, approximately 30,000 per anum, $30,000 a year, Gateway's proposal actually saves CalHFA and its employees a total of $5,850,000 on a noninflationary basis and does not include changes in head count over the life of the lease. This is based on an average parking rate of $150 per month per employee.

While these savings are currently accounted for as an employee benefit, creative management can realize most, if not all, of these savings through salary and benefit negotiation processes. In addition to the immediate financial benefit to both CalHFA and its employees, a further, more intangible, benefit will be realized through improved morale and employee relations.

In conclusion, Bannon Investors would like to call attention to the Board an estimated total of $11,162,000 in efficiencies and savings unaccounted for in CresaPartners' bid analysis. This total includes but is not limited to $3,127,000 in LEED productivity benefits, $2,095,000 in potential operating -- shared operating expense savings, and 5,850,000 in free parking. During these difficult economic times, all of us, both public and private, must evaluate all potential opportunities based on the needs of the partners, shareholders, employees, and bondholders.

Throughout the history of my family, the Kelly family, in broadcasting, banking and real estate, we have consistently strived to create cost efficiencies in operations that provide to value -- true value to both ourselves and to our customers. 2020 Gateway Tower is no exception and is truly a unique asset.

I would ask that the CalHFA Board require that all evaluations of potential lease proposals take all economic considerations into account. Bannon Investors looks forward to continued discussions with your representatives regarding my concerns and welcomes further discussion of terms during final lease negotiations.

Bannon Investors is submitting a transcript of these comments of part of your record. We are also including our letter from February 22nd, 2010, a copy -- and a copy of the State's LEED report from 2003. We're also including a copy of our sales brochures for your perusal and evaluation.

Thank you for your consideration.

(Whereupon Exhibit 2 was marked for the record.)

ACTING CHAIRMAN CAREY: Thank you, Mr. Kelly.

We will be considering that item later on the agenda.

MR. KELLY: Thank you.

ACTING CHAIRMAN CAREY: Other comments?

MS. PEPLEY: Hi. My name is Carol Pepley, and I'm a broker with Coldwell Banker Realty in San Jose, California. I'm here today on behalf of one of my clients, Stephanie Fisher (phonetic). She bought a condo five years ago with a CalHFA loan.

Since then, she got married. She became a foster parent. They were given two foster children. And they really wanted more foster children, and they were offered more foster children many, many times but they could not take them because their accommodations were too small. The condo she bought was only 800 square feet with no yard or anything. So in order to do that, they decided last year to purchase another home. They ended up buying a three-bedroom, two-bath home and are now able to accommodate five to six foster children.

They thought when they bought their home that they could rent out the house -- the condo they had with CalHFA and found they could not. So they attempted to do a short sale, and the short sale was denied based on the fact that there was no loss of income and that she purchased another property.

And I understand that that's what the CalHFA guidelines are, but I do want to point out that all the major banks are now offering people to do short sales rather than foreclosures because it's such a better financial picture for the lender. You save on the average of 30 to 40 thousand dollars to the lender if you do a short sale rather than a foreclosure. Most of the major banks now are offering to waive all future deficiency rights if you do a short sale rather than foreclose. They're even offering homeowners cash to move out if they do a short sale rather than foreclose because it's such a great financial impact.

So my question to you and my comment is would CalHFA rather save 30 to 40 thousand by allowing the short sale than to go ahead and foreclose on the property, which is going to take about seven months and cost a lot more money?

There's also a great impact on the real estate market when there's so many foreclosures, especially with the condos. A homeowner association will not be -- you will not be able to borrow money to buy a condo if the HOA has more than a 10-to-15-percent delinquency rate. There are condominium complexes in San Jose right now where nobody can sell their condo because no lender will loan on it because there's too many delinquencies on the HOA. Therefore, the only way you can even sell your house is if you have an all-cash buyer. There are people who literally -- who aren't even behind on their payments or anything, they still can't sell and buyers can't buy.

And that's another one of the impacts with this particular case and this condo association, which is right now right on the verge of that tipping, tipping mark. I think it's like a 12-percent delinquency rate. She's been paying her condo association dues all this time, but any more foreclosures in that complex and nobody will be able to sell in that complex at all.

The other thing is this housing market is not going to change any time soon. It's -- it's -- almost everybody who bought a house in the last eight years is underwater, whereas the needs of people change. Families grow. You get married. You have kids. Your accommodations are no longer adequate. People are not going to stay in the house just because they want to avoid a foreclosure on their record if their family is suffering and their living situation is -- is no longer adequate. It's a quality of life issue. People are going to walk away from their homes.

And instead of doing foreclosures on those people just because they don't have financial hardship, I urge CalHFA to take a second look at their policies and maybe allow some short sales and make exceptions for people in these exceptional circumstances. This is not going to change anytime soon. It would save CalHFA a ton of money on each one of those properties you've been foreclosing on, rather than allowing the short sale because it doesn't meet your guidelines.

I'm asking you today to take a closer look at this particular case as well as maybe your policies regarding short sales and foreclosures. Because foreclosures hurt everybody. They hurt CalHFA financially. They hurt the homeowner because they have a foreclosure on their record. And they hurt the housing market tremendously.

This particular couple, they're community servants. Her husband is a -- was a probation officer. He now works for Department of Homeland Security. They want to help kids who are abused and who have been neglected, and that's why they chose to do this.

I understand it was her decision to do this, and I think it's punitive to say, "Well, you decided to buy another house, so too bad. We can't do the short sale. You have to have a foreclosure on your record." And I don't think it helps anybody at all, including CalHFA, to do that.

I appreciate you guys taking the time to listen to me, and I -- I hope you do take a closer look at your policies because this is going to be an ongoing thing, and you're going to see more and more and more of people walking away from their homes, not because of financial reasons but just because the accommodations no longer suit them. And I don't think, as I said before, it's going to go away anytime soon.

Thank you very much for listening.

ACTING CHAIRMAN CAREY: Thank you for taking the time. I think you highlight just one of the many complexities of dealing with policy at broad level when impacted at the individual level. I'm sure that the staff will be following up with us on the broader policy issues.

MS. PEPLEY: And do you make exceptions to any of those rules? Is there a possibility that I could go back to my client and say you may be able to do the short sale or -- we've already gotten a rejection letter from you.

ACTING CHAIRMAN CAREY: The Board is a policy board --

MS. PEPLEY: Um-hmm.

ACTING CHAIRMAN CAREY: -- and -- and would not -- A, cannot take action today, but it would be outside of the normal purview of this Board to take any action related to a specific mortgage.

MS. PEPLEY: Okay. Thank you very much.

ACTING CHAIRMAN CAREY: Are there others who would like to address the Board as a public comment?

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Item 5. (No action)

ACTING CHAIRMAN CAREY: Seeing none, we will move forward with the agenda. We are now at -- on item 6. We are -- there will be no action related to item 5.

--o0o--

Item 6. Discussion, recommendation and possible action regarding the adoption of an amended resolution authorizing the Agency's single family bond indentures

ACTING CHAIRMAN CAREY: Item 6, Tom, I believe you had a brief comment about that. That's a --

MR. HUGHES: Yes, sir, I can.

This -- you will recall at the last Board meeting when we had the routine -- what we consider routine -- financing resolutions the Board expressed a desire on the single-family financing resolution to include a programmatic restriction that the -- that the Agency not use the proceeds of new bonds to purchase whole loans as opposed to mortgage-backed securities. We did write up the resolution that way, and if that's acceptable, no further action is necessary.

However, I simply did want to point out to the Board that yesterday we learned something from Fannie Mae that I just want to bring to your attention. Normally when we securitize loans, the Agency does not take title to the loan because there -- the loan is purchased by a master servicer who securitizes it, and we buy the securities.

With the Fannie Mae HFA Affinity Program, I learned yesterday that Fannie has asked us to actually take title to these loans if only momentarily, and then they will securitize them. And that is different from the normal process, and I wanted to make sure that the Board recognized that, given the prohibition against purchasing whole loans.

Our understanding is it's only a book entry for a moment in time, but we have to negotiate with Fannie, and I simply wanted to make sure the Board was aware of that. If there is a difficulty with that, we may have to amend the resolution.

There's an element of risk involved, if, for example, the loan didn't get securitized, I think, but our -- what we've heard so far is that it's not likely.

MS. ROCKWELL: So would the resolution --

MR. HUGHES: I think the resolution is basically okay because I simply wanted to point out that we may have -- we're not actually going out and buying whole loans and holding them. We're not even buying whole loans in bulk and securitizing them.

The process, as we understand it, will involve at least a momentary taking of title. And the reason that they want that is that the new Affinity program, which has a no mortgage insurance provision, we don't require mortgage insurance, we do have a liability to buy the loan back if there's a six-month early payment default. And they want us in the chain of title to enforce that, although they haven't wanted that in the past.

ACTING CHAIRMAN CAREY: Go ahead, Katie.

MS. CARROLL: I was just going to ask, so -- just to make sure I understand. So you're saying that if you go into that program, you'll need to come back for further amendments here or are you saying that --

MR. GILBERTSON: Not necessarily because I don't think we're planning to use bond proceeds, if we --

MS. CARROLL: Okay.

MR. GILBERTSON: -- actually do have to purchase a whole loan for that momentary period of time.

MS. CARROLL: Okay. Good.

MR. GILBERTSON: So it would be other -- other --

MS. CARROLL: So it wouldn't require any change.

MR. GILBERTSON: Yeah. We'd hopefully have a warehouse line.

MR. HUGHES: The whole gist of the Board discussion was to reduce -- to eliminate risk by not having whole loans, but -- but, again, it looks like we will have to be in the chain of title to do this program, and I'm not sure that's material, but we felt we needed to disclose it. I think the resolution is okay as is with that on the record.

--o0o--

Item 7. Discussion of CalHFA loan products and the "value added" to the marketplace by CalHFA lending

ACTING CHAIRMAN CAREY: Okay. We'll move now -- item 7 was planned as a fairly broad conversation. What's the pleasure of the Board, recognizing the time situation?

MS. JACOBS: Mr. Chair?

ACTING CHAIRMAN CAREY: Yes.

MS. JACOBS: Is it possible that we can defer this to either a retreat or another meeting so that we can have full discussion?

ACTING CHAIRMAN CAREY: What's the thoughts of the rest of the Board?

MS. MACRI-ORTIZ: I think we need some -- we need some time to do any justice to the subject.

MR. GUNNING: I concur.

ACTING CHAIRMAN CAREY: Steve.

MR. SPEARS: My only concern is with the implementation of the new issue bond program, those proceeds have -- those -- the bonds have been sold to the Treasury. They've been escrowed. The private market bonds have not been sold yet. But those bonds are only available to us for 2010, I mean, to draw.

Now, we can actually draw late in the year and use them on into 2011, but as time goes by and we don't have a program and we don't have products getting out, we're missing the opportunity to provide loans to first-time homebuyers and also for multifamily projects as well. That's my only concern.

I mean, I think we have products that the Board would be very pleased with, but I -- you know, we feel a little uncomfortable knowing that we've had Board members express a desire to sort of go back and look at CalHFA in the brave new world that we're in now. We feel a little uncomfortable going forward without some -- some more discussion.

MS. PETERS: Can we ask counsel in what context we can have that discussion? Does that need to be a fully noticed open meeting?

MR. HUGHES: Yes. This is similar to we've done a couple of Board educational seminars, but they are public meetings and the same notice requirements apply. So we could -- we could schedule one or do it -- well, we would have to follow the same basic rules, yes.

MS. PETERS: Anyone have an objection to getting out a calendar and just picking a date?

MR. HUNTER: So my question is did -- so we need to have this conversation before we can act on a specific recommendation, but that recommendation hasn't been put forward yet; is that correct?

MR. SPEARS: It's not been practice in the past for the Board to approve products. They've commented and -- and that's my understanding.

Now, you know, here again, I'm not the new kid on the block anymore, Barbara, but most of the products that we offered before in -- before we stopped lending a year ago were developed long before I got to the Agency. I think what -- I think the way the staff feels is that they would like the benefit of discussing this with the Board and discussing some specific product ideas that we have and borrowers that you would like to reach from here on out.

So my understanding is in the past we don't necessarily come and ask the permission of the Board to change this or change that. We put products out in the marketplace that the market has indicated that they're responsive to.

MR. HUGHES: That's correct. I mean the annual financing resolutions in January give the staff full authority to run our programs, and the Board has historically each May adopted a general business plan, but the Board has never been directly in the position of approving or not approving products.

MR. HUNTER: So I guess that goes to my question, which is, is it possible -- on one hand is it possible and on the other hand is it palatable to the Board to assume that the staff is going to begin implementing this program and that we're going to schedule this conversation as soon as we can? And after this conversation we may want the staff to make some changes in the program, but I don't know why we would want to -- I'm just concerned about, you know, if we -- if we don't have this conversation until the end of March, by the time anything gets implemented, it's going be May and we will have lost half of the year.

MS. PETERS: Steve, can you comment on what the logistics are?

MR. SPEARS: Yes.

MS. PETERS: We don't want to -- we don't want to hamper you, but the Board's been talking about having this conversation for a year now.

MR. SPEARS: Um-hmm. I think the logistics are we have -- I mean there's -- there are basic platforms that we can go off of, and the basic platform is a 30-year loan, a fixed rate. Some of the questions are -- that have been brought up before are, you know, how much down payment assistance to make available, how much skin in the game, you know, what -- what down payment, what amount of borrower contribution are we going to require? Are there FICO scores that are -- that are -- that you're thinking about?

In the past when home prices got so expensive in '05, '06 and '07,'08, you know, we had trouble reaching the low income borrowers. They simply didn't qualify. So -- and perhaps at this juncture with home prices where they are it would be the desire of the Board that we reach out specifically and target low income borrowers with an FHA product, for example. Those are the kind of guidelines, the tweaking.

Now, we have gone down the path. Gary's spent a lot of time developing a product, and we've tested it with, you know, our approved network of lenders. And they have given us a lot of really positive response, but as we've discussed before, it's not a matter of making, you know, bankers happy that they get fees for putting new loans, it's are we accomplishing the mission of the Agency.

And so we've had these internal discussions with staff and senior staff and that -- that these -- in this environment with -- with the -- with the bond costs that we have, the cost of funds that we were able to lock in, that perhaps it's better to -- it's better to reach the low income borrower now and -- and use the bond proceeds for that, rather than to try to reach the more moderate income borrower.

ACTING CHAIRMAN CAREY: And it seems to me a couple things, one of which is we have the benefit of -- after quite of bit of time with vacancies on the Board, we have the benefit of virtually a full Board, which is -- which is great and provides additional viewpoints and perspectives, which plays out very well in the longer term planning of the organization.

It also seems to me that we're in an environment where we have less flexibility than we've ever had, and -- and the need for the Agency to be operating so that we're not just in the mode of -- of a shrinking portfolio but in the mode of getting loans in the portfolio so that we're generating some revenue for the

Agency.

And so it seems to me there's two things. I don't personally have any question about whether what the staff would do would be fulfilling the mission of the Agency. I think it's -- the question may be how. And we may have varying viewpoints on that, and I think that we can take the time at some point in the next two months to get ourselves together and have that conversation. If we can commit to that, that's a great -- that will be of great benefit to us and the Agency long term, but I don't think we should be holding up the business of the Agency today for our ability to gather and do that. I think -- my own feeling is the Agency needs to move forward.

MR. SPEARS: It occurs to me --

MS. PETERS: Is there anything that would be holding -- what would be impeded by having a meeting in the next 60 days to have a conversation about what our priorities are?

MR. SPEARS: It occurs to me that I didn't answer your question before about the logistics. I'm sorry.

ACTING CHAIRMAN CAREY: You asked it again nicely.

MR. SPEARS: I don't think there's a logistical problem with marketing. The biggest problem that we have is --

(Phone rings and is turned off.)

MR. SPEARS: -- thank you -- is literally programming our system. It is, again, a byproduct and we're working very hard to get a new system in place, but the platform that we're on requires literally computer code to be rewritten. We addressed this with the IT folks, and we said isn't it kind of a Windows-based thing? You sort of do everything and then drop an interest rate in?

And it's difficult for them to do that just because of the way our system is right now. And it takes -- Gary, maybe you can come up for a second and -- what were we told about programming as far as length of time? I think it was --

MR. BRAUNSTEIN: About 30 --

MR. SPEARS: -- three or four weeks.

MR. BRAUNSTEIN: -- 30 to 45 days.

MR. SPEARS: To get the program done. So we can move forward, unless --

MS. PETERS: Move forward with what?

MR. SPEARS: With two products that -- that we've talked about before. We had them on the agenda for last time and discussed them last time. Two fixed-rate products, one an FHA product and one a conventional product through Fannie Mae that is where it's -- does not require mortgage insurance. They provide that at cost.

MS. PETERS: They provide 50 percent. They provide what we need in our bond indenture.

MR. SPEARS: This would go into the new --

MS. PETERS: This doesn't go in the bond.

MR. SPEARS: -- indenture.

MS. PETERS: Got you.

MR. SPEARS: And I believe Gary provided us with -- in the slides that I handed out -- not the slides that you were mailed, but the slides I handed out for this tab, it is the next to the last slide, and it's entitled "Homeownership."

Maybe, Gary, what you can do for us very quickly is run through these points, these bullet points, for our products and give them a sense of what we had considered putting out in the market.

And again, we've met with focus groups, lenders, brokers, real estate agents, and they have reacted very positively. It's not the standard, I know, that we should use, but the marketplace would receive this product very well.

MR. BRAUNSTEIN: Thanks, Steve.

Hello, Board Members. What we attempted to do in the slide is to just give you a snapshot of a borrower profile. As you can see from using the fiscal year of 2007 and 2009, a typical type of borrower had an average total debt ratio of 46 percent. And they also show a need for down payment assistance because the average loan to value was 89 percent.

MR. SPEARS: Are you on this (indicating)?

MR. BRAUNSTEIN: No, I'm on the handout that --

MR. SPEARS: Okay. All right.

MR. BRAUNSTEIN: -- which I thought --

MR. SPEARS: Okay. Got it.

MR. BRAUNSTEIN: What we also wanted to highlight is the need of our borrowers having down payment assistance. As I mentioned, the average loan to value is 89 percent, but 74 percent of all CalHFA first mortgage loans carry with it down payment assistance. So you could begin seeing the type of borrower that we have been dealing with in meeting our mission plans.

You could also see that the average income is ranging around $59,000, 60,000. And 44 percent of the amount of book of business that we do goes to the low income borrower.

So based on this type of profile, which is mirroring our mission of first time homebuyership for low and moderate income families, we begin looking at how our products would be developed to add a value add to our borrowers, but as much to our customer base which is our lender network for who is originating the product.

And so the loan programs through the focus group responses confirm that -- the need for a higher loan to value; down payment assistance being necessary through either CalHFA down payment assistance program or certainly piggybacking and layering our loans with locality down payment assistance; lower rates; and, of course, straightforward qualifying and potentially flexible qualifying to our borrowers.

So as we are looking at the products that are available to us today, FHA and of course the new Fannie product, we'd be looking at how we want to risk manage the development of the programs to offset any risk attached to future loan products.

And so a discussion among senior staff, we are in agreement that we certainly need to require the borrower to have skin in the game. Our intention is to do so with our conventional product, as well as FHA, and our CHDAP, also is our downpayment assistance; also the borrower will have the skin in the game. What that skin in the game will be we hope that the Board will allow the authority of staff to work that through to a prudent decision and offsetting risk versus an intelligent product to the street.

We'll limit FICOs between 620 and 680. We will be imposing a borrower early payment default that would require our lenders to repurchase a loan for an early payment default by the borrower. In the past, that type of early payment default was not part of our lender's requirement for repurchase.

Because we use a master servicer today, the relationship that we have with our master servicer is that all of our lenders are signed up directly with the master servicer as they are signed up with us. But the value benefit we have with the master servicer is the relationship with that master servicer and our lenders is there is an early payment borrower default repurchase provision between our lender and our master servicer.

On the Fannie Mae product that we've been talking about, that repurchase requirement just falls to CalHFA. What we'll be doing is we'll be imposing a similar early borrower default requirement to our lenders to repurchase the loan from CalHFA, very similar to how they're structured repurchasing the loan through Bank of America.

So the other benefit of using a master servicer is also that the transfer -- that the transfer of the -- the transfer of rep and warranty is for the servicing aspect as well as the seller aspect when these loans are sold to Fannie Mae.

And additionally, as you know, that we're moving forward with changing our business model from whole loan to MBS. And we mentioned at the last Board meeting the value benefit of that places real estate risk off our balance sheet and allows for the guarantee of principal and interest.

So as we are designing the features of the loan programs, we'll be benchmarked against these parameters as -- as presented today.

MR. SPEARS: There's one other bullet point that we should put in, and we talked about it before, every single borrower will receive borrower education.

MS. PETERS: So am I correct in paraphrasing and saying what we're talking about doing in the gap between now and when we have this Board discussion on a larger basis is only using the new federal program liquidity, not using our existing HMRB?

MR. SPEARS: Right.

MS. PETERS: And within that, only making loans that are either FHA and therefore not on our books and not on our MI or this new Fannie product that's a hundred percent product, also not on our books and not on our MI.

MR. SPEARS: Well, they will be on our books as Ginnie Mae securities. We'll be investors in the securities, not in the loans themselves.

MS. PETERS: And so the real estate risk to the Agency is minimized as much as possible according to prior Board discussions. The question remains programmatically how much leeway is there, I mean when you're talking about LTVs and down payment assistance -- first of all, is there any down payment assistance around anymore?

MR. SPEARS: There's some at the local level, yeah.

MR. BRAUNSTEIN: At the local level. We're reaching out to the localities and the jurisdictions on a daily basis, and they're layering their down payment assistance programs with our existing first mortgage loan, and they'd do so in the future.

One of our initiatives in homeownership for 2010 is to expand that relationship through the localities. We currently have about 350 programs that are currently approved, and we want to reach out more to localities through the state to allow them to layer their down payment assistance with our first mortgage.

MS. PETERS: And with these two products, the FHA product and the new Fannie product, what flexibility is there in program, if any? I mean, are we just saying, yes, we're signing on to their FHA 3.5-percent down payment and -- I'm not really understanding what the latitude staff has here, what you're asking us to do. You have it because we've delegated it, and I acknowledge that. So you're asking us to give you a gut check on -- or we are inserting ourselves to offer you a gut check whether you want it or not.

MR. SPEARS: I understand. By the way, the other down payment assistance that we have available is we do have some CHDAP money --

MS. PETERS: Still?

MR. SPEARS: -- available. Yeah, still.

MR. BRAUNSTEIN: And that's through proposition funded money.

MS. JACOBS: Where do you think you're going to get that money?

MR. SPEARS: What money?

MS. JACOBS: The CHDAP money.

MR. SPEARS: It's on -- in hand. It's not new CHDAP money.

MS. JACOBS: Okay.

ACTING CHAIRMAN CAREY: It's actually in hand?

MR. SPEARS: Yes, it is.

MR. BRAUNSTEIN: Right.

MS. MACRI-ORTIZ: Not for long.

MS. PETERS: So I don't understand what staff is doing that's any different than anything we've done before. It's business as usual, adding the Fannie Mae product.

MR. SPEARS: One of the dilemmas that we have is what we've heard from the Board, if you go back and read the transcript from last time, there's some concern about doing no down payment loans. People don't have skin in the game. And yet the goal is to reach the low income borrower, who has, you know, little in the way of excess disposable income to put to savings to -- you know, to -- for a down payment. And there's that dilemma.

So if you want to have skin in the game, how much do you require? If you're only going to require a thousand dollars -- which is the Fannie Mae program. A thousand dollars, you get in the house. We don't think that's enough to really -- you can just charge that on your credit card. We think it should be something in the neighborhood of 1 percent.

But if we require 5 or 10 percent, even where home prices are now, that's a substantial amount of money, and it may be a barrier. That may be fine with the Board, that that -- that may be something the Board feels very strongly about.

I didn't get that feeling. What I got the feeling of is from the discussion and going back and reviewing the transcript was that we just wanted people to have the discipline of putting something aside that's meaningful.

MS. JACOBS: Okay. I really thought we weren't going to go into this now.

MR. SPEARS: Yes, sorry.

MS. PETERS: Well, that's what I'm trying to decide. I don't want to hamper them but I also --

MS. JACOBS: We're close to losing a quorum.

MS. PETERS: -- want to know what the --

ACTING CHAIRMAN CAREY: Yeah.

MS. JACOBS: So I really think we need -- I mean, I have some concerns about all kinds of things going forward that I'd like to have a broader discussion on, and I wish we could do it at another time.

ACTING CHAIRMAN CAREY: I don't think the Board is holding the staff back at this --

MS. JACOBS: Right.

ACTING CHAIRMAN CAREY: -- moment from moving forward.

MR. SPEARS: Okay.

ACTING CHAIRMAN CAREY: Long-term issues, broader discussions to have, and the complexity of doing what we want to do and having a product that actually is attractive out there. I think we've got that. At the moment we are deferring the conversation, and I don't think we're -- I don't hear that we're saying to the staff to change the business model. Go ahead and implement it.

MS. MACRI-ORTIZ: Well, the only concern I have is that if they're setting up all these computer systems and there are some changes, what's the impact of that?

MR. BRAUNSTEIN: Again, speaking to our IT people, there is an impact. So putting the features and the design of the program together and either having the Board provide us the authority of the components that we presented today and allowing staff to measure skin in the game equates to what percentage skin in the game or loan to value restrictions being left on staff versus those features needing to come back to the Board, the Board's giving us the authority to move forward under those parameters in meeting the -- the profile of the borrowers that we've just described, then we could go forward with giving our IT folks the necessary specs, if you will, to the product themselves to be able to roll out approximately in 30 to 45 days, April 1.

If -- if we have -- those features need to be re -- re-reviewed by the Board, then, yes, we could either, A, advise our IT folks not to move forward at all until those final decisions are made or move forward and then provide us what the time line would be if we have to go back and readjust certain features based off of the Board's review and input.

ACTING CHAIRMAN CAREY: Steve.

MR. SPEARS: I think we have clear direction from the Board what to do from here on out. We'll work on a time to set aside just for this at a special meeting and --

MS. MACRI-ORTIZ: Well, is that something we can set? I mean --

MS. PETERS: Let's just get a calendar out and get it fast so you can move forward full speed ahead as soon as we all agree on what we --

MS. JACOBS: They're moving forward. That's not -- that's not the problem. I think the problem is whether they want to -- whether you want to calendar with the people that are here or whether you want to do a broader calendar. And I think you want to try to also include the others.

MS. PETERS: Well, can we pick two or three dates and then have staff contact the missing Board members to find out what works best for everyone?

MR. GUNNING: Why can't we do it before our Board meeting, or is that too much?

ACTING CHAIRMAN CAREY: Yes.

MS. PETERS: The date would work.

ACTING CHAIRMAN CAREY: We're looking for a date.

MR. GUNNING: Are we the 25th or the 22nd? It says the 25th here.

MS. OJIMA: March 25th.

MR. SPEARS: March 25th. I might have misspoken before.

MS. OJIMA: At the Holiday Inn.

MS. PETERS: Does it make sense to do it on the 24th, the day before?

ACTING CHAIRMAN CAREY: I'm going to be in Washington, D.C. I'm coming back early just for the 25th.

MS. JACOBS: Can we carry over to the 26th? It's not a furlough day. Anything but April 2nd.

MS. PETERS: The 26th is good for me.

MS. MACRI-ORTIZ: It is for me too.

ACTING CHAIRMAN CAREY: I've got a conference meeting at 10:00 that day.

MS. JACOBS: Well, let's do other days. We need to have you here, Pete.

ACTING CHAIRMAN CAREY: I can probably -- somebody else can chair that meeting.

MR. SPEARS: March 26th.

ACTING CHAIRMAN CAREY: 26th.

MS. JACOBS: We should come up with an alternative date.

ACTING CHAIRMAN CAREY: Yeah, because we do need --

MS. PETERS: We have some valuable voices missing.

ACTING CHAIRMAN CAREY: Yeah, they're very different perspectives.

MS. ROCKWELL: Wasn't there a meeting between that's been canceled that people might have clear?

MR. SPEARS: March 11th.

MS. OJIMA: We need a ten-day notice.

MS. JACOBS: Just got it.

MR. HUGHES: If we did the 11th, we would have to issue the notice tomorrow, and we couldn't do further checking.

MS. ROCKWELL: Well, you could notice it and cancel it if it doesn't work for people. You don't have to --

MR. SPEARS: Let's do that.

ACTING CHAIRMAN CAREY: Yes, let's do that. Our lives and CalHFA.

MR. SPEARS: March 11th. We'll call around and do the best we can, and if we can't make it, then we'll reschedule.

MS. JACOBS: Enough. Enough. Why don't we just try to pull those in. And if JoJo wants to throw in a third date.

MR. HUGHES: If we're going to come up with an agenda and notice tomorrow and post it, I almost hate to ask this, but, should I include the previous matters that we discussed in closed session again? Put an item on there or not?

MR. SPEARS: Not enough time.

MR. HUGHES: Okay.

ACTING CHAIRMAN CAREY: Okay.

MS. JACOBS: Can we move on on the agenda, please.

--o0o--

Item 8. Discussion, recommendation and possible action regarding approval of a building lease

ACTING CHAIRMAN CAREY: Okay. We are moving on to item 8. Who's handling that, Steve?

MR. SPEARS: Howard.

MR. IWATA: Good afternoon, Chair and Board Members.

Let's see here. I'd like to introduce also Jim Niethammer. He's a representative from CresaPartners. He's helping us with the lease negotiation.

Per our last meeting, we questioned the options of looking into a new building and that -- would that send the wrong message in these economic times, and we decided that a new building is not the issue; the issue is fiduciary, that we'd have a fiduciary responsibility to be efficient as we can and to get the best cost effectiveness and a -- and lock in a low -- low lease. Staff's objective today is to provide you with the facts and analysis of the proposed three options.

In order to provide the best offer and yet provide a meaningful analysis for your decision, we closed all offers on noon, February 22nd. And on the 22nd, we received no updates, so we feel comfortable everyone had the opportunity to submit their best offer. However, on February 18th, we did receive an updated offer from 500 Capitol Mall, and that's why we gave you an updated fiscal sheet.

So at this time I'd like Jim to provide a quick history of how we got here. Then I'll present the updated financial chart and nonfinancial chart.

MR. NIETHAMMER: And just to correct that, we also received a response from the Meridian and the Senator Hotel as well. Those actually were for a shorter term than what we're looking at here.

So I'm Jim Niethammer, representing

CresaPartners. I want to thank everyone on the Board, CalHFA, as well as the brokers and landlords for all of their efforts to be prepared for today's meeting.

We'll be presenting three options to the Board today, with the existing Senator and Meridian locations as one option. We've relied on the information provided by the landlords' proposals based upon the deadline we set of Monday, February 22nd, at noon. We have not independently confirmed the accuracy of the information provided, and such information should be verified before proceeding with the transaction.

All options include estimates with different variables, such as moving cost estimates, estimated tenant improvements, operating expense projections, which actual costs might differ from the estimated projections. And therefore, we suggest using the financial information as a tool to assist you with evaluating your overall decision.

The analysis is based upon both financial and nonfinancial considerations. Financial, the financial -- the spreadsheet you have today is updated with the most recent proposals based upon the Monday deadline. The most recent operating expense estimates were updated for all options as of yesterday. In the nonfinancials, based upon site selection criteria developed and ranked by criteria relative to the importance by the Agency.

From 2000 -- just to give you a little history, from 2006 to today, the Agency's investigated and exhausted numerous options within the downtown and city of Sacramento. Subsequent to the Agency's efforts, the final proposal options include the Senator and Meridian consolidation together, combining -- and those obviously are the existing buildings -- a combination of consolidating the Senator into floors 2, 3, 7 and 10, plus Meridian fifth floor; and 2020 West El Camino, where the Agency signed a nonbinding lease proposal in South Natomas, which is a 319,000-square-foot, LEED certified Gold, class A 12-story office building for two and a half floors, which Mr. Kelly spoke on earlier; and 500 Capitol Mall, 445,000-square-foot, class A, downtown 25-story office building, and they've proposed three floors.

Now I'll hand it over to Howard to discuss the financial overview.

MR. IWATA: If you look at the financial chart that you would have in your book, initially we're looking at over 80 to a hundred thousand square feet, but basically we've moved -- because we moved loan servicing out to West Sacramento and also we have close to 46 vacancies, and we're not sure how we're going to fill those vacancies, when we're going to fill those vacancies, and depending on the work plan for the future, we did not count those in the estimates going forward.

So our new estimated square footage we are looking at is approximately 65,000 square feet. And upon looking at that area, if you look at the Senator/Meridian total, it has total square footage of 79,602 square feet. That's because of the load factor there also because of the facility is spread out into seven floors. So what -- the Senator/Meridian said that they would be able to consolidate some of those floors, but we still will be in two buildings, both the Senator and the Meridian, because they cannot consolidate all -- all of us into one building.

For the 2020 West El Camino, they provided us for two and a half floors.

At 500 Capitol Mall, the initial offer was into four floors, but with the new proposal they were able to consolidate us onto three floors. But also within their proposal, they were able to look at our spacing and our staffing, and they said they could possibly get us into 54,000 square feet versus 65,000 square feet, which we need to verify to see if -- those numbers and all staff can fit into that -- that space. So that's another consideration that we will need to look at down -- down the line.

The lease terms --

MR. NIETHAMMER: But for the purpose of the analysis, we used 65,000 across the board. And we're thinking that if there's efficiencies in one building, new building, there's probably efficiencies in the other, so.

MR. IWATA: And then looking at lease terms, we're initially looking at long-term lease terms to get the best -- the best rate. The Senator provided us with ten-year lease terms; 2020, 12.5 years; and 500, 12.8 years. And -- however, we also looked at the short-term leases, just in case you did not want to go with the long term, you wanted to look at short-term leases. Then we also talked with the Senator and Meridian to possibly go to short-term leases and extend our current stay where we're at right now.

MR. NIETHAMMER: And one other thing, Howard, I wanted to add is that we had to base everything kind of apples to apples, so the term for the Senator in this case is 12.5 years. We just continued their escalations.

MR. IWATA: And on the base lease rate, again, the Senator is 2.35, I mean, and five-cent annual increases. And Meridian is $2.65 with 2.5-percent annual increases. The 2020 West El Camino and 500 Capitol Mall provided the same rate per square feet and -- however, the annual increase is 1-percent difference between 2020 West El Camino and 500 Capitol Mall.

The operating expenses base year for Senator and 500 are at 2010, and base year for 2020 West El Camino is 2011.

And then for all three areas we are looking at a turnkey situation. So both 2020 West El Camino and 500 provided $50 per rentable square feet, but 2020 West El Camino provided an amortized up to an additional $10 per square foot on top of the existing lease rate.

Also, in rental abatement, all three areas, options, provided possible free rent: Senator eight months free rent; Meridian, six months; three months for 2020 West El Camino; and eight months for 500 Capitol Mall.

So the estimated relocation and moving expenses for Senator, it came up to $1,172,000. Basically that's because it's an older building, and in order to come up to the -- to -- for cabling purposes and for our IT and new phone system that we'd like to implement, we'll have to do a lot of recabling throughout -- throughout the whole building.

For 2020 West El Camino, 500 Capitol Mall, it's about $800,000 for the relocation.

Moving allowance, Senator, none. For the 2020

West El Camino and 500 Capitol Mall, 2020 provided $650,000 at $10 per square foot in; 500 provided 130,000 at $2 per square foot.

So as you can see, provided is the estimated occupancy costs, and that's using the 12.5 years -- approximately 12.5-years rate across the board, so it's a comparison apples to apples.

Estimated savings, you're looking at from the estimated costs, occupancy costs, they're approximately 3,382,881 for 2020 West El Camino and 4,129,484 for 500 Capitol Mall. The difference is about -- between 2020 West El Camino and 500 Capitol Mall is $750,000 over 12 and a half years.

Our delivery date is when we can move in, and they all provided with information that they can meet the September 1 deadlines. So that's when our lease expires for the Senator, and the Meridian is October 10th. So we're in a tight time frame as far as trying to move and sign a lease and get all the tenant improvements done and move into a new facility, if approved.

And that is the fiscal chart.

If you look at the other chart, that's a nonfinancial chart. What we did, again, is we determined what the priorities were for our Agency and what the -- what the priorities were as far as how -- what we need to make our work situation better. We have three top priorities, and one is consolidation. Another one is building efficiencies. And the third is building system and amenities.

Going across the board, for consolidation purposes, again, the Senator and Meridian is tough because they won't be able to consolidate us all in one building. 2020 West El Camino, they put us on two and a half floors, which buys us a good consolidation, as well as 500 Capitol. 500 Capitol, we put on there four floors because that's their initial information provided us, but since, they've showed us information that they can put us on three floors, but we still need to verify the square footage and everything and that it fits all of us.

The same thing for building efficiencies. Again, 2020 West El Camino provides the best building efficiencies on there.

And building system and amenities, office type, shape, condition and so forth, that's the type -- between -- all three are options that provide us with class A buildings, so all the buildings are in good shape and -- and --

MR. GUNNING: Excuse me, Howard. What do you mean by efficiencies?

MR. IWATA: Efficiencies are like the floor plate on putting all of us onto one -- one floor as best possible. It helps us with work flow, working with our -- our different divisions are all together, they're not on different floors. It's efficiency as far as if we're all on one floor, we can share our office equipment, printers, copiers. We don't need one all over the place. So that's something that we're looking at.

MR. GUNNING: That's better at 2020?

MR. IWATA: Yes, 2020 puts us on two and a half floors. And on -- however, at 500, if they put us on three floors, then it's equivalent. But right now we have to verify. I didn't change the ratings on 500 because I could not verify, did not have time to verify, that we could do -- possibly do that, so I just kept everything the same.

MS. JACOBS: Can I follow up on that?

MR. IWATA: Yes.

MS. JACOBS: I thought I read in here somewhere that at the 500 Capitol Mall there were not -- they were not contiguous floors, but they're contiguous floors at 2020. Is that correct or am I just --

MR. NIETHAMMER: That's correct.

MS. JACOBS: -- punchy?

MR. IWATA: Correct. 2020 is on floors 3, 4 and 5. For 500, we're looking at floors 8, 9 and 14.

MR. NIETHAMMER: They're in the same elevator bank, but they're not -- you know, two of them are contiguous, and one is up a lot.

MS. JACOBS: Okay. Thank you.

MR. IWATA: The next area for our nonfinancial criteria is availability, flexibility for future expansion or to reduce square footage. And for the Senator, it's tough to move in because it's -- a lot of the area is filled and they are waiting for tenants to leave and then we'd fill in. They said they can possibly fit us into four floors all -- all in one area, but that's going to take -- that will be over time.

MR. NIETHAMMER: And I think it's -- it's four floors consolidating into the Senator. It's a phased move. It's a -- it's a three-to-four-phase move, so you would clear a floor, build it out, move down, clear a floor, move down. I guess it's arguable in terms of how much time it's going to take. It depends on, you know, if there's, you know -- you can't do it in December potentially or November, you have to kind of work around the schedule, you know.

ACTING CHAIRMAN CAREY: Just to clarify, that takes place after September 1st in the Senator?

MR. NIETHAMMER: I think they -- they would probably be flexible on, you know, I guess when that takes place. The proposal was based upon September 1.

MR. SPEARS: That they would start construction.

ACTING CHAIRMAN CAREY: Or that they would be done?

MR. NIETHAMMER: That they would start and they would -- it was January of '11 -- was that right?

MR. IWATA: Yeah, they --

MR. NIETHAMMER: We were corrected today, that -- we said two and a half years. They corrected us and said that they could do it sooner. And I'm sure either one is possible. I think it's just working around the Agency's schedule and understand that you have to clear a floor, you have to move, clear a floor and move. And so it's just -- you know, I'm sure the construction people can get it done. It's just working around the Agency's schedule.

MR. IWATA: And then for 2020 West El Camino, they have plenty of space for us to expand.

To expand on 500 Capitol Mall, we would have to most likely take up -- take another floor.

Overall building usability, the adequacy of space, again 2020 West El Camino and 500 Capitol Mall come up on top. Meridian has good space, provides us good usabilities. And the Senator is a little less user friendly.

Public access to buildings, 2020 West El Camino is top because it's free parking. The public can have access right off the freeway. And then -- however, access to the Senator/Meridian, 500 Capitol Mall is downtown, so they'll have to find parking, pay for parking, and so forth.

Public transportation, the light rail, usually that's a big-time staff issue. Approximately -- last time I checked, about 70 staff get parking passes from our accounting unit, who provided 35-percent cut rates due to state supplement and local programs. And since Senator/Meridian are downtown with the light rail area and so is 500 Capitol Mall, that came up on top. 2020, light rail is projected to go out there, but there's no -- no date that I know of. However, they have a good bus route going from downtown Sacramento over to 2020 West El Camino. I believe it goes every 10, 10 to 20 minutes from 6:00 in the morning to 9:00 at night.

Parking costs, again, that would be -- pay for approximately 14 spaces for about $30,000 per year in -- again, at -- that would pay for parking for the downtown facilities. In 2020 West El Camino there would be no cost since there's no cost for parking.

And the other amenities we're looking at are restaurants, parks, you know, staff, for them, places to eat, easy access. The downtown is the ideal spot for that. 2020 is -- has restaurants close by, so only about a couple minutes away. Some are walking distance, but others have to drive to it.

So if you look at the overall rating for nonfinancial criteria and if you don't take into consideration the new proposal provided by 500 Capitol Mall that we need to verify yet on for three floors, 2020 West El Camino comes out on top with 500 Capitol Mall close behind.

And then this is kind of an overall snapshot of possible options and our ratings and how we reviewed it. However, you should also note that we don't have a full lease agreement, so we could still have changes.

If there are any questions, we'd be happy to answer them.

MS. MACRI-ORTIZ: For someone from Southern California, both buildings are in the flood plain? Are both places in the flood plain?

MS. JACOBS: Don't even think -- don't even go there. None of the spaces are on the first floor, so don't worry about it.

ACTING CHAIRMAN CAREY: That's why the servers are in the basement.

MR. HUNTER: I have a question about the -- the comment that was made by one of the owners in the public testimony about operating costs. I see operating expenses with base years, but I don't see any numbers. Do you have an estimate of what the operating expenses, you know, in terms of electricity, et cetera, et cetera?

MR. NIETHAMMER: Yeah. Actually, I have that for all of them. And this is fresh information from each individual owner yesterday, so. For -- we had to blend Senator and Meridian, and the operating expenses are 11.42, $11.42, annually. And that was based upon a 2010 base year. And the operating expenses for 2020 West El Camino were $11.78, and that was the -- Mr. Kelly's building. And 500 Capitol Mall is $12.00, and they gave me an estimate of 10 to 12 dollars, and I used $12.00.

Again, the difficulty here -- back to my initial statement -- is these are new buildings. They're estimates. They're still working on their actuals from last year to get their accounting together for '09. So again, that's why I wanted to make sure everyone had their input as of yesterday. They're still even working on their '09 numbers to have. These are budget numbers. They could change. And so again, let's just -- they are what they are, so.

MS. MACRI-ORTIZ: I have two questions. First, on the -- we have all the servicing in West Sacramento.

At some point when that lease is up, is the idea that they're going to consolidate in, or that's just going to stay there?

MS. JACOBS: That's a question for Steve.

MR. SPEARS: I am sorry, repeat the question.

ACTING CHAIRMAN CAREY: Would the servicing stay in West Sacramento?

MS. MACRI-ORTIZ: Beyond their lease or would they go into the same?

MR. SPEARS: They would stay in West Sacramento.

MS. MACRI-ORTIZ: Stay in West Sacramento. Okay.

And I guess the other is just a comment for the Board. You know, with respect to free parking sounds great, but aren't we supposed to be trying to encourage our development in areas so that we don't have to use the cars? I don't know. It just seems kind of counterintuitive to what the State is supposed to be doing.

MS. JACOBS: Okay. I'd like to make a comment. I do see the difficulty of CalHFA operating in two different buildings, the Meridian and the Senator, because I have gone to the wrong building before.

ACTING CHAIRMAN CAREY: Me too.

MS. JACOBS: But I think between the two other choices, they're both good choices. And I think it should be up to the executive director to make a recommendation. That would be my idea.

ACTING CHAIRMAN CAREY: And realistically, the action by the Board is to authorize entering into a lease, not necessarily to choose the building to lease, but to authorize that. Isn't that right, Tom?

MR. HUGHES: Basically.

MS. MACRI-ORTIZ: Well, there's a line in the resolution that's blank.

ACTING CHAIRMAN CAREY: Yes. Exactly.

MS. MACRI-ORTIZ: So that implied to me that we were going to put something in there.

ACTING CHAIRMAN CAREY: Yes. I think that's the question.

MR. GUNNING: The question is the lease.

ACTING CHAIRMAN CAREY: Well, I mean, I think we have to -- we have to specify what he would be entering into a lease for, whether it's one or one of two options or whatever.

MR. HUGHES: Just as a reminder that the reason why this is coming to the Board is we have a rule, a regulation, that requires Board approval of certain expenditures, actually over a million dollars. And we're bringing it to the Board, so we do need the authority from the Board to do something. And it could be approve one, approve the other, or approve, you know, the executive director entering into one of -- trying to negotiate a lease with one party and if that was unsuccessful, the fallback would be authorizing the second proposal.

MS. PETERS: So moved as he last said.

MR. GUNNING: Second.

MS. PETERS: Do we have to have public comment on that?

ACTING CHAIRMAN CAREY: Yes. So we have a resolution which needs to be amended to have a sense of what the Board's approving.

MR. HUGHES: Right. And I think the resolution which we just marked up a little bit actually in the -- the only differences would be the last whereas we include both buildings as -- as resulting in a cost savings. And then in item 1, as this is proposed anyway, would authorize the executive director to first negotiate with one of the buildings and if that was unsuccessful, he would be authorized to negotiate a lease with the other building. There's a priority inherent in this, but it could be done more than one way.

MS. PETERS: Could we do it at his discretion? Could we authorize him to enter into a lease with this building or that building at his discretion?

MR. HUGHES: That could be. I don't know what -- if we have a recommendation on this thing.

ACTING CHAIRMAN CAREY: Steve, do you have a recommendation?

MR. SPEARS: No. We set this up to discuss with the Board. The way the resolution was set up was to choose a lease, so that's the way it was originally set up. I have no problem receiving authorization from the Board to -- that you consider these all good options and any one of them is okay by you and I make the choice and sign a lease, negotiate a lease and sign it.

MS. JACOBS: Yeah, I think probably if we -- if we had a preference, we wouldn't be crazy about you staying in the two hotels.

MR. GUNNING: Yeah.

MR. SPEARS: Understood.

MS. JACOBS: That was a good motion, Steve. Hopefully we got that down.

ACTING CHAIRMAN CAREY: I don't think it makes -- I don't -- personally, I don't think it makes sense to stay in the two buildings.

MS. JACOBS: Yes.

ACTING CHAIRMAN CAREY: And I think we're down to the other two. From my own point of view, I have to echo a little bit what Barbara said, that I think the mass transit is an issue for me, and the proximity to downtown, I think, does make some difference in terms of connectivity with the rest of the State and the other agencies and such.

MS. JACOBS: However, the West El Camino building is closer to West Sacramento.

ACTING CHAIRMAN CAREY: That's true.

MS. JACOBS: Closer to the --

ACTING CHAIRMAN CAREY: Loan servicing.

MS. JACOBS: -- the heartbeat of loan servicing.

MS. MACRI-ORTIZ: Who goes there?

MR. SPEARS: It's one exit away.

MS. JACOBS: Not us.

Personally, I don't feel strongly enough about either place to have it be my decision. I would rather leave it up to the people that have to work there.

ACTING CHAIRMAN CAREY: Anyone disagree with that?

We have a motion and a second, I think.

MR. HUGHES: I think just in terms of the actual resolution as I had read this a minute ago, it actually contains a priority, that the executive director is first authorized to go to one, then the other. The alternative, which I sense is what the Board is asking for, is actually to authorize both of them and the executive director can choose whichever is best.

MS. PETERS: Yes, that's my motion.

MR. SPEARS: That's a little different than what I got.

ACTING CHAIRMAN CAREY: Yes.

MR. HUGHES: Yes, and that's different from what's on here.

ACTING CHAIRMAN CAREY: I think that's the sense of this Board.

MS. JACOBS: That's the motion, and that's the second, right?

MR. GUNNING: That's my second.

MS. OJIMA: Okay. Mr. Gunning is second? And that's as amended. Okay.

ACTING CHAIRMAN CAREY: Roll call, please.

MS. OJIMA: Thank you.

Ms. Peters.

MR. SPEARS: We have to allow for --

ACTING CHAIRMAN CAREY: Oh, I'm sorry, yes, you're right. We did have public comment earlier, but this is a public hearing, and we are at this point willing to accept public comment related to this specific action by the Board.

Seeing none --

MR. VICTOR: Mr. Chair, just before --

ACTING CHAIRMAN CAREY: The slow hand from the back.

We'd ask you to state your name for the record.

MR. VICTOR: Hello. My name is Mark Victor. I'm an employee of CalHFA, and I felt it necessary to express the concerns of a number of employees regarding moving into the Natomas location.

A number of people utilize public transit, and the options for transit in Natomas are inadequate. For instance, a number of people utilize transit from El Dorado County, Yolo County, Placer County, and they do not have a connection that goes directly to Natomas, and they would have to take -- come to the downtown area where 500 Capitol is and then take another bus in order to get out to Natomas, which would increase commute times hugely for a number of these people who are already commuting, you know, up to 45 minutes.

Additionally, anybody that lives in the 50 Corridor, their commute time, even if they were driving, would probably be increased at least, you know, 30 minutes in order to get -- because they would have to, again, come downtown, go up I-5 in order to get to Natomas. And for a lot of people, that would be a hardship.

Right now people are already commuting to the downtown area, and so, you know, this would not -- to stay in the downtown area wouldn't be an additional sacrifice for them, whereas a number of people would experience, you know, a hardship if they did have to travel outside of the downtown area.

So just thought I had to say that.

ACTING CHAIRMAN CAREY: Great. We appreciate you taking the time to share your viewpoint. And I know that -- that concerns of the staff on both sides is part of the equation in the decision. Thank you.

MS. PETERS: Thank you for being so patient waiting for our long closed session.

ACTING CHAIRMAN CAREY: We now have -- we do have a motion on the floor.

MR. HUGHES: Mr. Chair?

ACTING CHAIRMAN CAREY: Yes.

MR. HUGHES: Before we vote can I just make one clarification, because I have to redraft this.

ACTING CHAIRMAN CAREY: Yeah, I'm sorry. We have another --

MS. PETERS: Further comment.

ACTING CHAIRMAN CAREY: -- comment. Yes, okay. One more comment.

MR. AGUER: Thank you. My name is Tom Aguer.

I'm with Aguer Havelock Commercial Real Estate, and I'm a real estate broker representing the Kelly family, the 2020 West El Camino building. And I just wanted to comment on public transportation in South Natomas, and I appreciate all the comments that have been made.

One thing I wanted to bring to your attention is that in South Natomas, we were very sensitive to transportation issues 20 years ago when the Kellys first started developing the area, and we established the South Natomas Transportation Management Association at that time, and it is still in operation today. And we actually won the Governor's Award in the 1990s as the best run TMA in the state of California.

And the whole purpose of the transportation management association is to mitigate traffic and add to the air quality and to really provide alternatives, multiple alternatives, for employees, and it's been very successful, especially for large users with -- with high employee head counts.

And the advantage to large users moving into Natomas is that the employees would immediately be placed into the TMA database, where they would be immediately put into or provided information for ride sharing, car pools, van pools, as well as an emergency ride home program. If you have a family emergency, a taxi picks you up at your -- at your office and takes you home, no charge.

We also have subsidiaries for regional transit and for Amtrak. We have showers and lockers in the building and bicycle lockers, which is also part of our LEED certification. And it's all -- it all is -- the whole purpose is to, again, assist in public transportation.

So we do have two excellent lines with Regional Transit. The service is on site. We have a bus shelter on the site. We have two stops at the site, with regular service that was already mentioned, so I just wanted to clarify that because we are very sensitive to the transportation issues out there. And again, as a part of our LEED Gold certification we're very interested in providing alternative sources of transportation in addition to all of our free parking.

Thank you.

ACTING CHAIRMAN CAREY: Thank you very much.

Seeing no further comment, we will close the hearing and move to the Board action. Roll call, please.

MR. HUGHES: Mr. Chair, before the vote --

ACTING CHAIRMAN CAREY: Yes.

MR. HUGHES: -- can I just clarify one thing, because I have to draft this resolution. My understanding, what I heard, was that the choices are between 500 Capitol Mall and 2020 and not the Senator and Meridian. Is that correct?

ACTING CHAIRMAN CAREY: Yes.

MR. HUGHES: I just wanted to clarify that.

ACTING CHAIRMAN CAREY: Yes.

MR. HUGHES: Thank you.

ACTING CHAIRMAN CAREY: Roll call.

MS. OJIMA: Thank you.

Ms. Peters.

MS. PETERS: Yes.

MS. OJIMA: Mr. Gunning.

MR. GUNNING: Yes.

MS. OJIMA: Mr. Hunter.

MR. HUNTER: Yes.

MS. OJIMA: Ms. Jacobs.

MS. JACOBS: Yes.

MS. OJIMA: Ms. Carroll.

MS. CARROLL: Yes.

MS. OJIMA: Ms. Macri-Ortiz.

MS. MACRI-ORTIZ: Yes.

MS. OJIMA: Thank you.

Mr. Carey.

ACTING CHAIRMAN CAREY: Yes.

MS. OJIMA: Resolution 10-05 as amended has been approved.

ACTING CHAIRMAN CAREY: Great.

--o0o--

Item 9. Reports

ACTING CHAIRMAN CAREY: I think we will not spend time on the reports with the --

MR. SPEARS: Read them on the airplane.

ACTING CHAIRMAN CAREY: No, in the car.

MS. PETERS: You need an emergency ride home.

--o0o--

Item 10. Discussion of other Board matters.

ACTING CHAIRMAN CAREY: Other Board matters?

With that, we are adjourned. Thank you for your patience.

(The meeting concluded at 5:42 p.m.)

REPORTER'S CERTIFICATE

I hereby certify the foregoing proceedings were reported by me at the time and place therein named; that the proceedings were reported by me, a duly certified shorthand reporter and a disinterested person, and was thereafter transcribed into typewriting by computer.

In witness whereof, I have hereunto set my hand this 16th day of March, 2010.

____

Yvonne K. Fenner

Certified Shorthand Reporter

License No. 10909, RPR

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State of California

M E M O R A N D U M

To Board of Directors **Date:** March 18, 2010

From: L. Steven Spears, Acting Executive Director
CALIFORNIA HOUSING FINANCE AGENCY

Subject: Item 5 – Proposed Update to the CalHFA Business Plan

Traditionally, the regular March Board meeting is the time when Staff presents to the Board a proposed updated business plan for the Agency. The Board discusses the proposal with Staff and provides comments and suggestions. Using these suggestions and comments, Staff finalizes the proposal and presents a completed business plan at the May Board meeting. In addition, based on the finalized business plan, Staff prepares and presents an Operating Budget for the next fiscal year at the May Board meeting.

In past years, a five year business plan has been adopted. However, last year, with disruption and uncertainties in the bond, credit and real estate markets, the challenges presented by the Agency's own financial condition and the pending Federal HFA initiative, the Staff presented and the Board adopted a two year business plan. Given the continued uncertainties and challenges, Senior staff will present and recommend an update of the two year business plan at the March 26 Board meeting.

Please let me know if you have questions.

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State of California

MEMORANDUM

To: **CalHFA Board of Directors** **Date:** 3/19/2010

From: **Steve Spears, Acting Executive Director**
CALIFORNIA HOUSING FINANCE AGENCY

Subject: New HELP FOR HARDEST HIT HOUSING MARKETS (4HM or Hardest Hit) Program

On February 19, 2010, President Obama announced $1.5 billion of funding under the Emergency Economic Stabilization Act (EESA) to fund innovative measures to help families in the five states that have been the hardest hit by the aftermath of the housing bubble. Housing Finance Agencies (HFA's) in California, Florida, Arizona, Michigan and Nevada have been invited to submit proposals to utilize these funds for programs that will help prevent foreclosures and stabilize housing markets. Suggested programs include mortgage modifications (including principal forbearance or reduction, programs that assist unemployed or underemployed borrowers, and second lien reductions. All proposals must be submitted to Treasury by April 16, 2010.

On March 5, 2010, Treasury announced that allocations would be based on home price decline and unemployment ratios. Using this methodology, $699.6 million was allocated for California. Since this announcement, CalHFA has implemented a project team to develop a program or programs, and have initiated a series of meetings and conference calls with lenders, servicers, counselors, housing advocates and stakeholders, other participating states, GSE's, and other interested parties to solicit their input for the best use of these funds.

We are confident that we will have an innovative proposal that will address the unique needs of California's borrowers. A copy of the Program Guidelines and Frequently Asked Questions released by Treasury upon announcement of the program are attached for your information.

Attachments

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Housing Finance Agency Innovation Fund for the Hardest-Hit Housing Markets ("HFA Hardest-Hit Fund")

Frequently Asked Questions

March 5, 2010

On February 19, 2010, President Obama announced $1.5 billion in funding for innovative measures to help families in the states that have been hit the hardest by the aftermath of the burst of the housing bubble. States where house prices have fallen more than 20% from their peak are eligible for this funding. Such price declines, coupled with the effects of high unemployment, mean that many working and middle-class families in these areas are facing serious challenges. These funds will be utilized for innovative programs being developed by state Housing Finance Agencies to address these challenges. Below are some answers to frequently asked questions about this program.

What are HFAs and what do they do?

Housing Finance Agencies or HFAs are agencies or authorities created by state law that are charged with helping persons and families of low or moderate income attain affordable housing. HFAs provide responsible and affordable housing resources to low and moderate income borrowers who might not be served elsewhere. Some of their primary activities include: financing mortgages at low rates, funding development of affordable rental properties and refinancing or modifying mortgage loans for at-risk borrowers. HFAs have established a strong track record of offering effective foreclosure prevention and sustainable homeownership opportunities for working families. According to the National Council of State Housing Agencies (NCHSA), its member agencies have provided mortgage financing for nearly 3 million homes in America and helped finance construction of approximately 3 million affordable rental properties. Combined, State HFAs typically fund about 100,000 mortgages a year.

What is the objective of the HFA Hardest-Hit Fund?

The HFA Hardest-Hit Fund was designed to allow the maximum possible flexibility to HFAs in designing locally-focused programs that address the needs of a specific state or region within a state. All programs must have foreclosure prevention and housing market stability as their primary objectives.

How is the HFA Hardest-Hit Fund related to the Obama Administration's Making Home Affordable program?

The HFA Hardest-Hit Fund was announced on February 19, 2010 to help address the housing problems in the states that have experienced the most severe home price declines. It is designed to complement and add to the framework of other Administration policies announced over the past year to stabilize the US housing market and keep American homeowners in their homes.

- On February 18, 2009, President Obama announced the *Homeowner Affordability and Stability Plan* – a comprehensive set of programs designed to stabilize the U.S. housing market and help keep millions of American homeowners in their homes. As part of this plan, the Administration provided additional support to Fannie Mae and Freddie Mac (collectively called "Government Sponsored Entities" or "GSEs") to ensure continued confidence in those institutions and continued access to affordable mortgage credit across the market. The plan included expanded refinancing flexibilities for the GSEs, which, along with historically low interest rates, have helped over four million American homeowners to refinance, saving an estimated $150 per month on average and more than $6.8 billion in total. Another component of the plan, the Home Affordable Modification Program (HAMP), has provided over 1 million struggling homeowners a second chance to stay in their homes by modifying their existing mortgage to achieve an affordable and sustainable monthly payment. Through HAMP each homeowner in a modification is saving an average of $500 per month because of their reduced monthly mortgage payments.

- On October 19, 2009 the Administration announced the Housing Finance Agencies Initiative to support state and local housing finance agencies in providing sustainable homeownership and rental resources for working Americans nationwide. Over 90 HFAs across 49 states participated in the program, supporting $15.5 billion in HFA financing at no expected cost to the taxpayer.

- The First Time Homebuyer Tax Credit has helped hundreds of thousands of responsible Americans purchase homes.

- The American Recovery and Reinvestment Act of 2009 supported the Low Income Housing Tax Credit market by creating an innovative Tax Credit Exchange Program ("TCEP") and providing gap financing through the HUD Tax Credit Assistance Program ("TCAP"). In combination these programs are estimated to provide over $5 billion in support for affordable rental housing. The Recovery Act also provided $2 billion in support for the Neighborhood Stabilization Program (NSP) in addition to $4 billion provided for the program in the Housing and Economic Recovery Act.

How was the size of the HFA Hardest-Hit Fund determined?

$1.5 billion of funding under the Emergency Economic Stabilization Act ("EESA") has been allocated for the HFA Hardest-Hit Fund. This level of funding will allow the hardest hit states to develop scalable innovative local approaches to foreclosure prevention programs and is an amount that housing finance agencies will be able to absorb and use effectively.

What methodology was used to determine allocations?

The HFA Hardest-Hit Fund announcement indicated that funds would be allocated according to a formula based on home price declines and unemployment. For this simple formula, each state's allocation was determined by first adding two ratios: (i) the ratio of its unemployment rate to the highest unemployment rate in any state and (ii) the ratio of its price decline to the largest price decline in any state. This sum is used to scale the number of delinquent loans in each state. HFA funds are allocated among the states based on this weighted share of delinquent borrowers.

For this calculation, unemployment data is from the Bureau of Labor Statistics as of December 2009, the most recent month available. The home price decline is calculated from each state's home price peak using the FHFA Purchase Only Seasonally Adjusted Index. This index is a widely-used measure of state-level housing price changes and includes only purchase price data – as opposed to refinancing data which are subject to appraisals – and thus may be less systematically biased. The delinquent loans include loans over 60 days delinquent but not in foreclosure as of the fourth quarter of 2009, using MBA data. Treasury does not include loans in the foreclosure process in order to avoid distortions caused by differences in state foreclosure laws that affect the length of time loans may remain in the foreclosure pipeline. Including just delinquent loans give a measure of struggling borrowers that is more comparable across states.

Set forth below is a summary of the methodology used to determine calculations:

	Housing Price Decline		Unemployment						
	Housing price decline from peak	Ratio relative to largest decline	December 2009 unemployment rate	Ratio relative to highest unemployment rate	Sum of ratios *(State's weight)*	Number of delinquent loans in Q4 2009	Weighted number of delinquent loans	Weighted share of delinquent loans in these states	Allocation ($mm)
Nevada	-49.9%	1.00	13.0%	0.89	1.9	62,622	118,382	6.9%	$102.8
California	-38.9%	0.78	12.4%	0.85	1.6	494,640	805,978	46.6%	$699.6
Florida	-37.4%	0.75	11.8%	0.81	1.6	309,022	481,558	27.9%	$418.0
Arizona	-36.8%	0.74	9.1%	0.62	1.4	105,853	144,073	8.3%	$125.1
Michigan	-24.1%	0.48	14.6%	1.00	1.5	120,030	178,000	10.3%	$154.5
Total									$1,500.0

Why are only 5 states receiving funding?

The purpose of the HFA Hardest-Hit Fund is to support new and innovative foreclosure prevention efforts in the areas hardest hit by housing price declines and high unemployment rates. In order to help significant quantities of borrowers and test the effectiveness of these efforts, funding levels need to be high enough to make a significant impact. For this reason, HFAs in the five states most severely impacted will be allocated funding. However, we expect that lessons learned through these innovative programs will help other HFAs serve their communities, and will assist Treasury in analyzing the effectiveness of, and designing, locally-targeted housing programs.

What will the HFAs do with this funding?

The HFA Hardest-Hit Fund is intended to allow the maximum possible flexibility to HFAs in designing locally-focused programs that are tailored to the needs of the specific state or a region within a state. All programs must have foreclosure prevention and housing market stability as their primary objectives. In reviewing program designs, Treasury will determine whether all proposed programs would meet the requirements of EESA. While one goal of the HFA Hardest-Hit Fund is to foster innovation, Treasury has outlined some of the possible types of transactions that would be acceptable under EESA. This is not meant to be an exhaustive list of acceptable transactions and other innovative ideas and transaction types (including innovations related to the Making Home Affordable Program) will be evaluated on a case-by-case basis for compliance with EESA.

a. **Mortgage Modifications** – Programs may provide for mortgage modification of loans held by HFAs or other financial institutions or provide incentives for servicers / investors to modify loans.

b. **Mortgage Modifications with Principal Forbearance** – Programs may provide for paying down all or a portion of an overleveraged loan and taking back a note from the borrower for that amount in order to facilitate additional modifications.

c. **Short Sales / Deeds-In-Lieu of Foreclosure** – Programs may provide for assistance with short sales and deeds-in-lieu of foreclosure in order to prevent avoidable foreclosures.

d. **Principal Reduction Programs for Borrowers with Severe Negative Equity** – Programs may provide incentives for financial institutions to write-down a portion of unpaid principal balance for homeowners with severe negative equity.

e. **Unemployment Programs** – Programs may provide for assistance to unemployed borrowers to help them avoid preventable foreclosures.

f. **Second Lien Reductions** – Programs may provide incentives to reduce or modify second liens.

For programs designed to help individual homeowners, the target population should be limited to residences with unpaid principal balances equal to or less than the current GSE conforming limit of up to $729,750 (higher limits are allowable for two to four unit dwellings). HFAs may further target low and moderate income borrowers as required by the enabling state legislation for the applicable HFA.

Each program must be in full compliance with, all federal, state, and local laws, including, but not limited to, the Equal Credit Opportunity Act and the Fair Housing Act, which prohibit discrimination on a prohibited basis in connection with mortgage transactions. Mortgage modification programs are subject to the fair lending laws, and HFAs should ensure that the programs do not treat a borrower less favorably than other borrowers on grounds such as race, religion, national origin, sex, marital or familial status, age, handicap, or receipt of public assistance income in connection with any program.

How many homeowners could this program help?

HFAs may use the funding for a variety of programs designed to prevent avoidable foreclosures, assist unemployed borrowers, help address negative equity, or reduce second liens – all with the goal of helping responsible, but struggling American families stay in their homes. As part of the program plans submitted to Treasury, each HFA will estimate the number of borrowers that will benefit from their proposed use of funding. The final versions of each proposal, along with the estimate of the number of borrowers who may benefit, will be publically available on the Treasury website.

Will the HFAs have to pay this money back?

No. The objective of this fund is to prevent avoidable foreclosures in areas hardest hit by unemployment and home price declines. Foreclosure prevention is an objective explicitly listed in EESA. The HFA Hardest-Hit Fund has been created to encourage state HFAs to explore innovative approaches to address foreclosure prevention. It aims to promote flexibility in program design to maximize the impact in local communities.

When will HFAs begin to utilize funding?

Proposals are due from HFAs by April 16, 2010. Treasury will then review each proposal for compliance with program objectives and EESA requirements. Treasury expects that HFAs may be in the position to begin drawing down funds within four to six weeks following submission of proposals.

How will Treasury ensure that HFAs adhere to robust compliance standards in this program?

As with all other uses of funds made available through EESA, the HFA Hardest-Hit Fund will be subject to oversight by Treasury, the Comptroller General of the United States, Government Accountability Office, Congressional Oversight Panel, and the Special Inspector General of the Troubled Asset Relief Program. All books, communications and records regarding the use of EESA funds must be available for review by any of these entities upon request.

In addition, each HFA will be required to design its program(s), establish monitoring mechanisms, and implement a system of internal controls which minimize the risk of fraud, mitigate conflicts of interest, and maximize operational efficiency and effectiveness. A system of internal controls should encompass the HFA's processes, their business partnerships and relationships and any constituency being aided through these programs. The HFAs will be required to test, certify, and provide an independent verification of the effectiveness of these controls at least annually including an assessment prior to program launch to ensure their eligible entities have taken appropriate steps to meet program objectives, as well as to provide audited financial statements to Treasury.

Housing Finance Agency Innovation Fund for the Hardest Hit Housing Markets ("HFA Hardest-Hit Fund")

Guidelines for HFA Proposal Submission

STATEMENT OF PURPOSE

On February 19, 2010, President Obama announced $1.5 billion in funding for innovative measures to help families in the states that have been hit the hardest by the aftermath of the burst of the housing bubble. States where house prices have fallen more than 20% from their peak are eligible for this funding.[1] Such price declines, coupled with the effects of high unemployment, mean that many working and middle-class families in these areas are facing serious challenges.

State Housing Finance Agencies ("HFAs") in California, Florida, Arizona, Michigan and Nevada may submit proposals ("HFA Proposals") for using these funds to develop and implement innovative housing initiatives tailored to their local conditions to help prevent foreclosures and stabilize housing markets, including individual programs ("Programs") targeting unemployed borrowers, underwater borrowers and second lien relief.

To receive funding from the HFA Hardest-Hit Fund, a Program must satisfy the requirements for funding under the Emergency Economic Stabilization Act of 2008, as amended ("EESA"). These requirements include that the recipient of funds must be an eligible entity, which is described below under the heading "Eligible Entity," and that the funds must be used to pay for Programs designed to prevent avoidable foreclosures and other permitted uses under EESA.

ALLOWABLE USES

The HFA Hardest-Hit Fund is designed to allow the maximum possible flexibility to eligible HFAs in designing Programs that are tailored to the needs of the specific state. All Programs must promote the purposes of EESA. Section 2 of EESA provides that the purposes of EESA are to restore liquidity and stability to the financial system and to use Troubled Asset Relief Program (TARP) funds in a manner that, among other things:

- Protects home values.
- Preserves homeownership and promotes jobs and economic growth.

[1] As of December 2009 based on the FHFA Purchase Only seasonally adjusted index measured since each state's peak home price level.

- Provides public accountability for the exercise of such authority.

The objective of the HFA Hardest-Hit Fund is to allow HFAs to develop creative, effective approaches that consider local conditions. To provide guidance to HFAs in designing Programs, Treasury has outlined below many of the possible types of transactions that would meet the requirements of EESA.

a. **Mortgage Modifications** – Programs may provide for mortgage modification of loans held by HFAs or other financial institutions or provide incentives for servicers / investors to modify loans.

b. **Mortgage Modifications with Principal Forbearance** – Programs may provide for paying down all or a portion of an overleveraged loan and taking back a note from the borrower for that amount in order to facilitate additional modifications.

c. **Short Sales / Deeds-In-Lieu of Foreclosure** – Programs may provide for assistance with short sales and deeds-in-lieu of foreclosure in order to prevent avoidable foreclosures.

d. **Principal Reduction Programs for Borrowers with Severe Negative Equity** – Programs may provide incentives for financial institutions to write-down a portion of unpaid principal balance for homeowners with severe negative equity.

e. **Unemployment Programs** – Programs may provide for assistance to unemployed borrowers to help them avoid preventable foreclosures.

f. **Second Lien Reductions** – Programs may provide incentives to reduce or modify second liens.

This is not meant to be an exhaustive list of acceptable transactions, and other innovative ideas and transaction types (including innovations related to the Making Home Affordable Program) will be evaluated on a case-by-case basis for compliance with EESA. Treasury may publicly announce additional types of transactions that would meet the requirements of EESA.

For Programs designed to help individual homeowners, the target population should be limited to residences with unpaid principal balances equal to or less than the current GSE conforming limit of up to $729,750[2]. HFAs may target low and moderate income borrowers at their discretion consistent with that HFA's state enabling legislation.

Each Program must be in full compliance with, all federal, state, and local laws, including, but not limited to, the Equal Credit Opportunity Act and the Fair Housing Act, which prohibit discrimination on a prohibited basis in connection with mortgage transactions. Mortgage modification programs are subject to the fair lending laws, and HFAs should ensure that the

[2] Maximum loan limit for one unit dwelling. 2 units = $934,200; 3 units = $1,129,250; 4 units = $1,404,400

Programs do not treat a borrower less favorably than other borrowers on grounds such as race, religion, national origin, sex, marital or familial status, age, handicap, or receipt of public assistance income in connection with any Program.

ELIGIBLE ENTITY

The HFA Hardest-Hit Fund has been designated specifically for implementation by state HFAs. To receive funds, each recipient of funding from the HFA Hardest-Hit Fund (each, an "Eligible Entity") must be a "financial institution," as that term is defined in EESA. Specifically, Section 3(5) of EESA defines "financial institution" as:

> "FINANCIAL INSTITUTION.—The term ''financial institution" means any institution, including but not limited to a bank, savings association, credit union, security broker or dealer, or insurance company, established and regulated under the laws of the United States or any State, territory, or possession of the United States, the District of Columbia, Commonwealth of Puerto Rico, Commonwealth of Northern Mariana Islands, Guam, American Samoa, or the United States Virgin Islands, and having significant operations in the United States, but excluding any central bank of, or institution owned by, a foreign government."

Accordingly, an Eligible Entity must be a regulated entity that is incorporated separately from the state government itself, such as a corporation (private or public) or similar entity formed or incorporated under state law, which has the corporate power to receive funds from Treasury in respect of the HFA Hardest-Hit Fund and to work with the related state HFA in implementing that state's HFA Proposal(s). Agencies of state governments are not considered Eligible Entities for purposes of the HFA Hardest-Hit Fund. The Eligible Entity may be an existing entity or it may be newly-formed for the purpose of implementing the HFA Hardest-Hit Fund. Prior to receiving funds through the HFA Hardest-Hit Fund, each Eligible Entity will need to be approved as a "financial institution" under EESA by Treasury in its sole discretion. Additionally, Eligible Entities will be required to enter into an agreement ("Participation Agreement") with Treasury (or Treasury's agent), which must qualify as a "financial instrument" under EESA by Treasury. The Participation Agreement will include, among other provisions, reporting and compliance requirements as more fully described below under "Reporting" and "Compliance and Monitoring."

HFA PROPOSAL REQUIREMENTS

All HFAs must submit an HFA Proposal organized into the following sections:

Section One: The first section should clearly outline the overall strategy for utilizing the funding and:

a. Briefly describe each of the proposed Programs (if more than one) to be funded by this initiative, explaining how they fit together and will be implemented, including an overview of the expected costs (broken out by incentive and administrative costs) and benefits.

b. Describe how the strategy will help prevent foreclosure and stabilize housing markets.

c. If more than one Program is proposed, describe how available funding is expected to be allocated among Programs.

Section Two: The HFAs should provide a detailed business plan for each individual Program proposal for the HFA Hardest-Hit Fund. Each business plan should include the following sections. Throughout the life of the HFA Hardest-Hit Fund program, HFAs will be able to adopt new Programs and / or re-allocate funding across Programs based on Program performance subject to review and approval by Treasury.

a. **Overview of Program** – The HFA should provide detailed information about the intended purpose and scope of the Program, including the specific problems that the Program will address as well as the specific goals for the Program and how progress toward these goals will be measured.

b. **Population served and allocation methodology** – The HFA should provide detailed information about the estimated number of households that the Program will target, including a geographic breakdown or other targeting, if applicable. In addition, the HFA should provide a timeline in which it expects to deploy the funds. The HFA should identify any anticipated Program implementation obstacles and provide a related mitigation plan. The HFA should describe how funds will be leveraged by additional resources, if applicable (e.g., interaction with existing programs at the state or federal level or other proposed Programs).

c. **Demonstration of capacity to implement** – The HFA should provide background information on its organizational capacity to implement the Program, including the experiences of key staff members, necessary compliance infrastructure, audit and internal controls, fraud risk mitigation, reporting protocols, systems infrastructure and necessary funding and implementation mechanisms. If the HFA has implemented or sponsored a similar or identical program in the past, the HFA should provide metrics regarding efficacy, where possible.

d. **Staffing and business partners** – The HFA should provide a detailed staffing plan for the Program, including the use of outside partnership organizations, if applicable. The HFA should list any key partners that will be part of the Program and detail their roles, expertise and relationship to the HFA and expected level of compensation. The HFA should detail any agreements or other outside business relationships related to the Program.

e. **Administrative expenses** – The HFA should include an estimate of administrative expenses (including expenses associated with staffing and business partners from paragraph d above) required to implement the Program, including a detailed expenditure timeline.

f. **Overview of risk management / fraud prevention** – The HFA should provide a plan for minimizing Program and fraud risk, including details related to monitoring and auditing. The HFA should incorporate such risk management and fraud prevention strategies into the overall compliance plan (see Compliance and Monitoring below).

g. **Tracking / reporting** – The HFA should describe its proposed methodology for measuring Program progress, including key performance measurements, frequency of reporting and tracking systems to measure progress against goals (see Reporting below).

REPORTING

HFAs will be required to develop and maintain operational and performance metrics, have a detailed financial reporting system and track homeowners helped through its Programs. HFAs will report data to Treasury on a periodic basis, including metrics used to measure Program effectiveness against stated objectives. Treasury may request that the HFA modify the proposed performance measures or seek additional metrics as necessary. In its HFA Proposal, the HFA should provide details about how it plans to collect, archive and report performance and financial data, including systems integration requirements, if any, and how it will handle interim reporting, if necessary, until systems are in place and/or projects are implemented. Treasury may make any or all data reported by an HFA available to the public.

COMPLIANCE AND MONITORING

HFA's and Eligible Entities will be required to comply with all requirements under EESA, including but not limited to, allowing full compliance and oversight by Treasury, the Comptroller General of the United States, Government Accountability Office, Congressional Oversight Panel, and the Special Inspector General of the Troubled Asset Relief Program as to the application of any EESA funds. All books, communications and records regarding the use of EESA funds must be available for review by any of these entities upon request.

In addition, HFA's will be required to design Program(s), establish monitoring mechanisms, and implement a system of internal controls which minimize the risk of fraud, mitigate conflicts of interest, and maximize operational efficiency and effectiveness. A system of internal controls should encompass the entities' processes, their business partnerships and relationships and any constituency being aided through these Programs. The entities will be required to test, certify, and provide an independent verification of the effectiveness of these controls at least annually including an assessment prior to program launch to ensure Eligible Entities have taken appropriate steps to meet program objectives, as well as to provide audited financial statements to Treasury.

ADMINISTRATIVE EXPENSES

Eligible Entities will be eligible to receive funds for administrative expenses necessary to achieve the Program goals and as approved by Treasury. Further details regarding administrative expense payments will be provided prior to final approval of an HFA Proposal.

INSTRUCTIONS FOR SUBMITTING HFA PROPOSALS

Deadline

HFA Proposals must be received no later than by 5:00 p.m. EST on April 16, 2010 (Treasury will confirm receipt).

Format

Each HFA Proposal must include a one-page cover letter that provides: (i) the name, title, mailing address, e-mail address, and office and mobile phone numbers of the individual designated to receive communications from Treasury; and (ii) a certification statement that the HFA: (a) understands and agrees to the terms set forth in these guidelines; and (b) understands and agrees to the confidentiality provisions below.

HFA Proposals may not exceed 50, one-sided pages, prepared in 12-point, Times Roman font with 1 inch margins. HFA Proposals must not include other documents or attachments including but not limited to generic marketing or sales information unless directly related to the ability of the HFA to execute the proposed plan(s). HFA Proposals must not rely on cross-references to other documents or websites.

Delivery

Each HFA Proposal must be submitted via email in PDF format to HFAInnovation@do.treas.gov.

Treasury Review

HFA Proposals will be reviewed by an interdisciplinary committee within Treasury. The primary purpose of the review is to confirm that HFA Proposals adhere to the requirements of EESA and these guidelines. Treasury may contact the HFA with questions as part of its review and may require the HFA to submit additional information. Treasury will notify the HFA entity's designated individual once the plan is approved.

Communication with Treasury

HFAs are responsible for and encouraged to seek clarification on any aspect of these guidelines that the HFA does not fully understand. All questions should be directed to: HFAInnovation@do.treas.gov.

Treasury, in its sole discretion, may respond orally or in writing to any question(s) submitted by an HFA or about an HFA's Proposal. Substantive questions should be submitted as soon as possible. No information gained from any communication may be considered in any way binding or limiting on Treasury.

Treasury considers any information provided to an HFA in evaluating its HFA Proposal to be strictly confidential and must not disclose any communication from Treasury to any party outside the HFA's organization, nor may correspondence from Treasury be duplicated, used or disclosed in whole or in part for any purpose other than to prepare an HFA Proposal, without the express prior written consent of Treasury.

Other Terms and Conditions

Treasury assumes no obligation to reimburse or otherwise compensate the HFA for expenses or losses incurred in connection with these guidelines, other than as specifically detailed in the HFA Participation Agreements.

Treasury reserves the right to: (i) modify the requirements in these guidelines or withdraw these guidelines at any time; (ii) negotiate with each HFA and confirm any HFA Proposal considered acceptable in part or in total; (iii) request, orally or in writing, clarification of or additional information on an HFA Proposal; (iv) waive minor informalities or irregularities, or any requirement of these guidelines; and (v) reject an HFA Proposal that does not conform to the requirements of these guidelines.

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M E M O R A N D U M

To Board of Directors **Date:** March 18, 2010

From: L. Steven Spears, Acting Executive Director
CALIFORNIA HOUSING FINANCE AGENCY

Subject: Item 7 – Update on Sacramento Office Consolidation

At its last meeting, the Board decided to leave the selection of the specific location of a new consolidated Sacramento office in the hands of the Acting Executive Director. The Board did feel, however, that staying and extending the Agency's current leases in the two downtown locations did not meet the goal of consolidation and was not in the best interest for the Agency.

Through a resolution, the Board provided the Acting Executive Director with the authority to select either 2020 West El Camino or 500 Capitol Mall as the primary party with which to enter into negotiation for a new lease. According to the Board resolution, if negotiations are unsuccessful with the primary party then negotiations will begin with the secondary party. The objective is to conclude negotiations as soon as possible, sign a lease agreement, begin construction of tenant improvements right away and move into one of those locations by September 1, 2010 – the date the Senator Hotel location lease terminates.

After considering the advantages and constraints of both office buildings and extensive consultation with staff and outside sources, the Acting Executive Director selected 500 Capitol Mall as the new Headquarters location. As with every significant decision, there will be some who are happy with the outcome and some who are not. The decision was made considering all pros and cons to arrive at the best solution for the Agency as a whole.

Staff has started negotiations with 500 Capitol Mall. Besides ensuring that we negotiate the best possible lease giving special attention to:

- Determine the actual square footage needed. Staff believes the square footage needed will be close to our original estimation of 65,000.
- Lease Terms: possible more free rent.
- Parking costs within the building.
- Options to expand and reduce space.

Staff is planning to have a signed lease soon. Timing is critical to ensure that the Agency will be able to meet the September date. A project team is in place planning our relocation.

As a backup in case our move date gets pushed back, staff has begun negotiations with the Senator for a possible short term extension. Staff will try and mirror a similar time extension with the Meridian.

In addition, Staff has contacted Harsh Properties, the owners of the Agency's facility in West Sacramento, to inquire about storage space. Part of the plan is to use West Sacramento to store supplies and equipment to reduce space needed at 500 Capitol Mall.